

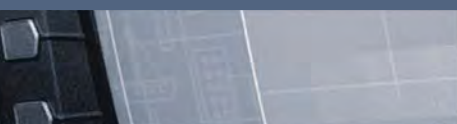
Banking Automation **BULLETIN**



Cards for commerce... slow burn or no burn?



Innovation essential in changing world of payments



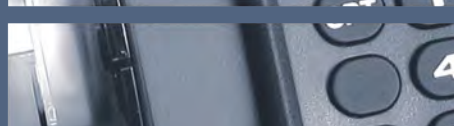
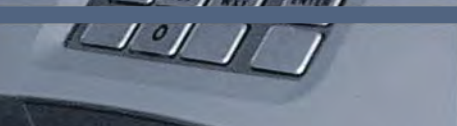
Redefining the Russian payment cards market



Spirit of optimism at Beijing ATM conference



Mobile NFC payments – reality or hype?



**Country profile:
United Kingdom**



COMMERCIAL CARDS

Cards for commerce... slow burn or no burn?



By David Cavell, Retail Banking Consultant

Huge potential

The findings of RBR's latest report *Commercial Cards: Best Practice and Case Studies* reveal a continuing major opportunity for institutions that have an appetite for issuing cards to the commercial sector and other types of organisations. The work of the payment systems organisations has ensured that issuers can offer and operate a wide range of products that meet all the daily payment needs of their clients. These include product packages, client-orientated management information systems, added-value features, promotional support, market research and the exploitation of new payment technologies. Over time, the larger issuers have also added their own offerings to the various customer propositions. The table below provides a guide to the portfolio that is now available 'off-the-shelf'!

Commercial payment card products

SME debit cards	SME credit cards	SME professional cards
SME executive cards	Multicards	Purchasing cards
Lodged cards	Travel cards	Travel & entertainment
Corporate cards	Meeting & event cards	Fleet cards
Fuel cards	Distribution cards	Co branded cards
Private label cards	Prepaid cards – open loop	Prepaid cards – closed loop

Notwithstanding this positive backdrop, there has been slow progress in developing the sector's cardholder base over the last decade. And questions remain about the enthusiasm of many financial institutions for this category of payment card product. In many markets, retail branches frequently carry little or no promotional material for products that would normally be sold to smaller enterprises, whilst amongst larger clients, many latent sales opportunities remain untapped.

However, this period has also seen many successes, particularly in the USA.

A broad customer proposition

All the payment card products mentioned above have been the subject of energetic promotion in the USA for many years, and the range continues to grow. Moreover, such are the capabilities and market leadership of many US issuers that they now export their services to other countries where local players are not already meeting the needs of their clients. For example, the JPMorgan Chase Group is not only a leader in the US market but it also provides programmes for clients in Europe, the Middle East, Africa and other parts of the world.

Another US success story is Wells Fargo, which, according to research conducted by the Greenwich organisation over the last two years, has been confirmed as one of only two of the principal banks in the country that has enhanced its reputation amongst the small business community by its conduct in the recession. The group offers a broad range of products to its commercial and institutional clients of all sizes together with a valuable range of benefits and support.

Elsewhere in the US marketplace, Universal Air Travel Plan (UATP) exemplifies the role of large-scale specialist players. This organisation provides alternative, low cost payment card facilities (with a significant prepaid component). Membership of UATP is drawn from the global airline sector and card billings are approaching \$12 billion per annum after the recession. Airline members offer the UATP payment cards to their business clients.

Government takes the lead!

Governments across the world have been increasingly effective users of payment cards. The sector was an early adopter and beneficiary of the purchasing card and many of these programmes

are now over 10 years old. Each year the US Government uses three million payment cards and generates 100 million transactions. The UK Government purchasing card programme was launched under the guidance of Visa in 1998 and six banks are currently accredited as issuers. The programme operates at national and local levels, and annual turnover is now in excess of £1 billion from some 146,000 cards. Current estimates suggest that the UK Government has achieved administrative savings from the scheme totalling £0.9 billion since its inception. The government sector is also joining with the commercial sector in taking a greater interest in the prepaid card. The US federal and state governments and other agencies have had notable successes with the prepaid card as a more cost effective means of paying out benefits, pensions and other disbursements.

The small business sector

A major product development initiative targeting the small and medium enterprises (SME) sector was run by MasterCard Europe during the last decade. Known as 'Working in Europe', it provided valuable insights about how such businesses make their payments and offered leadership in the development of card-based solutions. More recent efforts by American Express, a leader in the development of the corporate travel and entertainment cards sector, have laid the foundations for their competitive offering to the small business sector. However, notwithstanding the significance and value of these developments, the number of card programmes provided by issuers for SMEs still remains limited.

The economic difficulties of recent years have added significantly to the challenges faced by issuers. Advanta in the USA had dedicated its business to providing credit cards for the country's many small businesses. Through much of the last decade, good marketing and risk management techniques by the company succeeded in creating a profitable enterprise from less than one million credit card accounts. However, as a monoline with no counter-cyclical business, the combination of accelerating growth (0.8 million new accounts over 3 years) with an economy moving into decline was to prove fatal, and Advanta was closed by the Utah Department of Financial Institutions in March 2010. The US domestic small business sector was

critically damaged, as was the business of Advanta.

Getting started

The quality and complexity of the operational facilities that are now available to issuers from service providers are instructive. On the one hand, they offer immediate access to the distilled learning curves of a generation or more of operational and risk managers, which is particularly valuable in the area of credit card management. A safe and speedy implementation is the norm, and issuers benefit from economies of scale. On the other hand, such facilities provide a daunting reminder of the operational platform that must be developed by an issuer planning to 'go it alone' and run their own scheme in-house.

An alternative business model for the issuance of prepaid cards has been constructed by the Newcastle Building Society in the UK in conjunction with 23 specialist programme managers. CorporatePay Ltd is one of the society's partners for creating and launching prepaid programmes. Through this partnership-based business model, Newcastle has already successfully leveraged its payment systems organisation membership to facilitate the launch of over 220 prepaid card schemes.

The assessment of the credit, fraud and payment systems risks associated with the issue of card products for the largest players and mid-sized companies is typically included within the overall monitoring and control of the client at a regional or central function. At a local level, analytics and information resources provide increasingly effective decision aids for the evaluation of SMEs. These tools are also offering progressively greater support in the assessment of larger clients.

Opportunities remain

The long-established corporate products providing travel and entertainment support are both well established and well understood by their target audience. In addition, success in the government sector has given momentum to the development of the purchasing card. But beyond these products, research suggests that potential still remains for the further development of prepaid and small business programmes. Notwithstanding the progress demonstrated by many issuers, and the major commitments of American Express, MasterCard and Visa, market growth is still arguably limited. ►

Success in the government sector has given momentum to development of the purchasing card

Potential still remains for the further development of prepaid and small business programmes

Size of business opportunity and product benefits may bring new players into the market

- ▶ However, there are two key positives that may be taken from the state of the market. The first is the size of the business opportunity that still remains to be exploited. The second is the high level of marketing, operational and risk management support that is available to existing and new issuers in the provision of many different types of product propositions. It remains to be seen whether these benefits are sufficient to bring new players into the market as economies across the globe recover from the recent challenging conditions. ■

David Cavell advises banks and building societies around the world on the development of profitable delivery channel strategies. He is the author of the RBR report 'Commercial Cards: Best Practice and Case Studies'.

SMART CARDS AND PAYMENTS

Innovation essential in changing world of payments

The Hotel 1898 in Barcelona played host to Axiom Groupe's *Smart Cards and Payments 2011* conference on 24th and 25th March. 19 speakers and 40 delegates from 22 countries participated in this event.

Themes that were discussed included regulation in the cards industry, particularly SEPA, as well as customer loyalty programmes and innovation in payments. Current trends in European cards markets were also covered.

SEPA regulations are coming into force

ING's Gert Huizinga summarised the European Union's SEPA political vision as a single market for payments without obstacles to the free exchange of goods and services. Making SEPA a reality, nevertheless, requires a considerable investment on the part of industry players.

As part of their SEPA vision, the European authorities have encouraged the creation of a European payment card scheme as an alternative to Visa and MasterCard. Dominique Buysschaert outlined the features of his scheme, PayFair. He indicated that major benefits of PayFair for

merchants are reasonable and transparent fees for each service. There are reportedly banks in Croatia, the Czech Republic, Hungary, Poland and Romania who are considering issuing PayFair.

Gilbert Arira of BNP Paribas, however, indicated that uncertainty over the future business model in the cards business has slowed down SEPA implementation. Interchange fees could fall significantly as a result of the actions taken by the European Commission and local anti-trust authorities, meaning that issuers need to find means of compensating for this lost revenue.

Loyalty offerings are required to provide differentiation

According to Mavis Liew of Welcome Real-Time, distrust of banks is high amongst consumers, making it more and more challenging to create 'engaged customers'. She stressed the importance of identifying purchasing habits and offering tailored rewards in order to retain customers, especially in this environment of falling revenues. On a similar note, Yuri Toponov of Citibank in Russia demonstrated how loyalty programmes could stimulate card usage. He emphasised the need to identify profitable customers and acquire, engage and retain them. He also explained how carefully selected co-branded products could create a virtuous circle for all parties.

The Dutch e-payments solution a hit

Piet Mallekoote of Currence discussed alternative forms of payment for e-commerce transactions, pointing out the success of the Dutch online banking e-payments solution iDEAL. The number of iDEAL transactions soared from 45 million in 2009 to 69 million by 2010. Customers simply select their own bank from a drop-down list to access the online banking service. The main benefits of iDEAL are considered to be the real-time payment guarantee for the merchant, ease of use, security, its trustworthiness and the use of fully automated straight-through processing. According to Mr Mallekoote, iDEAL is now ready for SEPA and can be offered by banks and payment institutions in other countries.

Mobile payments finds favour with consumers and merchants

La Caixa's Jordi Gaus shared the results of the Sitges mobile shopping trial, which took place between May and October 2010 (see *Bulletin*

Uncertainty over the future business model in the cards business has slowed down SEPA implementation