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BASIC VS PREPAID

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Bank transfer fraud is no small matter. According to UK Finance data, there were 84,624 cases of Authorised Push Payment fraud in the UK in 2018, with £354.3m lost to this type of scam. *Gregor Dobbie* writes

CASHLESS UK? PAYMENT CARDS RULE!



Douglas Blakey, Editor

If we are not very careful, the move towards a cashless UK may well mirror issues apparent in that most cashless of countries, Sweden.

Specifically, the UK may find itself adopting an uncoordinated approach to a cashless society, as is now evident in Sweden, and at the same time ride roughshod over consumer choice.

It is not in dispute that the use of mobile payments is growing at a phenomenal rate, but UK consumers – or at least a large number of them – want to retain the option to use cash. At the same time, they want to retain the option to use their debit cards and not find that mobile payments become the norm.

Neither is it in dispute that whenever contactless payments are launched, there is immediate consumer appetite. Let me take you to Edinburgh for a contemporary example – where, as it happens, the writer spends most weekends.

One million taps in one month on Edinburgh buses

Local transport operator Lothian Transport debuted Scotland's first 'contactless and capped' transport payment system on 24 July. The timing was impeccable, coming just a few days prior to the start of Edinburgh's festival season.

The impact of launching contactless was immediate: in its first month, use of the service soared past the one million mark. Contactless use is already running at 45,000 taps a day.

Meantime at least, users retain the option to use cash on Edinburgh public transport if they wish. And as I witnessed on two unbearably overcrowded trains north from London to Edinburgh on the second and third Fridays of the festival, it remains premature not to keep some cash in one's pocket. On both trips, train operator LNER made tannoy announcements to say that "their systems were down". The result: around 1,000 passengers on each train could only use cash if they wanted to visit the on-board shop. I can confirm as a regular on the service that such announcements are made on a quite frequent basis.

LNER is doing a great job in introducing a new fleet of trains, but is doing less well when it comes to reliable on-board card acceptance. Almost five hours on a train without refreshments is a non-starter, so if you happen to be planning a trip on LNER, take some cash.

Cardless society: consumer concerns

We hear plenty of consumer concerns about a cashless society, but what about cards? Research released by IDEX Biometrics notes that three-quarters of UK consumers are concerned about the UK becoming a cardless society.

IDEX's key findings report that only 20% of all UK consumers believe the UK should already be a cashless society. Moreover, six in 10 people would not give up their debit card in favour of mobile payments. Meantime, 68% of respondents to the IDEX study state they still feel more secure using a debit card than a mobile payment. Based on these figures, there is an argument that UK consumers are actually more worried about the idea of a cardless society than a cashless one.

Debit cards versus mobile payments

For more than a third (37%) of consumers, as long as they have a debit card, the thought of a cashless society does not bother them. Maybe unsurprisingly, this is even more pronounced among young consumers. Only 53% of 25-34-year-olds are unworried about our growing cashless society – but here is the caveat: providing they still have a bank card.

In fact, despite the rising popularity of smartphone payment apps, 60% of respondents would not give up their debit card in favour of mobile payments. This caution likely stems from security concerns: a further 68% state they still feel more secure using a debit card than a mobile payment, and 50% are concerned that contactless payments are insecure.

However, 41% would trust the use of their fingerprint to authenticate card payments more than a PIN. This figure is consistent across all age groups, highlighting consumer confidence in cards secured by biometric authentication.

The need to future-proof payment cards

With UK consumers showing continued attachment to payment cards, it is time for the financial services industry to future-proof them.

Customers remain sceptical about mobile payment apps, and require more protection than a PIN currently provides. As the owner's fingerprint needs to be present for biometric payment cards to work, reliable bank cards enhanced with biometric technology will prevent misuse and card fraud. The consequence is enhanced reassurance to consumers as the UK continues to progress towards a cashless society. ■

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FINANCIAL INCLUSION: BASIC ACCOUNTS TAKE ON PREPAID

Looking for a new current account but do not have the best credit score? You would not be alone: around 1 million people in the UK still do not have a regular bank account. *Evie Rusman* looks at the costs of running the latest prepaid current accounts, and determines which offer the best value for money

Over the past few years, basic bank accounts have offered a solution to the ever-growing problem of banking exclusion in the UK.

Banking exclusion is on the rise, and is directly linked to an increase in the number of people struggling to pass credit checks for regular current accounts.

In order to tackle this issue, basic current accounts offer a place for those with poor credit scores to store money without the usual overdraft features. Additionally, digital challenger banks such as Revolut have been emerging at an incredibly fast rate, offering prepaid cards designed to help customers manage their money more easily.

In an attempt to dethrone popular digital bank Monzo, Viola Black is the latest prepaid current account to hit the market. Launched in July 2019, the new account does not act like a traditional current account, as customers cannot set up direct debits or dip into an overdraft; it does, however, allow customers to store money without the usual rigorous credit checks.

A key factor is that deposits made to the prepaid card are not protected by the Financial Services Compensation Scheme,

as Viola Black is not an official bank. This, coupled with the fact that there is a monthly fee for running the account, poses the question: how economically sustainable is Viola Black?

VIOLA BLACK RUNNING COSTS

Aside from a slick and innovative website design, Viola Black's new card seems to be a financial nightmare for customers. Not only do users have to pay £4 (\$4.87) a month for the account, but they are charged a host of additional fees simply for using it.

These charges include a £2.90 ATM withdrawal fee, as well as a £0.30 ATM decline fee should funds be insufficient. Additionally, if customers use the card to pay in shops, another fee is added.

As current accounts go, these additional fees are likely to rack up a substantial total in charges. For instance, if the average customer were to withdraw cash from an ATM once a week, this would cost them £150.80 a year. Add in the compulsory £4 monthly cost of running the account, and the charges add up to almost £200 a year. In comparison to other basic accounts on offer, this is very pricey, and

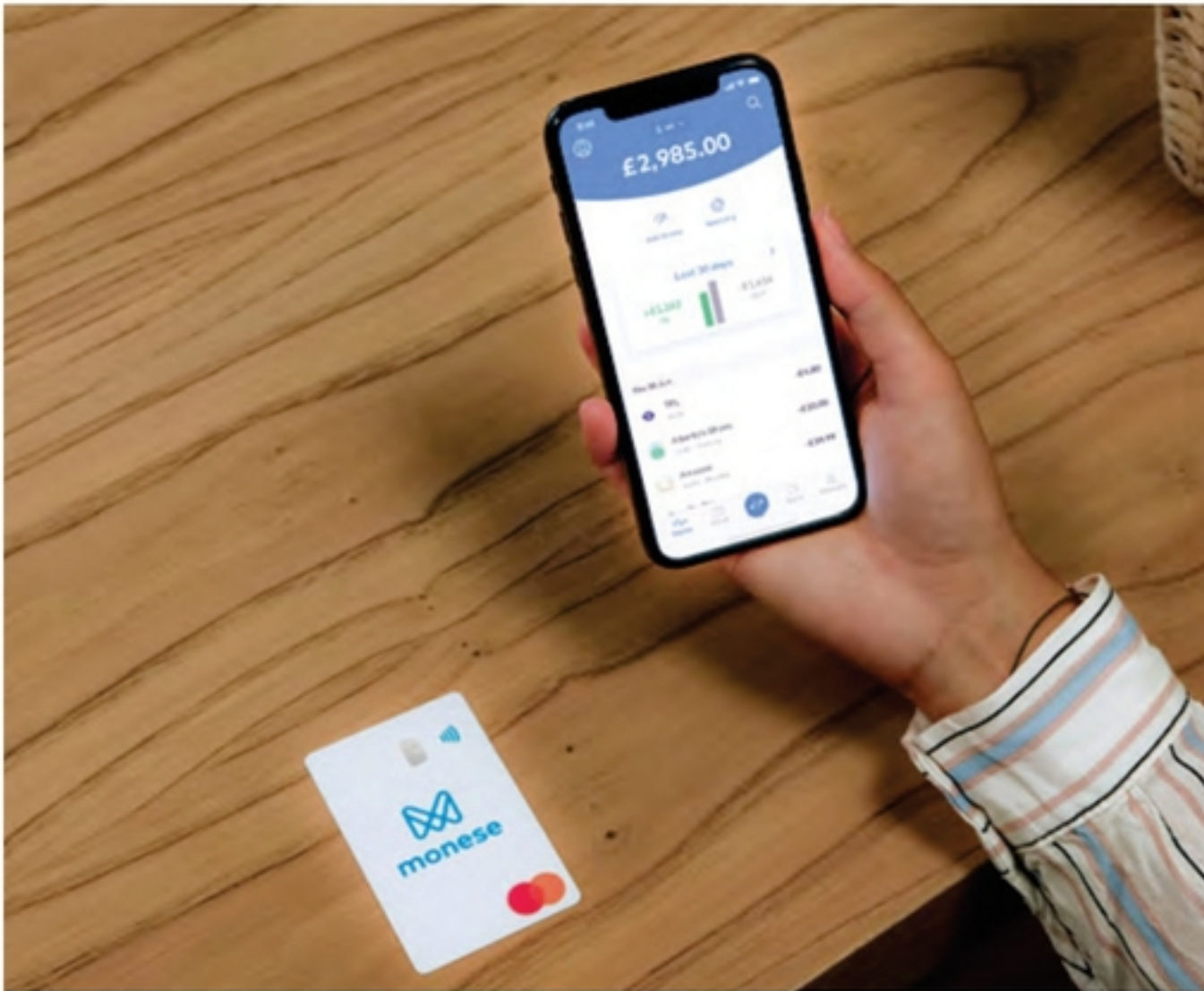
will likely result in customers losing money.

So, what are the benefits? The main advantage boasted by Viola Black is its "easy" ID process. According to the digital bank, all a person needs to set up a current account is either their passport or UK driving licence, as well as proof of address. This is ideal for those with poor credit scores, as it eliminates the usual difficulties of trying to set up a regular current account.

BASIC CURRENT ACCOUNTS

Even though Viola Black offers a simple eligibility process, the costs of running the account outweigh the positives. For those looking for an account that allows them to store money easily without extortionate fees, there are three bank accounts in the UK that offer notably better service.

Barclays, Virgin Money and Co-op all offer basic bank accounts that charge minimal fees and are easy to open. To set up either a Virgin Money or Co-op account, customers only need proof of address and ID checks to pass. The Barclays Basic account, however, is based on eligibility criteria, so it is likely that if customers qualify for a regular current



account, a basic account would not be an option.

All three accounts are aimed at customers who are facing financial difficulty and do not qualify for a regular account. Furthermore, none offer overdrafts, meaning customers are less likely to find themselves in debt.

Co-op's Cashminder account is the only one to target 16 and 17-year-olds, as well as those with poor credit scores.

Virgin Money also offers the fee-free Essential Current Account, which promises no hidden fees, but has a £500 daily withdrawal limit.

Unlike some prepaid accounts available on the market, all three accounts cost absolutely nothing to run. This gives the impression that traditional basic accounts are a much better option than prepaid cards, as the lack of hidden fees means they will leave customers with a healthier bank balance.

OTHER PREPAID ACCOUNTS

Following in the footsteps of Viola Black, a number of alternative prepaid current accounts do not carry out credit checks in exchange for monthly fees.

U Account is a prepaid card that lets customers use it like a traditional bank card, allowing them to set up both direct debits and deposits. Costing up to £10 a month, the U Account may be less pricey than Viola Black, but customers could still spend £120 a year just to keep the account running.

With three options available, the prepaid account also charges a number of fees for direct debits and cash withdrawals. How much customers are charged depends on which payment option they choose.

Monese is another option for those looking for a prepaid current account. Again, like the U Account, three payment options are available. The cheapest technically costs nothing to run, but only allows customers to withdraw £200 a month free of charge; after that, a 2% fee applies.

A step up from this is the Monese classic account, which costs £4.95 a month and lets clients withdraw £800 free of charge, and then 2% if this limit is exceeded. In total, choosing this payment scheme would cost customers a minimum of £59.40 a year.

The last option is Monese's premium account, which costs a whopping £14.95 a month. This option has no ATM or top-up

fees, but costs a yearly £179.40, putting it in competition with Viola Black for the priciest prepaid account on the market.

OTHER CURRENT ACCOUNTS

As an alternative to basic accounts, credit unions offer an option similar to prepaid accounts, and generally appeal to those who would rather manage their money through a not-for-profit organisation.

The accounts work like standard current accounts, allowing customers to deposit money free of charge, as well as have wages paid in directly. The only downside, however, is that like prepaid cards, is that there is normally a monthly fee of between £5 and £10. Customers could also be charged £0.75 for ATM withdrawals. On average, this could total nearly £160 a year, so again, this is a pricier option for a basic account.

Engage is the best-known account, and is offered by a number of credit unions. It promises a current account with minimal fees, as the only cost is a £0.75 ATM charge. With an average yearly cost of around £39, Engage would be a cheaper alternative to prepaid cards such as Viola Black and Monese. ■

BASIC AND PREPAID CURRENT ACCOUNTS

	MONTHLY FEE	ATM WITHDRAWAL FEE	DIRECT DEBIT FEE	AVERAGE COST PER YEAR
Viola Black	£4	£2.90	£0	£200
U Account	Up to £10	£1 for basic account, £0.50 for classic account	£1 for basic account, £0.50 for classic account	£120
Monese	Up to £14.95	2% fee after £200 a month for simple account, £800 for classic account	£0	£180
Barclays Basic Account	Free	Free	Free	£0
Co-op Cashminder	Free	Free	Free	£0
Virgin Money Essential Current Account	Free	Free	Free	£0

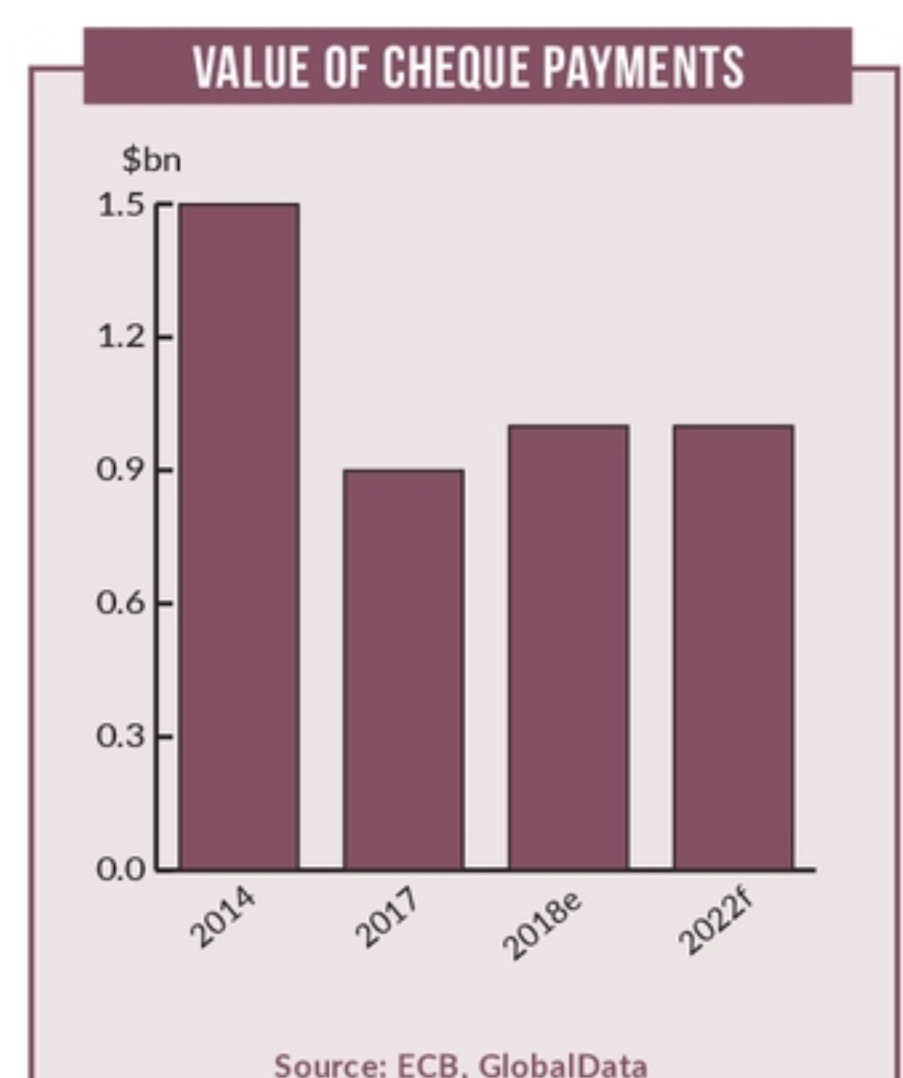
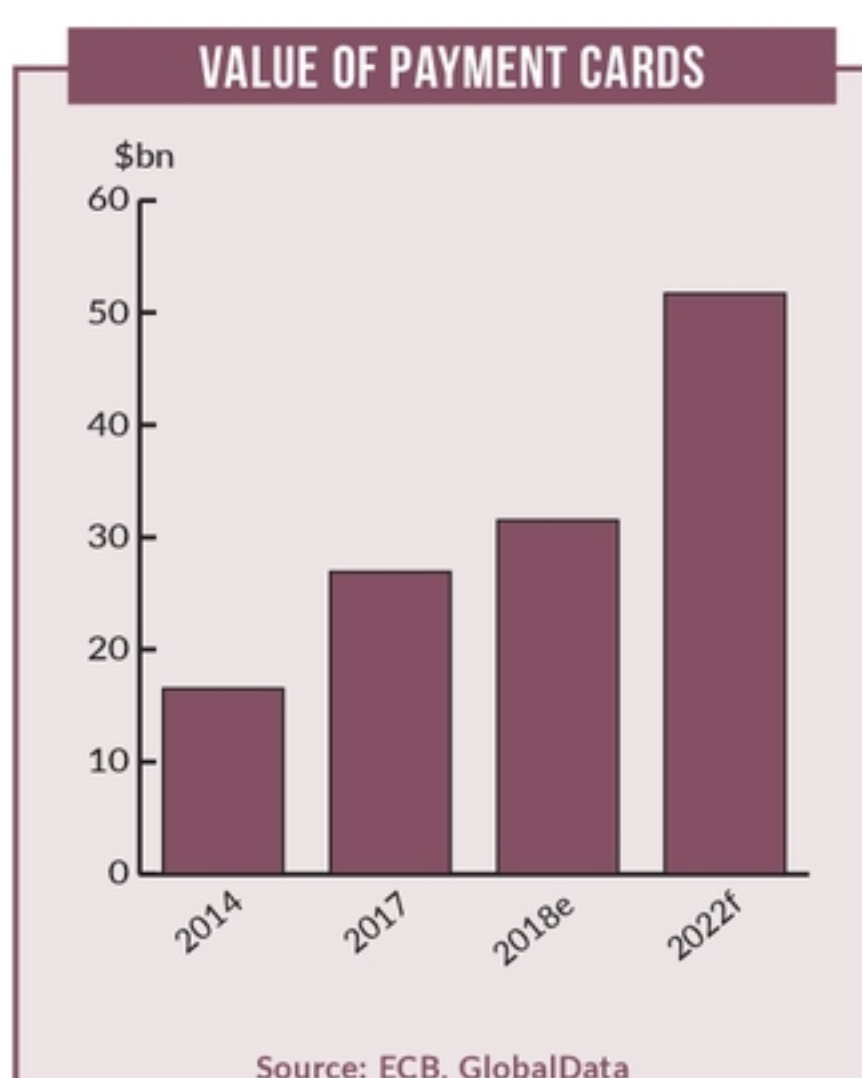
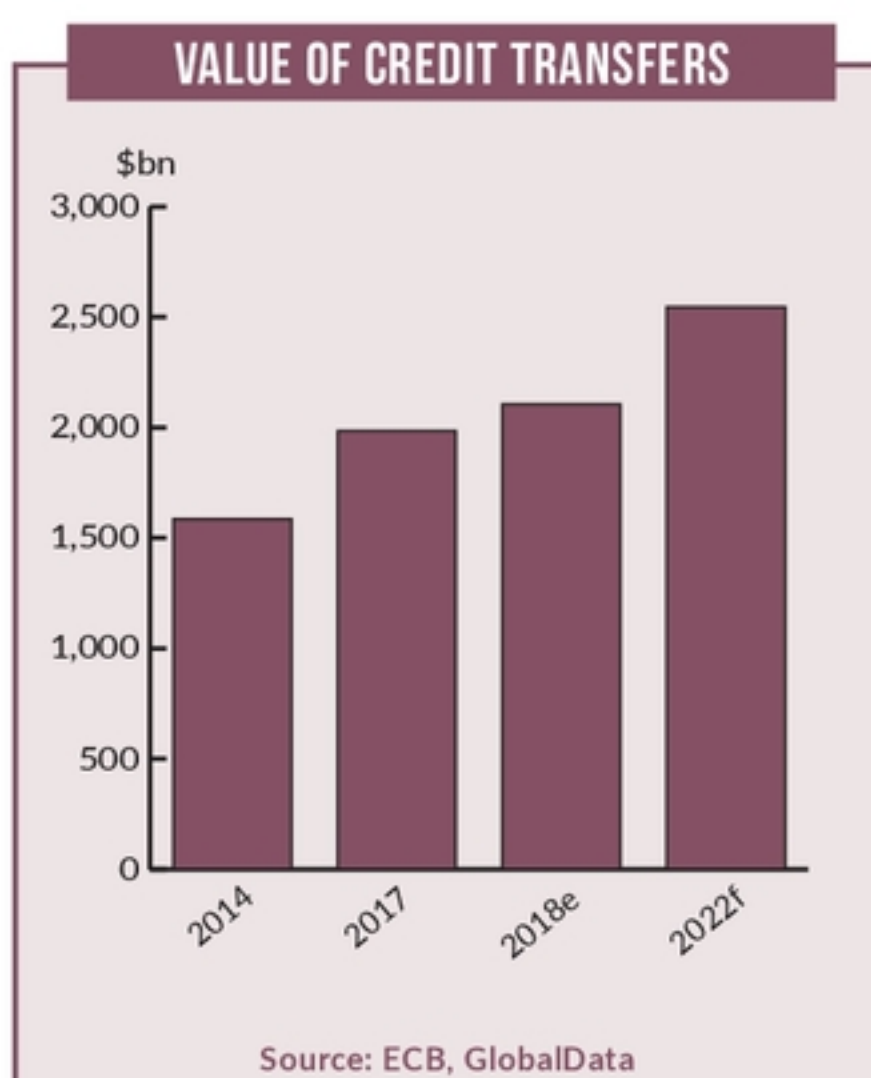
Source: CI



Cash remains the preferred payment instrument in the Czech Republic, accounting for 62.1% of the total payment transaction volume in 2018.

However, use of payment cards has grown in line with rising awareness of electronic payments and an increase in the country's banked population. Debit

cards are the most popular card type, and are also increasingly used for payments as consumers gradually switch to them for low-value transactions.



The Czech credit and charge card markets are relatively small – mostly as a result of the debt-averse nature of consumers.

With the gradual adoption of contactless technology, growth in online payments, the emergence of alternative solutions and the introduction of digital-only banks, the payment card market is forecast to grow further between now and 2022.

DEBIT CARDS PREFERRED

Debit cards are the most popular card type in terms of the number of cards in circulation and transaction value. Rising banking penetration, the debt-averse nature of the Czech consumers and the combined efforts of banks and government to promote electronic payments and financial inclusion have led to adoption.

The frequency of debit card payments per card registered a strong CAGR of 19.2% between 2014 and 2018, reaching 89.3 times per card in 2018 – much higher than that of ATM cash withdrawals (16.8). Over the same period, the average transaction value recorded a CAGR of -4.6%, suggesting that consumers are gradually shifting to debit cards for lower-value transactions.

CREDIT AND CHARGE CARDS

Credit and charge cards are not very popular in the Czech Republic, with penetration standing at 13.1 cards per 100 individuals in 2018.

In terms of transaction value and volume, however, credit and charge cards recorded healthy growth, mainly as a result of rising merchant acceptance and enhanced security measures – a trend that is forecast to continue until 2022 at least.

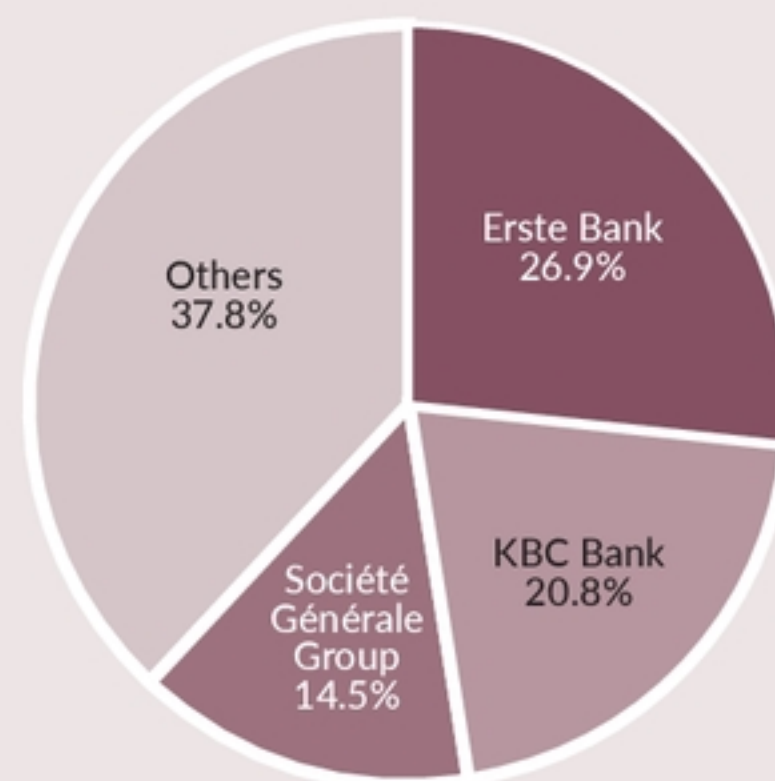
Rising disposable household incomes, reduced interest rates on loans and credit cards, and value-added benefits offered are expected to drive adoption of these cards.

E-COMMERCE GROWTH

The Czech Republic's e-commerce market recorded robust growth, increasing from CZK67bn (\$3bn) in 2014 to \$6bn in 2018, at a CAGR of 19.1%.

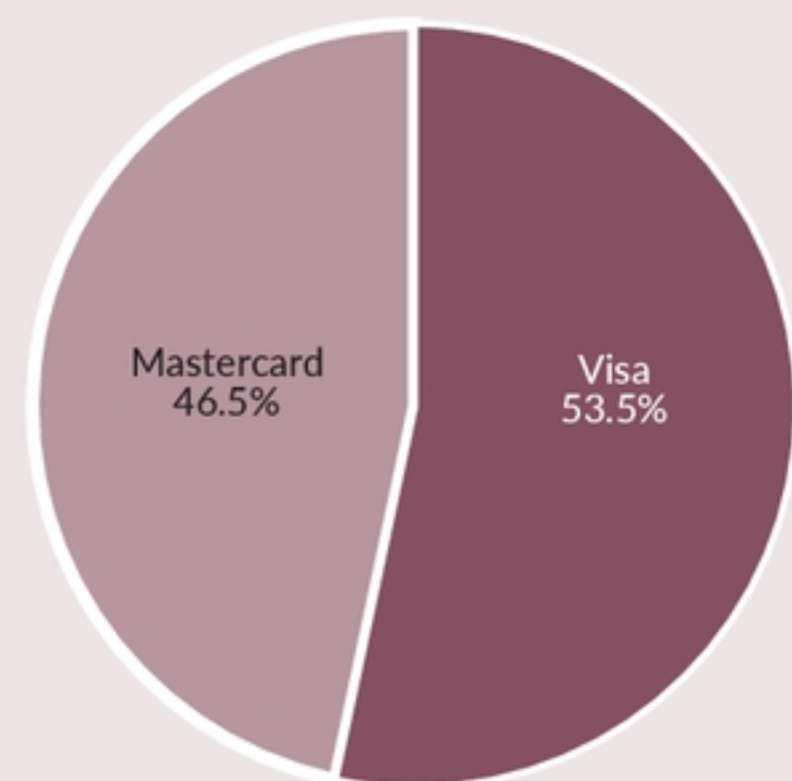
The growing adoption of e-commerce can be attributed to increasing confidence in e-commerce and online security, and a growing number of merchants.

DEBIT CARD SHARES BY ISSUER



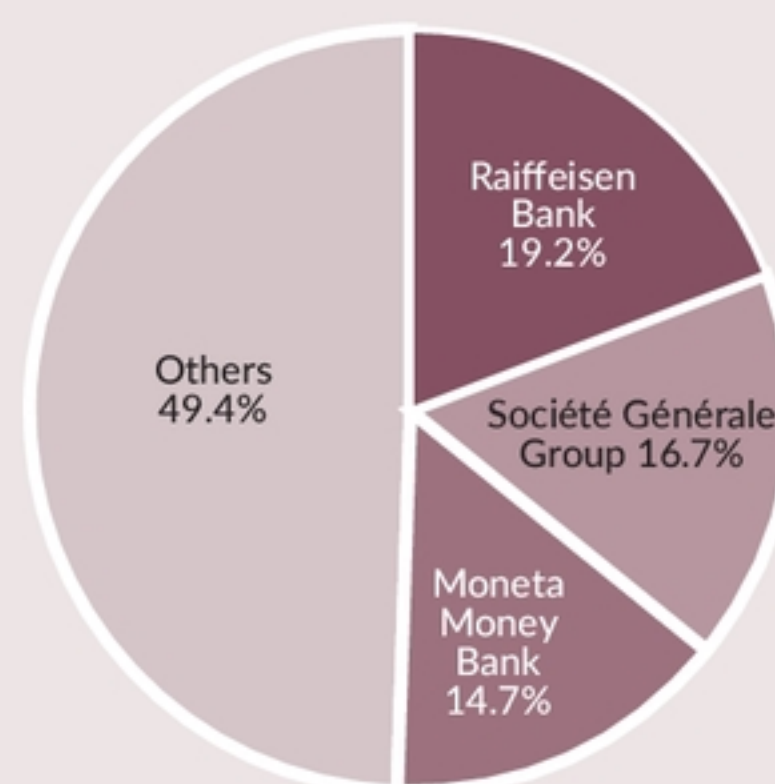
Source: GlobalData

DEBIT CARD SHARES BY SCHEME



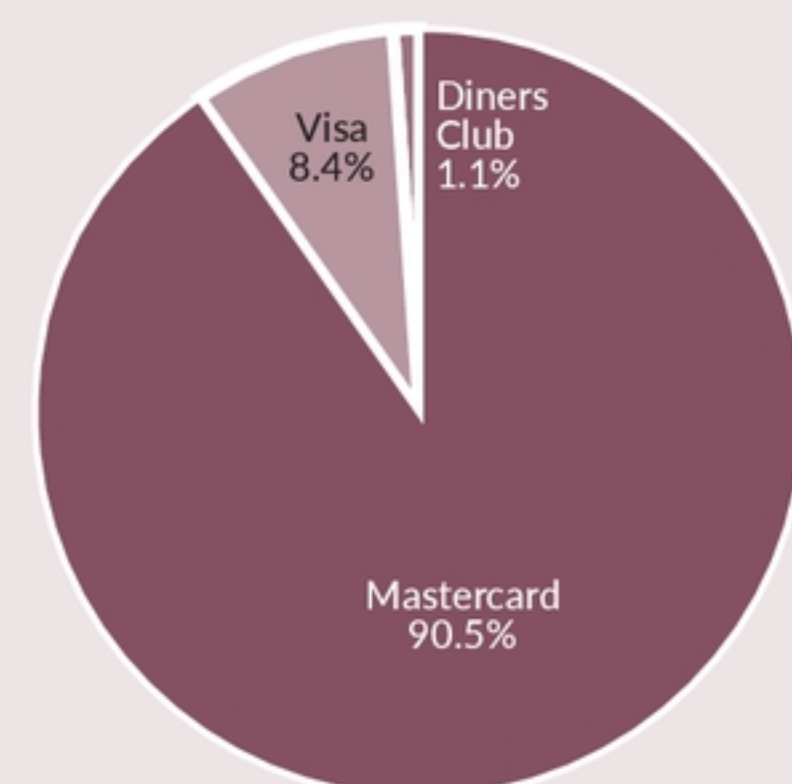
Source: GlobalData

PAY LATER SHARES BY ISSUER



Source: GlobalData

PAY LATER SHARES BY SCHEME



Source: GlobalData

According to a study published in February 2019 by Czech e-commerce association APEK, 90% of consumers shopped online at least once per year. Banks and card issuers offer customised cards for online shopping. The availability of online solutions such as PayPal, paysafecard and Masterpass also supported this growth.

PREPAID CARDS

Prepaid cards are gradually gaining traction, with the number of cards in circulation rising from 420,805 in 2014 to 535,832 in 2018, at a CAGR of 6.2%.

Banks offer prepaid cards to different customer segments. For instance, ČSOB offers the reloadable Mastercard-branded Cool prepaid card, targeting children. On verification, cardholders can hold a maximum monthly balance of \$11,128.30. The card is not linked to a bank account, and is managed through the Cool card

app. Verified customers can also use the card for cash withdrawals and payments at foreign stores and websites.

MPOS SOLUTIONS

The number of POS terminals is estimated to have increased at a CAGR of 13.3% between 2014 and 2018, supported by a rise in the number of POS terminal installations at smaller retail outlets.

In September 2017, mPOS solution provider SumUp launched its services in the Czech Republic, offering its SumUp Air solution, a card reader that enables merchants to accept contactless payments.

Payment service provider Wirecard collaborated with telecommunications provider O2 in 2016 to launch unified POS solution eKasa, enabling merchants to accept payments. In March 2016, Spire Payments collaborated with TECS to launch mobile solutions SPm2 and SPm20 in markets including the Czech Republic. ■

FIGHTING THE BANK TRANSFER FRAUD BATTLE

Bank transfer fraud is no small matter: £800,000 (\$970,160) is estimated to be stolen every day. According to UK Finance data, there were 84,624 cases of Authorised Push Payment (APP) fraud in the UK in 2018, with a total of £354.3m lost to this type of scam. Vocalink's *Gregor Dobbie* writes

In an APP scam, a fraudster tricks a victim into sending money from their bank account to the criminal's account – often by impersonating the genuine person or business the victim wants to pay.

Part of the problem is that when a transfer is made and the name of payee, bank account number and sort code are entered, the name is not validated against that of the recipient registered at their bank. This means money can be sent to the wrong person, either as a result of fraud or human error; research shows that one in 10 people have accidentally misdirected a payment in the UK.

Matching the name entered to that of the recipient account might sound simple; however, it is more complex than it appears, because the way we pay each other makes matching difficult. Were a direct match between the submitted name and that of the beneficiary to be applied rigidly, typographical errors, abbreviations, joint accounts, phonetic spelling and use of nicknames would lead to payments being delayed or declined. This would risk a poor user experience, with customers either unable to pay a legitimate individual or organisation, or forced to ignore red flags and send funds against the system's recommendation. Either outcome would risk undermining trust.

The introduction of a 'direct match' name-verification system would also significantly impact the banking sector. Handling customer queries and payment declines costs time and money, and there is also the intangible cost of loss of customer confidence.

Something does need to be done, however, to address the current losses due to fraud and error being experienced by people and businesses in the UK every day.

Last year, the Payment Systems Regulator (PSR) set out proposals for a Confirmation of Payee system, requiring banks to check whether the name on the account to which the payer is sending money matches the name entered. The PSR was originally looking for Confirmation of Payee to be introduced in July this year, but it has now been confirmed that it will not be implemented until 31 March 2020. With millions of pounds lost to payments fraud every year, initiatives such as Confirmation of Payee are vital for both consumers and businesses.

COMPLEX CHALLENGES

Implementing the Confirmation of Payee system could potentially be complex for some banks. There is also a huge challenge in tackling the vast account-profile complexity that was highlighted in recent Vocalink research with four major UK banks.

As a result of variations in spelling and format when people make payments to an account, our research found only 20% of accounts have a single dominant name, and 60% of UK accounts have three or more name variations associated with them. Staggeringly, the number of name variations can rise to over 1,300 for a single account, while 80% of transactions are sent to accounts with three or more name variations.

This variation can occur as a result of banks recording names in different formats, because of how accounts are structured differently for businesses or joint ownership, and because of widespread use of shortened or preferred names. For example, you might have a business account associated with RH Plumbing, RH Plumbing Ltd and Robert the

Plumber, or you may have a personal account with which G Dobbie, Gregor Dobbie and GH Dobbie are all associated. The scope for a huge rise in payment delays or declines, therefore, is significant.

Vocalink has already successfully developed technology to check the name of the account holder while also taking into account name and spelling variance. Its Account Verification Solution uses historical data and sophisticated algorithms to match the name of the account holder to the sort code and account number with a high degree of accuracy, and is ready to implement today with minimal IT impact.

Account Verification scores and forensically analyses names in a payment, including phonetic analysis, to provide high confidence matching with low false rejections. On average, over 95% of transactions correctly score a strong positive match reducing the need to respond with a 'close match' result.

The algorithms ensure genuine transactions are approved even when name variations in relation to an account are high. The solution also builds an industry-wide anti-money laundering technology, Mule Insights Tactical Solution, which helps trace stolen funds and provides alerts as they move through the banking network; there is, therefore, even greater potential to tackle fraud by combining the two solutions.

Despite the launch of Confirmation of Payee being later than first envisaged, it is encouraging that solutions already exist that give banks a head start in advance of the mandatory dates that the PSR is planning to set. The fight against fraud is gaining ground, and banks have also recently agreed a new voluntary code of best practice to refund victims of APP scams when they are not at fault. This is very positive news for victims, but there is no doubt that protection and prevention is in the interest of all individuals and small businesses, as well as being more cost-effective for the banking sector than compensating after a loss has occurred.

UK businesses already believe payments fraudsters are ahead of the game, and Vocalink research shows that 82% want banks and the government to do more to protect them. The UK financial services sector can take this opportunity to remind customers that they are placing transactional security and fraud prevention at the heart of what they do. That is why, at times such as these, it is absolutely vital that the industry works together to tackle fraudsters, including investing in the latest fraud-fighting technologies. It is time to get ahead of the criminals. ■

CARDS

I N T E R N A T I O N A L

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