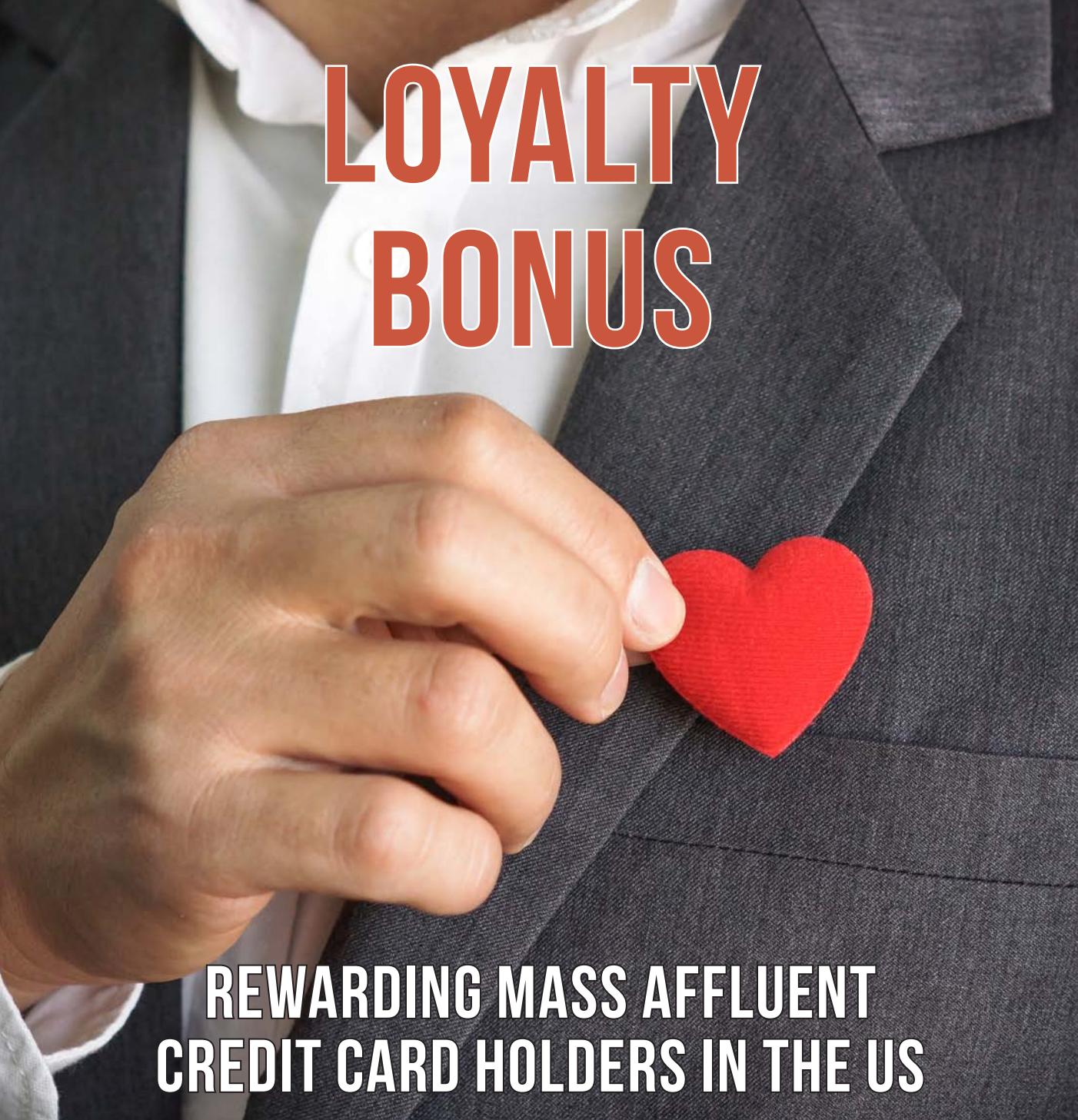


# CARDS INTERNATIONAL

## LOYALTY BONUS



REWARDING MASS AFFLUENT  
CREDIT CARD HOLDERS IN THE US

### COUNTRY SNAPSHOTS

The inside track on card payments in Norway, Mexico and the UAE

### INSIGHT

The combination of PSD2 and GDPR is a potent legislative cocktail

### FEATURE

Millennials and the gig economy fuel prepaid card growth in Canada

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**CARDS  
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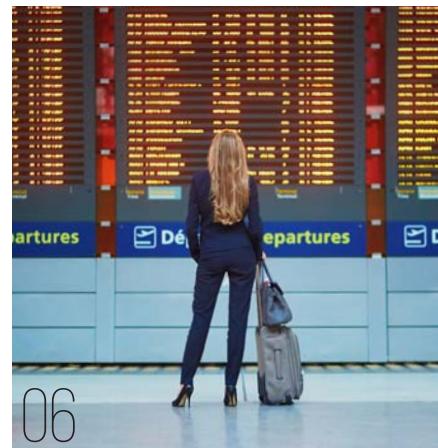


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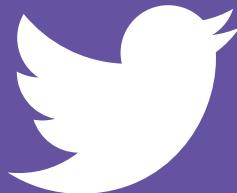
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# FEBRUARY 2018



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Emirati consumers see cash as a quick and safe payment option over which they have control. However, card payments are gradually rising, supported by financial inclusion programmes and the adoption of new technology

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With a robust economy and efficient domestic debit card scheme, the payment card reigns supreme in Norway, with only a few individuals using cash on a daily basis, and most holding at least two payment cards

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Cash remains the preferred form of consumer payment in Mexico, especially in rural areas. Cash is primarily used for small-value payments at retailers, and to pay utility bills, taxes and transport fares



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2018 is set to be a pivotal year with both the GDPR and PSD2 transforming the way businesses approach customer data. The combination is a potent legislative cocktail, writes CA Technologies' **Ian Clark**

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# LINK'S PLANS SEEM REASONABLE AND PROPORTIONATE



**Douglas Blakey**, Editor

**t was inevitable that the press would have a field day with news that UK ATM operator Link was looking to reduce the £1bn (\$1.35bn) it costs to run ATMs.**

And pretty inevitable too that an assortment of rent-a-quote politicians, consumer groups, lobbyists and small business pressure groups would weigh in with inaccurate hyperbole and general scaremongering. Now the Payments Regulator has started to take an interest in Link's plans.

It would help advance the debate into the future of ATMs if some of those commenting actually stuck to accurate facts.

Cardtronics released a statement saying that if Link's plans were implemented, the free-to-use ATM model in the UK "will become unsustainable". Rival operator Note Machine chipped in with forecasts of doom and gloom for the future of ATMs, especially in rural areas.

Link will finalise its plans in late January, after this issue of *CI* goes to press, but has already announced that it will protect all free-to-use ATMs which are a kilometre or more from the next-nearest free-to-use ATM.

At present, the UK has a record number of ATMs – about 70,000 – with 55,000 free to use. By international standards

(see table) the UK consumer is pretty well catered for by ATMs. Take Spain, for example, as a comparison: according to the central bank, the number of ATMs in operation in Spain declined by 19% from 61,714 in 2008 to 50,193, in 2017.

Even if the fears of industry lobby group the ATM Industry Association are realised – it claims that one in five ATMs will vanish in the UK in four years due to Link's plans – the UK would still have more than 50,000 ATMs.

Link has proposed a reduction in the interchange fee by 20% to £0.20 over the next four years. Its plans seem reasonable, in particular when one takes into account its Financial Inclusion Programme to ensure all consumers have free access to cash.

A lot of consumers in many markets would appreciate anything approaching the UK system. It dates back to 2006 and subsidises the lowest-income areas of the country to ensure that all have at least one free ATM.

The subsidy is paid via a £0.10 interchange premium available to any low-income area that does not have a free ATM within a kilometre. As part of its proposals, Link is exploring increasing the maximum amount of the subsidy to £0.30 and expanding the scope to the whole of the UK.

The debate is not, however, helped by the anti-cash lobby weighing in with claims that the UK is on the brink of becoming cashless, so we really do not need too many ATMs.

ATM withdrawals in the UK – no doubt to the chagrin of the cash-is-dead lobby – remain pretty flat with an average of £192bn being withdrawn each year over the past decade.

It does not exactly help Link's argument if it bangs on too much about fewer people using cash when figures shown that the value of notes in circulation continues to rise.

A public squabble involving the big banks on the one hand and independent ATM operators on the other is all good for copy, and a diverting sideshow, but some of the arguments on display have been delusional. ■

## THE ATM DENSITY TOP 10

### NUMBER OF ATMS PER 1 MILLION INHABITANTS, 2015

South Korea	2,397
Canada	1,855
Belgium	1,387
Australia	1,329
UK	1,079
Spain	1,078
Japan	1,076
France	911
Switzerland	841
Italy	836

Source: CI

GET IN TOUCH WITH THE EDITOR AT: **DOUGLAS.BLAKEY@VERDICT.CO.UK**

# NEWS DIGEST

## Visa launches sensory branding

Visa is launching a suite of sensory branding that will support the brand in what it describes as “an ever-expanding universe of connected, payment-enabled devices”.

The programme will use sound, animation and haptic cues to signify completed transactions in physical and digital retail environments when a customer pays with Visa.

In a recent consumer study conducted by Visa, up to 71% believed that a website was secure when the Visa logo was shown. Visa says consumer trust in the brand is driving the business to find new and innovative ways to evoke similar emotions in both the digital and physical worlds.

Visa surveyed consumers in eight countries to analyse the impact of sensory branding, with 83% of respondents saying that sound or animation cues positively impacted their perception of the Visa brand.

Furthermore, 81% stated that sound and animation cues would give them a more positive perception of merchants.

Lynne Biggar, chief marketing and communications officer at Visa, said: “For 60 years, the Visa brand has been a global symbol of innovation, speed, trust and security. As payments become increasingly embedded in commerce, the notion of ‘Everywhere You Want To Be’ takes on even greater meaning for our brand.”

“As new payment experiences continue to take shape in the world, this suite of sensory branding elements will give consumers the assurances we know they want every time they use Visa.”

The new branding is scheduled to debut during Visa’s global advertising campaign ahead of the 2018 Olympic Winter Games in PyeongChang, South Korea. ■



## MASTERCARD HOLDERS TO GAIN COMPLIMENTARY AIRPORT LOUNGE ACCESS IF FLIGHTS DELAYED



Mastercard Platinum, World and World Elite cardholders in Asia-Pacific are to benefit from complimentary access to airport lounges if their flights are delayed by more than two hours with the launch of the Mastercard Flight Delay Pass.

Launched by Mastercard in partnership with Collinson Group, the first-of-its-kind programme for the region provides cardholders and travel companions with complimentary access to over 850

LoungeKey airport lounges worldwide.

The benefit is exclusive to Mastercard cardholders who purchased flight tickets with a Mastercard, regardless of airline, ticket type or affinity programme membership. Cardholders do not need to hold a separate membership to benefit from the programme.

To be eligible, Mastercard holders are required to register flight details at least six hours prior to scheduled departure. Cardholders may register up to two flights per eligible card.

Jenn Ong, head of consumer credit, Asia-Pacific at Mastercard, said: “Whether it’s agonising over missing a flight leg, or feeling lost at an unfamiliar airport, plane delays can certainly sour a trip.

“Our travel privileges are designed not only to help cardholders maximise what they value most: time, connection and experiences, but also provide them with peace of mind, whenever and wherever they are,” Ong added.

“As such, we seek to help travellers make the most of their time at the airport too.” ■

## INVOICE2GO LAUNCHES MPOS PAYMENTS

International fintech business Invoice2go has launched a mobile point of sale (mPOS) payment feature to allow small businesses to accept swipe, insert, or contactless payments for instant transactions.

The new feature is supported by PayPal Here, an app designed for mobile payments that accepts major credit and debit cards from schemes such as Visa, Mastercard and Discover.

The mPOS payment is intended to simplify the billing process and improve cash flow for small business owners in any location. The launch follows an announcement by the business that customers are currently sending \$2bn worth of invoices through its app.

Invoice2go head of product Michael Ramsey said: “Consumers already expect to be able to pay in person, no matter who they are dealing with.”

“We want to empower our customers, the majority of whom are one-man-bands, to be able to have the same opportunities, and look just as professional, as the biggest players,” Ramsey added. ■

## Mastercard launches Kionect for Nairobi kiosk owners

Mastercard has unveiled Kionect, a digital ordering system that will allow kiosk owners in Nairobi to order and pay for products from wholesalers via SMS.

Orders made by phone will help create a digital record for kiosk owners, enabling them to access micro-loans to purchase stock inventory.

Kionect technology provides a digital log of all transaction data, making micro-retailers eligible for loans from regional micro-finance provider Musoni. Kiosk owners will be able to borrow larger amounts with every loan that is repaid on time.

Most of Kenya's 100,000 kiosk owners run on cash, leaving no financial track record and making them ineligible for the traditional loans and lines of credit offered by banks and financial institutions.

Kionect is one of several broad-based collaborations that Mastercard has launched with public and private sector entities to bring electronic payment networks to Africa and other global locations.

Michael Elliott, vice-president at Mastercard Labs for Financial Inclusion in Nairobi, said: "Kiosk owners are the heartbeat of their communities – they source the supplies needed to get by. We have worked hand in hand with micro-merchants to truly understand their daily hurdles.

"Learning that product sourcing, tracking inventory and access to flexible, short-term credit are major pain points, we set out to develop Kionect. This Mastercard technology opens up a new avenue for micro-retailers to grow their business,

increase consumer demand and ultimately contribute to economic development in Africa."

Juliet Ongwae, chief innovation officer at Musoni Kenya, added: "For kiosk owners, access to basic financial services holds the potential to expand their business and contribute to the vibrancy of their communities.

"This product heavily relies on micro-entrepreneurs' transactional data for credit assessment, therefore making it accessible to micro-entrepreneurs who lack conventional collateral to secure loans."

Kionect is being piloted with over 1,000 micro-businesses in three of Nairobi's informal settlements – Kibera, Kawangware and Kariobangi – in partnership with Kaskazi, a for-profit wholesaler and distributor. ■

## CYBG EXTENDS MASTERCARD AGREEMENT



CYBG, the owner of Clydesdale Bank and Yorkshire Bank, has signed a seven-year deal to exclusively work with Mastercard.

As part of the deal, all credit, debit and commercial cards from the two banks will be on the Mastercard network.

Mark Barnett, divisional president for Mastercard UK and Ireland, said: "CYBG is an exciting and diverse challenger bank, and already a valued Mastercard partner.

"Our renewed agreement will see us issuing even more Mastercard cards in the UK, as well as focusing on security and fraud solutions so that CYBG customers can benefit from some of our newest innovations."

The renewed partnership with CYBG is set to focus on safety and security, with Mastercard innovations hoping to

protect customers from fraud. In addition, Mastercard will support CYBG's digital business, B, which launched in 2016 and now has over 100,000 customers.

Barnett said: "We're especially excited to support B – earlier this year we partnered to create a technology showcase within the Clydesdale Bank's Edinburgh flagship store at the Edinburgh Fringe Festival, and we'll be bringing it to Studio B in London in 2018."

Fergus Murphy, group customer value director at CYBG, said: "We are delighted to be extending our partnership with Mastercard into a new long-term agreement.

"This is in line with our continued focus on finding innovative solutions that benefit our customers." ■

## MASTERCARD AGREES LINK WITH FAC TO FUND STARTUPS

Mastercard has partnered with First Australians Capital (FAC) to invest in up to 30 indigenous startups by providing them with "transformational business education opportunities".

Entrepreneurs will be able to access the Murra Programme at Melbourne Business School, which offers masterclasses and industry-specific mentorship. Sessions will include business strategy, finance, marketing, leadership, negotiations and leading effective workforces.

Mastercard also plans to support further networking between programme participants, mentors and Mastercard employees. It will also provide digital and e-payments information tutorials, and general business programme training.

Mastercard Australasia divisional president Richard Wormald said: "Mastercard is extremely proud of its new relationship with FAC, which is making a real difference to supporting a culture of indigenous entrepreneurialism and business success across Australia."

"We're excited about investing in today's indigenous entrepreneurs and contributing to the great work of FAC in supporting Australians focused on building their own business knowledge, assets and wealth." ■

## JCB launches co-branded credit cards in Vietnam



JCB International has teamed up with Vietnamese lender Sacombank to launch the Sacombank JCB Ultimate Credit Card in Vietnam.

Users of the new card will receive a higher rate of cashback for transactions made at weekends. The offer will be valid for specific merchant categories including restaurants and supermarkets, with 15% cashback for overseas spending, 10% for domestic spending and 0.5% for weekday spending.

Other cardholder benefits include receiving a special dish when dining at high-end Japanese restaurant merchants.

Sacombank JCB Ultimate Credit Card users will gain access to travel insurance packages worldwide up to VND10.5bn (\$462,000) and will be allowed to use over 57 airport lounges in Hong Kong, Singapore, South Korea and Thailand free of charge.

Cardholders will also be refunded 0.5% of all expenditure and food expenses, as well as receiving 24-hour global support for booking car rentals, hotels, restaurants and golf in Japan via a free hotline.

JCB has also partnered with Vietnam Post and Telecommunications Group (VNPT) and Vietinbank to introduce a Vietinbank-VNPT-JCB co-branded credit card, the Vpoint Card, in Vietnam.

Vpoint cardholders can earn points when making purchases at any merchant in the Vpoint network.

The card can be used at JCB's merchant network in Vietnam, as well as at more than 30 million other international locations. It also acts as a Vpoint membership card,

providing benefits such as JCB privileges, promotions, and up to 50% discounts at Vpoint merchants, including restaurants, taxis, spas, supermarkets and travel agencies.

VNPT Vinaphone's deputy general director, Pham Anh Tuan, said: "This partnership among VNPT, Vietinbank and JCB will strengthen the ties between our business and the two countries of Vietnam and Japan."

"Our customers can enjoy all the various attractive benefits developed by not only VNPT but also Vietinbank and JCB."

JCB International president and COO Kimihisa Imada said: "JCB cards have been issued in Vietnam since 2011, and we have a strong commitment to the development of the Vietnam cashless payment market, and offer a unique payment experience to our customers."

"I am confident that the Vpoint Card would be successful as it directly inherits VNPT's huge potential customer database, in addition to our diversified privileges as well as outstanding banking services by Vietinbank," Imada added. ■

## Idaho's BOL selects Access Idaho for processing



The Idaho Bureau of Occupational Licenses (IBOL) in the US has switched to a new payment engine, Access Idaho, which allows both online and over-the-counter credit card processing.

IBOL will now be able to take Visa, MasterCard, American Express and Discover cards through its licensing system.

The bureau has also implemented Access Idaho's PayPort service for collecting cards at the counter. Used in combination with the payment engine, the service aims to save time by streamlining billing reports.

The payment engine also provides the bureau with an option to use the Gov2Go Pay service by digital government solutions provider NIC, in the future.

Gov2Go Pay is designed to enable the storage of credit card details, allow information checking at a later date, quicken checkout processing, show payment transaction histories, and facilitate payments to other state agencies in Idaho.

IBOL has collaborated with Access Idaho to build and maintain the service under a self-funded model. ■

## SHELL LAUNCHES FLEET CARD IN INDONESIA

Shell Indonesia has collaborated with digital financial solutions provider Wirecard to offer its Fleet Card programme at all Shell petrol stations in the country.

Through the Fleet Card solution, Wirecard is aiming to "optimise Shell's digital financial processes, and deliver control and efficiency for operations management".

The solution is designed to help finance departments, fleet managers and company vehicle drivers to improve efficiency in fuel use, time and resources. Fleet Card technology utilises chip cards for authorised vehicles and parametrisation for purchases to ensure security.

Wirecard's executive vice-president, travel and transport, Jörg Möller, said: "Digitising the fleet management and processes is important for all companies alike to stay innovative."

"We are very delighted to deliver Shell in Indonesia with this state-of-the-art Fleet Card programme." ■

## VIRGIN MONEY LAUNCHES RAINBOW CREDIT CARD

Virgin Money has launched a new credit card through which it aims to show its support for the LGBT community.

Every time a Virgin Money customer makes a purchase using a Rainbow card, £1 will be donated to Stonewall, the charitable and lobbying organisation created in 1989 to advance the acceptance of the LGBT community in the UK.

Chris Taylor, director of credit cards at Virgin Money, commented: "Virgin Money believes in the positivity and the openness that the rainbow flag symbolises.

"We are delighted to launch the new Rainbow card design to mark 50 years of progress with LGBT rights, while supporting Stonewall which does such

fantastic work to promote equality for the LGBT community."

Will Byles, head of corporate partnerships at Stonewall, said: "Organisations have the power to effect change. At Stonewall, we believe that small acts can often have a remarkable impact.

"The Rainbow card design is an amazing initiative that came out of Virgin Money's LGBT network group, and a small but simple way Virgin Money customers can 'Come Out For LGBT' while also supporting the work that we do here to improve the lives of LGBT people."

The total contribution Virgin Money will give to Stonewall is £100,000. ■

*For more on the Rainbow card, see page 10*

## SBI Card and Bharat Petroleum release credit card with fuel benefits



SBI Card and Bharat Petroleum have released a new co-branded card, BPCL SBI, which offers benefits on fuel purchases made in India.

The BPCL SBI Card offers up to 5% savings on fuel purchases, providing around 70 litres of free fuel per year for the mass affluent consumer segment, at 14,000 Bharat Petroleum fuel stations.

Cardholders will also be eligible for accelerated savings on everyday spending such as groceries and entertainment, and on utility bills and department store purchases.

The credit card is designed to allow instant redemption of free fuel reward points or BPCL fuel vouchers. Holders can also redeem reward points for other categories through SBI Card's rewards programme, Shop and Smile.

SBI Card CEO Vijay Jasuja commented: "With an unmatched value proposition, we

believe that the BPCL SBI Card will further encourage consumers to move their fuel spends to credit cards.

"We expect to significantly increase customer acquisition through this product and believe that the BPCL SBI Card has the potential to become one of the largest selling co-branded cards in the country."

Bharat Petroleum's executive director of retail, Arun Singh, commented: "Bharat Petroleum has been in the forefront to promote cashless payment options at our network. Currently 22% of our total sales is through these options, which is higher than the industry average."

Singh continued: "The BPCL SBI co-branded card, catering to all the major spending needs of a cardholder, will play a major role in enabling our consumers to use more cashless payment options, to build a cashless society." ■

## PLAAK ANNOUNCES ICO FOR WALLET APP



Australia-based smartphone platform PLAAK has announced a new initial coin offering (ICO) for its multi-cryptocurrency payment platform.

The PLAAK app is designed to connect customers and service providers, and its blockchain ecosystem facilitates direct payment without the requirement for a third party.

The app allows users to allocate funds within its wallet, and pay service providers with cryptocurrency using the attached debit card. The PLAAK app also features a secure payment gateway and an option for real-time searching.

PLAAK co-founders Chai Shepherd and Damian Robson said: "Our enhanced features will allow users to purchase and spend cryptocurrency as if it were money using the debit card attached to the wallet."

"The PLAAK wallet can be used for asset management, and is not just a freelance app. Other wallets have one problem, which is the ability to turn digital currency into spendable currency. We will solve that problem with the PLAAK ecosystem."

A pre-sale for the PLAAK ICO was scheduled for January 2018. The sale will open to the public on 1 March. ■

# RAINBOW CREDIT CARD: CREATING PRIDE IN RETAIL FINANCE

**As societal attitudes towards the LGBT community have progressed, so too must the actions of the financial industry. Virgin Money's Rainbow credit card is a statement that celebrates diversity and equality, writes Briony Richter**

**F**ifty years after the Sexual Offences Act in 1967, it is tempting to believe that the fight for equality has been battled and won.

Sadly, across the world, society is riddled with discrimination and outdated views. It is no longer enough to make promises for change in the industry: actions speak volume.



The Virgin Money Rainbow card

UK challenger brand Virgin Money has launched a credit card to show its support for the LGBT community. It is a passionate commitment to stand beside the LGBT community to make equality a reality. Every time a Virgin Money customer makes a card purchase using a Rainbow Card, £1 (\$1.36) will be donated to the charity Stonewall, which was created in 1989 to advance the acceptance of the LGBT community.

Speaking to *Cards International* about the new Rainbow credit card, head of private sector membership programmes at Stonewall, Vicky Hayden, says: "We love this new initiative from Virgin Money! It's great to see such visibility of the iconic rainbow colours on something as everyday as a bank card. It makes a clear statement that LGBT communities should be visibly celebrated."

Chris Taylor, director of credit cards at Virgin Money, adds: "Virgin Money believes

in the positivity and the openness that the rainbow flag symbolises. We are delighted to launch the new Rainbow card design to mark 50 years of progress with LGBT rights, while supporting Stonewall which does such fantastic work to promote equality for the LGBT community."

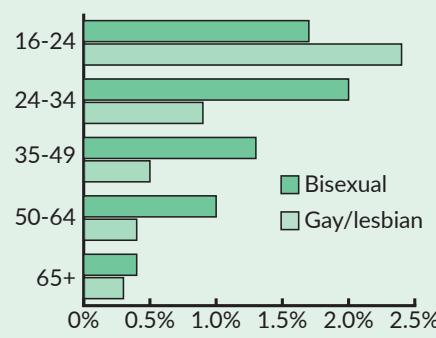
The percentage of people identifying as lesbian, gay or bisexual increased significantly last year to 2% of the UK population, up from 1.7% in 2015.

According to the Office for National Statistics, in 2016 just over one million of the UK population aged 16 and over identified themselves as lesbian, gay or bisexual. Therefore, there needs to be a bigger push to develop products that suit the lifestyles of every member of society, no matter their sexual orientation.

Banks and other financial institutions have taken steps to ensure a safe and equal work

## 2016 POPULATION BREAKDOWN

Percentage of the UK population by age identifying as gay/lesbian or bisexual



Source: Office for National Statistics

environment. Hayden highlights: "This is a positive move by Virgin, and one of the many steps forward we have seen from the financial services industry this year. Lloyds Banking Group was named number one in Stonewall's *Top 100 LGBT Inclusive Employers* in 2017.

"The group also championed LGBT equality throughout its marketing, with great campaigns such as the *He Said Yes* advert, as well as *Waiting for Mr or Mrs Right?*, which was launched in line with Bi Visibility Day.

"We are also seeing more banks tailor and adapt their services to meet the needs of their LGBT customers. Metro Bank was one of the first to launch Mx as a customer prefix this year, alongside Mrs, Mr, Miss, etc., to meet the needs of their trans and/or non-binary customers."

The *Top 100 Employers* list, created by Stonewall, is compiled from submissions to the *Workplace Equality Index*. Lloyds Banking Group, which came second in the 2016 list, launched a new colleague volunteering programme, forming official partnerships with LGBT charities including Mermaid, a trans youth charity, an elderly LGBT organisation called Opening Doors London, and the Albert Kennedy Trust dedicated to helping homeless LGBT youth.

Virgin Money's Affinity Pride Network aims to build an inclusive and balanced workforce that all employees are part of and where sexual orientation and gender identity can be expressed openly.

Although the Rainbow credit card is a positive statement of support, it will have to be the first of many, as Hayden explains that the fight for equality is an ongoing battle.

"Tailored and specific products and services are only part of the story. To be a truly inclusive organisation, it is important that staff are properly trained on the needs of their LGBT customers. This ensures they understand the right language to use, how to ask the right questions and how to treat every customer with dignity and respect, regardless of sexual orientation and gender identity."

Commenting on the achievements of 2017 and hopes for the future, Hayden concludes: "Having Lloyds Banking Group reach the number one spot in our *Top 100 Employers* list was a great highlight of this year, proving that banking – especially retail banking – cares about its LGBT colleagues and customers."

"In the new year we want to see more financial services organisations listening to, asking about and reviewing the experience for LGBT, customers and using that feedback in a positive and forward-thinking way." ■

# LOYALTY REWARDS DRIVE THE US MASS AFFLUENT CREDIT CARD MARKET

Multi-promotional rewards and loyalty programmes rewarding credit cardholders for having multiple products with their bank are key drivers in the US mass affluent market. *Robin Arnfield* reports

**A**ccording to Javelin Strategy & Research's *Affluent Consumers Respond to Credit Card Rewards with More Than Card Loyalty* report, affluent consumers – defined as earning \$100,000 or more a year – represent 22% of the US adult population.

"Among affluent US consumers, 93% own at least one credit card, and 59% report that credit cards are their most frequently used payment option," the Javelin report says.

"In contrast, 74% of all US consumers own a credit card and 37% say credit cards are their top-of-wallet choice. Major FIs such as Bank of America and Citibank have reported that credit cards now make up approximately 25% of their business profits, compared with 15% before the recession."

The report adds: "Among the affluent who prefer to use credit cards as their payment choice, 64% say that rewards are the key driver for this preference, compared with 28% of all consumers."

Siddharth Agarwal, lead financial analyst at GlobalData, says a growing number of banks offer credit cards to mass affluent customers. "Key reasons include the fact that, while mass affluent consumers form a small proportion of the population, they tend to generate large revenues due to their significantly higher spending," he explains.

"The risk of payment default by mass affluent customers is significantly lower than for mass market customers."

## PROMOTIONAL REWARDS

"Rewards and loyalty are the driver in the US mass affluent credit card market," says Kevin Morrison, a senior analyst with Aite Group's retail banking and payments team.

"We're seeing multi-promotional marketing in the mass affluent credit card market, where an issuer combines bonus reward points with promotional offers such as no annual fee and/or 0% interest for the first year.

"For example, Chase's Sapphire Reserve credit card offer had multi-promotional

marketing, and was so popular that Chase got overwhelmed."

Launched in August 2016, the Sapphire Reserve card initially offered a sign-up bonus of 100,000 points - provided cardholders spent \$4,000 in the first three months.

The Sapphire Reserve, which has a \$450 annual fee, was so popular that Chase reportedly ran out of actual cards. In January 2017, Chase halved the sign-up offer to 50,000 points in return for spending \$4,000 in the first three months.

Morrison says a recent Aite Group survey of 1,700 US consumers discovered that multi-promotional credit card rewards marketing by issuers is successful in terms of acquiring new cardholders.

"We found that a high percentage of people who had applied for rewards credit cards in the last two years made the rewards card they applied for top of their wallet," he says. "This rewards card is the card they use the most often."

“  
64% SAY THAT  
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## NEW STRATEGIES

Morrison says the top US credit card issuers have changed their marketing strategies.

"For example, Amex was always more focused on the mass affluent," he says. "But in the last few years, Amex has started

to go down-market and now offers more mainstream card products, not just for the affluent.

"Also, in the last 36 months all the banks have loosened their credit scoring compared to the period after the 2008 financial crisis, when you needed a specific credit score to get a credit card, and without that score you didn't get the card."

The introduction of instant decisioning technology to enable instant card approval and issuance means the acquisition timeline and usage cycle for a new credit card can shrink from between seven and ten days to minutes, says Morrison.

You can apply online for a credit card on a bank's website or a merchant site such as Amazon.com, and, if you meet their credit-scoring protocols, you'll be approved instantly," says Morrison.

"Not only will you be mailed a plastic card, but you may immediately get a virtual card. For example, applicants for the Amazon Prime Visa card issued by Chase receive a virtual credit card for immediate use, plus a plastic card.

"When you apply online and are instantly get approved, you can start using the card immediately on an e-marketplace, and it goes to the top of your wallet."

Morrison adds: "Issuers are using data analytics and machine learning to work out the best offers for customers, for example telling mass affluent cardholders 'if you spend \$5,000 on the card in the first 90 days, we'll give you a bonus 50,000 points.'"

## TIGHTER CREDIT IN 2018?

A cautionary note is sounded by Mercator Advisory Group's *2018 Outlook: Credit* report. The US consultancy warns that 2018 will be a year for issuers to tighten up lending and build on existing customer relationships as credit card account delinquency begins to rise.

"Credit card account volumes and revolving debt in the US are back to peak levels," warns Brian Riley, director of Mercator's credit advisory service.

"Concurrently, past-due accounts are beginning to increase. In 2018, issuers should solidify their portfolios, grow organically and prepare their portfolios for emerging payment opportunities."

Riley writes that issuers will continue to address the high-spend, high-value travel segment with rewards cards. "In 2017, top issuers battled for the market, armed with expensive product features and well-funded

reward programmes offset by an annual fee between \$450 and \$550," he says.

"There is some evidence of cardholders' sticker shock at time of renewal of the annual fee, but the potential spend for this group is likely to keep the full-featured credit card offering alive, albeit with revised features. It is likely that issuers will hone their strategy on this group in 2018, if attrition becomes an operational concern."

## ABA

US credit card use continued to expand in the second quarter of 2017, according to the American Bankers Association (ABA)'s October 2017 *Credit Card Market Monitor*, comprising data from April to June 2017.

"Monthly purchase volumes rebounded after a seasonal decline in the first quarter of 2017, rising by 9% across risk tiers," the ABA said. "On an annual basis, purchase volumes rose 4.9% for prime accounts and 5.2% for super-prime accounts, but fell 1% for sub-prime accounts."

The October 2017 *Monitor* found that the number of new accounts opened in the previous 24 months increased, but at its slowest pace since 2013 – 0.2% quarter-over-quarter – reflecting subdued growth in new prime and sub-prime accounts.

The report says the share of "revolvers" – those carrying monthly balances on their cards – declined 1 percentage point to 43%, its lowest level in a year.

The share of "transactors" – those paying their monthly balance in full each month – rose by 0.6 of a percentage point to 29.4% of all accounts, while 27.5% of accounts were dormant.

## CROSS-MARKETING

In the mass affluent credit card market, the majority of cardholders are transactors, rather than revolvers.

"The banks are aware of this dynamic," says Morrison. "They realise their promotional offers such as 0% interest for the first year encourage short-term usage, with customers switching from card to card in search of offers.

"What the banks want is to reward mass affluent credit cardholders for holding additional products like chequeing accounts, for example by offering free cashback credit cards in return for a minimum balance of \$1,000 in a current account."

Morrison continues: "Chase's promotion for Sapphire Reserve offered 100,000 rewards

points if cardholders took out a mortgage on a new home purchase. Chase makes a lot more revenue from mortgage interest over 25 years by giving away a short-term reward than charging interest on a credit card."

US Bank's Altitude Reserve Visa Infinite card rewards cardholders with points when they make purchases using their card on a smartphone mobile wallet. "This incentive to use mobile wallets is a unique offer in the credit card market," says Morrison.

"What US Bank is doing is to ensure its card is top of wallet in a cardholder's Apple Pay or Samsung Pay mobile wallet, so they use their US Bank card whenever they pay with their phone."

## COMPETITION

"The mass affluent and affluent credit card markets are extremely competitive," says Tony DeSanctis, senior director at US consultancy Cornerstone Advisors.

"The value proposition offered by most products is having a significant impact on margins, and has led some issuers to pull back on the offerings – for example the halving of the Chase Sapphire Reserve sign-up bonus – or make the spending requirements more significant."

One example was Citi requiring new Citi Prestige cardholders to spend \$7,500 on the card in the first three months to earn 75,000 points, an offer that is no longer available.

"However, the market for super-premium cards – typically those with annual fees of \$300-plus – continues to grow, and new offerings are still to come," says DeSanctis. "Examples include the recently relaunched Hilton Honors Amex Surpass card and the upcoming Starwood/Amex super-premium co-brand card."

Despite these annual fees, the benefits costs and rewards expense associated with these cards are putting pressure on issuers' margins, says DeSanctis.

"In addition, the people who are spending \$450 on an annual fee are also much less likely to be the people who revolve their balances," he says. "The tendency is to forget that the majority of profit from credit card programmes still comes from interest income."

Intense competition to acquire new accounts using attractive rewards have depressed returns for some issuers. According to First Annapolis's third-quarter-2017 *US Credit Card Issuer Snapshot*, Citi, Capital One, Discover and Synchrony all saw their after-tax return on assets (ROA) in the third quarter

of 2017 decline respective to the year-earlier quarter. The US consultancy did not have access to ROA figures for Bank of America (BofA), Wells Fargo or US Bank.

Amex's CFO stated in a second-quarter-2017 earnings call that "rewards expense increased 9% year over year. It's going to continue to be a very competitive environment".

First Annapolis stated in its October-November 2017 *Navigator* report: "Executives from Capital One, Discover, Synchrony and

rewarding its existing customers for the deposit relationship and other relationships they have with the bank.

It says its focus is on growing card relationships steadily and responsibly with its existing customers, while seeking to remain competitive with other issuers.

In September 2017, BofA introduced the Premium Rewards credit card. The card ties into BofA's Preferred Rewards programme which looks holistically at a client's relationship with the bank and provides

and by adopting a largely agile model – versus the traditional waterfall model utilised previously – Citi Cards launched 86 new digital features in the US in 2016. This represented an 85% increase in the number of new digital features versus 2015.

"New features included the ability to track a replacement card and file a dispute in-app – both firsts for a major US credit card issuer."

In 2018, Citi plans to launch over 800 digital features by year-end, including the ability to scan a card using a mobile device's camera when activating it in the Citi mobile app, view a customised summary of spending within a personalised date range through the app, and add an authorised user on a credit card, the spokesperson says.

"As Citi has simplified and improved the customer experience across digital and mobile channels, usage and engagement is skyrocketing," she says.

"As of the third quarter of 2017, Citi realised 22% growth in active mobile banking customers, including credit card customers, versus 2016 – the highest growth rate in mobile users among top banks in the US.

"In addition, mobile app logins have surpassed browser logins for the first time, and Citi's mobile app has maintained a 4.5-star or above rating in the App Store for over a year."

## US BANK

"The Altitude Reserve Infinite Card is currently available exclusively for customers of US Bank," Bob Daly, U.S. Bank Senior Vice President of Retail Payment Solutions, says.

"We've found that the product is very appealing to those that live a life on the go and appreciate the ability to earn points quickly and secure tremendous value for their points at redemption. Whether you're earning points or burning them, Altitude Reserve has embraced digital innovations," he adds. "On the earn side, digital wallet purchases – Apple Pay, Samsung Pay, Android Pay or Microsoft Wallet – earn three points per dollar spent, and, on the burn side, our Real-Time Mobile Redemption (RTMR) solution enables cardholders to instantly redeem points via SMS text message for almost any recent purchase. For customers on the go, these digital capabilities have proven to be relevant and very popular."

For digital wallet purchases, Altitude Reserve is experiencing transaction rates that are many multiples of the rates occurring on other US Bank-issued travel reward cards, according to Daly. ■

## " CONCENTRATION GIVES VERY ROBUST SCALE ADVANTAGES TO THE TOP 10 BANKS, AND MOST SMALLER FIS DON'T KNOW HOW TO COMPETE

Bank of America all made similar comments about the rising cost of rewards in the first two quarters of 2017.

"The top 10 banks control 88% of the credit card loans in the US today, and these numbers are growing," says DeSanctis. "The top 20 have close to 93%. This concentration gives very robust scale advantages to the top 10 banks, not unlike Walmart and Amazon in retail, and most smaller FIs don't know how to compete."

"The partnerships, co-brand relationships and product value propositions give these large issuers the ability to further differentiate, for example, with airline, retail and 1.5% cashback cards."

DeSanctis adds that mobile-first capability is critical for consumer credit card customer service. "While a lot of attention is around Apple Pay, Samsung Pay and other Pays, the real area of differentiation is the overall mobile experience," he says.

"If I can't do everything on my mobile device that I can do on the phone or even online, then I'm moving my business. Things like card controls, rewards redemptions, and even basic maintenance need to be seamless and available via mobile."

## BANK OF AMERICA

"As part of our responsible growth strategy, we're focused on building stronger relationships with [credit card] clients and earning more of their business," a BofA spokesperson tells *CI*. BofA's responsible growth strategy involves incrementally

more benefits and rewards across their entire relationship.

There are three levels in Preferred Rewards based on the client's overall relationship, and benefits increase as the relationship grows: Gold, Platinum, and Platinum Honors. A customer's tier is based on their qualifying combined balances in their BofA banking and/or Merrill Edge and Merrill Lynch investing and trading accounts.

"The Premium Rewards card provides two points for each dollar spent on travel and dining purchases, and 1.5 points for each dollar spent on all other purchases," the BofA spokesperson says.

"For clients enrolled in the bank's Preferred Rewards program, the rewards points increase by 25% to 75% on each purchase – earning up to 3.5 points per dollar on travel and dining purchases and 2.62 points per dollar on everything else. The added value clients receive when they are enrolled in Preferred Rewards is an important differentiator and ties in with our focus on rewarding customers for their relationship with us."

## CITI

Citi Cards has taken major steps to develop a digital customer service model for its credit card customers, a Citi spokesperson tells *CI*.

"Citi has transformed its customer-centric culture and established an operating model that delivers for customers with greater agility and speed to market," she says.

"By leveraging research, first-hand conversations and co-creation with customers,

# GIG ECONOMY DRIVES GROWTH IN CANADIAN OPEN-LOOP PREPAID CARDS

Open-loop prepaid cards are expanding into new segments such as millennials and the gig economy in Canada, where demand for faster access to earnings is driving uptake. *Robin Arnfield* reports

**F**intechs such as Koho, Mogo Finance Technology, Marqeta, and Instant Financial have tapped into the demand from younger Canadians and gig economy workers to have quicker access to their money via prepaid cards.

Koho and Mogo offer instant spending accounts, while Instant Financial enables hourly paid workers to receive their daily pay directly on prepaid cards.

Another innovative Canadian prepaid card company is Payment Source, whose technology enables consumers to reload their prepaid cards at Canada Post locations across Canada.

## GROWTH

According to Payments Canada's 2017 *Canadian Payments Methods and Trends* report, prepaid cards are the fastest-growing POS transaction type in Canada, growing 7% year on year in value to around C\$20bn (\$16bn) in 2016. This includes open- and closed-loop prepaid cards, as well as virtual prepaid products purchased through mobile app stores.

However, prepaid transactions only accounted for 1.2% of total transactions by volume and 0.2% by value in 2016, Payments Canada says. Formerly known as the Canadian Payments Association, Payments Canada runs the country's core payments infrastructure.

"Benchmarking Canada against the US prepaid card market reveals a lot of room for growth here," says Peter Read, president of Peoples Card Services, which is owned by Vancouver-based Peoples Trust.

"Our prepaid card market hasn't developed as fast as the US, as we lagged behind them

in getting our market going. Also, we have far fewer unbanked consumers than the US. But when US prepaid program managers enter the Canadian market, they find they pick up an extra 10% of their business by providing the same products such as GPR [general-purpose reloadable] cards here as they do in the US."

Read says the Canadian GPR prepaid card market is being boosted by the rollout of apps that let people manage their spending and set savings goals and by issuers adding cheque-capture to their prepaid cards.

"Two other segments that are growing fast in Canada are open-loop gift cards, and business incentive prepaid cards," he says.

"An area of potential growth is businesses issuing their staff with prepaid cards that can only be used for specific purchases, like the prepaid cards issued via Marqeta to delivery drivers to pay for items they are collecting."

## MARKET STUDY

*Canadian Open-Loop Prepaid Market: 2016*, a report compiled for the Canadian Prepaid Providers Organization (CPPO) by Mercator Advisory Group, reveals 17% growth in the

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A POTENTIAL GROWTH AREA IS BUSINESSES ISSUING STAFF WITH PREPAID CARDS

Canadian open-loop prepaid card market between 2015 and 2016.

"Growth in all nine active segments of consumer-, corporate- and government-funded prepaid cards drove the market to C\$3.6bn in total dollars loaded onto cards," the CPPO says.

The study found that in 2016:

- GPR card loads totalled C\$1.8bn, and the average load onto consumer-funded cards was C\$649;
- Open-loop gift card loads totalled C\$1bn;
- The corporate incentive category had C\$189m in total loads. This segment remains small versus the US market, showing strong potential for growth, the CPPO says, and
- The average load onto corporate-funded prepaid cards grew 11% from C\$125 to C\$140, reflecting increased adoption by Canadian businesses to move cheque payments to prepaid cards.

"We're definitely seeing prepaid card activity in the gig economy," notes CPPO chair David Eason. "Prepaid is becoming more popular, as gig economy workers want to be paid daily rather than weekly, and using prepaid cards is a great way to do that."

"But currently deposits on Canadian prepaid cards are not covered by CDIC [Canadian Deposit Insurance Corporation]

## ACTIVE CANADIAN OPEN-LOOP PREPAID CARD SEGMENTS

### CONSUMER-FUNDED CARDS

GPR

Mall gift cards (RAN/restricted authorisation network)

Open-loop gift

Travel cards

### CORPORATE-FUNDED CARDS

Consumer incentives

Corporate purchasing

Employee and partner incentives

Insurance claims

### GOVERNMENT-FUNDED CARDS

Source: CPPO

discussions on providing CDIC insurance."

Eason says more and more millennials are using prepaid cards as an alternative to credit products. "Once prepaid cards can have CDIC insurance, they will become more mainstream and prepaid card transactions will grow," he notes.

## KOHO AND MOGO

Koho's prepaid Visa card, which is linked to a mobile personal financial management (PFM) app, is issued by Vancouver-based Peoples Trust, a federally chartered financial institution.

bonuses for referrals. In September 2017, it secured an additional C\$8m in funding from its existing investors, having previously received C\$2.5m in funding.

"We've been growing very quickly and have doubled [our user numbers] in the last two months," Dan Eberhard, Koho's CEO, explains.

"The majority of our transaction volume comes from people using their Koho card as their primary spending account.

"Customers can open accounts electronically with Koho in four minutes. They need an existing account with a Canadian financial institution, but we don't rely on their bank for KYC. We do our own KYC based on credit files."

Eberhard says Koho acquires new customers for 10% of what it costs banks to do so. "We're ramping up our marketing," he says. "We will be adding support for Apple Pay in the near future – the tokenisation provided by Apple Pay is a very important security feature."

"In the second quarter of 2018, we'll launch a merchant network where Koho cardholders will receive rewards for using their cards at participating retailers. During 2018 we also intend to offer credit products to our customers."

## SCOTIABANK

One of Canada's top five banks, Scotiabank offers gift cards and reloadable prepaid Visa cards to its retail customers, and also has a corporate prepaid card business.

Scotiabank issues prepaid cards with two companies: the North West Company which runs a network of retail stores in Canada's sparsely populated Northwest Territories, and Berkeley Payment Solutions.

With North-West Company, Scotiabank issues the We Financial Visa Prepaid card, which is designed for people who are unable to easily get to traditional bank branches.

"Berkeley manages several hundred prepaid incentive and reward card programmes on behalf of Canadian corporate clients," says Michel Cardinal, director, commercial cards at Scotiabank. "Its business is rock steady and continues to grow."

Scotiabank is working with Berkeley to launch prepaid cards for the business relocation market, he adds.

"We are now starting to see businesses issue prepaid cards to employees to cover their relocation expenses, instead of asking them to supply an invoice for their costs," Cardinal explains. ■

## "REGULATORS DON'T LIKE PREPAID CARDS BEING MARKETED AS BANK ACCOUNT REPLACEMENTS, AS THEY DON'T HAVE ATTRIBUTES LIKE CDIC"

insurance. Admittedly, most people using prepaid cards do not hold significant amounts of money on them."

Eason says the Canadian banking community and regulators need to update their perspective on whether prepaid cards are deposit-taking accounts.

"To date, prepaid cards are only partially considered as deposit-accepting accounts," he explains.

"Regulators don't like prepaid cards being marketed as bank account replacements, as they don't have all the attributes of bank accounts like CDIC insurance."

"As more and more Canadians start to use prepaid cards for deposits, the regulators and the Department of Finance will start to have

Mogo's prepaid Visa card is issued by Home Trust, a subsidiary of Canadian mortgage lender Home Capital. Mogo says that between August 2016 and November 2017 its user base doubled to over 500,000 Mogo members.

"Since 2014, the number of members on Mogo's platform has grown annually at an average rate of 114%," it says.

Mogo offers free credit monitoring, the MogoMortgage digital mortgage account, the MogoCard prepaid Visa card and digital spending account, and the MogoMoney loan account, whose Level-Up programme rewards consumers for consistent payments.

Koho launched its Smart Spending Account and linked prepaid Visa card in April 2017, and has since added cashback rewards and



## COUNTRY SNAPSHOT: THE UAE

*Card acceptance growing, albeit from low base*

The UAE payments market is defined by a high reliance on cash among consumers, with cash accounting for 84.6% of the total payment transaction volume in 2017. This was primarily because consumers in the UAE see cash as a quicker

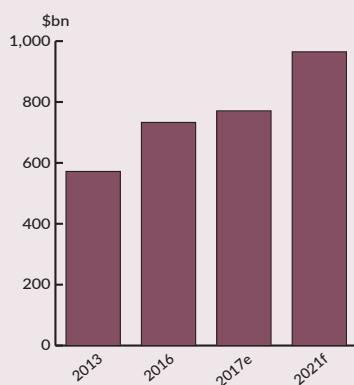
and safer payment option over which they have more control.

However, card payments are gradually increasing, supported by government financial inclusion programmes, promotional campaigns by financial

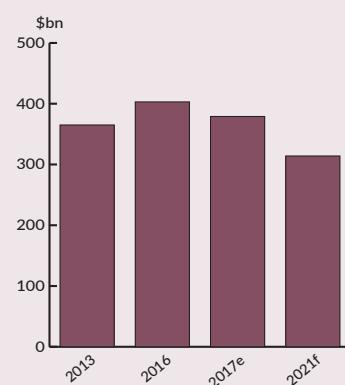
institutions, and the adoption of newer payment technologies.

In terms of transaction volume and value, debit cards will continue to dominate the overall payment card market. However, their use is mostly confined to cash

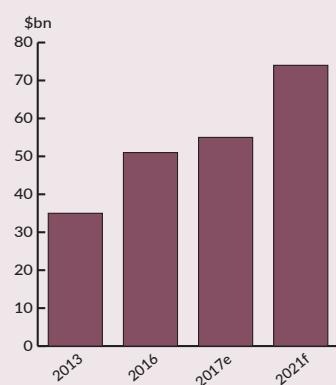
### VALUE OF CREDIT TRANSFERS



### VALUE OF CHEQUE PAYMENTS



### VALUE OF PAYMENT CARDS



Source: Central Bank of the UAE, GlobalData

Source: Central Bank of the UAE, GlobalData

Source: Central Bank of the UAE, GlobalData

withdrawals at ATMs. Pay later cards will remain the preferred card for payments at POS terminals.

Growth in the Emirati payment card market will be largely driven by credit and charge cards, with their growth rates outreaching pay now cards over the next few years.

## FINANCIAL INCLUSION

Improving financial inclusion has driven the adoption of electronic payments in the UAE. The government introduced the Wage Protection System (WPS) in January 2009, requiring all wage payments to be made through a bank, bureau de change or other authorised financial institution.

The system offers transparency to both domestic and foreign workers, and addresses delayed payments or non-payments. All institutions registered with the Ministry of Labour come under the purview of the WPS.

## CREDIT CARD ADOPTION

The credit card transaction value at POS grew at a CAGR of 12.9% during 2013-2017. Sharia-compliant cards, reward programmes, value-added services, and promotional campaigns have all been employed to encourage credit card use.

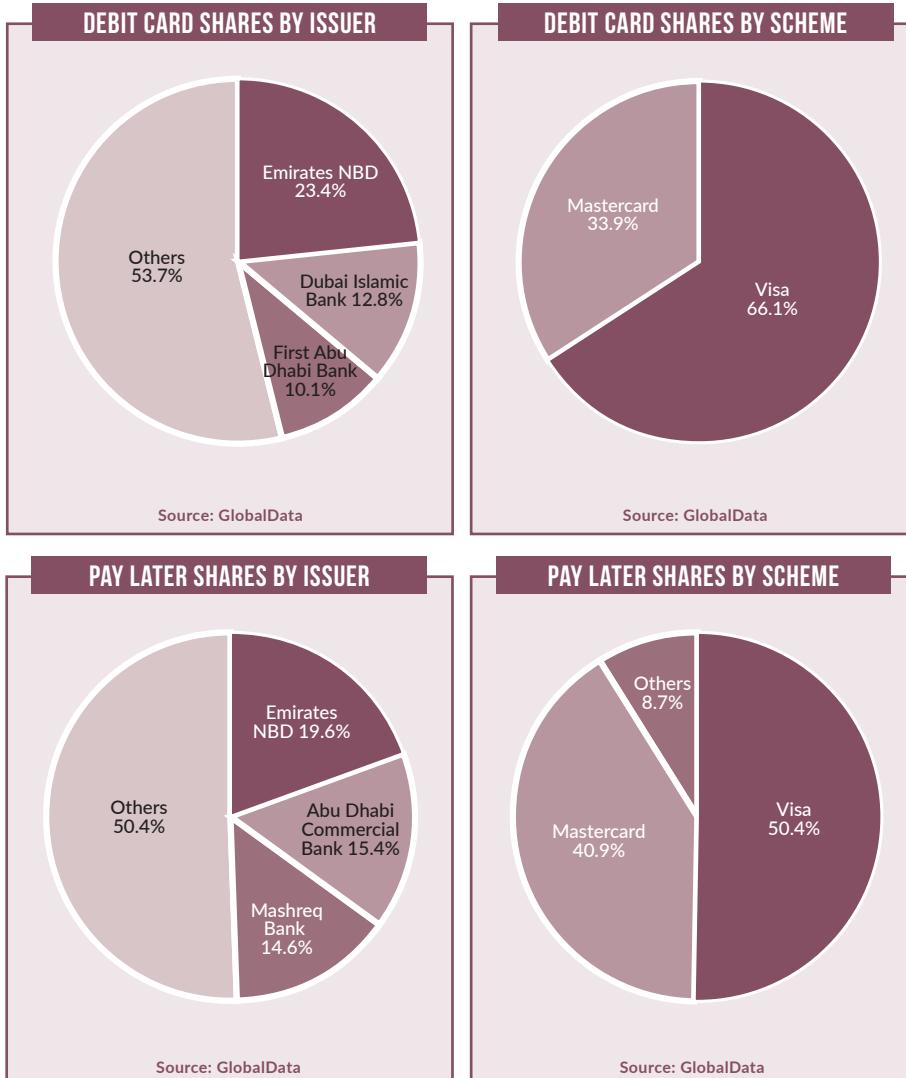
Banks also offer balance transfer services, allowing consumers to transfer credit card balances to new cards. Rakbank offers a balance transfer service that is interest-free for three months, and charges a 2% rate thereafter.

The introduction of contactless cards has also supported credit card market growth. In November 2015, Citibank partnered with Mastercard to introduce contactless payments for Citi Mastercard card holders. The service allows consumers to make contactless payments for small-ticket items worth up to AED100 (\$27.20).

## IMMIGRANT POPULATION

The UAE's immigrant population accounted for 88.4% of the resident population in 2015, according to the International Organisation for Migration.

Many expatriate workers use prepaid cards to remit funds to their home countries. The WPS has resulted in a number of companies in the UAE using prepaid cards for payroll purposes.



Many banks in the UAE offer prepaid cards that can be used by holders to transfer funds or remit money from one card to another.

TransCash Corporation offers the TransCash Mastercard Prepaid Money Sharing card in the UAE, which is primarily designed for workers who do not have access to formal banking and require remittance services. The card can also be used by UAE nationals to transfer funds from one card to another in the domestic market.

## E-COMMERCE PAYMENTS

E-commerce registered a significant CAGR of 26% during 2013-2017.

Debit and credit cards remain the preferred mode of e-commerce payment, accounting for one-third of the total e-commerce transaction value in 2017.

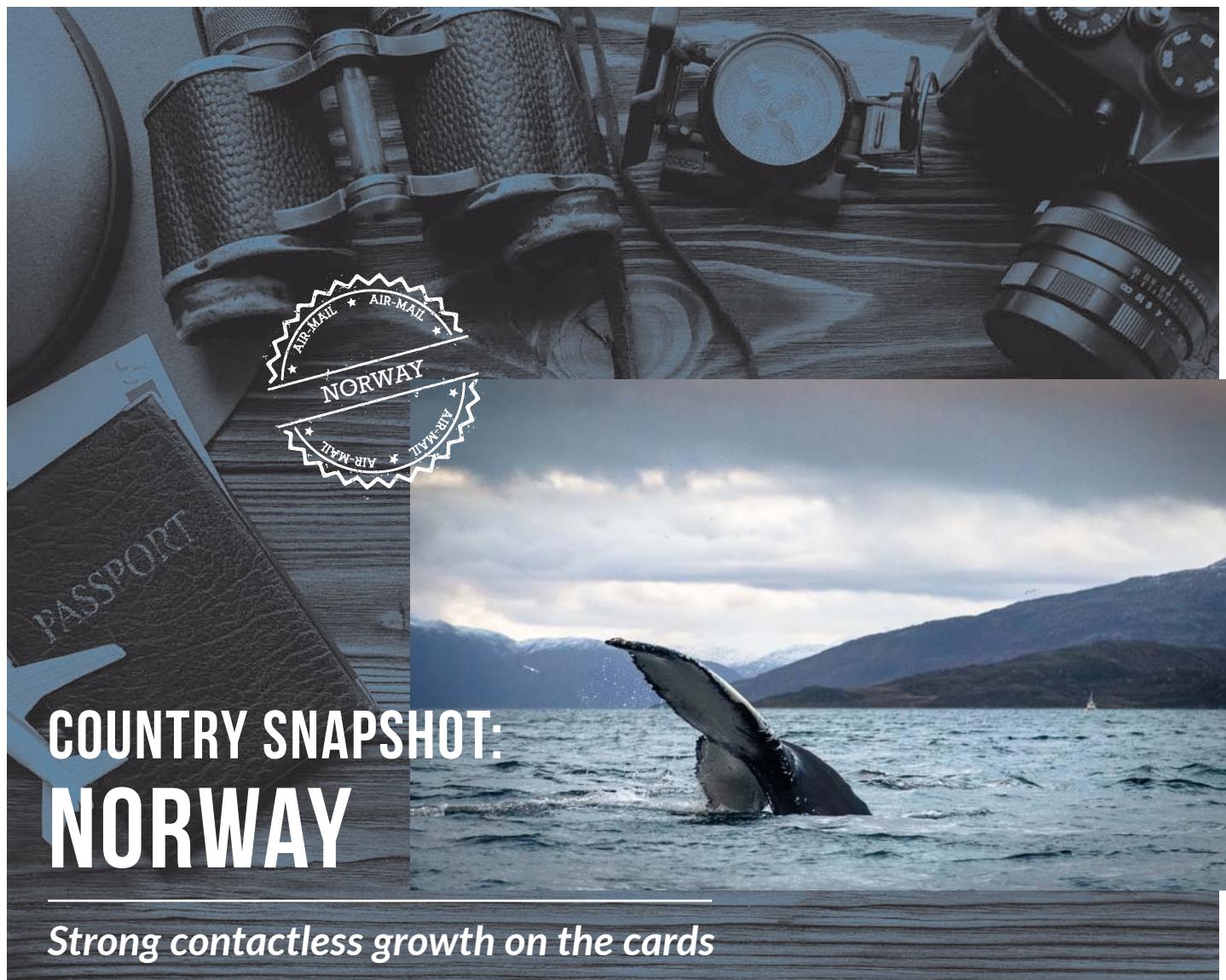
However, alternatives such as PayPal, CashU and Masterpass are all gaining

prominence for the purposes of online shopping.

## GROWING INFRASTRUCTURE

The number of POS terminals recorded a robust CAGR of 22.4% in the four years to 2017, rising from 91,791 in 2013 to 206,051 in 2017. With the rising number of POS terminal installations at retail outlets, the potential for card-based payments in the country is also expected to grow.

The growing payment card market has encouraged mobile POS (mPOS) solution providers to launch new products. For instance, NBAD partnered with Etisalat in June 2015 to launch Mobile Cashier, an mPOS solution allowing merchants to accept and manage debit, credit, and prepaid card payments. The solution can be used to accept payments with a smartphone connected to a card reader by Bluetooth, and to send receipts to customers by SMS or email. ■



## COUNTRY SNAPSHOT: NORWAY

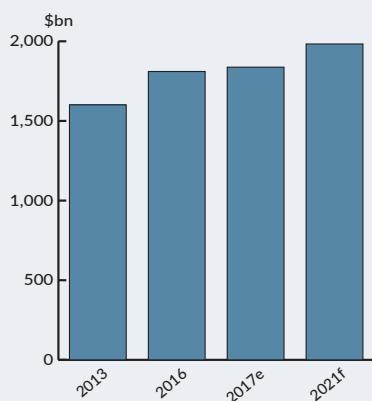
### *Strong contactless growth on the cards*

The payment card reigns supreme in Norway, with only a few individuals making use of cash on a daily basis and most possessing a minimum of two payment cards.

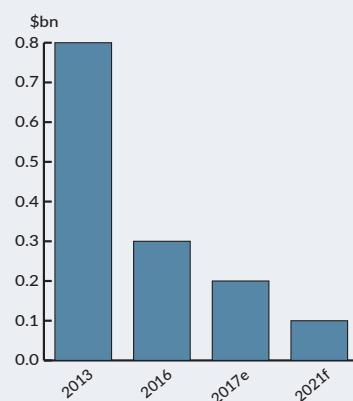
Norway's strong card and payment industry is the result of a robust economy, an efficient domestic debit card scheme, BankAxept, and growing consumer appetite for credit.

The average number of monthly card transactions and the average annual spend per card are higher in Norway than in more developed markets such as the US, the UK, France, Germany and Australia.

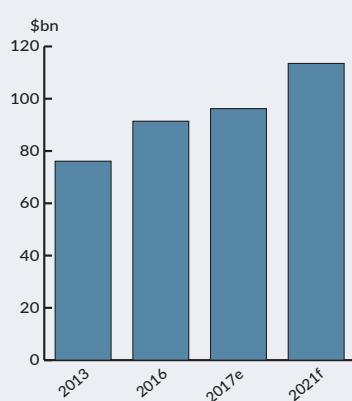
#### VALUE OF CREDIT TRANSFERS



#### VALUE OF CHEQUE PAYMENTS



#### VALUE OF PAYMENT CARDS



Source: Central Bank of Norway, GlobalData

Source: Central Bank of Norway, GlobalData

Source: Central Bank of Norway, GlobalData

Electronic payments have gained ground during the last 10 years, as the government has invested substantially in building long-term infrastructure for cashless transactions.

Affordable and widely available financial products, a consumer preference for e-payments, a competitive marketplace, and a transparent business environment will aid the move towards a cashless society.

## BANKAXEPT

The domestic debit network, BankAxept, which is owned by Norwegian banks, has established acceptance coverage that covers the vast majority of the country. BankAxept operates on a no-interchange-fee model and operates a strong acceptance network.

However, BankAxept cards cannot be used for online shopping and international transactions. This has led to growth in the use of international schemes such as Visa and Mastercard. Payment cards are, therefore, normally co-badged with international scheme providers.

All domestic debit card-based POS transactions and ATM withdrawals are carried out by BankAxept, whereas all international transactions and online purchases are carried out by international schemes.

## E-COMMERCE GROWTH

E-commerce posted a CAGR of 14.9% in the four years to 2017.

Norwegian consumers are happy to buy little and often online. Key drivers include a wider selection of goods than in stores, easy-to-use online websites, and no duty charged on foreign purchases under NOK350 (\$43.20).

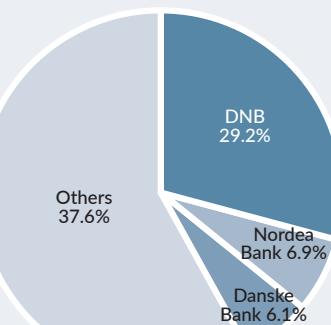
Conventional payment instruments, including payment cards and credit transfers, remain the preferred payment method among Norwegian consumers.

## MOBILE PAYMENTS GAIN

A growing preference for cashless transactions coupled with high smartphone penetration has led to a rise in demand for mobile payments.

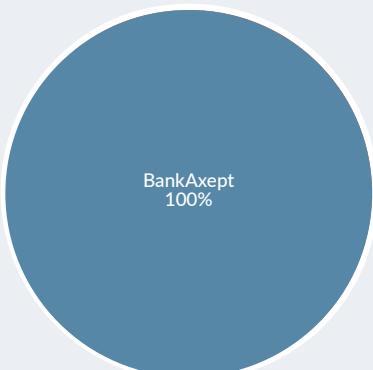
Alipay launched its operations in Norway in September 2017. The country's first mobile peer-to-peer (P2P) payment

### DEBIT CARD SHARES BY ISSUER



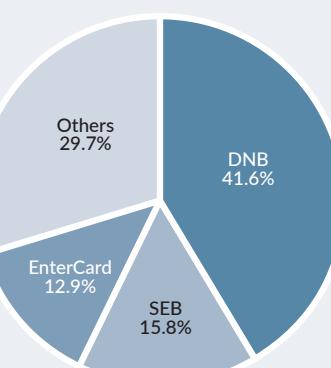
Source: GlobalData

### DEBIT CARD SHARES BY SCHEME



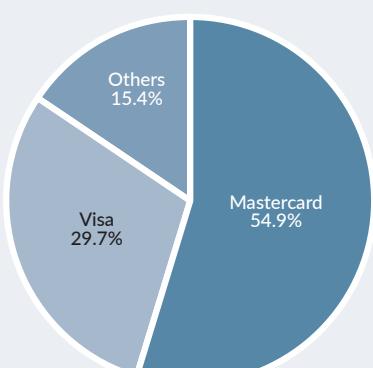
Source: GlobalData

### PAY LATER SHARES BY ISSUER



Source: GlobalData

### PAY LATER SHARES BY SCHEME



Source: GlobalData

solution, Vipps, was launched by DNB in May 2015. More than 100 banks now support this solution, which is used by over two million users.

## CONTACTLESS ON THE RISE

Contactless technology in Norway is in a developmental stage.

To increase uptake, banks and scheme providers are attempting to differentiate their products by introducing new features. In December 2016, Oberthur Technologies, a provider of embedded security software products and services, and Eika Alliance launched the first contactless dual payment card in Norway. The contactless BankAxept payment card offered by Eika enables users to perform contactless transactions at more than 100,000 merchants in Norway.

In June 2016 BankAxept partnered with Canadian debit network, Interac to accelerate the rollout of contactless and mobile payment solutions in Norway.

## PREPAID LAGS BEHIND

Norway's prepaid card market is still in a broadly developmental phase, with card penetration of just 2.2 per 100 inhabitants in 2017, as compared to a penetration rate of 161.8 per 100 inhabitants for debit cards.

The low number of prepaid cards in Norway is primarily a result of the country's fully banked population. This indicates that there is limited use for prepaid cards, as the functionality of these cards is generally covered by debit cards.

However, gift cards remain popular in Norway. For example, DNB offers a business gift card in association with Mastercard. Employers can personalise the cards by embossing recipients' names on the face.

Similarly, SpareBank 1 offers the SpendOn Visa Gift Card, which can be purchased from Rema 1000 stores located across Norway. ■



## COUNTRY SNAPSHOT: MEXICO

### Fees continue to dampen card demand

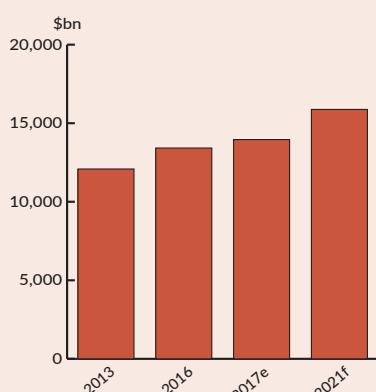
**C**ash remains the preferred form of consumer payment in Mexico, especially in rural areas, primarily as a result of limited consumer awareness and poor access to banking infrastructure.

Cash is primarily used for small-value payments at retailers, and to pay utility bills, taxes and transport fares. A significant proportion of the population is engaged in informal activities, including farmers,

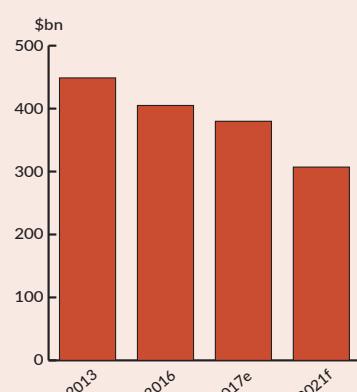
street vendors, domestic servants and self-employed workers.

The payment card market is growing strongly but not explosively, and current trends make it unlikely that there will be

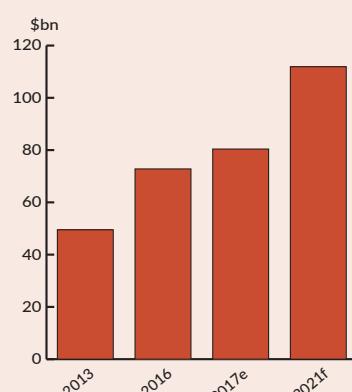
#### VALUE OF CREDIT TRANSFERS



#### VALUE OF CHEQUE PAYMENTS



#### VALUE OF PAYMENT CARDS



Source: Central Bank of Mexico, Bank for International Settlements, GlobalData

Source: Central Bank of Mexico, Bank for International Settlements, GlobalData

Source: Central Bank of Mexico, Bank for International Settlements, GlobalData

any major shifts in the near future.

Various charges on cards and bank accounts also reduce the appeal of payment cards for most Mexican consumers. Contactless cards and mobile proximity payments are not widely used, although the major banks have made attempts to boost their adoption.

## GOVERNMENT INITIATIVES

The government has identified access to financial services as a top priority, and encouraged initiatives that make bank accounts essential for every individual. Banco de México has directed banks to simplify the process of opening accounts, making access to basic products such as bank accounts and debit cards easier.

Debit cards have grown in prominence as a result of the introduction of electronic payroll services, an increase in the banked population, and the government's distribution of social welfare funds through payment cards.

Mexico joined the UN's Better Than Cash Alliance in June 2016. The move followed the government's introduction of a national policy on financial inclusion to promote electronic payments across the country and reduce dependence on cash. With 86% of Mexico's 124.6 million population owning a mobile phone, the Better Than Cash Alliance aims to harness their popularity for digital payments.

## CREDIT CARD MARKET

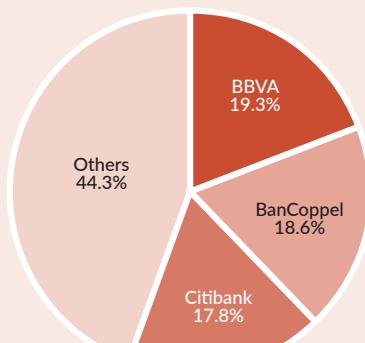
The credit card market is likely to be affected by Donald Trump's victory in the US presidential election.

Consequently, banks are cutting credit card exposure to counter a potential rise in consumer defaults and the risks of an economic shock should the new US government restrict trade and business with Mexico. Banks are therefore reducing credit card spending limits and raising lending standards. Bank profits would suffer if the US government scraps the North American Free Trade Agreement.

## PAYMENT INFRASTRUCTURE

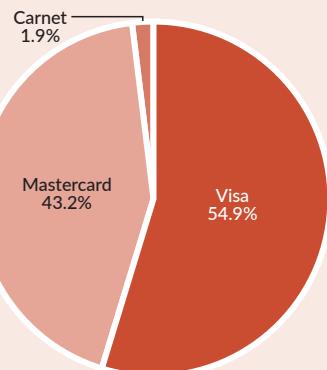
Mexico's POS terminal network recorded strong growth during 2013-2017, although Mexican consumers remain underserved in general. The majority of merchants are small-scale operations, and are generally

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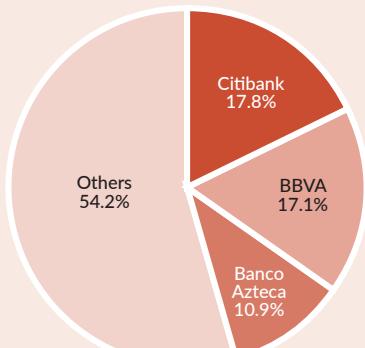
Source: GlobalData

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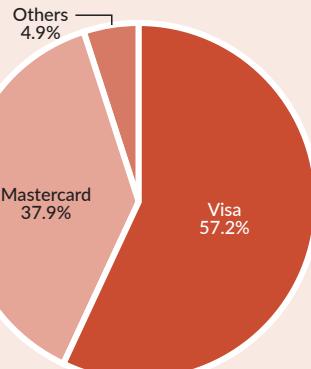
Source: GlobalData

### PAY LATER SHARES BY ISSUER



Source: GlobalData

### PAY LATER SHARES BY SCHEME



Source: GlobalData

resistant to investing in expensive POS hardware, particularly when cash is so widespread.

Mobile POS devices will be critical in extending electronic payment acceptance, due to their lower cost and general ease of use for smaller businesses, which may drive up card usage.

## ALTERNATIVE PAYMENTS

Uptake of alternative payments is gradually rising in Mexico, with banks launching new solutions.

In February 2016, Banamex launched its digital Banamex Wallet in partnership with Mastercard. The Android-compatible mobile app can be used to make contactless m-payments, authorised by a four-digit PIN. Users can add all Mastercard-branded credit cards to the wallet.

In June 2014, BBVA Bancomer launched its mobile BBVA Wallet in Mexico. The

wallet allows secure NFC payments at merchant locations that accept contactless payments. Available on phones operating Android 4.4 and above, other phones can use the wallet through NFC stickers.

## INITIATIVES TO CURB FRAUD

Banks and scheme providers are taking a number of measures to combat fraudulent activity in Mexico.

One example is Mastercard's introduction of the Identity Check Mobile solution in November 2016. The solution allows cardholders to verify online payments by scanning their fingerprint or taking a 'selfie'.

Unlike some identity-verification methods – which take shoppers away from a merchant's website or mobile app and often require them to remember and enter a password – Mastercard Identity Check Mobile verifies users via technology such as biometrics and one-time passwords. ■

# 2018 WILL BE SHAPED BY OPEN BANKING

**2018 is set to be a pivotal year with both the General Data Protection Regulation (GDPR) and the revised Payments Services Directive (PSD2) transforming the way businesses approach customer data. The combination is a potent legislative cocktail that will challenge banks and fintechs, writes CA Technologies vice-president *Ian Clark***

**P**SD2, and what it means for the financial community and the steps that must be taken, must be considered in this pivotal year.

PSD2 updates the original Payment Services Directive and was proposed by the European Commission in 2013. But January 2018 was the date when 28 EU member states transpose the provisions of PSD2 into national law.

PSD2 will revolutionise the way we make digital payments by allowing consumers to have the option of using third-party providers to manage financial assets. It will take us from a 'monolithic model', where consumers interact primarily with just a single bank, to a 'banking platform model' where consumers have the option of leveraging multiple services from multiple financial service providers and banks.

The regulation looks to level the playing field, creating a single integrated payment services market with uniform approaches for both banks and the emerging payments and fintech companies. It will further free the market by removing barriers to entry for new operators.

The regulation does this by strengthening uniform security for all stakeholders, unlocking the opportunity for new payment services, ensuring transparency and promoting market competition through innovation.

PSD2 has the potential to be hugely beneficial to consumers and therefore to businesses delivering those services. PSD2 allows for faster payments and makes strong customer authentication mandatory.

With consumers demanding access to all their banking services across every digital

channel, whenever and wherever they are, this regulation gives the financial services market the chance to properly respond and deliver on those expectations.

But less than six months before it was enacted into law, 89% of consumers did not know what PSD2 actually meant for them. Banks need to take the lead in educating the public on the potential implications that the new regulations will have for them, allaying their concerns around data protection.

Without effective communication, banks risk losing the trust of their customer base. Those that get it right could gain a competitive advantage here.

## REALISING THE OPPORTUNITY

From a business perspective, PSD2 enables the industry to be more open, innovative and collaborative. But financial services companies must grasp that opportunity with both hands.

With this in place, banks and fintech providers can partner to develop innovative new services that were not previously possible. However, the larger banks need to ensure that they are receptive to this change and become more open to sharing data and insights with fintech companies, or they could be left behind.

As with all modern data issues, implementing new technologies is crucial here and banks are turning to the latest enterprise software to make them more agile ahead of the PSD2 deadline.

Here are two examples of how organisations may encounter the new directive and recommended tools to help meet and surpass

key requirements of stronger authentication, for open secure communications:

### 1. Issue: Online banking security

#### Solution: Advanced authentication

Advanced authentication is a flexible and scalable solution that incorporates both risk-based authentication methods, like device identification, geolocation and user activity, as well as a wide variety of multi-factor, strong authentication credentials. This solution allows financial organisations to create a layered, strong authentication process to ensure that only legitimate users gain access to their accounts and payment services.

### 2. Issue: Account access and API security

#### Solution: API management

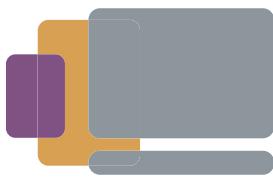
Application programming interfaces (APIs) provide the connectivity to meet PSD2's open communications demands and requirements, for example Third-Party Provider and Access to Account. API management provides the capabilities financial organisations need to address new digital transformation challenges. This platform secures the open enterprise, providing a secure integration capability across apps, devices, and businesses.

2018 with the introduction of PSD2, along with GDPR, will certainly bring disruption to the financial services market. However, this must be viewed as an exciting opportunity for businesses to re-evaluate their proposition to today's consumer, and collaborate across the industry better to deliver new exciting innovative services.

There is potential for some delay to PSD2 given the lack of clarity of the EBA Regulatory Technical Standards (RTS) for strong customer authentication and common and secure communication. To ensure innovation is not stifled, the RTS takes a 'what' rather than a 'how' approach, leading many stakeholder banks to stall in defining their PSD2 strategy and building a solution.

Regardless of the possible delays until late 2018, to allow the details to be finalised, now is the time to consider an appropriate PSD2 strategy. Companies need to build a standards-based PSD2 platform that is ready for 2018 yet sufficiently flexible to adapt to the evolving regulatory and business needs of Open Banking that the market will demand.

If banks and fintech companies respond appropriately to these impending regulatory changes, a hugely positive shift for the market can be triggered, resulting in a far more consumer-centric operating model. ■



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From January 2018 PSD2 comes into force and with it the era of open banking begins. Traditional financial institutions and new entrants such as challenger banks, alternative lenders, crowd funding and P2P have to a greater or lesser extent been preparing for the new paradigm, but will they thrive or just survive?

At this critical point, **Retail Banking: Nordics 2018** will bring together more than 200 industry leaders from traditional and new banks, providers and other key industry stakeholders and influencers. This comprehensive and inclusive event will explore, through a series of keynotes, panel sessions and round tables the opportunities and challenges financial institutions face as they enter an era of truly digital banking.

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- Open Banking: can banks win through collaboration based on open APIs and data sharing?
- PSD2: what happens next?
- Bank/Fintech collaboration: is it really possible?
- AI and machine learning: hype or reality?
- Digital identity and biometrics
- New and disruptive business models
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