POSitivity magazine

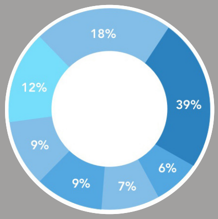
THE OFFICIAL MAGAZINE OF MERCHANT PAYMENTS ECOSYSTEM • ISSUE 75 / MARCH 2018

MPE 2018 CONFERENCE

Key moments from conference chairs, speakers and press

MPE 2018
Breakdowns

on page 3



TOP
rated
Speakers

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How merchants
can remain
competitive ...

on page 29

Merchant Payments Ecosystem 2018

www.merchantpaymentsecosystem.com
February 20-22, Berlin

The first and the last payments event you needed in 2018

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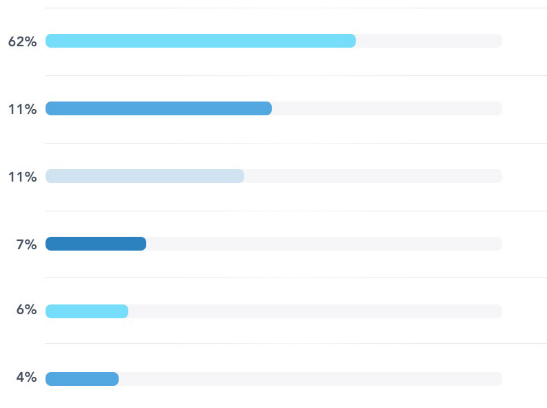
61% Heads, Directors, Senior Managers, Advisors
25% EVPS,SVP,VP, President, CEOs, C-level Execs
14% MDs,Board Members, Country Leads

MPE 2018 **breakdowns**

Geographical breakdown

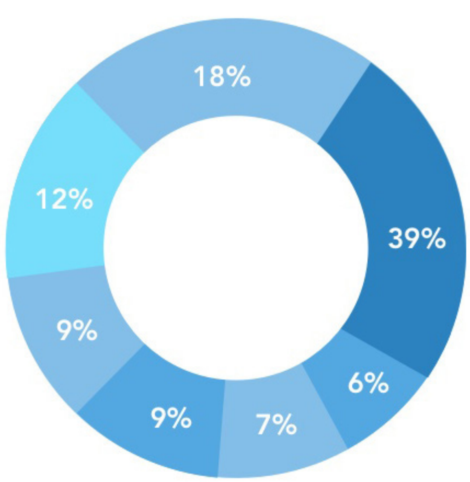


62% Western Europe
11% South Europe
11% CEE
7% North Europe
6% Americas, Asia & Australia
4% MENA 30

Seniority breakdown

61% Heads, Directors, Senior Managers, Advisors
25% EVPS,SVP, VP, President, CEOs, C-level Execs
14% MDs,Board Members, Country Leads

Industry breakdown



39% Payment/solution provider
18% Acquirers
12% PSP
9% Merchant
9% Regulator/Scheme/MNO
7% Industry experts
6% Other (VC, Media)

MPE 2018 coverage by THE PAYPERS

Susan Grossman is EVP, Retail and Commerce solutions at Mastercard Advisors and her presentation introduced two interesting concepts: Big Data and Actionable Big Data. The latter is the kind of data that drives action and adds value.

Another key takeaway is that Actionable Big Data can give merchants an edge over their digital competitors. It allows businesses to create or adapt their business models based on what customers expect. However, the issue of knowing what works is still a pressing one. In nature, as Susan Grossman began her analogy, Natural Selection determines which species are best suited for their environment. But whereas evolution can take its time, merchants do not have this luxury. The solution? "Business experimentation"- an innovative concept and solution that allows merchants to test business models and trial remodeling strategies in a secure test-like environment.

The Paypers proudly presents the eleventh edition of MPE 2018 – three days of debates, key learnings and insights on the payments industry.

From 20 to 22 February, Berlin, once again, hosted the Merchant Payments Ecosystem, an event that I'm sure doesn't need a long introduction. Each year, MPE brings together payments professionals and merchants from all over the world to network, discuss and plan the future of the industry.

This year's edition had a lot of topics to focus on. We are officially living in the PSD2 era and GDPR is just around the corner – was there ever a better opportunity to talk about data? And data as well as everything it entails, customer experience, omnichannel offerings, artificial intelligence, was a key talking point.

There is also a change in attitude in the industry, and PSD2's influence no doubt played a role in driving this change, from competition to collaboration. It seems that the key to success lies in the ability to find the right partners that can add value to your payments offering and solution.

We are still living in the Big Data age

Data – the one thing that everyone has but almost nobody knows what to do with it. As David Birch puts it, "we are still living in the Big Data age" – meaning that we have yet to design a valuable use for the data that we currently hold.

Omnichannel challenges for merchants

We love to talk about data as being the golden ticket merchants can use to survive and come on top in the digital age. Knowing your customers is the first step towards knowing what your customers want, which in turn, enables merchants to provide personalized experiences. It seem that in retail, the main battles will be fought in realm of user experience.

However, creating an omnichannel experience is still challenging for many merchants mainly because the online/offline systems do not interact. How can this be solved? Enter transaction data. As Susanne Steidl, CPO at Wirecard, noted, there is a change in the competition from transaction fees to a competition for transaction data. By being at the crossroads of the payments chain, PSPs can extract value from data, enabling merchants to offer a true omnichannel experience.

Collaboration not competition

The first C-Level Club discussion, called "Merchant Payments Ecosystem in 2020", was chaired by David Birch and featured the following speakers: Osama Bedier, Founder & CEO, Poynt; Raymundo Leefmans, CEO & Co-Founder, Dimebox; Amy Parsons, SVP, Global Acceptance and CX, Discover Global

Network; Ronnie d'Arienzo, Chief Sales Officer, PPRO Group; Niklaus Santschi, CEO, BS PAYONE.

It seems that the general feeling towards regulations such as PSD2 is a positive one. The panelists were optimistic that the new payments directive will promote openness and innovation. This of course, marks a change in attitude from competition to collaboration.

As banks gradually open up and move towards a platform-like model, this will provide many opportunities for fintechs to collaborate and develop better financial services. The word "disruption" seems to have been slowly… disrupted by a new keyword: "partnerships".

This opinion was also shared by June Felix, President Europe & Russia at Verifone, who in dialogue with David Birch, talked about the need for an open payments ecosystem in which partnerships will become a dominant force. She also noted that mobile payments will continue to play an increasingly important role – could this be the gateway to a cashless society?

BLOCKCHAIN IS THE FUTURE!

Now that I have grabbed your attention, I'd like to introduce some key points from the second C-Level Club Discussion panel, also chaired by David Birch and featuring: Suzan Kereere, Head, Global Merchant Client Group, Visa; Seamus Smith, EVP Global Payments & Banking, Sage; Gijs op de Weegh, COO, Payvision; Silvia Mensdorff-Pouilly, General Manager Europe, Processors & Networks, ACI Worldwide; Richard Harris, SVP International Sales, Feedzai.

Joking aside, the panelist made some good points about the state of innovation in payments. AI (artificial intelligence) and data analytics are much more advanced that we have initially thought and now we have the technology to allow data profiling.

Payments are also becoming more and more ubiquitous and embedded in almost every commercial activity. The need for a connected payments and financial ecosystem will lead to the growth in popularity of open APIs.

Will we all pay with cryptocurrency while shopping with a VR headset on? Not really, but there is a strong interest in Distributed Ledger Technology and no wonder – blockchain use-cases are always popping up and the technology has enjoyed the attention of big names from almost every industry. The general consensus is that, indeed, blockchain has a future.

A dragon's den style competition

On the second day of MPE 2018 Neira Jones chaired a dragon's den style competition in which five innovative start-ups had the opportunity to showcase their ground-breaking solutions. The demo was followed by "fierce questions" from the jury made up of Melisande Mual, Managing Director, Publisher at The Paypers, Don Ginsel, Founder & CEO at Holland Fintech and Diderik Schonheyder, Managing Director Schonheyder & Associates. The winner was decided by the audience who voted on the MPE app.

Introducing the contestants:

KACHING – Represented by Mathias Plank, Founder & CEO. KACHING develops mPOS solutions for retailers who can accept payments, manage warehouses and loyalty programs all via a single platform.

ID-Pal – Represented by James O'Toole, Founder and CEO. ID-Pal is a SaaS solution for KYC which enables business to verify their customer's identity simply, securely and conveniently.

divido – Represented by Christer Holloman, CEO and CO-founder. Divido is a retail finance platform that allows companies to offer instant customer finance at 0% interest.

CreditClick – Represented by Michael Tailleur, Global Partnership Manager. CreditClick is a new Pan-European alternative payment method that provides an instant credit facility to consumers, allowing merchants to process transactions against 0 MSC, PSPs get an extra revenue channel and Issuers get into an untapped market.

APEXX Fintech – Represented by Toreson Lloyd, CCO. APEXX

Fintech makes technical integrations to all the payment suppliers a business needs and presents them as a single, comprehensive API.

And the winner is…

ID-Pal!

ID-Pal made a good impression on the jury (and on the audience) with their simple-to-use yet comprehensive onboarding tool. KYC and onboarding are pain points of any payments business and their solution makes the entire process simpler both for the user and for the business.

Apart from the Innovation Corner competition, MPE 2018 also hosted the Gala Awards Ceremony which featured 13 categories. You can check the complete list of winners here.

I'll conclude this long article (which, by the way, only scratches the surface of the entire MPE 2018 event) with a warm and sincere thank you from the entire The Paypers' team to the folks at Empiria Group, who made this great event possible. We are all happy and grateful for the opportunity and you can bet that you'll see us at the next year's event too!

Thanks for reading and see you next year at MPE 2019!

The Paypers' Online Payments and **Ecommerce Market Guide 2017**

Merchants today deal with two polar challenges: on the one hand, consumers are more demanding than ever regarding their payment experience. Consumers want to be able to pay across channels; anytime, anywhere, anyhow. On the other hand, regulations ask for increased security measures, which are a strain on a frictionless environment. Balancing security and convenience, along with trying to provide omnichannel payments, growing across markets, and dealing with new technologies are all discussed in the report.

PSPs are also affected by the shifts in the market; merchants' expectations are ever rising, while fees and prices for payment services are dropping. This has caused consolidation in the market, causing PSPs to adapt themselves to their new circumstances or disappear.

The topics addressed in the current edition are best practices in payments, ecommerce development through omnichannel, data-driven commerce and Internet of Things, how people pay and the customer journey, ecommerce across borders, marketplaces, and the link between regulations and innovation in digital transactions. The report includes editorials from our partners on these topics, as well as a mapping of the important players in the payment market and a research summary, based on extensive research, carried out by the Paypers.

The OPMG 2017 is a collaborative editorial project of The Paypers with great names in the global payments industry:

- global leading merchants sharing their best practices (Sixt, Travian Games, Zalando);
- tech consultancies and market research companies (Aite, Innopay, Edgar Dunn, Emerging Payments Association, European Retail Payments Board, EY Innovalue, Gartner, Juniper Research);
- law firms (time.lex);
- associations (Ecommerce Europe, Merchant Risk Council);
- top processors and payment services providers (Acapture, Arvato, Adyen, Banking Circle, CyberSource, dLocal, Dimebox, DOCOMO Digital, Emergent Payments, First Data, HiPay, Hyperwallet, Ingenico, Limonetik, Mastercard Payment Gateway Services, ONPEX, Payment Asia, PAYONE, PPRO, Trustly, Worldline);
- banks (UniCredit).

The current edition is endorsed by our partners from Merchant Risk Council, Ecommerce Europe, Emerging Payments Association, Ecommerce Foundation and Holland FinTech.

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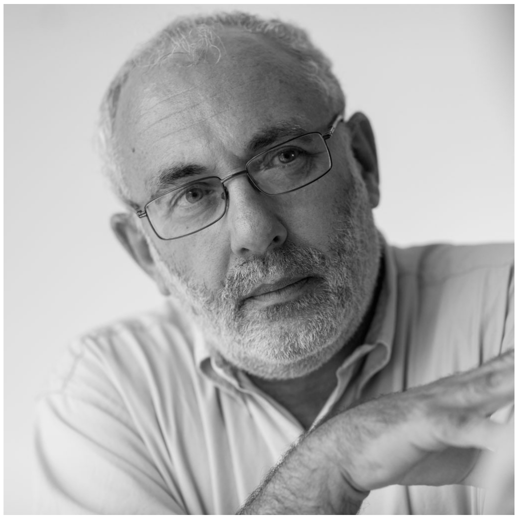
Chair summaries from MPE 2018



David Birch
Director of Innovation
Consult Hyperion
(chair Day 1, Common Program)

The opening morning of a great MPE event this year was dominated by two themes: ecosystem and data. In the first session, the issue of creating an ecosystem around retail payments was touched on repeatedly (and not only by terminal manufacturers trying to create this ecosystem) but by other who, like me, suspect that the opportunities for innovation are greatly enhanced by opening up what will soon be seen as a platform rather than the traditional Point-of-Sale (POS).

The discussion around data grew, I felt, from last year's discussions about the emergence of the Merchant Service Provider (MSP) that can deliver added value through data analysis and management into a more sophisticated set of views about the role of the cloud, data science and in particular machine learning and artificial intelligence points towards the industry we will see in 2020: organisations competing for a share of the data even more aggressively than they used to compete for a share of the transaction fee.

Given the importance of this data thread to the growing ecosystem, it should come as no surprise that the topic of GDPR came up again and again. In fact, I think that we could have had a whole day just on the topic of data protection, privacy, compliance and the regulatory envelope that will shape the more data-centric version of the merchant payments ecosystem that is being built at speed.

"Nice networking sessions. Always interesting to meet the people in the industry"
Dan Wemmel, H&M

"MPE provides the platform to inform and debate the payment landscape, providing insight into innovation and the industry trends"
Andrew Wastell, Lloyds Banking Group

Ron van Wezel
Senior Analyst
Aite Group
(chair Day 1, Payment Ecosystem stream)

The title of the session was "Acquiring in a consolidated market". Looking at the presentations by our distinguished speakers, it could have been prudent to add a question mark "?" after that title. It appears that the European payment market is not yet harmonized even in a post-SEPA and post-PSD world.

Raiffeisen Bank International and Six Payment Services, two large acquirers in central Europe, mentioned the complexity of dealing with local requirements including language support, specific payment methods, and currency settlement requirements. They also highlighted the challenges for a cross-border acquirer to compete with dominant local players. The latter can leverage their "on us" traffic to partly avoid card scheme fees, and offer better conditions to merchants. Rising card scheme fees and market development funds in the region were considered to be a large barrier for cross-border acquiring, and card schemes were invited to change their pricing model to level the playing field.

Despite these challenges, there is certainly a business case for multinational companies to work with cross-border acquirers. On the panel, Ikea explained that it has centralized payment processing in 14 countries across Europe. This proves that the benefits of a centralized approach can outweigh the higher costs.

While the payment space is getting increasingly complex and dynamic, retailers have to support new channels, new payment methods, new standards, new regulations. The presentation by HPS showed how technology providers are ready help to manage this complexity by providing a centralized payment platform that can manage omnichannel payment management at the front-end, and manage smart routing of payments to multiple acquirers at the back-end.

And perhaps further standardization is around the corner. Nexo informed the audience about the current status of standardization in the different PoS network domains, and the increasing adoption of standards by leading merchants, acquirers and vendors. One of these vendors is FIS, that announced the development of a suite of test tools that will allow vendors, acquirers and processors to test the compliance of their payment systems and devices with Nexo's payment acceptance messaging standards and specifications. After the panel session, most questions from the audience were directed to Nexo, which was an indication of the increasing relevance of standards in the European market.

The conclusion is that although hurdles still exist in the European payments market, centralization of payment management becomes a viable option for merchants. Next MPE conference we will take stock and see, if the question mark is still required in the "consolidated market" theme.

"THE CONCLUSION IS THAT ALTHOUGH HURDLES STILL EXIST IN THE EUROPEAN PAYMENTS MARKET, CENTRALIZATION OF PAYMENT MANAGEMENT BECOMES A VIABLE OPTION FOR MERCHANTS

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Geoffrey Barraclough
Head of Proposition
EVO Payments International
(chair Day 1, NextGenPOS stream)

The key theme of the conference was regulation – GDPR and PSD2's open banking provisions in particular. But, beyond a looming sense that bank transfers will become easier and therefore stronger competitors to card payments, I didn't pick up any clear sense of when or how this will happen. Or in which markets.

Voice commerce is probably the channel that will move fastest to bank transfers since banks are moving to voice authentication anyway for customer contact. Loading e-wallets might be another popular use case. We don't know.

There's clearly much to play for and the widely adopted acquirer strategy of focusing on gateways seems as sensible as ever. If shoppers abandon cards for mobile banking apps, at least there is a click fee to be charged.

For the new payment ideas themselves, the advice was to mimic the charging structure of the card schemes "otherwise merchants won't understand them." Business models, in general, are increasingly fluid. "How do you compete with a business [like Amazon] that doesn't need to make a profit?"

Generally, the feeling was that PSD2 is a good thing – "Euro-regulation is pro-competition, US regulation is about keeping out of gaol" but that GDPR was a bad thing. Plenty of pitfalls, an estimated $8b compliance cost but little upside.

Elsewhere, there was a consensus that 3DS2.0 shifts a large part of the fraud problem from merchants and acquirers to the issuers. This is good news for the merchant payment ecosystem, because, when implemented well, 3DS2.0 should only have a limited impact on conversion.

Making something commercially from payment data remains an issue addressed in general terms by keynote speakers but largely unsupported by product launches. My view is that the industry has had 20 years to work out how to monetise its data. If it was really a goldmine, we would have cracked the problem by now.

There were plenty of nods to AI and machine learning but there were few practical examples with the exception of the growing phalanx of undifferentiated anti-fraud vendors.

The mPOS market structure has matured around three propositions. (1) low cost payment acceptance for fiscalisation programmes (2) tablet POS for SME's and (3) niche applications such as airlines. The big breakthrough into enterprise retail seems slow to arrive but the concept of app driven payments connected to ecosystems is here to stay.

The open question is whether this new ecosystem is led and orchestrated by the payment providers with SmartPOS propositions or by the SME-focused software vendors linking to regular integrated payment terminals.

"VOICE COMMERCE IS PROBABLY THE CHANNEL THAT WILL MOVE FASTEST TO BANK TRANSFERS SINCE BANKS ARE MOVING TO VOICE AUTHENTICATION ANYWAY FOR CUSTOMER CONTACT

Ghela Boskovich
Head of Fintech & Regtech Partnerships
Rainmaking
(chair Day 2, Payment Ecosystem stream)

Instant & Mobile Payments

Instant and mobile payments are being driven by regulation, but face additional challenges to meet regulatory standards. With PSD2 and GDPR framing how new payment models will and can be shaped, they also put the value of transactional data at the heart of new revenue streams for the payment industry. These two regulations also bring to light the need for new cyber security standards and the sensitivity of managing authentication and identity data in the industry.

What the session on Instant, mobile and alternative payment acceptance brought to light was that adoption of these new payment methods is not uniform, or speedy, across Europe. Not everyone is ready to 'play ball', and that getting a consortium together to push both customers, merchants, and banks to adopt the latest in payments is more challenging that previously assumed. Part of it is due to trust: cash is familiar and can be touched, cards are familiar and customers know the routine. Mobile wallets and digital only hasn't yet built up the institutional trust cash and card has.

The other part of slow adoption is the inherent complexity of the new systems and the number of players. Who ultimately pays for building the new systems is also up for debate, since the business case for the customer benefits of instant payments still doesn't address the merits of the enormous cost to build a truly instant payment rail. But despite slower adoption of mobile and instant payments, finding revenue streams and profitability in payments is still possible with new business models. It's finding the right model that is elusive – and ultimately it will be both government, regulators, and the market that determine the model and success of instant/mobile payments.

The Fintech Revolution

Fintech is moving away from a B2C model, focusing more on B2B solutions, in part driven by regulatory initiatives like PSD2 and GDPR, which has shifted the conversation from competition to collaboration. The challenge, however, of this new collaborative environment is how to successfully partner with highly risk-averse, conservative, financial institutions with strict governance procedures and low risk appetite.

But there is a robust ecosystem to support emerging fintechs, including accelerators and regulatory sandboxes. And investment in payment technologies is increasing, however that investment is being consolidated into fewer individual investments going towards fintechs that have gained market traction and regulatory approval.
Fintechs are also moving towards providing service models as platforms, rather than singular on-premise solutions: more infrastructure, back-end, and payments as a service. The API play – brought to bear by PSD2 – is giving fuel to this As-A-Service model, in hopes of using data to unlock more customer insights and operational efficiencies. Whatever model becomes de facto standard, it's clear that fintech isn't going away anytime soon – and that banks are either embracing finctech, or trying to become fintechs themselves.

The Future of Mobile Payments

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Diderik Schonheyder
Managing Director
Schonheyder & Associates
(chair Day 2, Checkout & Conversion stream; Day 3, Conference outcomes panel)

New approaches in fraud detection and prevention.

The presenters and panel participant in this session mostly came from organisations that provide support to the industry in the form of systems solutions and consultancy. Their presentations focused on different methods that would help manage fraud. Interestingly they had a shared view of what the current key drivers are; namely

- Payments are moving towards real-time,
- Implementation of regulations such as PSD2 and GDPR
- An ever-increasing amount of Data that is available, and
- The introduction of using AI (artificial intelligence) within fraud detection systems

This combination between regulations and new technology is making fraud management a very interesting and challenging area. It was also pointed out that due to PSD2, the organisation within the value chain that is responsible for managing, reporting and in the end picking up the tab for fraud, is changing. The presenters thought it very likely that this had not yet been fully understood, especially by the PSPs.

Another major theme that was identified is that the payment eco system is evolving. This combined with the arrival of Internet of Things means that fraud management solutions have exponentially increased in complexity. Therefore, to ensure that the fraudsters and level of fraud is manged, all participants (issuers, acquirers, merchants, PSP's, schemes, etc.) in the payments eco system need to have some form of fraud management program.

Cross-border e-commerce expansion

The presenters and panellists for this session came both from acquirers and service providers to the acquirers and merchants. There was an agreement that the acceptance expansion that is seen today was both driven by merchants wanting to sell in new markets as well as acquirers. The latter have acquired the tools and therefore able to help and educate the merchants in how to expand into new markets to grow both of their businesses.

Due to the specialised tools and skill needed to be successful in cross-border e-commerce environment, the acquirers saw a need to use a number of specialist partners such as PPRO and Limonetik. It was also agreed that for a merchant to be successful in a new market more than payment acceptance for the international brands would be required. The conclusion was that payment options had to mirror the local norm in the physical and e-com environments.

Interestingly the panellist did not see any need for including bit coin acceptance in the mix of payment options and if fact could not see such a need in the foreseeable future.

There was a general agreement that this is a rapidly growing area and to be successful in setting up in a new market three key challenges needed to be managed.

- By far the most difficult and challenging area was agreed to be making the back office or behind the scene functions fit with the local environment such as compliance, reporting, reconciliation and settlement. Not a very exiting area but essential to be successful and profitable.

- Another area to master was to ensure that both the merchant and acquirer had a very good understanding of the local culture.
- The last area was to have the appropriate payment options. In other words, the service needed to include the local payment types in addition to the international card brands. This area was probably the easer of the three to implement.

MPE 2018 – Conference outcomes

The six individuals that helped to identifying the key outcomes from conference came from Spire Payments, VeriFone, EY Innovalue, EVO Payments International, Consult Hyperion and Schonheyder & Associates. They represented different verticals of the merchant payment eco system.

With three days of presentations and panel sessions and as many as four parallel sessions no one had been able to listen to all the presentations, nor see and/or listen to all the attendees' questions and contributions. Nonetheless there seemed to be general agreement by the panellists and the audience via their online comments and questions that no one dominating topic existed. Rather a number of key themes was the conference's conclusion:

- In Europe, sufficient resources have not yet been allocated by the industry to the implementation of the new regulations such as PSD2 and GDPR as the impact on the industry will be significant. More time could have been spent at this conference on this topic. It was felt that the impact of these regulations is not fully understood.
- The merchant payment eco systems is changing at an ever-increasing speed both due to new regulations and new technology. In some ways the current industry vocabulary such as a merchant acquirer and card payment are out of date, but there does not seem to be a new vocabulary that has been agreed.
- The Payment is almost become an axillary service to what acquires have to offer the merchants. New services and functions will include more payment options for the consumer; loyalty solutions for the merchant to offer its customers, and lending products delivered to either the merchant or the consumer.
- Bitcoin, although receiving lots of press coverage, is not a significant element within the merchant payment eco system today. In fact, no one could see when it might become a relevance. Block chain as a technology - yes, but bitcoin as a payment option - no.
- Within the eco systems one is likely to continue to see significant activity within the merger and acquisition area as economy of scale helps in many areas.
- Technology changes and the emergence and adaption of new technologies continue to happen at an ever-increasing speed. Internet of Things, cloud and cloud computing, Omni channel and smart devices are all here and is already changing the way things are done as well as their business models. The new technologies that are immerging and need to be incorporated are likely to be AI (artificial intelligence) and voice.

With the moderator closing yet another successful conference he ended with saying thanks to all 125 speakers, sponsors, 35 exhibitors, Empiria Group for putting together a great event, but mostly he gave thanks to the 900 attendees who came to listen, learn and network.

"The organization of the event itself is outstanding. I felt comfortable with timing and communications. Networking is just perfect. I've managed to meet many interesting business colleagues. The atmosphere is business like and friendly"
Marina Ivanova, Sberbank

"MPE succeeds in what other seminars don't: focusing a payment industry event not inwards on the industry itself but outwards on the customers, the merchants"
Arno Hietanen, Payment Highway

Eric de Putter
Managing Partner
Payment Redesign Limited
(chair Day 2, NextGenPOS stream)

Cloud, smart and next generation POS.

As per the Payment Redesign & Aite group analysis, the benchmark for terminal evolution is a smartphone where for P2P transactions no terminal hardware is required. All ECR providers have tablet based solutions and with the W7 end-of-life there is likely a bigger push for tablet (rather than PC based solutions).
SmartPOS is the next evolution, Michael Prazny, AEVI, market leader in this segment presented a compelling end-to-end solution where AEVI's app store is vital to demonstrate value to retailers. AEVI tests all apps, the most favourite app amongst retailers are around customer satisfaction. Spire's Nigel Dean compared terminals to smartphone, with the latest phone adverts not advertising the ability to make phone calls. Spire endorsed SmartPOS and announced their new product line of good looking devices just before Christmas 2017.
Matthias Plancken, CEO and co-founder of Kachen outlined the unlocked value of tablets for retailers such as all product information available at their finger tips. Kachen allows mobile 2 mobile transaction to this iPad though relies on terminal integration to take cards.
MasterCard's Prashant Sharma joined the panel session. MasterCard wants to increase the terminal estate with 40 Million devices to extend the reach of plastic cards. This can partially be achieved by innovation, e.g. smartphone based devices. Panellists agreed that especially the hospitality segment could benefit from SmartPOS devices, panellist felt that there was no further need for e.g. standardisation.

Key take-away: There was some sceptic remarks from the audience but it seems clear that SmartPOS is a mature technology although it will come at a higher price level than traditionally built terminals.

Artificial intelligence and machine learning

This session was kicked off by a presentation from Richard Harris from UK based firm Feedzai. Richard outlined that contrary to popular believe artificial intelligence and machine learning are part and parcel of the payment industry today. Fraud prevention is the key area for improvement although there is nothing that stops the industry from looking at creating more insight into usage patterns to achieve more sales. Real-time ACH payments drive the industry to advanced techniques.
Ergi Sener, CEO of BonBon Technology presented how retailers can create more insight into how shoppers walk through their store, identifying places where they stay longer. Erni's clear visuals, identifying shoppers and retail staff, caused a bit of a stir as shoppers can be uniquely traced through wifi although they cannot be identified.
Olaf Hofman, Chief Product Officer at Cybertonica completed the presentations. Given the amount of fraud, our industry has a clear business case. Cybertonica also focuses on a range of other applications, including a much more user friendly process at airports.

Key take away: AIML seem to be mature techniques to take on the payment industry and a natural successor to rule based techniques. Our industry tends to look at fraud first, solutions to drive move volume through or understand shoppers better may also be delivered by AIML.

Mélisande Mual
Managing Director, Publisher
The Paypers
(chair Day 2, Festival of online payments stream)

Key takeaways of the panel Festival of Online Payments

Subscription commerce is rapidly growing; not just digital goods and services, but traditional manufacturers are rethinking their business models as well. All goods and services could eventually become a subscription; one can already subscribe to yachts, luxury cars, or even luxury beds. Konstantin Surkov from Netflix talked about the challenges in managing recurring payments. Some issuers provide additional account updates and schemes just started offering tokenization to better manage expired cards on file for recurring payments. Unfortunately the 'dream issuer' supporting recurring does not exist (yet).

Furthermore, Orcun Akca from Enaviga stressed the fact that payment managers should work closely together with marketing to get a better understanding of the profile of their customers. Payment habits can vary per country, per generation, income segment, education, spending behaviour etc. You need to have these insights in order to choose from the 200+ payment methods and optimize their checkout page. On their end, PSPs need to have a real understanding of the business of their merchants.

The other speakers at the Festival of Online Payments talked about alternative payment methods; Google Pay (e-wallet), Fortomo (Direct Carrier Billing), Trustly, przelewy24, and SafetyPay (OBeP/Online Banking e-Payments). Google Pay announced its global rollout on Tuesday 20th of February, bringing Android Pay and Google wallet under one single brand.

There is an argument to be made that 'APM', as a term, is getting outdated, since Online Banking e-Payments are becoming increasingly dominant and, in some markets, have already become the dominant payment method (e.g. Poland, The Netherlands). PDS2 will further drive this growth since Online Banking ePayments are fully aligned with this directive; offering a safe and secure (SCA) payment option.

In the Polish ecommerce market, cards do not play a role. Bank e-transfers and cash-on-delivery are the preferred payment methods. Piotr Kurczewski predicts that the share of cash-on-delivery payment methods will decrease and that Blik (a mobile payment powered by banks) will become more popular to pay for goods delivered at home.

In Latam, SafetyPay offers both bank transfers and cash payments. They are primarily active in travel, OTA, multi-level marketing, and ecommerce. They make these services available for the part of the population that does not have access to traditional banking services. This method is also offered as a recovery payment method if a credit card gets denied.

Direct Carrier billing is payment method makes it possible for merchants to tap into markets with low bank/card penetration. Fortumo developed over time from a payment method for micro payments (apps/games) to a payment method for digital goods and services and now it is moving into insurance, ecommerce, and travel. As a result, fees are getting more competitive for these segments.

Neira Jones FBCS, MSc
Advisory Board
Emerging Payments Association
(chair Day 2, Common Afternoon program)

It gave me great pleasure to welcome everyone once more to Merchant Payment Ecosystem 2018 where I chaired the afternoon plenary session on 21st February.. As we all know, from merchant payments to multichannel retailing, from customer experience, to mobile innovation and new business models, from loyalty, to big data and technology disruption, not forgetting regulations, MPE always has something for everyone, and this year did not disappoint! Indeed, it is undeniable that since its inception 11 years ago, Merchant Payments Ecosystem has become a calendar date not to be missed for all those interested in this exciting, fast moving and multi-faceted industry. The afternoon started in style with the Innovation Corner, a Dragon's Den-like competition in which five innovative start-ups had the opportunity to showcase their ground-breaking solutions. Their pitch was followed by fierce questions from the "Dragons": Melisande Mual, Managing Director, Publisher at The Paypers, Don Ginsel, Founder & CEO at Holland Fintech and Diderik Schonheyder, Managing Director Schonheyder & Associates. The five competitors were Kaching, ID-Pal, Divido, CreditClick and Appex Fintech, and the winner was decided by the audience who voted on the MPE app (which was particular popular with the audience for interacting with conference proceedings). So congratulations to ID-Pal, which perhaps proves once more that Identity is indeed the new money (with a nod to my good friend Dave Birch who was also on chair duty for this year's conference)...

This was then followed by three keynote presentations to set the scene with Jason Gardner, Founder & CEO at Marqeta, Justin Fraser, VP of Enterprise and Alliances Sales at Cybersource and Zanda Brivule-Jansone, CEO at Worldline Baltics. The Regulations session which followed was fascinating, with four excellent presentations by Iddo De Jong, Principal Expert at the European Central Bank, Andrea Dunlop, CEO Acquiring & Card Solutions at Paysafe Group, Carolyn Sweeney, Director of Business Development at The Chargeback Company and Marijke Koninckx, Product Marketing Manager at BPC Banking Technologies. Suffice to say that PSD2 and Open Banking were extensively discussed! The speakers were then joined by Axel Schäfer, Advisor on Payments at IKEA and John Basquill, Editor at PaymentsCompliance for a lively panel session which I had the pleasure to moderate, with lots of interaction from the audience via the MPE App! We certainly could have talked for much longer!

And the day wouldn't be complete with the prestigious MPE Awards, which I had the privilege to co-host with Alex Rolfe! Congratulations to all the winners and to the Empiria Team for their fantastic work and I am certainly looking forward to MPE 2019!

Gary Munro
Principal Consultant
Consult Hyperion
(chair Day 3, Payment Ecosystem stream)

I had the pleasure of chairing Day 3 of the Payment Ecosystem Stream.

In the fist session we looked into the digital shopping journey and loyalty. With excellent presentations from Billpay and Stripe on the digital journey complemented by Zencard and Loylogic focusing on Loyalty, Izicap then joined us for a lively panel discussion to uncover more. There were some great points raised. Both Stripe and Billpay pointed out that even todaya majority of digital commerce checkouts failed to get some of the payment basics right, which in turn leads to delays, retries, friction which in turn leads to lower conversion rates. Billpay & Stripe focus on conversion rates, using A & B testing to understand what works and what doesn't' work in the digital shopping experience. Loyalty also faces many challenges. When merchants provide loyalty schemes, they do so in order to incentivise the consumer to return or increase the amount of spend. However only 10% of potential transactions involve loyalty schemes. Once loyalty points / coupons are issued they are a liability on the merchant who issued them, therefore it is in the merchants interest that those points are redeemed. Loylogic discussed new ways of increasing the way to redeem loyalty points, thus increasing their attractiveness to consumers to acquire them. Contactless payments, providing speed and efficiency at the checkout does not lend itself to loyalty, Zencard have come up with a solution to tie the loyalty card to the contactless payment instrument, thus simplifying the process, making it easier for points to be collected and redeemed. One significant point to make, was that merchants are prepared to pay higher acquirer fees for value added services that work.

The second session focused on the how payments industry copes with the impact of major regulatory change. We were fortunate enough to have speakers from Customweb discussing how PSD2 will disrupt the payments industry, with threats and opportunities for all players; Union Pay International provided some fascinating insight as to how regulation can constrain the incumbent scheme and banks, whilst new players such as WeChat; Allipay have a free ride. It will be interesting to see the correlation between what happened in China to what happens in Europe under PSD2. Trulioo discussed how companies can provide APIs and services to automated compliance and avoid the associated fines. Interestingly only 2% of compliance is automated, so we can see how things can go awry. However with companies looking to operate in multiple markets, compliance is a major challenge to get right. There are clear opportunities for companies to provide services and grow helping others through the myriad of regulatory challenges they face.

"One of the most interesting agendas I have seen, it was not easy to pick session because I wanted to attend them all"
Jihan Rezwan, Ticketmasters

Janusz Diemko
Member of the Supervisory Board
Polskie ePłatności
(chair Day 3, NextGenPOS stream)

I had the pleasure of moderating once again at MPE; for 2018 the NextGenPOS Stream, which was split into two sessions; Wallets & NFC and Monetising NexGenPOS. The presentations covered new integrated value added services on POS systems such integration of delivery, accounting services, transaction financing , wallets and loyalty, and the monetisation of these services creating tangible benefits for both consumers and merchants.

The first morning session covered "Mobile wallets and NFC", with Ulf Geismar - Edgar Dunn, discussing wallets across the world provided by a mix of Bank, non banks and telecom but all requiring ease of use and the frictionless payments capability leading to increasing usage of the mobile as a physical payment means, Michael Rolph - Yoyo wallet, highlighted the need for add-on-value for merchant and consumers in a wallet by providing loyalty, discounts, targeted marketing. Jason Oxman – ETA; underlined the differences between the USA ecosystem and Europe with the USA making strides in EMV and mobile payments but still has a way to go to achieve European contactless payment penetration, though certain mobile wallets such as Starbucks are achieving ubiquity. Andrey Makarov - MTS; highlighted the need for a comprehensive set of products and services built into any mobile wallet including transport, prepaid top-up, payments of all types, and loyalty which can be offered white label to other partners, even banks, and underscored the critical success factor a mobile operator possesses; a vast customer base into which he can cross sell the service.

The next session was "Monetising NextGenPOS"; which underlined the importance of partnering and not competing with the other providers in the POS ecosystem such as acquirers for the payment process and hardware (POS, MPOS wallet or future services); for hardware suppliers of the POS ECR systems and software, for integrators of ECR and other software with merchants, with banks and finance providers. Sean Wilson – Sage; underscored requirements of SME merchants that Sage can satisfy such as integration of POS ECR systems with accounting systems providing simplified booking, reconciliation and reporting of transactions, Reinhard Martens- Gastrofix; provided an overview of the company products and services across EMEA showing the complexity around local tax requirements which need to be fulfilled, and the importance of integration with other partners software. Christer Holloman – Divido showed that online real-time financing for sales in ecommerce, but only if made quick and easy, is a huge opportunity for merchants and banks to decrease shopping cart abandonment by 30%+ and increase sales profitability and margins. Andy Chen – Weorder presented the multitude of partnerships accross the POS-ECR landscape that need to be integrated by merchants to provide seamless ordering, delivery, payments and reporting solutions, which the Weorder application can support.

Overall as payments are becoming commoditised it will become ever more important to cosset the consumer and merchants with valued added products that will actually value and use, especially financing, loyalty and offers. In order achieve this merchants and consumers need quick and easy services tailored and integrated into the new cloud based world, which is being increasingly regulated e.g. GDPR but also opened up by PSD2. May the exciting times continue unabated for longer providing challenges but also huge opportunities for solutions focused on solving partners' problems.

COMPRION

TraceCase

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Whether contactless payments at the POS or access control in public transport or for buildings: Wherever NFC technology is used, transmission errors can happen. Readers and devices that work reliably in stand-alone usage may not function properly when interacting. Thus, analyzing the analog signals is essential for detecting such issues. In order to solve communication problems in the field, COMPRION has developed TraceCase, a mobile trace tool that comes with powerful analyzing software. It supports debugging in the best possible way and enables you to offer smooth end-user experience.

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COMPRION GmbH
Lise-Meitner-Str. 3
33104 Paderborn
Germany

Phone: +49 5251 68590
E-mail: info@comprion.com
www.comprion.com

Top rated **speakers**

Based of feedback from MPE participants

David Birch
Director of Innovation
Consult Hyperion
with opening speech of MPE 2018

Marijke Koninckx
Product Marketing Manager
BPC Banking technologies
with speech about "Payments in the Time of Open Banking

Andrea Dunlop
CEO Acquiring & Card Solutions
Paysafe Group
with speech about "How PSPs are preparing for PSD2, TPP opportunities for PSPs & their roles"

Julian Sawyer
Chief Operating Officer
Starling Bank
with keynote about "Starling Bank disrupting the industry"

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Sebastien Slim
Head of Marketing and Innovation
HPS

Building a central payment platform for retailers

In today's consumer-driven retail environment, payment technologies are being influenced by the consumer as well as the retailers. Payment platforms have evolved beyond being a simple mean of transmitting funds to becoming added value systems for both consumers and retailers. Retailers are facing global payment challenges and need to build a central payment platform, due to payment models proliferation and consumer behaviour changes. Financials, Data & Security and Innovation aspects are leading this change of payment platform strategy.

"Financials": retailers are concerned by the cost of "payment". This includes the costs of the transaction itself (charged by the acquirers) but also the costs of deploying, maintaining and certifying a payment solution over one country or multiple countries and for one or multiple POS vendors. Obviously, being agnostic from both POS vendors and acquirers will tend to facilitate those costs optimisations.
"Data & Security": retailers need to secure their data (that will tend to grow to big data management, with a central payment platform) and be compliant with PCI-DSS standard.
"Innovation" is a key driver as well, retailers need to support today and tomorrow payment innovation: omni-channel, wallet, biometric… They need to be able to follow up what will be the next payment instrument or payment channel used by their customers.

When retailers made their decision to implement such platform, they do need to look for few fundamental software capabilities to overcome those challenges:

- Omni channel, few examples to illustrate what a true omni channel platform is: platform needs to be able to initiate a transaction on one channel and complete it on another one, or to make a purchase on one channel and reverse it on another one.
- Smart & Dynamic routing of transactions to the right acquirer. The right acquirer being the one that offers best pricing for a given transaction. It has to be dynamic and configurable so that retailers can really define their own business rules
- Real-time protocol conversion to support the mul-

tiple configurations retailers are facing when deploying their platform in their own environment: acceptance platforms, acquirers, countries,….
- High availability: this platform is becoming critical and as such can never stop running
- PCI-DSS certification

At the same time where they build their central payment platform, retailers have now access to new business opportunities that were not easily accessible when their payment platforms were fragmented or just not omni channel… They can now focus on increasing Customer insights: customer data are now consolidated into one place therefore facilitating the purchasing behaviour analysis, the comparison of customer segment #1 versus customer segment #2,… They can launch value added-services (Couponing, Tokenisation, Loyalty, Dynamic Currency Conversion,…) in a much easier way thanks to this unique integration point to address all channels. And some of them could even become their own acquirer by connecting to the the schemes directly instead of going through the acquirers.

Finally, there is a growing expectation for new frictionless customer experience such as invisible payment (e.g. AmazonGo), Card Digitalization (e.g. El Corte Inglés card digitalized), or Card on File,… resulting into an increasing number of payment means day after day, driving pressure on merchants regarding how they store payment credentials.
As a matter of fact, Tokenization is becoming a must. Besides increasing greatly customer experience by supporting new forms of payments, new channels… Tokenization allows a couple of significant cost reductions: lower PCI DSS costs (isolate systems using payment data, decreasing exposure to sensitive payment information to other sysatems) and diminish Payment Costs (risk of fraud is reduced, treat all transactions as Card Present transactions, get a lower interchange).

To address all those challenges and opportunities, HPS provides to retailers a flexible and modular platform that relies on 4 building blocks. It is an all-in-one, pre-acquiring and/or Acquiring, Nexo-Ready solution. HPS building blocks include:

Front Office

Omni-channel
Smart & Dynamic switching
Protocol conversion
High performance

Back Office

Merchant management
Omni-channel
Smart & Dynamic routing
Protocol conversion
Reporting

Tokenisation

Payment means tokenisation
Card On File
Invisible payments
Digital wallet
…

Web Portal

Contract view
Messaging
Reporting & Dashboard
Aligned with merchant hierarchy

“MPE community offers valuable opportunities to be at the forefront of payments value chain Innovation and to develop partnership with the best players of the ecosystem”
Paolo Marizza, SimplyCity Lab

“By far the best conference on the subject in Europe, One that I cannot miss every year!””
Kristijan Hardarson, Valitor

Urs Gubser
Head of E-Commerce Strategy
SIX Payment Services

How merchants can **remain competitive with Omni-channel and IoT**

Today's consumer behaviour is rapidly changing and having a major effect on the retail sector. Thanks to smartphones and the internet, consumers are now more connected than ever and enjoy unparalleled levels of convenience, simplicity and knowledge when shopping. Technological innovations mean that they can now view products on social media, read reviews, try items on in a physical shop, and then order online – or vice versa. This has led to increased customer expectations who want retailers to communicate in the way that works best for them. However, not all merchants are familiar with every aspect of today's customer journey or with modern Omni-channel solutions. But there is no time to stand still as the next challenge, the Internet of Things (IoT), is already waiting in the wings.

Urs Gubser, Head of E-Commerce Strategy, SIX Payment Services, provides insights on how Point Of Sale pioneer Walmart responded to the threat of Amazon, self-ordering refrigerators and even where the concept of mail order catalogues originated. He also explains what the trend in Omni-channel and IoT means for merchants and how they can remain competitive and reach new consumers.

As with all stories, it is best to start at the beginning. In 19th century America, customers ordered their goods at the "General Store" and prices were negotiated on an individual basis. That continued until Richard Warren Sears created a catalogue of items for his customers to choose from and for the first time offered genuine consumer choice. Today Sears, the department store chain named in his honour, is one of the largest retail companies in the United States, alongside its main rival Walmart. While these two household names have competed for customers for many years, in 1994 a new player, Amazon, entered the retail sector and created what was regarded as a new form of "catalogue ordering" that radically transformed consumer shopping habits.

Walmart vs Amazon

Walmart is working constantly on a strategy to hold its own against Amazon. Its differentiating feature, in contrast to Amazon, is that Walmart operates and distributes both online and through a network of retail stores. In order to capitalise on its strengths and take full advantage of its dual distribution platforms, Walmart

offers lower prices on orders that a consumer places online and collects in-store; a system known as Click & Collect. In addition, Walmart gives customers the option to return goods that were ordered online at a store - Click & Return – which is another way to encourage customers to visit its stores.

Amazon has responded to this and opened its first physical store, Amazon Go, in Seattle in January 2018. The retail giant has indicated that it plans to expand its network with as many as six new Amazon Go stores this year. This announcement demonstrates that the company fully intends to dominate not only online retail, but expand into bricks-and-mortar shopping as well.

Delivering successful Omni-channel

Retail technology expert, Dan Hartveld at Red Ant, claims that for many merchants, the challenges in delivering a successful Omni-channel experience lie in bringing separate business operations together. "A lot of the time, we will talk to the e-commerce team, and they will have very little contact with their IT team, or with the retail operations team who deal with the in-store staff. Customers are expecting the facilities they have are online when they walk into a store."

The Walmart example illustrates how important a sound Omni-channel strategy is in order to remain competitive. Ideally, the customer should experience a brand – and not a channel. This is where "Seamless Commerce" enters the debate. Any interaction with a customer has a knock-on effect on any subsequent interaction - and this is completely channel-independent. The shopping experience must be perceived by the customer as genuinely seamless.

Any retailer planning a comprehensive Omni-channel approach should take particular note of a number of key transaction and delivery elements to ensure that their Omni-channel offering is working hard and delivering results. These include:

- **Click & Collect** – The customer reserves a product online and completes the purchase in-store. There is great potential for cross-selling. According to a recent study by ibi research in Germany and SIX Payment Services, up to 12 percent more sales are possible at the point of sale.
- **Click & Return** – The customer orders online and returns the product in-store. There is an opportunity for impulse purchases, which can improve sales by up to 18 percent.
- **Subscription payments** - A customer can input

his credit card details once and does not have to enter them again for subsequent orders or repeated shipments like his quarterly set of black socks. It is shown that this increases both customer satisfaction and loyalty. In addition, it increases efficiency for the merchant.
- **Endless Aisle** - The consumer has the opportunity to place an online order in the store for items that maybe sold out or not available in the right size or colour. This reduces the need to have every item in stock. The journey from expressing an interest to buying and making a purchase is kept to a minimum.
- **Self-checkout** - A shop provides a self-service checkout or an unattended terminal. This increases efficiency and customer satisfaction.
- **Queue busting** - An employee scans the goods instore and hands a receipt to the customer. At this point, only the payment is necessary to complete the transaction. The result of which means better queue management and efficiency as well and improved customer satisfaction levels.

There is no doubt that Omni-channel solutions are increasing throughout the retail sector and the study from SIX Payment Services suggests that Omni-channel is a critical step toward improved customer service. Satisfied customers are more likely to return, which in turn means improved sales for the retailer. Retailers should therefore understand that improvements in their customer experience are a key part of their digital transformation strategy.

Why is the Internet of Things (IoT) a big deal in retail?

Retail has emerged as a serious market for IoT players and the technology is about to make the retail business smarter than anyone can possibly imagine. It involves a combination of machine learning and Artificial Intelligence (AI) to turn data into something meaningful for the user and for the retailer. The IoT provides retailers with the opportunity to gain a decisive competitive advantage - for example, a refrigerator that can be programmed to always have two litres of milk available and reminds you when you are out of milk and then automatically place an order on your behalf.
German companies such as Miele and Bosch are already working hard to develop these 'smart' products and SIX is one of the payment service providers that can work with both manufacturers and merchants to handle the payment flow within this new business model.

In order to enable this IoT solution, it is vital for retailers to ensure that their online product information is complete and not too complex. Only then will these smart devices find the right retailer which increases the chances of becoming the preferred trading partner. The IoT will not only influence the sales process but will also help with inventory control and tracking. Products, packages and pallets will soon require 'smart tags' which can track items from the point of manufacture right through distribution and on to the final delivery to the consumer, and of course any potential returns.

When it comes to payment solutions, merchants must look for a trusted payment partner with extensive experience in worldwide payment technology that can help simplify the complexities of having multiple channels and together enable the IoT vision in retail.

Connectivity has given consumers access to anything at any time and it is widely anticipated that both online and physical retail will continue to pick-up speed as digitalisation of the sector continues. This is certainly a challenge for department stores, supermarket chains and independent retailers, but with the right technology and payment partners, the future can be a horizon of new opportunities with tangible benefits for consumers. In order to be competitive in this era, retailers will have to re-think their strategies to win over consumers with their enhanced needs and most importantly, high expectations.

FOR MANY MERCHANTS, THE CHALLENGES IN DELIVERING A SUCCESSFUL OMNI-CHANNEL EXPERIENCE LIE IN BRINGING SEPARATE BUSINESS OPERATIONS TOGETHER

James Butland
Head of Payments EU
Airwallex

How **PSD2 will let non-banks win**, maybe

Last week I was at the Merchant Payments Ecosystem conference in Berlin. It was great to see so many faces from across payments and make some new connections.

I spoke on the first day with some excellent subject matter experts, Dagmara Kowatzky, Urs Gruber and Matti Rusila, around PSD2 and what I see as the real challenge moving forward.

Like many of you reading this article, to family and friends, what we do is a bit of a mystery. Payments/FX/Fintech/GDPR/MiFiD/PSD2, the list goes on. The internal industry lingo that governs our day to day work drives the mystery of what we do.

PSD2 is a prime example of regulation to help individuals by giving them control of their financial data. When discussing with friends down the pub that I was working on a presentation around PSD2, their first question is "What is PSD2?"

In simple terms, I see PSD2 as opening up your financial data to give you greater control of your finances and increase competition, in return lowering associated costs for you.

The response is generally "Why would I do that?", and this reflects the climate we are in. Banks have been on an anti-fraud mission recently, especially in the UK, which is vitally important to keep individuals safe.

However, one of the consequences of this drive to stamp out fraud is that individuals are much more cautious with their data. The fear of hackers, fraudsters, phishing scams, and shoulder surfing is a real concern. So the news that non-banks can now access your financial data is usually met with scepticism rather than being seen as an opportunity.

When PSD2 was implemented on 13th January 2018, there was very little mainstream coverage or news regarding the benefit of the regulation. BBC Radio 4 ran a episode of their financial podcast, Money Box, which spoke more about the risks of PSD2 and really captured the concerns of the public.

Trust is the major barrier when it comes to individuals giving non-banks their permission to access their data. Even after the past 10 years, people still trust their banks, or at least more than they trust non-banks.

If PSD2 is really going to work and bring real benefit to the public, non-banks have to be seen as trustworthy as the banks.

So how do you build trust in your product? There is no easy way.

As I see it, building customer trust comes in three different forms:

Longevity - Be around for a long time. Why do we trust the Bank of England? Why do we trust our own bank? In the UK, people stay with their banks on average of 17 years, and 59% of 18-24 year olds bank with the same bank as their parents. Being in the game a long time gives you recognition and trust. However for a startup or new market entry, this is not plausible.

Offer more or something new - For consumers to trust your new shiny product, it needs to be significantly better than the incumbent. This is what we are building at Airwallex - a high-speed, low-cost and overall more efficient way to send payments. Uber is another good example. The product is significantly better than standing on the pavement waving at a black cab, it gained trust by offering a much improved product.

Educate, educate, educate - Going back to sitting in the pub, the question around "Why should I trust anyone with my financial data other than my bank?" is really relevant. But it is up to us as non-banks to educate consumers. We must abide by the same regulations. We are built on the same (or in some cases) better technology, security, and authentication processes as the banks. It is up to non-banks to scream and shout about licences, oversight, security, robust controls. No one else will do it for us.

PSD2 has the ability to not only save consumers time and money, but to change the face of finance. Only by building trust with consumers can this be achieved.

What do you think? Is trust the main obstacle to PSD2?

John Snoek
VP Product
Acapture

Marketplaces: Innovation at the corner of **compliance and technology**

MPE Berlin was the kick off conference of 2018, serving as a magnet for bringing together all the brilliant minds in the industry. There we had the pleasure to meet with our peers, partners and merchants, and exchange ideas about how we're moving forward, what's the next big thing, what's the new fascination in regards to trends and what's keeping all of us busy and motivated at the moment.

While the event thoroughly discussed technologies like blockchain, artificial intelligence, machine learning and IoT that are set to strongly change the way commerce and payments operators do business, almost all sessions debated regulation. The implementation of both PSD2 and GDPR this year makes the landscape more interesting than ever and while some operators may be greater impacted than others, one particular business model is definitely taking the spotlight at the moment: marketplaces.

Why so special?

They changed and are currently altering the way we perform our day-to-day common activities. The newest technological innovations have induced a massive change in consumers' attitudes and preferences, as they now strongly demand convenience. This shift created the need for a new business model catering to the newly requested experiences. The answer is marketplaces, which have simply empowered us to accommodate these new attitudes and demands. Nowadays we are not tied up to the very traditional work schedule anymore. Instead, we have the option of working remotely or in flexible work spaces, allowing us to benefit from flexible work schedules and consequently, a more exciting or relaxed lifestyle. At the same time, the way we get from one place to another is easier than ever. Our holiday bookings are not what they used to look like 10 years ago and other simple things like our dinners, for instance, have become easier to organize than we were used to in the past. These newly created standards are based purely on the new advances in technology, speeding up every process and making them far more efficient.

All these changes have brought supply and demand together in new ways, creating different types of experiences that have become the new normal. Being used to a certain degree of convenience and routine, consumers won't go back to inferior experiences, which means that operators have to keep up and constantly reinvent themselves to stay relevant in the market.

The new wave of experiences are a product of innovation, which at the same time introduce complexities such as distributing funds to the multiple parties involved in creating these new lifestyle standards. On top of that, regulation adds another layer of complexity, having to be managed alongside offering a good, satisfying customer experience.

Lights, camera, action!

Thus, we find ourselves in an interesting setting: The story of platforms in the digital age, in which marketplace, online travel, retail, franchise, food delivery, home and car sharing operators take center stage, while the three regulations, PSD2, GDPR and the 4th AML Directive are directing the performance. And the script reads properly managing funds and data according to compliance requirements.

Sticking to the script, we come to some points that marketplace model operators need to take care of. First of all: buyer conversion rates, and the three essential elements leading to increased results in this area are the variety of payment methods, multicurrency and efficient fraud management with the help of machine learning tools. Turning to the sellers, marketplaces need convenience, meaning fast and easy onboarding and the ability to handle multiple payouts in different currencies at the same time.

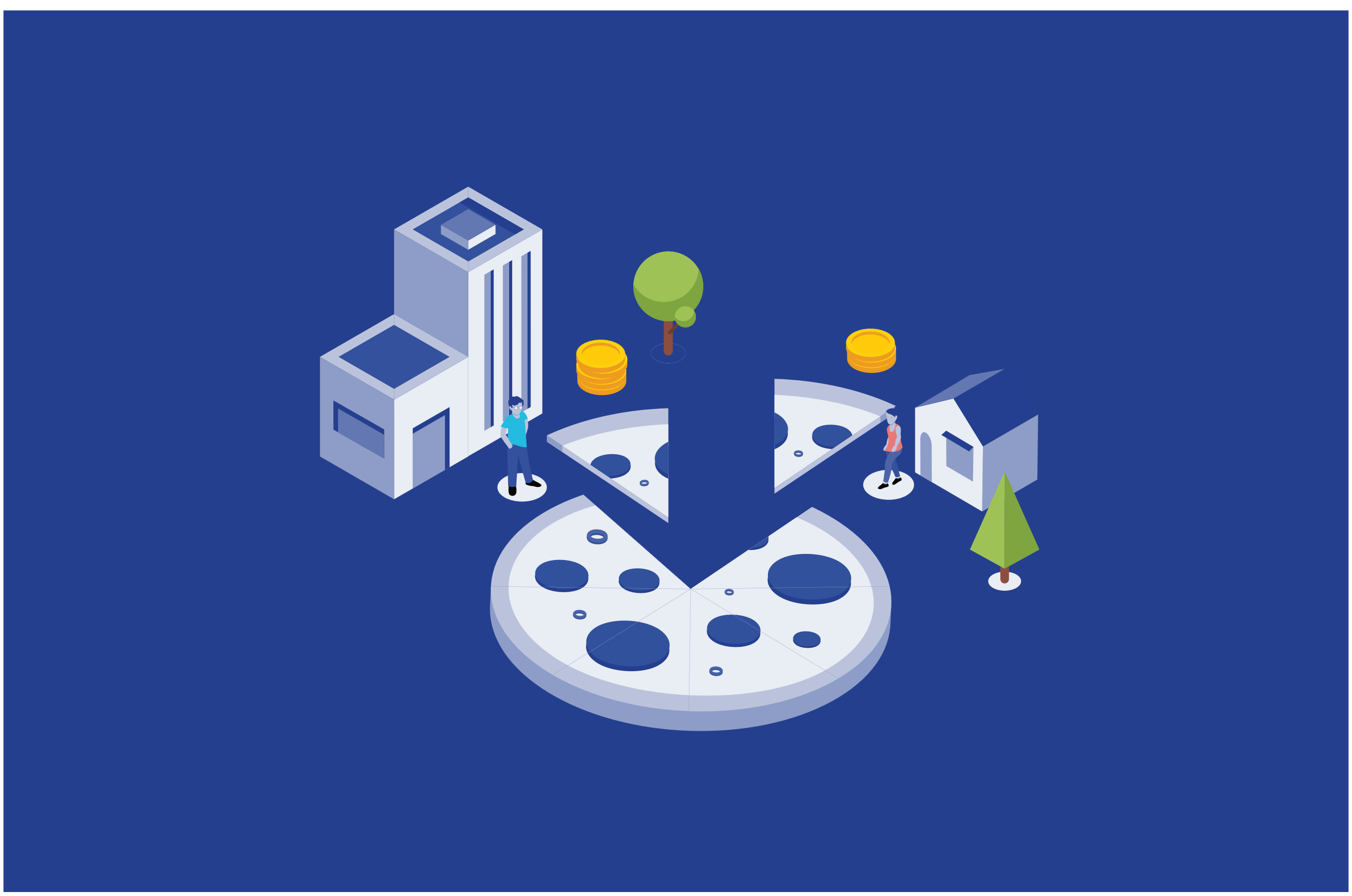
[The 3 regulations reunite] Action!

When we talk about GDPR, we refer to empowering consumers with control over their personal data, marketplace model operators needing to define and structure their data with clear information regarding the way they process, store and use it, in line with the specific requirements.

Under PSD2, marketplace operators need to either obtain a payments institution license or partner with a payment provider that is licensed to handle payments on their behalf, ensuring that they can focus on their business while staying compliant with the regulation. While the number one priority is compliance, why not manage complex payments in an easier, more efficient way? Acapture's marketplace dedicated solution, SlicePay, was specifically designed to cater first and foremost to the main challenge that marketplaces and sharing economy operators are currently experiencing, while also handling complex payouts to different partners through an automated system. With this cost-effective, flexible and quick-integrating solution, merchants easily become PSD2-compliant, while also taking care of the complex payments specific to this business model. The marketplace receives only one payment from the buyer that SlicePay shares between the different vendors in the matching currency and at the right time, while being compliant with PSD2.

Lastly, the 4th AML Directive requires continuous monitoring for merchants and automated KYC analyses together with automated periodical rechecks. Next to that, the regulation also requires data storing and processing to be in line with its own requirements, while also being compliant with GDPR.

2018 seems to be the Year of Regulation and all of us are busy with making sure we stay compliant while providing all actors (end consumer, seller and marketplace) the best customer experience. It will be interesting to see what developments we'll see during the coming months, as well as the degree to which the regulation will impact the innovation behind all of the new standards that consumers have triggered operators to introduce. One thing is certain: consumers will always play the main role, dictating with their choices the way both merchants and us, payment providers, need to go further.



Faheem Bakshi
Head of Payments
Kinguin

Impact of local payment on global gaming marketplace

If we compare entertainment industry by revenue into music, movies and gaming. With a larger volume, the worldwide game industry wins the largest portion of entertainment industry with a $91 billion in revenue (2016). Started with the first successful game - Pong, released in 1972 until newly launched games like Player unknown battleground or Overwatch (2017), the gaming industry is making fortune. Gamers started with games like Doom where opponents aren't smart as today's professional esports players.

Average gamers are in their mid-20s and consider the best place and best price to purchase their favourite games. Different gamer has a unique way of online purchase, depending on their location and preferred payment method. Same goes for Kinguin, when we compare users from one end of the world to another.

About Kinguin

An overview about the company, Kinguin.net is a platform that provides sellers and buyers from all around the world with the possibility to trade digital game keys and in-game items at a fair price with no hassle through an innovative platform. With over 7 million gamers all around the world and over 12,000 online transaction daily, online payments play a crucial role to the user journey. Since the users are from all over the world and international payment methods may not cover every customer's choice, we enabled over 200 local payment methods in all the continents. By adding local method, we are also adding trust and a way of ease through the buying process. These factors will convert into increased sales.

Multi-local Approach

Our goal has a very multi-local approach. Some factors are considered locally, we don't consider only local payment options but also the need stat of the local consumers towards the type of industry. For example, in Turkey the local gamers prefer Ininal on a wider stage, though we have local methods like bank and prepaid cards but after adding Ininal to our checkout for Turkish consumers Kinguin sales in Turkey boosted 29% YoY with over waive of new users and beginning of new B2B partnership with companies in Turkey.

Consumer in Japan buying from merchant in UK can ease the transaction by speaking the local currencies and affordable exchange rates. We have noticed consumers are more comfortable to purchase when they see their local brand of payment method, which they are familiar with it already. For Kinguin, this is a pure retention towards the customers. With such impressive retention factors, doing whatever we can to increase retention rates, like accepting local payment options, is worth investing in!

For young consumers, who may not have bank account or credit card, they consider prepaid cards or cash transaction in Europe, however trend changes when we go to China, consumer prefer local methods with an interface of a familiar messenger app.

Cross promotional partnership

Customer education is very important once a new payment method is on board. Merchants can not only take advantage of conversion but also expecting new users to the platform. Cross promotional campaign is important factor which we did with local provider in Poland. We promoted new payment on our main home page, socials, newsletter and press release. And same for local provider sending a newsletter blast to all its users about partnership with some extra discount for user acquisition. For Kinguin this creates not only payment partnership but other B2B partnerships as well as towards expanding to world of esports

"It's all about - Acquisition, Activation and Retention. Local payment works great and demanded by million of users, the local approach allows us the reach new clients and give user more options to pay. We are all for freedom of choice, so choose whatever payment suits the consumer." - Faheem Bakshi

Ted Hettich
Chief Sales Officer
Fruugo

Fruugo Presentation Recap

Fruugo believes that the future is global—and one can truly see this—in the company's day to day interaction with its international shopper base of 32 markets globally, with even more in planning for later in 2018. Fruugo facilitates these shoppers daily as a global company with a global website, a responsive site, and two mobile shopping apps on Google Play and the App Store that load in their responsive site. Fruugo detects the country that shoppers are coming from when searching the site, displaying the products for consumers to buy in each appropriate market, across 17 languages and in 15 currencies.

What is Fruugo?

Chief Sales Officer, Ted Hettich from Fruugo took to the stage on day one, during the 4th session of the Checkout and Conversion Stream, titled "Marketplaces - business opportunities". From the Pavilion at the close of the conference he conveyed Fruugo's phenomenal growth rate and its simple mission; "Everything, for Everyone, Everywhere".

Fruugo make cross border shopping easier for retailers, allowing them to access new and potentially difficult markets around the globe with ease, with the provision of a

single feed, in the retailer's own language and currency; eliminating the stresses of translation, marketing and foreign exchange leaving you, the retailer, the simple task of fulfilling the order. Fruugo offer shoppers the best shopping experience possible through competitive prices, previously inaccessible products from around the globe, and a safe and secure shopping experience. Fruugo makes global shopping feel "local", with most favoured payment methods in each territory available at checkout. With retailers in 20 countries around the world, offering a vast range of products, stretching across a variety of categories, it's easy to see how Fruugo has been growing year on year of over 141% for the last three years.

But the real growth Ted explained, came from what the company has learned from its global marketplace platform—although under different leadership and based from different countries at times—Fruugo have been working to grow from Europe, expanding outwards to become the world's only true global marketplace; allowing shoppers to easily discover new products, from retailers across the globe.

As a retailer looking to trade on Fruugo, the message is clear: Through just one integration, in one language and in one currency Fruugo can make products available for purchase in the shipping countries of the retailers' choice. As the retailer dictates the base prices and shipping costs in their home currency, Fruugo makes it very easy for retailers to explore new markets at very little risk. This is due to Fruugo owning its own currency forex, language translation and VAT calculation all in house—allowing the company to help retailers go abroad with no international entity registration requirements, foreign bank account set up, or payments to additional 3rd parties for forex fees and international payments (which cut into valuable retailer margin). In addition, Fruugo helps retailers have direct and smooth shopping interactions with their international customers through its in-house translations of both their products and customer service enquiries/responses (even if not in their language!) at no additional charge and inclusive of the marketplaces commission costs; which is entirely on a No Sale – No Fee basis.

Helsinki Experience and permanent move to the UK

Originally back in 2006, Ted divulged during his presentation, that Fruugo looked to create a cross border platform that would allow much of what it now is actually able to do, today; to allow shoppers to easily buy internationally from retailers based from all over the European single market. However, before Fruugo set off to create that marketplace, the company asked itself: "what do we think that shoppers want, from a cross border marketplace?" And here is the shopping style list that the company came up with. Fruugo, originally thought shoppers wanted:

Social commerce
World class real-time logistics
Fully curated
Unique editorial
Product comparison
Best prices
Product recommendations
Shopper reviews
Social pulse of what shoppers bought and where
Product videos
All payment methods

Actually with the aforementioned list, Fruugo was looking to encompass the entire customer journey. From beginning to end, so similar to the traditional shopping funnel—starting with the "Inspiration + Discovery Phase", leading to the "Information Phase", "Comparison Phase", and lastly concluding at the "Transaction Phase". Fruugo wanted to touch on each of these points along the way.

Ted continued on to explain, that in order to build this unique marketplace platform that two key people, Risto Siillasmaa, Finland's first Tech billionaire from Nokia and Jorma Ollia, chairman of Royal Dutch Shell together raised and invested over €40,000,000 to build the unique technical platform and to get the Fruugo marketplace started at its original HQ and office building in Helsinki. However, before Fruugo launched in 2009 they also wanted to ask shoppers what they wanted from a global marketplace and here is what they told Fruugo that they wanted:

Cheap prices
Free delivery
Exclusive products
Social platform
Shop by retailer
European marketplace
Personal shoppers
Loyalty program
GPS tracking of parcels
Bespoke customer service
Safe checkout
Try before you buy

However, as Ted explained, it is important to remember the "Attitude Behavioural Gap" when shoppers are explaining what they want from a product or their own perceptions and how companies can be led down a sometimes false perceived path when following the customer's wants in contrast to their behaviour.

What Fruugo primarily learned from this similar experience was that customers sometimes interact with your product in ways that are completely unexpected and the importance of design vs. experience. Fruugo actually saw that customers bought products that were:

Available
Trending in other countries
Translated
Priced in their currency
VAT calculated for them
Had local customer service

Most importantly, many of the features developed in Helsinki—encompassing that entire shopping experience in the traditional sales funnel—were not actually any of the features really being used by its shoppers. Simply put, customers were not transacting with Fruugo… because if a shopper wants to buy something from a retailer located in a different country, it can be very difficult, as products are priced in different currencies, different languages, with differing payment methods, along with many other issues associated with cross-border shopping.

In response to shoppers on Fruugo using the marketplace in ways that were not identified, Fruugo utilised a pivot method to focus in on how its shoppers actually behaved, then pivoting when appropriate and adapting to their behaviour. In fact, this was a key strategy of the company following the UK MBO of Fruugo in 2012, moving the company completely to the UK and building it back from the foundations of the 40 million initial tech investment to the platform. Ted went on to say, the UK based team saw the potential of the unique cross-border platform at the core of Fruugo and focused on this, eliminating many features of the original platform that convoluted the offering, making it very easy to transact cross-border.

Because of this international transactional focus, Fruugo immediately saw:

+ 73% in conversion
+ 300% in revenue
- 34% in cart abandonment rate

Remarkable statistics, from the now solely UK based operation—by actually monitoring how Fruugo's shoppers were behaving on site and adapting to their behaviour.

Working with Partners Globally

In 2016, Fruugo expanded to even more countries from 23 countries to 32 in total; expanding into new territories in the Middle East, India, China, and Japan. In order to achieve a successful international expansion, Fruugo turned to cooperation with specialised partners who could help Fruugo grow in these new markets.

Payment Solutions

As Ted explained, Fruugo immediately recognised that customers needed to have the ability to transact in their local payment methods. In order to provide this, direct integrations with popular payment systems where set up to transact globally, like with Paypal for example. However, direct integrations with local preferred payment partners e.g. Klarna in Scandinavia and Europe also helped to drive an increase in countries' conversion rate on the platform. Lastly, with the addition of payment service partners like Ingenico, Fruugo was able to successfully increase sales made across the globe through one simple integration with this partner in even more countries.

Page Load Time

Content Delivery Network (CDN) partners like Akamai helped with page load time and gave us valuable insights to customer demand. As we are working in over 32 different countries from sellers all over the world, Fruugo needs to be able to deliver products to shoppers instantly and Akamami helps to do just that.

Channel Partners

One of the most important factors to Fruugo's sustained growth, as Ted explained, was the addition of many more retailers from around the globe to the Fruugo platform. Fruugo also focused on making it as easy as possible for retailers to get integrated with them, and one of the easiest ways to do this was to partner with global channel partners and plugins that could simplify this set up. For example, Fruugo recently completed their integration with Channel Advisor and now have over 100 globally located retailers working via this partnership. Fruugo also recently completed extensions with Shopify, Magento, WooCommerce, PrestaShop, & BigCommerce via a new partnership with CEDcommerce, who also provides all Fruugo retailers with free support if they use their services.

Traffic Generation

Traffic generation and driving sales to the retailer's products is naturally a must for Fruugo's clients as well, Ted said. To this effect, Fruugo focuses on partners in specific markets tailored for customer acquisition. Google Shopping is naturally a huge driver of this, as well as specialized Comparison Search Engines (CSEs) and affiliates in each market, like Billiger.de in Germany, MyShopping.com.au in Australia & Price Searcher in the UK (amongst others). Fruugo leverages the commission paid from all its retailers to expose products internationally, using a team of data scientists via a wide range of target campaigns, be it with localized emails or working with CSEs.

Again Ted reiterated, it is very important to mention that retailers only pay when a sale is made. Fruugo's international traffic acquisition, retargeting and other modes of driving sales to retailers' products are fully included in Fruugo's fees at no additional cost.

Daniel Nicolescu
Managing Partner & Co-Founder
SymphoPay

Waking up the Smart Marketing Machines

Since 1979 when VISA introduced the first payment terminal (EFT-POS) we saw many improvements of the design and security, but nothing has changed regarding its role within the retail operations. Although is (still) a very expensive hardware, the EFT-POS is used by the industry only to "READ" the consumer credit card and perform the transaction with the acquiring Bank.

But can we transform all these terminals from simple card readers to smart marketing machines? Can retailers unify the experiences across channels so the customers will increase the affinity for their brands?

The unique POS opportunity

The POS is the only point where the customer, the merchant and the bank(s) meet all together! It's the best opportunity to initiate a new sales cycle or to upsell the customer (either by the merchant or by the bank).

Transforming the EFT-POS from a simple card reader to a valuable customer touch point can dramatically increase the customer value. Each transaction can have a different "CONTEXT" so the merchant or the bank can add "RELEVANT" propositions to each and every customer.

We all know how much energy is invested to win a customer. Sometimes the customer acquisition cost is even higher that the profit generated by his/her first order. Retailers are continuously developing strategies to retain as many customers as possible to maximize their business.

"I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel." – Maya Angelou

Welcome to "Contextual Commerce"

By integrating the EFT-POS terminals with the retail operations, the merchants and the banks can create personalized experiences by identifying each customer during the transaction and offering additional products or services while staying relevant with the context of the purchase.

During the past years we saw a big shift from "product centered" commerce to more provocative "customer centric" models where the prices are not the retail power anymore, but the experiences offered to the customers. In other words, retailers are not selling products but experiences.

"89% of businesses may soon expect to compete mainly on customer experience." – Gartner

Payment solution providers like SymphoPay are currently developing technologies designed to help retailers and banks to unify the shopping experience across channels by identifying the customers during the payment process and communicate based on the context:

- First time customers can be invited to join the loyalty program
- Repetitive customers can be rewarded so they will increase their affinity for the brand
- Relevant campaigns for the "next purchase" can incentivize the customers to come back more often
- Customer satisfaction measured in real-time across stores and channels (e.g. Net promoter score campaigns with real-time reports)

Payment transactions can bring very valuable insights for the merchant. Customers are profiled based on their purchase frequency, card type (debit/credit), issuing bank, transaction amount, preferred payment methods, days of the week, etc. SymphoPay not only lets you transform the POS to a valuable customer touch point but unify the customer communication to create a consistent experience across channels.

It is said that "retail is about detail"! SymphoPay mission is to provide payments technology to support the merchants and the banks to establish a strong emotional connection with their customers by controlling the payments process in order to maximize the business potential at the Point Of Sale.

"It was a great conference with a lot of very interesting presentations, good networking opportunities and some key take aways that will have an impact later on;It was a great conference with a lot of very interesting presentations, good networking opportunities and some key take aways that will "
Ivo van Dulken, PostNL

"Very well organized with rich content in the sessions also enjoyed the networking sessions."
Thomas Lantz, H&M

Michael Luck
Consultant
Xentian Limited

New Tools for the Same Old Customer Journey

Retail is, at its core, a very simple business. Retailers have always wanted to know all about their customers, because understanding the customer will guide their offers and lead to increased levels of business. The customer wants a fast and efficient transaction, once they have selected the retailer and based on the products and services on offer. The concept of the customer journey was invented to understand and map this interaction. We are going to look at the customer journey to see how the tools have changed, while the basic journey stays the same, throughout the history of retailing. The way to do this is to look at the tools used by retailers and how they have changed over the years.

Visitors to the ruins of Pompeii, preserved under the lava and ash that descended on it in 79 BC, can see the evidence of shops and eating places. Although we don't have detailed knowledge of the products and services available, what is certain is that customers would have to be physically present in order to spend their denarii and sestertii coinage. They might have been allowed to run an account, settled weekly or monthly, but two things are certain: physical coinage was used, and the customer would hand the money to the retailer. This continued pretty much unaltered for 2,000 years, until the twentieth century.

In the UK for much of the twentieth century small shops were widespread. A popular BBC TV comedy programme from the late 1970s, 'Open All Hours' showed a typical corner shop and how it worked, illustrated in the accompanying pictures. The customers lived or worked locally to the shop, and customers were often known by sight and by name to the owner, Mr Arkwright. The customer journey in this case would consist of a conversation between the shopper and Arkwright, in which he would convince them to buy something they had not originally entered the shop for. The 'tools' used were, in this case, Arkwright's personal knowledge of his customers and his persuasive techniques. Cash was still king – credit was anathema to Arkwright.

However, in the 1970s in the UK, large supermarket chains and other 'big box' retailers were expanding. Their efficient supply chains allowed them to undercut the smaller corner shops – many closed, but thankfully not all. However, the supermarkets had lost one key tool in the management of the customer journey – personal knowledge of the customer, allowing them to put together attractive offers. In the 1970s and 1980s, customers still predominantly paid in cash. The processing of a card was a labour-intensive and time-consuming process. The card would be placed into the imprint machine (the infamous 'zip-zap' device) and would then have to be signed by the customer. The signature would need to be checked. At the end of the day, the payment slips would need to be counted, checked and sent off. Payment by card was slower than by cash for the customer and the retailer, so was not attractive to either.

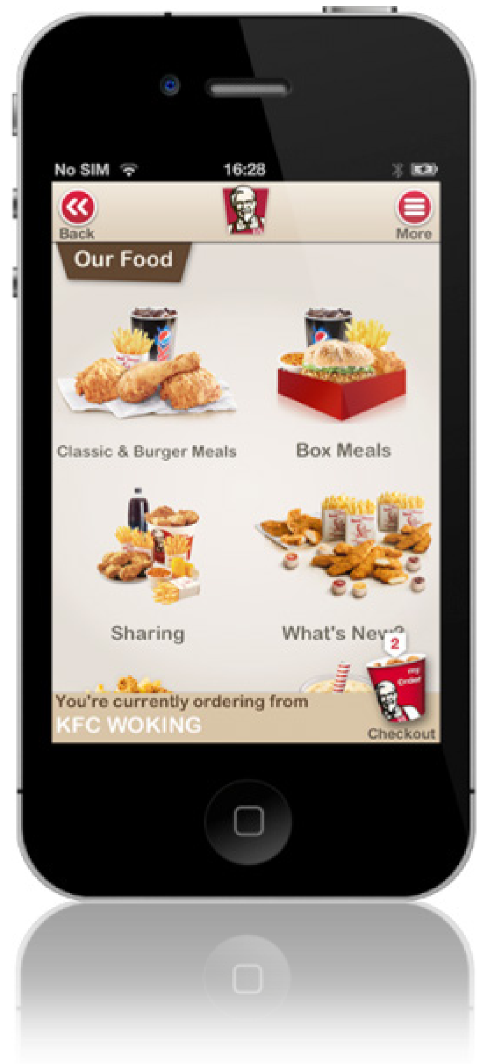
In 1951 the introduction of the Diner's Card paved the way for what we can now see was the 'Cashless Revolution': a form of non-cash payment that was acceptable to many retailers. The advantage to the customer was simple: there was no need to carry large amounts of cash, and payment could be deferred.

By the 1990s, reading the card details directly into the point of sale terminal was becoming widespread, and the advent of EMV chip cards in the early 21st century removed much of the risk of fraud. Consumers became comfortable with the idea of using cards in preference to cash.

For most of the twentieth century however, the customer journey started when the customer entered the store and ended when they left. If the customer had an account, they might receive a mail shot – but that was all. To get past this obstacle, retailers started to give 'loyalty cards' to customers, to be used in the store to identify and reward customers. In the UK the first major loyalty card was the Tesco Club Card in the mid-1990s. Many retailers followed with similar schemes. As long as the customer remembered to carry the card in their wallet, and it was read when checking out in the store, a profile of the customer could be built and offers could be targeted based upon individual preferences. Later in the 1990s, the UK supermarket Safeway combined its ABC loyalty card with a debit card capability. But with many retailers now issuing loyalty cards, 'wallet space' became an issue. In the early 2000s, Safeway abandoned its ABC card as part of a new strategy. Some lower cost supermarkets have never bought into the loyalty card concept. And the customer journey was still largely confined to the time spent in the store.

The real revolutionary steps in the customer journey came about from several innovations that we now all take for granted. During the 1990s the Internet connected the world together. It had its roots in Arpanet, first developed in the 1960s for the U.S. military. The World Wide Web, the invention of Sir Tim Berners-Lee in the 1980s, was intended originally to link the documented research work of scientists for communal benefit. Together these two enabled the growth of online retail, as pioneered by Amazon and others. To shop online however, in the mid-2000s, the customer still had to be sitting at their computer, in their house.

The next innovation, in 2007, was the catalyst that expanded the scope of the customer journey: from 'only in the store' or 'only online', the customer could be on a journey with a retailer anywhere, anytime. What we now call 'smartphones' were beginning to be developed in the 1990s but were generally confined to the business world. In 2007 the first Apple iPhone debuted. This was the first smartphone targeted at the consumer. By 2017, there were around 2.5 billion smartphones in use in the world. Phones are connected to the Web via either the phone



network or the internet. They have apps on board: many users only buy online using the phone apps provided by retailers. Geolocation capabilities, based upon the Global Positioning System, can allow apps to target users when they are near to a retailer or restaurant, for example.

Payment directly from the smartphone is now simple and safe. The major card schemes offer tokenisation services, so that the real card number is not used in transactions from mobile phones.

The next innovation, arriving in the near future, is 5G mobile phone networks. In the fifth generation of mobile networks, vastly increased bandwidth will enable download capabilities unthinkable just a few years ago. Totally immersive virtual reality can be used to advertise to consumers wherever they are in the world. So now and in the future the customer journey will have no beginning and no end. It will be constant, personalised and ever-changing. The shop is no longer the corner shop: the shop is small enough to fit in your pocket and yet big enough to show you the world!

Dirk Mayer
Senior Consultant in Fraud Prevention
RISK IDENT

From **Lambs** and **Wolves**

The classic fraudster targeted brick-and-mortar banks and was a lot like a lone wolf; he would take a high personal risk and howl in delight over his spoils. But because the fraudster could not show his face in the establishment again, the typical risk for a bank was a one-time loss. Fake identities did occasionally appear, but most of the fraud seen was soft fraud — fraudsters using their own identity and disguising the missing creditworthiness.

With the introduction of the internet and the digitalization of application processes, things got wild. Digitalization has eliminated personal risk, and the new fraudsters are methodical in their attacks and don't stop until security gaps are closed. Furthermore, fraudsters work much better in packs, which the Internet supports. In the online world, fraud can be organized and labor can be divided so the packs can quickly suss out and then share security vulnerabilities. Just like packs of wolves, organized fraud rings are able to viciously attack businesses that have gaps in their security processes. And just like hungry animals, they come back if the business defends an attack, searching the territory in an attempt to discover if a new hole appears in the fence in conjunction with a process change or a new fraud prevention product.

The Call of the Wild: Recognizing Patterns

Victims of these aggressive, organized attacks will likely notice that the fraud appears in a wave. Fraudsters first test the processes and learn, which often results in a string of small losses. They then share the learned information about a company's fraud parameters and weaknesses with others — either with their fraud organization or within a bigger community over the darknet. The main attack then leads to massive losses until the security gap is closed, at which point the wave subsides. In extreme cases, the attack isn't recognized and completely destroys the business or a business line. Several financial institutions were forced to close down business lines or sell portfolios within the last few years because they didn't recognize the first signs of an attack or they reacted too late to the initial wave. The lesson learned: In the past, it typically wasn't a problem to overlook some small fraud cases. But today? A few small fraudulent transactions could signal the beginning of a series that has the potential to wipe out a business.

Following Tracks

Analyzing fraud to protect a business is like tracking down a predator: first you have to know what you're searching for. Defining fraud is crucial in order to apply simple and helpful labels. A dark-field-analysis is able to manually label fraud, add new labels for each product defined and search for detection patterns like connections between labeled fraud cases and inconsistencies between connected applications. If possible, declined applications should also be part of a company's fraud analysis, as they often show early fraud tracks.

The outcome of a fraud analysis is a new picture of the fraud universe within a company that highlights the real loss of fraud within all applications and orders. The business case for a new fraud protection system or new services like device fingerprinting solutions will typically be based on the reduction of losses. However, they may also be based on the reduction of manual work, as these solutions often optimize the false/positive rate of rules.

Best Practice: What To Look For In Fraud Prevention Solutions

Best practice fraud systems examine three different kinds of rules to determine fraudulent activity:

- Reuse of resources like name/address/DOB, device, telephone number, account, credit card number, etc. — wherever there is a clear connection
- Inconsistencies like the content of a shopping basket not fitting to former orders or device configuration that doesn't fit to a standard customer
- Fraud profiles: the transaction or application looks completely normal, but the combination of data often signifies fraud. This kind of rule includes scorecards and complex algorithms.

A training document that fraudsters were using to learn more about their illegal craft was leaked from the darknet in December 2017. Analysis of this document showed that the device is the most difficult element for an organized fraudster to change — much more difficult than changing the identity, for example. Therefore, using device identification as part of the data set and being part of a device data pool is also extremely helpful in the detection of fraud.

Other things to consider when reviewing inconsistencies and fraud profiles are experience, amount of data and analytics — as well as which rulesets are best for your specific enterprise. Classic fraud scorecards work only within some industries and attack vectors. Scorecards require constant updating because fraudsters can and will change their parameters until they are able to successfully break through. A main problem is that pure score fraud scores contain no helpful information for the investigator. They are, however, quite helpful as additional information to sort cases, especially to optimize manual interaction.

Hunting Basics: Choosing The Perfect Tool

The most effective way of detecting organized fraud is to work with a fraud detection tool that filters out conspicuous transactions in real time. The best tools combine rulesets and machine learning to deliver information about suspicious activity and patterns. They also include a fraud-case-management GUI that presents the transaction or application information in a variety of easy-to-decipher formats for deeper investigation, labeling and reaction. Typical elements include: customer information, graphs, heat maps, Google maps and the street view connected to the associated address. The use of such fraud management systems has been proven to increase fraud detection and reduce manual effort.

It's important that when choosing a fraud management system, expertise and experience are examined. This ensures that the software incorporates the most efficient rules and algorithms to accurately identify connections. RISK IDENT products, for example, were built on the experience of the Otto Group, one of the world's largest e-commerce websites, as well as many other large e-commerce sites, payment service providers, telecommunication companies and banks.

In short, fraudsters are predators — but they are not protected, and they are not endangered species. In order to prevent full blown fraud attacks, it's imperative for companies to utilize device identification and other effective fraud prevention methods. Doing so can help keep the proud howling of successful wolves to a minimum.

Ronnie d'Arienzo
Chief Sales Officer
PPRO Group

Why APMs can take you **places cards can't**

Alternative Payment Methods (APMs) are ways of paying for online purchases that don't rely on credit and debit cards. There are many different types of APM — for instance, bank-transfer apps, cash-payment schemes, mobile payments, e-wallets — and the preferred payment mix differs widely from one market to another.

In developed markets for instance, the e-wallet or bank-transfer app that was market-ready when e-commerce first took off, often continues to dominate even years later. In emerging markets, the favourite APMs often allow cash payments for online purchases, allowing the unbanked to participate in the online economy.

In recent years, the popularity and use of APMs has grown considerably. By 2019, 55% of worldwide online transactions will be paid for using APMs. Significantly, this is happening at the same time as all major credit card brands are also growing (at rates between 5% and 51%). The payments market is expanding so fast, there is room for all players to grow.

What APMs can do for your business

As APMs grow and are adopted by more and more consumers, they are increasingly important to the business models of many online merchants. As well as making it easier to engage and convert customers in new markets, APMs also allow merchants to adapt and streamline their business models in other ways.

APMs, which are usually designed specifically for use online, can often also offer an improved user experience. Rather than a multi-stage payment process, as you get with a card, many APMs allow users to pay safely in just a couple of clicks.

By offering a locally preferred payment method, merchants are also able to significantly cut cart abandonment rates and increase conversions. Studies have found that customers will abandon up to 50% of the time, if they reach a checkout and find their preferred payment method not on offer.

Using APMs is one way to cut the risk of fraud. For instance, many APMs are payment guaranteed, eliminating the need for a chargeback function and thus also the risk of chargeback fraud. And by encouraging the use of push payments — such as invoicing, prepayment and bank-transfer services — you allow your users to make payments without ever having to enter sensitive information. This greatly reduces the risk of identity fraud.

Moreover, working with a payment service provider (PSP) gains merchants access to experts with their own risk models, compliance regimes and processes for detecting and minimising fraudulent transactions, data breaches and other potential legal and compliance problems.

The rise and rise of the APM

Recent research shows that even today just 23% of all online transactions are made with the three credit-card brands familiar to Western consumers (Mastercard, Visa and American Express). As we already mentioned above, by 2019 55% of all online payments will be made using APMs.

And this number is expected to grow rapidly in the near future. Today, only 48% of the global population has access to the Internet. But that number is growing fast. In Asia alone, 152 million people go online for the first time every year. And most of those people will also, at some point, want to shop online. Many are not banked and do not have credit cards: when they shop, it will be with an APM.

“The real value of MPE is in the networking and the panel sessions. Some fantastic conversations and discussions held with other payment experts”
Raymond Lee, Trustonic

“As a US FinTech company expanding into the European market, the MPE conference is a hidden European gem with easy access to C-level executives. ”
John Eagleton, ChargaCard

Andrea Boetti
VP of Global Business Development
Fortumo

Mobile operator partnerships: the next step in the evolution of mobile commerce?

In Western markets, the payment needs of mobile commerce merchants are covered by card-based and banking (direct debit) payment solutions. Virtually everyone has a bank account and ⅔of consumers are credit card owners. When expanding internationally, collecting payments becomes problematic.

In rapidly growing emerging economies of the world where most new users are coming from, traditional payment methods are not available to most of the audience. In India, just 53% of people have a bank account and 4% own a credit card. In Nigeria, the numbers are at 44% and 3% and in Indonesia, 36% and 1% respectively. Even in a relatively advanced market like Poland, 28% of people don't have a bank account and 56% don't have a credit card.

This means mobile commerce merchants entering new markets need to adopt additional payment methods in order to bring new paying users on board. This gap is increasingly being filled by mobile network operators (MNOs). There are more than 500 million mobile money accounts in usage globally, with 43 million transactions occurring each day and $22 billion processed on a monthly basis.

90% of these mobile money services are provided by MNOs and their financial subsidiaries such as Airtel Money, Easypaisa, Indosat Dompetku, M-Pesa and Axiata Boost. In addition to mobile wallets, most MNOs also provide carrier billing by default to their subscribers, meaning online payments through telcos are available to any mobile phone owner.

Carrier billing in the past has been a niche payment method, due to its limited technological capabilities and low payouts compared to bank-based payment solutions. Today, this is no longer the case.

Companies including Apple, Google, Amazon, Netflix and Spotify have adopted the payment method because the commercial terms match what they get from card-based payments. Carrier billing today is a tokenized, card-grade payment method with bigger reach and a better user experience, especially on small-screen devices.

Whether it's working together on mobile wallets or carrier billing, MNOs and mobile commerce merchants need each other. On one side, MNOs are struggling with subscriber and revenue growth, creating the need to seek out new business lines.

On the other side, it's increasingly difficult for merchants to collect payments from users. For example, India smartphone ownership has grown from 13% to 40% in the past 5 years while credit card ownership has essentially stood still, growing from 1.4% to 1.9%.

Compared to "regular" payment service providers, MNOs can bring much more to the table for merchants. Beside the abilities to charge users, they have mechanisms in place for user authentication, locational and behavioral tracking, online and offline sales enablement and promotion of online services.

This means mobile commerce merchants can leverage MNOs in three strategic areas: as customers for reselling of their content and goods, as marketing channels for merchant promotions and as payment partners for enabling purchases of said items.

Such partnership are growing increasingly frequent across the world: Easypaisa customers can make purchases in Xiaomi's online store; international companies are using M-Pesa for paying local employee salaries; Telia provides travel insurance to its subscribers through its insurance partners; GCash works with remittance service providers to enable international wire transfers to its users; Telenor has integrated MasterCard into its wallet and PayMaya offers subscribers a VISA card tied to their wallet account.

For mobile commerce merchants, MNOs are a powerful partner not just in enabling payments to more users, but also in user acquisition and promotion of their services. If you've not yet reached out to telcos in markets you plan to expand into during the upcoming years, what are you waiting for?

Carolyn Sweeney
Head of Global Business Development
The Chargeback Company

The changing world of chargebacks

Following her talk at MPE Berlin 2018, Carolyn Sweeney, Head of Global Business Development at The Chargeback Company explains what this year has in store for the age-old conflict: issuing banks VS merchants.

The chargeback has long been a key safeguard for credit and debit card users, allowing them to recover their money if they're faced with unauthorised transactions or issues with their purchases.

For merchants, however, consumers challenging transactions can be something of a nightmare. Chargebacks (or disputes) are always generated by a consumer or an issuer, with the money being refunded from the merchant's account… and additional processing fees tagged on.

Unfortunately, the process is heavily weighted in consumer favour, and often chargebacks progress without the issuer ever challenging whether the dispute in question truly requires merchant penalty. This lack of scrutiny has led to an epidemic of chargebacks being invalidly generated by cardholders (otherwise known as friendly fraudsters), and unwittingly means major repercussions for issuers.

Counting the cost

According to the latest figures, the global average cost for chargebacks can be as much as 26% of an issuer's budget (not including any subsequent write-offs). Issuers often have no idea just how expensive the process is, and how much of funds go towards handling consumer disputes.

So what can issuers do to ensure they take steps to minimise the impact of chargebacks?

First of all, they should incorporate measures into their dispute process design to interrogate the circumstances around the transaction – this will determine whether there genuinely was an error or negligence. Before passing liability on to the merchant, issuers need to thoroughly question the cardholder to make absolutely sure that there is no other option than to claim a chargeback. This is crucial because chargebacks are an enormous responsibility with a lot of money at stake, and should be treated as such by all parties.

For example, if my sister owed me £100 and wouldn't give it back – even if a judge decided in court that she should – there is no way that I would be authorised to access her bank account to retrieve it. With chargebacks, however, an issuer can dip into the acquirer/merchant's bank account at will and retrieve any money (without even needing a hearing).

Keeping within the law

The laws that support consumer disputes are complex and change country by country, region by region. So it's often hard for an issuer working on a global scale to know the specific details of the legislation prevailing in each of the markets it is operating in – especially a cross-border commerce continues to rise.

Issuers' internal legal support teams typically do not have sufficient knowledge of these specific pieces of consumer legislation. As a result, just processing the chargeback 'no-questions-asked' ends up being the simplest option.

It's true that chargeback rules are complex and dynamic. However, 2018 will see the biggest changes yet coming in to play. Issuers are finally being forced to seek input from the merchant when a cardholder questions a transaction, instead of easily blocking the account as fraud and issuing an invalid chargeback.

What's in store in 2018

This year, there's a host of new rules being introduced by the major payment schemes. Visa, for example, has introduced a new requirement to make all merchant-enabled interfaces available – a revision designed to clarify that new or upgraded acceptance devices must make all merchant- supported card acceptance interfaces available to the cardholder when a Visa transaction is initiated.

Visa has also made revisions to its Global Compromised Account Recovery (GCAR) programme modifications and payment account reference standards, as well as introduced updates to its Verified by Visa rules to enhance transaction verification processes.

Meanwhile, Mastercard has been busy updating its procedures, with changes to many of the rules governing its authorisation and clearing systems.

These are just snapshots of some of the changes being made – all of which will impact on the risk of friendly fraudsters, protect issuers from the repercussions of processing fraudulent claims, as well as reducing the number of consumers needing to make genuine chargebacks in the first place.

Everyone in the payments network needs to be up to date on this knowledge and make changes to address the new rules, to ensure their protocols are upgraded too. It's up to each individual party to know what's going on with the rules at all times.

The experts

For those involved, disputes can quickly feel like a game of cat and mouse, with the liability being passed back and forth between the issuer and the acquirer. The cost and resources that this process demands – in addition to the ultimate loss of the transaction amount and possibly future commerce for the merchant – means that it can be crucial to seek outside help to thoroughly address and resolve the issue, from an unbiased position.

Specialists in the area can be a blessing for many merchants, issuers and acquirers who don't have resources to bring the latest know-how in-house. Experts in the industry protect many from the financial consequences of chargebacks, ensure consumers get an effective answer to their dispute, and focus on improving core operations.

The right chargeback partner allows the payment network to focus on growing real transactions and increasing and retaining trade. This way, everybody wins.

Marijke Koninckx
Product Marketing Manager
BPC Banking Technologies

Payments in **Times of Open Banking**

What retailers can learn from the changing banking landscape

The retail landscape has undergone a significant shift over the last decade. The traditional sales channels have been amended with or even replaced by digital channels through which consumers prefer to make their purchases. Retailers had to rethink their customer engagement models and the changing customer expectations did not only affect the retail industry but most other industries where consumers are engaging with their suppliers. For a long time, the incumbent banks managed to get away with merely digitizing some of their existing paper based processes by offering online and mobile banking channels to their customers. It is only after a number of challenger banks emerged, that there was a shift from inward-out to outward-in thinking when it came to product design.

But challenger banks alone were not enough to make some of the established banks rethink their customer propositions. It took an intervention from the regulator to instigate a real change in the banking industry. On January 13th 2018, the 2nd Payment Service Directive (PSD2) finally came into force, although it would be a bit exaggerated to say that the world changed overnight. The initial reaction to this new piece of regulation when it first was announced was one of concern, not only were banks perceiving this as a security risk but also as a threat to the relationship with their customers. As the dust settled and the industry started to work through the practical implications of open banking, it soon became clear that banks would not be opening their doors to any and every third party knocking on their door – it is rather a controlled access that will be granted to third parties that either meet the regulatory requirements or that enter into a partnership with the financial institution. Only at that point, the banks started to understand the potential benefits of this evolution and that there is more to be gained by embracing this evolution than trying to fight it.

So does this mean the world as we know it has changed? Not just yet… the stakeholders – banks, fintechs, consumer organizations and regulators – established a number of industry forums, working their way through the practicalities of open banking. There still are some points on which the banks and (established) fintechs disagree, but a consensus has been found in a lot of other areas. The lack of standardization may be a hurdle for third party providers trying to set up their services and only few banks are ready at this point in time to comply with the rules laid out by the EBA in their regulatory technical standard. For payments practitioners, PSD2 and open banking has been at the heart of a lot of the work conducted over the last 2 years, but consumers are still very much unaware that open banking will soon be a reality. Some of the mainstream media has been publishing articles with scary titles along the lines of "Your bank account data is now up for grabs" and that is not at all what the industry is trying to accomplish. Making sure consumers are properly educated – and not only on the potential risks but also on the new convenient services these same consumers will soon have access to – should be high on the agenda of local regulators, banks and fintechs alike.

For retailers, open banking also brings a number of obvious benefits and PSD2 allows to truly leverage instant payments as they too become more readily available. Open banking allows retailers to build richer customer experiences by bundling loyalty and payments into one seamless customer proposition. Although larger retailers are most likely to move first into this domain, this is equally relevant for smaller merchants and service providers will offer white labelled services across multiple merchants building on the increased digitization of loyalty and reward schemes, instant payments and open banking.

As a result of this regulatory change, the banks have gone through a significant transformation in their thinking around products and services and as the banks have learned from the retail industry how to address changing customer expectations, retailers can equally benefit from the lessons learned by the banking community. Customers are in charge of their data in open banking, and retailers can consider the same level of openness when it comes to loyalty data. But probably the most important take away would revolve around the value of partnerships. Never before have banks been as keen to collaborate with external partners in an attempt to create the most compelling customer proposition. It remains to be seen which partnerships and solutions will succeed, but it is clear that there is a tremendous potential in this collaborative approach and without a doubt, this will lead to the next generation solutions where customer value is really at the heart of the proposition.

Christer Holloman
CEO and Co-founder
Divido

Why **Banks are Licensing the Divido** POS Platform to Supercharge Their Finance Offering

In 2017, point of sale (POS) consumer lending exceeded £4bn in the UK alone. And with zero real wage growth forecast for 2018, an increasing demand for instant gratification and an uncertain economy ahead, POS finance is only set to grow. Banks and lenders are recognising they need to supercharge their POS offering to take advantage of this growth, as well as fend off competition from challenger banks.

Since 2015, over 500 merchants have partnered with Divido to offer their customers instant finance, helping their customer to buy whilst boosting sales by up to 40%. As of late 2017, Divido began to license its platform. 'Powered by Divido' allows banks and lenders to directly offer their customers a retail finance solution under their own brand name. For lenders new to POS, this opens up the opportunity to attract new customers and differentiate their product proposition. For lenders already offering POS, 'Powered by Divido' provides them with state-of-the-art software to help them fend off new entrants in their market space and grow their business.

So why are banks choosing to licence Divido's finance platform?

Benefits of Licensing Divido's Platform

1. Speed and ease to market

Many lenders and banks have very limited in-house tech resource, and even those with plenty of resource, building their own instant finance system takes months, even years of time, learning and investment. By licensing 'Powered by Divido', the in-house Divido development team can integrate the platform into the bank's existing system, quickly and smoothly. For the lender, this means less hassle, lower costs and an incredibly quick route to market.

2. Brand ownership

Divido understands the value and importance of retaining control of your own brand name. Because of this, lenders have the option to white-label 'Powered by Divido' 1) under their name to boost their brand awareness, or 2) under the retailer's name so they can retain a continued relationship with their customers that many merchants look for in a finance solution.

3. Completely modular

Banks' capabilities and needs can differ greatly, so Divido's platform has been built on a modular structure to suit any lender. They can choose what features they want from Divido, what they would like to retain in-house and what third parties they want Divido to use on their behalf.

4. One-step global integration

Most lenders will only lend to consumers in one or a few markets, so if they have a multinational retailer, potential business is slipping through their fingers. By using 'Powered by Divido', these national lenders gain access to a network of global lenders, so allowing them to provide finance to their retailers in markets they don't even lend in themselves.

5. Higher acceptance rates

The acceptance rate of finance applications varies widely, risking damage to the customer relationship. However, because Divido's platform is connected to multiple lenders with varying credit-risk appetite, if the lender can't accept an application, they can choose, still under their branding, to pass it seamlessly onto another lender to accept. This ensures the original lender retains the overall relationship with the customer and provides a positive brand experience.

6. Omni-channel offering

Most finance solutions only provide either online or offline platforms. However, 'Powered by Divido' works seamlessly across all the major channels; in-store, online and via mobile. This ensures that wherever the retailer sells, and wherever the customer prefers to buy, the incentive of flexible finance can be offered to secure the sale.

7. Opportunity to upsell

As well as attracting new customers, by offering 'Powered by Divido' lenders are also given the opportunity to upsell to their existing merchants and so boost their overall lifetime value and improve their 'stickiness'.

8. Access to hundreds of merchants

Last, but certainly not least, by licensing 'Powered by Divido', lenders are also given the opportunity to join the Divido panel, giving them access to its 500+ multinational merchants and intermediaries, and their end consumers.

As challenger banks continue to throw their weight around, it's crucial that traditional banks innovate, and innovate fast, to stay in the game.

SINCE 2015, OVER 500 MERCHANTS HAVE PARTNERED WITH DIVIDO TO OFFER THEIR CUSTOMERS INSTANT FINANCE, HELPING THEIR CUSTOMER TO BUY WHILST BOOSTING SALES BY UP TO 40%.

REVISED PAYMENT SERVICES DIRECTIVE (PSD2): STATUS OF NATIONAL IMPLEMENTATION

The revised Payment Services Directive was required to be transposed into national legislation in all EU countries by January 13, 2018. PaymentsCompliance has been monitoring the directive's implementation in all member states.

As of January 17, this is the status of the implementation process in the 31 jurisdictions.

Country	TBC	Draft Stage	Consultation Process	Legislative Process	Implemented
Austria			●		
Belgium				●	
Bulgaria				●	
Croatia			●		
Cyprus				●	
Czech Republic					●
Denmark					●
Estonia					●
Finland					●
France					●
Germany					●
Greece				●	
Hungary					●
Ireland					●
Italy					●
Latvia				●	
Lithuania				●	
Luxembourg				●	
Malta					●
Netherlands		●			
Poland				●	
Portugal		●			
Romania	●				
Slovakia					●
Slovenia				●	
Spain			●		
Sweden		●			
United Kingdom					●
Iceland (EEA)		●			
Liechtenstein (EEA)			●		
Norway (EEA)			●		

Practical Insight: Overlaps Between the GDPR and PSD2

HELENA REGOLI ⁞ SEPTEMBER 8, 2017

This practical guide provides an overview of the potential overlap between the revised Payment Services Directive (PSD2) and the General Data Protection Regulation (GDPR), and how these conflicts could potentially be resolved.

INTRODUCTION

The revised Payment Services Directive (Directive 2015/2366), popularly known as PSD2, must be implemented by EU member states by January 2018, a few months before the application of the General Data Protection Regulation (Regulation 2016/679) (GDPR) from May 25, 2018 in all member states.

PSD2 is a key piece of payments-related legislation in Europe. The text aims to bring into scope new types of payment services, increasing competition, enhancing security and boosting customer protection.

The text requires that all member states of the EU implement the directive nationally by January 13, 2018, with the exception of regulatory technical standards (RTS) on strong customer authentication and secure communication, which will have a different timetable.

Under the directive, payment institutions will be required to make customer data available to authorised third parties, with the account holder's explicit consent.

The GDPR is a regulation which intends to unify and strengthen data protection for data subjects within the member states and will impose new fines on firms that do not adequately safeguard their data.

The GDPR represents a significant reform of existing EU data protection law, including the introduction of a number of new rights around how data subjects can control their personal data. These include a "right to be forgotten", a right to object to certain types of data processing and a "right to data portability". Data portability is defined by the text as a right for data subjects to receive their personal data "in a structured, commonly used and machine-readable format", so that they can either obtain a re-useable copy of their data or require the controller "to transmit those data to another controller without hindrance".

Businesses that fail to protect personal data adequately under the GDPR could face fines of up to a maximum of either €20m or 4 percent of global annual turnover (whichever is the greater).

A number of payments industry stakeholders have highlighted some potential conflicts between PSD2 and the GDPR. Clarity on the interaction between the two texts, in particular regarding the basis for processing personal data, the consent model and rules around breach reporting, is consequently required.

Internal meetings within the European Commission took place in June 2016 to "clarify" the relationship between the GDPR and PSD2.

PSD2 does not refer directly to the GDPR and, likewise, no specific reference to the GDPR is made in PSD2. However, PSD2 does say that the processing of personal data for the purpose of payment services must be carried out in accordance with the existing EU Data Protection Directive (Directive 95/46/EC) and its national implementing laws. Even if Directive 95/46/EC is repealed by the GDPR from May 25, 2018, the GDPR states in Article 94 that "references to the repealed directive shall be construed as references" to the new GDPR.

As the GDPR and PSD2 do not talk about their interactions, it will fall to the national regulatory authorities to interpret the potential differences existing between both texts, with the data protection authorities enforcing the GDPR, while the appointed national financial regulators will take the responsibility of enforcing PSD2. As stated by the Information Commissioner's Office (ICO), the UK data protection authority, in a response to a consultation on the implementation of PSD2 in the UK published on March 17, 2017, "it is important that the implementation of PSD2 does not introduce requirements that conflict with data protection obligations".

This practical insight is aimed at helping organisations understand what conflicts could exist between these texts, and how these differences could potentially be resolved.

POTENTIAL CONFLICTS ARISING FROM LEGAL BASIS FOR PROCESSING PERSONAL DATA, IN PARTICULAR CONSENT

Article 94 of PSD2 deals with data protection. It first states that payment service providers will be permitted to process personal data when "necessary to safeguard the prevention, investigation and detection of payment fraud". It goes on to say that payment service providers shall only access, process and retain personal data necessary for the provision of their payment services "with the explicit consent of the payment service user" (emphasis added).

Under Article 6 of the GDPR, consent is one of the six lawful bases for processing personal data, which also include performance of a contract, compliance with a legal obligation and the legitimate interests of the data controller. However, "explicit consent" has a very specific meaning under the GDPR. In accordance with Article 9(2) of the GDPR, "explicit consent" is one of the means by which a data controller can lawfully process sensitive personal data, for example information concerning an individual's health, racial or ethnic origin, political opinion or religious beliefs.

Payments UK, the BBA and the UK Cards Association published a response to a HM Treasury Consultation on the implementation of PSD2 on March 15, 2017, in which they highlight that "the GDPR consent requirements are such that in most cases firms should not be making consent a pre-condition for the receipt of a service". The above PSD2 provision "seems to conflict with this intention as it is requiring consent on a mandatory basis before personal data can be processed in connection with the provision of payment services". This conflict has not yet been resolved.

PSD2 also has a higher consent threshold for personal data than the GDPR. Payment or banking data is not sensitive personal data under the GDPR and so the GDPR does not require explicit consent to be obtained to process this data. Despite this, payment service providers would currently need to obtain "explicit consent" under PSD2 to process payment or banking data to comply with Article 94.

As explained by a civil servant at the European Commission to PaymentsCompliance in June 2016, as the legal bases for processing personal data are different, any conflict between these provisions "could be resolved by 'lex specialis', a legal doctrine that holds that specific rules override general ones — meaning PSD2 would trump the GDPR in certain circumstances".

In the response to the consultation on the UK implementation of PSD2 published in March 2017 by the ICO (the March Response), the regulator highlights that in its draft guidance on consent, "explicit consent must be expressly confirmed in words, rather than by any other positive action. Therefore, even if it is obvious from an individual's actions that they consent to the processing of their personal data in a particular way, this cannot be 'explicit consent' unless it is also expressly confirmed in words." The ICO's March Response goes on to say that "whilst we appreciate 'explicit consent' is the term used in PSD2, care should be taken to ensure that the use of the term in this related context does not confuse or unnecessarily hamper the development of a reasonable user experience".

As explained by David Futter, a partner at Ashurst law firm, in light of the above, further clarity is needed from the financial service regulators to understand what approach to consent under PSD2 will need to be taken by industry.

POTENTIAL CONFLICTS REGARDING SECURITY RULES

Potential overlaps between data security rules in GDPR and PSD2 could exist as well.

Under PSD2, payment service providers are required to take specific security measures when performing a number of payment service activities. These include when confirming availability of funds for the purpose of card-based payment transactions (Article 65) and when authenticating and communicating with payment service users for payment initiation and account information services (Articles 66, 67 and 97). The specific security measures and standards that a payment services provider will need to meet when conducting these payment activities will be set by the European Banking Authority (EBA) under its regulatory technical standards on strong customer authentication and secure communication (RTS). Although PSD2 will apply from January 13, 2018, the RTS will not be finalised by the EBA until later, currently expected to be around Autumn 2018 at the earliest.

Article 98(2) of PSD2 mandates the EBA to ensure that the RTS will ensure an appropriate level of security for payment service users and payment service providers through the adoption of "effective and risk-based requirements".

In contrast, the GDPR (which will enter into force earlier than the RTS, on May 25, 2018), requires organisations to implement "appropriate technical and organisational measures to ensure a level of security appropriate to the risk".

According to the ICO, payment service providers will need to ensure that they have adequate systems in place to protect the security and integrity of the personal data they process as soon as they begin processing this data. The ICO explained in its March Response that, for payment service providers, this means that "as the draft RTS is now available, systems and procedures should be designed in line with the RTS wherever possible in order to ensure minimal disruption when the RTS eventually comes into force".

Although the EBA is of the view that there is no conflict with the GDPR at the RTS level, it also acknowledges that, during the implementation and supervision stage, the interaction between the two will need to be considered.

It is clear that the ICO is also mindful of the potential for inconsistency between the data security requirements under the GDPR and the, as yet, unfinished RTS. It stated in the March Response that it "will continue to engage with HM Treasury, the Financial Conduct Authority, industry bodies and other relevant stakeholders" to ensure that "the provisions of PSD2 are implemented in a way that is harmonious with, and complements, data protection requirements". This is encouraging news for industry.

POTENTIAL CONFLICTS REGARDING DATA BREACH REPORTING

A different terminology exists between the legislation. PSD2 refers to "security incidents", whereas the GDPR concerns "data breaches".

The GDPR defines a personal data breach as "a breach of security leading to the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, personal data transmitted, stored or otherwise processed" (Article 4 of the GDPR); however, PSD2 does not offer a specific definition of what security incidents cover.

On its face, a data breach (for the purpose of the GDPR) is likely to be a result of a security incident (as understood under PSD2), such that where a payment service provider suffers a security incident involving the loss or unauthorised access to personal data, the GDPR should also apply.

The two texts apply a different threshold for reporting "security incidents" or "data breaches". Reporting obligations arise under Article 96 of PSD2 if a payment service provider suffers a "major operational or security incident". This contrasts with the GDPR which requires any personal data breach to be reported, unless the breach "is unlikely to result" in a risk to the rights and freedoms of the data subjects involved. As such, when devising their security and data reporting policies, payment service providers will need to be very clear about when an obligation to report under either or both of the legislation arises.

The language used in the GDPR and PSD2 around the timescales for reporting is also slightly different.

Reportable security incidents under PSD2 need to be notified "without undue delay" to the competent authority in the home member state of the payment service provider.

The GDPR applies a similar timeframe, in that Article 33 requires a data controller to report a personal data breach without undue delay, but also goes on to say that "where feasible" this should be no later than 72 hours after first becoming aware of the breach.

On its face, this may appear that a tighter reporting timeframe is required by the GDPR. However, according to the final guidelines on major incident reporting under PSD2 published by the EBA on July 27, 2017 (which should take effect alongside PSD2 if accepted by member states), Article 96 of PSD2 will require payments businesses to send an initial notification to the competent authority within four hours of the moment the major operational or security incident was first detected (Article 2.8). The EBA has extended this timeframe for reporting a major incident from two hours to four — a two-hour deadline was included in the draft guidelines published by the EBA in December 2016, but industry complained that the initial deadline was "unreasonable".

A second report must then be filed within three business days (Article 2.10). This is seemingly in keeping with the 72-hour timeframe afforded by the GDPR.

The EBA guidelines also require firms to submit a report if a non-major incident develops into a major one. Any breach or system failure that affects transactions worth more than €5m, or more than 25 percent of a payment service provider's transactions or clients, is classed as a major incident.

Payment service providers need to provide their regulator with a description of their security incident monitoring and handling procedures, and "where the incident has or may have an impact on the financial interests of its payment service users", inform without undue delay "its payment service users of the incident and of all measures that they can take to mitigate the adverse effects of the incident".

Under the GDPR, the payment service provider (if also the data controller) will need to notify the affected data subjects of the breach “without undue delay”, when the personal data breach “is likely to result in a high risk to the rights and freedoms of natural persons”. The difference in the amounts of fines should also be noted.

Under the GDPR, an infringement of the above data breach reporting obligations can be subject to administrative fines up to €10m, or in the case of an undertaking up to 2 percent of its total worldwide annual turnover of the preceding financial year, whichever is higher.

PSD2 does not name penalties or specify any amount so far. Article 103 states: “Member states shall lay down rules on penalties applicable to infringements of the national law transposing this directive and shall take all necessary measures to ensure that they are implemented. Such penalties shall be effective, proportionate and dissuasive.” It, therefore, remains open to member states to choose to impose different amounts when setting fines in relation to security incident reporting, or even levy non-financial sanctions.

As explained by David Futter, whatever sanctions imposed under PSD2, they will not be mutually exclusive to those imposed under GDPR; therefore, “where a payment service provider suffers a security incident and, as a result, breaches both the PSD2 and GDPR, it will be open to each of the ICO and relevant financial services regulators to impose as they see fit those fines and other sanctions available to them under their supervisory powers”.

CREDITS

Helena specialises in Data Protection and European Union issues. She was admitted as a lawyer in France and previously worked in a Paris law firm. Helena graduated from Panthéon-Sorbonne University with two Master’s degrees, and has also completed an L.L.M in Intellectual Property Law from Queen Mary University.

This report was prepared with input from David Futter, a partner at Ashurst.

David is a partner in Ashurst’s dedicated Digital Economy Practice. He specialises in digital transformations, particularly within the fields of fintech and payments, having led deals for many of the major participants across the financial services value chains, including banks, processors, card schemes, technology vendors and merchants/retailers. David also advises regularly on a wide range of IT procurement, outsourcing and service contracts, consumer protection regulation and intellectual property law.

EBA Reignites Screen Scraping Row, Warns 'Legal Battles' Ahead

FRAN WARBURTON ⁝ JANUARY 26, 2018

A senior European Banking Authority (EBA) official has accused lawmakers of failing to clarify the legal status of screen scraping under incoming legal reforms, warning of more industry conflict and an unprecedented burden on national regulators.

Dirk Haubrich, the EBA's head of consumer protection, financial innovation and payments, urged attendees at a European Parliament scrutiny session to rethink security rules adopted by the European Commission in November.

The final regulatory technical standards, which address third-party account access under the revised Payment Services Directive (PSD2), state that a form of screen scraping could still take place, but only if a bank's dedicated technological interface fails to gain regulatory approval.

"The responsibility of the key question — is screen scraping allowed or not □ is not resolved, it's all pushed down to the EBA," said Haubrich.

"The resource implications, the legal battles and the conflicts we have to sort out six, 12 or 18 months further down the line are immense because of this lack of clarity."

In the EBA's initial draft standards, which were published in February last year, the industry was told that third parties would no longer be permitted to access customers' accounts by using their login credentials.

The practice was labelled a serious security risk by banks, and was deemed incompatible with the PSD2 text by the authority.

However, that sparked a backlash from existing third-party providers, which argued that a total ban on screen scraping would enable banks to choke off competition by developing low-quality or restrictive interfaces.

After another disputed draft text, the European Commission eventually settled on a compromise: if a bank has developed an interface that is approved by national regulators, third parties must use it. If not, a version of screen scraping is allowed to continue.

According to the EBA's Haubrich that created a new problem for national regulators, effectively forcing them to decide whether a bank's interface meets IT standards.

This is a task "for which the competent authorities are not equipped and the EBA is not equipped either", he said.

As assessment of an interface would also need to take into account its availability and performance, he explained, it would require every single bank to undergo an inspection by their national regulator.

"There are several thousand assessments that need to be done, because there are 6,000 banks in the European Union," Haubrich said. "So there's a huge resource implication for the EBA and the national authorities."

“We’d rather have these problems sorted out now, and think about it for another month or two to sort this out, than having lots of very difficult discussions — hundreds of them — for each individual case, for each bank,” said Dirk Haubrich of the European Banking Authority.

The EBA official pointed to another issue in the commission’s final draft text.

One of the conditions that national authorities will have to take into account is whether a bank’s interface is “to the satisfaction of third-party providers”.

That means the legality of screen scraping “is dependent on whether another set of actors □ a competing set of actors □ is satisfied with that interface”.

“That is a very unusual legal construction, and we see lots of problems further down the line,” he said.

European Commission officials made no secret of their opposition to the EBA’s arguments.

Martin Merlin, director of the commission’s financial services unit, insisted that the reaction to November’s final text has been “very positive from both sides”.

“We believe that the RTS [regulatory technical standards] now provides very strong incentives to all market players to work together and develop common standards for APIs [application programming interfaces],” he said.

“This should unleash a wave of fintech innovation, with banks providing platforms on which many new services can be drafted.”

Merlin said a group has been established, supported by the commission and the European Central Bank, that will evaluate API developments and give advice to national authorities.

The first meeting of that group was scheduled for January 29, and it will be given six months to develop “practical modalities”.

Haubrich acknowledged that the commission has the final say on the text, but expressed disappointment that “additional requirements were inserted … that we were not aware of before”.

That marked a procedural precedent “which we hope will not be repeated”, he said.

MEPs were generally supportive of the commission’s text, with Italian representative Roberto Gualtieri describing the compromise as “a good improvement”.

He admitted, however, that he was “comfortable with the original EBA suggestion” and that divergences of interpretation must be avoided at national level.

MEPs Markus Ferber and Olle Ludvigsson echoed claims that financial firms see the standards as a balanced compromise between banks and fintechs.

The commission’s Merlin said he expects the European Parliament and European Council to give their blessings to the reforms around March this year, which would mean they take effect in September 2019 at the earliest.

FCA Grants Approval To 13 Third-Party Providers

JOHN BASQUILL ⁝ JANUARY 18, 2018

The UK has granted approval to 13 third-party providers, including processing giant Paysafe, looking to capitalise on the introduction of the EU's revised Payment Services Directive (PSD2).

The Financial Conduct Authority (FCA) has confirmed to PaymentsCompliance that ten account information service providers, one payment initiation service provider and two providers offering both have received permission to operate under the new regime.

PSD2, which came into effect in the UK on January 13, creates a legal framework that allows third-party providers to gain external access to accounts held by a bank.

They can then aggregate transaction data and facilitate credit transfers directly between accounts.

"This of course will change — increase — going forward," a spokesperson for the FCA said, referring to the number of authorised firms.

The regulator revealed last week that it was considering around 40 applications in total.

Skrill, which is owned by Paysafe, received authorisation as a payment initiation service for its Rapid Transfer product.

Ardohr, trading as CreDec, and TrueLayer were granted permission to carry out both payment initiation and account information services.

The firms registered as account information service providers were: Digital Moneybox; Emma Technologies; FundingXchange; Flux Systems; Fractal Labs; Credit Data Research; Business Finance Group; Clear Score Technology; Consents Online; and Indigo Michael.

"We've actually been operating a service equivalent to a payment initiation service for a while now, under the Rapid Transfer brand," explained Elliott Wiseman, chief compliance officer and general counsel at Paysafe.

"Obviously, with the advent of the new formal authorisation for these services, we made the decision that we wanted to ensure that we can continue operating in the same way after January 13."

Wiseman said the company is already working on applications to passport payment initiation services in other EU member states.

"Initially we're looking to passport into 12 member states, probably looking at it as a phased approach and see how well it does," said Elliott Wiseman of Paysafe. "If it does well no doubt passport into the remainder."

Although Rapid Transfer remains one of the company's lesser used payment services, he said payment initiation is "clearly something that we think will gain more and more traction".

TrueLayer, which gained permission for both third-party activities, is a much younger company — it was founded in July 2016 — but took a similar view.

"The payment initiation product that we're building lives adjacent to the data API that we've already built," said Shefali Roy, the company's chief operating officer.

"It will fill a huge gap in the current payment landscape and specifically enable digital financial service to transfer money in a seamless way."

Roy said the company has connected to more than a dozen banks, estimating that it covers between 90 and 95 percent of the UK's banking population.

TrueLayer pulls information from an account, including its balance and transaction history, and will later introduce a regular payment function as an alternative to a direct debit or standing order.

Alexander Meynell, strategy director at CreDec, said the company's decision to apply for dual permissions was "all about managing the entirety of users' requirements".

"We see account information services and payment initiation services as complementary solutions for our customers," he said.

All three were highly complimentary about the FCA's role in gaining authorisation.

"They pulled out all the stops over the last couple of weeks, working with us really collaboratively, helping us make final tweaks to the application ... to ensure we were compliant with the new regulations," said Paysafe's Wiseman.

Roy said Truelayer's application was a "seamless process" despite only being submitted around two months ago.

"We had a case officer appointed within a week and a half," said Shefali Roy of TrueLayer. "In terms of questions for us, they were extremely collaborative and very helpful."

Meynell added: "The FCA appears to be coping well with the significant challenge of re-authorising the UK market in such a short window. Certainly our case officer was exemplary."

However, that speed to market on the third-party side has not been matched by the UK's banking sector.

Nationwide, this week, became the sixth bank or building society to delay the introduction of an application programming interface (API) facilitating third-party access, much to the chagrin of the Competition and Markets Authority.

The stuttering launch of open banking means third parties will remain reliant on screen scraping as an access mechanism, at least in the medium term.

"We're having to continue doing that, because at the moment there are no compliant APIs in the market to be used," said Wiseman.

"We obviously made it clear that until such time as the APIs were available to be used, there was really no other option than to screen scrape."

He welcomed the European Commission's decision not to outlaw screen scraping outright, despite pressure from banks, in secondary legislation expected to take effect next September.

"I think they've reached a sensible position and a pragmatic one until such time as the full API solution is ready to be used," he said. "We're talking to the banks now making sure that we're whitelisted, so we're not denied access going forward."

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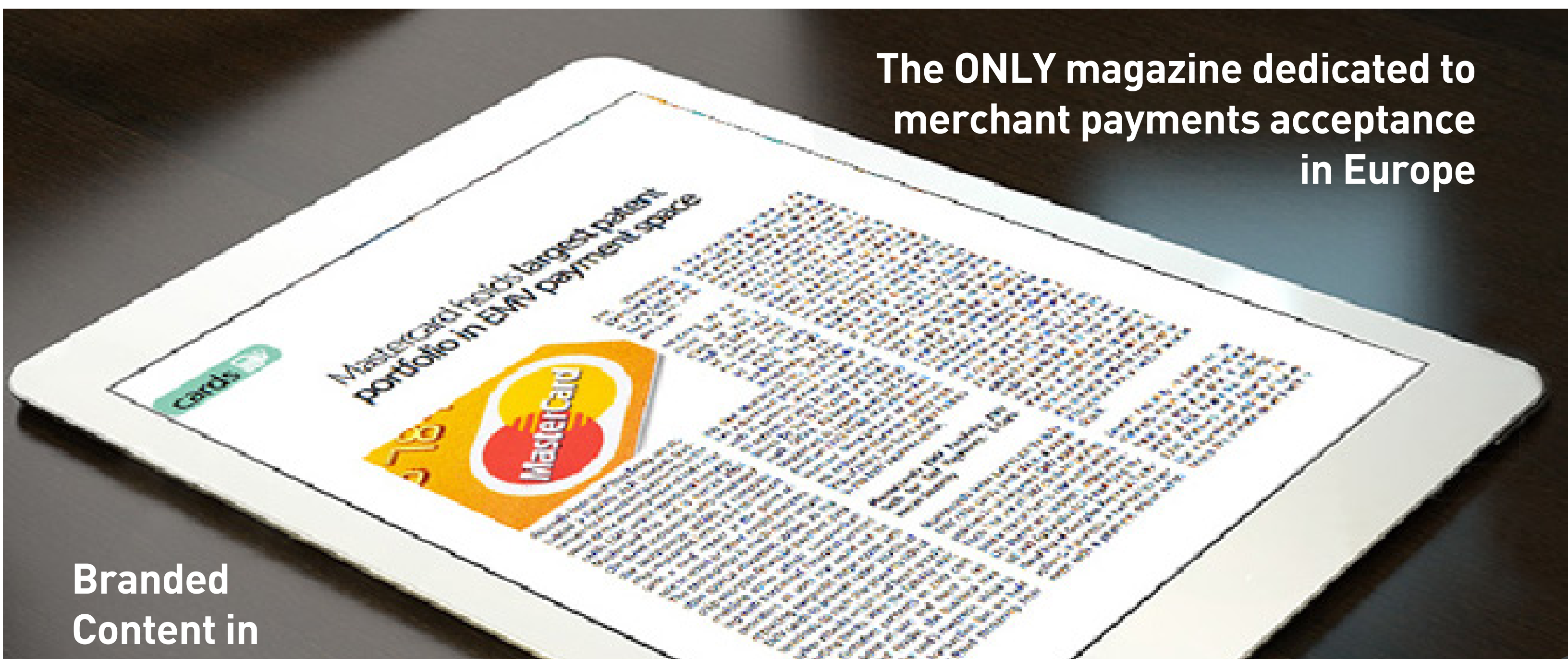

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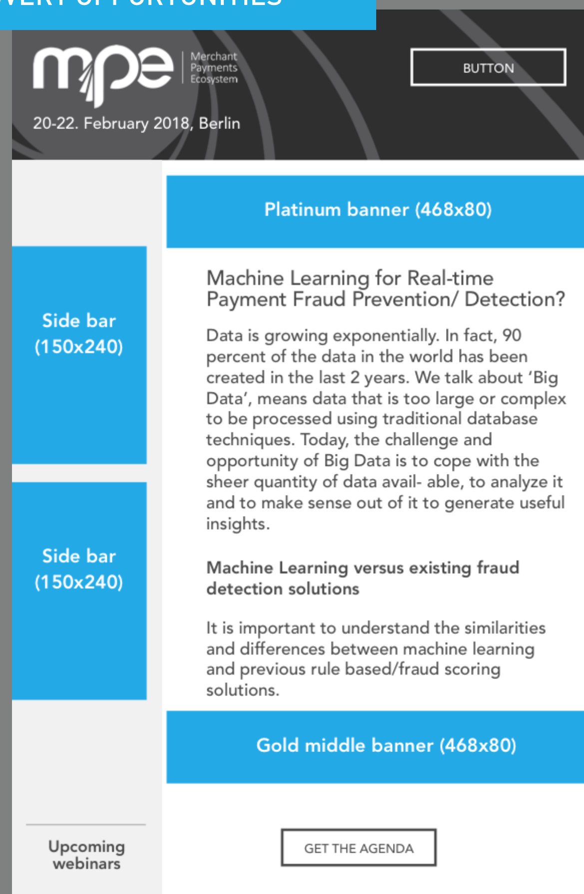

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Global Map of mPOS Providers

The most comprehensive industry overview of mPOS providers. The interactive map monitors the increasing complexity of mPOS ecosystem listing players coming in from different sectors around the Globe.

www.merchantpaymentsecosystem.com

2010 Jan

Square

Provider to merchants: ✓
(Core Service & Wallet)

Vendor to providers: ✗

Accepted Card Brands: VISA, MC, AMEX, DISCOVER

Countries Serving:
United States, Canada, Australia, Japan

Product Names: Square Register
Connection Type: Audio jack card reader
Features: Free secure card reader available after sign up, secure encryption, easy setup, free Square Register app, no setup fees or long-term contracts, funds from swiped payments are deposited directly into bank account within 1-2 business days, includes checkout customization, management tools, data analytics
Verification Method: Signature
Compatibility: iOS, Android

Website: www.squareup.com

2010 Mar

Lightspeed

Provider to merchants: ✓
(Core & Front Office & Back Office & Open API)

Vendor to providers: ✗

Accepted Card Brands: VISA, AMEX, DISCOVER, MC, JCB

Countries Serving:
United States, Australia

Product Name: LightSpeed Mobile
Connection Type: Mobile payments sled, serial port & audio jack card readers
Features: Create new invoices, perform inventory lookups, add or create a customer, scan products with linea-pro hardware, process credit card payments, accept signatures on-screen, email receipts. LightSpeed is the complete retail solution
Verification Method: Signature
Compatibility: iOS

Website: www.lightspeed.com

2010 Apr

Shopkeep

Provider to merchants: ✓

Product Name: Shopkeep