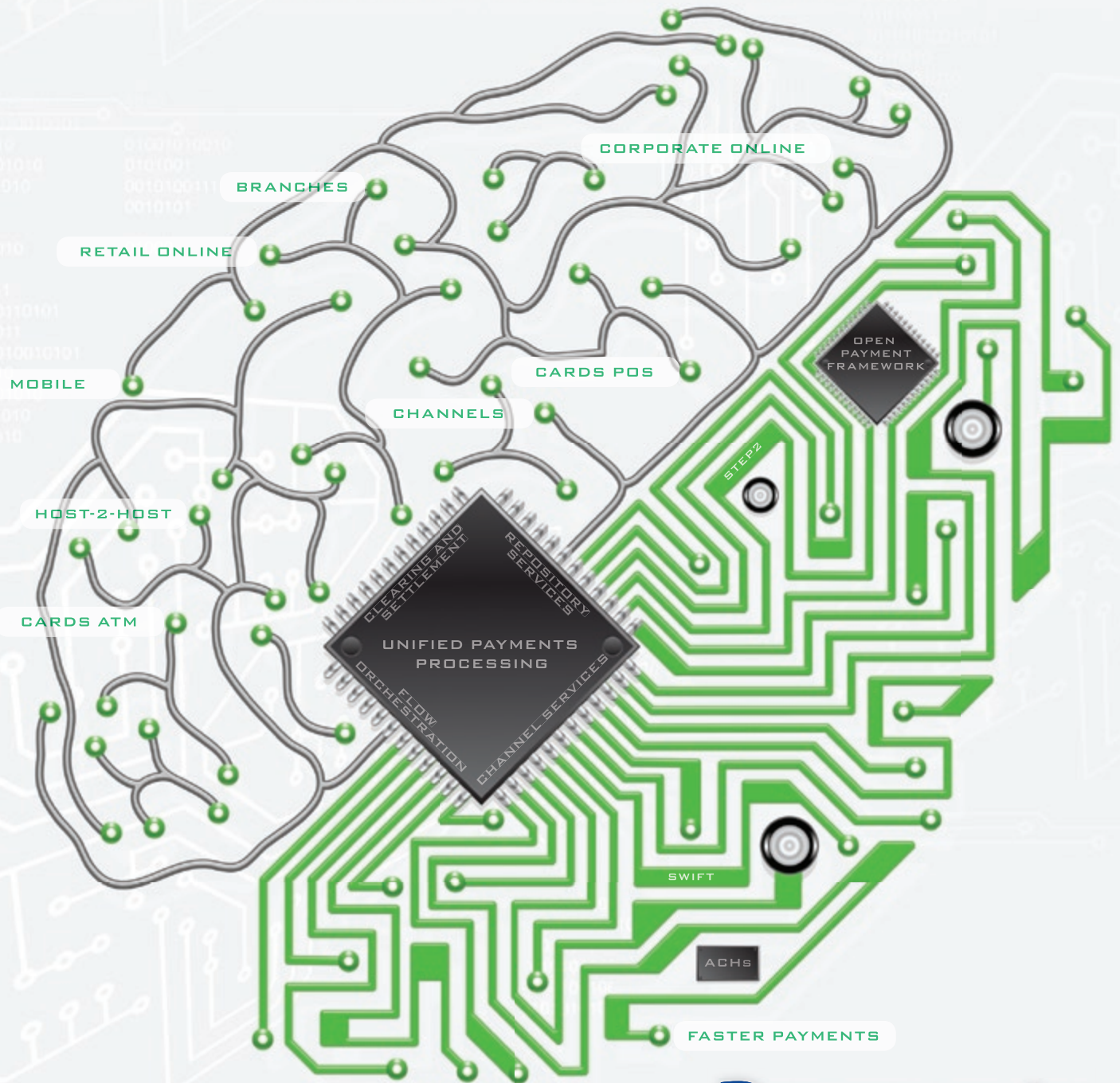


roundtable

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The payment hub way for card payments processing



Payments

CARDS&MOBILE

Moderation



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Late summer 2011, a group of card experts met at Clear2Pay's new Amsterdam offices to debate the value of payment hubs for cards processing in the light of the convergence debate.

Are cards truly so special they need to keep their silo, where other payments types all congregate in payment hubs to be processed 'side by side'?

Is the specific real-time nature of card processing too costly and too much of a burden for a multi-product payment hub?

What is the benefit for banks and other card service providers if they bring processing platforms together?

Here is what the experts had to say.

Conny Dorrestijn (CD): So, after our introductions and the briefings we exchanged in the run-up to this round table, let's cut to the chase: are cards different, unique or just another payments type?"

Gareth Lodge (GL): "About ten years ago there was quite a famous speech by Richard Patterson at Sibos, that said 'Actually a Payment is a Payment is a Payment'. If you break down a payment to its fundamentals, it has a value, a date, a currency, a sender and sendee. It has specific bits of information within that. So why are we treating each and every one in a different way in a different set of silos replicating all these functions?"

Diederik Bruggink (DB): "If we go into the core basics of 'A payment is a payment is a payment', I think you can look at it that way, but the first key differentiator between a card payment and a regular or traditional payment is that a card payment can be done all over the world, it can be online over the web, it can be over the air by phone or it can be at the point of sale. The second differentiator, and this is getting more and more important, is the payment guarantee provided by the card issuer to make sure that the retailer gets his money after the transaction takes place."

John Delaney (JD): "Looking at the questions on the way over to Amsterdam, I realised that from my point of view cards aren't different at all. You say a payment is a payment is a payment, at the core it is. That is all a card does, it makes it a bit more flexible, but it is actually just a movement of money from A to B. You mentioned the word guarantee. All of us in the credit card area hang ourselves up on the guarantees. You have got a debit card with a PIN that really is a cash equivalent. Where I am working, a major form of payment at point of sale is data on a debit card being used to generate a unguaranteed, unauthorised, absolutely risky but workable direct debit. Basically the card is representing a unguaranteed cheque."



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GL: "I think you need to separate the guarantee and the settlement. The settlement can take place over a longer period of time, but I think it's entirely agreed that real time is the individual item."

Andy Makkingje (AM): "I think the biggest difference between Cards and Payments, lies in the fact that the rails on which the card networks run, basically MasterCard and Visa have direct access to all the banks and therefore direct access to all the accounts of the card holders which is the key factor. And these two companies set the rules on which you can run on the rails, and if you differ from that you are not allowed to use these rails. And therefore the business model behind cards and behind payments is completely different from this perspective."

Alex Rolfe (AR): "Coming back to the payment is a payment is a payment, I am in agreement with that because this seems to me just a way of accessing my money, and for a merchant another way of accepting money, but it is just money and is going to remain the domain of the banks."

Warren Gardiner (WG): "I think in reality card payments are different, unique and also just a payment type. In terms of being different there are some obviously unique characteristics about card payments that some of the other payment types within the industry wish they had- like global reach. And the service levels in terms of what customers expect is also unique. But once you get past the point of delivery and inside the bank it's just another payment. And while everybody focuses on the online aspects of card payments there is also a significant back end processing element to card payments too. Once you get beyond that online service level dynamic they just reduce themselves to being another payment inside the bank."

CD: "How does the impact of mobile technology change things?"

JD: "Well I know that if it's mobile everybody wants to get in on it. It's the sexy thing that you do and it rejuvenates the card space".

WG: "In the last 12 – 18 months I have seen more activity in the market place around mobile and cards than we have seen in the

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last 15 – 20 years, everybody talks, experiments and no one is sure where it leads. It comes back to the questions, what is a card payment, if it is carried out on a mobile, does that make it more or less of a card payment?"

AR: "A lot of the mobile payment conversations I have been involved with have a great idea and 'we can disintermediate this and that', and then they go 'how are you getting the money into the system' 'oh well we get them to load it in with a debit card'. Okay some of those transactions may get disintermediated but fundamentally the funds have to get onto the device whether its mobile or whatever and they tend to be loaded from a bank account so that's a payment which is going along the original rails."

AM: "There lies a big challenge for mobile operators, for the PayPal's of this world, who felt so strongly and have got such a strong position in their current niche, because when it comes to card payments there is a market dominance from those two parties – Visa and MasterCard - and maybe in the future four parties."

This is what I feel the problem is for this new market entrants and mobile operators. The volumes and customer satisfaction of the card players and the trust their brands carry are not easy to overthrow."

Jim Woodward (JW): "The interesting thing about Google is, whereas other cards business cases have been predicated on interchange or cheque replacement, Google argues there is more to the payments experience than just the interchange, there is the whole loyalty, discounts, shopping experience. And look what they did to Nokia in the space of three years, could they do the same in payments?"

AR : "I don't think Google are going "let's have a go at the banks on payments", they are just looking at a better product for their consumers."

Gerard Scheepens (GS): "I think what you are referring to is trust. Customers will ask themselves 'Am I sure that money will be in my account can I use it.' And that is where banks are going to come in, because you can have Google for IT companies, but the trust in personal finance is just not there."





GL: “The payments world is having to make technology changes because of regulation updates. I am wondering whether mobile is the equivalent of regulation for cards, because it could force the banks to make technology changes.”

CD: “Which takes us onto the next topic – replace or innovate? Would you be in favour of replacing a card processing system or a switch and at which point would it become interesting to really innovate and look at the broader scheme, say the payment hub way?”

“ We take the view that a Payment Hub is not just a driver for allowing card organisations to be more adaptable, it is a driver for the whole bank to be more adaptable to constant change. ”

AM: “In some cases ‘replace’ - look at Monnet where the banks want to add another scheme into the market – and they want the same as Visa and MasterCard.”

GL: “I think this is a rhetorical question, but if you can’t replace the things you don’t control, will you replace the things you do control? Like the back end processing that sits within the bank, because that is where you can potentially make additions or at where you at least have the option to go future proof and unify across the payment types.”



GS: “Why should you have separate card infrastructure and a separate payments infrastructure? Combine the two. The client has one payment account and in the end all those transactions come from that. For that reason we should keep the internal infrastructure very simple, very lean and low cost.”

AM: “That is a valid point, but there are two basic demands, one that it should be very, very cheap and two processing systems must be very, very stable. That’s it, and if you can match these two you are in business.”

DB: “All true, but I think banks will say: ‘if it is not broken why fix it?’”

CD: “But it will break eventually.”

WG: “Indeed, it will break. If you look at some of the banks that are actually moving in this area they very concerned that the systems that they have got in place now are 20 years old. They therefore argue if they still want to be around, given the attrition that there has been in the last 10 or 15 years, their infrastructure has got to be such that they can react to change. About eighteen months ago, who would have predicted Google Wallet, Square, Groupon? And we take the view that a Payment Hub is not just a driver for allowing card organisations to be more adaptable, it is a driver for the whole bank to be more adaptable to constant change.”

GL: “Many banks see Payment Services Hubs reducing their processing costs, improving their speed to market and understanding their customers better. The ultimate approach is to say let’s standardise the front end, let’s rationalise the clearing, the settlement, but let’s start trying to do something more interesting in the middle. Why do we need a fraud system for each and every card product let alone each and every different payment types.”

WG: “One of the top 25 banks globally has made a significant decision to invest in a large cross group real time fraud detection system. They then said why do we need to do this just for cards so they are now building a large service infrastructure purely for fraud detection across the group. And that decision alone has almost become a catalyst for them to re-engineer, because they looked at their current infrastructure and in the current scheme they had no logical place to put it.”

GL: “Banks are starting to retire some of those legacy products and bringing it into this Payment Services Hub. And this is perhaps the nirvana, where everything is done centrally, where it is only touched once, and you can start doing all sorts of interesting things. Not only are you making redundant some of these systems that are old and ancient, but what you are doing is having a view of a payment wherever it is in the process, so you have got a single source of truth and you can start utilising that data better. But equally you are making sure that the legacy set of systems are doing what they were designed to do and nothing more.”

CD: “You all say that ultimately the future of card processing lies in hubs and unification. So if that is true and you represent the card and payments space, who is going to make it happen, who will take the lead? And with that I would like to thank you all and invite you for a next debate where we will tackle that very talking point.”

Note: read more on card processing and payment hubs by downloading the white paper from the Payments, Cards and Mobile website.