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NEW POCKET MONEY

GOHENRY'S MISSION TO BRING ALLOWANCES INTO THE DIGITAL ERA

INSIGHT

Afterpay and zipMoney: legitimate businesses or app-based Ponzi schemes?

FEATURE

African Bank takes the next step on its journey from lending to retail banking

COUNTRY SNAPSHOTS

Analysis and data for card payments in Azerbaijan, Iran and Uruguay

THIS MONTH

NEWS

05 / EDITOR'S LETTER

06 / DIGEST

- World first for Idex Biometrics
- Tandem auto-savings feature to launch
- Labour to ban ATM charges and stop branch closures
- 250 free ATMs a month shut in 2018, with closures set to continue
- ANZ launches cardless ATM withdrawals
- Maybank steals the show at fifth CEPI Asia Awards
- Decade-long dispute between Visa and Mastercard settled for $6.2bn
- Nearly one in two UK card payments are contactless
- China UnionPay, Allied Wallet to issue co-branded cards in Europe
- Idemia, Discover partner for digital contactless payments

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SEPTEMBER 2018

FEATURES

10 / GOHENRY
Gone are the days where parents pulled out cash for pocket money. In our increasingly cashless society, ***Briony Richter*** speaks to gohenry's Tom Mansbridge about teaching the next generation to be financially savvy

12 / AFRICAN BANK
African Bank took a huge step in 2016 by restructuring and relaunching itself. Now, it is set to move from its traditional lending structure into one that more resembles retail banking. ***Patrick Brusnahan*** writes

PRODUCTS

13 / CURVE
The Curve card is aiming to change the game of travel, starting with eliminating hidden card fees. Other challengers – notably Revolut – offer similar services, so how does the Curve proposition stack up? ***Douglas Blakey*** reports

INDUSTRY INSIGHT

14 / MCLEAN ROCHE CONSULTING
Afterpay and zipMoney are skilfully exploiting a legal loophole in consumer credit regulation in Australia and New Zealand. Consumers, investors and regulators should be questioning their legitimacy, argues ***Grant Halverson***

22 / VISA
By this time next year, every online payment in Europe will have to meet new measures designed to enhance security. ***Mark Nelsen,*** senior vice-president – Open Banking at Visa, gives an overview of its new suite of solutions

COUNTRY SNAPSHOTS

16 / AZERBAIJAN
Azerbaijan remains a cash-oriented economy, with various factors hindering the development of the country's financial system, including the payment card market, which remains at a nascent stage of development

18 / IRAN
Iran's payment card market recorded robust growths in the number of cards in circulation, transaction volume and value between 2013 and 2017, supported by government initiatives to encourage electronic payments

20 / URUGUAY
Uruguay recorded a gradual shift in preference towards electronic methods of payment between 2013 and 2017, with the government taking a number of steps to reduce dependence on cash

BENCHMARK INTELLIGENCE ON THE LIFE, HEALTH AND PENSIONS INDUSTRY

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WILL A NEW APPLE CREDIT CARD FORM PART OF A PUSH INTO CONSUMER BANKING?

Douglas Blakey, Editor

The goal of Apple Pay is to give people another reason to love their iPhones – at least that is the official line. But it is a statement of the obvious that Apple earns revenue from customers' Apple Pay transactions.

In May, the *Wall Street Journal* reported that Apple was working with Goldman Sachs to launch an Apple Pay-branded credit card, suggesting that Apple would roll out a credit card with Goldmans in early 2019. The Apple Goldman Sachs partnership is said to extend to other services, including Goldman offering in-store loans to Apple customers buying iPhones and other devices.

There are existing strong links between the firms. Apple's first CFO, Peter Oppenheimer, joined Goldman Sachs's board of directors in April 2014. Oppenheimer retired from Apple later that year after 18 years' service.

At Goldman Sachs's second-quarter investor presentation, CFO Marty Chavez commented on possible new product launches. He said: "We continue to evaluate new product opportunities, including wealth management, credit cards and others, with our criteria to launch predicated on our ability to address consumer needs apply the core competencies of Goldman Sachs and deliver attractive returns to shareholders."

The working assumption is that an Apple-Goldman tie-up will replace the current Apple Rewards Barclays credit card in the US. Apple already offers a wallet app, enabling customers to use a third-party credit card for contactless payments using iPhone and Apple Watch.

Apple's existing credit card's reward programme will not win any prizes for novelty, nor does it top any best-buy tables. It offers three points for every dollar spent at Apple, and two for every $1 spent at restaurants. It earns a rather miserable one point for every $1 spent on anything else. When it comes to points redemptions, cardholders receive a gift card for $25 on accumulating 2,500 points; the card can be for either Apple or iTunes. That is a lot of spend to qualify for a $25 gift card.

Goldman Sachs's latest consumer banking push relates to the launch of the Marcus retail brand in the UK. Marcus offers an easy-access savings account with a market-leading 1.5% savings rate. The next-best easy-access savings rate is currently 1.41% from Yorkshire Building Society.

Marcus is named after one of the original founders of Goldman Sachs 149 years ago, Marcus Goldman. The account is open to UK savers aged over 18, and customers can deposit from £1 to £250,000 ($326,000). The account is managed online, complemented by a UK call centre open seven days a week from 8am to 8pm.

Since the financial crisis, regulators have urged banks to boost balance sheets by diversifying their sources of funds. The Marcus online product launch certainly ticks that box.

Goldman's traditional product lines have been under pressure. In equity trading, Goldman has been lagging traditional rivals JP Morgan, Citi and Bank of America. Goldman's share price for the year to date is down by almost 9%. Goldman's new CEO, David Solomon, takes over from Lloyd Blankfein on 1 October, and will be under immediate pressure to boost revenues by launching new product lines.

Marcus: will it succeed? US lessons encouraging

Goldman Sachs has big ambitions for its push into retail banking. To date, the lessons from the US are hugely encouraging. In June 2015, a year prior to the US launch of Marcus, Goldman Sachs ranked the 19th-largest US bank by deposits, with deposits of $77.8bn. At the end of June this year, Goldman was the 14th-largest bank by deposits; in the interim, deposits had risen by 64% to $127.6bn.

Much of the rise in deposits can be attributed to Marcus. From a standing start, Marcus has attracted US retail deposits of over $23bn from more than 1.5 million retail customers.

Goldman now offers three products in the US market, consumer personal loans, savings, and its recently acquired personal financial management app, Clarity Money. Marcus has originated over $4bn of consumer loans since launch, and Goldman held $3.1bn of loans on its balance sheet as at the end of June.

According to Goldman, it has no plans to launch Marcus in any markets other than the UK and US. If its UK operation launches as successfully as in the US, further international expansion may well be on the cards. ■

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

NEWS DIGEST

World first for Idex Biometrics

Idex Biometrics has claimed a world first with the receipt of a production order for biometric fingerprint sensors for payment cards.

Norway-headquartered Idex is scheduled to start shipping against the order in the third quarter of 2018, and expects additional orders to follow.

Idex Biometrics CEO Stan Swearingen commented: "We are incredibly proud to have reached this very important milestone with our strategic partner.

"The order marks the start of the industrialisation phase for biometric cards. This is the result of years of dedication and hard work, and is validation of Idex's leadership position in this very innovative market".

With its ecosystem partners, Idex Biometrics said it has taken a leading role in advancing the development of biometric-enabled cards and supporting solutions for several years. The partner has completed several end-user trials of biometric cards, receiving positive feedback on the convenience, security and ease of use.

The market for biometric cards has significant momentum, attracting strong interest from both consumers and issuers. Idex Biometrics is working with a range of customers that are integrating Idex's fingerprint sensors and biometric modules into both contact-based and contactless cards.

Idex technology enables remote enrolment using a sleeve to register fingerprints. Consumers can record their fingerprints from home, avoiding the need to go to a physical branch. Earlier this year, Swearingen told *CI* sister title *Retail Banker International* about Idex's work with Mastercard to develop the remote enrolment solution.

Mastercard has been at the forefront globally of promoting the potential of next-generation biometric payment cards. In 2017, it ran two successful pilots, with supermarket retailer Pick n Pay and Absa Bank. ■

TANDEM AUTO-SAVINGS FEATURE TO LAUNCH

Tandem's auto-savings feature is scheduled to launch this autumn, as the digital-only bank aims to help consumers save more.

Once live, Tandem customers can choose a set of rules that suit their financial needs. Once a customer accesses the Tandem auto-savings feature, they can automatically move small amounts from their current account provider to a secure savings account with Tandem.

When a rule is triggered, such as spending on a certain day of the week or from a connected account, money is automatically moved from the current account. Once in the Tandem account, the money starts to earn interest. Tandem does not currently offer its own current accounts.

The Tandem app aggregates users' data from all their bank accounts and cards, giving users a comprehensive view of their finances. A growing suite of artificial intelligence-driven tools offering tailored advice is also available.

In a recent survey, Tandem revealed that over a quarter of UK consumers do not set any money aside each month. Many people who do save, especially millennials, are setting themselves unrealistic goals and struggling to stick to them. In addition, over a third of those who do manage to set money aside take it back out again in the following month.

Tandem product director Matt Ford commented: "Improving savings habits is one of the hardest things someone can do. There is a whole library of books written about why people find it so hard to save, and what they can do to make a change."

Ford continued: "Almost everyone we have spoken to wants to save more; however, they often find it difficult to adjust their spending habits and free up money.

"Setting aside lump sums isn't always the best approach. We aim to make it as easy as possible for users to get started, showing that small, regular savings will lead to saving large amounts."

Tandem CEO Ricky Knox added: "The new Tandem account will allow customers to move money in and out of their account as frequently as they like, earning interest as they go.

"Once they have saved a certain amount, they will be able to move this money into a Fixed Term Saver, where we provide people with market-leading rates when they put money away for a year or more.

"We started Tandem to help customers in ways that existing banks simply aren't doing. It's about identifying real problems and offering great tools to help people." ■

Labour to ban ATM charges and halt branch closures

The UK's opposition Labour party has pledged to ban ATM charges and stop bank branch and Post Office closures.

At the party's 2018 conference in Liverpool, shadow business secretary Rebecca Long-Bailey said the proposal is part of a five-point plan to save the UK's high streets. Part of the pledge includes banning ATM charges and ensuring that free-to-use ATMs are available in all areas that need them.

Other pledges included:

- Improving local bus services and providing free bus travel for under-25s;
- Free Wi-Fi in town centres;
- Establishing a register of landlords of empty shops in each local authority, and
- Annual revaluations of business rates, ensuring a fair appeals system, and a review of the business rates system.

Recent research by consumer group Which? found that the loss of free-to-use ATMs would leave around 10% of UK consumers struggling to make payments. Another survey, by Consumer Intelligence, found that 46% of shop owners think branch closures negatively impacted their businesses, with one in four claiming that bank closures had contributed to them going out of business.

Long-Bailey said: "Our high streets need saving from a slow and agonising death. As part of our plan to rebuild Britain and breathe life back into our communities, Labour will scrap ATM charges, deliver free Wi-Fi to town centres, introduce a register of empty properties, provide free bus travel for under-25s, and overhaul the broken business rates system, which is hammering retail."

She added: "Boarded-up shops and deserted high streets are a result of years of neglect and austerity. Our country needs to radically change course so our towns can thrive again." ■

250 free ATMs a month shut down in 2018, with closures set to continue

An average of 250 free ATMs have closed each month in the UK since the beginning of 2018.

According to Link's *ATM Footprint Report*, between January and July 2018, 1,300 free-to-use ATMs were shuttered, representing a 2% drop from 54,000 to 53,200. The network co-ordinator predicts that the drop could reach 11% over a four-year period.

Pay-to-use ATMs also declined, by 11% in the first six months of 2018 from 13,400 to 11,900. At their 2007 peak, there were over 27,000 pay-to-use ATMs in the UK.

Currently, 80% of free-to-use ATMs are within 300m of another ATM. Link has specific arrangements to protect free ATMs more than 1km from their next-nearest free-to-use ATM. Link is targeting all 2,365 of these free machines in remote and rural areas to stay open, unless there is another cash source nearby. Some 21 of these ATMs are not currently available, through closure or other operational reasons.

Consumers are also able to use Post Offices to withdraw cash. There are 11,600 Post Offices in the UK with this function.

Some UK constituencies are faring better than others. Great Yarmouth has a total of 183 ATMs, but 83 of these are pay-to-use. Sheffield Hallam has only 19 free ATMs, and 12 that are pay-to-use.

Link CEO John Howells said: "Consumers are continuing to switch from cash to alternative payment methods, and ATM volumes are falling 6% year on year. Given this backdrop, it's critical we protect cash access for those who rely on it, and maintain a comprehensive network of ATMs that's spread right across the UK.

"The report is part of our commitment to monitor the situation on the ground and do whatever it takes to ensure people continue to have the free access to cash they want." ■

ANZ LAUNCHES CARDLESS ATM WITHDRAWALS

ANZ has become the first retail bank in Australia to offer cardless ATM withdrawals.

ANZ customers will be able to withdraw cash from ANZ ATMs using their preferred mobile payments device instead of plastic cards. Withdrawals will be available using ANZ's range of mobile payments, which currently include Apple Pay, Samsung Pay, Google Pay, Garmin Pay and Fitbit Pay.

ANZ customer engagement lead Kath Bray commented: "We are determined to bring our customers new banking experiences so they can access their money the way they want to.

"With the high adoption rates of contactless payments in Australia, our customers will be some of the first in the world to use their mobile devices to withdraw cash, in addition to making payments. We know this is something our customers will appreciate."

ANZ said its Wallets@ATM service "represents the latest wave in mobile payments evolution focused on both convenience and security". Users can wave a mobile payments device over the contactless reader at an ANZ ATM, select an eligible card, and enter their four-digit PIN to access banking services.

Over a million ANZ customers currently use digital wallets loaded with an ANZ-issued card. Between October 2017 and August 2018, ANZ customers made more than 57 million mobile payment transactions worth more than A$1.83bn ($1.32bn) – an increase of more than 150% in terms of transaction numbers from the same time a year earlier.

This latest feature also means customers can complete all ATM activities with a compatible smartphone or watch, including cash withdrawals, PIN change, deposits at Smart ATMs, account transfers and balance enquiries.

In the past two years ANZ has launched five mobile payment partnerships with the world's largest smartphone manufacturers and software providers, making it the only bank in Australia to offer cardless ATM withdrawals on all five digital wallets.

SME-focused Australian bank Tyro launched voice-activated payments with Apple devices in February 2017, allowing customers to make payments using Siri voice commands. ■

Maybank steals the show at fifth CEPI Asia Awards

Maybank has snapped up 10 awards at the fifth annual Cards and Electronic Payments Asia Awards (CEPI) in Singapore.

Kalyani Nair, executive vice-president and head of virtual banking and payments at Maybank, was recognised with the Individual CEPI Asia Leadership award. Maybank also collected the Institutional Leadership award. Other Maybank wins included the Best Mobile and POS, Best Social Media Marketing, and Best Merchant Acquiring Initiative categories.

In the payments section, Maybank collected the awards for Best Digital Wallet Initiative, Best Omni-Channel Payments Initiative, and Best Remittances Offering.

UOB collected five awards: Best Card Offering – SE Asia, Best Debit Card for Asia-Pacific, Best Commercial Card, Best CSR Initiative, and Best P2P Initiative.

Taiwan's Taishin Bank also had a successful CEPI Awards, winning in four categories: Most Innovative Digital Solution, Best Loyalty Programme, Best New Product Launch, and Best Merchant Product Offering.

Philippines-headquartered Metrobank Card Corporation was successful in four categories. Metrobank wins included the categories of Best Prepaid Card for Asia-Pacific, Best Tech Implementation – Back End, and Best Digital Marketing Campaign. Metrobank also collected the award for Best Brand Engagement Programme.

The successful pilot of Japan's first fingerprint-authentication card secured Best Security Initiative Award for JCB and tech partner Idemia. JCB also collected the award for Best NFC-Enabled Security Initiative.

Vietnam's FE Credit collected the award for Best Card Design. FE Credit launched Vietnam's first ever limited credit card to commemorate the lunar year. The card launch successfully reached FE Credit's target market and resulted in card sales growth of 50%.

Other winners on the night included India's Axis Bank, Krungsri Consumer and Union Bank of the Philippines.

The award for Best Affinity Co-Branded Programme was bagged by UnionBank of the Philippines for its Cebu Pacific GetGo card programme, while Axis Bank was a deserved winner of the Best Initiative for Customer Engagement category.

Hosted by Arena International, the specialists events division of *CI* publisher GlobalData, the CEPI Awards celebrate the leading initiatives in the Asia-Pacific region's cards and payments sector. ■

DECADE-LONG DISPUTE BETWEEN VISA AND MASTERCARD SETTLED FOR $6.2BN

Visa, Mastercard and a group of US-based banks have settled their 'swipe fees' dispute for $6.2bn.

Further payment was agreed in the long-running argument over card-swipe fees charged to US retailers and other merchants. The two payment groups, as well as banks including Citi and JPMorgan Chase, agreed to pay an extra $900m to merchants; the group already paid out $5.3bn in a 2012 settlement.

Visa's share of the bonus payout is $600m, while Mastercard will hand out another $108m. Both companies have increased reserves to reflect their expected liabilities for the latest settlement.

Overall, Visa owes approximately $4.1bn of the total settlement, and Mastercard is responsible for around 12% of the deal.

Litigation for the dispute has been in process since 2005. A $7.25bn settlement was reached in 2012, but was rejected by the court. The value of the settlement was then reduced after a number of merchants opted out.

"After years of thoughtful negotiation, we are pleased to be able to reach this agreement and move forward in our partnership with merchants to provide consumers convenient, reliable, secure ways to pay," said Kelly Mahon Tullier, executive vice-president and general counsel at Visa.

"This outcome benefits all parties, and enables us to focus more of our resources and attention to building the future of digital commerce together." ■

NEARLY ONE IN TWO UK CARD PAYMENTS ARE CONTACTLESS

According to Mastercard, almost one in two in-store card transactions in the UK are contactless.

Since the technology was introduced over a decade ago, contactless's popularity has risen significantly. It continues to grow as the most popular electronic payment method in the UK.

New data from Mastercard revealed that there has been a 95% increase in contactless transactions in the year to date, with contactless technology now representing 46% of all transactions every month.

Mastercard said Transport for London has been the most significant driving force in the UK's adoption of contactless.

Mark Barnett, president of Mastercard UK, stated: "The UK is a global leader in its use of contactless. The technology has fast become synonymous with our everyday payments. It is faster and easier to use than cash, and yet it affords more security. As such, the adoption and trust in contactless can only increase from here."

In early September, Mastercard announced plans to establish contactless acceptance as standard by 2020. This will be implemented for all merchants accepting Mastercard and Maestro in Europe. According to research by Prime, consumers in the UK, Russia, Poland, Italy, Hungary and France are the most eager to adopt contactless transactions.

Javier Perez, president of Mastercard Europe, commented: "Europeans can already use contactless cards or NFC-enabled mobile payments in 36 countries across Europe. Their enthusiasm for this safe and simple way to pay is evident.

"NFC-enabled cellphone shipments are to soar fourfold in the next five years, according to IHS Technology. Mastercard wants to ensure that mobile and

contactless payments are safe and simple wherever you are in Europe, making it easy to pay how you want when you want." ■

CHINA UNIONPAY, ALLIED WALLET TO ISSUE CO-BRANDED CARDS IN EUROPE

China UnionPay has partnered with payment processor Allied Wallet to issue co-branded cards in European markets, in a move that is expected to support China UnionPay's expansion in Europe.

The co-branded cards can be used when European consumers travel to Asia. However, while the reach of the cards may be expanded, customers travelling abroad are not the primary target. UnionPay's head of Europe, Zhilhong Wei, said: "In Europe, we want to target local customers in the domestic market, not only people travelling to Asia."

The partners plan to issue UnionPay-branded cards from December this year, with a goal to reach 10 million cards in the first year.

Allied Wallet will be responsible for issuing the co-branded cards, and for their transaction, eliminating the need for China UnionPay to hold a licence for its European expansion.

Allied Wallet CEO Andy Khawaja said: "China UnionPay cards are accepted by over 40 million merchants in the world, and in millions of ATMs. We look forward to giving more people an opportunity to use these cards."

The announcement comes after UnionPay revealed plans to launch virtual prepaid cards for corporate clients from October this year. Accessible through a digital wallet, the virtual cards will be mainly for frequent travellers to China. ■

Idemia, Discover partner to encourage digital contactless payments

Idemia has signed an agreement with the payments unit of Discover Financial Services to encourage digital contactless payment adoption.

The collaboration aims to simplify digital contactless payments at POS terminals, and accelerate their roll-out by card issuers.

Discover Global Network has authorised Idemia to offer digital enablement services for any issuer or third-party mobile wallet integrated with Discover EMV-compliant contactless specification, known as the D-Payment Application Specification (D-PAS).

Subsequently, Idemia will provide the necessary credentials into mobile or other devices validated by card issuers, to enable digital contactless payments. All users will then be able to use a contactless enabled device at a D-PAS-enabled contactless terminal to make purchases.

Idemia's executive vice-president for financial institutions activities, Pierre Barrial, said: "We are very proud to be working once again with Discover. This agreement is another major milestone in our long-term relationship.

"We are looking forward to leveraging our respective assets and capabilities. The goal is to extend the reach to financial institutions and other service providers, such as general-purpose debit or credit, but also gift, incentive, payroll, campus or private-label card issuers."

Idemia's platform is supported by major mobile wallet providers to manage the enrolment and provisioning of the cards in multiple countries.

Discover's vice-president of global commerce, Ricardo Leite, commented: "By furthering our relationship with Idemia, we are helping third-party clients build tokenisation systems that best meet the needs of their customers.

"This may, in turn, allow even more cardholders to use their mobile devices with confidence for payment and other value-added services." ■

GOHENRY: THE RISE OF THE DIGITAL PIGGY BANK

Gone are the days where parents would pull out cash for their children's pocket money. In our increasingly cashless society, *Briony Richter* speaks to gohenry chief marketing officer Tom Mansbridge about the importance of teaching the next generation to be financially savvy

Today, we tap and go, or swipe, and the payments we make are completely invisible.

The next generation now face the prospect of a potentially cashless society, with coins, notes and cheques predicted to disappear. It is hard to imagine giving Bitcoin as a form of pocket money, but what comes after cash remains to be seen. It is understandable, therefore, that there needs to be a place where children can learn about money digitally, now that they rarely see it.

Launched in the UK in 2012, gohenry is a digital money app for children aged between six and 18. The company believes in the traditional values of earning money and learning to save, with the addition of modern technology to equip children with the necessary tools to prepare them for the current financial environment. Apart from becoming familiar with modern banking, using gohenry can instil crucial budgeting habits in children that will help them to become financially confident in the future.

Speaking to *CI,* CMO Tom Mansbridge describes how the gohenry journey began. "gohenry was founded by a group of parents who, whilst watching their kids play a school football match one day, started talking about the lack of financial tools available for families, to help kids and teens learn good money management in the increasingly cashless society," he explains.

"Out of this conversation stemmed their idea: to create a practical solution to give young people confidence in using and understanding digital money whilst under their parents' guidance."

The gohenry app is not just a digital piggy bank to collect pocket money, it includes a variety of other nifty features. Children work on chores or other tasks that they have agreed with their parents; once the tasks are complete, the child's card is topped up from a parent-funded wallet account.

Furthermore, parents can help their children set their own savings goals. Instead of just telling children to save up for something, the app shows them how to do it, enabling children develop an understanding of how to earn money, and how much they can spend thereafter.

For gohenry, it is all about getting children to understand financial matters, enabling them to enter the digital banking environment at an early stage.

Asked how important it is to start educating children early about having a bank account, Mansbridge says: "We believe this is very important. If we can empower children aged 6-18 to take control of their financial decisions by using a gohenry app with parental controls, we believe this will teach them the importance of taking responsibility for their money management in later life. Experiencing money early on and in a safe environment is the best way to form great habits for later life – it's also fun!"

He continues: "gohenry provides kids a strong introduction in how to manage their money by giving them the feeling of responsibility. The app allows them to create different saving goals and earn money towards them by completing regular tasks, set by their parents. Children using the app can see their weekly earning, saving and spending in graphical, easy-to-understand formats, helping them to always know how much they have left to spend."

SECURITY

Some parents might tremble at the thought of their six-year-old having a debit card; however, parents retain complete control over their children's cards. Just as parents teach their children how to walk, read and swim, there is a growing need for children to better understand how to manage money. gohenry allows parents to teach children the value of money while watching over what is spent, and how it is spent, at all times.

"Parents can send weekly pocket money allowance payments straight to their children's gohenry account, make one-off transfers towards a savings goal, or set chores for their children to earn extra money," Mansbridge explains.

"gohenry also allows parents to set spending rules and limits for their children, and have full transparency over how and where they are spending their money. Parents receive instant, real-time notifications when their child spends using their card, detailing the location and the amount spent."

The parents have to be fully involved to add money to the account, while the security within the app puts parents at ease that there is no chance of spending more than is in the account. For example, parents can monitor exactly what their children buy, and if they do not agree with a purchase they can change the limitations within the app to restrict any further purchases.

gohenry allows parents to sign up for a month free of charge to allow them to figure out if it is right for them. After that, the app comes with a reasonable subscription fee of $3.99 per child per month. The cards are sent out free of charge.

Services that parents and children receive with the plan include:

- There are no overdrafts, so no there is fear of spending over the account's balance;
- A free gohenry card is sent to the customer for their children to use, and
- Loading the gohenry parent account is free.

ATM withdrawals and use of the card abroad incur additional charges, however as parents receive real-time notifications, they will never be in the dark about charges. The maximum amount that may be held in a primary account is $6,000.

LOOKING FORWARD

Currently, gohenry has a continually growing community of over 500,000 active users across the UK, made up of both adults and children using the account. Parents using gohenry regularly praise the app for its ability to support children in becoming more actively responsible with money.

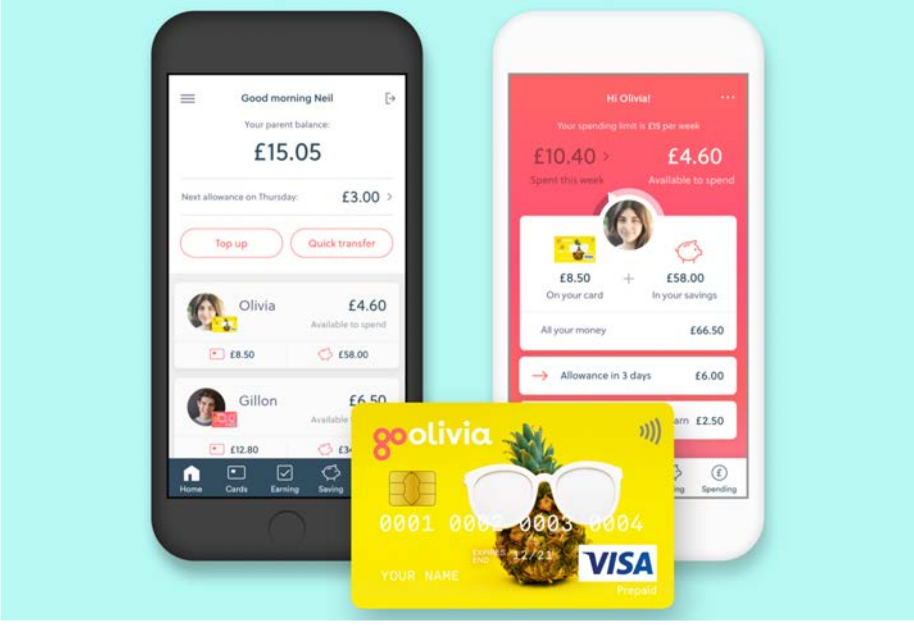
Referring to more specific examples of gohenry user responses, Mansbridge says:


Tom Mansbridge, gohenry

"Every day we receive inspiring feedback from parents, with stories about how gohenry has helped them by educating their children and changing their behaviour, such as: 'The option to add tasks for extra pennies is a great tool to keep my kids happy to do chores – it teaches them to be more responsible with their money,' and 'having the gohenry card gives peace of mind that they will not be stuck without cash in an emergency, I can remotely top up their card.'"

gohenry launched in all 50 US states earlier this year, giving millions more children the opportunity to become financially savvy in a digital environment.

The digital revolution is transforming how we interact with money. Heading to a local branch for advice or to conduct a simple banking task is a thing of the past. Getting children into good financial habits for the current banking landscape will make a huge difference to them in later life. ■



AFRICAN BANK: RELAUNCHING, REINVENTING

African Bank took a huge step in 2016 by restructuring and relaunching itself. Now, it is set to move from its traditional lending structure – including credit cards – into one that more resembles retail banking. *Patrick Brusnahan* writes

On 4 April 2016, African Bank opened its doors as a new firm. It is now the seventh-largest bank in South Africa in terms of assets.

Operating profit before tax for the second half of 2017 is up 67% on the comparable period in 2016. By the end of its 2017 fiscal year it had serviced 1.16 million customers and had a net promoter score of 35, over double its score for the year previous. Now, it is looking to get into transactional or retail banking, as well as its lending products.

Vere Millican, group executive – credit at African Bank, is positive in the outlook for the bank, despite such big changes. Speaking to *CI,* he says: "We reported good profit growth in the 2017 financial year. From a strategic point of view, I think a number of components are on their way. We are now going to launch transactional banking to become a fully fledged retail bank.

"Historically, African Bank predominantly played in the lending area. The transactional bank has been launched internally with our staff, and we've had good take-up. A lot of our staff have moved their salaries into their transactional accounts with us. We did this to make sure all teething issues could be dealt with internally before going to the public. That is our biggest strategic play at the moment."

DECISION MAKING

A big change for African Bank was adapting its decision-making process. For that, it needed third-party FICO. After adopting FICO's Blaze Advisor decision rules-management system, strategies were launched 35% faster and at 25% lower cost. However, that was just the first test. Now, Millican believes it is "close to double those numbers, especially in terms of speed".

African Bank looked for someone to work with after realising it was "inflexible from a change perspective". The South Africa-based firm approached various vendors such as Experian, but FICO won it over.

Millican explains: "Firstly, Blaze Advisor, as an architecturally sound piece of software, was far superior to us, and it met our needs.

"Secondly, from the start we were not treated like another client. They took the time out to listen, and there was never a huge sales pitch. That's when you start building trust, when they treat you as a partner rather than a client. We've received a massive amount of support from FICO to deliver this product. It was just superior to any other engagement I've had with a third-party system supplier."

CREDIT CARDS

On the changes to African Bank, Millican says: "We've become a more data-centric organisation and that forms part of our strategy going into 2019 and 2020. That's a digital and data play. A lot of what of what we've built from a transactional perspective is around digital."

Credit cards currently hold about 5% of African Bank's business today, and with the move to retail banking, they will grow in stature within the bank.

"Once we go transactional, credit cards will play a role in our strategic roll-out of products linked to the credit card itself," Millican explains.

Will another traditional form of distribution play a part? African Bank currently holds 388 branches in South Africa, but plans to "keep that level".

Millican notes: "We are driving a digital bank and that is our strategy, both to meet the needs of the clients we can't reach with a physical footprint, and because the way the world is moving. A lot of the main banks in South Africa are investing heavily in advancing their digital offering."

But why go transactional at all? The credit book at African Bank is around ZAR27bn ($1.9bn), according to Millican.

"It was to diversify our product offering and create a more sustainable business model," Millican concludes.

"The transactional banking itself gives you ownership of the wallet and you get to understand your client and their needs better. You get rich data from a transactional product. This enables you to better leverage with and give a better value offering." ■

LARGEST BANKS IN SOUTH AFRICA

	ASSETS (ZAR M)
Standard Bank	1,254,849
FirstRand Bank	1,120,747
Absa	983,378
Nedbank	892,006
Investec	415,285
Capitec	87,033
African Bank	31,356

Source: SARB

CURVE: A FEE-FREE OFFERING FOR TRAVELLERS

The Curve card is aiming to change the game of travel, starting with eliminating hidden card fees. Other challengers – notably Revolut – offer similar services, so how does the Curve proposition stack up? *Douglas Blakey* reports

The Curve card and associated app allow customers to add all their debit and credit cards into one Mastercard, with users able to switch the card they wish to use for any given payment.

Curve is now targeting consumers who use their bank card to spend money abroad.

Incumbent banks can charge cardholders up to 5% to spend their money outside the UK. Curve is eliminating these charges so consumers can avoid buying currency in advance, and instead access the market exchange rate with no hidden fees.

There is, however, an initial cap of up to £500 ($653) per rolling month, with a 1% fee thereafter; in November this will rise to 2%.

THE ONLY CARD TO PACK?

Curve claims it is the only fintech to give customers the ability to spend abroad on any of their current Visa and Mastercard debit and credit cards, and avoid any of the currency-exchange fees they are usually charged. It allows cardholders to sync all their cards and spend via the Curve card. Every time a user makes a payment with Curve, the card of their choosing is charged.

There are, however, caps on free ATM use. Curve has a free cash-withdrawal cap of £200 for Curve Blue customers, and £400 for Black customers, on all major currencies. There is a flat £2 fee, or 2%, for withdrawals above the cap.

Curve Black customers are charged £50 to open an account, while the Blue account has no such opening fee. As an incentive to upgrade to the Black account, Curve offers 1% cashback from retailers including Amazon, Uber, Selfridges, Sainsbury, Waitrose and Ocado, subject to an annual £15,000 cap.

CURVE VERSUS REVOLUT

Curve customers receive a notification each time they spend with Curve, showing amounts spent in their home and local currencies for each transaction. A similar feature is offered by rival Revolut.

Curve's zero-conversion-fee service extends to more than 150 global currencies, which it says further differentiates its proposition. By contrast, Curve notes that Revolut supports less than 30 currencies.

Curve states that over 80% of UK travellers spend less than £500 abroad per month, and estimates that using the Curve Blue card abroad could save customers up to £25 per trip.

However, Curve has its work cut out to attract the levels of positive PR and customer-acquisition growth enjoyed by Revolut. Curve claims to have grown customer numbers to over 250,000.

Between January and December 2017, Revolut increased its revenue from £2.4m to £12.8m and increased monthly transaction volumes from $200m to $1.5bn.

Revolut reported a loss of £14.8m in fiscal 2017. It now has close to three million users, opening 7,000 new accounts per day and is now processing $3bn in monthly volumes. ■

CURVE APPEAL

BLUE CARD (FREE) CUSTOMERS

- **Spend Abroad:** 0% fee and access to the real exchange rate on spend in over 150 supported foreign currencies worldwide. Initial cap of up to £500 per rolling month, and 1% fee thereafter (rising to 2% thereafter in November).
- **ATM Extractions Abroad:** £200 at 0% fee, 2% or £2 per transaction thereafter, whichever is greater.
- **Weekend Spend Abroad:** With currency markets closed, an additional 0.5% fee is charged on euros and US dollars, and 1% on for all other supported currencies. In November, this becomes 0.5% for euros and US dollars, 1.5% for all other currencies.

BLACK CARD (PAID) CUSTOMERS

- **Spend Abroad:** 0% fee and access to the Real Exchange Rate on spend in over 150 supported foreign currencies worldwide, for up to £500 per rolling month and 1% fee thereafter (rising to 2% thereafter in November).
- **ATM Extractions Abroad:** £400 at 0% fee, 2% or £2 per transaction thereafter (whichever is greater).
- **Weekend Spend Abroad:** With currency markets closed, there is a charge of 0.5% on euros and US dollars, and 1% for all other supported currencies. In November this becomes a 0.5% fee for euros and US dollars, and 1.5% for all other currencies.

AFTERPAY AND ZIPMONEY: PONZI SCHEMES OR LEGITIMATE BUSINESSES?

Afterpay and zipMoney are skilfully exploiting a legal loophole in consumer credit regulation in Australia and New Zealand. Consumers, investors and regulators should be questioning their legitimacy, argues *Grant Halverson,* CEO at McLean Roche Consulting

Afterpay and zipMoney are exploiting a legal loophole in consumer credit regulation, and vulnerable young consumers are arguably most at risk, with resultant damage to their credit histories.

Afterpay has gone from a A$3 ($2.17) stock to A$20 in 12 months, with a market cap of A$4bn. zipMoney has not recorded the same growth, but its share price has still increased from A$0.75 to $1.18 and a A$335m market cap.

Others in the Australian sector include startups Open Pay and Jam Payments, traditional rivals Flexi with its Certegy product and Latitude with in-store retail offers, as well as other co-branded retail offers, banks and credit unions.

A TWIST OF AN OLD TALE

Payments by instalment are not new – offering them via phone apps is a twist of an old idea. The challenge for instalment providers is that they charge retailers the highest rate for any electronic payment – so they must deliver proven increased sales to retailers to have longevity.

Afterpay and zipMoney exploit a current loophole in the Credit Acts in Australia and New Zealand: in Australia the National Consumer Credit Protection Act 2009 (NCC) does not apply to certain loans, including low-cost short-term credit (less than 62 days), insurance premiums paid by instalments, bill facilities and staff loans. The Australian Securities and Investments Commission has belatedly applied for "urgent action" to close this loophole – action is expected within 90 days.

New Zealand has a Credit Contracts Act which currently exempts 'lay-buy' programmes. A review of the law began in 2017, and is expected to complete in 2018.

Currently these start-ups only do a quick, cheap ID check with a credit agency or internet-based companies – no credit reports, no 100-point check, no KYC. A change in the law will require these actions, and their costs will also increase substantially while approval processes will slow down.

A FIELD DAY FOR TV?

The real consumer issue is: what happens to young vulnerable consumers – mostly young females – who get their bad debts listed on credit reference sites? They will not be able to access any credit – so no mobile phone purchase, no rental agreements, no car finance, no education expenses, and so on. These horror stories will make the banking royal commission look tame: young innocent women in tears with their lives in ruins – Channel 9 or 7 will have a field day!

Afterpay has quickly launched in the US and purchased a company in the UK. US consumer law is both a federal and state issue. At federal level, six major legal acts apply and there is no clear loophole for Afterpay – indeed, its current terms and conditions would appear to be in breach of three of these laws.

Consumer credit in the UK is regulated by the Consumer Credit Act 1974 (amended in 2006), the Financial Services and Markets Act 2000, and various regulations implementing EU consumer credit law – again there is no obvious loophole, and many potential breaches of UK and European laws.

In the UK, Afterpay has agreed to purchase 90% of ClearPay from ThinkSmart for approximately A$18m (a million Afterpay shares). Yet ClearPay was only launched in October 2017, has virtually no revenue, and very limited retail presence.

Afterpay and zipMoney charge 4%, as compared to Visa/MasterCard at 1.10% for smaller high-street retailers, Amex at 1.42%, Diners at 1.79%, and debit cards at between A$0.16 and A$0.28 per transaction.

HIGH VOLUME, LOW MARGIN

As high-volume and very-low-margin businesses, Afterpay and zipMoney have the challenge of delivering significantly higher-value sales to retailers than all other card competitors, but with a current average ticket size of A$146, this promise is not being delivered.

Amex and Diners Club both have much higher average ticket sizes, as compared to A$139 for Visa and Mastercard, while for debit cards they are much lower.

SALES

- **Total electronic card sales in Australia and New Zealand:** **A$829bn**
- **Total Afterpay and zipMoney Australia and New Zealand sales – 12 months to June 2018:** **A$2.4bn**

Action by the Reserve Bank of Australia (RBA) will only increase the gap between Afterpay/zipMoney and credit and debit cards – the RBA has signalled it will reduce interchange further possibly to 0.30%, which will reduce merchant fees. *The Productivity Commission Report* calls for zero interchange, which would result in a 0.50% reduction in merchant rates.

Afterpay and zipMoney also have the issue of scale and relevance – do their combined sales of A$2.4bn in Australia and New Zealand deliver critical mass and ensure they are a market force in payments?

Afterpay and zipMoney's combined market share is just 0.0028% or 28 basis points. This will not deliver market relevance or market power – indeed, a robust competitive response would have detrimental results, especially among retailers. Afterpay and zipMoney have annual spends per customer of A$925, as compared to debit or cash cards at A$825, credit cards at A$3,200-4,800, and charge cards at A$6,500-7,900. By comparison, Amex has sales of A$58bn.

The other three key issues that raise the 'Ponzi scheme' tag are funding rates, bad debts and customer service. Afterpay and zipMoney – as with other non-interest-charging payment providers such as Amex, Diners Club and JCB – cannot recover increased interest rates in the way credit cards can, unless they introduce new charges or cut operating expenses.

Afterpay and zipMoney access business lending rates – Afterpay has A$570m in funding facilities, while zipMoney has A$380m. Funding costs are rising much faster than sales for both, as they are unable to access low-cost funding such as securitisation, and a 1% increase in funding costs will double their funding costs.

Bad debts are the true test of how good a payments company is – you only make a profit once a customer pays. In the cases of Afterpay and zipMoney, the evidence is not yet clear as they have limited history – but the trend is very worrying.

Bad debts are rising at a higher rate than sales, and this is a very concerning trend. With sales of A$58bn, Amex has bad debts at half the rate of Afterpay and zipMoney, which highlights their cavalier approach to credit risk.

Afterpay and zipMoney's average bad debts are not detailed in their accounts, but they are likely to be low, at around A$650-700 without late fees, given their target market of young – and mainly female – millennials. This also represents a significant issue if these bad debts go to full recovery and are listed as defaults on credit reference sites.

CONSUMER REVIEWS

A review of online consumer sites flags up numerous concerns about how these companies serve consumers.

The idea that buying goods and services with a limited up-front payment followed by instalment payments is consumer credit, or that interest is charged, is clearly demonstrated by Afterpay and zipMoney's responses to consumers complaints or questions. Phrases typically used include:

- "As part of our legal obligation as a credit provider"
- "As responsible lenders, we are not able to offer accounts to everyone"
- "The interest charged to accounts is outlined in the contract"
- "Over time, providing you have a strong repayment history"

However, Afterpay and zipMoney claim that they are not advancing credit to consumers – their own customer service texts demonstrate that they do not believe this, nor do they act in this way. So the question has to be asked: should this practice be allowed to continue?

Afterpay and zipMoney's conduct feeds the narrative that startup lenders do very little that is new or innovative, other than offering speed while seeking to exploit legal loopholes or simply ignoring the law. This ignores the potential damage that is done to consumers and investors who do not understand the differences between legally compliant consumer credit providers and some of the fintech outliers.

BAD DEBTS

YEAR ENDING JUNE 2018

- **Afterpay:** A$22.7m, up 598% from A$3.1m in 2017
- **zipMoney:** A$3.8m, up 660% from $500,000 in 2017

P2P LESSONS

While fintech has been late to develop in Australia, a decade of overseas experience gives some very salient lessons. The largest global fintech sector is P2P lending, which has received $6.2bn in total investment over 10 years, with a total market cap of $3.6bn.

The P2P example is relevant. Launched when money was cheap, the sector realised that it is not quite so easy to build a billion-dollar business. The incumbent banks are protected by considerable regulation, have vast resources, and will not fall over easily – this is not the taxi industry.

Performance to date is sub-par – with major scandals including a $7.6bn fraud by Ezubao in China, Lending Club and OnDecks stocks being trashed due to doubtful lending practices, while Prosper lent an unsecured $48,000 to the two San Bernardino terrorists months before they carried out their attack.

Other fintech segments – including digital banks, factoring companies, POS payments, online services and currency exchanges – are now a dime a dozen and lacking scale. Most of the ideas are laser-focused on a small segment, and will not build quickly.

The key challenge for enthusiastic startups is the realisation that the world is changing and regulators are catching up – not, however, before considerable damage is done. ■

CHARGES TO RETAILERS FOR AN AVERAGE AFTERPAY/ZIPMONEY SALE OF A$146

AfterPay/Zip Money	4%	A$5.84
Diners Club	1.79%	A$2.61
American Express	1.42%	A$2.07
Visa/MasterCard	1.1%	A$1.60
Debit Cards –eftpos,Visa Mastercard	n/a	A$.016-0.28

Note: AfterPay charges 6% for online transactions = A$8.76 revenue

Source: McLean Roche Consulting

COUNTRY SNAPSHOT: AZERBAIJAN

Underdeveloped card payments a government focus

Azerbaijan remains a cash-oriented economy, largely as a result of its large unbanked population, low financial awareness among consumers, and a generally inadequate payment infrastructure.

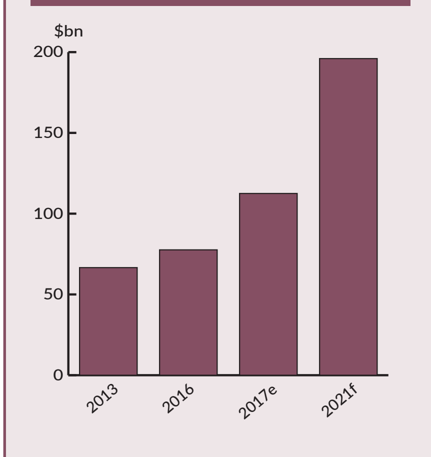
These factors are hindering the overall development of the country's financial system, including the payment card market, which remains at a nascent stage of development.

In comparison to peer countries Poland, Russia, Ukraine, Romania, Turkey and Kazakhstan, Azerbaijan has the lowest card penetration and payment card usage frequency.

However, with government initiatives to increase consumer awareness of non-cash payments through various financial literacy programmes, a strategy for the development of financial services, reduced cash-withdrawal fees, and the introduction of new regulation limiting cash transactions, both circulation and use of payment cards are anticipated to gain traction over the next five years.

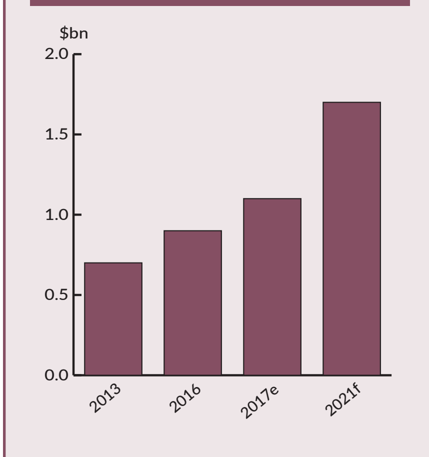
The Azerbaijani payment cards market is forecast to record CAGRs of 11.1% and 11.4% in terms of transaction volume and value respectively between now and 2021.

VALUE OF CREDIT TRANSFERS



Source: Central Bank of Azerbaijan, GlobalData

VALUE OF PAYMENT CARDS



Source: Central Bank of Azerbaijan, GlobalData

PAYROLL AND BENEFITS

The primary use of debit cards is for the distribution of salaries and social benefits. All major banks offer payroll cards for employees, and the government distributes benefits such as pensions and social insurance through banks, under the State Social Protection Fund. This has encouraged banks to offer social cards, with all major banks now offering cards to senior citizens to enable them to withdraw monthly pensions.

According to central bank data, the number of social cards stood at 2.5 million, and salary (debit) cards stood at 1.8 million as of January 2018, constituting 74.8% of total debit cards.

CREDIT CARDS

The pay-later card market in Azerbaijan had a penetration rate of just 6.3 cards per 100 individuals in 2017.

The market has registered declines in terms of both the number of cards in circulation and the transaction value in the past five years. This is largely a result of low consumer awareness of the benefits of credit cards, and high costs of lending.

The availability of credit facilities on debit cards also reduces the requirement for a separate credit card. However, banks and other issuers are encouraging credit card use through benefits such as instalment-based payments.

E-COMMERCE GROWTH

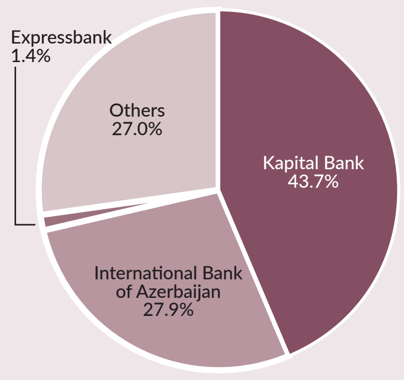
The e-commerce market in Azerbaijan grew significantly from AZN2.6m ($1.5m) in 2013 to $22.6m in 2017, at a CAGR of 96.2%. The proliferation of mobile internet users and smartphones are key drivers of e-commerce growth.

In order to capitalise on this trend, banks are offering payment cards exclusively for online purchases. Examples include Kapital Bank's Visa Virtual card, and IBA's Visa Internet card and Mastercard WebCard.

The availability of alternative payment solutions such as PayPal, Wallet One, and Azerpay will provide a further boost to the e-commerce market over the next five years.

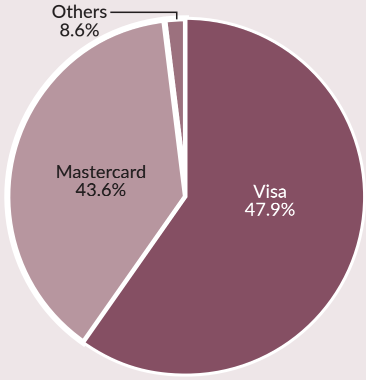
The availability of alternative payment solutions such as PayPal, Wallet One and Azerpay for online payments will provide a further boost to the e-commerce market.

DEBIT CARD SHARES BY ISSUER



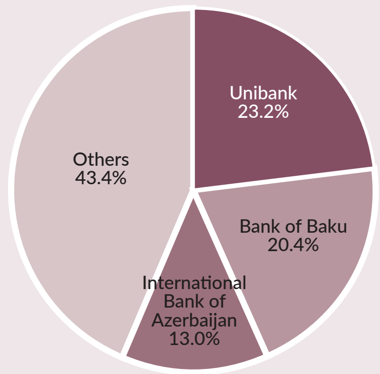
Source: GlobalData

DEBIT CARD SHARES BY SCHEME



Source: GlobalData

PAY LATER SHARES BY ISSUER



Source: GlobalData

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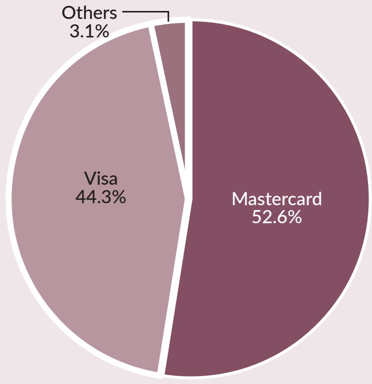


Source: GlobalData

CARD INFRASTRUCTURE

The number of POS terminals recorded a CAGR of 18.4% in five years, increasing from 33,285 in 2013 to 65,471 in 2017. A gradual but clear shift in consumer behaviour in terms of card-based payments is driving POS terminal growth. To improve the card-acceptance infrastructure in the country, the government of Azerbaijan is planning to introduce the Single POS Terminal project in 2018, which will allow merchants to accept all payment cards through a single POS terminal, irrespective of issuing bank.

In December 2017, the central bank installed POS terminals in state agency ASAN service centres, enabling individuals to make card transactions via the Government Payment Portal. To encourage card transactions, the central bank charges no interchange fees on transactions processed via local body the Interbank Card Center.

In addition to conventional POS terminals, merchants are also installing mobile POS terminals.

In September 2014, technology business MilliKart partnered with financial solutions provider GoSwiff to launch M+ in Azerbaijan. M+ is a mobile payment platform designed to accept payment cards using mobile phones. ■

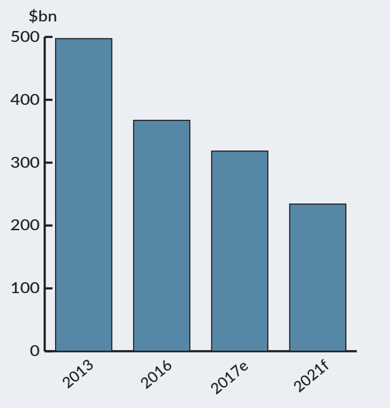
> “ CREDIT FACILITIES ON DEBIT CARDS REDUCE THE REQUIREMENT FOR A SEPARATE CREDIT CARD

COUNTRY SNAPSHOT: IRAN

Bank and government initiatives lead to robust card growth

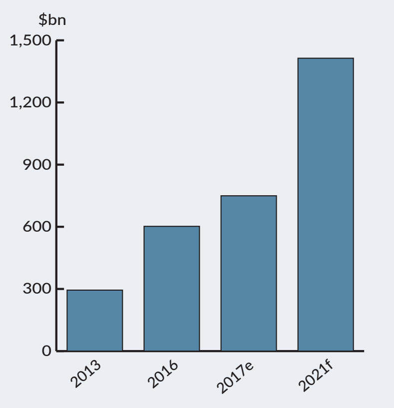
Iran's payment card market recorded robust growth in terms of the number of cards in circulation, transaction volume, and value between 2013 and 2017, primarily supported by government initiatives to encourage electronic payments and reduce consumer dependence on cash.

VALUE OF CHEQUE PAYMENTS



Source: Central Bank of Iran, GlobalData

VALUE OF PAYMENT CARDS



Source: Central Bank of Iran, GlobalData

Consumers are now charged a fee for using cash to pay utility and mobile bills. In addition, many banks refuse to accept bill payments in cash, requiring consumers to use cards, and have installed barcode readers and POS terminals in branches to facilitate this.

Furthermore, many government organisations pay bonuses to employees in the form of gift cards, which can only be used to make purchases and not to withdraw cash.

These initiatives have also led to an overall increase in Iran's banked population. Consequently, the percentage of the population aged 15 or above with a bank account rose from 87.2% in 2013 to 95.8% in 2017.

The gradual adoption of contactless technology, supported by the increased availability of various alternative payment methods, is likely to drive the Iranian payment card market's growth in the near future.

DEBIT CARDS DOMINATE

Debit cards accounted for 99.5% of the payment card transaction volume, and 99.4% of the transaction value in 2017. Consumer preference for debt-free payments and prudent consumer spending habits have resulted in the dominance of debit cards in terms of both transaction volume and value.

Growth was also supported by government efforts to encourage retailers to accept card-based payments, and banks' promotional activities to encourage retailers to install POS terminals.

Debit cards will continue to lead the Iranian payment card market, supported by the gradual migration of low-value cash payments to payment cards.

PAY-LATER CARD ADOPTION

While debit cards remain the dominant payment card type, consumer adoption and use of pay-later cards is growing at a brisk pace, primarily supported by a number of initiatives launched by the Iranian government.

Targeting low-income individuals, in April 2017 the government introduced a scheme called Yarakart, which enabled banks such as Bank Keshavarzi and Iran Post Bank to issue credit cards for the lower-income sector of the population.

Similarly, in April 2018 the government announced the launch of a new credit card project that will allow banks to offer credit card loans at lower interest rates for purchases of Iranian products.

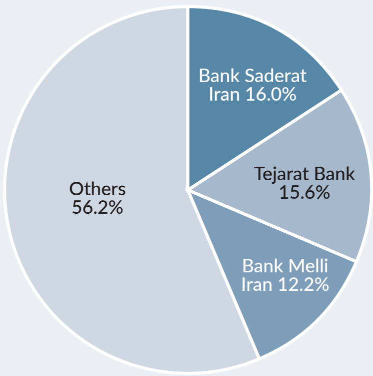
INTERNATIONAL SANCTIONS

The lifting of international sanctions against Iran is expected to encourage more foreign banks to expand operations there.

In 2016, following the implementation of the Joint Comprehensive Plan of Action for the development of Iran's banking system, the Central Bank of the Republic of Iran (CBI) partnered with numerous banks from countries including France, Austria, India, China, South Korea, Japan, Russia and Turkey.

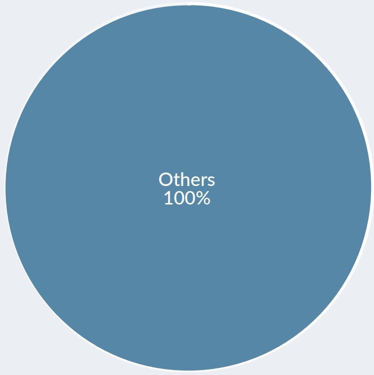
In August 2017, the CBI announced the integration of the local Shetab and Russian Mir card networks, which will allow Iranian payment cards to be used at Russian ATMs and vice versa.

DEBIT CARD SHARES BY ISSUER



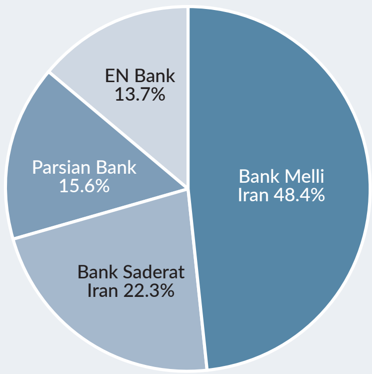
Source: GlobalData

DEBIT CARD SHARES BY SCHEME



Source: GlobalData

PAY LATER SHARES BY ISSUER



Source: GlobalData

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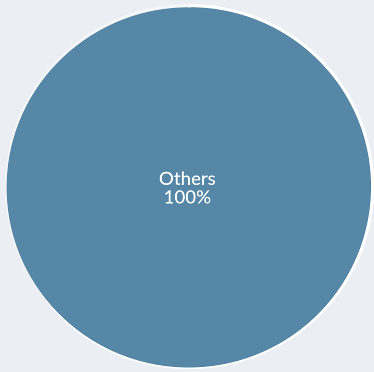


Source: GlobalData

ROBUST PREPAID GROWTH

There is substantial demand for prepaid gift cards in Iran, in both the retail and corporate markets, with demand particularly high during festival seasons.

All major banks, such as Keshavarzi Bank, EN Bank, Pasargad Bank and Bank Melli Iran, offer gift cards, which can be obtained for retail and corporate customers without an account.

To take advantage of the growing e-commerce market, banks such as Bank Mellat, EN Bank, Bank Pasargad and Parsian Bank offer prepaid cards for online shoppers, encouraging customers to use e-banking services to pay for utility bills and online shopping.

As an example, Bank Mellat offers a prepaid card that can be used for online shopping and to pay utility bills. It features a three-digit CVV code, and the card is deactivated if the code is entered incorrectly three consecutive times.

CARD ACCEPTANCE AT POS

The number of POS terminals recorded a CAGR of 18.3% between 2013 and 2017, and is anticipated to reach 8.6 million by 2021.

The transaction volume at POS terminals increased significantly from 5.6 billion in 2013 to 16 billion in 2017, at a CAGR of 30.2%, while the transaction value increased from IRR10.6bn ($294.38bn) in 2013 to $749.67bn in 2017 at a CAGR of 26.3%.

Contactless POS terminals are also gaining prominence in the country. According to Tehran-based payment solution provider Sadad, the company has installed 650,000 POS terminals in Iran, of which 150,000 are equipped with NFC technology. ■

COUNTRY SNAPSHOT: URUGUAY

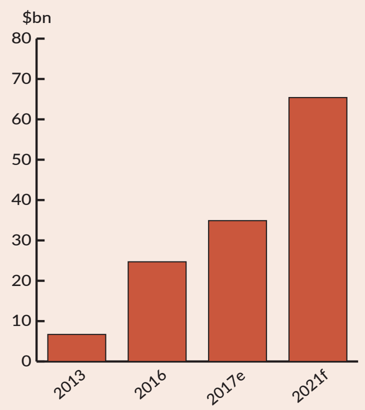
Financial inclusion law drives a shift to electronic payments

Uruguay recorded a gradual shift in preference towards electronic methods of payment between 2013 and 2017.

The government has taken a number of steps to promote electronic payments and reduce dependence on cash in the last few years, with the introduction of a financial inclusion law in 2014 being one of the major milestones.

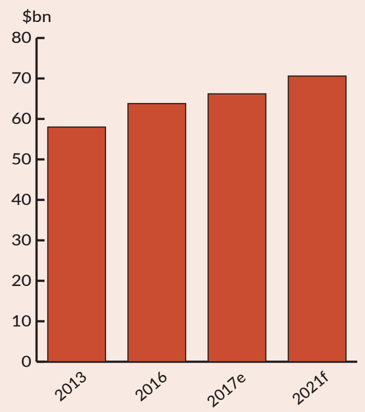
Under the financial inclusion programme, 850,000 bank accounts had been opened

VALUE OF CREDIT TRANSFERS



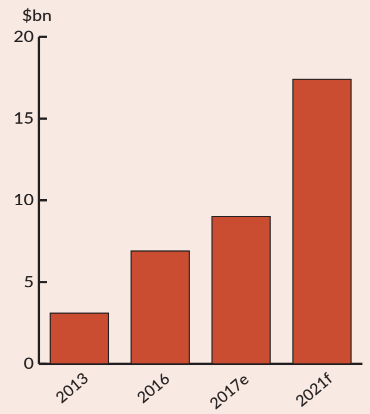
Source: Central Bank of Uruguay, GlobalData

VALUE OF CHEQUE PAYMENTS



Source: Central Bank of Uruguay, GlobalData

VALUE OF PAYMENT CARDS



Source: Central Bank of Uruguay, GlobalData by December 2017; as a result, the percentage of the Uruguayan population aged 15 or above with a bank account rose from 38.1% in 2013 to 61.0% in 2017.

Other initiatives – such as a reduction in interchange fees, lower VAT on transactions via debit and credit cards, POS installation subsidies, and restrictions on cash transactions – have also helped foster the adoption of electronic payments.

In Uruguay, consumers are more likely to hold a credit card than a debit card. However, debit cards registered strong growth in terms of transaction volume and value, with respective CAGRs of 27.1% and 17.3% between 2013 and 2017. Pay-later cards are generally offered to high-income and working consumers.

POS GROWTH

Debit cards accounted for 75.7% of the total card transaction value in 2017. However, most transactions are restricted to cash withdrawals at ATMs, which accounted for 78.2% of the total debit card transaction value.

Restrictions on cash transactions, coupled with a reduction in interchange fees, have resulted in a significant rise in debit card use at POS terminals.

Debit cards registered significant growth in terms of transaction volume and value at the POS, with respective CAGRs of 107.7% and 100.4% between 2013 and 2017. Government restrictions on certain transactions are also expected to encourage debit card use.

PAY-LATER CARDS

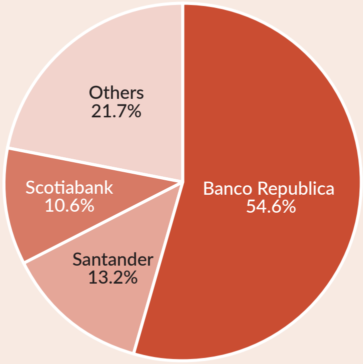
Pay-later cards accounted for 24.3% of total card transaction value in 2017. These cards are generally targeted at high-income and working consumers.

Nominal GDP per capita stood at $17,345.92 in 2017, which is among the highest in Latin America.

All major banks now offer premium cards. For salaried individuals, Santander offers the Visa International credit card with no annual fee for the first year, as a part of its Full Inclusion salary account package.

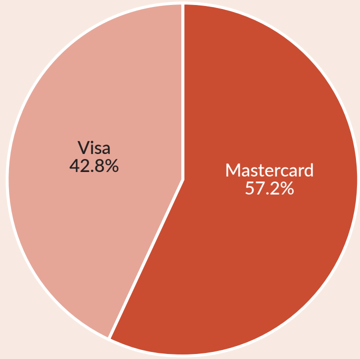
Many banks also offer customised credit cards for businesses; Scotiabank, for example, offers Visa and Mastercard

DEBIT CARD SHARES BY ISSUER



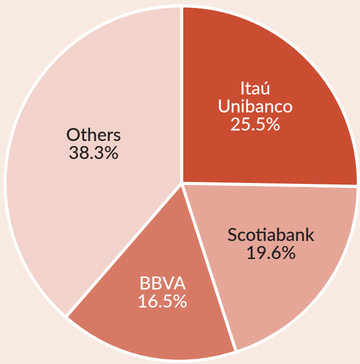
Source: GlobalData

DEBIT CARD SHARES BY SCHEME



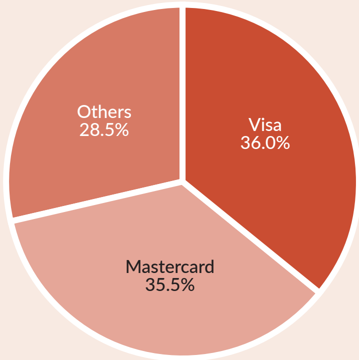
Source: GlobalData

PAY LATER SHARES BY ISSUER



Source: GlobalData

PAY LATER SHARES BY SCHEME



Source: GlobalData

Corporate credit cards for business customers.

PREPAID CARD MARKET

The prepaid card market registered robust growth in terms of both the number of cards in circulation and transaction value. The prepaid card transaction value rose from UYU2.6bn ($90.21m) in 2015 to $927.07m in 2017.

With the government focusing on boosting financial inclusion in the country, prepaid card issuers are offering cards for working individuals to receive their monthly salaries.

Prepaid food cards are growing in popularity. Itaú Unibanco, offers payroll services to over 3,000 companies, and began offering prepaid food cards in October 2017. The cards can be used at over 6,500 Visa merchants.

CARD INFRASTRUCTURE

The number of POS terminals grew from 25,299 in 2013 to 58,817 in 2017, at a CAGR of 23.5%. To encourage POS adoption among merchants, the government offered tax benefits from 1 August 2014 to 31 December 2017 for investments in POS terminals, POS accessories and billing systems.

In December 2017, the government announced a subsidy of 100% on monthly charges for POS lease for small taxpayers – *monotributistas* – such as electricians, plumbers, and private tutors until the end of 2018. Merchants with annual turnovers of less than $138,787.44 are offered a 70% subsidy until the end of 2019.

Uruguayan banks offer a POS installation service as part of their merchant account packages. Key examples include Banco Republica, which offers POS installation with no rental costs for six months as part of its SME account package. ■

VISA: DELIVERING A SECURE AND SEAMLESS EXPERIENCE

By this time next year, every online payment in Europe will have to meet new measures designed to enhance security. *Mark Nelsen,* senior vice-president – Open Banking at Visa, gives an overview of its new suite of solutions

We all know that security is essential for digital commerce to exist and thrive, yet we also know that we have to find the balance between security and convenience.

This is especially true in a world where consumers are empowered to make purchases across a range of connected devices, and expect a secure and seamless experience. Any hurdles added to the checkout process risk annoying consumers and losing sales for retailers.

Visa is introducing a suite of solutions that meet consumer demand for safety and control of their money, while helping merchants comply with the new European requirements for Strong Customer Authentication that come into force in September 2019. Our goal is to minimise friction in the consumer purchase experience, and enhance payment security at the same time.

There is no one-size-fits all approach to authenticating a consumer's identity – which is reflected in the new regulation. More purchases will require the added layer of security known as two-factor authentication for consumers to confirm their identity. However, for low-risk transactions the extra step will often not be required.

Our new suite of security solutions will help our bank and merchant partners to identify transactions in real time that are low-risk and ensure a speedy checkout for those purchases. Here is how.

Mark Nelsen, Visa

AUTHENTICATION

For decades, Visa has refined the art of identifying potentially fraudulent purchases in real time. We interrogate each purchase on a host of different factors, including location, merchant type, previous purchases and transaction size – arming issuers with intelligence to help them catch potential fraud.

When consumers are asked to take an extra step and verify their identity, it is usually to prevent unauthorised use of their account. However, it is essential that they have convenient options for doing so. Some customers may feel reassured when asked to enter in a unique passcode delivered to their mobile phone by their bank.

Increasingly, though, more and more people are familiar and comfortable with using biometrics. To support this, we are rolling out a new service that will enable banks to integrate biometric authentication into their banking apps, so consumers can simply log in on their connected device and use their fingerprint, their voice or even their face to complete a purchase.

LOW-RISK TRANSACTIONS

Of course, many consumers do not want any barriers at all. That is why we are helping merchants to make this possible, while still complying with the regulation by having a full range of measures to identify those transactions that qualify for the low-risk exemptions.

Firstly, we are giving merchants the tools to make the most of the close relationships they have built with their regular customers. Merchants will be able to offer customers the ability to identify themselves as someone they trust. This 'whitelisting' will eliminate the need for additional verification in most future purchases. It also gives consumers greater control over their online security, and a streamlined checkout experience where they want it.

Additionally, improvements to EMV 3-D Secure Specifications, the industry standard for authenticating consumers in online purchases, mean that a customer's bank will receive more information on a transaction than ever before, leading to better-informed risk decisions. This results in more low-risk transactions being approved, and again reduces the need for two-factor authentication.

In parallel, we are empowering merchants to enhance their own risk assessments. Our new service will upscale their fraud detection so they can better identify those purchases that are low-risk, and those that need added verification.

Security is always dynamic and sophisticated – it has to be in order to combat fraud – but that does not mean we have to sacrifice convenience. We are working closely with our clients and partners to develop creative ways to ensure that enhanced security does not feel like a burden. When it comes to payment security and convenience, it is possible to have both. ■

THE JOURNAL FOR ASSET FINANCE

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- **The Baltic Approach: Regulatory arbitrage in the digital era**
- **GDPR and its implications for reporting, asset management and marketing**
- **Funding strategies for a lean world**
- **Re-defining sales and distribution channels for the digital era**
- **Harnessing the power of agile: Assessing the transformative potential of digital**
- **Embracing the circular value chain approach to lease delivery & design**
- **Taking the right risks for the rewards: Strategic implications of the era of asset ownership**
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