THE PAYMENTS INNOVATION JURY REPORT 2013

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FOREWORD

When the Payments Innovation Jury last convened nearly two years ago, I said that the tough economic climate of 2010 had done little to stifle payments innovation. Fast forward to 2012 and the economy, at least in the developed world, is still in a dire state but the payments sector is going through an even more intense period of innovation than was witnessed in 2010.

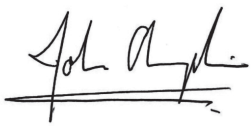
It is not an exaggeration to say that it is an incredibly exciting time to be working in payments. Technology trends such as the mass adoption of smartphones and tablets, increasing availability of open APIs and the rise of cloud computing have laid the foundations for innovation across the board in areas such as international money transfer, prepaid, peer-to-peer consumer payments, services for the underbanked, and the ambiguous concept of mobile payments.

The payments sector is now a crowded market – and it's not just financial institutions getting in on the action. Players from many different industries are swooping in to grab a piece of the pie: major banks are offering new services to retain or win new customers; financial institutions and mobile network operators are creating e-wallets; tech giants like Google and Amazon with little heritage in payments are entering the space; the card schemes are pouring seemingly endless money into innovation in a bid to retain their market dominance; and a raft of start-ups – many branding themselves as part of the 'New Finance' movement – are trying to persuade consumers and businesses to ditch traditional financial services for their innovative products.

And it's not just about technology. Much of this innovation is occurring because the ongoing financial crisis and the collapse of trust in the banking system has led to a desire for a re-invention of financial services.

But of course, not all of these new ideas and services are going to be successful. In fact, the majority are inevitably going to disappoint their creators and supporters. Predicting which innovations will succeed and which organisations will best exploit them is a daunting task.

This report is based on input from 25 payments innovators from around the world, including some of the best-known names in payments. They unquestionably have views that should be heard and heeded because there is considerable truth in the saying, "invest in the people that have done it before". I hope that you find value in this snapshot of payments innovation across the globe today, and opportunities and challenges for the future, from those who are truly well-placed to comment.



John Chaplin, March 2013

The Global Innovation Jury

The Global Innovation Jury convenes a large panel of payments industry leaders from around the world every two years. This is the third Payments Innovation Report based on their deliberations. Ixaris as a payments provider with a strong track record in innovation in Europe has sponsored the project for a second time and Anthemis Group, the financial services investment and advisory group, has become a co-sponsor for the first time.

If you would like a copy of the 2010 or 2008 report, please visit www.ixaris.com/content/payments-innovation-report.

This year's Jury includes 25 leaders in the payments sector from 13 countries and 5 continents. Members of this select group have all held leadership roles at major organisations in payments such as global banks, major processors, international card schemes and technology firms. Many have had outstanding commercial success with their own innovative payments companies. The vast majority have lived and worked in multiple countries and as such have a comprehensive understanding of the global payments market. All are still directly involved with payments innovation.

The Jury has been kept anonymous so members can be explicit in their views. However, you can read some of their most illuminating comments in the following pages.

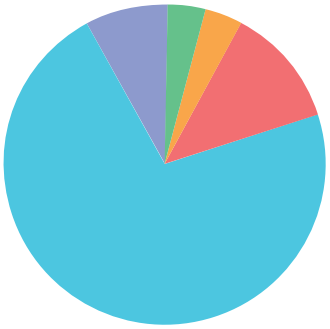
WHERE DOES INNOVATION COME FROM?

The payments industry is undergoing an intense period of innovation, driven by a number of factors including advances in technology, the growing maturity of the internet and widespread dissatisfaction in many countries with traditional banking services.

In this section, the Jury considers the sorts of organisations that are at the forefront of payments innovation and in which geographies the innovation is being driven from.

Q. WHICH TYPE OF ORGANISATION IS BEST AT DRIVING PAYMENTS INNOVATION?

A.



- Card schemes (4%)
- Retail banks (4%)
- Technology vendors (12%)
- New market entrants (72%)
- Other (8%)
- Processors (0%)

The clear consensus of the Jury is that new market entrants are best at driving payments innovation, with nearly 70% of respondents holding this view. These findings mirror responses from the 2008 and 2010 reports.

'New market entrants' is a diverse term that can refer to new banks with entirely novel business models, such as Simple or Movenbank in the US, and Fidor Bank in Germany. It can also refer to companies which focus on specific niches within financial services such as Zopa for consumer P2P loans or Square for mobile-based card acquiring. What all these companies have in common is that they are new players in the payments space carrying out activities that traditionally would have been seen as the role of banks.

A significant portion of the Jury sees technology vendors as the best at driving innovation. There is a multitude of small technology start-ups and in recent years, the technology giants such as Apple, Google and Amazon have also made strides into the payments space. These companies have innovation ingrained in their DNA, vast customer bases, immense data-driven insights and robust infrastructures, all of which makes them well placed to be successful in the payments sector.

The Jury agreed that incumbents such as the established retail banks, payments processors and card schemes are the least effective at driving innovation, despite often investing very heavily. The Jury believes that these institutions are hampered by legacy infrastructures and business models, and a narrow-minded focus and against this background, it is very difficult to innovate successfully. But there are some banks in each region of the world that have deservedly earned a reputation for innovation.

Jury comments

"The biggest opportunities (mobile payment, cross-border remittances, payment services for the unbanked) require proponents to transcend legacy payment silos and the traditional value chain. Incumbents will find doing this very difficult"

"New market entrants are neither constrained by legacy systems, nor by an understanding of how things should be done"

"New market entrants bring a fresh perspective and usually have no status quo to defend"

"Incumbents and larger companies just can't innovate"

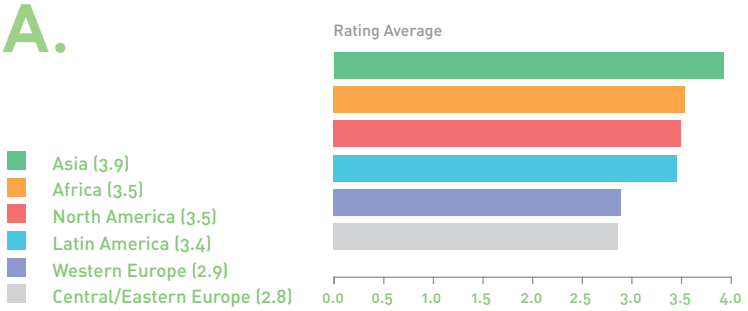
"Most banks have got much bigger problems to solve than whether they are getting left behind in the innovation stakes"

"The international card schemes throw huge amounts of money into innovation but very rarely succeed. So it's clearly not just about who has the biggest budget"

"One of the key challenges of innovation is historical legacy and mindset...it limits the ability of incumbents to really think innovatively"

Q. WHICH REGION WILL SHOW THE MOST PAYMENTS INNOVATIONIN THE NEXT 24 MONTHS?

A.



The Jury confirms that innovation is driven by different market pressures and opportunities around the world. The Jury sees the emerging economies as the hotbeds for payments innovation over the next two years with Asia in top place followed closely by Africa, North America and Latin America. A common reason cited by the Jury for these findings is that the emerging economies are not lumbered with existing payments infrastructures which are difficult to build on. Their reasoning is that it is easier to build up a payments infrastructure from scratch.

In the less developed regions of the world, the Jury sees payments via mobile (such as M-PESA in Kenya) as excellent solutions for the underbanked and unbanked. The developed economies are considered to see comparatively little payments innovation, particularly Europe, due to the stranglehold of regulation, a fragmented payments landscape and the overhang of the banking crisis. It is ironic to see Europe remain at the bottom of the pile (the same position as 2010) despite the very real efforts that many have made to drive innovation over the past 2 years.

The developed region that bucks the trend is North America which is seen to be a more innovative region for payments principally because of the presence of tech giants like Google, Apple and Amazon.

Jury comments

"In the US, the pace is increasingly fuelled by the entry of the Internet giants (Google, Amazon, Apple) and the mobile operators (Isis), whilst in Africa, the opportunity for using non-banks and mobile infrastructure to leapfrog to mobile banking and payments is very compelling"

"Asia and Africa are high growth markets and mobile will drive innovation in these areas"

"Asia-Pacific seems poised to become the largest emerging market for mobile banking and retail payment initiation over the next few years. Singapore is the latest entry onto the "faster payments" bandwagon, and is frequently a proving ground for new payment pilots by PayPal and others"

"It is hard to change existing platforms. So more developed countries have bigger challenges innovating"

"Europe is so weighed down by standardisation initiatives such as SEPA and by the banking crisis that there is little energy left for innovation compared to Africa and Asia"

"Europeans have some very good ideas but are very poor at implementing them in their own markets"

TECHNOLOGY AND INNOVATION

Technology is a key enabler (but not the only enabler) of payments innovation. It has become increasingly important for companies in payments to understand the technology trends that are bringing about the evolution in payments.

We asked the Jury about its views on technology trends and sought opinions that run deeper than just looking at the impact of mobile.

Q. WHAT IS THE BIGGEST TECHNOLOGY TREND THAT IS DRIVING INNOVATION IN PAYMENTS?

A.

- Contactless technology (4%)
- Cloud Computing (8%)
- Widespread adoption of smartphones and tablets (52%)
- Availability of open APIs (36%)
- Rise of big data and data analytics (0%)
- Other (0%)

Adoption of smartphone and tablet technology is seen to be the biggest driver for innovation in payments with nearly half of the Jury considering this to be the most important technology trend.

Since the last report published two years ago, smartphone and tablet adoption has exploded in the developed economies, revolutionising the way we work and interact. As one member of the Jury comments, "smartphones have profoundly shifted the consumer desire for mobility which in turn will put pressure on financial institutions' reliance on 'old infrastructure' (such as delayed settlement systems)". The verdict of the Jury reflects what is happening in the market, with countless companies scrambling for a piece of the mobile payments pie.

However, the Jury also sees the availability of open APIs to be a major trend driving innovation in payments. APIs are now being extended to a wide range of payments types, opening up possibilities for many companies at a mere fraction of the cost of developing a proprietary system from scratch.

Data and its role in driving new payments services, such as loyalty and promotions, was also cited as a broader technology factor to take into account.

Jury comments

"No smartphones and you have no need for cloud. No smartphones, and there are no apps. No smartphones, and there is no contactless technology... and so on"

"Mobile is where all the action is"

"Smartphones & tablets have the potential for revolutionising payments. NOT because of mobile payments, which everyone is talking about, but because they will radically change the POS and the informational needs of merchants, which will in turn, drive more analytics and more promotions and merchandising ideas"

"Mobile devices create the potential to replace the traditional clearing and settlement networks of the schemes and banking via an ubiquitous, global network where every individual is a node."

"Although still at its infancy, open APIs are a huge enabler of innovation. The first open APIs in payments – payment gateways for e-commerce – created a commercial revolution. The extension of open APIs to other payment capabilities, such as money transmission, will have a similarly deep impact on the range of payment services worldwide"

"APIs enable rapid connectivity of applications, switches and gateways, creating new value propositions"

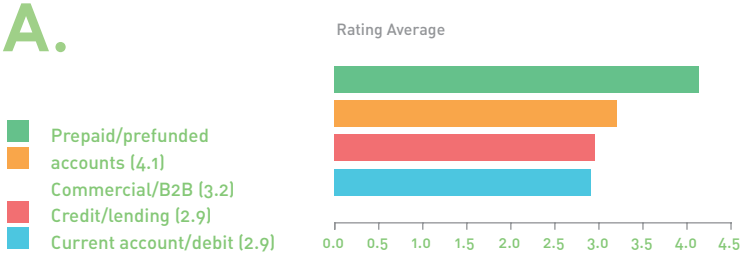
MONEY AND INNOVATION

Just like in any other sector, payments innovation requires both investment and the opportunity for businesses to make profits. In this section, the Jury predicts which areas of payments will see investment and where the smart money will go.

Here, the Jury reveals what it sees as a fad and what it believes has viable business potential.

Q. WHICH PAYMENT TYPES WILL SEE GREATEST INVESTMENT IN INNOVATION OVER THE NEXT FIVE YEARS?

A.



The Jury was asked to rate where investment was most likely to occur across current account/debit, credit/lending, prepaid/prefunded accounts and commercial/B2B payments.

Respondents believe that prepaid accounts will see the greatest investment in innovation out of all payments types in the next five years. Prepaid cards – both physical and virtual – have seen an explosion in use by both consumers and businesses in the last few years and this trend is set to continue. Virtual prepaid cards in particular are seen to have enormous potential for a range of industries for which traditional invoicing and settlement, or credit card based infrastructures, are deemed inadequate.

The Jury sees a complementary payment type – business-to-business or commercial payments – to attract significant investment over the coming years as businesses become increasingly frustrated with outmoded payment types provided by the traditional channels.

Jury comments

"Prepaid/prefunded accounts will have more innovation because they are practically the only vehicle available to non-banks. And non-banks are driving innovation"

"The prepaid model pushed by MasterCard and Visa based on physical plastic isn't going to be mainstream and they overhyped it. But there is a whole range of services, often for B2B clients, for which a prepaid or prefunded virtual account is the ideal product platform"

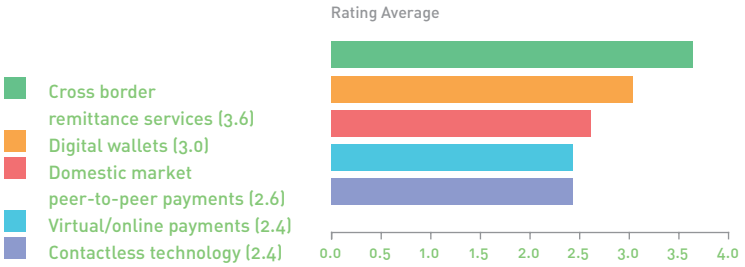
"All innovators are including a pre-paid account in their product. It might not be the whole of their proposition, but it's the baseline universal component, the starter set. It means that their products work out of the box"

"Virtual accounts are going to be very significant and they will normally be prefunded. That's why I voted for prepaid"

"The credit card is starting to feel like yesterday's product and that's why it is not getting so much investment"

Q. WHICH NEW PAYMENTS SOLUTIONS WILL BE THE MOST PROFITABLE OVER THE NEXT FIVE YEARS?

A.



Investment generally only flows when there is a strong likelihood of profits being generated. The Jury believes that virtual and online payments are capable of generating the most profit over the next five years, although cross-border remittance services come a close second.

With increasing business transacted online, the Jury also sees innovators who develop payments solutions for the online environment as capable of generating serious profits. Cross-border remittance, in particular, is an area of payments in which banks and the traditional money transfer organisations are considered not to offer consumers or small businesses a good service and therefore new providers have the potential to make good profits.

In contrast, the Jury considers digital wallets and contactless payments less likely to generate profits. One juror notes that any payments innovation that relies on major changes of consumer behaviour will take a long time to be profitable. This view is reflected in low jury scores for the profitability prospects of contactless technology and digital wallets and runs counter to the high of level of interest and publicity that companies operating in the sector currently attract. If the Jury is correct, we may see the digital wallet 'hype' subside in 2013 and make way for more potentially profitable innovations.

Jury comments

"The mega trend is the movement of retail payments from the face to face environment to online"

"Consolidated services will appear for online/virtual payments that challenge pricing and loyalty to incumbents/monopoly providers"

"The question is who will generate the profits. It is hard to see how banks will make any money out of contactless and wallets: if anything, they will increase their costs. But the suppliers and processors will probably make money"

"Online commerce is still a growing sector where both consumers and merchants need better services, so profits can be generated"

"Apart from the lucky few that develop a service that consumers see as cool, the innovations that will generate profits are those that solve a real pain point. So many innovations are solutions in search of a problem"

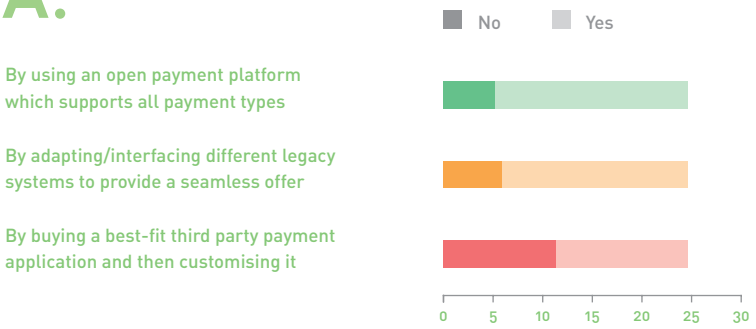
"It's hard to see why there is so much attention to wallets at the moment because it's quite a large change in customer behaviour. There seems to be a herd instinct amongst the major players"

INTEGRATED PAYMENTS PROGRAMMES

As 'payments' is now a very crowded marketplace, many end users of multiple payments products have started to demand single, integrated programmes. This in turn puts pressure on payments providers to deliver integrated solutions with easily manageable interfaces.

Q. HOW WILL PAYMENT PROVIDERS MEET THE NEED FOR SINGLE INTEGRATED PAYMENTS PROGRAMMES?

A.



The Jury believes that with an increasingly competitive market for payment solutions, payments providers cannot ignore the growing demand for single integrated programmes with user-friendly interfaces. There is also a strong demand for lower development costs and shorter programme implementation times.

The Jury believes that payment providers will take different approaches to achieving these integrated programmes. Many established providers will initially try to adapt their legacy systems but slowness or inability to make them more easily accessible is likely to lead to failure in many cases. It will also create opportunities for new providers that invest in more flexible technology.

The use of an open payments platform is seen by the Jury as likely to be more common than sourcing the best-fit third party application and then adapting it to a specific purpose.

Jury comments

"The move towards integrated programmes across many payment types is already happening and it is quite a challenge for most established players'"

"A few banks will get it and invest in a decent platform but most will ignore the opportunity until it is too late"

"Adapting legacy systems is extremely difficult as a multi-payment-type service introduces new risks and technical challenges that would push incumbent payment providers to source third-party solutions"

"If integrating legacy systems doesn't work then companies would try 'open payment platforms' before attempting 'customising best-fit third party applications"

" It has to be a combination of adapting legacy systems, buying in third party applications and using open payments platforms in the real world. We have had our success by adapting all three of the above. There is no singular approach to any problem"

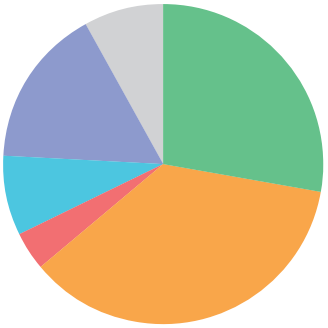
"The only thing that banks know how to do is to try to modify their existing systems and so that is what most of them will do first. It is only when forced by the market that they will look at better approaches"

INNOVATION AND ORGANISATIONS

So far, our report has addressed the topic of payments innovation largely from a product/service perspective. But what business culture and skill-sets are required to drive innovation? Can companies innovate alone or do they require the support of specialist parties?

Q. WHICH INDIVIDUAL HAS THE ABILITY TO BEST OWN AND LEAD AN ORGANISATION'S PAYMENTS INNOVATION AGENDA?

A.



- Head of product (28%)
- CEO (36%)
- CTO (4%)
- Head of innovation (8%)
- All exec management (16%)
- Other (8%)

When considering the question of innovation leadership, the most frequent response from the jurors was that innovation within an organisation must be led from the top. 36% of the respondents stated that the CEO should lead the innovation agenda. The Head of Product is also deemed to be an appropriate person, as they are seen to be the most motivated executive below CEO for pushing through progressive innovation.

This year's results bear an interesting comparison with the 2010 report. In 2010, we asked the Jury to name the stakeholder that had the greatest influence on payments innovation. The 2010 Jury decided that third-party developers and innovators had the greatest influence on an organisation's payments innovation. In-house teams by contrast are said generally to be a 'tick box' for senior management rather than bringing true innovation. The 2010 findings prompted the question of whether large organisations should have in-house innovation teams at all. However, given this year's view that "Commercially successful payment innovation needs the whole organisation behind it and needs a powerful and inspired owner to make it happen", there seems to be a renewed belief in the role of this individual and function in the business.

Jury comments

"Some might say that it has to come from the very top, but, in my experience, this is rare. Mostly the people looking after the product have to drive to push things through"

"I'm picking the CEO, even though the CEO is hardly the "innovation owner" (contrary to myths about Steve Jobs). If the CEO does not create an environment that encourages and funds innovation, it will probably not be sustainable no matter who else champions it"

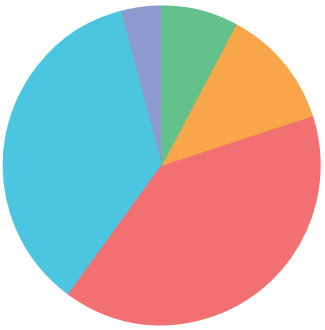
"The CEO has to create an environment in which innovation can happen. That's his job and not to be the innovator in chief"

"It's hard to say who should drive the innovation agenda but if an organisation has a head of product who is not innovative, the organisation is in trouble in today's financial services world"

Q. WHAT IS THE BEST WAY FOR FINANCIAL INSTITUTIONS TO APPROACH PAYMENTS INNOVATION?

A.

- Drive internally with innovation unit (8%)
- Encourage all business units to be innovative (12%)
- Partner with companies with innovative solutions (40%)
- Partner with innovative start-ups (36%)
- Other (4%)
- Acquire traditional vendors once tech has gone mainstream (0%)



Most of the Jury agreed that innovating internally is extremely difficult for large financial institutions. The main reasons cited for this are cultural inertia, the issue of siloed business units and the presence of legacy business models.

The Jury believes that the best way for financial institutions to approach innovation is to partner with companies with innovative solutions (40%) or work with innovative start-ups (36%). Some members of the Jury cautioned that financial institutions need to be extremely careful as to when they partner and/or acquire companies with innovative technologies, as acquiring too early can prevent the innovation reaching maturity.

With many business leaders across the entire financial services industry citing 2013 as 'the year of M&A', we could see some interesting activity that is in fact driven by the desire to innovate.

Jury comments

"Financial institutions don't have enough time, focus and discipline to drive innovative solutions on their own. They should spend time selecting the right partners"

"It is almost impossible for large organisations to innovate internally especially if they are well run machines"

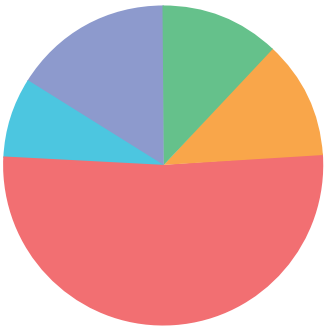
"True innovation comes from challenging the existing business model. That is not something that the large established players can contemplate; they will innovate around the edge but rarely do anything radical"

"Large FIs should watch start-ups, partner and buy them when technologies are sufficiently mature, being aware that their purchase will also somehow kill the target innovation"

"I think that partnering with innovative companies is the way to go, but then please resist the temptation to buy them"

Q. WHAT IS THE BIGGEST BARRIER TO PAYMENTS INNOVATION WITHIN AN ORGANISATION?

A.



- Organisation fails to see business case (12%)
- No internal champion (12%)
- Legacy business model (52%)
- Fear of making an investiment that fails (8%)
- Other (16%)
- Lack of budget (0%)

Almost every payments company wants to innovate; most are actively trying to do so either internally or through partnerships with outside suppliers. Nevertheless, many payments firms are not succeeding. With this in mind, the Jury attempted to identify the biggest barrier to innovation within organisations.

Legacy business models are seen to be the main obstacle. Many jurors commented that previously successful business models always have defenders in larger organisations, and innovations are frequently seen to be threats to existing models and therefore need to be stopped.

It is clear from the Jury's comments that most (but thankfully not all) large organisations are beset with a number of problems when it comes to innovation. The comments below shed some light on these challenges, ranging from legacy business models to fear of change.

Jury comments

"Many innovations involve some threat to the existing business model, at least in terms of the impact of failure and the impact of risks introduced in the business by innovation"

"True innovation is very hard because it seeks to destroy the legacy business model, which, in large companies, necessarily has many defenders"

"It is career limiting for a senior exec in a large company to propose something that damages the current business model. It's only when the old model is best [obsolete] that large companies consider change and then it is usually too late"

"Many organisations are afraid of the change"

"Traditional businesses, particularly banks, have far too strict internal silos to ever truly drive real innovation. Adding their legacy risk adverse mindset, it makes it extremely difficult for them to think of disruptive steps forward to innovating. Large financial institutions will also only make incremental innovations"

"Inertia and fear of change are the major problems"

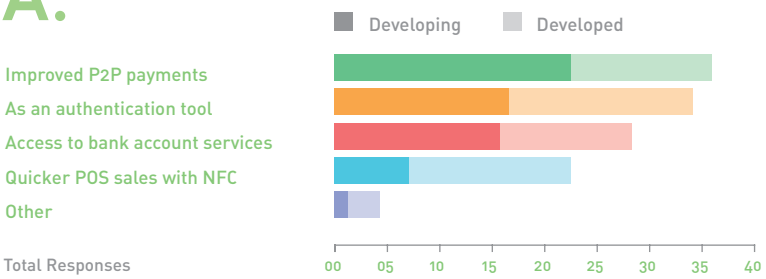
MOBILE PAYMENTS

The payments industry has been talking about 'mobile payments' as the next big thing for years. Now, even the mainstream media has got in on the act, with many publications citing mobile payments products as innovations that will transform the shopping experience.

But while developed economies have seen widespread adoption of smartphones, mobile payments are still not used by the masses. What is holding mobile payments back? Is it technology? The investment required to upgrade infrastructure? Or do mobile payments fail to solve a problem?

Q. WHAT EXISTING PAYMENTS CHALLENGES CAN MOBILE TECHNOLOGY SOLVE?

A.



Against a backdrop of high excitement around mobile payments, the Jury considered whether mobile payments (a term which can mean different things to different people) are solving problems that really exist.

The Jury believes that mobile payments technology will have more application in developing economies rather than developed economies because the infrastructure of bank branches, ATMs and fixed line POS is often non-existent. The massive penetration of M-PESA, to take the obvious example, shows that significant problems with payments, as there were in rural Kenya, can be solved with quite basic mobile technology.

The vast majority of the panel considers mobile to be a driver for better P2P payments and easier access to bank accounts, as well as an authentication tool, although more than half of the Jury thinks developed economies will benefit in these respects as well.

In developed economies, in particular, the Jury believes that smartphones have the capacity to deliver marketing value through tactics such as targeted offers and location-based advertising, with 'payments as a commoditised add-on', as one juror notes. Smartphones are also seen to be a good instrument for POS transactions through NFC in developed economies.

Jury comments

"Mobile payments are just another channel"

"The jury is still out on whether NFC sufficiently speeds up the POS"

"The case for mobile as a reliable tool for strong authentication has not been convincingly made yet, but when it is, it will be a killer"

"In my view the best use of the mobile in developed markets is to deliver marketing value – to help the merchant to sell more"

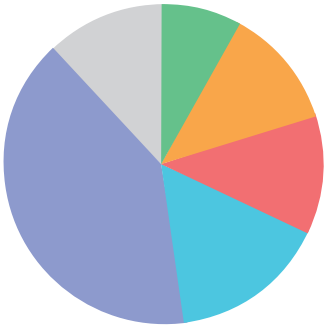
"Mobile technologies help unlock the true utility of money that has been missing from the current instruments provided by the banks"

"Mobile in developing markets can provide direct access to financial savings, receive international remittance and [enable] remote payment services. They can provide these services where banks are not doing so"

Q. WHAT IS THE BIGGEST THREAT TO THE SUCCESSFUL UPTAKE OF MOBILE PAYMENTS?

A.

- Lack of global technical standards (8%)
- Security risks (12%)
- No clear regulatory framework (12%)
- Lack of monetisation/potential business case (16%)
- Poor user experience/no value-added experience (40%)
- Other (12%)



Two years ago, when the last report was published, many felt that the mass adoption of mobile payments was just around the corner. Two years later and mobile payments (at least in their e-wallet, NFC and P2P formats) still have not taken off in terms of developing significant transaction volumes. For this question, the Jury considered what might be holding mobile payments back and whether they will ever gain mass market traction?

The Jury was very clear that the lack of an improved customer experience is the biggest threat to the successful uptake of mobile payments; many existing applications are just too complicated to use for consumers. This leads back to the question of whether most mobile payment services really solve existing payments challenges or are solutions in search of problems.

The lack of a viable business case for mobile payments is seen by the Jury to be another major issue. With so many players scrambling into the mobile payments space, it is clear that not everyone will make money; in fact only a minority of players will achieve critical mass. And, according to the Jury, critical mass in terms of consumer uptake may not necessarily generate financial returns.

Jury comments

"Users may not naturally see a smart phone as a wallet"

"Lack of standards, perceived security risk, unfocused regulation – these all are important, but they end up contributing to the thing that could kill progress, which is a poor user experience with insufficient value add"

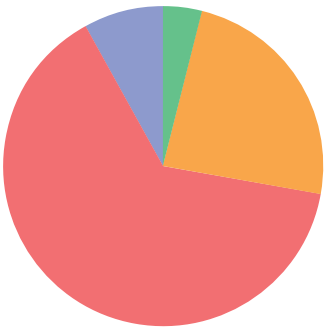
"What we know is that fraud only really develops as markets mature and become large enough to attack. So we have not yet seen widespread attacks on mobile payments but it will definitely happen and that will be a major threat if mobiles are seen as unsafe"

"At the moment it is very unclear how all the various solutions/ products will address security risks, assuming mass uptake"

"Creating a "digital shadow" of a card experience is a waste of time and effort. It has to and can be so much more"

Q. HOW BIG A LONG-TERM THREAT DO MOBILE NETWORK OPERATORS PRESENT TO THE SUCCESS OF TRADITIONAL PLAYERS IN THE PAYMENTS INDUSTRY?

A.



- Serious threat (4%)
- Significant threat (24%)
- Some threat (64%)
- Little to no threat at all (8%)

The general consensus from the Jury is that mobile network operators (MNOs) pose some level of threat to traditional players but not a significant one. The advent of mobile payments has resulted in many MNOs positioning themselves to muscle into the space and take a slice of the revenue. However, their lack of experience in payments is seen by the Jury to be a serious disadvantage compared to banks, card schemes and processors.

Some members of the Jury also voiced the possibility that mobile payments may be overhyped; customer habits will be hard to change and NFC technology has not yet delivered what it has promised.

However, this area of industry innovation was one of the most hotly debated by the Jury; a few members of the Jury were vociferous in their belief that MNOs will pose a serious threat due to their billing relationships with the customer. Firms like Isis are cited as directly owning the relationship of millions upon millions of customers, which has to be threatening to the traditional players.

Jury comments

"Companies like Boku are trying to aggregate telcos into a coherent payment scheme. If successful, the effect could be dramatic"

"I think content will be a greater battle for mobile operators than payments"

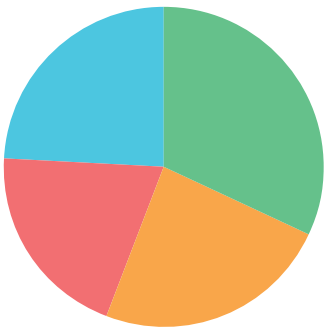
"The mobile operators are just another player in the chain. The mobile itself poses the threat"

"Telco carriers could be a BIG threat BUT they continuously have missed the point about payments. They have millions of customers, most of whom they have underwritten already but they continue to demand exorbitant fees from merchants making their services only viable for digital goods, rather than general goods and services"

"MNOs are a threat because they run the IP network that replaces the banks legacy/proprietary one"

Q. IN DEVELOPED ECONOMIES, WHEN WILL CONSUMERS ONLY USE SMARTPHONES TO MAKE PAYMENTS, INSTEAD OF A COMBINATION OF SMARTPHONES AND CARDS?

A.



- Within 3 years (32%)
- Within 5 years (24%)
- Within 10 years (20%)
- Not within the forseeable future (24%)

Banks are now emerging with mobile at the core of their service offering (such as Movenbank in the US) and yet most payments acceptance is still rooted in legacy technology. The Jury considered when it might be possible to use only a smartphone for payment and not have to issue a legacy plastic card at all. Most of the Jury believes that this should happen within a ten year timeframe with more than a third voicing a more optimistic timescale of three years for this business model to become possible.

Jury comments

"The problem today is that debit and credit card companies, and technology service providers are still using the word CARD to describe a service. Even if it is a virtual service it called a virtual or E-card or called a cardless transaction, instead of a fund transfer or a payment token. Once the word CARD is not used to describe a payment transaction, the visual association with the plastic will drop"

"It's not coming... It's already happening... Square, Dwolla, PayPal, LevelUp"

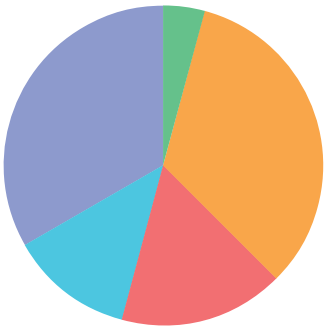
"Mobile technology will, within 10 years, be so cheap and powerful that the cost for the 'minimum sufficient device' will be comparable to the cost of a Chip & PIN card today"

"The POS infrastructure changes really very slowly so I find it hard to imagine when it will actually be possible to have only a phone. Of course it should be possible but we need to be realistic and not get carried away by the hype"

"Cash didn't replace coins, cheques didn't replace cash, cards didn't replace cheques and smartphones won't replace cards. Each has their place for the foreseeable future"

Q. WHICH MOBILE FINANCIAL SERVICES WILL CONSUMERS BE MOST WILLING TO PAY OVERT CHARGES FOR?

A.



- Quicker POS sales with NFC (4%)
- Improved P2P Payments (32%)
- Access to bank account services (16%)
- As an authentication tool (12%)
- Other (32%)

Many players are investing in mobile payments in the belief that it will be possible to monetise the various services. The Jury considered the monetisation possibilities and was by no means convinced that consumers will be willing to pay for many mobile payments services. Inability to monetise a service may not stop it from becoming widespread, as major players could find it necessary to offer the service for competitive reasons, even if it cannot be charged for. However, it does suggest that many business plans based on monetising services will fail to deliver and investors will be left out of pocket. A 'build it first, monetise it later' approach could be dangerous (as the Twitter and Facebook stories have demonstrated).

The picture is not all gloomy and around a third of jurors believe that consumers will be willing to pay for improved P2P payment services through their mobiles and 16% think that consumers will pay to access bank account services through their mobiles.

Jury comments

"Apart from P2P payments, all the other services have reasonably good free alternatives today"

"None of the above will be chargeable"

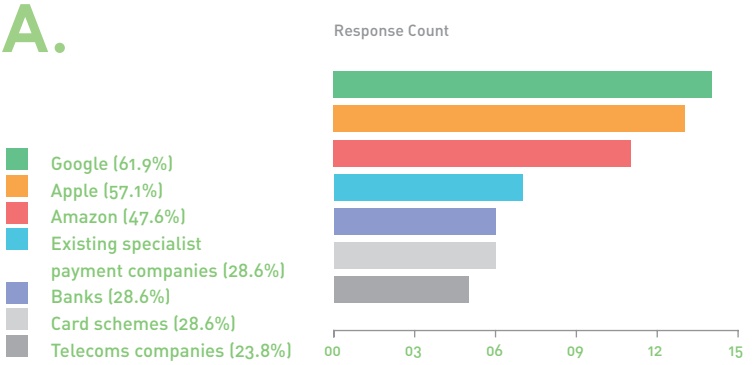
"Willingness to pay will grow over time when more sensible services appear and people's personal dependence increases. In the end, people are willing to pay something for convenience"

"I don't think that consumers will pay – they expect stuff mostly for free. NFC is a solution looking for a problem. So the solution will mostly be merchant funded, with merchants willing to pay because they feel that they can access more customers through mobile. Consumers may pay in some special cases (i.e. parking where the fee is positioned as a convenience fee)

"Consumers don't pay for payments and it's unlikely that they ever will"

Q. WHICH OF THE FOLLOWING PARTIES WILL SUCCEED IN BEING PROFITABLE IN THE E-WALLET MARKET?

A.



The emerging e-wallet market is currently a fast-moving battleground with many large players fighting for position. The Jury expressed only a lukewarm belief in the profitability potential of digital wallets. The Jury does not think that the payments incumbents – namely the banks, card schemes and existing payments companies – will succeed in being profitable in this space. Despite their ownership of large customer bases, the Jury considers MNOs to also be unlikely to succeed financially in the e-wallet market.

However, the technology giants entering the payments market – Apple, Google, Amazon – are seen to have a significant potential to generate profits in e-wallets.

Jury comments

"Telecom companies are the least likely players to make profits. Google will profit not from fees but from advertising based on the intelligence gathered from the wallet"

"All providers have the potential to realize some gain if e-wallets are eventually embraced by consumers. For this to happen, presumably they would have to be successful enough to drive new business to merchants (promotions, integrated offers, etc.) and shift significant volume from cash at the low end"

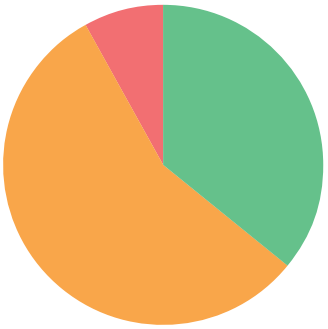
"It would be easier and cheaper for banks to migrate their existing customers and make them market influencers, versus a telco trying to convince their customers that they now offer financial services"

"Google has the most profit potential because they know how to monetise Big Data and will do so"

"Google can service all the other stake holders without being competitive to any, so, should be profitable "

Q. IS THE BUSINESS CASE STRONG FOR E-WALLETS TO REPLACE CREDIT AND DEBIT CARD PAYMENTS?

A.



Yes (36%)
No (56%)
Don't know (8%)

In terms of whether e-wallets will eventually replace traditional card payments, there was a range of views, and in effect there was a 'hung jury' with no clear consensus emerging. Over half of the jurors do not believe there is a strong enough business case for e-wallets to replace credit and debit card payments. However, over a third stated that e-wallets will replace card payments.

It will be fascinating to see how the e-wallet sector develops in the coming years and the role it plays in either complementing or usurping other payment channels. These developments will impact e-wallet's potential profitability.

Jury comments

"We'll be in a phase for many years to come where mobile wallets, even if they're wildly successful, will simply replace the card form factor, not the account enabling the actual payment. And think how long those accounts have been around"

"With the right security scheme, the wallet is much more convenient and provides the opportunity for more value added services"

"In the end it will give the users two capabilities – to be both the customer and also a merchant. Users will be able to push and pull transactions whereas cards only allow push transactions to take place"

"Don't underestimate the effort to get widespread merchant acceptance. It takes a long time to get merchants converted and if major incentives are offered, then the business case is undermined"

"I don't see this as being important in developing markets; it is a big mistake to assume that the USA model will be relevant in many emerging economies"

HYPE

Payments innovation is particularly susceptible to hype and the reality is that many innovations will not achieve sufficient take-up to be profitable. The question of hype versus reality has recently been in focus as companies in the instant-offers space have rather belatedly been put under the microscope.

Q. WHICH AREA OF PAYMENTS INNOVATION IS THE MOST OVERHYPED?

A.

"Branchless banking for the unbanked"

"NFC"

"Mobile payments, cloud, wallets. All are poorly defined and do not fundamentally address the 'two sidedness' of the payments market"

"To be honest, it's probably NFC-EMV. I'm sure NFC will eventually succeed, but not in the current model"

"E-wallets followed by NFC"

"Mobile"

"Mobile wallet"

"Biometrics"

"NFC mobile payment initiation probably wins the prize for most undue excitement, when you compare the attention it's given at nearly every conference with the dearth of usable products/POS venues"

"E-wallets"

"Mobile payments which so far, are nothing more than mobile wallets which still require a card or bank account as the funding instrument"

"NFC acceptance at POS"

"NFC ('Not For Commerce') without a doubt"

"I am tempted to nominate whatever Visa and MasterCard are currently promoting because they are the biggest cause of payments hype for the last 20 years and the banks and analysts keep falling for it"

The Jury offered their views on which payments innovation has the greatest hype rating and therefore the biggest risk that the business case will not be achieved. Hype is particularly prevalent in payments with many organisations trying very hard to talk up their chosen innovation in order to achieve the necessary critical mass. Although many financial investors long for their companies to ride the hype curve and then manage to sell just at the right moment, this probably has as much to do with luck as judgement. Hype can also be bad for the industry; pre-paid is an example that was over-hyped by the card schemes. Many banks became very disillusioned and moved away from the products and yet 10 years later, the true potential is at last being recognised. Of the current major payment innovations, NFC and contactless payments is the area which the jurors mentioned most frequently; almost 60% of the jurors believe that NFC will not live up to expectations in its current format. There is also a considerable level of scepticism about wallets. Only time will tell whether the judgement of the Jury is right.

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IXARIS

Ixaris makes complex global payments fast, easy and accessible. Its technology enables enterprises within the healthcare, travel, marketing and financial services industries, as well as consumers, to capitalise on the growing market for prepaid payment solutions.

Ixaris' consumer payment service EntroPay provides self-service access to various global payment applications through a virtual account based on Visa and MasterCard prepaid products. The Ixaris Opn platform allows businesses and developers to create and run their own global payment applications using open loop virtual or physical cards under the Visa and MasterCard schemes. Opn shields developers from the complexities of global financial services, allowing them to bring solutions to market quickly and cost-efficiently.

Ixaris ranked 22nd in the Sunday Times Microsoft Tech Track 100 – the highest rating for a payments technology company in the 2011 list. It also ranked highly in the Deloitte UK Technology Fast 50, an independent ranking of the UK's fastest growing technology companies. Ixaris Systems Ltd is authorised by the Financial Services Authority under the Payment Service Regulations 2009 for the provision of payment services.

http://www.ixaris.com/

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