

# The Green Sheet

## Top trends affecting payments in 2010

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**A** recent Javelin Strategy & Research webinar discussed the top 10 trends it expects will impact financial services in 2010. Among the topics explored in *10 Trends that Will Shape Banking, Payments and Security in 2010*, several directly affect the payments industry.

The first trend that blankets the entire financial services industry is regulation. Mark Schwanhausser, Senior Analyst, Multichannel Financial Services, at Javelin, said "the Reagan era of deregulation is over." Given the impact of serious problems within the banking sector, consumers increasingly distrust financial institutions, which has opened up financial services to regulation to restore confidence.

To regain trust, Schwanhausser said banks must refocus their efforts on customer service, reimagine business models and bundle services "smartly."

### Smart moves

The second trend on Javelin's list is third-party application development. Due to the success of the Apple Inc. iPhone and its online store devoted to third-party applications, technology companies are opening their platforms to outside developers, which will accelerate the pace of innovation, said Beth Robertson, Director of Payments Research at Javelin.

The third trend focuses on the poor economy and how companies with limited resources will have to prioritize their investments, which Schwanhausser said will be another spur to technological innovation. But he stressed that businesses must critically evaluate which opportunities to pursue.

For example, Javelin said over 50 percent of iPhone owners use mobile banking, while other categories of consumers – such as the unbanked, Latinos and generation Y – hover in the low 20 percent range for mobile banking use. So defining your target consumers and how they access financial services, and then allocating resources to take advantage of those metrics, is critical to success, Schwanhausser said.

### P2P, yippee

Robertson said 2010 will be a "watershed year" for the adoption of person-to-person (P2P) payments. In 2010, 48 percent of U.S. households will use P2P, Robertson noted. Given a compound annual growth of 8 percent, P2P payments will be employed by 61 percent of said households by 2014, she said.

It is therefore advisable that banks and vendors incorporate mobile and online "delivery mechanisms" for P2P payments, Robertson added.

Number six on Javelin's top 10 is the rise of merchant's awareness of such issues as interchange and Payment Card Industry (PCI) Data Security Standard (DSS) compliance.

Merchants have banded together to promote regulation of the payments industry to reduce their interchange costs and PCI DSS compliance burdens. Robertson cited LexisNexis Risk and Information Analytics Group Inc. research that shows merchants bear 10 times the cost of fraudulent transactions than is borne by banks.

These factors are converging into merchants' heightened desire for reform. If regulation is to occur, Robertson advises financial institutions to take a proactive role in shaping them to mitigate its effects on profitability.

One way to counter the charge that interchange is an onerous burden is with a 2009 Government Accountability Office report that states no conclusive evidence exists that interchange is "too costly" for merchants, Robertson said.

### **PCI 2.0 at number eight**

Driven by data breaches and PCI DSS costs, the price of data security will continue to rise, said Robert Vamosi, Analyst, Security, Risk & Fraud, at Javelin. He expects "PIN integrity" to continue to be challenged by fraudsters replicating 2009 attacks on ATMs and PIN security.

To combat hacking, end-to-end encryption, card replacement (tokenization) and Europay/MasterCard/Visa chip-and-PIN technologies will play ever more prominent roles, he said.

However, according to Vamosi, there are no industry agreed upon definitions of these technologies; he recommends the PCI Security Standards Council set guidelines for them.

Look for the new version of the PCI DSS to be out in September or October, Vamosi said. Ed Wargo, Vice President – Customer Relationships at Javelin, anticipates not just incremental steps but "fundamental changes" in PCI 2.0.