



Time for Cards to Compete with the Instant Credit Transfer!

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Brussels, 16th May 2018

Peter Jones, Chairman

Three Propositions - Why the Cards Business Should be Concerned!



“The Instant CT’s has potential to damage cards because legacy platforms cannot match its real time offer!”

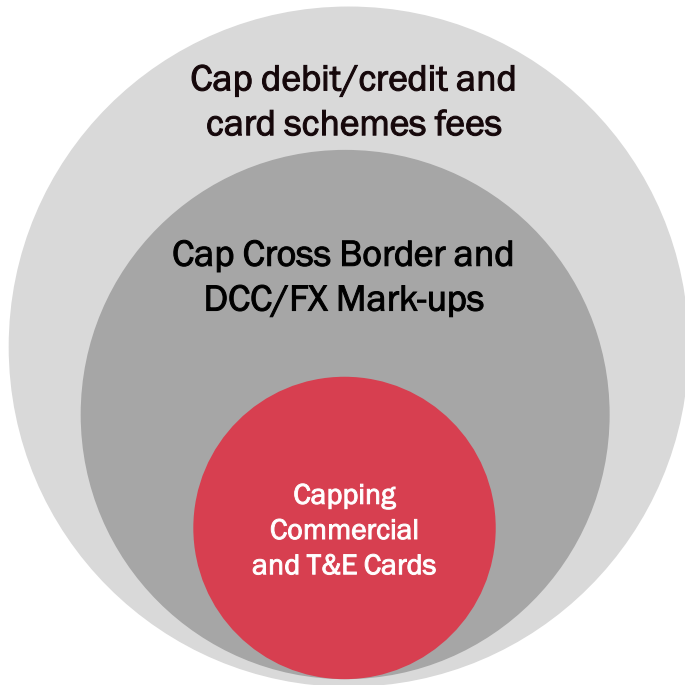
“The CT is not designed as a retail payments instrument and lacks a modern redress and risk frameworks!”

“The Cards Business is struggling to develop a defensive strategy and competing offer!”

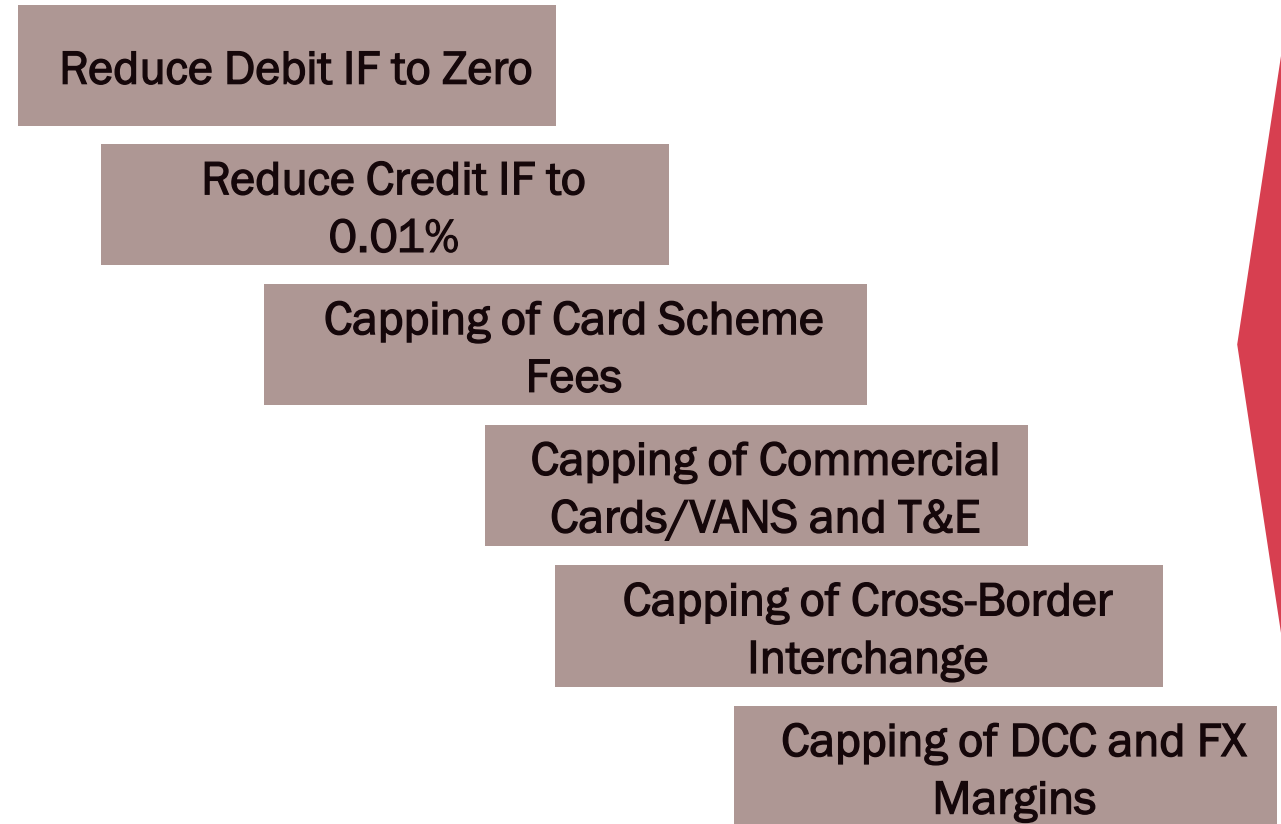
The Perfect Storm in 2022!



Possible Commission Plans for 2019/20



The Commission's Possible Actions (2019 IFR Review and Pipeline)



Regulation, PSD2 and Instant CT Threatens the Future of the Cards Business.

The Compelling Instant CT Proposition



Consumer Benefits

- Simple concept
- Direct to bank account (SMS)
- Push authorised
- Immediate balance update (real time)
- P2P transfers
- Free of charge
- Mobile, eCom, POS channels
- EU Wide acceptance

Merchant Benefits

- Very low cost per txn
- Simple/no scheme rules
- No repudiation
- No batch submission
- No end of day bottle neck
- No chargeback penalties
- Faster/immediate settlement
- No declines
- Mobile, eCom, POS channels
- EU wide acceptance

The Instant CT is Real Time Single Message – Most of Cards Processing is Dual Message and Batch.

Worrying Feedback on UK First to Market with Instant!



UK Finance say in 2017, 40000+ APP scams valued at €230m occurred. Consumers lost an average of €3200 and corporates €23000.

30 Campers defrauded in bogus tent offer scam

Bank refuses to refund mistaken standing order credit transfers

Branch staff spot dementia victim house repair scam

Paris AirBNB credit transfer booking outside their website invalidated

House Purchase Intercept Defrauds Couple of £100,000

Netherlands scam caravan sale paid by credit transfer outside eBay Fund Protection scheme

Bank refuses to refund bankrupt kitchen company deposit because payments made by credit transfer

EU Energy Related Products (ERP). Scam fools customers to buy new boilers.

Online electronics company scammer falsely claims declined card, requests credit transfer and washing machine not delivered

UK Consumers Association say only 4 in 10 APP scams have customers won redress from banks. UK Finance says financial providers returned only 25% of lost funds to victims.

The Credit Transfer Was Never Designed For Retail Payments!



Credit Transfers

- Enabled the displacement of cash and cheque wages with a simple low cost electronic payment (late 60's)
- Provided finality and undisputed settlement for electric transfers to avoid payments risk and provide certainty to corporates
- Enabled and supported B2C and B2B payments with multiple parties through ACHs
- Evolved as a simple low cost payment method with little or no change since inception. **Never designed for retail payments**

Cards

- Pioneered as customer focused three party Country Club billing, grace period, floor limits and voice authorisations for guarantee (1960's)
- Evolved into card schemes, revolving credit, repayment options and electronic authorisations (1970's)
- Added ATM cash, EFTPOS, introduced chargebacks (1980's)
- Evolved and extended **Merchant Payments Risk Assessment** and **Consumer Redress** over subsequent 30 years.

Is the Instant CT “Fit for Purpose” as a new Retail Payments Instrument?

“Instant” CT – Redress/Risk Feature Gaps?



	ICS Debit Card	ICS Credit Card	SCT	SDD	SCT Instant
Issuer/Consumer					
Chargeback	●	●	●	●	●
Refund Process	●	●	●	●	●
Fraud Refund	●	●	●	●	●
Online Authorization	●	●	●	●	●
Online Settlement	●	●	●	●	●
Fraud Monitoring/Alerts	●	●	●	●	●
Transaction Repudiation	●	●	●	●	●
Product Guarantee (some markets)	●	●	●	●	●
P2P Payments	●	●	●	●	●
Merchant/Acquirer					
Payments Settlement Guarantee	●	●	●	●	●
Chargebacks	●	●	●	●	●
Refund Process	●	●	●	●	●
Online Authorisation	●	●	●	●	●
Online Settlement	●	●	●	●	●
Fraud Monitoring	●	●	●	●	●
Risk Assessment	●	●	●	●	●
Online Risk Liability Transfer	●	●	●	●	●
PCI DSS Security	●	●	●	●	●

● Best in Class ● Basic Features ● Need to Improve

Despite Redress Benefits - Cards unable to compete with Instant CT's Immediacy!

UK Problems with Instant CT Risk/Redress Processes



- Limited KYC checks for high risk fraudulent Merchants at onboarding
- Lack of “card acquirer like” payments settlement risk policy
- Lack of ongoing transaction monitoring for fraud
- Limited understanding of merchant bankruptcy impacts
- Reluctance to refund - reverse CT – “Finality of Settlement” rule
- Failure to declare on us/not on us fraudulent merchant account details

ACH Silo Pushback – Why CT Redress Not Needed!



- “Low cost and simple, why change?”
- “One solution fits all – take it or leave it!”
- “Card redress features will double our costs”
- “Impossible to change ‘**Finality of Settlement**’ rule”
- “Payee data protected by Data Protection and client confidentiality”
- “**Caveat Emptor** - sort out your dispute with the merchant”
- “SCT infrastructure unable to support transaction repudiation”
- “Existing Instant products work well enough so what’s the worry?”



Will Instant CT Displace Cards?



Instant Success

Many believe Instant will be a success - high take-up of Swish (Sweden) and MobilePay (Denmark) the model – DB/IATA alliance.

Instant Cards Displacement

Many believe that low-cost Instant CT will displace cards longer term, because of high costs and scheme/processing fees.

Instant Damage eCom

Instant CT has the potential to damage eCommerce card payments (particularly) by 2022.

Instant Missing Features

The Instant CT product lacks many product features needed for modern retail payments

Instant Silo Ownership

Instant CT built and launched out of the ACH Silo by designers with little appreciation of retail payments risk and the “Consumer Redress” needs.

Consumer Reaction

Has the potential to generate strong pushback from consumers and consumer representatives and reduce trust in payments.

Several EU Card Schemes considering potential for Instant Card Offer

Key Questions – Building an Instant Card Offer



What's the Proposition

What is the “Instant Card” consumer and merchant proposition and product and how is it differentiated from Instant CT?

Card Cannibalisation

What might be the commercial impact of a low-cost Instant Card offer and its potential to cannibalise traditional cards?

Leverage Redress Advantage

How can an Instant Cards proposition bridge the Instant CT's immediacy advantage gap? How can cards best leverage its cards “Redress Wrapper” and “Risk Management” advantages?

Business Case

What technical and operational changes must card schemes, gateways, acquirers and issuers implement to deliver an Instant Card offer? Can a business case be constructed?

Instant CT –Product – “The Seven No’s”



CONSUMER OFFER WEAKNESSES

- **No** ability to repudiate payment
- **No** refund process for returns
- **No** guaranteed refund for fraud
- **No** guaranteed refund for misdirection
- **No** names of fraudsters
- **No** action to recover misdirection errors
- **No** product/service guarantee/CB's
- **No** merchant risk management

MERCHANT OFFER WEAKNESSES

- **No** transaction settlement aggregation
- **No** consolidation with cards/Collect
- **No** defined scheme framework
- **No** refund process
- **No** online fraud monitoring
- **No** online risk transfer to payer's banks
- **No** chargeback guarantee



CRITICAL SUCCESS FACTORS

Defend the Cards Business Model

Migrate from Semi-batch ACS to real time

Continued use of Cards Rails

Very low-cost to merchants

Consumer preference to use cards

Minimum displacement impact of Traditional Debit

Leverage current online components



KEY ENABLERS

Leverage redress/risk advantages

Implement full real time SMS or API

Re-engineering of current ACS

Equal to Instant CT fees

Merchant campaign/incentives to Instant Card Guarantee

Realignment of current card product set

Use existing SMS and Instant processes

Components of an Instant Card Proposition



CONSUMER BENEFITS



- Trusted card scheme brand and guarantee
- Operates like a card but “Instant”
- Authorised transfers from your account
- Better control of your funds
- Simple returns refund process
- Full repayment for fraudulent use
- Full refunds for miss keying
- Choice of product and services
- Names of misdirected recipient
- Chargeback refund for faulty goods/services
- Risk management for fraudulent merchants

MERCHANT BENEFITS



- New APM acceptance method
- Lower cost than traditional cards
- Trusted card scheme framework
- Single “Collect” settlement
- Clear and simple refund process
- All day submission window – no batch
- Faster Intraday settlement options
- Improved funding/cash flow
- Online fraud monitoring
- Online risk liability transfer
- Remove duplicate file submissions

Instant Card Product – Consumer & Merchant Features

CONSUMER – INSTANT CARD FEATURES

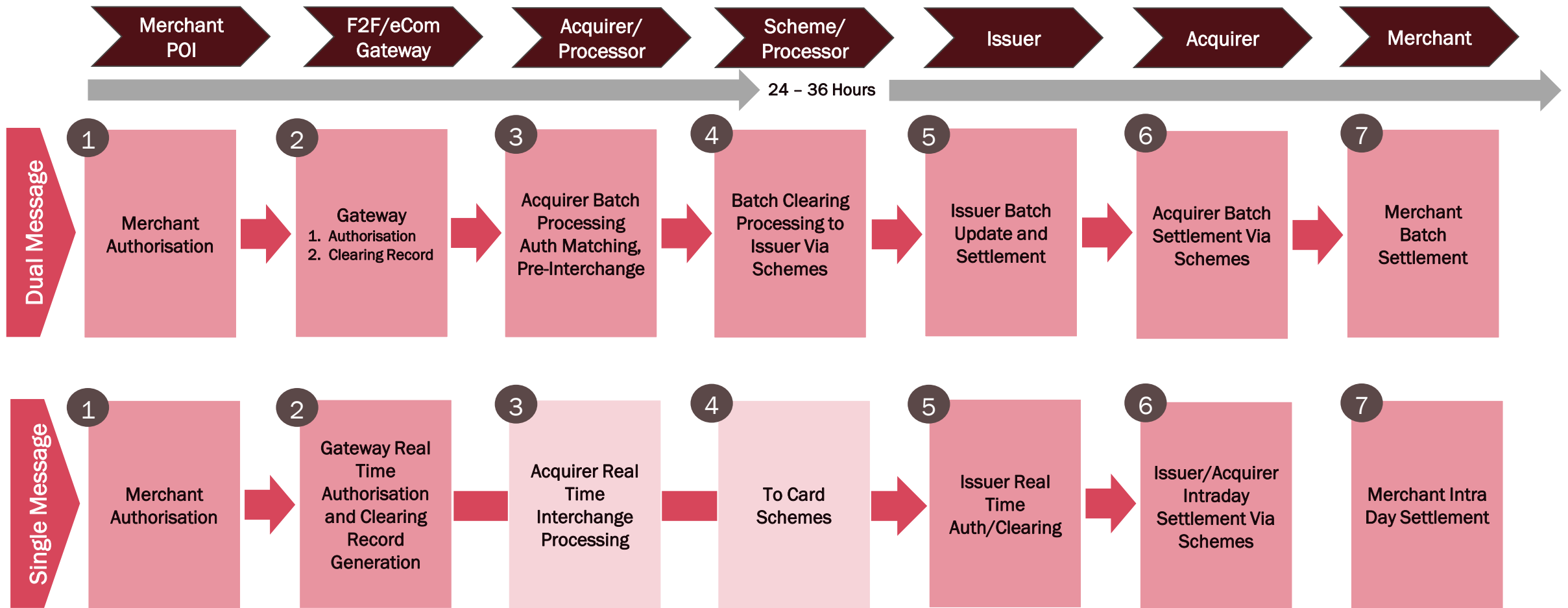
	Wallet Only	POS	Contactless	eCom	ATV	Charge - back Scope	Refunds	Fraud Refund Guarantee	Product Guarantee	Loyalty VAS	Card Fee	Comments
Instant Everyday	✓	✓	✓	✗	Low		✓	✓	✗	✗	✗	Basic “ELV like” simple product.
Instant Guarantee	✓	✓	✓	✓	High		✓	✓	✓	✓	✓	Cross between debit and credit

MERCHANT – INSTANT CARD FEATURES

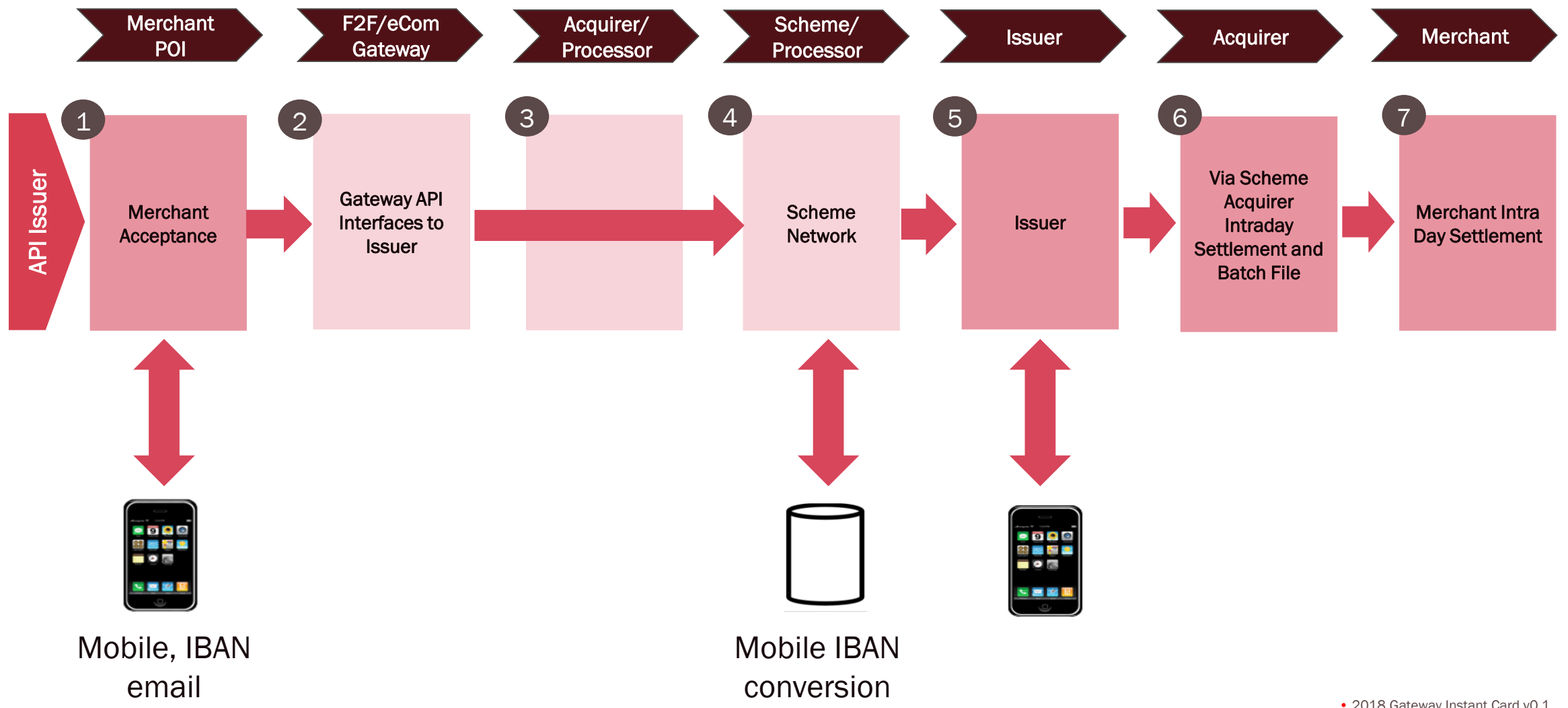
	Lower MI/MSC (below caps)	TXN Fee	Online Clearing	Chargeback Scope	Intraday Settlement	Collect Service Aggregation	Refunds	Improved Liquidity	Loyalty VAS	Comments
Instant Everyday	✓	✓	✓		✓	✓	✓	✓	✗	Very low-cost, but many new features.
Instant Guarantee	✗	✗	✓		✓	✓	✓	✓	✓	Real time version of current debit/credit.

Also, Potential to Develop a Commercial Card Product.

Realigning the Cards Rails – Batch to Real Time



Realigning the Cards Rails – Batch to API and P2P



But...Changing from Semi Batch to Real Time Card Complex



BENEFITS

ACQUIRER/ISSUER

- Real time acceptance offer to merchants
- Improved liquidity/balances
- Enables intraday merchant settlement offer
- No batch submissions from merchants/gateways
- Removes end of day bottle neck
- Simplifies front-end – no auth matching/pre-interchange
- Potential “Collect” offer
- New real time offer to cardholders
- No batch matching account update

ISSUES

ACQUIRER/ISSUER

- High-cost to traditional “dual” acquirers for SMS development
- Changing cards back office culture to real time
- Operate dual/SMS for many years
- Loss of fraud batch resolution window
- Real time pre-interchange processing removes downgrades interventions
- Gateway development of real time clearing processes
- Reduced issuer liquidity

Summary of Conclusions

Instant CT Benefits

The Instant CT proposition offers consumers and merchants several compelling benefits, of which real time, P2P, low-cost and faster settlement cannot currently be matched by the cards business.

Instant CT Weaknesses

Instant CT has many significant weaknesses, lacks redress, full risk management, lacks a refund process and has potential to damage consumer confidence in new forms of payment as a result of fraud.

Cards Competing Offer

A new low-cost real time Instant cards offer is needed to defend cards by matching Instant CT functionality, leveraging the card redress/risk wrapper and persuading consumers and merchants that card payments are lower risk and guaranteed.

A Key Issue is the complexity and Cost of Technology Change.

1

Is an Instant card product a realistic concept for the cards business, and will it overcome Instant CT's competitive advantages?

2

Is there a business case to convert the cards rails to full real time, or is it a “must do” for the cards business to survive?

Thank You

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