



UK payments sector: 2014 review and 2015 predictions

2014 saw contactless payment come of age and many new ideas pitched to retail. Some payments innovations have excited but some have disappointed. Mark McMurtrie has his say.

What changes have impacted the payments sector this year, and what is there to come in 2015?

Consumers are increasing their love affair with eCommerce and making a record number of online purchases in 2014, many of these now being initiated from their tablets. Most retailers have recognised that they require effective online sites if they are to capture this sales volume and not lose market share to competitors. The big losers were those without compelling online sales channels. Several high profile electronic banking and payments system failures have highlighted the mission critical nature of card processing today. Few organisations can risk the reputational damage of not being able to take card payments at whatever time or day a consumer decides and so are investing in high availability systems and eliminating points of weakness.

After many years of waiting, contactless has finally taken off; **driven by the decision of Transport for London to replace cash with contactless bankcards on their buses** and the rollout of contactless card readers by many of the UK's largest merchants including the supermarket chains. Criminals have maintained their interest in stealing credit card details and this has led to a growing list of large, medium- and small-sized organisations suffering huge losses and fines as a result of data breaches. The payments sector continues to be highly attractive to investors and this is shown by the appetite of venture capital and private equity funds to invest hundreds of millions of pounds into the sector during 2014. We have also seen lots of merger and acquisition activity as the market shows signs of consolidation, perhaps due to the ever-increasing complexity and regulatory impact. MasterCard, Barclaycard, ACI Worldwide, Oracle, Proxama, Skrill, CR7 Services and Eagle Eye, to name but a few, have all completed transactions in 2014.

One of most significant pieces of payments news this year was the ApplePay launch and although not currently available outside the US market this has really shaken up the industry. I close with highlighting the eventual win (after a multi-year campaign) by the European Commission against the international card schemes Visa and MasterCard over the levels of interchange rates that can be applied to transaction charging.

Initiatives that failed to live up to market expectations

Despite the record investment levels several payments initiatives have disappointed. This may be due to unrealistic timescales, the lack of technical standards or of greater concern invalid business case assumptions. We have to realise that the UK market has a rich payments environment in place today and that new offerings and technologies have to demonstrate superior value and competitive advantage if they are to succeed. You have to ask why would a consumer want to change their purchasing behaviour. What's in it for them?

Perhaps the area that has most underperformed against expectations is that of mobile point of sale (MPoS) cards acceptance at micro-merchants. Results for all providers are very disappointing and well short of their targets. There are less than 20,000 live implementations out of the 1.6 million PoS terminals in use in the UK. These new, or very small, businesses have largely failed to value electronic card payments sufficiently over cash/cheques and declined to agree to pay the 2.75% card transaction processing charges. Another disappointment has been digital wallets. They have been much hyped and several heavyweights have thrown their names into the ring but so far we

have seen low adoption and little usage. There are only a limited number of wallets a consumer will be prepared to own and so a big push backed by strong marketing campaign will be needed.

InApp purchasing is though seeing higher take-up rates. It is becoming increasingly likely that loyalty programmes, promotional offers and ID will prove to be the 'killer app' within a digital wallet. The latest 'this is the year of NFC' failed to emerge (once again) although this technology is expected eventually to come into mainstream use particularly with the iPhone 6 including NFC.

Point-to-point encryption (P2PE) was seen to be a silver bullet by many retailers as it promised to remove store estates from PCI DSS compliance scope. This has proved not to be quite so simple and brought with it the need for retailers to make procedural changes and take on additional responsibilities such as demonstrating secure chain of custody for security keys. Some retailers have started looking for alternatives to full P2PE such as using secure segmented networks and TLS encryption as they have determined that the effort of achieving PCI approved P2PE outweighs the benefits.

Predictions for 2015

Looking forward to 2015 we can expect to see wide-scale adoption by large retailers of tablet-based mobile payment solutions for in-store 'assisted selling' and 'queue busting' purposes. Many have undertaken valuable pilots in 2014 and will be rolling these out across their estates in 2015. With Zapp commencing live processing and Pingit continuing its expansion into corporate accounts we may see the first ever realistic alternative to card based payments as these peer-to-peer bank account transfer schemes arrive in the retail market.

Cloud-based computing has become the standard model for many industries and we can expect this to become more prevalent within the retail sector and additionally be applied to consumer payments. Naturally data security must not be compromised and so private clouds may initially see greater adoption. I expect the latest innovations to be largely delivered by payment service providers and technology companies rather than from traditional merchant acquirers. As retailers continue their omnichannel strategies, many are predicted to consolidate current silo-based single channel payment processing into true omnichannel payment processing platforms with single suppliers to be managed.

Key topics to track

In this fast moving payments environment there are many topics for retailers to keep abreast of. Probably the most significant is the changing pricing tariffs that will come out of the new interchange rates. Some retailers may be surprised by the consequences; with debit card increases expected for those with average transaction values of greater than £35. Retailers should be reviewing their acquirer contract, renegotiate, and look to adopt smart transaction routing.

2015 sees the introduction of the UK's payments regulator. Their stated objectives of increasing access and driving innovation will shake up the payments industry and see the end to some established common practices and organisational structures. **Another area to keep an eye out for is that of new authentication methods which will include the greater use of biometrics.** There are many examples currently being applied in alternative business environments and device types that could be applied to consumer retail payments. How could I write about future payment methods without mentioning Bitcoin. This is expected to continue to be much discussed and over-hyped but I for one do not see its wide-scale usage in 2015, particularly for retail transactions.

Mark McMurtrie is an independent consultant focused on consumer payments and technologies. He provides a range of advisory services for retailers through his company Payments Consultancy.

McMurtrie is chair of the payments conference streams at RBTE, which will take place at London's Olympia between 10-11 March 2015.