EurActiv.com
EU News & Policy Debates

SPECIAL REPORT | 17 - 21 November 2014

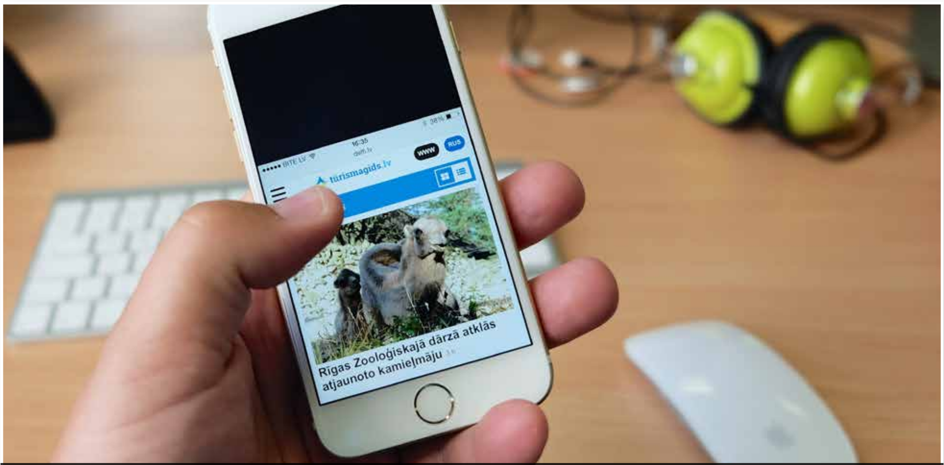
With the support of MasterCard

THE DEMISE OF CASH?

http://www.euractiv.com/sections/demise-cash

Contents

Mobile phones call up a cashless future



Apple has embraced mobile payments with the iPhone 6. [Karlis Dambrans/Flickr]

A boom in payment-enabled smartphone manufacture and the entry of key phone and finance players into the mobile wallets market has made 2014 a watershed year, as the tide turns against the future use of cash.

Consumers in the US are primed for mobile wallet adoption according to a paper written last month by Javelin Strategy & Research, an America analyst specialising in technology and financial services.

Over half of mobile US purchasers bought physical goods using their smartphones in 2014, up to 51% from only 14% in 2009, Javelin said. Such payments will rise from roughly $3 billion (€2.4 billion) in 2013 up to $53 billion by 2019, the research claimed.

Global shipments of cellphones equipped with Near Field Communication (NFC) technology will surge by more than a factor of four from 2013 to 2018, reaching 1.2 billion units, according to research published in March this year by IHS Technology, A Colorado, US-headquartered research analyst company.

NFC is used to perform safe, contactless transactions involving payment, public transportation or transfer of data.

"The majority of smartphone makers are adopting the NFC wireless communications and payment technology in their products as a de facto standard," according to Don Tait, senior financial and ID market analyst at IHS.

"Europeans can already use contactless cards or NFC-enabled mobile payments in 36 countries across Europe and their enthusiasm for this safe and simple way to pay is evident," according to Javier Perez, President of MasterCard Europe.

Entry of Apple pivotal

The arrival of Apple into the mobile wallet market this September has contributed to the tide. The ApplePay wallet model is built upon the existing financial ecosystem. The company has negotiated agreements with networks Visa, MasterCard, and American Express and large banks such as Bank of America, Chase and Wells Fargo.

Apple claims 220,000 US merchants accept its pay system already. From a global perspective, there are 2.5 million merchant locations that accept contactless payments – so as Apple Pay rolls out to other regions, it is likely to gain ground in European markets.

A study conducted by PRIME Research between November 1st 2013 and April 30th 2014 showed European consumers are eager to adopt contactless payments and integrate them in their daily routines, especially in the UK, Poland, Russia, Italy, Hungary and France.

The growing prevalence of mobile payments will continue to feed into the thorny debate surrounding the finalisation of an EU proposal to cap interchange fees, interbank payments made for each transaction carried out with a consumer card. The issue is set for trilogue negotiations between the EU Council and Parliament at the moment.

Changing consumer patterns

Security concerns are also exercising the EU executive, and remain a key inhibitor

Continued from Page 1

of mobile payment adoption, with 4 in 10 non-mobile purchasers avoiding the behaviour due to concerns about the safety of mobile payments.

"Using your mobile device to pay and interact with a merchant in the physical world is a logical next step, but changing consumer behaviour takes time," according to Jeff Miles, the vice-president of mobile transactions with NXP, a large US-based electronic solutions company.

If security concerns remain an issue, security is also at the heart of the arguments favouring the uptake of mobile payments. Apple has deployed biometric security within its payments model, giving users individual security.

Meanwhile this spring witnessed the trial of innovative Swedish hand scanning in Lund as an alternative payment method. More than 1,000 Swedish shoppers have signed up to make payments with a simple swipe of their hand, using new technology that "read" the patterns of their veins.

The vein-scanning terminals have been installed in shops and restaurants after an engineering student at the local university came up with the technology two years ago while waiting in line to pay. Such developments demonstrate that biometric technology is making headway with fool-proof security solutions.

Another factor spurring growth in the market for on-line, contactless payments, is their ability to interact with the wider internet and social media.

A key differentiator of the Apple Pay model versus other offerings that have been in the market is inclusion of in-app payments. Apps on smart devices are enabling more streamlined customer services and retailers are looking to turn these merchant apps into something that will generate both loyalty and secure transactions.

Moreover this year has seen another shift, with financial institutions joining the ranks of mobile payments providers.

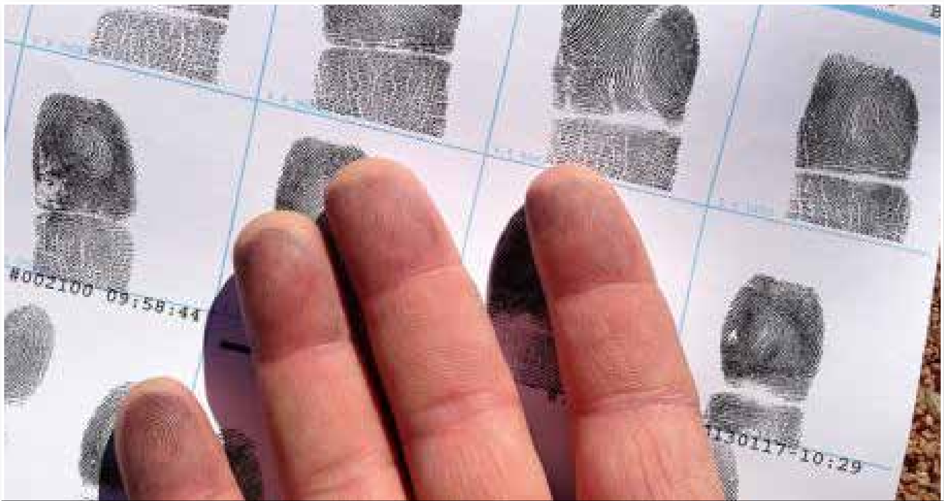
Having traditionally sat on the sidelines, leaving the running to internet companies such as Apple, Google, and PayPal, big banks are beginning to dip their toes in the water.

US player Citi this year became the first global bank to introduce its own branded digital wallet in the US.

Meanwhile in Europe, Deutsche Telekom in May 2014 launched MyWallet, a mobile payment app for smartphones in Germany.

These moves ae likely to be replicated by other large financial houses, as the use of cash begins its inexorable demise.

Biometric security moves to counter cyber fraud



Printed, not booked. [Alan Levine/Flickr]

If consumers put safety and security of their payments as a key priority when shopping, it is with good reason.

A huge data breach at US retailer Home Depot set off a series of fraudulent transactions through financial institutions in September this year, leading to the draining of several customer bank accounts.

Criminals used stolen card information to buy prepaid cards, electronics and even food.

Home Depot has admitted that 56 million cards may have been exposed in a five-month attack on its payment terminals, leading to alerts to thousands of financial institutions, telling them to be on the lookout for fraudulent transactions.

Nor was this a first in the US, where fraud losses from existing bank accounts and credit-card accounts rose 45% last year to $16 billion, according to Javelin Strategy & Research, a consulting firm.

New milestones in biomoetric security

These developments show why the payment community has been taking measures to move evolve from the era of memorised passwords to personalised biometric security.

The launch of Apple Pay in September marked a major milestone, with the US tech giant offering to identify users not with passwords or PIN numbers, but thumbprints.

"They were successful in focusing on the benefits of security and privacy for the consumer. Too often, the security focus has been on how security protects the businesses

Continued on Page 3

Continued from Page 2

behind the service," according to Jeff Miles vice-president of mobile transactions with NXP, a US software firm.

Fingerprints are also the basis of the partnership announcement last month between MasterCard and Zwipe to launch the world's first contactless payment card featuring an integrated biometric sensor. Activation by a fingerprint scan enables cardholders to make payment.

Nor are fingerprints the only biometric yardstick under development. This spring witnessed the trial of innovative Swedish hand scanning in Lund as an alternative payment method. While vein scanning technology existed previously, it has not been used as a form of payment before.

"Every individual's vein pattern is completely unique, so there really is no way of committing fraud with this system," said researcher Fredrik Leifland. "You always need your hand scanned for a payment to go through."

The plan is to patent the system and expand it around the globe.

In Europe, focus on e-payments fraud

Europe's fairly comprehensive adoption of Chip-and-PIN has slashed fraud where cards are used, but fraud continues unabated with online payments not involving cards, particularly affecting online transactions used in e-commerce.

European retailers need to pay as much attention as their US counterparts to securing electronic payments, the Payment Card Industry Security Standards Council (PCI SSC), said in a stark warning over cyber attack issued late last month.

This was one of the key messages at the recent annual meeting of the European PCI SSC in Berlin, Germany, which administers the industry's data security standard.

"Cyber criminals only need to steal a few key pieces of information to enable them to carry out this kind of fraud, and they are proving to be successful at it in Europe," Jeremy King, European director of the PCI SSC told the Council's annual gathering in Berlin on 23 October.

"Lack of understanding about the importance of strong passwords on all transactions systems, point of sale devices, routers and firewalls is still a big problem in Europe," he added.

"We see a lot of challenges as well as opportunities associated with mobile commerce, which will be another hot topic for the council in the coming year," said King.

Cashless payment hopes pinned on developing nations

Amsterdam's Public Transport Chip Card. [VeloBusDriver/Flickr]

Business and civil interests representing the mobile payments markets are developing global principles, standards and codes of conduct for digital finance, as cashless payments move to the fore in the developing world, following a meeting this summer in Perth, Australia.

The fifth annual Responsible Finance Forum Better – backed by the United Nations Capital Development Fund (UNCDF) and the World Bank Group – convened over 100 industry, government and private sector leaders to discuss how to deliver digital financial services fairly and safely.

Focusing exclusively on the use of technology to provide financial services and products for the poor and in the developing world, the Forum concluded that global principles, standards and codes of conduct for responsible digital finance are needed.

The quest for global standards testifies to the growing take up of digital payments systems across the developing world.

Over 2.5 billion adults worldwide lack access to formal financial services and digital finance is widely recognised for its potential to expand financial inclusion and improve the livelihoods of the poor.

World without cash for cash-strapped world

Integrating digital payments into the economies of emerging and developing nations addresses crucial issues of broad economic growth and individual financial empowerment, according to research issued by the World Bank this year.

The research found growing evidence from around the world that digital payments offer immediate benefits for both senders and receivers in developing economies.

"The benefits of digital payments go well beyond the convenience many people in developed economies associate with the technology," according to Dr Leora Klapper, the lead economist at the World Bank Development Research Group.

"Digital financial services lower the cost and increase the security of sending, paying and receiving money. The resulting increase in financial inclusion is also vital to women's empowerment," Klapper added.

Examples in Latin America and Africa are on the increase. The Mexican government is saving an estimated €10 billion each year following a shift to electronic distribution of many government payrolls, pensions and social benefits, according to a study released last December by The Better Than Cash Alliance.

Nigerian President Goodluck Jonathan

Continued on Page 4

Continued from Page 3

participated in the official launch of a new government card pilot program called 'eID' in August this year. In the pilot phase, a state agency is issuing identity cards with electronic payments functionality to 13 million Nigerians.

West adopts mobile payments for transport, social security

The initiative represents the largest rollout of a biometric-based payment card in the country, and the broadest financial inclusion programme in Africa.

"The card builds a window to a social security benefit system and therefore it is a card every Nigerian should get," President Jonathan said.

Using the card as a payment tool, Nigerians can deposit funds and receive social benefits with the added security of biometric verification.

If mobile and contactless payments offer the developing world a chance to play catch up, they are not being ignored in Europe and the west.

Since September, all UK-issued contactless American Express, MasterCard or Visa credit, debit, pre-paid or charge payment cards have been accepted for payment on London public transport.

Last summer, Barcelona city council issued a free app that lets people create a profile linked to their car's number plate and make corresponding parking payments using their smartphones.

Meanwhile, Toronto rolled out a prepaid card this year, which enables recipients without bank accounts to receive direct deposits for their welfare and social security payments.

Financial services protection needed

While digital technology can improve access to formal financial services for the unbanked, these new business models also carry new risks for consumers and small businesses.

"Digital technology offers tremendous opportunities to expand access to formal financial services. But it is important to also consider and address its risks in order to ensure that it benefits the customers, especially the poor," according to Peer Stein, the director of finance and markets global practice at the World Bank Group.

Against this backdrop, the discussions at the Responsible Finance Forum focused on risks with particular relevance to digital financial services, including breaches of data protection, fraud, and inadequate consumer recourse, among others that pose challenges for both financial service providers and regulators.

"The Responsible Finance Forum provided a starting point from which to develop umbrella principles to advance responsible digital finance," said Beth Porter, a UNCDF policy adviser, adding: "These high-level principles could inform more specific standards and codes for financial services providers, mobile network operators, and technology companies providing services, as well as influence policies and regulations of financial and telecommunications regulators."

Payment card ruling could open new era for EU transparency

Commission meeting room. [EurActiv]

The European Commission is considering lifting restrictions applying to confidential internal documentation in the wake of a payment card legal case it lost earlier this year.

Margrethe Vestager, the EU Competition Commissioner, is considering lifting access to documents restrictions at a sensitive time, as her department is also dealing with the ongoing Luxleaks scandal affecting European Commission President Jean Claude Juncker.

The European Court of Justice ruled in September that the EU executive was wrong to deny MasterCard access to research that fed into the draft regulation capping cross-border card payments.

MasterCard applied for five papers, produced for the Commission by Dutch firm EIM, under the regulation for public access to European institution documents.

The EIM study was central to the draft interchange regulation, which is part of a package of revisions on payment services. The bill is currently in trilogue after lengthy debate in the Parliament.

New commissioner has plateful with access to documents and Luxleaks

The regulation caps the multilateral interchange fee (MIF), an interbank payment made for each transaction carried out with a consumer card, at 0.2% of the transaction value for debit card payments, and at 0.3% for credit card payments.

Commission lawyers claimed releasing the papers would "seriously undermine" its decision-making process on the bill since they dated back to a time, during 2011, when it had not even made a decision on the cap. The EU executive also argued publication would damage EIM's commercial interests

Continued on Page 5

Continued from Page 4

by exposing its working methods.

In a comprehensive defeat for the Commission the judges rejected these arguments.

"The institution cannot simply rely on the fact that that it received those documents from a third party or on the absence of a decision and thus decide that in those circumstances its decision-making process has been seriously undermined," the judgment said.

The decision could open the door to businesses, NGOs and journalists demanding impact assessment documents, including those produced by third parties such as consultants, used by the Commission to justify its regulatory decisions.

That could lead to research and methodologies being challenged by industry before officials propose binding rules.

The timing is awkward at a time when competition commissioner is under the spotlight over the Luxleaks scandal, which Vestager's department is also prioritising.

"The EU rules and case law on access to documents would normally oblige the Commission to release access to its documents relating to the Luxleaks dispute after any investigation has been completed. However, it should be possible under the law for the Commission to justify withholding those documents as long as an investigation is underway," Steven Peers, professor of EU law and human rights law at the University of Essex, told EurActiv.

The Luxleaks documentation is not in the same category as the Mastercard documentation, since it does not relate to an impact assessment. Nevertheless the Commission is itself considering how far its disclosures may impact on competition cases.

"The Commission is in the process of reflecting on possible consequences for its policy with respect to access to documents. Internal consultations are ongoing," according to spokesman Ricardo Cardoso.

Impact assessments are now routinely conducted to predict the likely consequence of EU legislation on citizens and the wider economy, in a detailed cost-benefit analysis.

Sacked science advisor warned about impact assessments

But they are controversial. The Commission is currently reviewing its impact assessment guidelines amid accusations that they are too politicised.

Anne Glover, the EU's chief science advisor, has said that EU commissioners may sometimes request that specific "evidence" is presented in impact assessment studies in order to back their political initiatives. She specifically mentioned a fictional example of a Commissioner coming up with "crazy ideas" like banning credit card use.

The ruling could certainly stretch into sensitive areas, including the delicate negotiations surrounding the Transatlantic Trade and Investment Partnership, (TTIP) according to EU law expert Peers.

In theory, an exemption covering international relations would cover the EU-US trade talks, keeping TTIP documents out of the picture.

But it could be argued that an impact assessment relating to possible trade negotiations does not have the same significance as revealing the content of the negotiating mandate, Peers said.

Information revealing the Council negotiating mandate could be edited out, allowing the analysis in the rest of the document to be released, he added.

The landmark negotiations have been dogged by accusations of a lack of transparency, leading to yesterday's (19 November) announcement by the commissioner for trade, Cecilia Malmström, that MEPs and the public will be given more access to TTIP negotiating documents.

Scope and level of card caps remain in dispute

EU lawmakers disagree over the level and scope at which card payments in Europe should be capped as the issue goes into trilogue in advance of its adoption anticipated early next year.

On 24 July 2013, the European Commission proposed a revised Payments Services Directive (PSD2) and submitted a proposal for regulation on interchange fees for card-based payment transactions.

The payments, known as multilateral interchange fees or MIFs, are charges during transactions between the merchant and buyer's banks. Member states can lower the charge ceiling if they wish.

In April, the European Parliament voted on amendments to the legislation, which caps interchange fees at 0.2% of transaction value for debit cards and 0.3% for credit cards.

Third and four party schemes both included

Over the summer (7 July) a broad alliance of consumer and business organisations called on the Italian Presidency of the EU and the new European Parliament to make legislation capping payment card fees its "absolute priority."

The European Payment Users Alliance backed MEP's changes to include business cards and third-party card schemes in the scope of the legislation. Members of the alliance include FuelsEurope, UEAPME (European Association of Craft, Small and Medium-sized Enterprises), EuroCommerce, the European Modern Restaurant Association, the European Retail Round Table and BEUC, the European Consumers Organisation.

A three party card scheme, such as American Express, means the issuer of the card to the consumer and the acquirer, who

Continued on Page 6

Continued from Page 5

has the relationship with the merchant, is the same body.

A four party scheme such as Visa or MasterCard, has a separate issuer and acquirer. The acquirer pays an issuer an interchange fee, and the merchant pays the acquirer a service fee.

The EU Council of Ministers, representing the EU member states, adopted a general approach on the interchange regulation earlier this month. So-called trilogue meetings commenced yesterday (19 November) with the European Commission and Parliament to try and broker an agreement.

The Council drafted two key compromises from the Parliament's version.

First, it gave member states the discretion to exclude three party schemes in certain circumstances - for example when they license others to issue their cards - rather than making their inclusion compulsory.

Secondly, the domestic interchange fee on debit cards would still be capped at 0.2%, but under the Council compromise, could represent a weighted average, the annual transaction value of all domestic debit card transactions, rather than a cap on each individual transaction.

Institutions will meet again in December

Pablo Zalba Bidegain, a Spanish centre-right MEP from the European People's party (EPP), is the Parliament's rapporteur on the proposal.

"Having started the trilogues, I outline two main points in which the Parliament's and the Council's positions diverged," he told EurActiv. "First, the level of the caps for national debit transactions. Secondly, the scope of the regulation. Commission, Council and Parliament will be working on balanced solutions to these two conflicts ahead of the next trilogue on the 4th of December," Zalba said.

"It is possible that there will be a swift agreement, but as the trilogue is just getting underway it is difficult to anticipate the speed of progress," a source privy to the negotiations said.

Both Council and Parliament must agree an identical text before it can become law.

"We are all willing to find the best possible outcome in benefit of the European economy, particularly for consumers," Zalba said.

Meanwhile the update to the payments services directive is unlikely to be agreed before next Spring, Commission sources told EurActiv.

The revised directive facilitates the use of low cost internet payment services, giving a mandate to the European Banking Authority (EBA) to work on regulatory technical standards in this area.

The Italian Presidency has scheduled a working party on the paper to start on Monday (24 November) at the diplomatic level.

A Commission source told EurActiv that the executive is optimistic that a Council General Approach can be agreed under the Italian Presidency, with trilogues taking place in January under the Latvian Presidency.

Debit card caps. [Iuchunyu/Shutterstock]