Roadmaps for the Future of Payment Services, in a Global World

A vision of what could happen, from a European perspective

W3C/Keio University Web Payments Seminar
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- **Banking sector**: Ex executive manager if French banking Groups

(French Savings banks, Crédit Agricole)

- **Participation to the reform of the legal framework of the oversight of financial sector**: Conseiller d'Etat (2006-2012) Section des Finances – Comité consultatif de la législation et de la réglementation financières

- **Now (2012)** CEO and founder of

- a W3C member!
Today, CANTON-Consulting is a consultancy exclusively specialized in Payment services.

Our Mission is to bring success for disruptive innovations in Payment services.

From the initial steps of the strategic design, till a sound profitable run, through all the technical, commercial and legal requirements.

Our track-record: three major new Payment Institutions in France, in the top tenth of profitability.

Tomorrow, we aim to be part of these new players in payment services.
1 - A NEW GLOBAL LANDSCAPE FOR PAYMENT SERVICES
Payments' revolution worldwide is a buzzword

But what's actually happening?
Briefly speaking, everything is going to move!

• Merchants’ and Users’ expectations
• Technology
• Standards
• Fraud and security
• Regulations across the world
• New comers offering innovative payment solutions are bringing new disruptive business models
About usages:

Globally, users express an urgent need for dramatic changes

- Africa started 6 years ago to discover and to exemplify how banking services can be re-engineered through mobile phones
- Digitalization is already an effective day-to-day reality, as a matter of fact, worldwide
- Digital consumers require ubiquitous, fast and secure services
Business requires new payment solutions and services

- Digital merchants need enhanced customer experience, omni channels relationship
- Ubiquity and proximity with customers
- Data intelligence
- Point to point seamless payments
- ERP integration
- Easy and low cost global payment solutions
Customers and merchants, both express urgent need for Fast / Real time Payments

• For the existing industry, on the back office side, Digitalization looks like re-engineering or developing many and various new processes in front-office. And to implement additional back-office processes accordingly.

• BUT merchants and consumers want cheaper payments
Banking industry faces difficult and costly challenges

- How to meet customers’ expectations toward digitalization?
- Legacy systems, going on the way towards Cloud, are often "lost in translation"
- Cloud, agility, cryptography are bringing new technological frameworks and a new technological culture
- Fraud in banking services is becoming a roaring international Hi-Tech industry
- New comers... are actually coming! and they can't be anymore perceived as kinky unrealistic experiments
- Regulatory issues are continuously rising new major and puzzling constraints for the banking industry
Central banks and oversight Authorities are rising the level expected in compliance and efficiency, for payment services

- The anti-money laundering requirements rise to unprecedented levels
- Security becomes a key issue for profitability and credibility of the financial sector
- Supervisors are pushing the current players for providing new levels of users’ experience
- Standardization is moving forward the banking industry
About standards

• The industrial standards for banking industry have been bankers’ only stuff, up to now
• Now, other players are pushing the process
• Many major initiatives are on the way simultaneously:
  – ISO 20 022
  – ISO 12 812
  – W3C – Web Payment Working Group
About regulations

• FATF issued 40 AML recommendations in Feb 2012, breaking the old formal rules in order to ask for an “efficient” scrutiny
• US FED is pushing modernization for payments
• Russia and China are building new payment infrastructure on their own
• SEPA is a single harmonized market for 500 M people, 36 countries
2 - ABOUT THE FUTURE OF PAYMENT IN EUROPE:

THE SINGLE EURO PAYMENT AREA, A MAJOR PLAYING FIELD FOR PAYMENT INNOVATION
European Authorities decided as of 2000 to enhance competition on the European market, for payment services and to foster innovation.

The goal is that efficient payment services are strong needs and that competition and innovation will be a major contribution for a European competitive economy.
The New legal framework

• New players, the "payment institutions", are allowed, besides banks, to provide such services, under condition of a prior agreement and a permanent oversight.

• It has ended the old banks' monopoly for issuing payment instruments.

• A new legal category of activity: "payment services" has been created.

• It covers Credit institutions and Payment Institution under the same legal framework.
This framework has been designed for an Area larger than the European Union

• When authorized in 1 country of the EU, an authorized Payment Institution (aPI) is automatically authorized to provide payment services in all the other State members (under minor additional requirements)

• All the payment services in the EEA are submitted to the same European legal and technical requirements, common for both credit institutions and aPIs
Europe: Single Euro Payment Area, a major playing field for payment innovation

- SEPA = a single market
- Common rules (legal and technical ones)
- “Domestic” players (only aPI)
- & a single currency: the €
Some figures about SEPA

- **36 countries** (and 19 are Euro-zone's members)
- **500 M people**
- One **single Currency**: Euro
- Additional GDP expected, due to SEPA: + **2.5% growth p.a.**
La zone SEPA comprend 32 pays* :

- 16 pays - Zone Euro
- 12 pays - Hors zone Euro
- 4 pays - Association Européenne de Libre Échange

* Et la principauté de Monaco.
Major common rules apply on the whole SEPA Area

- J+1 is compulsory for every payments
- ISO 20022 is compulsory for messaging
- The same set of underlying legal rules for payments has been defined, in every country
SEPA, created by law:
a set of new common regulations in the EU

• PSD 2007/64
• EMD 2009/110
• 260/2012 End Dates Regulation
• A new role has been attributed, as of August 2015, to the European Banking Authority for establishing regulatory security requirements for payments and banks
• PSD2 ... on the way
A short introductory focus about some of these regulations

The 260/2012 End Dates Regulation

- It makes ISO 20022 compulsory
- It designates the end dates for the migration of the State members toward common Transfer rules SCT & common Debit rules SDD (2014-2016-2017)
- BIC-IBAN -> IBAN only! (end of banks control...)

It makes a major change for industry!

It creates transparency rules protecting the merchants from “hidden costs” (blending)

This new regulation caps interchange fees:

- 0,2% for debit cards
- 0,3% for credit cards

• It introduces in the EU, the international FATF-GAFI Recommendations - adopted on 16 February 2012

• In short:
  It requires that each financial institution starts scrutiny by assessing what its specific AML risks could be, in its specific activities, and then keeps applying a “risk-based approach” (RBA) on every (AML) process
PSD2 ... on the way

• PSD2’s main goal is to enhance the integration level of the SEPA market
• The European Parliament voted the “legislative resolution”, 3 weeks ago
• The European Council should review it
• Principal innovations:
  – 1-leg payments
  – End of Telco's exemption
  – TPP
3 new SEPA Payment Instruments have been created

- Besides new regulations, the EU has pushed Banking sector (EPC) so set up a bunch of three payment instruments
- This "instruments" are common frameworks
- Due to DSP's rules, these instruments will be used in the whole EU under same legal conditions about payment, consumer protection, repudiation process, liability framework, and so on.
SCT : SEPA Credit Transfer

SDD : SEPA Direct Debit

• a creditor mandate flow
• ISO 20 022
• Designed for easing integration between: invoicing, payment, accounting

SCF - EMV ... TPP's...
This is the new European landscape:

The SEPA is a single market, open to new comers, enhancing the requirement for compliance, security and QoS, and putting the stakeholders under the pressure of a vivid competition.
3 - SOME CONSIDERATIONS ABOUT THE NEXT STEPS FORWARD
A) Banking industry's conundrum

- Digital consumers require ubiquitous, fast and secure services. They are then compelling existing organizations to open their systems through APIs.
- For the legacy systems, Digitalization looks like re-engineering almost everything, in front-office and in back-office processes ...
• To do it on top of present current legacy systems will put financial institutions on a dangerous path: if they fail to anticipate all the consequences on their back office, they will expose themselves to new troubles when speed and volumes will soar up!

• In the meantime, start-ups with a clear and customer-centric digital approach are reshaping the market with disruptive business models

• Will the market be patient enough to wait for the banks to be ready?
B) New Payment solutions and institutions are creating new value!

Three basic but actual examples, selected out of our clients

- **POS in shops**, at half price as the banks
- **An aPI**, re-designed under PSD, **providing B2B "credit management" services**
- A **micro-payment service provider** provides now a "one stop shop" for seamless web and mobile payment solutions in 36 countries on 5 continents, for selling content on the Web
POS in shops, at half price as the banks

- Afone is a MVNO
- It became the third payment institution in France
- Afone Paiement provides POS operating systems, using payment systems supplied by banks in white label
- But they are managing and selling it, more efficiently
An API, newly designed under PSD, providing B2B "credit management" services, in EEA + USA, domestic and cross border and managing payment deadlines.

- It is not a credit institution: lower costs for compliance
- 2% cost upon effective payments
- # 100% bill collection rate
- + 25% flow growth p.a.
- 1 billion € annual flow / less than 100 employees
A global micro-payment services provider

• BD Multimedia / Starpass started as a French telecom operator specializing in IVR solutions and premium rate short messages

• Starpass is now a "one stop shop" providing web and mobile payment solutions for monetizing web content, seamlessly using local Telco micro payments solutions

• Starpass works in 36 countries on 5 continents, for smartphones (e.g. movies viewing, music listening, ...)

StarPass
C) A new geography is designing the new playing fields for disruptive initiatives

• Innovation and technical agility are required to cope with all the current major needs for success: compliance, safe technology, fraud resilience, competitive pricing, scalability, ...

• Standardization, around W3C initiative, is bringing empowerment to cope with such challenges, for all the new comers

• Jurisdictions willing to open the market are attractive for these new comers, especially if they create welcoming conditions for them.
IMHO
Don't think about how to improve or protect your domestic national market(s),

Prepare a roadmap to aim a successful and efficient integration, in the upcoming global competition for new payment services
INFORMATION

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