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The Goldfinch Report

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The Challenge of Remote Customers

Many cardholders now have little or no regular contact with their card issuer. In this issue of the Goldfinch Report, GFG Group's General Manager for South East Asia, Peter Goldfinch, says this has big implications for service delivery. Peter's credentials have been earned over 23 years experience in electronic payments, including pioneering work on ATMs and EFTPOS, and the introduction of credit and debit cards in Russia.

This report considers the growing remoteness of the banking customer, and the consequences on service delivery. This is not a problem only present in one market place. It is clearly a problem being experienced by banks in both developed and developing markets. The reasons or circumstances may be different but the result is similar.

The banking world has changed significantly over the last 15 years, with the advancement of technology coupled with the industry's focus on driving out costs and improving operational efficiency.

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Customers write fewer cheques and use the Internet to conduct their banking business. A customer rarely needs to visit a branch. Customer face-to-face encounters with their bank are increasingly being conducted by third parties who are more likely to engage at home or work. A typical example: customers seeking to borrow funds such as a mortgage now deal with brokers, rather than their bank branch.

The payments sector has been affected as much as any other banking service. Cards are not necessarily 'sold' directly by the banks - often a bank's name can only be found in small print on the back of the plastic.

ATM and POS networks are owned, operated and controlled by third parties. Merchant aggregation, although frowned on by the card schemes, is not uncommon and the mobile industry, (operators and service providers) are increasingly investing in payments.

At the other end of the banking spectrum there is enormous attention being given to improving payment services to the poor as a catalyst to stimulating wealth generation. The challenge for the national banks in these market places is they have no access to the poor through their traditional channels. Simply, their branch infrastructure does not service this sector. The cost justification to extend their branch network does not exist; even assuming they could source qualified staff.

In the micro-financing sector it is the Micro Finance Institutions, (MFI) who also have the customer relationship. These institutions can be three or four times removed from their funding source, the national banks. Regional or second tier institutions normally support these MFI's where technology support is minimal, especially when it comes to inter bank clearing and settlement functions.

Customer access is normally through a network of individuals, who conduct daily rounds to collect loan repayments. All payments are cash based and there is little incentive to support a savings culture.

A number of financial institutions have looked to use cards as the means of distributing funds, and to support repayments through agents. Payment cards are an access device enabling customer identification and authentication. Mobile handsets can be a substitute for the card and do provide network or channel access. This channel does not deliver or accept physical cash and must be integrated with a network of cash handling agents, ATMs or bank branches. The larger banks therefore have become more wholesalers of consumer products and services selling to intermediary organizations.

This is leading to a challenge, which has been present for branchless and Internet banks since their inception in the mid to late 90's. How do banks interact with their customers? This typically is a challenge when there is a need to update methods of service delivery. The bank no longer owns the delivery channel and the third party owner asks why they should invest in a system upgrade that for them is not supported by a business case.

Now affecting a number of countries is the issue of card fraud, and the push by the card associations for issuers and acquirers to adopt EMV. In the larger markets where fraud is still within manageable limits there is little reason to change. The banks and the card schemes are experiencing this in Australia, where the larger merchants generally own their card acceptance devices. The only weapon available is for the banks to transfer the payment risk to non-compliant merchants. The smaller merchants who do not own their acceptance devices and have lower sales volumes have no advantage or need to change.

So compromises are required for the large merchants. As most devices support a PIN pad for acceptance of the debit cards with PIN, the rational approach has been taken of introducing scheme cards with PIN for domestic acceptance.

“OFTEN, RETAILERS AND ISSUERS WILL NEED TO CO-OPERATE TO ENGAGE THE CARDHOLDER ON THE EXECUTION AND MANAGEMENT OF CHANGE.”

“SERVICE DELIVERY HAS BECOME FRAGMENTED ACROSS MULTIPLE INSTITUTIONS, INHIBITING CONSENSUS ON CHANGE.”

As has been demonstrated with eftpos in Australia, PINs are an effective solution to addressing fraud. Cardholders, according to research conducted by Visa in 2005, prefer a PIN, (76%) over signing a payment slip, (16%).

There are 13.5 million scheme cards on issue in Australia. A percentage will be represented by a piece of plastic that is also a debit card. The ‘one card’ strategy where the account selection determines the card type means a number of these credit cards will have a PIN. Further, for ATM cash advance a credit cardholder requires a PIN. So a high number of single purpose credit cardholder will already have had a PIN issued. But ATM cash withdrawals using a credit card are a low use transaction, so most of these cardholders will have forgotten their PINS.

This means that Australian banks collectively have possibly more than seven million cards looking for a PIN by February 2008 if Visa’s projection on dates is correct.

The big question is, how do you issue PINs to seven million cardholders who have little or no regular contact with their card issuer? The first challenge is providing the encouragement for cardholders to ask for a PIN.

Assuming this is possible, there are three options:

1. Send out PIN mailers to all cardholders that have not performed a PIN in twelve months. Not a very secure option. People whom do not select their own PIN have a greater chance of forgetting the numbers. Also – and probably more critically – mailers carry security risk, especially if mailed.
2. Invite cardholders into the branch to select their PIN. From a security prospective this is a lower risk option as long as sound customer identification processes are implemented and followed. Encouraging cardholders to the branch will be difficult. Having the capacity to handle the numbers could also prove a challenge.

There was 27%, (or 1917) less bank branches in Australia in June 2006 compared to June 1993. On an average each branch would need to handle 1,360 PIN select requests.

3. Implement a secure remote access PIN select solution. Banks that do not have a branch network have installed such solutions. The process usually involves the cardholder calling customer support to be identified and to receive a one-time use access code, valid for a short time.

With this code the cardholder makes a second call to an IVR system that requests the entry of the access code plus other identification data to enable the caller to be authenticated as the cardholder. On the passing validation the cardholder is requested to enter their PIN.

This third option can also be integrated into the card issuer’s Internet banking service where the Internet replaces the call centre.

Banks may offer both options 2 and 3. Many banks will offer PIN select at branches today. Option 3 will service those cardholders familiar with using remote banking services, and who are not able or inclined to visit a branch.

It also must be recognized that although there is going to be this big impact over a few months, there will also be ongoing demand.

The above deals with bank-issued cards, with a cardholder who has a clear view of who is delivering the card service. This is not necessarily the case with co-branded cards. The most familiar cards that fall into this category are the Qantas, Telstra, Virgin and Coles Group credit cards.

About Peter

Peter Goldfinch, GFG Group's General Manager South East Asia, is a respected analyst and commentator on global trends in payment technology.

One of the original founders and shareholders in GFG Group, Peter has a background of more than 23 years in the information technology industry, most of which has been involved with consulting and systems development for banking and finance customers in 25 countries.

He has particular expertise and experience in payment systems, including mobile payment systems. His career highlights include pioneering work on the first ATM and EFTPOS networks.

In the mid-1990s, he played a key role in the introduction of credit and debit cards into the Russian market, working with GFG's customer SBRF.

About GFG

32 million consumers in 39 countries use GFG software applications. More than 20 years of payments experience stands behind the company's worldwide leadership in integrated Card and Mobile-based payment products.

Accredited by the World Bank, GFG's solutions are based on a single, integrated architecture comprising two key products:

Simfonie™ A proven, market-leading product which enables a mobile handset to operate as a fully mobile payment device.

Cadencie™ A full-function, real-time, credit, debit and charge card management system.

GFG Group operates from offices in Auckland and Wellington New Zealand, Melbourne Australia, Manila in the Philippines, Singapore and Toronto. The company's core research and development team is based in Auckland, with consultants and technical staff located in the international offices to provide front line 24/7 support for customers in multiple geographies.

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Most if not all cardholders would see the retail organisation as the issuer. In fact the retail organisations own the cardholder relationship but the processor owns the product. The latter must be the entity responsible for generation of cardholder PINs.

For these retail organisations it is important to maintain the existing cardholder relationship. But the processor needs ready customer access to be able to offer PINs on credit. The processor must find a method that does not compromise the established relationships and brand.

This Australian example will not be the last of its type. It will all come back to banks not owning the end-to-end process as an industry. Service delivery has become fragmented across multiple institutions, with diverse business objectives inhibiting consensus on change for the good of the total service. Especially if the burden - as with EMV - does not fall evenly across these multiple institutions.

The mix of branding and product ownership is of further interest. Often, retailers and issuers will need to co-operate to engage the cardholder on the execution and management of change.