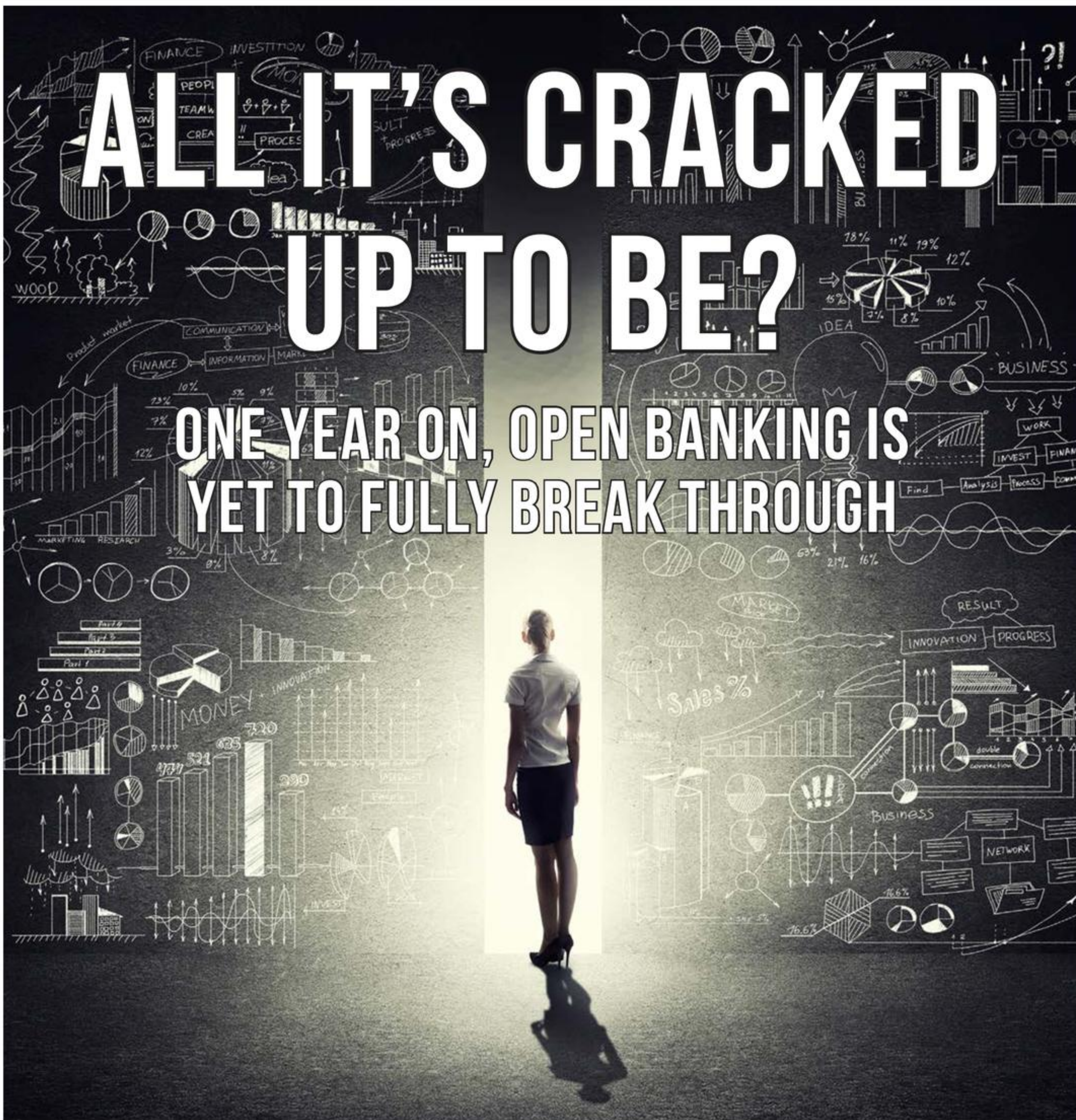


ELECTRONIC PAYMENTS

INTERNATIONAL



ALL IT'S CRACKED UP TO BE?

ONE YEAR ON, OPEN BANKING IS
YET TO FULLY BREAK THROUGH

COUNTRY SURVEYS

Key data and payments market analysis for the US, Australia and Hong Kong

INSIGHT

Do we need to take our foot off the payment innovation accelerator?

FEATURE

Brazil gears up for fintechs, low-cost instant payments and Open Banking

THIS MONTH



NEWS

05 / EDITOR'S LETTER 06 / DIGEST

- Scottish fintech sector trebles in size in 12 months
- ABN AMRO wearable payments technology now available
- Barclays and Santander invest in MarketInvoice
- Sberbank enables fingerprint payments
- Commerce solutions provider FreedomPay expands
- Pay.UK volumes reach record in Bacs anniversary year



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: Briony Richter +44 (0)20 7406 6701 briony.richter@verdict.co.uk	Publishing Assistant: Mishelle Thurai +44 (0)20 7406 8633 mishelle.thurai@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

Financial News Publishing, 2012. Registered in the UK No 6931627. ISSN 0954-0393
Unauthorised photocopying is illegal. The contents of this publication, either in whole or part, may not be reproduced, stored in a data retrieval system or transmitted by any form or means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publishers.

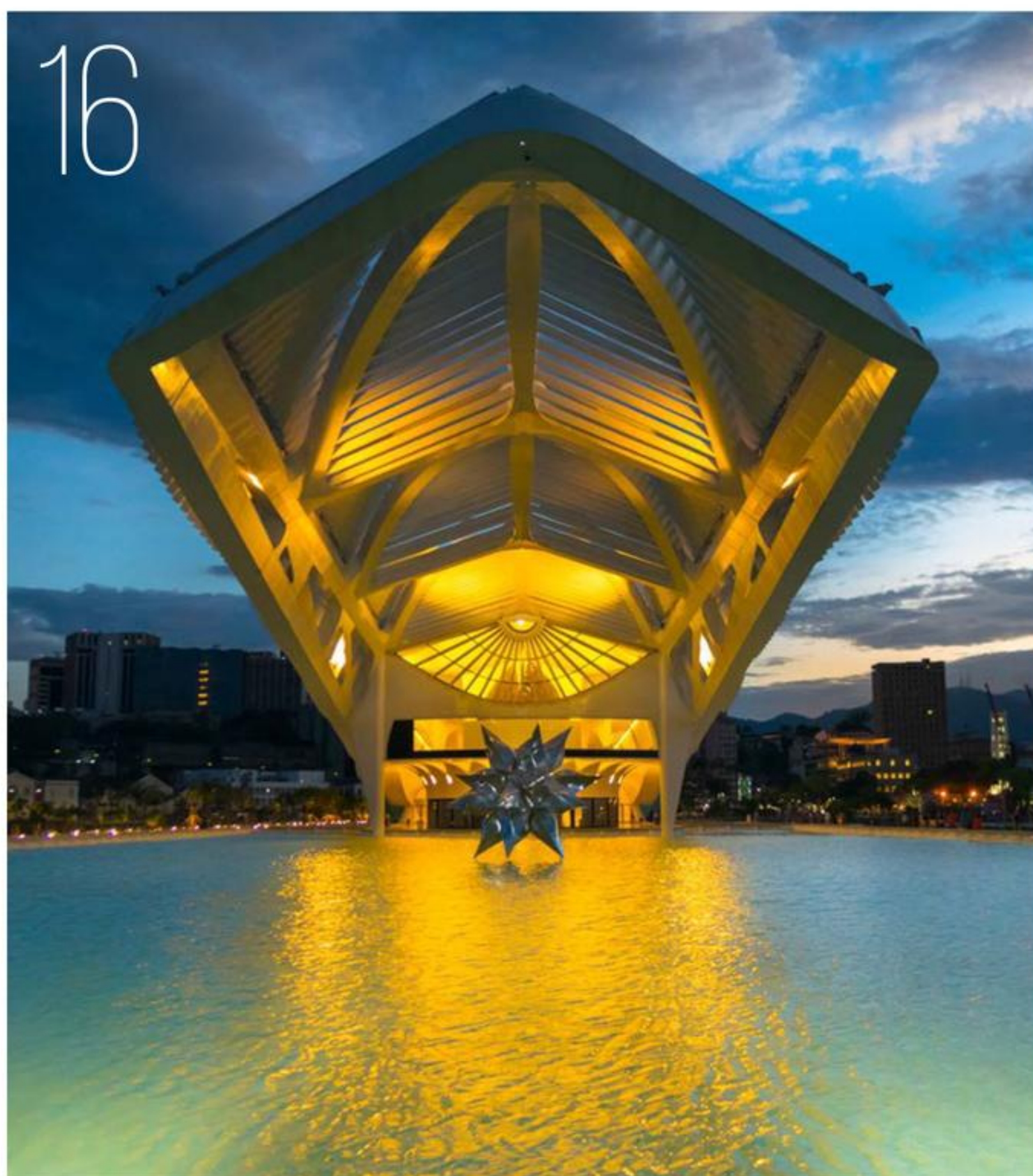
For more information on Verdict, visit our website at www.verdict.co.uk.
As a subscriber you are automatically entitled to online access to Electronic Payments International.
For more information, please telephone +44 (0)20 7406 6536 or email briefings@verdict.co.uk.

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

ELECTRONIC PAYMENTS INTERNATIONAL	VERDICT	SHORTLIST DATA & DIGITAL PUBLISHING Awards 2017	MEDIA PIONEER AWARDS COMMENDED 2011
--	----------------	--	--

FOLLOW EPI ON TWITTER @PAYMENTS_NEWS

FEBRUARY 2019



STRATEGY

12 / PAYSAFE

Paysafe Group sees opportunities to expand in the US, particularly in the SME sector, following two recent acquisitions. It offers a 'one-stop shop' to meet merchants' needs, COO Danny Chazonoff tells *Robin Arnfield*

20



COUNTRY SNAPSHOTS

18 / THE US

The US payment card market is very mature, with a high penetration rate of more than four per cards per inhabitant. A broad range of card-issuing and alternative payment brands are also available to consumers

20 / AUSTRALIA

The Australian payment card market continues to evolve at a rapid pace. Australians are very comfortable using debit and credit cards for payments, and the two card types are used almost interchangeably

21 / HONG KONG

Hong Kong is a global financial hub, with few regulatory barriers for foreign banks and card payment participants. This encourages banks from Mainland China and other overseas markets to expand in the territory

INDUSTRY INSIGHT

22 / INGENICO

Do we need to take our foot off the accelerator when it comes to payment innovation? Are we innovating simply for the sake of it, instead of for customers? *Ian Benn*, SVP at Ingenico, writes

16

FEATURES

10 / INGO MONEY

While US banks slowly migrate to real-time payments, one fintech is already providing instant push-to-card payments to consumers and businesses in a bid to eliminate cheques and ACH payments. *Robin Arnfield* writes

14 / OPEN BANKING

It has been a year since Open Banking launched; however, the movement has been quiet since its introduction, and few seem to have been impressed. Was PSD2's bark worse than its bite? *Patrick Brusnaban* writes

16 / BRAZIL

Brazil's financial services industry is facing a number of key changes, opening the door to fintechs with the introduction of low-cost instant payments and Open Banking, among other measures. *Robin Arnfield* reports

ANALYSIS

13 / OPEN BANKING

Slow to take off but picking up the pace, Open Banking could yet transform financial services and offer better deals for banking customers. *Briony Richter* looks at new research into the area by Temenos



KASIKORNBANK AIMS HIGH AS K PLUS USERS PASS 10 MILLION



Douglas Blakey, Editor

Read many an investor presentation from banks around the world on more or less a weekly basis, and occasionally one stands out from the crowd.

Such is the case with the January 2019 effort from Kasikornbank. Thailand's fourth-largest bank by assets – by loans and deposits it also ranks fourth – has set some eye-catching targets.

Take its K-Plus mobile banking offering. Already K-Plus has 10 million customers; that in itself is an already impressive number, given that Kasikornbank has around 14 million customers in total. And it represents impressive annual growth: the bank ended 2017 with 7.3 million users, up from 4.6 million the previous year, but it is a drop in the ocean compared to the target it has set. The bank believes it can grow K-Plus numbers to up to 100 million by expanding it to the regional market via partnerships. It is also continuing to target low-income earners who are not currently Kasikornbank customers.

Organic growth targets for retail loans are in the range of 9-12% for 2019, and it is using machine lending and artificial intelligence technology to initiate financial and life solutions related to customers' lifestyles and needs.

K Bank grabs ride-hailing deal

And then there is the investment in Grab: in November last year, K Bank invested \$50m in the ride-hailing firm, with an aim to help launch the GrabPay electronic wallet in its sixth South-East Asian market in 2019.

The deal also enables K Bank to use Grab's data on merchants and drivers. The goal is to craft loan products while minimising non-performing loans with optimised use of data. So the Grab app will be integrated with the K Plus app and the bank will offer loans via the apps.

Other 2018 highlights included a local chart-topping success in the Apple App store. K Plus is Thailand's most popular app on Apple's iOS platform outside the gaming segment, ahead of local rival banks Siam Commercial, Krung Thai Bank and Bangkok Bank.

But it is the use of data and its potential for monetisation that really is attention-grabbing. K Bank really is aiming high in terms of becoming what it terms a 'data-driven bank', and believes that project data-driven data will account for one-half of its income by 2020.

Such ambitions do not come cheap. K Bank's IT group has set an investment budget for tech development this year of around \$160m. It is, admittedly, a modest sum by Chase or Citi standards, but in the context of the Thai market, it is a significant investment. And if K-Plus can grow user numbers to anything approaching 100 million, and get close to its data revenue targets, K Bank will certainly put itself on the map.

Mastercard trumps Visa for Earthport

As *EPI* goes to print comes news that Mastercard looks to head off rival Visa as it attempts to buy Earthport for £233m (\$306m).

Over the Christmas period, Visa made an unexpected £198m bid for the company. The offer was recommended by the Earthport's board and put to shareholders; however, in a statement to the market on 25 January, Earthport's board withdrew its recommendation for Visa's offer and urged shareholders to instead take Mastercard's deal, which is at a 10% premium to Visa's. Earthport's shares, which have risen four-fold since Visa first offered to buy the company, rose another 30% to £0.36.

Earthport has been around the block a few times since it was founded in 1997. It floated on AIM in 2009, and its adjusted operating loss for 2018 rose by 33% to £8.4m (FY2017: £6.3m). Its share price stumbled around single-digit territory for much of 2018, reaching a low of £0.055 in December, having peaked at £0.48 in April 2015.

Earthport provides cross-border payment services in the UK, Europe, North America and internationally, operating through two segments: transactional and professional services. It does this through a combination of a network of segregated bank accounts in various geographies, software that mirrors movements of funds from bank to bank, and a knowledge base embedded in the platform and organisation related to each country.

A deal for either Mastercard or Visa makes sense from the perspective of growing revenue from international money transfers. In other words, Earthport offers a revenue stream not dependent on traditional plastic cards. At the figures being canvassed the purchase price does seem steep, but is quite a coup for the new management team that took over at Earthport last year. ■

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

OPEN BANKING: NOT ALL IT WAS CRACKED UP TO BE?

It has been a year since Open Banking launched and was supposed to take the banking world by storm; however, the movement has been fairly quiet since its much-advertised introduction, and few seem to have been impressed. Was PSD2's bark worse than its bite? *Patrick Brusnahan* writes

Open Banking and PSD2 were hyped up to be a revolution for banks; some, however, have argued that it has arrived not with a bang but a whimper.

UK fintech influencer Liz Lumley tells *EPI*: "I don't think Open Banking has had a negative impact on banks at all; they see it as a regulatory burden, but really they just don't realise the potential.

"Think of Open Banking like this: you walk into McDonald's and order a McDonald's hamburger, McDonald's French fries and a Coca-Cola drink. McDonald's and Coca-Cola are two separate companies, but you are buying a Coke inside McDonald's. McDonald's allowed that because it didn't see the value in developing a proprietary drink brand. McDonald's offered Coca-Cola its API – in this case it would be the style of drinks fountain – and Coca-Cola used it to deliver a drink that was compatible with these drink

fountains. Finally, the customer consents to drinking a Coca-Cola product inside a McDonald's establishment. It's good for

“

**BANKS THAT FAIL
TO SEIZE THE
OPPORTUNITY MAY
WELL DISAPPEAR**

customers and it's good for business.

"What banks are doing now is selling their current accounts, pet insurance,

mortgages, saving accounts, personal financial management and so on instead of allowing their customers (McDonald's) to use a third-party pension app (Coca-Cola) to manage their pensions inside their current accounts. This is not in the consumers' interest."

Jake Ranson, banking and financial institutions expert and chief marketing officer at Equifax UK, says: "Open Banking was implemented a year ago to create a revolution in consumer finance. While the initiative is taking time to fully embed, it is without doubt having a profound impact, and we expect it to play a central role in the banking sector in the years ahead. As more companies evolve the new technology into live customer journeys, consumers will begin to experience the full benefits of the proposition and demand for Open Banking will increase."

With the new system, banks had to open their payments infrastructure and customer data assets to third parties. The goal was to

make the incumbents more customer-focused, but it has not had its desired effect. In fact, everyone except banks seems to have gained an advantage.

According to a report from Pepper, the digital sub-brand of Israel-based Bank Leumi, banks are not happy. Within the *Change In Banking* report, 58% of decision makers at banks stated that Open Banking had a negative impact on their organisations; however, 56% of banks still believe it represents an opportunity.

The consensus is that Open Banking favours fintechs and technology giants Google, Amazon, Facebook and Apple (GAFA) rather than the incumbents. In fact, 64% of UK retail banks, such as Barclays, TSB, Virgin Money and RBS, believe it has given GAFA the advantage. Also, 24% of respondents believe it has given fintechs the distinct advantage. Furthermore, two-thirds of decision makers think technology giants will offer full banking services within the next five years. Despite this, consumers do not, in general, think GAFA will overtake banks; a mere 29% believe they will.

Asked why retail banks are slipping behind innovative fintechs, 65% claimed it was because there is a reluctance to adopt external technology. On the other hand, 54% said collaboration with fintechs is essential if banks want to increase the pace of innovation. An additional benefit of collaboration, at least according to 48% of decision makers, is to cut through the red tape that Open Banking brings with it.

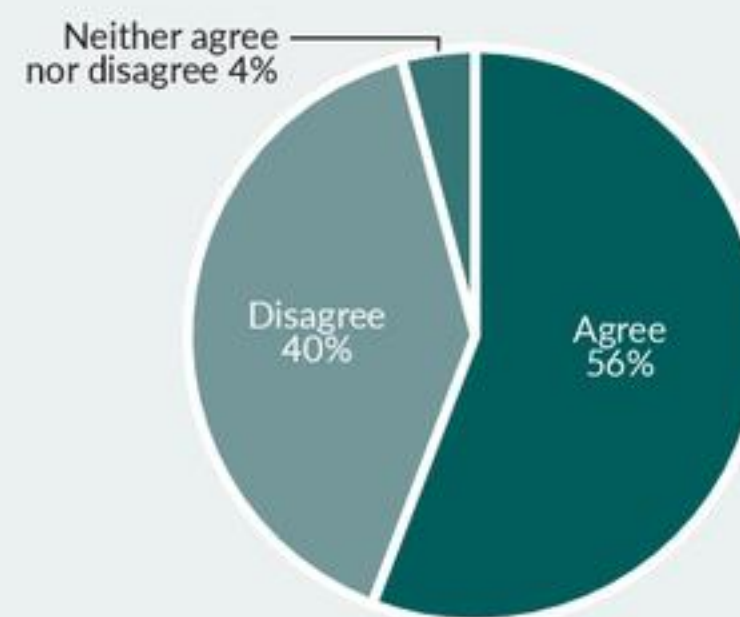
Speaking to *EPI*, Pepper CEO Michal Kissos Hertzog says: “Despite the concern, Open Banking won’t cultivate a winner-takes-all scenario. Regulations like PSD2 and initiatives such as Open Banking are set to change the face of banking. Banks with agile and lean systems that allow them to update their offering and continue to meet consumers’ demand for more valuable, convenient and easy banking experiences will thrive; banks that fail to seize the opportunity may well disappear.”

Hertzog continues: “The public may not fully appreciate Open Banking, but they are certainly starting to feel the benefits. The industry’s views on Open Banking are mixed, but it has to be seen positively.

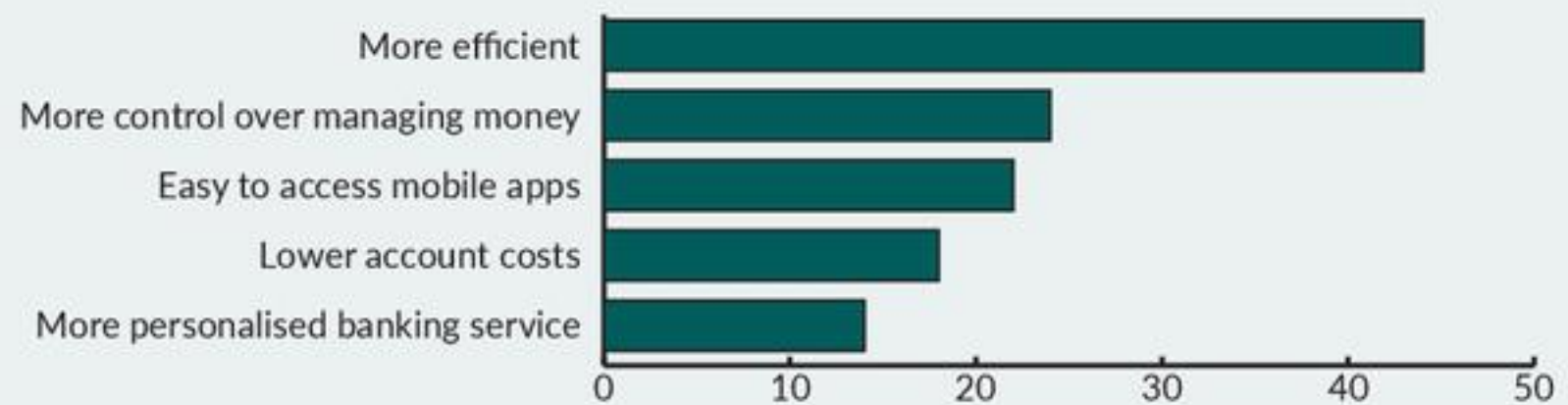
“I believe that banks need to collaborate more openly with other players. We share the same goals; why don’t we share innovation and technology? Open Banking architecture promotes collaboration between banks and fintechs, and that is a significant opportunity.”

CONSUMER PREFERENCES

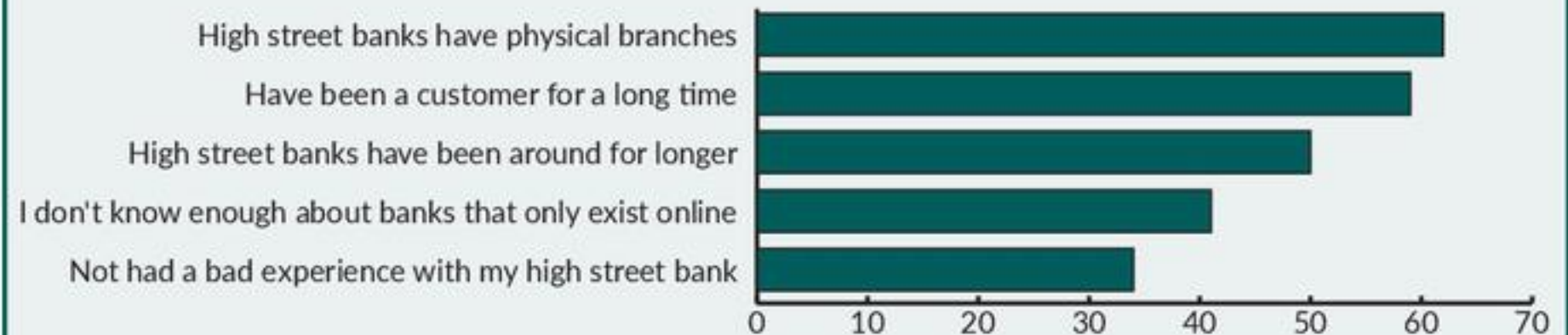
Open banking is an opportunity for UK retail banks



Reasons why consumers have chosen online-only banks



Reasons why consumers trust high street banks more than online-only



Source: Pepper

WILL THE FUTURE CHANGE?

Open Banking was not what people hoped – at least not yet – so what will the future of banking look like?

“Open Banking is still in its infancy and, of course, many challenges still lie ahead, namely an educational deficit regarding how Open Banking can improve consumers’ financial lives, as well as understanding data’s positive predictive capabilities,” Ranson says.

“It is equally important that reassurance is provided around the control and maintenance of individuals’ data, reiterating that the information will only be used with their permission and they can revoke access at any time. It’s up to the banks and providers like ourselves to communicate the real-life benefits the initiative can bring. We expect 2019 to be a successful year for Open Banking as impetus, insight, awareness and product-based solutions grow.”

Lumley says: “Banks, just like any large, multi-siloed and heavily regulated

organisations, have inherent structural problems, and they are working very hard to resolve these issues.

“But if a fintech start-up has developed a service or an app that consumers want to use, and that gets around the issue of internal silos, banks shouldn’t be making it hard for their customers to use these apps in conjunction with their traditional account. Collaboration, ecosystems and partnerships are messy, and it’s a long, hard, cultural struggle, but that’s how innovation works.”

Hertzog concludes: “A bright, promising banking future is possible, but only if retail banks put customers at the heart of every decision. They must forget about product development and cost cutting, and think differently. All too often banks are too ‘proud’ to adopt technology that is not their own.

“They must recognise the importance of collaboration to meet growing customers’ digital demands. Only then can they truly embrace digital and provide a more consumer-centric banking experience.” ■

BRAZIL'S CENTRAL BANK PLANS INSTANT PAYMENTS SYSTEM

Brazil's financial services industry is facing a number of key changes, opening the door to fintechs with the advent of low-cost instant payments and Open Banking. *Robin Arnfield* reports

Brazil is characterised by heavy government, central bank regulation of payments, and the important role of fintechs and other new entrants in the banking and payments markets.

In 2018, the Banco Central do Brasil (BCB) established plans for a real-time 24/7 payments system that will be open to fintechs and payments institutions, and will facilitate mobile payment adoption. The new system will offer P2P, P2B, B2B and payments to and from government agencies, and will be operational by 2021.

Payments institutions are regulated by BCB, and are allowed to offer m-payment and m-banking services, including digital wallets, to low-income consumers. The BCB wants its instant payments system to be usable by all types of technology and through all kinds of institution. This opens the door to instant payments via QR codes, and between accounts held at card issuers and fintechs.

Brazil's existing interbank payment systems only offer near-real-time transfers between bank accounts. They require considerable data input by payers and payees, and are only available during banking hours. They also have high fees – ranging from BRL2.30 (\$0.63) to BRL143.20, according to BCB data – which the new system will undercut.

In December 2018, BCB approved the requirements for the instant payments system, for which it will act as single settlement infrastructure operator. These requirements establish the system's basic characteristics, including governance, forms of participation, centralised infrastructure settlement services, connectivity and liquidity provision.

In consultation with stakeholders, the BCB will define the instant payments ecosystem's regulation. The system is expected to be flexible and open, to ensure access for and the emergence of participants offering innovative services meeting the needs of users, BCB says. The new instant payment system is designed to replace cash and speed up existing retail payment systems.

Currently, for purchases Brazilians use cards, cash or *boleto bancário*, a barcoded bank slip that can be settled at payment points such as convenience stores, supermarkets or bank branches. Accounting for around 25% of all online payment transactions, *boleto bancário* is popular both with enterprises and with consumers who lack credit cards or prefer the security of offline or cash payments. In addition, for the 55 million unbanked Brazilians, *boleto bancário* is currently the only means of payment for goods or services purchased online.

MARKET OVERVIEW

According to BCB, 86.5% of Brazilians aged over 15 had bank accounts in 2017, while 44% of adults had credit cards. Some 66% of total transactions took place via remote channels in 2017.

The Brazilian association of credit card and service companies, Associação Brasileira das Empresas de Cartões de Crédito e Serviços, says that in the third quarter of 2018, purchases with credit, debit and prepaid cards rose 14.7% year on year to BRL391.1bn. Credit card purchases rose by 14.8% to BRL244.4bn, debit cards by 13.7% to BRL143.8bn, and prepaid cards by 67% to BRL2.9bn. There were 606 million physical cards in circulation in Brazil at the end of 2017. As a large number of cards are combination cards, with both a debit and a credit function, the total number of card functions was therefore higher, at 741 million.

At the end of 2017, Mastercard, including Maestro, had 21% of the market, followed by Visa, including Visa Electron, with 20%. Elo, Brazil's domestic card scheme, which competes with international brands, had 14%, while other domestic schemes had 10%. Amex had 0.2%, Diners Club 0.03%, and private-label cards 35%.

“Elo is big in debit, approaching 25% market share, and will likely overtake Visa as the second-largest brand in the first half of 2019,” says Guilherme Lima, CEO of Brazilian consultancy Ponto Futuro Consultoria Estratégica. “Its market development in credit cards has been more challenging.”

Lima continues: “Elo’s credit card market share is still below 5%, and its growth has only ramped up in since 2016, after ensuring international acceptance via Discover. Also, Elo still has to overcome a perception of narrower acceptance compared to Visa or Mastercard, and lower brand equity, which makes it harder for Elo to be consumers’ preferred card of choice.”

“Contrary to debit, it’ll take a few years before Elo can challenge Visa’s credit card dominance position, even taking into account the big marketing push by Elo’s shareholders, Bradesco, Banco do Brasil and Caixa Econômica Federal.”

Lima explains that GPR prepaid cards never really took off in Brazil. “They are mostly confined to very specific niches, such as paying wages for domestic workers and other unbanked groups,” he says. “A key challenge that GPR program managers and specialised GPR issuers face is the lack of a cost-effective cash-out network, as the ATM market is dominated by large banks. They charge substantial fees to provide access to their ATMs.”

NFC/CONTACTLESS

Despite high levels of smartphone adoption in Brazil, NFC payments still have not become mainstream.

Lima notes that contactless card issuing has been negligible in Brazil, despite most POS terminals being contactless-ready. “Samsung Pay was launched in 2016 in Brazil, and Apple Pay in April 2018,” he says. “Apple Pay seems to have gained modest traction faster, having launched with a more distinct focus of its target public – affluent and mass affluent – and leveraging a partnership with an issuer, Itaú Unibanco, and merchant promotions.”

Google Pay launched in March 2019, in association with rival bank Bradesco.

In September 2018, Cielo, Brazil’s largest acquirer, launched a QR code-based mobile payment system with its two shareholders, Bradesco and Banco do Brasil, and other partners. Its QR Code Pay system aims to sign up 40 million users both for MPoS payments and e-commerce transactions

INSTANT PAYMENT SERVICE PROVIDERS

Instant payment service providers are classified in three groups:

- **Direct participants:** Financial or payment institutions that offer users transaction accounts (e-money payment accounts and chequeing accounts), and that have settlement accounts at BCB and a connection with the centralised settlement infrastructure;
- **Indirect participants:** Financial or payment institutions that offer users transaction accounts and that do not

have a settlement account at BCB or a connection with the centralised settlement infrastructure. Indirect participants must perform their settlements through a direct participant, and

- **Payment initiation service providers:** Institutions that do not offer users transaction accounts, but offer payment services based on those transaction accounts that users hold at financial or payment institutions. ■

In August 2018, Itaú Unibanco, Rede and PayPal announced a digital payments partnership to facilitate online and in-app purchases. PayPal Brazil’s general director, Paula Paschoal, told Reuters that the company expected to add one million users to its 3.8 million clients in Brazil in two years as a result of the partnership; as of August 2018, 300,000 merchants in Brazil used PayPal.

“The partnership is designed to make it easier for customers to link their Itaú credit cards – Itaú, Itaucard, Hipercard and Credicard brands – to their PayPal wallet,” an Itaú spokesperson tells *EPI*. “Also, the partnership will increase the security and authentication of transactions. Itaú, Rede and PayPal will work closely using data tools, risk analysis and anti-fraud systems to provide a secure, convenient shopping experience online and in-app.”

Customers’ linked Itaú cards can be specified by the customer as a payment option in their PayPal account.

ACQUIRING

In 2010, the government ended the monopoly under which only two acquirers were allowed to operate in Brazil, Visanet, now Cielo, and Redecard, now Rede. It also ended the exclusive relationships that Cielo had for capturing Visa cards and Rede for Mastercard-branded cards.

In 2013, BCB introduced new regulations to ensure that merchants had freedom to choose which acquirer or processor they wanted to use.

According to Brazilian consultancy Boanerges and Cia, there were at least 13

acquirers in Brazil in 2018. Additionally, as of May 2018, there were 377 fintechs in Brazil, with 25% of them dedicated to payments and remittances, according to Finnovation.

FOREIGN INVESTMENTS

There is a growing trend for foreign investments in Brazilian fintechs.

Brazilian processor Stone Pagamentos raised \$1.5bn in its Nasdaq IPO in October 2018, with Berkshire Hathaway and Ant Financial among its shareholders. PagSeguro raised \$2.3bn in its IPO on the New York Stock Exchange earlier in 2018.

In October 2018, Visa made an unspecified investment in Brazilian digital payments processor Conductor. The two companies are collaborating to develop issuer-focused solutions for payments tokenisation via mobile wallets and to expand the use of push payments through Visa Direct. Also in October 2018, China’s Tencent invested \$180m in Brazilian fintech Nubank, which plans to offer consumer loans in addition to its existing credit cards and digital payment accounts.

In February 2018, RecargaPay received \$22m in Series B funding to roll out its mobile wallet and m-payment platform to unbanked and underbanked Brazilian consumers. Its mobile wallet is used by 10 million consumers, enabling them to pay bills, top up cellphones and buy public transit cards and gift cards.

“Brazil’s payments industry has attracted a lot of international interest and capital, examples being Stone’s and PagSeguro’s 2018 IPOs,” says Katie Llanos-Small, editor of Latin

LEADING BRAZILIAN SCHEMES – CREDIT AND CHARGE CARDS (2017)

	CARDS IN CIRCULATION (THOUSANDS)	MARKET SHARE	TRANSACTION VALUE (BRL BILLION)	MARKET SHARE
American Express	1,323	0.9%	14.6	1.9%
Diners Club	315	0.2%	1.5	0.2%
Elo	6,023	4.0%	18.8	2.4%
Hipercard	6,621	4.4%	25.3	3.3%
Mastercard	77,226	51.4%	370.9	48.0%
Visa	57,222	38.1%	338.9	43.9%
Others	1,425	0.9%	1.9	0.3%
Total	150,154		772.0	

Source: GlobalData

LEADING BRAZILIAN SCHEMES – DEBIT CARDS (2017)

	CARDS IN CIRCULATION (THOUSANDS)	MARKET SHARE	TRANSACTION VALUE (BRL BILLION)	MARKET SHARE
Elo	99,055	30.6%	434.9	23.6%
Mastercard	119,229	36.8%	781.9	42.4%
Visa	99,434	30.7%	597.3	32.4%
Others	5,996	1.9%	30.3	1.6%
Total	323,714		1,844.5	

Source: GlobalData

American financial news provider *Iupana*. “It’s a big market and there’s still a lot of potential for growth. There’s still a long way to go for contactless payments in Brazil. Roughly 80% of POS are NFC-enabled, but most are concentrated in the big cities.

OPEN BANKING

Payments industry expert Francesco Burelli points out that Brazil’s Open Banking initiative has a very wide reach. “The initiative is more pervasive than Europe’s PSD2, and similar to the scope of what’s being implemented in some South-East Asian countries,” he says. “It includes a mandate covering banking product information as well as transaction and balance information and payment initiation.

Although Open Banking was initiated under Brazil’s previous government of President Michel Temer, the new government of President Jair Bolsonaro does not want to change the regulations being developed, notes Burelli.

“Open Banking regulations are expected to be released in phases over a period of three years,” he says. “The initiative aims to foster competition within a concentrated financial services industry that, while having many players, is concentrated in a small number of institutions holding majority market share in various products.”

Llanos-Small says Brazil’s big banks are actively looking at how API platforms work, and how they can use APIs and benefit from them. “This has largely been a proactive move by banks, not one that’s really been pushed by regulators,” she says. “But it’s clear that Open Banking is going to be mandated in Brazil.”

While Itaú Unibanco had not developed Open Banking APIs as of November 2018, according to Itaú IT director Lineu Andrade, *Iupana* reports that Bradesco, Banco do Brasil and digital-only Banco Original are experimenting with open APIs. Banco do Brasil launched its Open Banking developer portal in June 2017.

“Although technology plays an important role in Itaú’s advancement, we’re currently not developing APIs for open payments,” said Andrade when interviewed in November 2018. “We seek to become a digital bank from the inside out, and invest in initiatives to improve the experience of our customers and employees. Technologies being adopted include the blockchain, the cloud, machine learning and AI, plus the full digitalisation of client interactions and back-office activities.”

Itaú Unibanco has established the Cubo Itaú incubator, which covers various industries including fintech; in November 2018 it had 10 fintechs as members. Andrade says that by November 2016, over 60 projects had been set up by Itaú and by Cubo’s resident startups. “One example is BLU365, formerly Kitado,

a debt-renegotiation platform that helps Itaú leverage leads and digital relationships,” he adds.

COMPETITION

Open Banking will generate greater competition in payments, says Burelli. “By 2021, Brazil will have implemented open payments, so that non-bank fintechs can register as payments providers,” he explains. “Via Open Banking, non-banks will be able to initiate payments through current accounts or e-money accounts.”

Brazil’s four major banks have a monopoly on current accounts and retail payments. Cards are expensive for merchants to accept, as the average merchant service charge is 2%, and retailers receive their funds after 30 days. Some card schemes charge merchants up to 4%, Burelli adds.

“Brazil has a relatively high cost of card payment acceptance compared to other markets, a relatively high cost of retail and SME credit, and a paper-based instrument, *boleto bancário*, which is pervasively used across many merchant categories,” he says. “These factors provide an attractive market for fintechs and large merchants alike to target the development of business models, reducing the direct and indirect costs of payments and of liquidity.”

With Open Banking, retailers could register as payments providers and incentivise customers with rewards to use their own real-time payments systems. This would save them 2-4% in merchant charges, and ensure instant payment from customers.

“Brazil is a highly sophisticated, mature market for financial and retailing services, with a growing digital and electronic and mobile commerce industry, where I would expect change to be driven rapidly by large players, possibly retailers or large-volume billers looking to reduce their cost of payments and to improve their working capital,” Burelli says.

“Some fast movers – fintechs and banks alike – will likely move rapidly onto the opportunity, partnering with brands from other industries in search of large-scale access to consumers, or developing value-added solutions to consumers or retailers.

“Also, the expected roll-out of mobile payment services resulting from Open Banking in Brazil will potentially target the 55 million underserved Brazilians. This is 26% of the total 211 million inhabitants, based on World Bank data.” ■

COUNTRY SNAPSHOT: AUSTRALIA



Contactless card use soars in a rapidly evolving market

The Australian payment card market continues to evolve at a rapid pace. Australians are very comfortable using debit and credit cards for payments, and the two card types are used almost interchangeably.

Recent growth in the payment card market has been characterised by the rise of contactless payments, growth in debit card use, and the emergence of digital wallets. Digital wallets, however, still need to demonstrate greater benefits and convenience compared to payment cards.

Consumers now have more choices, particularly for low-value purchases, and use of cash has declined as a result. This transition to electronic payments is expected to continue to 2022, as the number of contactless payments grows and the New Payments Platform is launched.

Competition among card issuers has therefore heightened, and as consumers increasingly turn to digital channels, the stakes have been raised further, with new challenger banks such as Volt and Xinja likely to pose a threat to major financial institutions in the country.

Debit cards are expected to surpass pay-later cards in terms of card payments value over the period to 2022, as a growing number of Australians are cutting unnecessary spending and increasingly using debit cards for payments.

To compensate for revenue loss due to the reduction in interchange fees, issuers have increased annual fees and cut reward benefits, particularly on premium credit cards, making them even less appealing than previously. However, some issuers have begun to offer benefits on debit cards, including cashback, fee-free ATM access and reward benefits, leading to a growth in debit card use.

Australia is one of the world's most highly developed contactless card markets,

with most consumers having access to a contactless payment card. Australian consumers and financial institutions have embraced the technology, with the extensive acceptance infrastructure being a key reason why the cards are so popular.

Backing from large banks and large merchants has made contactless a standard form of payment in the market. The number of contactless cards rose from 29 million in 2014 to 56.5 million in 2018, at a robust CAGR of 18.1%; the figure is anticipated to reach 79.7 million by 2022.

E-commerce in Australia recorded strong growth, rising from A\$24.8bn (\$19.39bn) in 2014 to \$31.78bn in 2018, at a CAGR of 13.2%. Rapid smartphone adoption, growing internet penetration, the availability of secure online payment systems, and the growth of online sales events such as Boxing Day, Black Friday, Cyber Monday and Singles Day are driving the e-commerce market.

The availability of alternative solutions such as PayPal, Apple Pay, BPay and POLi for online purchases has also supported the e-commerce market's growth. ■

PAYMENT CARDS BY TYPE (MILLION)

	DEBIT	PAY LATER
2014	41.3	23.4
2017	47.0	24.7
2018e	48.9	25.1
2022f	54.5	26.8

Source: GlobalData

CARD TRANSACTION VALUES BY CHANNEL (\$ BILLION)

	ATM	POS
2014	119.6	393.9
2015	117.8	420.4
2016	113.5	444.8
2017	110.9	473.7
2018e	108.1	504.4
2019f	105.9	535.1
2020f	103.9	565.3
2021f	102.4	594.2
2022f	101.1	620.6

Source: Reserve Bank of Australia, GlobalData

CARD TRANSACTION VOLUMES BY CHANNEL (MILLION)

	ATM	POS
2014	766.6	5,903.3
2015	727.4	6,564.3
2016	673.7	7,377.4
2017	634.1	8,330.5
2018e	590.7	9,178.8
2019f	553.7	9,992.2
2020f	524.1	10,745.3
2021f	502.8	11,445.9
2022f	486.0	12,083.5

Source: Reserve Bank of Australia, GlobalData

NUMBER OF ATMS AND POS TERMINALS (THOUSAND)

	ATM	POS
2014	31.5	843.6
2015	31.7	956.2
2016	32.9	954.2
2017	31.9	959.5
2018e	32.3	971.9
2019f	32.8	990.2
2020f	33.4	1,015.8
2021f	33.8	1,039.5
2022f	34.2	1,060.5

Source: Reserve Bank of Australia, GlobalData

ELECTRONIC P A Y M E N T S

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

***Electronic Payments International* is dedicated to tracking and understanding global consumer payments.**

As the only editorially independent and globally focused briefing service, we are the go-to source for issuers, processors, MAs, banks and other key stakeholders in the industry. They access *Electronic Payments International* to gather reliable insight and opinion on how the industry is developing, along with updates on company strategy, products, entrants and market sizing.

Through login credentials, readers access Special Reports on trends, new products, strategy, regulation and technology use. Alongside these are daily editor-curated newswires, country reports, data and monthly *EPI & FinTrack* publications.

To check if your organisation has access, request a full edition or walkthrough, email briefings@verdict.co.uk.

Thanks for your time,

The *Electronic Payments International* team