

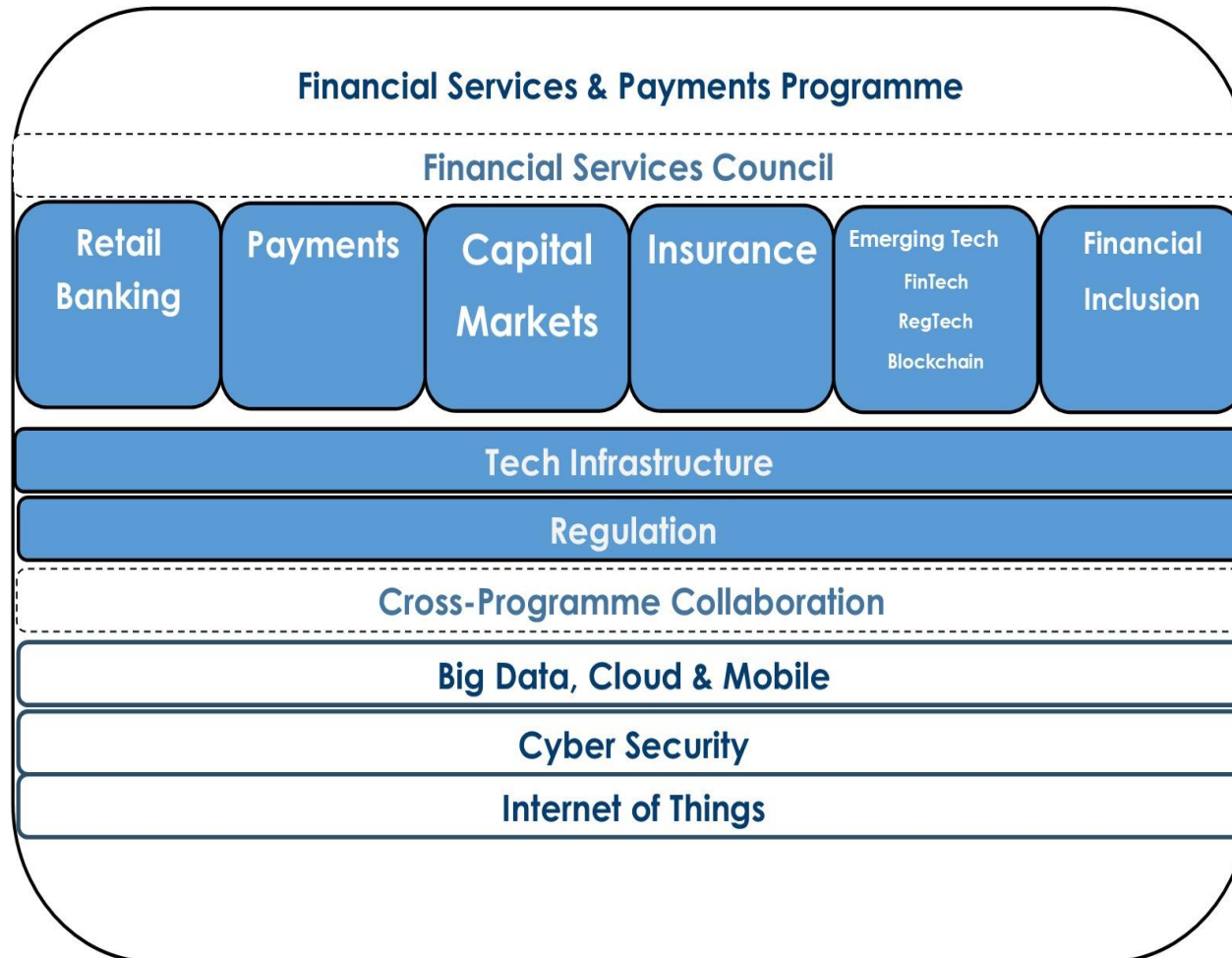
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Customer expectations leading the way

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tech^{UK}





Objectives

- Ensure regulatory/policy issues affecting the FS industry are developed with knowledge of the capabilities of new technologies
- Creating market opportunities for the technology industry
- Provide a forum for all parties to address what is a shared technology challenge

- New technologies leading to upheavals in provider landscape
- Industry in search of solutions
- What does the end-user want and is it being delivered? - examine 2 major end-user sectors: retailers & consumers
- Regulation and what it has achieved
- 'Mobile' – a payments revolution?

UK Govt Office for Science report 'Fintech Futures', March 2015:

“Fintech is as much about innovation in business models as it is about technological innovation. Technology is changing customer behaviour, which in turn, is leading to reconfiguration of business models.”

Payment providers: Where are the key battlegrounds?



- Utility provider in a "fur-lined rut" vs. "technology organisations"
- Regulators: seeking balance amongst disparate values

Traditional players	FinTech players	Regulators: difficult balances
Regulatory expertise	Nimble and agile	Competition v standardisation
Customer base	Innovative	Innovation v stability
Deep pockets	No legacy system issues	Security v ease of use

- Innovation units/accelerators/incubators/hackathons
- Robo-advice – an example of FinTech exploiting a gap in the market

Retailers: who are they?

Many different sectors with differing needs – all overlap!

- Face-to-face: Large bricks & mortar supermarkets; electronics; luxury goods
- Web-based: online supermarkets; small niche-market players
- Vending machines; parking; petrol

'The' consumer: who is 'today's consumer-user of payments'?:

- Older people who want to use bank branches /pay by cheque
- Lower-paid/unbanked – need a means of electronic payment
- People who just want to use cash
- 18 year old who wants to split the bill for a pizza meal with his freinds
- The executive who pays for luxury holiday with gold Amex card
- The parent who wants to send his child money for a taxi at 2am
-the list goes on.....

User needs - summary

Retailer needs	Consumer needs
Security - trust	Security - trust
Cost of card acceptance!	Mainly unaware of costs ... except... surcharges – universally disliked!
Freedom of choice on which payment types to accept – because of cost	Availability – accepted everywhere. Should be able to use preferred payment type online/offline/across borders
Speed at checkout	Speed at checkout Browse/shop/compare/buy
Payment guarantee	Refunds/chargeback
Time to receipt of funds	Rewards: Consumers like reward schemes/ loyalty points etc – want easy experience
Cost v benefit of investment in new payment types	24 hour shopping 'tech' should be easy to use

For retailers

- Real benefits? – ‘yes’ and ‘no’
 - Depends on country
 - Credit yes; debit not so clear
- Obtaining full pass-through – hold-ups with acquirers?
- Transparency – merchants not using unbundling (must be offered from June 9)
- Increased scheme fees (caught by non-circumvention?)

For consumers

- Lower prices? – no
- Reward schemes – reduced or removed
- Surcharges? – varies by member state but in some countries, still high.

→ *Lack of understanding !*

Legal basis : competition law

- Regulation arose from decade-long competition cases (Visa settled and MasterCard ran all the way up to the European Court of Appeal)
- Designed (by DG comp) to address those specific breaches both at EU and member state level. This determined the scope and content i.e.
 - caps restricted to 4-party model (and 3-party within agency arrangements)
 - commercial cards are not included – market heavily 3-party providers
 - caps interchange fee, not MSC

Result:

- Still early days but unlikely that Regulation will achieve aim of reducing cost of payment systems for end-users.
- Yet, Commission review in 2019 – specifically will look at pass-through of benefit to consumers.

- Acceptance of smaller merchants (enhanced credit risk analysis);
- Simpler gateway technology for online payments (Stripe's USP);
- Better transaction data provided by gateway
- Link to loyalty schemes – bundled services to customer
- Card scheme disintermediation – Seamless, Zapp; payment initiation services.
- Lower use of cash
- Speed at checkout

BUT

- Lower cost?
- Large merchant take-up?

Customer intermediation and ownership:

- Apple Pay, Samsung Pay and Android Pay;
- Wallets which rely on other provider cards (e.g. PayPal);
- P2P – Dwolla, Venmo, Snap cash are providing;
- New payment intermediaries – e.g. portals (Amazon) and specific service platforms (e.g. Uber).

BUT

- Widespread take-up? Does it deliver a better service?
- Limited reach/useability
- Too many apps?

Future thoughts: cashless society within 20 years?

- Shift in payment *channels* according to:
 - What you are buying
 - Where you live
 - How old you are
- Plethora of apps with some useful features
- Electronic payments business models much slower to change - widespread take-up for merchants & consumers wd require greater benefit in cost or service level
- PSD2 likely to have greater impact than MIF Regulation
- P2P models likely to lead the way
- Will evolve via PSD2 models to wider markets?
- DRIVER: instant payment – removes wait-time and fraud risk

