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CHAIN REACTION

VISA'S B2B CONNECT LOOKS TO CHANGE THE GAME IN CROSS-BORDER PAYMENTS

FEATURE

How contactless wearable payments are now at the front of most banks' minds

INSIGHT

ISO 20022 will bridge a fundamental gap in payments communication

COUNTRY SURVEYS

Market analysis and payments data for Japan, Luxembourg and the UK

THIS MONTH

Editor:
Douglas Blakey
+44 (0)20 7406 6523
douglas.blakey@verdict.co.uk

Group Editorial Director:
Ana Gyorkos
+44 (0)20 7406 6707
ana.gyorkos@globaldata.com

Director of Events:
Ray Giddings
+44 (0)20 3096 2585
ray.giddings@compelo.com

Senior Reporter:
Patrick Brusnahan
+44 (0)20 7406 6526
patrick.brusnahan@verdict.co.uk

Sub-editor:
Nick Midgley
+44 (0)161 359 5829
nick.midgley@uk.timetric.com

Head of Subscriptions:
Alex Aubrey
+44 (0)20 3096 2603
alex.aubrey@verdict.co.uk

Junior Reporter:
Evie Rusman
+44 (0)20 7406 6701
evie.rusman@verdict.co.uk

Publishing Assistant:
Asena Değirmenci
+44 (0)20 3096 2633
asena.degirmenci@verdict.co.uk

Sales Executive:
Jamie Baker
+44 203 096 2622
jamie.baker@verdict.co.uk

***Customer Services:* +44 (0)20 3096 2603 or +44 (0)20 3096 2636, briefings@verdict.co.uk**

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As a subscriber you are automatically entitled to online access to Electronic Payments International.
For more information, please telephone +44 (0)20 7406 6536 or email briefings@verdict.co.uk.

London Office: John Carpenter House, John Carpenter Street, London, EC4Y 0AN

Asia Office: 1 Finlayson Green, #09-01, Singapore 049246
Tel: +65 6383 4688, Fax: +65 6383 5433 Email: asiapacific@sg.timetric.com

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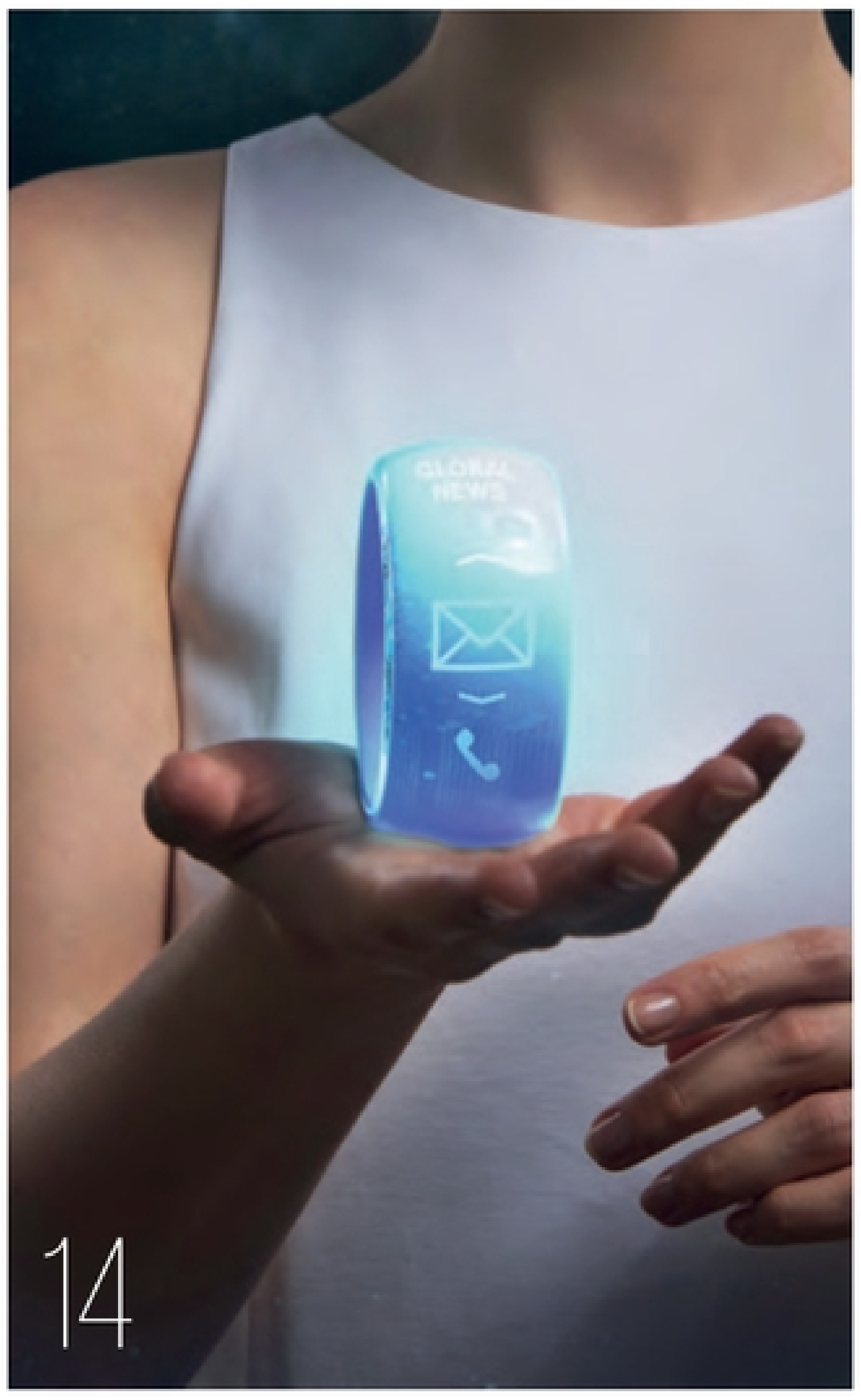

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HAS AUSTRALIAN BNPL REACHED CRITICAL MASS?

Douglas Blakey, Editor

Let me take you to Australia for a moment. The local buy-now-pay-later (BNPL) sector is worth a glance.

BNPL players allow shoppers to purchase products without paying up front. And crucially, the consumer avoids the regulatory hurdle of applying for a credit card or loan.

To be fair, there is a strong pitch. Stating the obvious, technology is making electronic payments easier, and the user experience continues to improve at speed. Online shopping continues to soar, and Australian consumer confidence in the incumbent banks took a hammering at the recent Royal Commission. This all combines with evidence that younger adults are less keen on credit cards than their parents' generation.

This is where it gets interesting. There is an argument that Australian BNPL vendors will transform how Australians pay for things. Similar comments apply to consumers in New Zealand, and once these markets are conquered, there is scope for international expansion.

If analyst enthusiasm is borne out, then there is an obvious threat to growth rates for all other electronic payment types. Consider the vendor Afterpay, for example. It derives around 80% of its revenue from vendors; the rest comes from late payment fees from customers.

Afterpay shares listed in 2016 at A$1 ($0.68); by late August, the Afterpay share price had soared past A$30. There is, however, more to the market than just Afterpay: local rival Zip Money is growing at pace, and an estimated 10% of Australian consumers are already users of either Afterpay or Zip Money.

Zip's service is already all over Australia, and earlier this year it announced that it had signed up over 10,000 retail partners. Its customer numbers approach one million.

July 2019: Visa enters the sector

The position became even more interesting in July with news that Visa is to enter the BNPL sector. This caused an immediate 10% drop in Afterpay's share price, although it has since more than recovered. So does this mean BNPL is reaching critical mass? Or is there an argument that this is a potential fintech bubble? I am obliged to noted Australia-based analyst Grant Halverson, CEO and MD at McLean Roche, for sharing some figures.

First off, consider the overall market. Total BNPL total sales in Australia and New Zealand total A$8.4bn. So, as Halverson argues, BNPL accounts for a mere 96 basis points in market share. Specifically as regards Afterpay, with sales of A$4.3bn it enjoys about 49 basis points of total sales. Furthermore, Halverson cautions that Afterpay's rate of growth in 2019 has slowed by around two-thirds.

Afterpay: has growth peaked?

That begs the question: has Afterpay's phenomenal growth to date already peaked? At the same time, one might ponder if Afterpay's and its peers' niche in the market is going to remain limited to certain market segments – a typical example would be women aged between 18 and 35.

All the while, debit card transactions grew by 13% in 2018. That is the fastest rate of growth in four years. As Halverson comments, it hardly suggests that BNPL is eliminating other electronic forms of payment.

The business basics of BNPL are that a A$100 sale typically delivers A$5 in revenue and, hopefully, A$0.20 in profit. Bluntly, BNPL businesses are very-high-volume, very-low-margin businesses, so a drop of only one or two basis points is a major factor.

In 2019, Afterpay's sales in ANZ were A$4.3bn, but its margin dropped six basis points from 5.2% in 2018 to 4.6% in 2019. In real money, that means lost revenue of A$24m.

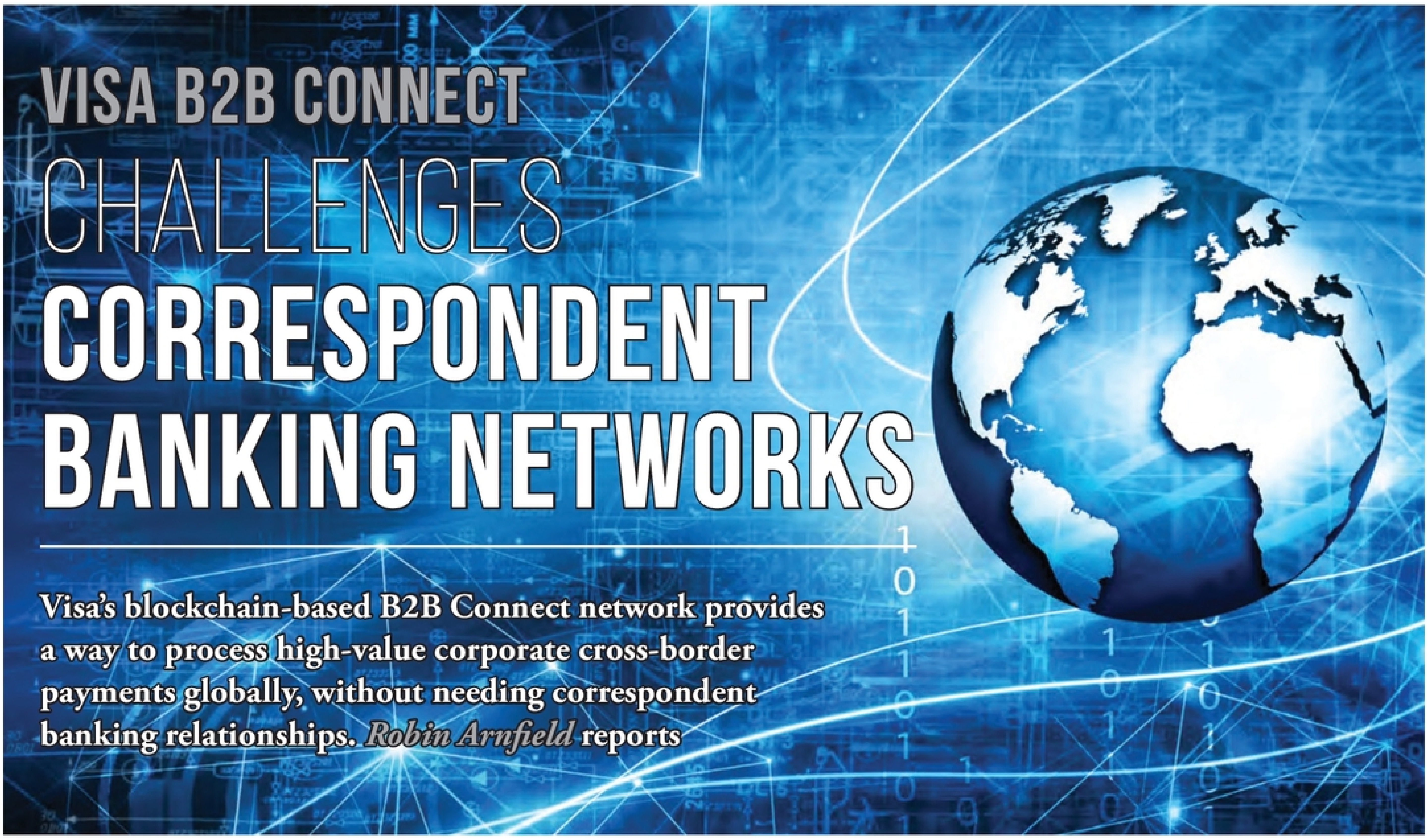
As Halverson argues, a joint market cap of A$10.4bn is a huge bet on this small tech sector. He tells *EPI:* "There is no market globally that has reached this level. You have to go back to US P2P lenders in 2013-2014 for a similar bubble, and that ended in tears." ■

BNPL – SALES VS MARKET CAPITALISATION

ANZ BNPL	2019 SALES	SHARE	ASX MARKET CAP
Afterpay - ANZ only	A$4.3bn	51%	A$8bn
Flexi	A$2.4bn	29%	A$720m
Zip Money	A$1.1bn	13%	A$1.32bn
Latitude	A$0.2m (e)	2%	N/A
Others	A$0.4m (e)	5%	Splitit, Sezzle A$336m
Total	**A$8.4bn**	**100%**	**A$10.37bn**

Source: McLean Roche

GET IN TOUCH WITH THE EDITOR AT: **DOUGLAS.BLAKEY@VERDICT.CO.UK**



VISA B2B CONNECT CHALLENGES CORRESPONDENT BANKING NETWORKS

Visa's blockchain-based B2B Connect network provides a way to process high-value corporate cross-border payments globally, without needing correspondent banking relationships. *Robin Arnfield* reports

Other payments-related blockchain initiatives include Ripple, the IBM Blockchain World Wire, R3/Corda, the JP Morgan Interbank Information Network and the Stellar Development Foundation.

In 2018, India's Infosys Finacle formed a blockchain-based trade network with a consortium of seven Indian banks, called India Trade Connect.

In 2017, SWIFT launched SWIFT gpi (global payments innovation) to reduce the time for cross-border payments settlement, and in response to competition in the cross-border payments market, particularly from blockchain-based initiatives such as Ripple. SWIFT has been conducting a blockchain proof of concept for gpi using R3's Corda platform.

Launched in June following a trial with four banks, B2B Connect allows banks' corporate customers to make medium- to high-value (over $15,000) international payments directly from their bank accounts to recipients' accounts.

Visa says that, because B2B Connect facilitates transactions from the bank of origin directly to the beneficiary bank, this removes inefficiencies and time spent on cross-border corporate transactions, while increasing transparency and consistency of data.

Transfers occur either same day or next day in the 23 fiat currencies in which Visa settles, compared to typically five to seven days via correspondent banking networks.

To address security concerns, B2B Connect tokenises sensitive data including banking details and account numbers, giving them a unique identifier for facilitating transactions on the network.

Initially available in 30 trade corridors, Visa plans to make B2B Connect available in 90 countries by the end of 2019.

Visa's partners for B2B Connect include payments software firms Bottomline Technologies and FIS, which are providing B2B Connect-participating bank clients with access to the network. B2B Connect uses the open-source Hyperledger Fabric blockchain framework. Using Hyperledger, which is hosted by the Linux Foundation and was developed by IBM, it provides an improved process to facilitate financial transactions on a scalable, permissioned network, Visa says.

CONTRAST WITH SWIFT

B2B Connect differs from SWIFT in two respects: firstly, the Visa system uses blockchain technology, and secondly, it is a private payment network performing messaging and settlement, whereas SWIFT only provides messaging.

"This means banks using SWIFT need a correspondent banking network, which can be expensive to maintain and manage," says Ed Adshead-Grant, general manager of payments at Bottomline.

"Every corporate on B2B Connect is AML/KYC and OFAC [Office of Foreign Assets Control] sanction-checked," adds Adshead-Grant. "This data is loaded into B2B Connect, so a bank can check the credentials of the corporate where money is about to be sent – this means less risk and more security."

Adshead-Grant says banks have the option of providing the FX in the B2B Connect transaction themselves, or taking Visa's FX rates. "This can also be determined by payment corridor, so Visa is utilised in the low-volume, relatively expensive exotic corridors," he says.

"Corporates know the fees and charges at the point of the transaction, and they know when the money is going to be received – there's no potential to take multiple payment hops, as there is with correspondent banking.

"The corporates know each party on the network is fully AML/KYC and sanction-checked, and can have access to this data. With a new supplier on SWIFT, they wouldn't have this level of assurance."

Diego Rodriguez, Visa's VP of business solutions for Latin America and the Caribbean, explains: "The terms blockchain and Hyperledger are getting a lot of attention, but the fundamental value that B2B Connect brings to the market is the change in the business model."

"Today, when banks or businesses send payments across the world, they have to work with networks of correspondent banks. So each sending bank needs multiple correspondent banking relationships to ensure the money gets to the recipient. This one-to-one model requires banks to negotiate bilateral contracts and ensure AML and OFAC compliance for each bank they work with, in order to create a network for international payments."

Visa proposes to eliminate the bilateral correspondent relationship model by offering banks a single relationship with B2B Connect, through which banks can send money anywhere in the world where Visa is present, Rodriguez says.

"Visa's business model for B2B Connect will bring banks fundamental efficiency gains in the international transfer process, and offer businesses faster cross-border payments," Rodriguez says.

"With correspondent banking, there are additional costs for banks and sending and receiving businesses, due to fees charged by the various banks participating in each transfer. There are also uncertainties due to the fact that senders and receivers don't know when the funds will arrive."

B2B Connect offers finality of payment and transparency about fees. This means that when a sender notifies a recipient that it is sending a transfer, both parties know exactly when the money will reach the receiving account and how much will be charged, explains Rodriguez.

"Our system is an end-to-end messaging, payment and settlement system," he continues. "Currently, B2B Connect is focused on payments, but, in the future, we could add documents, contracts and invoices to add value to our system. These potential features are part of the reason why we're leveraging Hyperledger technology, as it allows us to expand the network's functionality."

Rodriguez says that B2B Connect could eventually incorporate some assets of Earthport, the global cross-border payments company that Visa bought for £247m ($301m) in May 2019. Earthport provides cross-border payment services to banks, money transfer service providers, and businesses via its independent ACH network. Visa said that acquiring Earthport will allow clients to enable individuals, businesses and governments to utilise the Visa network to send and/or receive money through bank accounts around the world, bypassing public and private wire-transfer rails.

"Initially, B2B Connect is focusing on cross-border B2B transfers and not P2P transfers," says Rodriguez. "But we could leverage some of the features of Earthport's network. It's too early to say, as we are still integrating Earthport."

Rodriguez says Europe and the US are very important trading corridors for B2B Connect. With the rise of cross-border B2C and B2B e-marketplaces, the Latin America-China trading corridor is also expanding.

> **" VISA AND MASTERCARD HAVE BOTH BEEN TRYING TO CAPTURE THE CROSS-BORDER PAYMENT MARKET OPPORTUNITY**

"We're working on developing all the trade corridors," says Rodriguez. "Initially, we're implementing our platform in the 30 corridors that are live, but we'll expand the number of corridors very rapidly."

B2B Connect will particularly help Latin America's domestic banks such as Banco do Brasil, Bradesco or Banorte, which currently lack global presence.

"The global banks operating in Latin America and the Caribbean [LAC] are from outside the region," Rodriguez says. "Because major Latin American banks aren't global, they rely on correspondent banking relationships, which are very important for them. So we think we can add a lot of value for banks and corporates in LAC."

Rodriguez explains that B2B Connect is Visa's first non-card-based system, and also its first platform based on Hyperledger. "The opportunity we're pursuing is to bring a completely new system into the market," he notes.

In accordance with Visa's 'API-first' strategy, B2B Connect leverages Visa's open APIs and its Visa Developer platform. "We've created APIs to facilitate the use and integration of various Visa B2B and consumer services," Rodriguez says.

Visa says on its website: "Open APIs allow developers to take our capabilities and to build solutions that can quickly scale in multiple markets. With B2B Connect APIs exposed in the Visa Developer Platform, B2B Connect is designed to harness the power of the global developer community to enable a smarter cross-border B2B payments flow."

ANALYST COMMENTS

In her report *Blockchain in Action in Corporate Banking, Contenders out of the Blocks*, Celent senior analyst Alenka Grealish writes: "(B2B Connect's) target market is tier 2 banks in the US and national banks outside of the US. As its ecosystem evolves, larger banks could play an important role in custody, settlement and/or FX.

"B2B Connect is designed to be backward-compatible with existing bank treasury-management services. Unique among blockchain-based payment platforms, Visa is creating a corporate enterprise identification number, a feature that would enable clear and unique identification of all corporate participants involved in the transaction.

"Importantly, Visa is facilitating integration by allowing bank participants to use their preferred data format – for example, ISO20022 or MT 103 – to communicate with the network, and is handling the message translation."

Erika Baumann, senior wholesale banking analyst at Aite Group, tells *EPI:* "Visa and Mastercard have both been trying to capture the cross-border payment market opportunity. Both companies are taking the emphasis away from cards, but leveraging their knowledge – which is deeper and wider than any other provider – to facilitate these payments. B2B Connect is another step in Visa's commitment to the cross-border payments space. With cross-border payments, transparency and speed have always been barrier to the seamless process that corporates demand. Visa understands this dynamic, and has the network scalability to execute."

B2B EFFORTS

As well as Earthport and B2B Connect, Visa has several other B2B initiatives. These include a global agreement with and investment in Tel Aviv-based Behalf, which provides POS financing for SMEs making e-commerce purchases from large merchants.

Visa will offer Behalf's SME clients reusable, tokenised Visa virtual cards, giving businesses instant loans for their purchases and flexible repayment schedules.

Visa has also partnered with Western Union to support quicker remittances, and has alliances with Wex and financial management software vendor Wave Financial. Wave is deploying Visa Direct to provide instant payouts for small businesses, and corporate payment solution provider Wex is rolling out Visa virtual credit cards to its corporate clients to enable global B2B payments.

In July, Visa invested in Indian B2B payments company PayMate, which automates the procure-to-pay payments cycle for businesses. In November 2018, Visa made a minority investment in BillDesk, an Indian online payment and bill payment gateway, and said it is collaborating with Billtrust on the US fintech's open buyer-supplier Business Payments Network.

In its third-quarter 2019 analyst call, Visa executives explained the firm's B2B strategy. "The enterprise-level volume that has traditionally been wires and cheques is going to require a whole different approach than the approach in the carded area, where we rely on issuers and on P-cards, corporate cards, small business cards and virtual cards in order to succeed," commented Visa chair and CEO Alfred Kelly.

"In the enterprise space, you've got to be integrated into some of the large enterprise systems and build a network of partners. So we're going to continue to seek ways to build partnerships and look for investments like the ones we made in PayMate and BillDesk, because that's going to be key to unlocking the volume in the non-carded space of B2B."

Visa CFO, executive VP and vice-chair Vasant Prabhu continued: "Our B2B strategy has many components, of which B2B Connect is one. B2B Connect addresses high-value cross-border transactions. Through Earthport and Visa Direct, we can address B2B for low-value transactions at a high volume on a cross-border basis. We also have initiatives that go beyond cross-border to domestic accounts receivable and accounts payable – for example, our accounts receivable partnership with Billtrust."

SWIFT GPI

According to SWIFT, payments sent via gpi are credited within 24 hours of initiation.

"SWIFT gpi now accounts for over half of cross-border payment instructions carried over SWIFT," says SWIFT gpi programme manager Wim Raymaekers.

"By the end of 2020, every cross-border SWIFT payment will be a gpi payment, and every bank on the network will be able to offer end-to-end delivery with full tracking and transparency, throughout the payment chain. More than 3,500 banks, accounting for 85% of SWIFT's total payments traffic, are now committed to adopting gpi."

Raymaekers says SWIFT believes that blockchain and distributed ledger technology have significant potential to influence the future of the financial services industry.

"Recently, we thoroughly assessed the technology and concluded that it wasn't yet mature enough for cross-border payments," he says. "We're continuing our R&D efforts to explore how and whether our users can benefit from distributed-ledger technology [DLT] and continue to investigate how it could bring about further improvements to the customer experience."

> **" BLOCKCHAIN TECHNOLOGY HAS THE POTENTIAL TO CHANGE THE WAY BUSINESS TRANSACTS ACROSS ALMOST EVERY INDUSTRY**

Raymaekers adds that the first stage of the gpi Link proof of concept aims to bring the benefits of gpi – speed, ubiquity and certainty – to DLT-enabled trade.

"The proof of concept addresses the need for DLT-based commerce to be supported by global, fast, secure and transparent settlement using fiat currencies by enabling 'off-ledger' payment settlement based on gpi," he says. "A prototype will be demonstrated at Sibos in London in September 2019."

MONEYGRAM

MoneyGram is not currently part of B2B Connect, having signed a commercial agreement with Ripple in June 2019.

"Ripple is MoneyGram's key partner for cross-border settlement using its XRP digital assets," says a MoneyGram spokesperson. "This will give MoneyGram the ability to improve the profitability of transactions when using the RippleNet platform to settle foreign currencies.

"The partnership is focused on improving our operations, and won't be visible to the end user. Our integration of XRP will help us be more efficient in how we move money from point A to point B, while maintaining the same high level of compliance MoneyGram currently gives its customers."

The spokesperson continues: "An important part of Ripple's technology is its use of KYC processes to ensure regulatory compliance. This won't change our current intensive KYC approach to our money transfers."

MoneyGram also believes that blockchain and the use of appropriate cryptocurrencies will be an important aspect of the future of money transfers.

"Blockchain technology has the potential to change the way business transacts across almost every industry," the spokesperson says. "The distributed infrastructure's ability to securely share information and ensure data integrity makes it an important tool in building trust among businesses and consumers."

The integrated platform will use XRP as a treasury management option, relating directly and only to cross-border FX transactions. MoneyGram customers will not be interacting with XRP or RippleNet.

"Through this strategic partnership, MoneyGram will be able to settle key currencies and match the timing of funding with its settlement requirements reducing costs, improving its balance sheet efficiency, and reducing risk," the spokesperson says. ■

SCA DELAY: WHAT ARE THE MAJOR EEA COUNTRIES DOING?

Over the last few weeks, Strong Customer Authentication (SCA) has caused something of a headache for the electronic payments industry. Countries are now increasingly jumping on the bandwagon, led by the UK, and have made plans to delay the new European regulations. *Evie Rusman* and *Asena Değirmenci* investigate

SCA has caused numerous concerns over disruptions to the online payments system.

Keith McGill, head of ID and fraud at Equifax, previously told *EPI* that SCA could make online shopping inconvenient. With the original deadline now even closer, he explains that it is important for payment service providers to strike the right balance between customer convenience and security.

On 21 June 2019, the European Banking Authority (EBA) decided to grant national authorities the power to extend the September deadline for SCA, with an aim of giving businesses sufficient time to implement and meet the regulation requirements.

McGill notes: "The online economy is booming because customers find the experience friendly and frictionless. If the new SCA requirements, designed to reduce fraud, make shopping online inconvenient, the potential damage to retailers in lost digital sales could be significant."

As a result, the UK was one of the first countries to extend the deadline, with the Financial Conduct Authority (FCA) announcing on 13 August that it would allow companies an extra 18 months to make preparations. This has led other countries to follow suit and set their own SCA plans. ■

UNITED KINGDOM

The FCA has implemented an 18-month delay to SCA. According to the FCA, the delay was implemented to coincide with the EBA's opinion that more time was needed.

Due to the complexity of SCA requirements and the lack of preparation, the FCA believes the additional time will help to minimise the potential disruption to customers.

IRELAND

Quickly following in the UK's footsteps, the Central Bank of Ireland announced the unlikeliness of businesses meeting the original deadline. It added that a limited mitigation period would be put in place to minimise disruption to the payments system.

The bank also said that plans to consult the EBA, and hopes to agree a harmonised approach to the extended periods across the EU.

GERMANY

German regulator BaFin announced on 21 August that it will give companies more time to implement SCA regulations.

Payment service providers based in Germany will now be allowed to make credit card payments on the internet from 14 September 2019 without using SCA.

BaFin's decision aims to prevent disruption to internet payments, and hopes to allow a smooth transition to the new requirements of PSD2.

According to BaFin estimates, card-issuing payment service providers in Germany are prepared for the new requirements; the situation is different, however, for the numerous companies that use credit cards for the receipt of online payments.

There remains a considerable need for adjustment among online merchants. To enable consumers and companies to continue to pay online with credit cards, BaFin has said it will temporarily suspend the need for SCA for online credit card payments.

ITALY

The Bank of Italy announced on 6 August 2019 that it would provide additional time to complete the adjustments required for SCA.

Furthermore, the Italian Payments Committee has said that it thinks a gradual transition towards SCA will greatly reduce the risks of service interruptions in card-based online payments, as well as disruption to online commerce.

In order for companies to make use of the limited extension, they must provide a detailed plan, which should include communication and customer-readiness measures in relation to merchants and card holders.

ICELAND

Iceland is further ahead than many in terms of implementing SCA. A spokesperson for the Financial Supervisory Authority says: "The Icelandic government, in co-operation with the Icelandic banks, has implemented a common PKI infrastructure with the objective to support qualified e-IDs for strong authentication and valid legal signatures.

"The e-IDs are implemented on mobile phones – on the SIM cards – and are available on plastic cards. Most of the population have already taken the e-IDs in use. All the banks and the government support the use of these e–IDs in on-line banking and e-goverment services.

"The PKI infrastructure and the e-IDs are in compliance with the eIDAS regulation, and will support SCA as required by PSD2."

LUXEMBOURG

Luxembourg is another country that is expected to fall in line with the EBA.

CSSF, Luxembourg's financial regulator, has sent out a survey to a number of payment service providers in order to determine a reasonable delay that could be granted following the EBA's opinion published in June.

A spokesperson for CSSF says: "We are awaiting responses by 21 August 2019, which we will then be aggregated and sent to EBA by 2 September. Once the feedback has been gathered by EBA from the various national competent authorities, they should position themselves with respect to a reasonable delay."

CSSF is planning to make this information public before 14 September, and expects further delays to the implementation of SCA.

ROMANIA

The National Bank of Romania (NBR) has not yet implemented plans to delay SCA. However, it says it is gathering information from payment market participants in relation to the levels of preparation in the industry.

The NBR expects to have a completed view by September, and will then decide on plans for the future. It assumes that the Romanian payments industry will require a delay in order to meet SCA requirements.

POLAND

Poland's financial regulator, KNF, has allowed local merchants additional time to implement SCA. This is to avoid any disruption or inconvenience to payment service users.

The extension means no other supervisory measure relating to the failure to use SCA will be applied to payment service providers after 14 September. These providers, however, must apply for extra time and submit appropriate migration plans.

FRANCE

The French Banking Federation (FBF) has welcomed the EBA's opinion on allowing national authorities more time to implement SCA.

The FBF has outlined a timetable implying that most transactions should be compliant by the end of 2020, with the remainder being completed within three years.

NETHERLANDS

The Netherlands is believed to be weighing up an extension for businesses, after it was recently reported that regulators in the country had cited concerns over the data-protection elements of PSD2.

LIECHTENSTEIN

Liechtenstein's FMA has prepared the national transposition of PSD2, which is scheduled to come into force on 1 October 2019.

The FMA, like most of the EU, will fully apply SCA after a transitional period of 18 months.

An FMA spokesperson says it hopes to work together with the industry to create a quick and smooth implementation of SCA in Liechtenstein.

FINLAND

The Financial Supervisory Authority (Fin-FSA) in Finland has not yet taken a stand on additional time for the implementation of SCA, but will soon participate in discussions with the EBA on the subject.

Fin-FSA released a statement in June urging merchants to be prepared for the original September deadline.

CZECH REPUBLIC

The Czech National Bank (CNB) is now assisting the EBA in determining what limited additional time is appropriate to reach full compliance with the SCA requirements in the Czech Republic and the EU, and will factor the EBA's decision into its supervisory approach.

CNB says it is paramount that customers should be able to make payments, including online, after SCA takes effect.

NORWAY

Norway's regulator, Finanstilsynet, has agreed to provide an extension for merchants in an attempt to avoid consequences for users who pay by card when shopping online.

Payment service providers may be granted an extension by special agreement with Finanstilsynet.

MALTA

Malta's Central Bank has confirmed that it will be allowing payment service providers in the online gambling hub to delay compliance with EU rules on SCA.

Businesses will be allowed to produce a migration plan for compliance with the regulatory technical standards of SCA.

SLOVAKIA

Banks and payment service providers in Slovakia are finalising preparations to implement the provision of SCA for payments.

The National Bank of Slovakia is consulting with the Slovakian banking community on the best way to implement SCA.

SLOVENIA

A spokesperson for the Bank of Slovenia tells *EPI* that it intends to decide whether to allow limited additional time for payment service providers to migrate to authentication approaches that comply with SCA.

CROATIA

A spokesperson for the Croatian National Bank tells *EPI* that, until the EBA makes a further public announcement, it will not be expressing any opinion on the issue.

SPAIN

The Bank of Spain is currently in discussions about what to do in terms of SCA implementation.

It is attempting to determine, in consultation with the industry, all the various implications of SCA.

COUNTRY SNAPSHOT: JAPAN

Credit cards remain the preferred type

Japan's payment landscape continues to be dominated by cash, which accounted for 76.2% of the overall payment volume in 2018.

With government initiatives to promote electronic transactions and growing payment infrastructure, payment cards gained prominence during 2014-2018.

The upcoming 2020 Olympic and Paralympic Games are expected to provide impetus to the country's cards and payments industry. To supplement these global events, all the country's major banks are making their payment infrastructure compatible with foreign-issued cards, and are also installing ATMs at locations with high footfall, such as tourist attractions and supermarkets.

Meanwhile, issuers and payment service providers are focusing on developing payment infrastructure via the expansion of the payment-acceptance network.

The market is also seeing developments in payment card security and convenience, with issuers and technology companies experimenting with technologies such as blockchain and biometrics.

Debit card penetration is very high in Japan, with each individual holding over three debit cards in 2018, supported by the country's strong banked population. However, use has been mostly confined to cash withdrawals at ATMs, and the cards are rarely used for payments.

Overall, ATM cash withdrawals accounted for 87.9% of the total debit card transaction value in 2018. This is at least partly a result of limited consumer awareness of the ability to use debit cards at the POS.

Debit cards are also unpopular with merchants due to their long settlement periods. Payments conducted via J-Debit cards are can take three days or longer to reach merchants' accounts.

PAYMENT CARDS BY TYPE (MILLION)

	DEBIT	PAY LATER
2014	421.7	258.9
2017	441.2	278.3
2018e	451.5	285.0
2022f	478.9	303.3

Source: GlobalData

Despite their lower penetration, credit cards are the preferred card type, accounting for 98% of the total payment transaction value in 2018. The popularity of credit cards is largely a result of their associated reward programmes, which are considered far more beneficial than those offered for debit and prepaid cards.

Another important factor is wider acceptance, with credit cards now accepted by all types of merchants. Issuers have also partnered with merchants to attract new customers and launch co-branded credit cards.

Japan is one of the few countries to have a crypto-friendly regulatory regime, and has officially recognised Bitcoin as a legal payment instrument since April 2017. There has also been a gradual rise in cryptocurrency acceptance at merchants, which are increasingly opting for this method of payment due to benefits such as lower transaction fees, no chargebacks and cheaper acceptance from tourists.

Large merchants such as Bic Camera and Yamada Denki in Japan also now accept cryptocurrency payments. ■

CARD TRANSACTION VALUES BY CHANNEL ($ BILLION)

	ATM	POS
2014	114.2	428.1
2015	110.7	461.3
2016	109.1	499.9
2017	107.6	542.3
2018e	106.3	587.6
2019f	105.0	634.2
2020f	103.9	675.1
2021f	102.6	715.6
2022f	101.5	752.6

Source: Bank for International Settlements, GlobalData

CARD TRANSACTION VOLUMES BY CHANNEL (MILLION)

	ATM	POS
2014	265.1	8,148.7
2015	251.4	8,889.2
2016	250.9	9,768.8
2017	243.9	10,635.4
2018e	238.8	11,619.6
2019f	235.3	12,332.0
2020f	231.3	12,964.0
2021f	227.0	13,688.6
2022f	223.2	14,356.3

Source: Bank for International Settlements, GlobalData

NUMBER OF ATMS AND POS TERMINALS (THOUSAND)

	ATM	POS
2014	136.8	2,019.5
2015	136.7	2,081.8
2016	136.8	2,141.3
2017	137.0	2,201.5
2018e	137.1	2,255.8
2019f	137.1	2,310.2
2020f	136.4	2,350.2
2021f	136.0	2,382.2
2022f	135.5	2,420.9

Source: Bank for International Settlements, GlobalData

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