

Developments in Payment Systems

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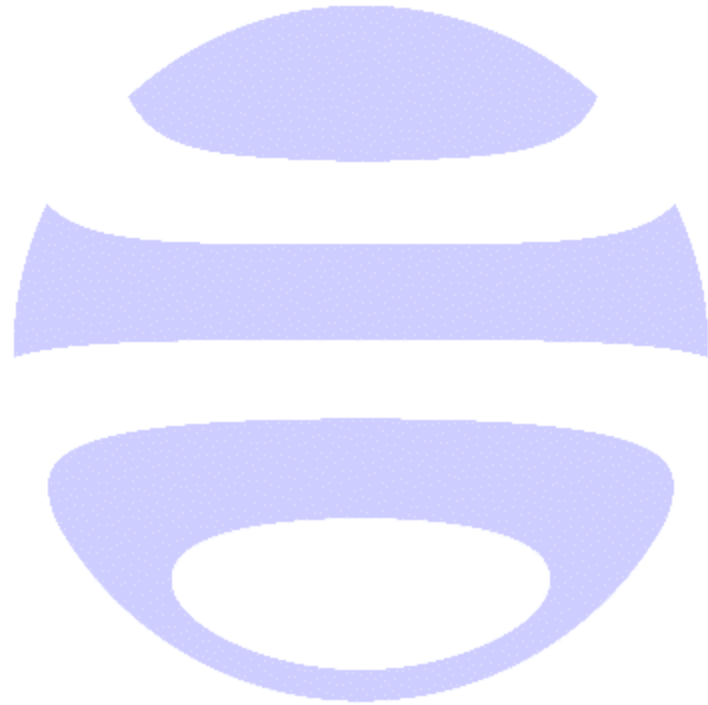
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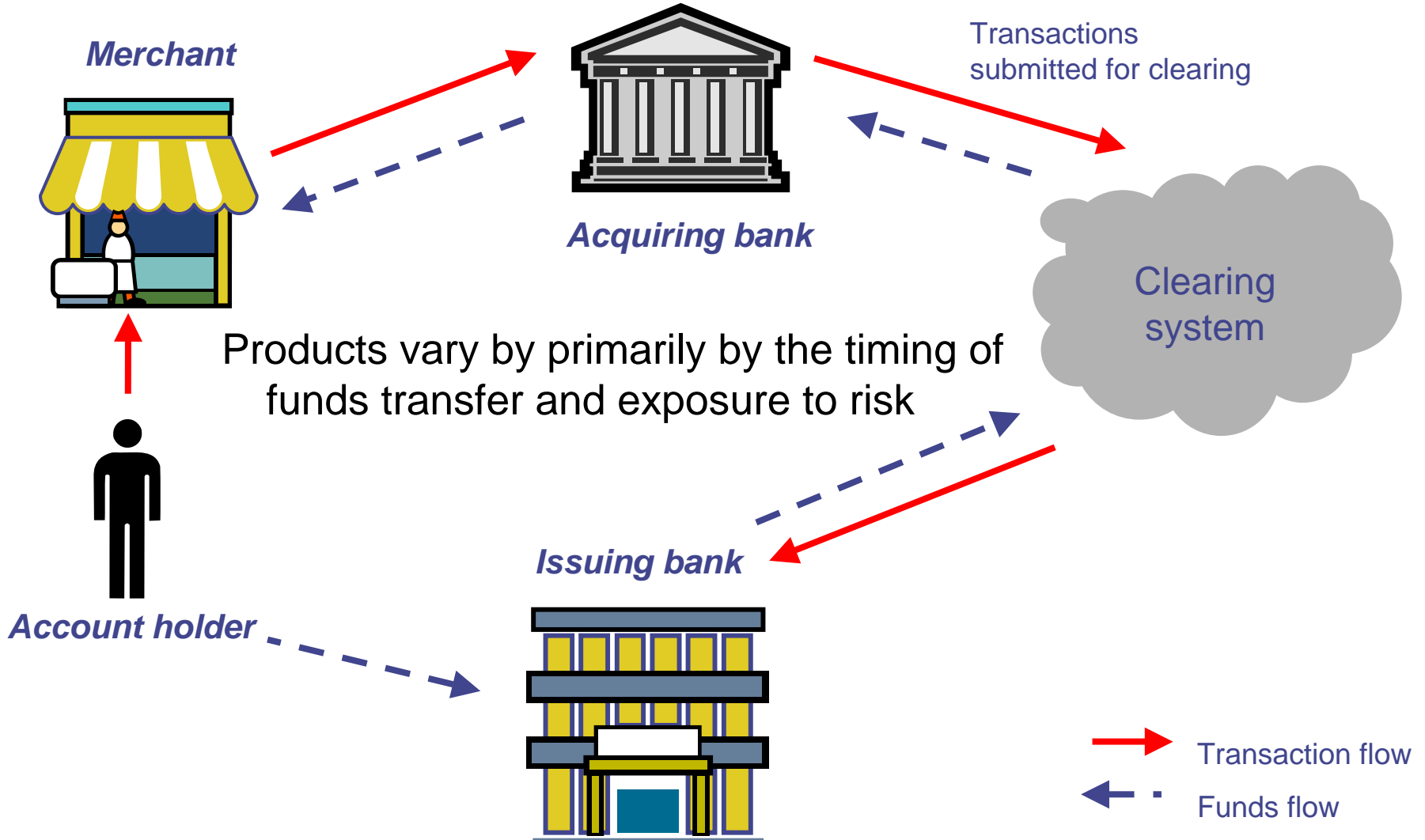
- What do we have today
- What limitations do current systems create?
- What's coming
- Which ones will succeed

What do we have today?

- Bartering
- Cash
 - Legal tender, fraud prone, universal, expensive but costs hidden from view
- Cheques
- Debit and credit cards
 - Pay in advance, now or later
- Pseudo currencies – internet, Club Med beads . . .
- Open and closed systems, e.g. Visa versus Oyster
- Account linked or anonymous

Banking System Based Payment Tools

Acquiring bank
collects transactions
at end of day



What limitations do they have?

- Social Exclusion
 - Apart from barter and cash not all systems are open to all
- Non-universality – can't be used everywhere
 - Apart from bartering there is no truly global payment system although for most needs MasterCard and Visa come close
 - Few support person to person (P2P) transactions
- Non-ubiquitous
 - Coverage for non-legal tender is partial at best
- High cost – especially for low-value transactions
 - True of cash and cards
- Channel specificity
- Criminality
 - Most systems are open to attack by criminals

What's coming - Dimensions of Change

- Form factors

- Mobile phones, watches, key fobs, rings
- Human body
 - **Chips in skin, biometric links to accounts etc.**

- New market players

- A key requirement is a basis for trust between payer and payee
 - who already knows both sides of the transaction?
- Who has systems and processes capable of cost effectively processing transactions and managing risk?
- Who has the liquidity to fund a payment system?
 - **Telecommunications companies?**
 - **Utilities?**
 - **Government?**

What's Coming

- Lower cost payment methods
 - Designed to win the war on cash & cheques and extend the reach of card based payments
 - Aimed at reducing processing costs and risk
 - Largely made possible by chip card technology
- Current efforts towards
 - Pre-authorized payment that avoids the need for on-line authorisation for each transaction
 - Pre-paid cards
 - Aggregation techniques e.g. Cardis – Royal Bank of Canada

What's Coming?

- Increased Convenience through Contactless payment
- *MasterCard® PayPass™*
- Visa Wave
- Extension of ticketing systems



If you don't touch in and touch out
you will pay the maximum cash fare
for your Tube journey



- But risk increases and the consumer may be confused

Which will succeed?

- The most commonly shared, convenient, lowest cost, ubiquitous and universal
- The mobile phone is the front runner as a form factor and supporting infrastructure
 - but the banking system will remain in the background
- Contactless payment cards a close second in the form factor stakes
 - but they have challenges



Any questions?