COMMENT: END-OF-YEAR REVIEW AND 2018 FORECASTS

Experts from the cards sector and financial services industry reflect on the major talking points of 2017, and look ahead to the new year to discuss with *CI* which way the industry is heading in 2018

TECHNOLOGY AND REGULATION – THE DRIVING FORCE FOR CHANGE

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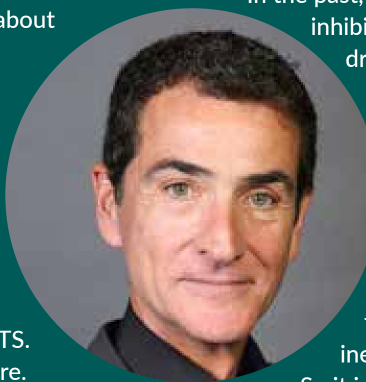
Looking back on the past 40 years of retail and card-based payments, the list of real innovations is not impressive. Introducing chip and PIN is probably one of the more notable ones, and the full potential of contactless is just being unlocked thanks to ApplePay & Co.

The last year, though, has certainly brought about quite fundamental changes – as did some of the previous years ever since fintech started to rock the industry. Cheap money and pressure on incumbents to diversify their portfolios has accelerated M&A activity with further industry consolidation – Vantif buying Worldpay, Mastercard buying VocaLink, ACI buying PayOn – and private equity-driven transactions – Bain Capital buying Concardis, PE consortium buying NETS. There is more of that to come in 2018 for sure.



Technology has brought about fundamental changes. For example, IT shops with a banking licence – such as Solaris Bank, Fidor Bank – provide toolbox banking solutions, and distributed ledgers have become reality with banks lining up to join consortiums such as Ripple and R3. Cryptocurrencies arrived in the mainstream, with the major gap between real world and Blockchain – the payout problem – solved, for example by TenX.

Competition is heating up, with Chinese payment giants WeChat Pay (600 million users) and Alipay (450 million users) heading west, where early QR Code payment systems such as Yapital grounded – not least because of the clunky user experience.

Talking of user experience, the biggest threat on incumbents comes from tech giants like Amazon, Apple, Google and Facebook. They have unrivalled end-user reach, and cool user experience is deeply rooted in their DNA. Remember: it does not take a bank to do banking, and no matter what you do, you had better solve a customer problem.

And cost: The World Bank estimates some 7.7% fees on cross-border remittances. So there is plenty of work still for remittance processors like WorldRemit and TransferWise.

In the past, regulation had been considered a business inhibitor. Interestingly enough, though, it is the driver behind some of the most disruptive changes and innovations in the retail payment industry: Open banking offers both opportunities and threats to banks where the 'threat' camp seems to reign. Indeed, without a forward strategy banks will become pipe providers.

And instant payment poses a big threat for card schemes as it become a viable and inexpensive alternative to established card rails. So it is not a surprise that card schemes are heavily diversifying as their traditional core business comes under pressure, also by alternative payments.

And instant payment overlay services-layers will provide for greater user benefits and values. It will be interesting to see concrete value-adding service offerings materialise in 2018.

And 2018 is not going to be any less disruptive: For a previously cosy industry navigating comfortably in a 'live-and-let-live' four-party world there is more change ahead. Customer-focused regulation, technological progress and fintechs and tech giants focused on end-user benefits will continue to drive change.

One result is sure, though: The complexity of payment instruments and processes will grow further – as will the need for proper end-to-end process control. What a great and innovative environment to live and work in after decades of 'same old, same old'. It is a wish rather than a curse: May we continue to live in interesting times! ■