



# The new world

In September, *FStech* and Elavon held a roundtable which focused on contactless and mobile payments. *FStech* Editor, Scott Thompson, brings you the highlights

**WC:** I'll kick things off by asking Paul, who is representing our sponsor Elavon, to tell us a bit about what he is hoping to take from today?

**PC:** My role within Elavon is product and solution development, in order that we can deliver payments products into an evolving market, so part of that is understanding where the industry is going, the issues it is facing and the things that can relieve the painpoints. So for me it's about trying to get a broad view on what the wider community thinks of this from a technology and a risk and security point of view.

**WC:** OK, the first topic for discussion. Contactless payments...my insight into this space is working for RBS when Faster Payments came in. And the Faster Payments SLAs were fairly stretching in terms of the numbers of outages you were allowed with this new service. To be honest, I don't think people who supplied the Faster Payments service had syndicated enough in terms of what installations had to do on a week by week and month by month basis in terms of meeting that SLA - i.e. everyone needs maintenance slots and have disaster recovery which didn't fit in at all with the Faster Payments SLAs. So I'm really interested in hearing what that will do to target operating models in terms of speed, capacity and performance. That's my take on it and perhaps we can go around the table?

## Attendees:

Wil Cunningham, disaster recovery consultant, Lloyds Banking Group (chairman)

Rob Holman, Consultant

Paul Rodgers, Chairman, Vendorcom

Paul Clarke, VP Global VAS & E-commerce Solutions, Elavon

Simon Barrows, Business Unit Architect, Lloyds TSB

Simon Burrows, Director, PricewaterhouseCoopers

Stephen Murgatroyd, Business Systems Designer, BCS

Ramzi Musallam, Consultant, Greatpark Consulting

Mark Silverstein, Deputy Head Legal Global Transaction Services EMEA, Citi

David Treite, Tax Director, US Tax and Financial Services

Marcus Watzlaff, Group Internal Model Director, Legal & General

**SM:** It's interesting you mention performance and availability. I was at a meeting last night and there was quite a famous pundit in attendance who advises companies about their contracts. And he mentioned a client who was losing money so he looked at their contract - they had signed up to supply 99.9 per cent reliability and he asked them if they knew anyone else who was able to achieve that. The answer was no. Well, that's why you're losing money. It begs the question regarding speed of delivery, to what extent do we raise the expectations of the public in terms of the speed in which things can be delivered? And is that translating into SLAs which are unachievable and therefore unenforceable.

**SBu:** To me, there's a split here between the benefits to the financial sector and the benefits to the consumer, or the merchant and retailer. With contactless, it's being driven the wrong way around, retailers and merchants are not that keen on taking up contactless because of the need to upgrade their terminals, educate their staff etc, but if they could see the benefits of getting more customers through the tills quickly, it would be a no brainer for them. But we haven't got to that tipping point yet where the right kind of incentives are in place to make that happen.

**PR:** This sort of thing is completely dependent on the retail market sector, so we've seen the food service sector begin to adopt contactless - e.g. EAT and Pret. And more recently we're seeing more enlightened projects happening, like with McDonald's where they rolled everything out within just a few weeks. But even so, the reality is that whether you're talking about a six or 44 second transaction, if the retailer hasn't geared up to sort out the process by which you pay when you're physically in the shop, it doesn't matter what innovative payment approach is available to the customer, e.g. mobile/NFC, contactless, etc. If they have to queue behind the person who is fiddling around with their cash or 'slow-card', all the advantage of the innovation will be lost. Essentially the checkout process needs to change where, for example we might have a single line for contactless, single line for cash and so on.

**WC:** You're talking about a streamlined target operating model for the retailers, otherwise it's pointless.

**PR:** Yes, this isn't about technology, or speed of transaction: there is no cost associated in the banking and financial world with making a retail payment transaction faster. There was in faster payments where you were looking at where the money was sitting. It doesn't make a difference to the bottomline of financial organisations. If it does, maybe the financial sector is in a worse state than I thought! But until the retailers can streamline things, this doesn't stack up.

**MS:** It does seem like someone has built a Ferrari but the roads are full of potholes. Here is something there which can go really fast but what are you going to do with it?

**WC:** That's the ultimate question: what will the consumers do with the free time that comes from the transaction being faster?

**RH:** That leads in to my next point. There is a business impact with this as there are aspects of reliability, security, performance and speed and the client experience. If it's done in a wrong way, you're not going to want to return to that environment, are you?

**MS:** Yes, that is the flipside; it's quicker but that creates fraud-related risks which may not always be counter balanced by the advantages of quicker transaction speed.

**SBu:** There was a slow adoption of faster payments as it was a bank driven initiative and there wasn't much initial awareness raising. I use contactless whenever I can and I've had two bad experiences both due to staff training issues. One where the staff member told me I had to enter my PIN and I had to explain to her that I didn't, so her supervisor was called over and that held up the queue. The other was when I was double charged for a sandwich. And it was only when I got my statement I realised that. It was only a couple of pounds so I didn't try to get my money back, but I wasn't very happy.

**WC:** Do the likes of Elavon believe that people will make more payments because they will have faster experiences at retailers and therefore more time to shop?

**PC:** I'm not so sure. From Elavon's point of view we're not an issuer, we're purely an acquirer. The benefits outside of other things coming down the track that might save contactless, such as mobile, are around taking cash handling out of the business as opposed to the speed of transaction. We're fairly agnostic to some extent - it doesn't drive our business because we haven't seen a tipping point when it comes to contactless.

**PR:** There are real positives, we just need to put them in context. Look at McDonald's - they rolled out contactless nationwide in a matter of weeks. They have a compelling contactless proposition. They have trained their staff, they have the PoS material in place, and they have ensured that the technology fits with customers' payment choices. As we start to see other retailers like SPAR and Boots move forward with this, it can only be a good thing. But in many situations it just isn't appropriate - for many retail sectors, staff turnover is huge and the costs associated with training staff members in new technologies is too high. We could find that contactless payments is one of the shortest lived payment technologies if NFC/mobile comes in as quickly as many predict.

**DT:** If this is actually saving the financial sector and retailers money, would it not make sense to pay the consumers to use it - a volume discount or something like that?

**RM:** If I could come back to the point Paul made earlier, retailers now have to have two models in place - the cash handling side and the grab and go side. For the customer if it saves them six or seven minutes out of an hour lunchbreak, it's useful to them. But you need to have a separate section for it - it's almost as if there is a vending machine side of the business alongside the human aspect.

**SBu:** I wonder if one of the barriers is the card value chain, that you have so many participants from the scheme, issuer, acquirer, independent sales organisation, all of whom have slightly different objectives and areas they are heading in. Ultimately, adoption of this technology requires them all to co-operate, but that's one of the barriers that I see coming out of this discussion.

**WC:** I'm not hearing a lot of benefits coming through.

**MS:** You have to get a critical mass. From my perspective, if everyone had one of these cards to buy a sandwich, newspaper etc, it would be great - it would cut out the need to carry notes and coins. But until you have a critical mass of merchants accepting contactless cards, it doesn't make that much of a difference.

**SM:** It sounds like it will be a slow burner. I don't think it will die out as NFC has a greater technological dependency. But it will take time. We've been talking about the cashless society for a couple of decades and that's not going to happen anytime soon. At the moment it's a solution looking for a problem and many people don't have that problem - cash works for them.



**PC:** Is there a distinction between debit and contactless cards? The jury's out on that for me - is it much less painless to use a contactless card rather than a debit card?

**PR:** The retailer has to be convinced of the messaging around this but in reality the messages aren't entirely clear. Raising the amount to £15 was a good move but we've been telling people for years they need to put in a PIN number, now we're saying you can wave and go. The industry needs to look at how it deals with messaging at different levels. The cards and payments industry's messages that cash is dead is utter nonsense. The industry does itself no favours by claiming otherwise. Cash will be with us for many years to come and has a big role to play.

**DT:** Look at the London bus driver - he almost carries no cash at all today. That's because we have given choices which included discounts.

**PR:** Oyster is a great example of swinging huge parts of the business into cashless payments. Why can't we nudge along in other areas and do similar things around cheques, for instance, rather than issuing silly statements like 'cash is dead' and saying that cheques will be phased out by 2018?

**WC:** Moving on, how will technology within the financial sector be affected by the emergence of this new payment technology? From personal experience, we had a lot of fine tuning with faster payments and I would imagine that this will be exactly the same.

**SM:** Faster technology wasn't something the banks wanted to do, it was a government policy. With this I don't know what the driver is.

**SBu:** It's about trying to capture the lower end of transactions where people use cash and if the card acquirers can take a slice of that, it's the key attraction.

**SM:** Might there be a capacity issue if everyone started using these cards? Although there isn't going to be as it will be a slow burner.

**PR:** It's a self-limiting thing with contactless - it does max out at £15 so it's not as if the whole of the cards and payments transaction side is going to be taken up by that. In terms of payment terminal deployment it's a fraction of what was required for chip and PIN deployment and that went through relatively smoothly for most people. For a lot of situations, the basic EMV infrastructure put in place for chip and PIN over the last five years allows people to put in a separate contactless reader that

interfaces with the PoS or very easily upgrade their existing PoS terminal. Don't forget that McDonald's changed their entire estate over in less than five weeks.

**MW:** But can the banks lose more money more quickly, more chance of fraud? Isn't there a threat there?

**PR:** Not with contactless. Most issuers have very good fraud analysis systems - the risk controls are very good.

**RH:** I'm of the view that, take the LINK system which works particularly well with ATMs, whatever system is rolled out here the banks have to give this a great deal of thought, a single joined up system fully understood by the banks, the technology needs to be communicated to the end users so they can see the pitfalls and benefits from the word go. That way, they can see it's a rock solid system that is fast, reliable and then presumably adopt it over other systems that are seen to be more at risk, slower etc.

**SBA:** In terms of the IT impact to banks of managing contactless cards, there are a couple of angles that haven't been covered so far: the whole servicing proposition from an internal colleague and a customer perspective. For example, if I'm a customer and I'm doing transactions on my card in both contact and contactless mode, do I expect to see a differentiation of those on my statements? How do you differentiate the contactless transaction for internal MI? If there is a problem with the card, how do you handle that from a servicing point of view in relation to colleagues in contact centres? Most of our focus has not been on transaction volumes but on how you put the whole servicing model around the contactless transaction and do it in a way people understand. When we get into mobile, things like that become even more prevalent and there are definite synergies.

**RH:** By way of example, with my Oyster card I recently logged in to find that all my transactions had been wiped and no one was able to give me a satisfactory explanation as to why that had happened. Something had made my card void and the system had reset it.

**WC:** We are drifting into the area of security which is good as the next topic up for discussion is payments in a mobile world. With both contactless and mobile payments rising to prominence in the industry is there a need for two similarly placed technologies? Or will one displace the other? What information security concerns will arise anew if mobile becomes a common form of payment?

**RM:** It's interesting that the companies who have been at the cutting edge of facilitating mobile technologies and banking applications are now offering cash wallet apps for mobiles. These early teething problems that have been mentioned around contactless, people are reluctant to trust these new technologies, so by the time there is that level of trust and a critical mass the mobile solutions, such as those offered by Monitise, should have the teething probs ironed out. As people do so much on their phones, I suspect that they will trust mobile transactions more than cards.

**PC:** I read an article recently about a survey where people were asked who do you trust more: Visa, MasterCard, Apple, Google etc? And Apple and Google came out way higher than Visa and MasterCard.

**DT:** It's a balance though - you get to the kebab shop at midnight and your battery might be dead on your mobile so cash becomes a lot easier.

**SBa:** In the same way as cards never completely replaced cash, nor will phones replace cards or cash for all users in all scenarios. It will always be horses for courses. We need to be able to accommodate the different models and give customers the choice what they use when but do so in a way that is joined-up and efficient.

**RM:** We've all been told to be wary of skimming devices so what's to stop people being wary of contactless cards in this regard?

**DT:** It's all counterable by good PR - if the bank lets you know that it has fraud prevention working in the background.

**PR:** We do see a lot of scare stories in the press, largely aimed at card issuers, acquirers, and technology providers, who, in turn, have been largely ineffective at delivering positive messages. Cards and payments is at the heart of the national infrastructure and if we tried to continue on without its robust structure, we'd last less than a week because we simply can't rely on just cards and cheques.

**RH:** And how do you trust the apps you have to download? If I download a fast payment app, how do I know my money's not being siphoned off to a mafia gang in Armenia?

**MS:** If the message regarding the benefits of contactless cards is not getting across, think of how difficult it will be to get across when you're using mobiles and NFC technology. Then it will be a

question of, who's going to be delivering the message - the banks, the infrastructure, the mobile phone companies?

**SM:** There's an interesting point here. You mentioned Google and Apple earlier. Once you start using your phone as a medium for making a payment, why do you need a bank at all? Your payments can appear on your mobile phone bill and all of a sudden your financial life has moved from your bank to your cell phone provider, disintermediating the banks (again) and leaving it as just a repository. That's a huge paradigm shift.

**RM:** It's all about the brands you trust. I trust Amazon, for instance. And it's also about peoples' perceptions of technology and how they interact with it. I think they're quite savvy.

**PR:** This discussion brings up an interesting scenario. With the exception of the two ladies at the end of the table (NB: Sonia and Emma, FS<sup>tech</sup> sales ladies), we are a bunch of boring old farts. If I say to my son, 'I've sent you an email, he says, 'I do Facebook Chat or text, end of!'. We're talking about email but it is so last century. Young people are not even having this debate; they are on Facebook and so on and they are communicating and looking out for one another on a whole different level to us. In the same way we can't think in the way that the fraudster thinks, we can't think how the Facebook Generation thinks.

**SM:** Your kids have got more trust to give as well as they are simply less worldly.

**PR:** The problem is we don't know where to start when it comes to telling kids who to trust in terms of social media and mobiles. I was talking to the guys at Amazon Payments yesterday and what they are bringing to market is so tuned into what we're talking about. It's a million miles away from the legacy cards and payments world.

**MW:** The worldwide web is to blame. The minute we opened that Pandora's Box, and we did it for well meaning reasons, trust around the world evaporated.

**PR:** But it's maybe a good thing as in some ways we're getting back to what society used to be like where everyone knew everyone's business. As kids are telling each other everything, they are looking out for each other. It's bringing mutual accountability back into things, not just relying on the police, teachers, social services, etc.



**MW:** We've got 30-something politicians tweeting. If we can turn that sort of thing into a form of encrypted payments...

**WC:** We're now onto the last topic of the evening, payments in the cloud. Have emerging cloud-based payment services, such as Amazon Merchant Services, led to a simplification in the payment process? Or has the process been made more complicated from a banking point of view?

**MS:** I'm not sure if it has made any difference in terms of what the banks have had to do since the key differentiator for banks is the front end experience for clients.

**WC:** Everytime I use Amazon, it's a fantastic experience.

**MS:** But for the banks behind the scenes, it's another way of payments going through and processing it, but is it any different to what's gone before?

**SM:** Going back to the drum I was beating earlier and mobile customers no longer needing banks, Amazon's a good case in point. Most of that presumes you are using money to make the payment. When I talked about this earlier, I meant not just the banks who could be disintermediated but sovereign states also, because there is really nothing to stop Google or Amazon issuing their own money.

**MS:** In a way, they already do.

**SM:** Yes, that's true. But there's nothing to stop them going a lot further. It becomes supra-national money mediated through international telcos.

**MW:** You would need a licence though, wouldn't you?

**SM:** Not really - what's to stop you saying you want to pay for something with your Air Miles?

**PR:** We already have Facebook Credits.

**SM:** It's built into the original question that what will be passed down is old money and it might well not be. This goes to the heart of what we deem to be money, which is merely a trusted medium of exchange.

**MS:** My question is whether merchant's e-money will only ever be used to pay for games and the like?

**WC:** Whenever someone tries to move into my area of the

business, I ask them: does that mean you will be accountable for the business experience and impact in area you are moving into? And that leads me to the question: should data become lost during the payment process from a cloud-based service, with whom would accountability lie? The merchant, the host or the bank? Because someone has to carry the can.

**MS:** Just because it's a cloud-based service how is that different from a non-cloud service? You still have the data moving around different places, with different entities responsible for it but that's just a different form of what happens today.

**SM:** Financial responsibility won't shift. The bank might sue the cloud provider but the retail customer is going to sue his bank.

**PC:** Unless that cloud is Amazon then you have to ask, where do they come in and what does that mean to the business model if they are going to come in as intermediates?

**DT:** It moves us on to the next point and that is geography, because if Amazon is based in the States or some offshore environment...

**WC:** The target operating model and the service levels that the banks provide on their technology is completely different from other industries. You see a system go down in any bank's installations and watch what happens - it's like NASA, it bursts into life to recover that service. I don't think that happens in other types of service providers.

**SM:** It begs the question, why do banks need the cloud? They are big enough to be their own cloud in any event.

**RH:** Isn't it just another risk? Until the whole ethos and technology has matured, I'm not sure they would want to risk anything.

**RH:** It's a can of worms. It's a lack of accountability. It can be a legal nightmare. Lack of understanding is also a big thing.

**SBu:** This reminds me of PCI DSS and its introduction. It's a maturity point. In the case of PCI, the acquirers, issuers and schemes realised the need to put security controls in place, encryption, audits and so on. I think that this space will move in the same direction. The issue at the moment is that you have so many providers operating in different ways in different parts of the value chain, that it's all over the place. But as time goes on I would imagine that will settle down.