

## **Innovations in Payments - Why SEPA works and Mobile Payments don't -**

Financial Services Club

London, 27 October 2008

Michael Salmony

## 1st Multi-Media Internet Application?



**The Cambridge Coffee Pot**

**160.000 hits per year**

## Equens 2008

- Equens SE
  - Head office: Utrecht, the Netherlands
  - Locations: Utrecht, Frankfurt, Stuttgart, Helsinki
  - Establishing Equens Italia S.p.A. with ICBPI Group
  - EACHA CSM Network with DIAS (Greece), Iberpay (Spain), Seceti (Italy), VocaLink (UK)
- Processing Payments: ~ 7.6 billion transactions
- Processing Cards: > 2 billion transactions
- Managing Portfolio of 25 million cards
- Hosting over 230,000 POS and ATM terminals



## Equens serves large banking community across Europe (extract)



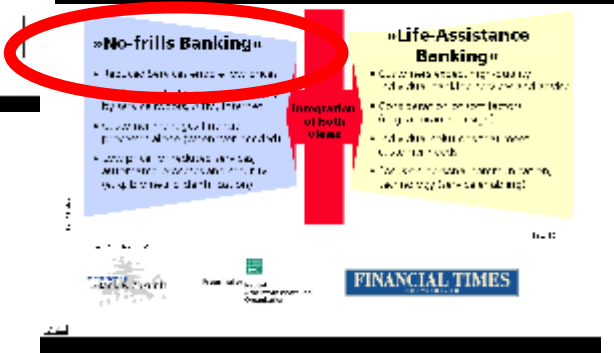
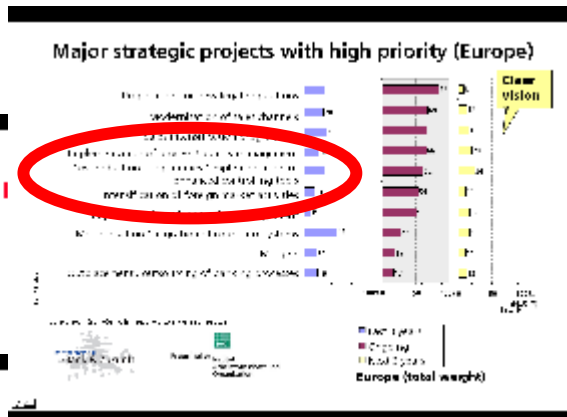
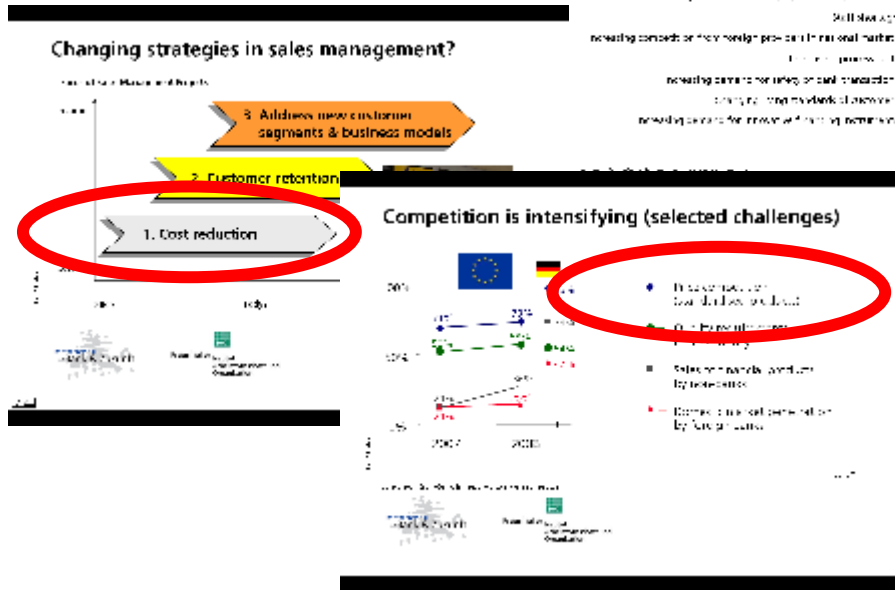
## Equens throughout Europe

- Goal 2010:
  - 10 billion payment transactions
  - 7 billion card transactions
- Top pan-European, full service payments processor



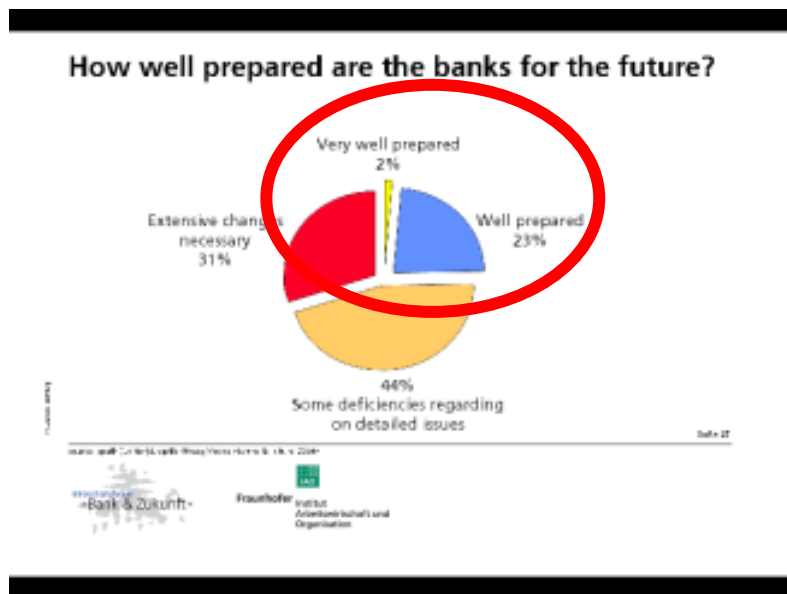
## Dominant Result of Banks & Future 2008 FhG/Equens Survey

- Industrialisation
- Ever cheaper



But, guess what ?

- Only ¼ of Banks feel well prepared for the future



- ... so maybe cost-cutting is not enough ?

## How to Prepare for the Future ?

### Innovations

- New revenue streams
- Differentiation esp. in commodity markets
- Integration in value-chain of customer
- Prepare for paradigm shifts
- Attract new/different employees
- Competitive intelligence – look outwards
- Reduce risk of investments

## Paradigm shift



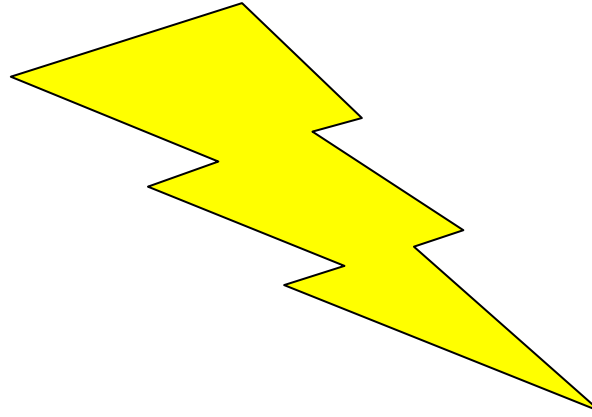
Encyclopaedia Britannica Deluxe Edition  
Statt in 32 Bänden 1.695 €<sup>e.P.</sup>  
auf **3 CD-ROMs** nur **16<sup>95.</sup>**

Mit Merriam-Webster's Collegiate Dictionary und Thesaurus.

- Founded 1768

## Paradigm shift – Music industry

- MP3
- Downloads
- Napster/P2P sharing
- Death of Copyright

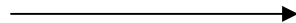


Grammophone → 33 1/3 → LP → CD → Tickets + T-Shirts

Note: Core Business transformed ...

## Nothing to do with Banking & Payments Industries ?

- Every industry dependent on innovations
- Every industry experiences paradigm shifts



- Banking/Payments industry is/will be particularly affected by change – all virtual goods and services!

## Drivers for Innovations in Payments

- External structural influences
  - SEPA
- Technological influences
  - Mobile
  - Internet/e-Commerce/Online Banking
  - Chip
  - Contactless
- Market expectations
  - Real-time
  - Reduce paper/STP
  - Cost reductions
  - Value-added services



## Je ne SEPA



- SEPA harmonises payment law and standards in Europe
- Possible strategic implications
  - Account consolidation in Europe
  - Increased competition (lower prices/margins, fewer/bigger processors)
  - European leverage
    - for merchant
    - for providers of value-added-services



### Het Internet

#### [Scottish Environment Protection Agency \(SEPA\)](#)

The Scottish Environment Protection Agency (SEPA) : Homepage.  
[www.sepa.org.uk/](http://www.sepa.org.uk/) - 21k - [In cache](#) - [Gelijkwaardige pagina's](#)

#### [SEPA - State Environmental Protection Administration of China](#)

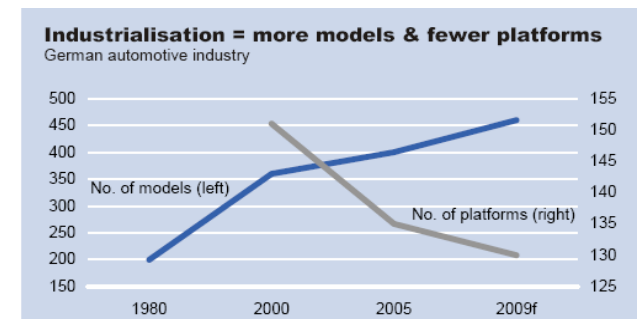
Information on the environmental protection in China.  
[www.zhb.gov.cn/english/](http://www.zhb.gov.cn/english/) - 86k - 22 mei 2005 - [In cache](#) - [Gelijkwaardige pagina's](#)

#### [Seismic Experiment in Patagonia and Antarctica](#)

Seismic Experiment in Patagonia and Antarctica (SEPA). The SEPA project was a deployment of broadband PASSCAL instruments in Chilean Patagonia, ...  
[epsc.wustl.edu/seismology/SEPA/](http://epsc.wustl.edu/seismology/SEPA/) - 7k - [In cache](#) - [Gelijkwaardige pagina's](#)

#### [Southeastern Pagan Alliance \(SEPA\)](#)

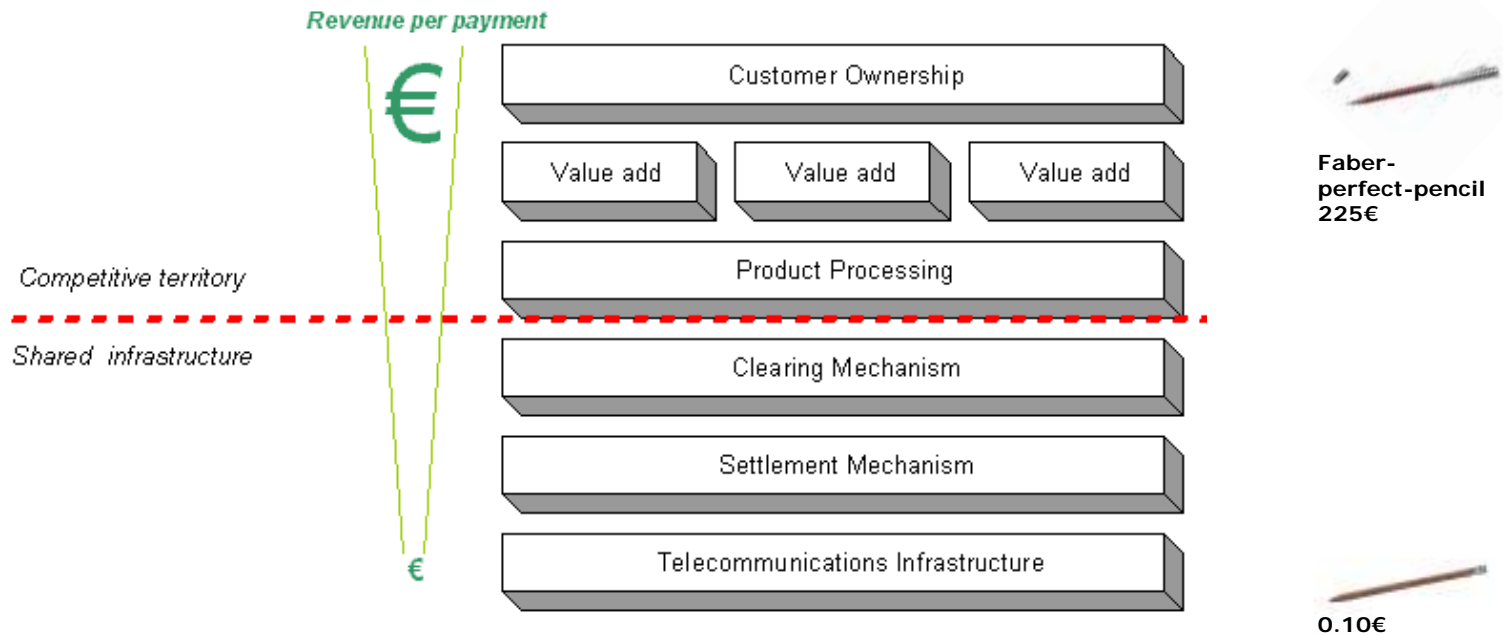
This is an Earth Religion Page. You will find Magick here. You will find Nature here. You will find the love of the God and Goddess as signified by the ...  
[www.tylwytheg.com/sepa.html](http://www.tylwytheg.com/sepa.html) - 83k - [In cache](#) - [Gelijkwaardige pagina's](#)



Sources: DB Research (2007)/ Rundshagen and Riese (2006)

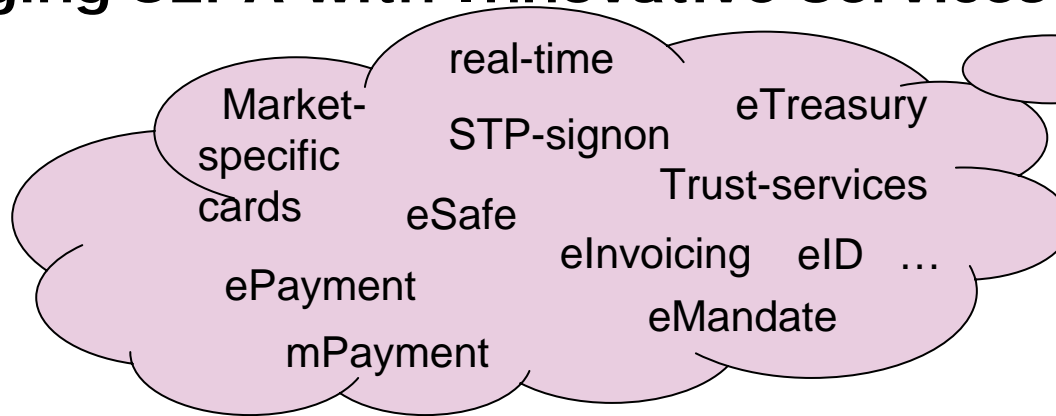
## Added Revenue

- “The greatest revenue earning potential will reside around the value adding services that relationship-owning banks will develop for their corporate and personal customers” (PA consulting)



## Leveraging SEPA with Innovative Services

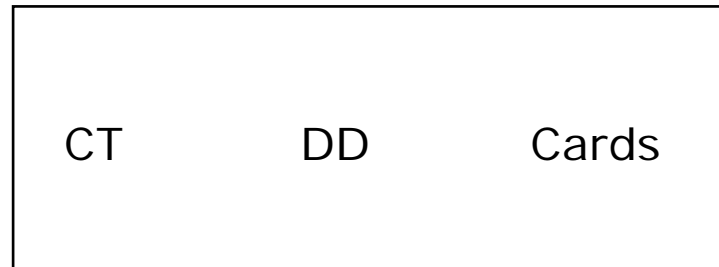
eSEPA



Re-use existing

- Bank infrastructure
- User habits
- ...

SEPA  
Payments

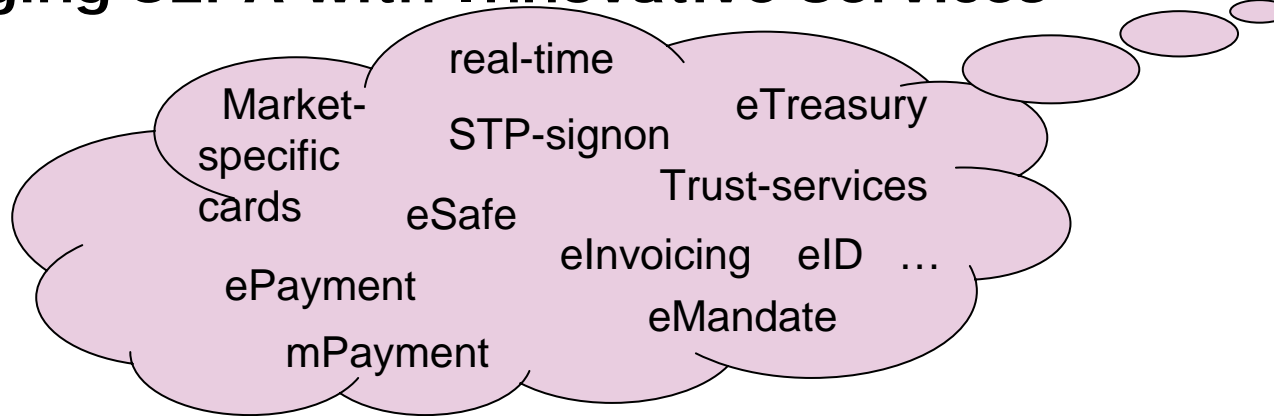


Payment  
Infrastructure



## Leveraging SEPA with Innovative Services

eSEPA



- What is Hype ?
- What is/will be real Business ?

## The mother of all Hypes: mobile services



2011: mobile transactions to total \$587bn



A customer places his finger on a scanner to pay for groceries at a supermarket checkout in Karlsruhe, Germany. The system is a voluntary alternative to cash or bank cards. (REUTERS/ANDREW HARTY/REUTERS)

### Money at your fingertips

In Germany, debit cards are no last decade. At a growing number of retail shops, customers let their fingers do the shopping.

**BY KATHARINA WIEBER/REUTERS**

For those who frequently carry off the groceries that have left their wallets at home, there is at least one new option: a scanner that reads a customer's finger to pay for groceries at a supermarket checkout in Karlsruhe, Germany. The system is a voluntary alternative to cash or bank cards.

“I’ve been in Germany for only a few weeks, but I’ve already seen how many people are using their fingers to pay for groceries,” says a German resident who has lived in Karlsruhe for several years. “It’s a great idea, especially for people who don’t have a wallet with them when they go to the supermarket.”

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**WHAT YOU NEED TO KNOW**  
 Bluetooth will open entirely new opportunities for direct consumer-to-business payment (POS, parking and vending machines) by 2013 (0.7 probability).

**STRATEGIC PLANNING ASSUMPTION**  
 By 2004, at least 70 percent of new mobile phone shoppers will be equipped to support the 0.7 probability.

## Telephone Advertisement 1905



## Reality + 100 yrs

### USEN 440 CHANNEL GUIDE English

STEREO  MUSIC  HD/CATV/BBY  
 MONO  RADIO

USEN-440 USEN

A	B	C	D	E	F	G	H	I	J	K
REQUEST J-POP REQUEST J-POP REQUEST Enka / Kayokyoku REQUEST General Japanese Pop REQUEST Popular REQUEST General Japanese Pop REQUEST J-POP REQUEST Enka / Kayokyoku REQUEST Popular Conf-harmony Easy Listening US/Hi-Hits -Instrumental- Conf-harmony Classic Jazz Japanese Harp (Koto) Seasonal Music (Monzary Rhythms) Enka/Kayokyoku/Enka Muzjo Selection (BBC J/R) Classics VOA US JETP NHK JPOP JPOP JPOP Weekly Top-Hits USEN J-POP Chart Weekly Top-Hits USEN Enka Chart Weekly Top-Hits USEN General J-POP Chart Weekly Top-Hits USEN Enka / Kayokyoku Chart Weekly Top-Hits US Chart Weekly Top-Hits Oricon Chart Weekly Top-Hits USEN Popular Chart Weekly Top-Hits USEN POWER Hits New Show J-POP New Show Enka / Kayokyoku New Show Popular US/Hi Hit-Hits (J-POP / Popular) All Time Hits in Japan Jazz Station Easy Listening Station Rock & Power Station Hip-Hits R&B Station	J-POP Hits Now J-POP Enka Enka Japanese Folk Songs Japanese Adult Pop Monthly Artist Selection J-POP Weekly Artist Selection J-POP Enka Selection J-POP 70s Hits J-POP 80s Hits J-POP 90s Hits CONTEMPORARY MUSIC R&B HIP HOP Soul Blues ROCK CLASSICS ROCK HEAVY METAL SOUNDHOUSE MADE TO ORDER Dixie Prexy / Popular 80s Hits The Beatles Monthly Artist Selection Popular Monthly Artist Selection Popular Popular 70s Hits Popular 80s Hits Popular 90s Hits Reggae MODERN ROCK (ZinedHouse) Modern Jazz Jazz Vocal Fusion J-POP 2000s Hits Popular 2000s Hits Classic Opera / Vocal Music Classic Symphonies / Concertos Classic Chamber / Instrumental Classic Baroque Classic Composers	RFL FM (HOT AC from NY) POWER 106 FM (R&B from LA) VISION RADIO 100.3 FM from London NRJ FM (Euro Hits from Paris) RDS FM (Adult Contemporary from America) RDS FM (Adult Contemporary from SF) HOT 97 FM (R&B & R&B from NY) RDS FM (2000s-2010s from Germany) KLOS FM (CLASSIC ROCK from LA) CLASSIC FM (CLASSIC MUSIC from London) World Selection Popular World Selection J-POP Hot Drive Music Popular Hot Drive Music J-POP Super Carwash DANCE - CLUB MIX - Slow Boss Noise Fascinating Easy Listening Healing Music Music Therapy Morning 80M (Brazil) Sea Waves / Seashore Enka Station Paper Discs Mix Jazzstation Station Baby FM NACK 5 NHK FM Hot FM NHK FM (WAVE) (Singapore) J-WAVE (Taiwan) FM yakuhara (Yokohama) JFM (Singapore) RMB22 (Brazil) KRCS FM (Australia) RADIO MONDO 1   RADIO MONDO 2 TOKYO FM J-HIRO 96.1 Radio (Hong Kong) NHK2 YEG FM (Dubai)	Second Step: Easy Listening Second Step: Music Box Jazz for Car/Amplifier HOUSE MUSIC (DJSpeed) LOUNGE MUSIC Afternoon Tea Music Dance Beat EDM Trippy Beat EDM Funky Beat EDM Power Beat EDM Light Music EDM Baked Fusion EDM Working Music EDM JPOP Instrumental (No Lyrics) Peaceful (No Lyrics) Peaceful (No Lyrics) Food Instrumental Amusement EDM Doo-wop Jazz Country Classic Pachinko Arcade Music The Saturday Munch Marching Music Chinese EDM YOGA Music Latin EDM Tropical EDM Contemporary Country French Pop Bossa Nova Indian Pop Yodel African Pop Philippine Pop Italian Pop Salsa Hawaiian Chinese Pop Hong Kong Pop K-POP	Second Step: Piano Instrumental Second Step: J-POP Instrumental HOUSE MUSIC (DJSpeed) LOUNGE MUSIC Afternoon Tea Music Easy Listening Acoustic Easy Listening Casual Heart Warming Strings Swing Jazz Boss Jazz String Orchestra Pop EDM JPOP Instrumental (No Lyrics) Classic Piano Classic Classic Food Court Music Japanese Wood Music Party Music Box Gagaku Japanese Pop/Gospel/Hits Japanese (No Lyrics) Japanese (No Lyrics) Chinese EDM French EDM Cinema Music Swedish EDM Bluesgrass Chamber Baroque Indian Instrumental Celtic Flamenco Marachi Tango Canzone Country & Western Chinese Folk Music Chinese Instrumental Korean Enka	NHK Basic English 1-2 NHK English Grammar NHK English Conversation Basic & Advance NHK English Conversation Training NHK Business English Conversation NHK Music NHK Spanish Course NHK German Course NHK French Course NHK Chinese Course NHK Italian Course NHK Spanish Course NHK Korean Course NHK Russian Course Get! Easy English (TOEFL 12-200) Easy Going English (TOEFL 100-400) The English Shower (TOEFL 200-500) Weekly Student Thesis (TOEFL 300-800) Japan Times Review (TOEFL 400-800) TOEFL Practice Exam Program Benji WordMaster™ Live Business Station Dokusai TAKEN Music Practice JES Japanese Channel Social Music Karaoke J-POP Karaoke Enka Chart Time Machine J-POP Chart Time Machine Popular Roman Dub -Nostalgia Instrumental- 5-Bit Hour Classic Pop Weekly Top-Hits J-POP Chart (JL) SHOWA Era	Baby Songs Play Songs For Children All-Time Radio Hits Early Teen Pop Now Fairytale Music Nursery Rhymes Children's Fairy Tales Japanese Folk Songs English Folk Songs NHK Business English Conversation NHK Music NHK Spanish Course NHK German Course NHK French Course NHK Chinese Course NHK Italian Course NHK Spanish Course NHK Korean Course NHK Russian Course Get! 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## First convincing mobile devices, applications and business models appearing

- Becoming life's "universal remote"



- Add "mobile payment" ? If so, what is it ?
  - P2P („send money as easy as SMS“)
  - Checkout („virtual card in mobile“)
  - Mobile Banking („online banking“ on mobile)
  - Mobile shopping, remittance, bill payment, prepaid top-up, ringtone purchase, parking, vending, mobile authentication of payment, repeat payments, B2B ...
  - ...
  - What is mobile ?



## Critical View of mPayments

- The mother of all hypes
- Extreme complexity of stakeholders to go beyond pilot
  - ▶ Mobile Ecosystem: 80 Telcos, xx Regulators, x Handset mfg, 7000 Banks, xxx.xxx Merchants/Content providers, security, platforms, ...
  - ▶ Past characterised by lack of cooperation, unclear focus/defn/business case/user view/communication → failure
  - ▶ New stakeholders required, e.g. TSM trust mgr, customer services for mobile
- Low success of multi-function card initiatives (branding, platinum AmEx hidden in phone, ...)
- Security concerns
- Murphy's Law of Technology

Bad news for mobile contactless ...

## The Upside of Mobile Payments

- Yes, it's all gone to internet/web-based services !
- Yes, mobile devices (not just cell phones...) are the future !

- Candidates for success in mPayments:
  - *Hidden* mPayment as part of application
    - ▶ Ringtone → mobile bill
    - ▶ Ticket → credit card
    - ▶ Micropayments
  - ▶ *Developing world* scenarios
    - ▶ Local
    - ▶ Remittance service developed → developing world
  - ▶ *Simple* mPayments (no ecosystem, just SMS)
    - ▶ "Rescue daughter", "impulse buy" scenarios

## Typ. Japanese web site/magazine page/poster

Address  <http://www.daimaru.co.jp/shopping/index.html>   Go



＜伊藤園＞お  
ーいお茶 緑  
茶(24本)  
お買い得食  
品



肌上で水が弾けて「アク  
アフロスティック肌」に仕  
上げる」人気のルースパ  
ウダーの期間限定お得  
なキット  
[12月26日(水)発売]  
予約販売  
＜アウェイク＞アクアトラン  
スパウダー スターダム  
キット  
＜税込＞4,725円  
コスメウェブショッピング



ボビイのベストセラー「ロ  
ングウェアジェルアイライ  
ナー」と専用ブラシ、アイ  
メイクを落とすリムーバ  
ーのセット  
[1月2日(水)限定発売]  
予約販売  
＜ボビイブラウン＞ロング  
ウェア ジェルアイライナ  
ー キット  
＜税込＞6,825円  
コスメウェブショッピング



キラリ純質な肌を引き出  
すラインピールクリスタレ  
セントのクリームとエッセ  
ンスに「クリスタレセント  
ペン&ミラー」をセット。  
[1月2日(水)発売]  
予約販売  
＜ビオテルム＞ラインピー  
ル キラリクリスタル ギフ  
ト  
税込16,275円  
コスメウェブショッピング

▶ 携帯サイトのご案内 

大丸の携帯サイトでは、コスメ  
のモバイルショッピングをはじ  
め、各店情報や大丸カードのポ  
イント照会などのWebサービス  
がご利用いただけます。

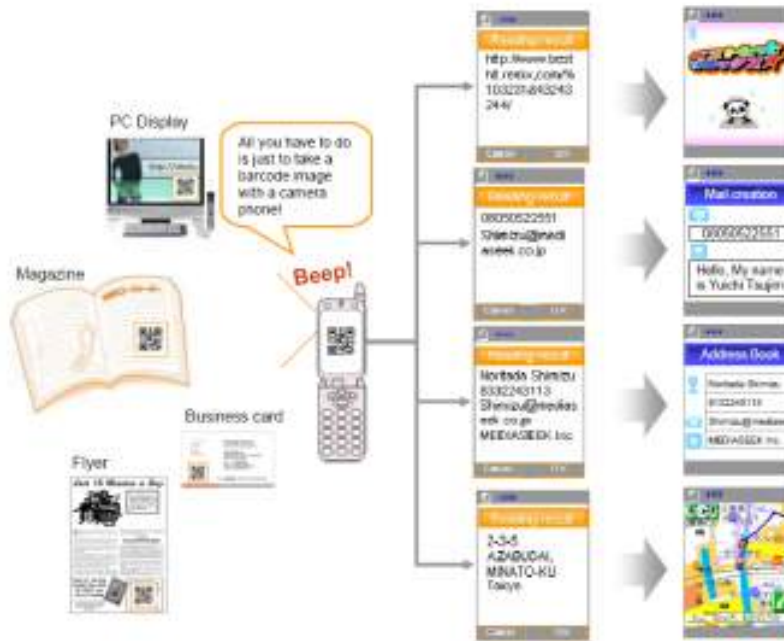




新春の食卓を華やかに彩る  
“迎春特集”  
おせち、お買得食品よりピックアップ

大丸・松坂屋統合記念のおせちをはじめ、  
こだわりのおせちや老舗料亭のおせちなど、多彩にご用意。

## Successful value-added Mobile Service: QR codes



- URL: web access + impulse buy
- SMS/call/mail contact
- Business card exchange
- LBS navigate to
- Paper replacement
  - membership cards
  - tickets (travel, cine, ...)
- Vending machine payment
- Fraud prevention (e.g. pachinko chips)



- B2B e.g. product tracing
  - AIAG: Alliance of Automobile Manufacturers
  - Electronic Industries Alliance
  - American Association of Furniture Manufacturers
  - Liquor through customs, Pharma, ...
- Most successful code in the world in US (not Japan!)

## What about ePayments ?

- Exploit proliferation of internet, online banking ?

## Success with worldwide, instant, convenient e-payment - without trad. Banks



Recipient's Email:

Amount:

Currency:  ▼

Email Subject (optional):

- Pounds Sterling
- Australian Dollars
- Canadian Dollars
- Czech Koruna
- Danish Kroner
- Euro**
- Hong Kong Dollars
- Hungarian Forint
- New Zealand Dollars
- Norwegian Kroner
- Polish Zlotych
- Singapore Dollars
- Swedish Kroner
- Swiss Francs
- U.S. Dollars
- Yen

## Payment with Banks

**Auftragsart**

Überweisung in ein EU-Mitgliedsland (auch nach Island, Liechtenstein oder Norwegen)

Sie können eine Überweisung an ein Kreditinstitut in einem EU-Mitgliedsland sowie nach Island, Liechtenstein oder Norwegen vornehmen

In Euro als EU-Standardüberweisung bis max. 50.000,- EUR

EU-Standardüberweisung per IBAN/BIC/SWIFT

In Fremdwährung bis max. 12.500,- EUR. Bitte wählen Sie die Angabe der Kontoverbindung

Überweisung in Fremdwährung per IBAN/BIC/SWIFT

Überweisung in Fremdwährung per Kontonummer/Bank-Code

Überweisung in ein Land außerhalb der EU

Sie können eine Überweisung an ein Kreditinstitut außerhalb der EU bis max. 12.500,- EUR vornehmen

Bitte wählen Sie die Angabe der Kontoverbindung

Überweisung per IBAN/BIC/SWIFT

Überweisung per Kontonummer/Bank-Code

**Hinweis**

Zahlungen in ein Nicht-EU-Mitgliedsland per IBAN/BIC sind in folgende Länder möglich: Andorra (AD), Färöer-Inseln (FO), Monaco (MC) und San Marino (SM)

Bitte erteilen Sie Eurozahlungen in die Schweiz nur mit IBAN/BIC

Bitte nutzen Sie für Überweisungen mit Währung "EUR", die nicht für das Ausland bestimmt sind, den Service "Überweisung"

??!

**Bitte wählen Sie ...**

- EU-Standardüberweisung in Euro per IBAN/BIC
- Überweisung in Fremdwährung per IBAN/BIC in EU
- Überweisung in Fremdwährung per Kontonummer/Bank-Code in EU
- Überweisung in nicht-EU per IBAN/BIC
- Überweisung in nicht-EU per Kontonummer/Bank-Code
- Barauszahlung
- Scheckzahlung

Auftragsart	AUSLANDSÜBERWEISUNG
Empfänger	Kruishererhotel Maastricht
Straße, Hausnummer	Kruisherengang, 10
Postleitzahl, Ort	6211, Maastricht
Landeskennung	NIEDERLANDE <span style="color: purple;">country 4x !</span>
IBAN	NL 21 51 00 06 08 05 68 91 5 <span style="color: purple;">26 digits !</span>
BIC	INGNL2A <span style="color: purple;">bank 3x !</span>
Kreditinstitut	ING BANK N.V.
Straße	
Ort	AMSTERDAM
Landeskennung	NIEDERLANDE <span style="color: purple;">country 4x !</span>
Betrag in Auftragswährung	50,00 EUR
Zielwährung	EUR <span style="color: purple;">only EU/Euro !</span>
Verwendungszweck	Invoice V 838 gift certificate <span style="color: purple;">limited text, in fixed lines !</span> KHIM0528
Buchungstermin	30.04.2007
Entgelt- und Kostenregelung	SHARE-Zahlung; Kostenteilung; greift für EU-Standardüberweisung in der Regel nicht. <span style="color: purple;">??!</span>
Verwendete TAN, laufende Nummer 189	204960

... and it takes 3 days !

## EPC Answer: Find "best" ePayment solution for European Banks

- Top-down analysis (scenario/attribute/scoring)

Scenario	Attribute	Scoring	Weight	Score	Rank
Scenario 1	Attribute 1	Scoring 1	Weight 1	Score 1	Rank 1
Scenario 2	Attribute 2	Scoring 2	Weight 2	Score 2	Rank 2
Scenario 3	Attribute 3	Scoring 3	Weight 3	Score 3	Rank 3
Scenario 4	Attribute 4	Scoring 4	Weight 4	Score 4	Rank 4
Scenario 5	Attribute 5	Scoring 5	Weight 5	Score 5	Rank 5

- Bottom-up survey (real success/market)



- + US (NACHA's SVP), Canada, China, ...
- + ICPNO/GPNC Global interoperability

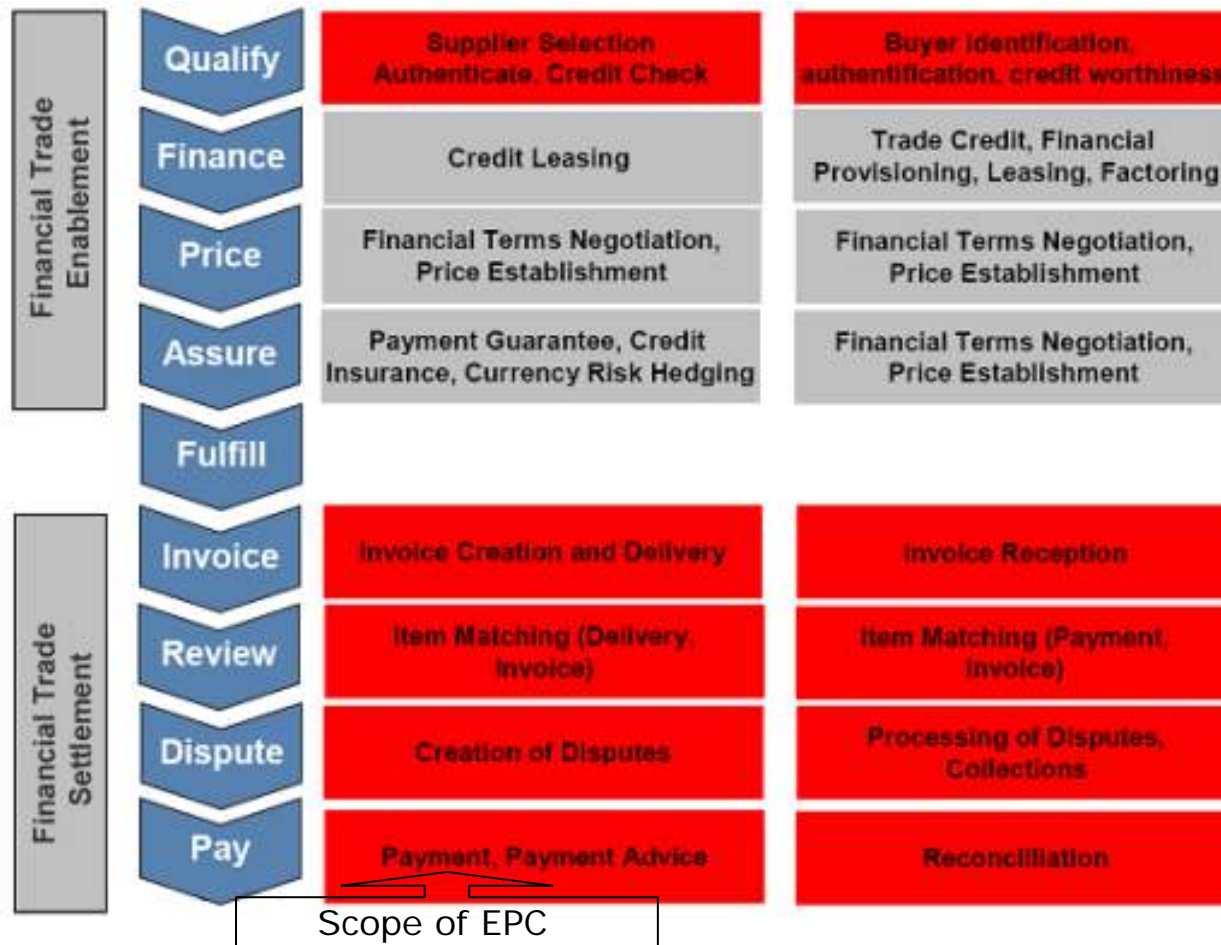
## Good news !

- Not: replace existing infrastructures
- Not: demanded by authorities
- Not: bank-bank internal scheme
- Not: mandatory for all
- But:
  - **enhance existing infrastructures**
- But:
  - **pro-actively created**
  - due to **market demand**
- But:
  - **bank-customer**
  - **value added service**
- But:
  - **voluntary/optional**

**Is there something even better ?**

- **Killer application around Payments ?**

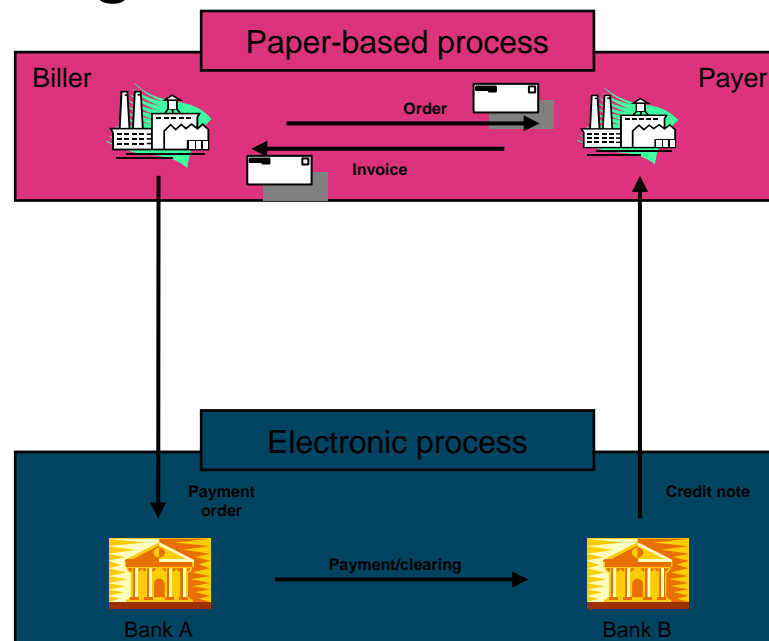
## Customers want more than Payment - Financial Supply Chain



## Business Significance of eInvoicing

- 97,5% of all invoices worldwide are paper-based
- => very cost-intensive process
- Possible potential for cost reductions per invoice
  - for Biller approx. € 5
  - for Payer approx. € 30 (on average incoming invoices are copied 7x, are forwarded 5x by internal mail, ... !)

[Source: EC, CAST, Billentis, ...]



x 27.000.000.000 invoices annually in Europe

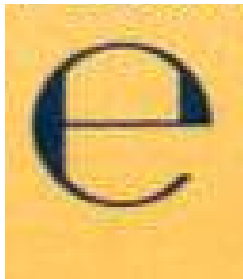
= >100 bn\$/year savings in EU

## Major Thrust of European Commission on eInvoicing

- EPC declared eInvoicing out of scope (charta = core payment services)
- European Commission sees eInvoicing as
  - part of „Single European Electronic Market“ vision
  - >100bn€ p.a. contributor to European competitiveness (Lisbon Agenda)
- Actions:
  - Lead: DG Enterprise & Industry + DG Internal Market & Services, DG Taxation & Customs, DG Information Society & Media
  - Expert group on eInvoicing selected 12/07 by EC
    - members based on representation, expertise, ...
  - Goal: Create Roadmap for the European Electronic Invoicing (EEI) Framework by end 2009
  - To have powers and remit to recommend regulatory incentives
  - Barriers to be addressed:
    - Business Requirements esp. for SMEs
    - Legal esp. tax/VAT
    - Network & Standards

## When is a Standard not a Standard ?

- Define what it is
- Define what it isn't



## When is a Standard not a Standard ?

- Define what it is
- Define what it isn't



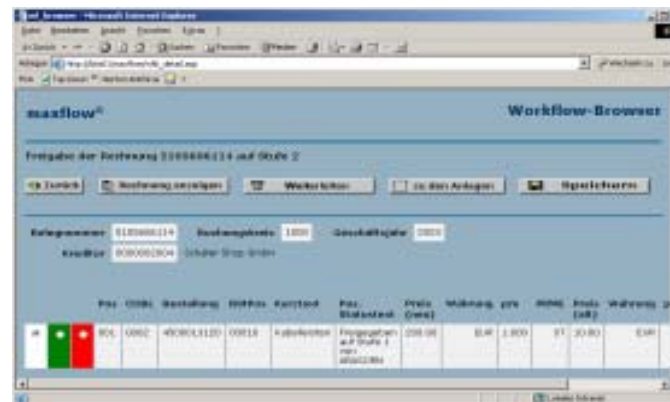
- MEPA – 155 SCT „sub“-standards
- Invoicing „standards“: EDI, Edocs, SWIFT, UN/CEFACT TBG 1/11/5 CII , ISO20022, ACBI, GS1, XML, DigSig, Industry-specific standards, Rosetta, Finvoice, Swisssdigin, UBL/NES , TWIST, ...

## eInvoicing integrates in Online Banking/Corporate Banking

- Open bills shown in Online Banking (B2C)



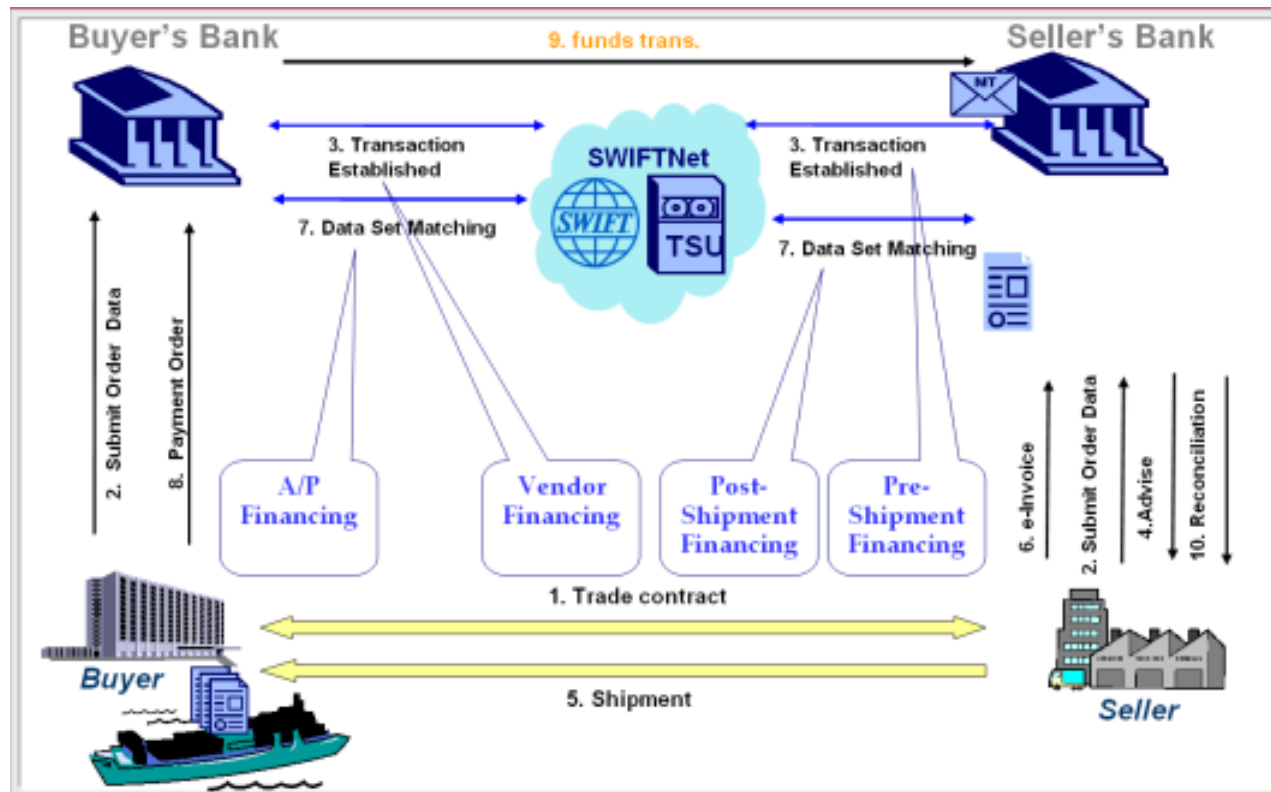
- Open bills shown in ERP System (B2B)



- Payment authorisation, archive, workflow, ... all integrated in standard process

## eInvoicing allows new Business Opportunities for Banks along Financial Value Chain: Trade Financing ...

- SWIFT TSU, ICBPI Model



## What about longer-term Payment-based Innovations ? Hopes for the future ...

- **ID/authentication**
  - Biometrics ? SSO with “myself”:  
password lists, eID, trust services, PIN,  
TAN, ePassport, eHealth/Insurance/...-  
cards, 3D-secure, CCV, ... - consolidation ?
- **Cluster analysis of data content**
  - Not at personal level !
  - Observe privacy !
  - E.g. VocaLink Take-Home-Pay index
- **Others ?**

## Summary

### Innovations are the key to the future

- New revenue streams – ePayments, novel cards, ...
- Differentiation esp. in commodity markets  
- like Payments
- Integration in value-chain of customer – eInvoicing
- Prepare for paradigm shifts – leverage SEPA infrastructure
- Reduce risk of investments – avoid hype e.g. mobile
- Attract new/different employees

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