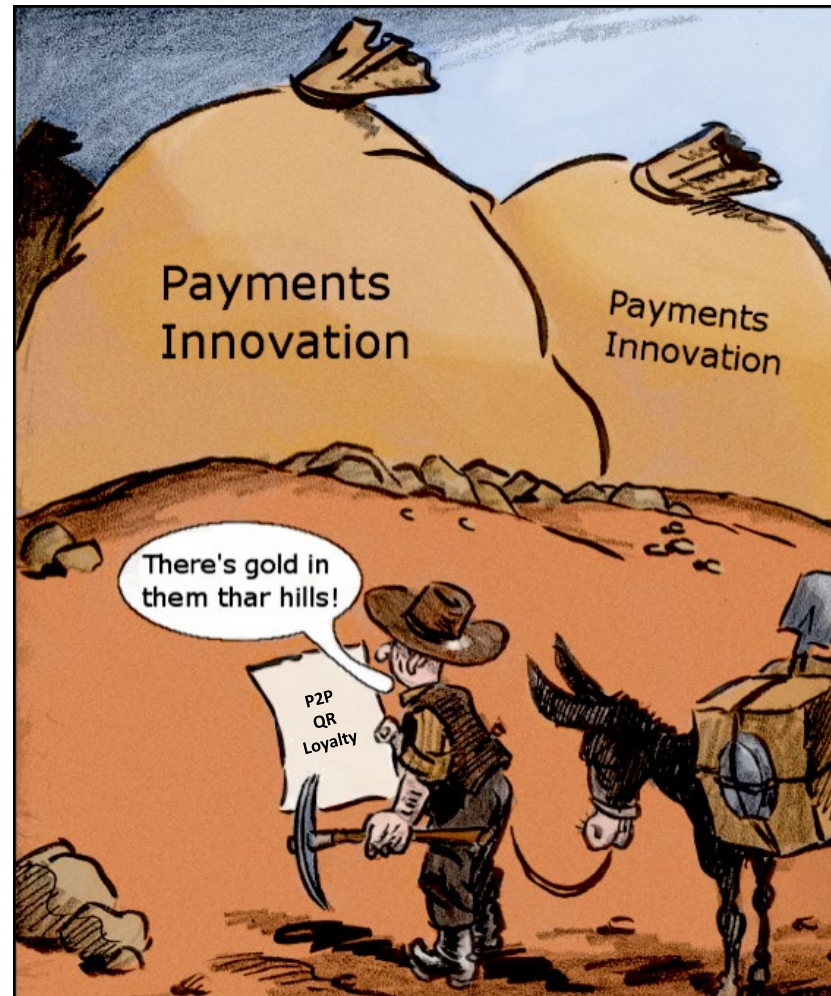


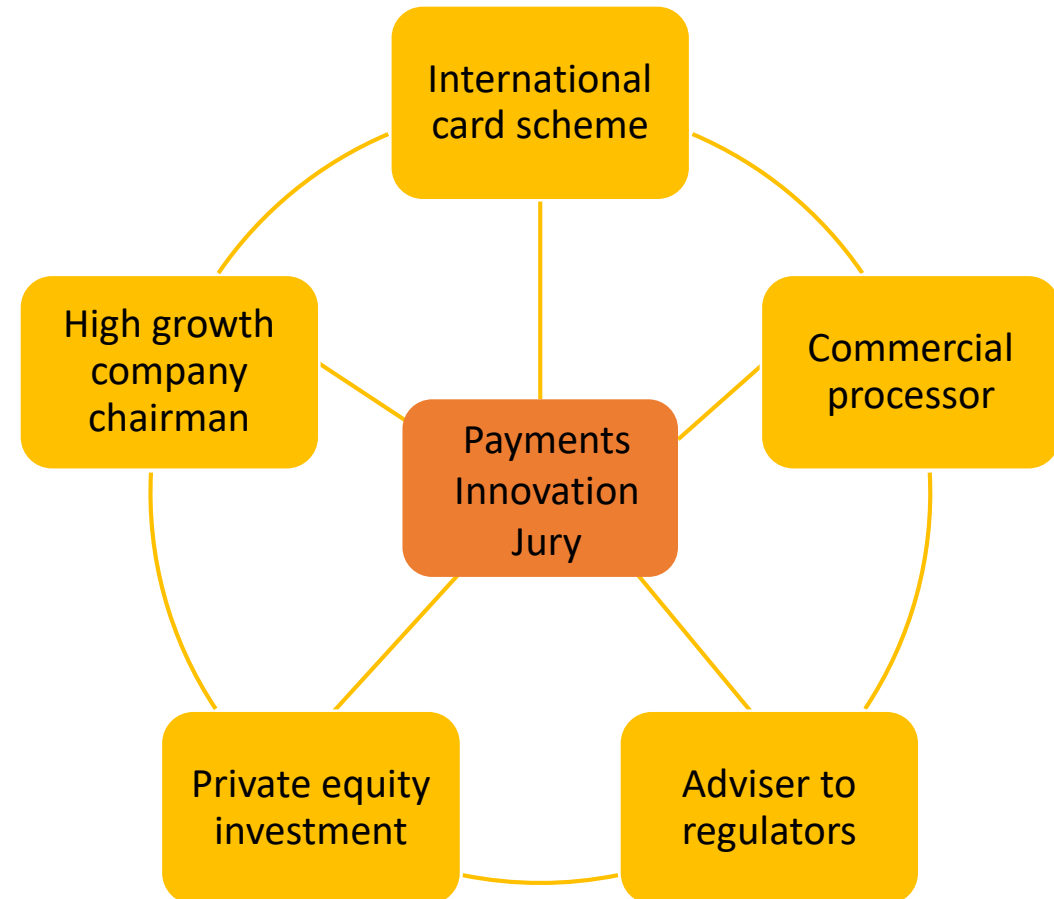
Innovation begins at home



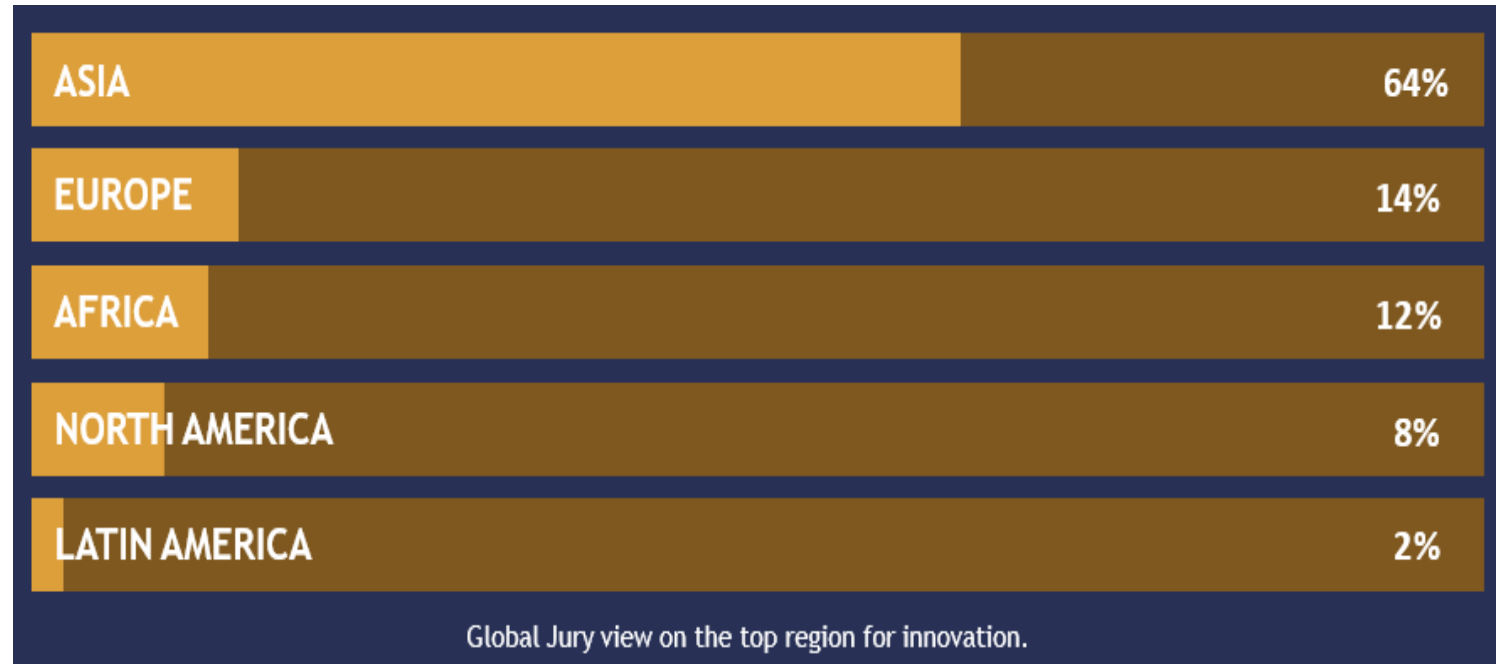
John Chaplin

Auspaynet Summit, December 2019

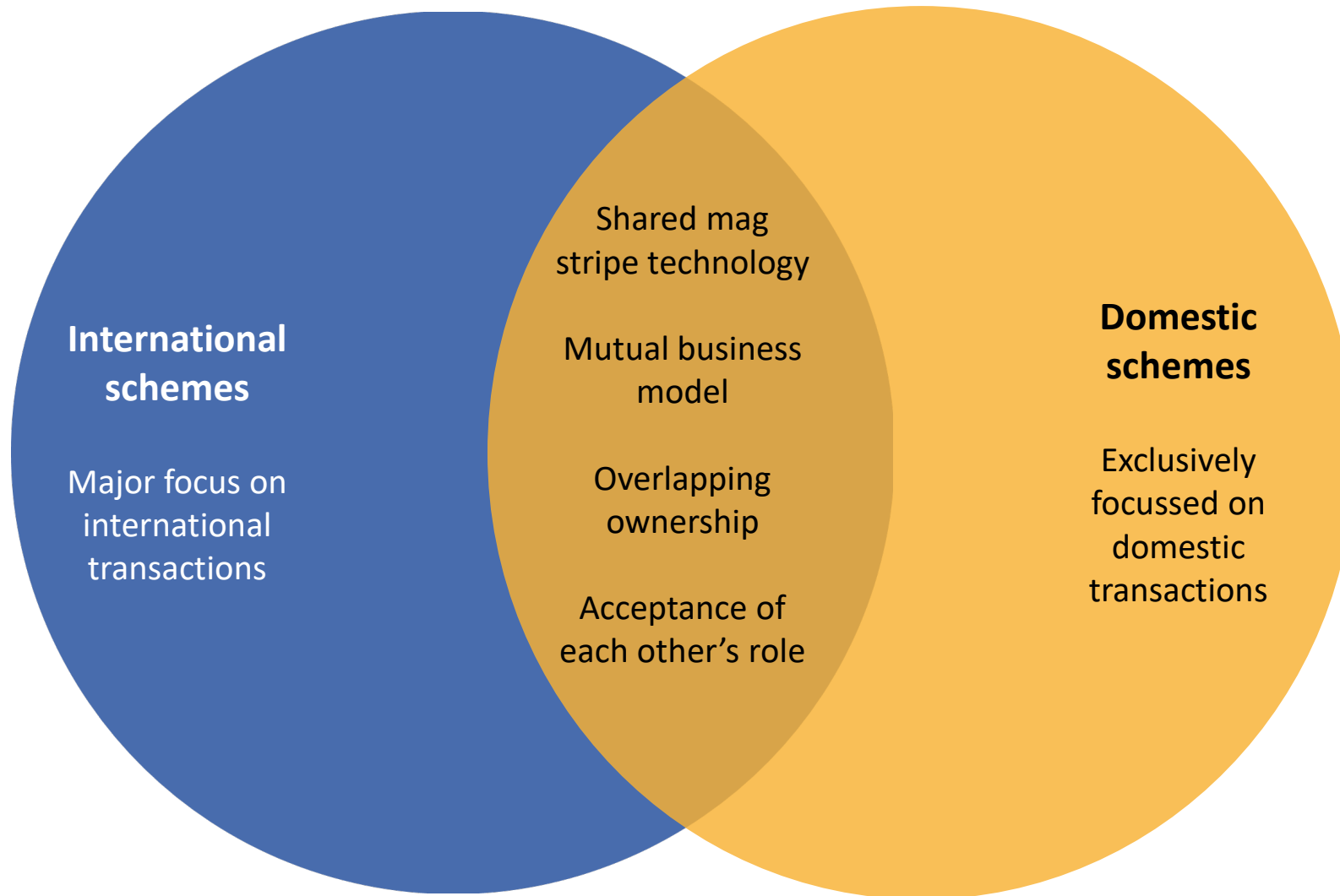
A career mining for payments gold



Where is most innovation happening?



Before the goldrush there was less competition



Demutualisation changed everything



How have domestic payments companies responded?



Rest in Peace

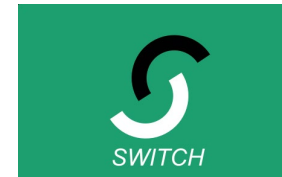
Ireland



Netherlands



UK



How have domestic payments companies responded?



Birth announcements

Brazil



Turkey



India



Domestic payments companies must play the innovation game



Domestic payments companies must play the innovation game

Have they got the tool kit?

Business model

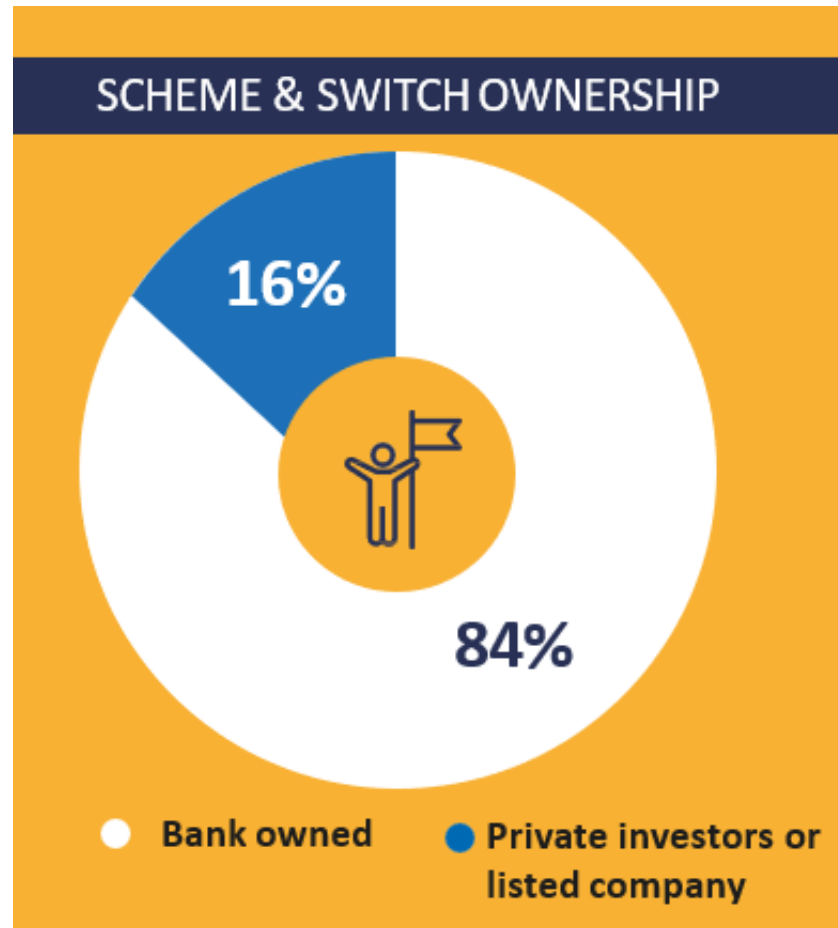
Board support

Investment funds

Human resource



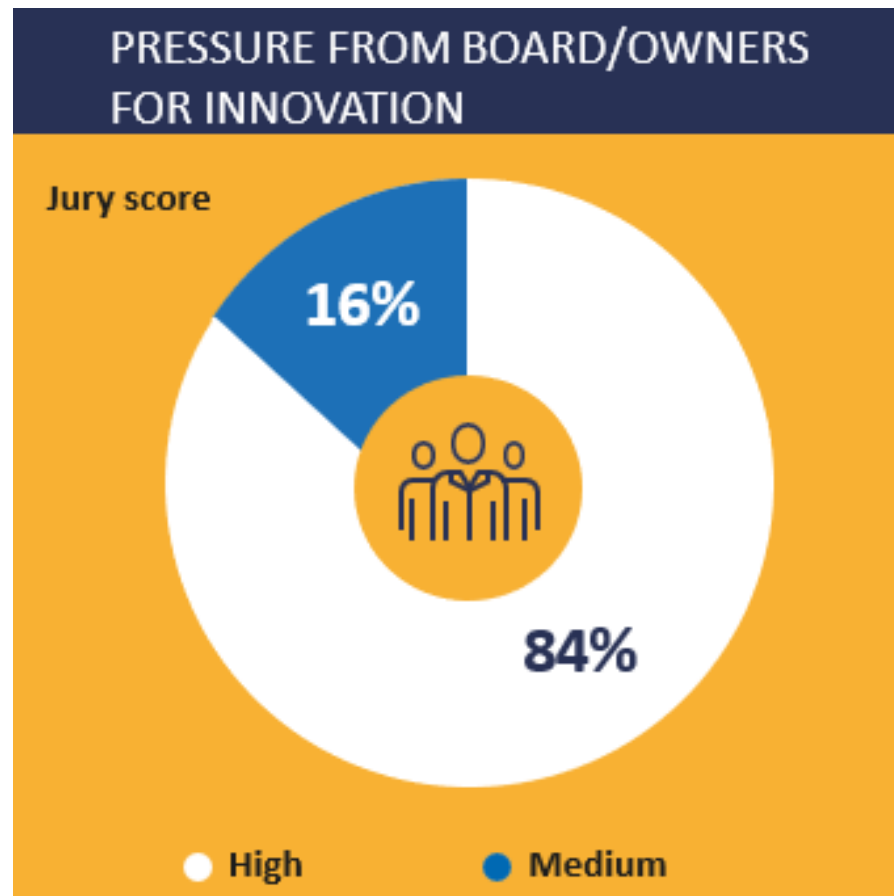
Business model and board support



Following the same route as international players



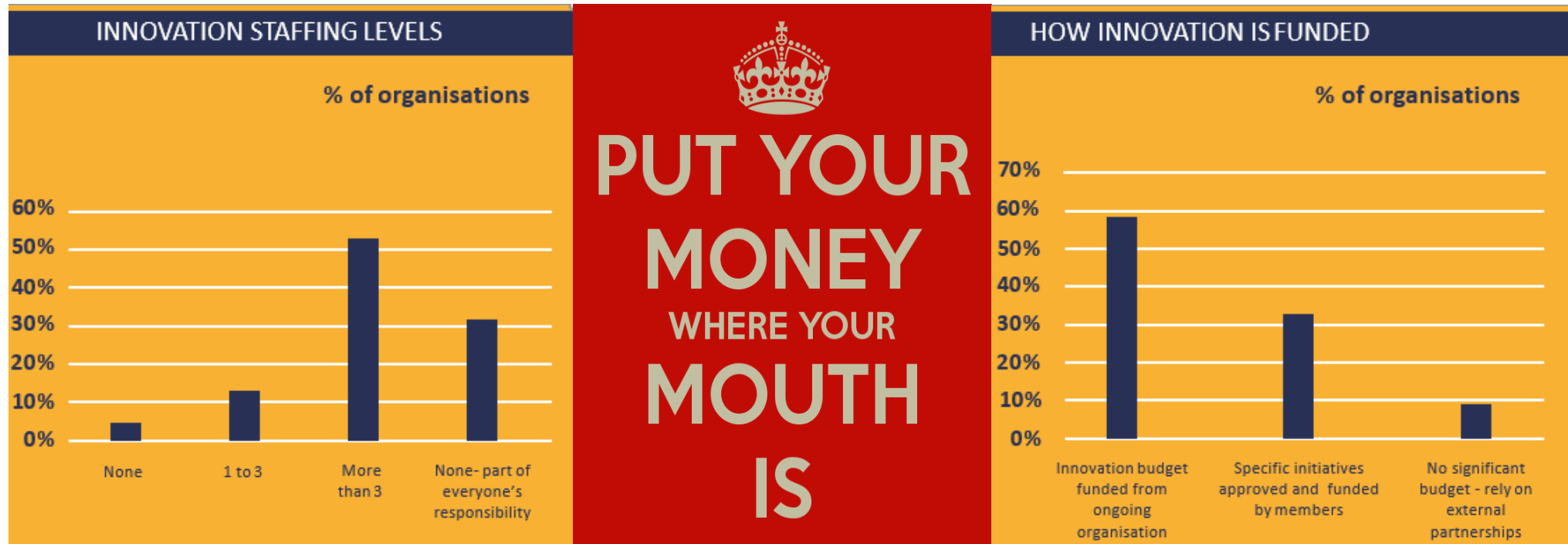
Business model and board support



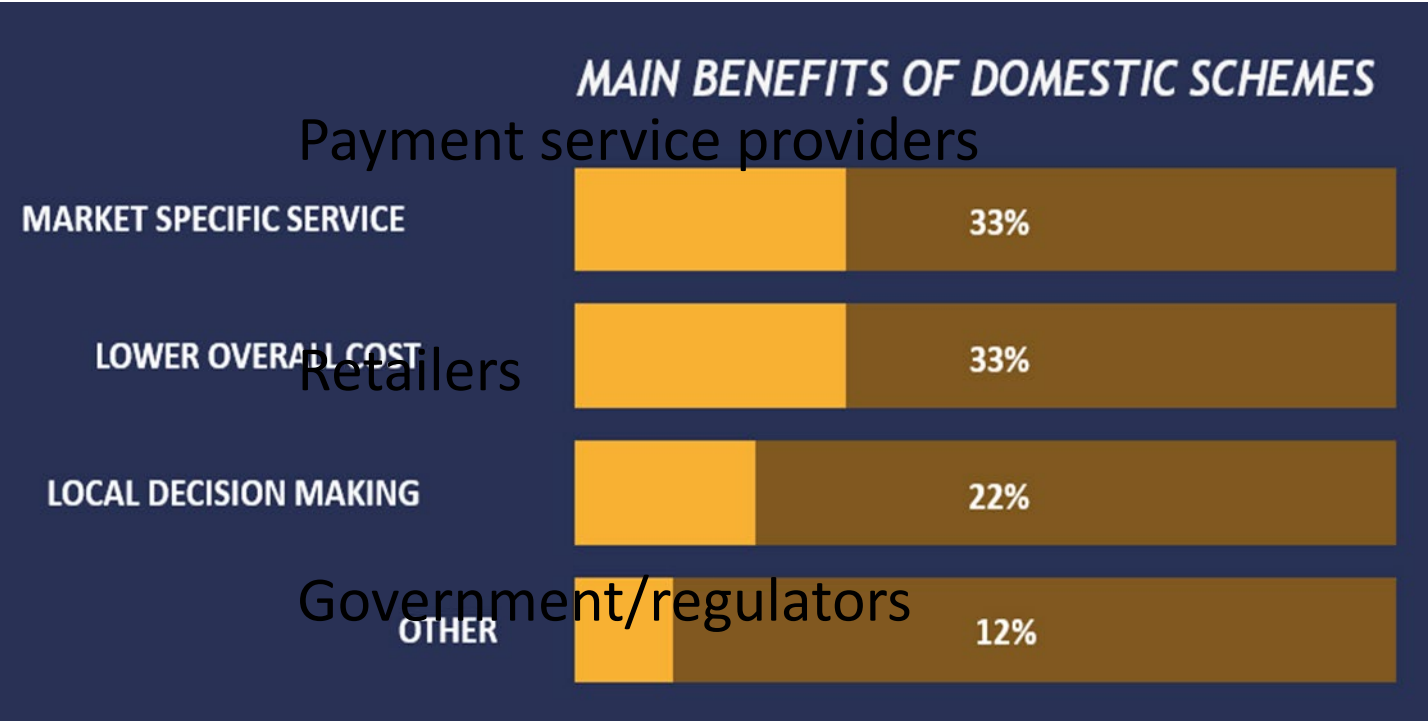
And/or
pushing
management
to innovate



Investment and staffing



Who cares if domestic payments organisations succeed?



How can costs of domestic & international providers be compared?

With great difficulty



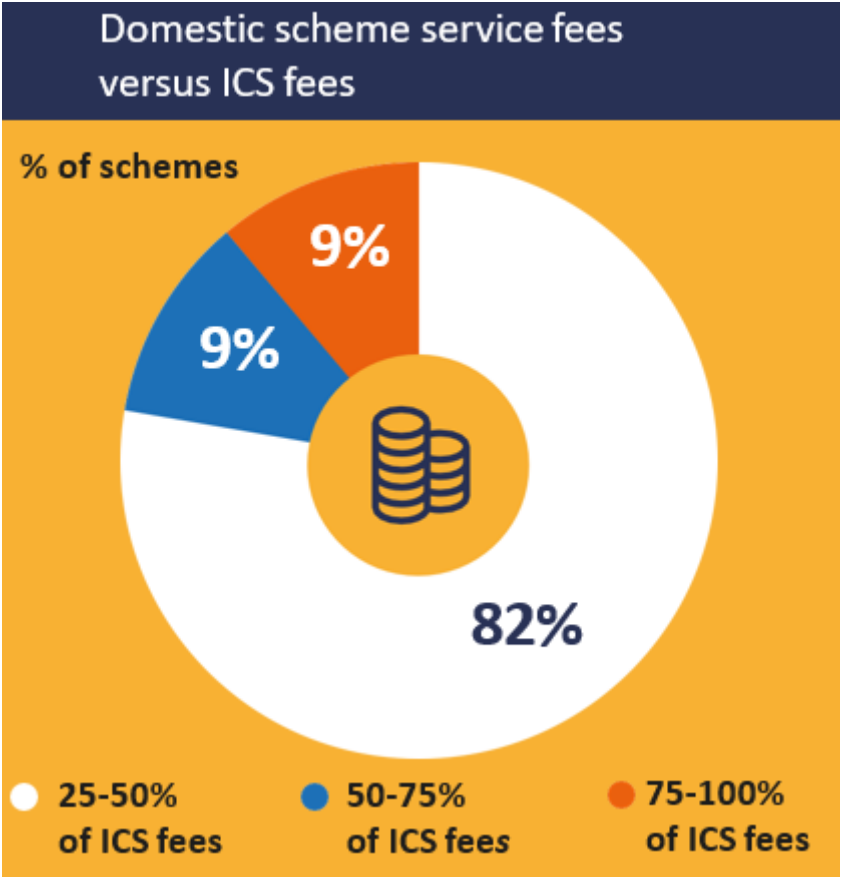
Significant rebates for some players

Highly complex tariffs

Different usage cases

Combination of service fees & transfer payments

How can costs of domestic & international providers be compared?



For similar domestic transactions
Issuer and acquirer combined
Net of all incentives & rebates
Excludes interchange as a transfer payment

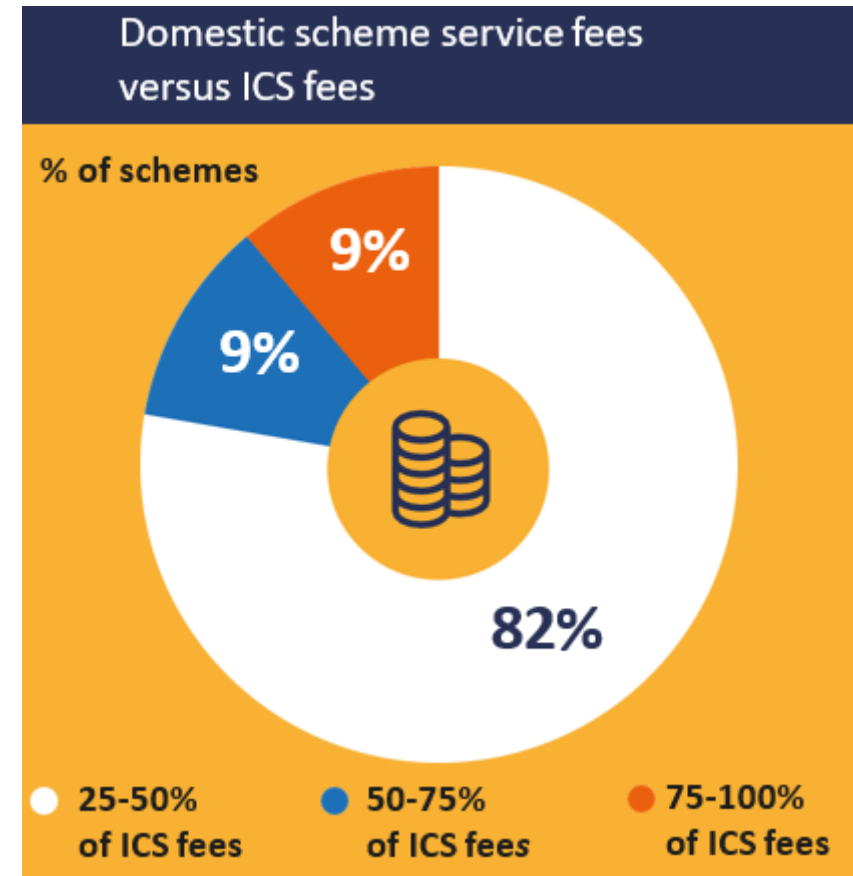
How can costs of domestic & international providers be compared?

Conclusions – scheme fees

Domestic providers have a significant cost advantage at total industry level

Position for individual players can differ from total industry

No inference that costs and value are tightly connected



For similar domestic transactions
Issuer and acquirer combined
Net of all incentives & rebates
Excludes interchange as a transfer payment

How can costs of domestic & international providers be compared?

Retailer perspective



.....is different from payment service providers' viewpoint

But scheme fees are rising and now exceed interchange in some markets

The source of most competition authorities' concerns because interbank transfer payments are imposed on retailers

Lower interchange offered by most domestic schemes is attractive to merchants but harmful to issuer economics

What do regulators want?



| | |
|---------------------------------------|---|
| LOW-COST PAYMENTS |  |
| RESILIENCE |  |
| REAL-TIME |  |
| SECURITY |  |
| INNOVATION |  |
| DOMESTIC CONTROL OF DOMESTIC PAYMENTS |  |
| SUCCESSFUL FINTECH SECTOR |  |

AND A LEVEL
PLAYING FIELD?

Different country policy makers have different objectives



Morocco

Single non-bank owned infrastructure for cards & mobile payment



South Africa

Maintenance of in-country switching capabilities



India

National self-sufficiency in payments



Turkey

Reduce international influence on domestic economics



Russia

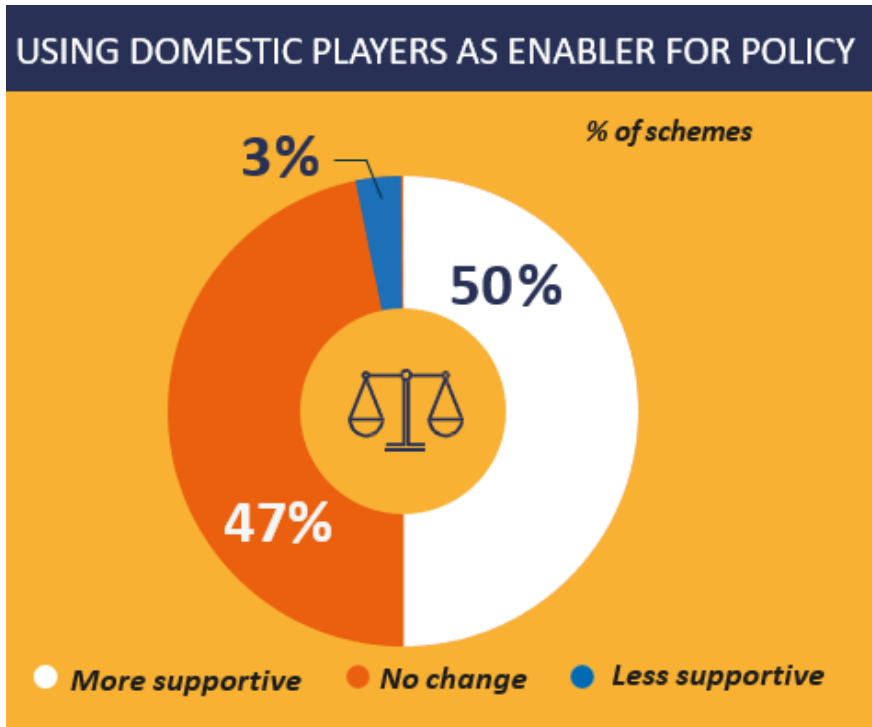
Freedom from US influence



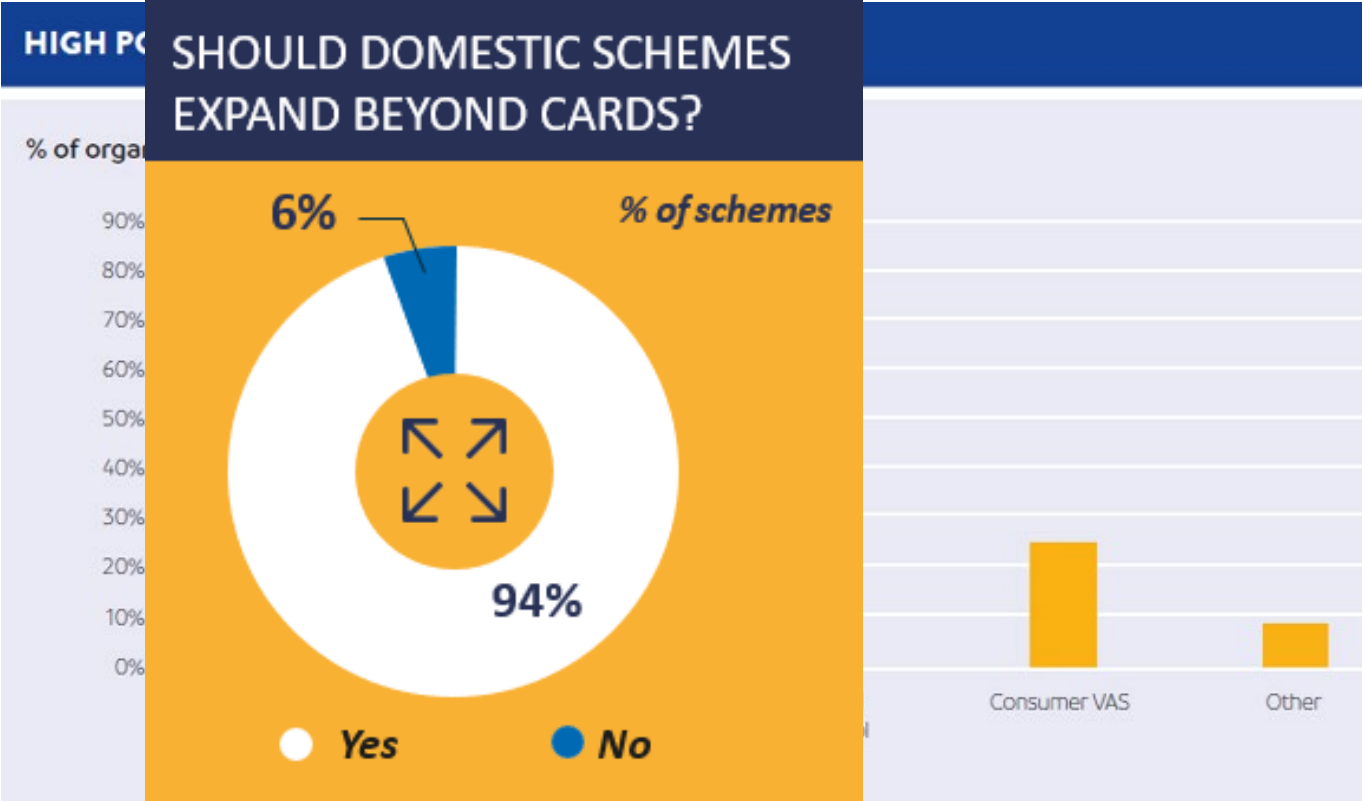
Canada

Low cost debit card payments

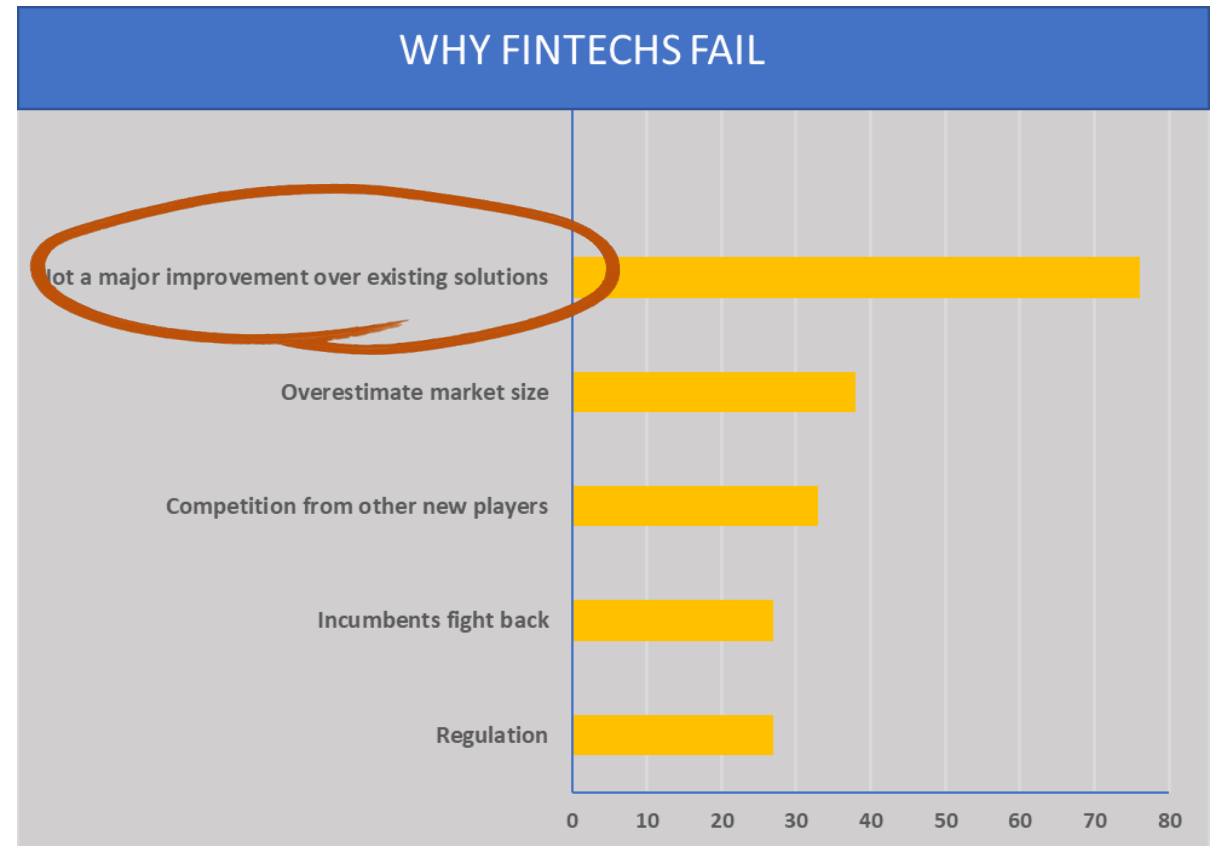
What do regulators get?



Where are domestic payments companies looking for gold



Where payments innovation can go wrong



Where payments innovation can go wrong

**“We didn’t do anything wrong,
but somehow, we lost.”**



WHY SCHEMES AND SWITCHES FAIL

% of schemes

70%

60%

50%

40%

30%

20%

10%

0%

Banks do not use
the new service

Decision making
process too slow

Don't have the required
mindset & skills

Unrealistic board
expectations

Run out of money



Domestic payments gold finders?



Norway

Combination of multiple services
(card scheme, mobile payments, identity)



Brazil

ELO maximizes profit and influence for banks



India

UPI for account to account, identity with
Aadhar, and RuPay with transport strategies



Nuggets to take away



Domestic players need to act commercially & must innovate

Regulators play a critical role in maintaining a competitive market – payments & competition regulation should align

Some domestic organisations are innovating very successfully

The best market outcomes are achieved by a mix of strong domestic players and international schemes



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