



European eWallet Market Development

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Chris Jones, Director, PSE Consulting





Drivers for wallet interest

Wallets are an increasingly important part of the payments landscape and are recognised as adding significant value to remote transactions today and proximity transactions tomorrow

Consumers

- Convenient way to securely access multiple payment cards (ICS, domestic, private label)
- Enables consolidation and loyalty reward cards offers over multiple methods of payment
- Faster, simpler solution for eCommerce payments – reduces need to use solutions such as 3DS/CVV2
- Enables not just cards but alternative payment methods as well

Service Providers

- Creates an intermediary product with a “look and feel” that can be extended to mobile
- For existing players an opportunity to manage all electronic transaction types in the consumer’s physical wallet
- For new entrants (MNOs, eComm players) potential to own payments operations, data and generate new revenue streams.
- New platform to deliver targeted offers to consumers, plus advertising and data analytics to merchants





Key wallet players

In the US players such as PayPal and Google are leading the way, Visa and MasterCard appear more advanced in Europe – however there are emergent players such as Square



Target Merchant Acceptance Network	9m	MasterCard/ PayPass Merchant Base	10-12m (US and EU merchant base)	5-6m (US and EU merchant base)	2m selling through Amazon.com	-	-
Target Consumer Base	106m	c.250m Android	1bn US and EU cardbase	50m Amex cards in US	76m customer accounts	550m iOS	830m
Payments Txns Processed (per day)	5m	Very modest	n/a	10m	8m	Unknown	5m
Optimised Channel Support	<ul style="list-style-type: none"> • Mobile • PC • Face to Face (non-NFC) 	<ul style="list-style-type: none"> • Mobile • PC • Face to Face (NFC) 	<ul style="list-style-type: none"> • None • PC for launch 	<ul style="list-style-type: none"> • Mobile • PC 	<ul style="list-style-type: none"> • Mobile • PC 	<ul style="list-style-type: none"> • Mobile • PC 	<ul style="list-style-type: none"> • Mobile • PC



Wallets - consumer requirements

Consumers like choice, speed, and flexibility when it comes to spending online, as well as the ability to use in-store, and are interest in adding loyalty applications

Options	% Consumers saying 'Appealing / extremely appealing'
Choose from several payment options, eg multiple cards, PayPal etc	73%
Easily access and update personal info	62%
Wallet remembers personal information and payment methods to speed up shopping process	61%
Use to update preferences	57%
Use to obtain electronic instead of paper receipts in-store	54%
Use wallet as ID for loyalty programmes, and consolidate incentives	46%
Use to pay for in-store products rather than at checkout	43%
Be identified when entering physical store	41%

Source: CapGemini Digital Shopper Relevancy Report July 2012



Wallets – merchant requirements

Merchants are much more interested in speed and convenience – they don't want another 3D Secure...

Need	Description
Frictionless	<ul style="list-style-type: none">• Accelerate and simplify the check-out process• Minimise shopping cart abandonment• Sign-up process does not interfere with check-out
Low cost	<ul style="list-style-type: none">• Low cost to implement• Low cost/free to support
Consumer preference	<ul style="list-style-type: none">• Consumers must also like the offer and be more interested in using the wallet than current payment types
Security	<ul style="list-style-type: none">• Resolves issues with PCI DSS compliance• Creates perception of security for the consumer
Customer Data	<ul style="list-style-type: none">• The merchant can still collect customer data from the transaction for CRM, financial and other purposes
Final Settlement	<ul style="list-style-type: none">• Provides settlement protection through liability shift
Disputes	<ul style="list-style-type: none">• There is a clear and effective disputes management process
Cross channel	<ul style="list-style-type: none">• Can be used across all electronic (and then physical channels)
Integrated MI	<ul style="list-style-type: none">• MI is generated in an integrated manner
Loyalty	<ul style="list-style-type: none">• Embeds loyalty – both to collect and redeem points

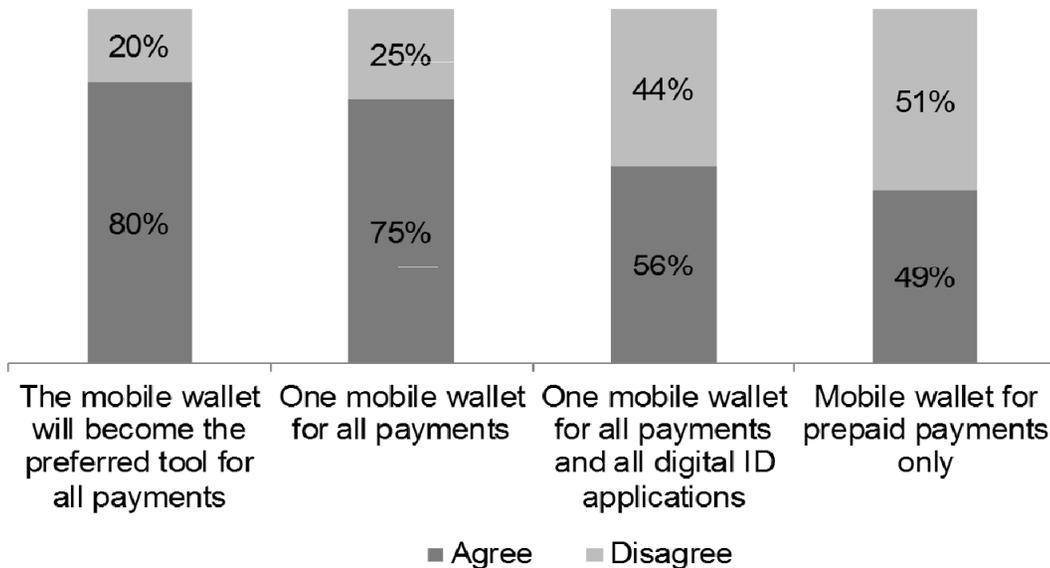
Source: PSE Consulting



Consumer convergence expectations

There is broad industry consensus that consumers are looking for one wallet that will support them across multiple contexts – banks need seamless cross channel solutions.

Views on Wallet Development



- Mobile wallets will become the preferred method of payment in the future, as they will store a choice of payment instruments for consumers to select from.
- There is likely to be one preferred wallet for each consumer.
- There are several components that can be packaged within a mobile wallet but ultimately mobile wallets will help providers bundle services for their consumers in a way that will add convenience, efficiency and encouragement to use through target deals and offers.
- As far as payments are concerned, the mobile device combines the convenience of cash and cards for in-store purchases and the personal computer for making online purchases or to even send money to others.

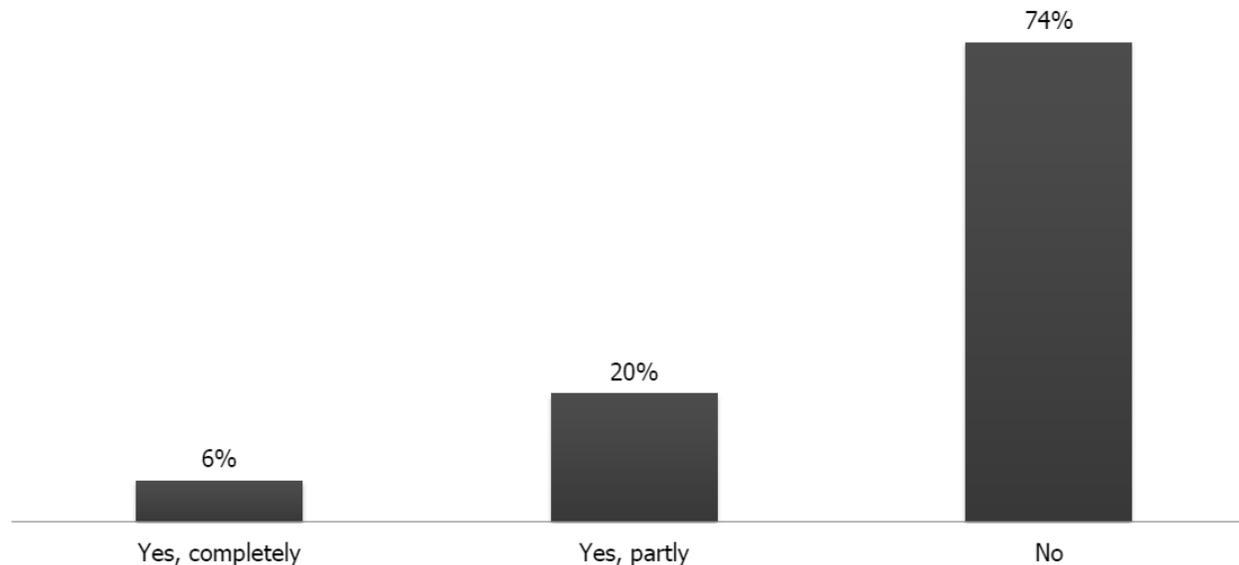
Source: EDC/PCM Advances Payments Survey 2012



Current Consumer Understanding

However, despite the level of industry excitement about wallets, and the potential for them to change the consumer payments landscape, consumers remain in the dark

Do you know how to use a wallet to pay for goods or services?



- Consumer knowledge surrounding the use of mobile wallet technology is particularly **limited**.
- Respondents seemed very **unconfident** on how to actually use it to pay for goods and services and is something that all parties (retailers, technology providers and banks) will need to work on together to improve.



Observations on current wallet landscape

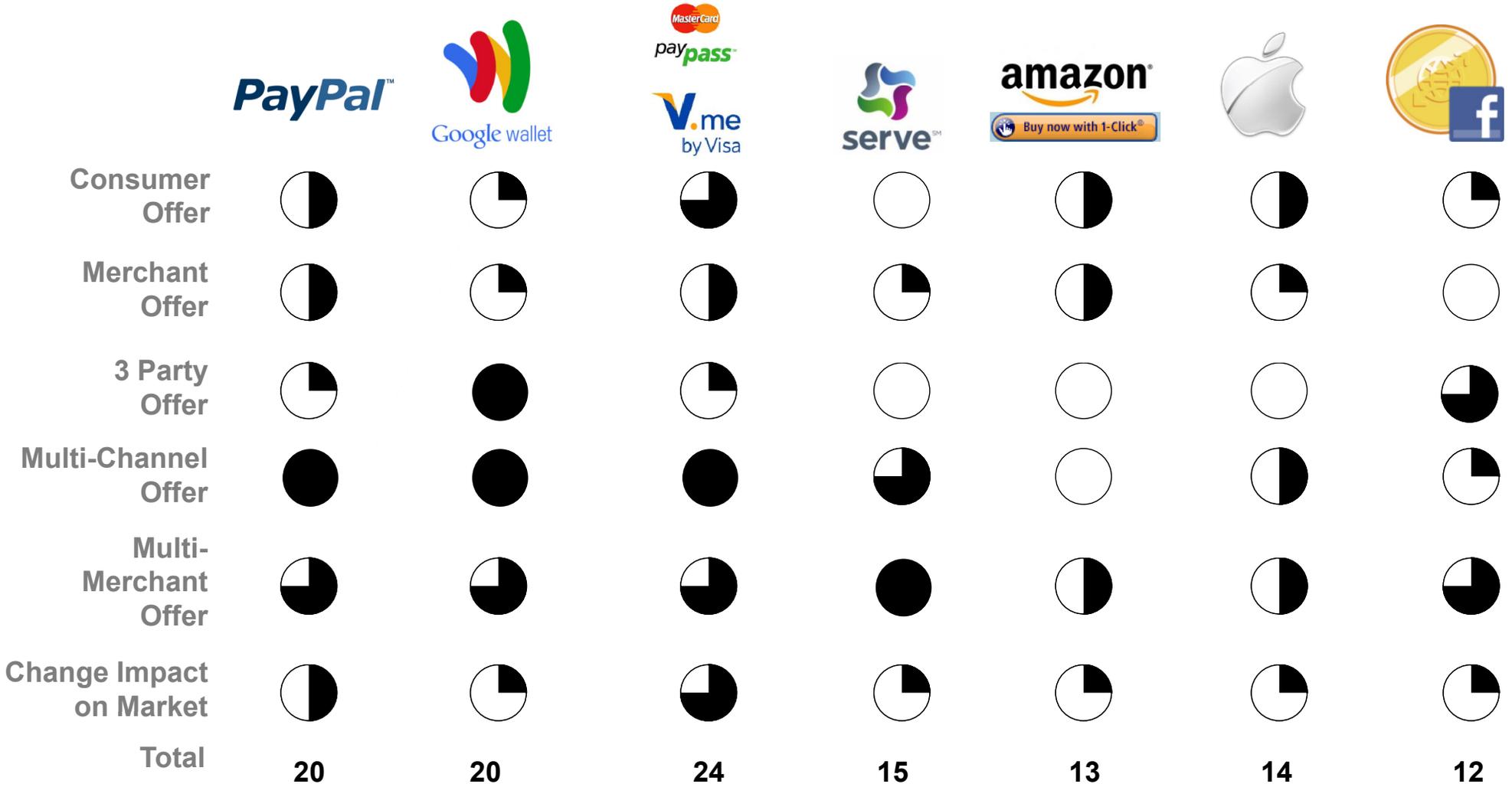
Although early days in the development of the wallet market, early attempts to roll-out industry level solutions have struggled to gain traction

- 1 Major **issuers** believe that they can develop their own wallets in many markets and are concerned about the loss of brand relationship and data ownership with consumers when using scheme branded wallets
- 2 Many players see there being **multiple wallets** (one for each card/payment product, as well as merchant lead ones)
- 3 **Acquirers** are struggling to see the business case and benefits to sell the wallets to their merchants
- 4 **Card schemes** see wallets as a new revenue stream, and a hedge against a zero interchange environment – making the business case for issuers/acquirers even harder
- 5 **Google** experience in the US indicates that even with lots of money and branding, the wallet offer can be hard to make (plus the multi-issuer TSM model is too complex!)



So who may win out?

Given their ability to exploit an existing merchant acceptance network, and the difficulties in developing new payment propositions in a saturated market, Visa & MCI are well placed





PSE eWallet Analysis – Key Issues

PSE is about to undertake a detailed review of the European eWallet market which draw on our analysis of the key issues associated with the eWallet market



- Strength of consumer proposition at launch (ie breadth of acceptance network)
- Deciding on the wallet scope: alternative payments, ACH, loyalty etc.
- Complexity of developing Pass Through software and delivery service
- Merchant, acquirer and PSP business case
- Commercial models and charging
- Ownership of data and relationship
- Balance of branding (issuer/scheme)
- Communication to cardholders, merchants



Chris Jones

+44 (0) 20 8891 6244

info@pseconsulting.com