

# Domestic payment schemes

**Key considerations to deploy innovative services.**





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# 1. The growing global payments landscape.



In both developed and developing markets, payment card transaction volume continues to increase globally, driven by increased convenience, rising financial inclusion and enhanced security.





The payment schemes processing these transactions can be understood in two parts.

GLOBAL  
payment  
schemes

The market dominators who process payments internationally, such as American Express, Mastercard, UnionPay and Visa.

DOMESTIC  
payment  
schemes

Localised players working closely with member banks to deliver payment services via a network confined to their country borders. Key examples include those in operation across France (GIE-CB), Germany (Girocard) and Spain (ServiRed)



Whilst undoubtedly the likes of Mastercard and Visa enjoy dominant market share, the global payments paradigm is shifting.

In an effort to reduce costs, increase market competition and better meet local needs, the market is increasingly looking to domestic networks for an alternative.

**However, given the market's inherent complexities, domestic schemes must navigate a number of challenges if they are to remain competitive and super-charge their business models.**



This eBook will explore the drivers behind the increasing demand for domestic schemes and outline what these new opportunities are in each market.

Moreover, it will analyze the challenges and key considerations payment schemes need to make at each stage of their projects to best capitalize on these changing dynamics and deliver new services successfully.





# 2. Advantages of domestic payment schemes.





## Firstly, what are the key drivers behind the resurgence of domestic schemes?

1. Reduced costs
2. Deliver new market-tailored services
3. Manage corruption and fraud





## 1. Reduced costs.

Transaction costs for in-country payments are significantly lower, averaging only 45% of the cost.

**Considering 95% of all transactions are carried out domestically, the savings to banks are clear.**



## **2. Deliver new market-tailored services.**

Partnering with a domestic scheme can enable the delivery of innovative new services and technologies to local customers quickly and cost-effectively. Whether this is transitioning to EMV<sup>®</sup> contact chip for the first time, or beginning to offer mobile and cloud-based payment services.



### **3. Manage corruption and fraud.**

In emerging markets, domestic schemes offer a way to tackle corruption and fraud. As a result, many governments are mandating new regulations.

Domestic schemes can more easily onboard the unbanked population to the payment grid, reducing reliance on cash and ensuring transactions are monitored and accountable.



With a deep understanding of national regulations, banks can work easily with local players to develop an ecosystem that reduces cash management costs, monitors corruption and instances of money laundering.

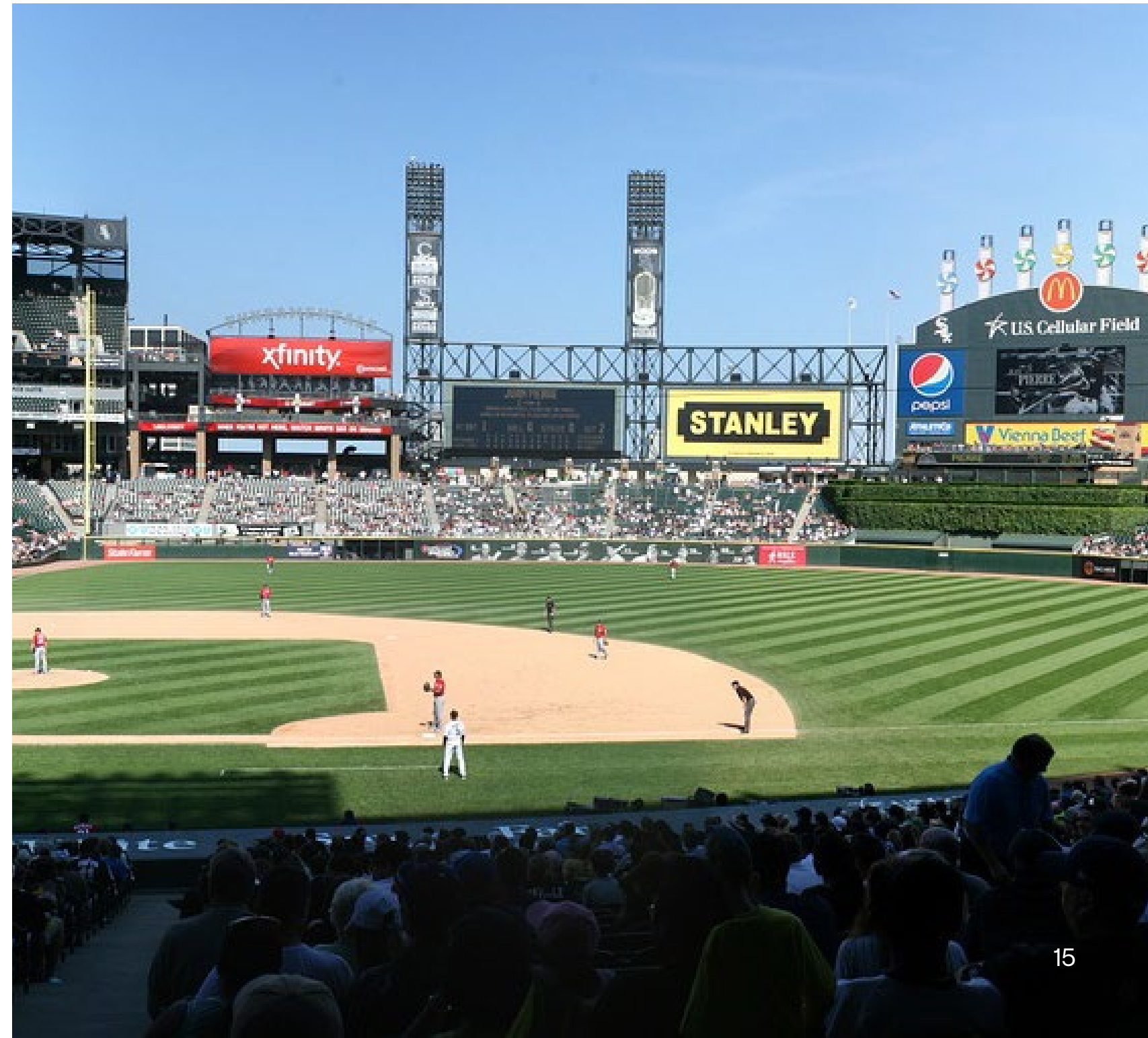


# 3. A new playing field...



**For domestic schemes to capitalize on emerging opportunities, migrating to new services is key to keep member banks and merchants engaged.**

Each market globally poses its own unique chance for innovation.





Take India for example, and the recent implementation of its demonetization policy.

Here the government have an opportunity to create a refined, localized payment scheme which can closely monitor fraud, cut transaction costs and manage the drive of financial inclusion.







For banks in some European countries and markets such as Australia, the opportunities differ. Local banks here face increasing pressures from both mobile manufacturers and end customers to deliver innovative new services like mobile payments.

Addressing this pressure and digitizing to deliver these new services is crucial **to stay competitive** and maintain market share.



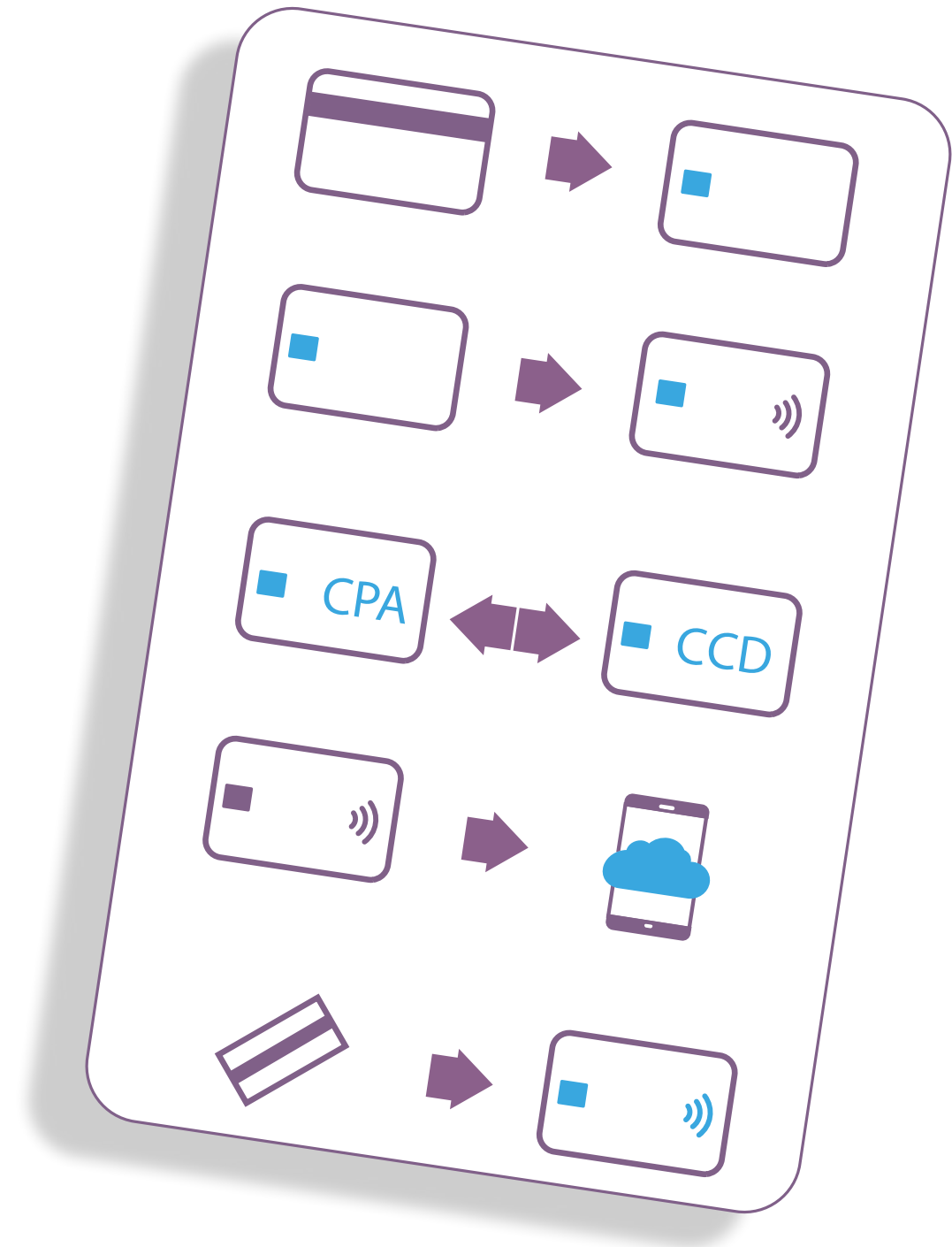
# 4. Managing the different types of digital transformation.



It's clear that markets globally are at different points of their payment ecosystem development. We can understand these broadly in the following stages:

- **Your first EMV contact migration**
- **Your first EMV contactless migration**
- **Your next specification migration**
- **Your mobile payment migration**

Broadly speaking, ensuring EMV compliance is a primary concern for the majority of projects.





## 1. EMV contact.

This is generally the first step in a market's launch of a card payment acceptance infrastructure, or as an upgrade from magnetic stripe cards.

The ongoing EMV migration project in the United States is a good example of this.

*And EMV comes in  
a number of forms...*



## 2. EMV contactless.

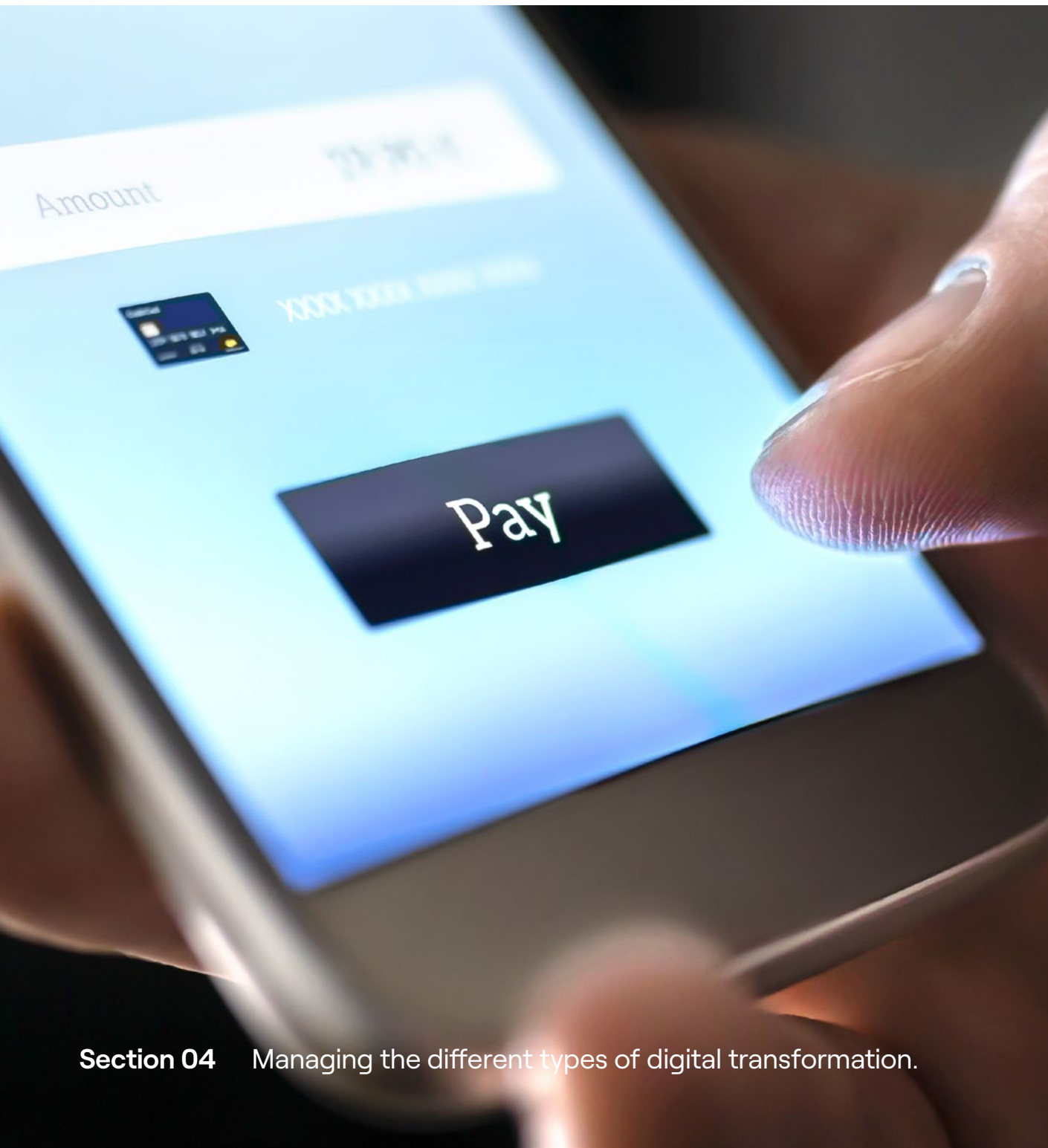
In more developed markets, this is an upgrade of systems to accept EMV contactless card and mobile payments.

This has been successful in markets such as the United Kingdom, where contactless transactions accounted for **a third of all card payments in 2016.**



### **3. Specification migration.**

Payment schemes may develop new or customize certain specifications – for example, those on NFC contactless. This helps differentiate their offer and removes dependence on specifications managed by international schemes, which in turn often have close links to specific card vendors.



## 4. Mobile payments.

In line with rising consumer demands, payment schemes may look to support banks' mobile payment initiatives. Whether developed in-house or in partnership with an OEM Pay. The roll-out and adoption of mobile payments has seen phenomenal success in Canada.



## 5. Open Payments for Transport (OPT).

This is where local transport networks work with schemes and banks to incorporate the acceptance of contactless and mobile payments into its systems, as **Transport for London recently did.**

Costs are shared locally between operators and banks, and systems more effectively utilize fare media that consumers already have in the form of contactless cards and NFC-enabled smartphones.





# 5. Where to start and what to consider?



It can be difficult to decide the key priorities, how to develop new offerings and how a successful launch can be ensured. The following considerations are central before beginning any migration project.





## **Deciding to enrich service offerings.**

In the first instance, payment schemes need to consider what technologies and services are right for their market.

New technologies and use cases are emerging all the time and require evaluation in terms of quality, functionality and, crucially, potential adoption within the local context.

**Are these services desirable, suitable and manageable in this market?**



**Let's say, for example, a payment scheme is looking to implement mobile payments. To best illustrate the key considerations needed before deciding to invest in a path to migration, we will use Australia and India as examples.**



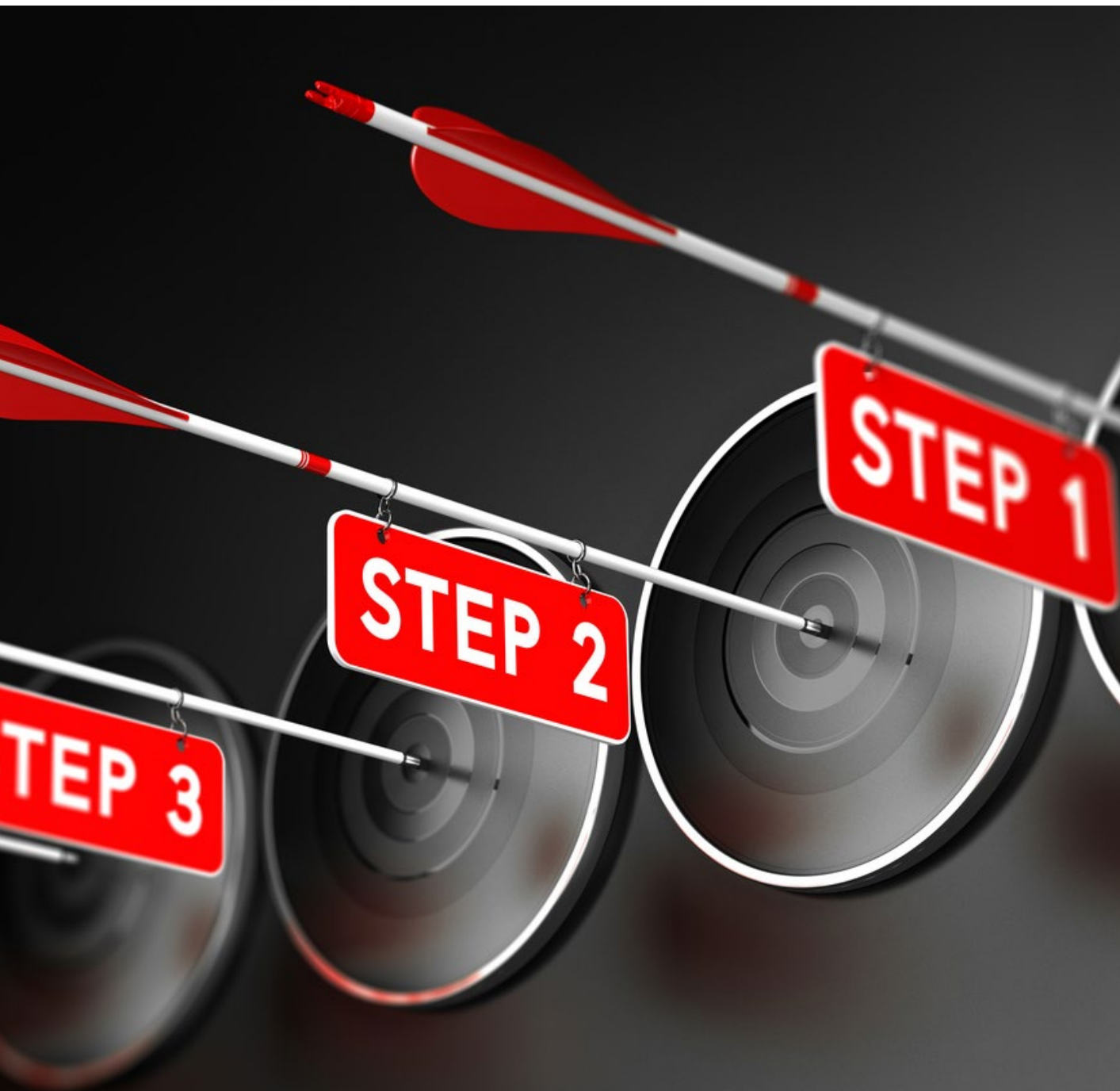


**How many smartphone users are there in the country? Are these NFC-enabled?**

The Australian market has a high smartphone penetration, so users are already equipped to start paying by mobile. NFC functionality is already integrated into the majority of these handsets.



India boasts the **highest global mobile per capita rate** and is predicted to lead the world in smartphone adoption up to 2020. As many of the handsets in the country do not include NFC however, a QR code based solution may be more appropriate.



**How have adoption rates been previously for new technologies in the market?**

With the successful adoption of contactless payments in Australia, the market has demonstrated an openness to new payment technologies.



Offering mobile payments is a logical next step, as many consumers are already accustomed to the convenience of ‘tapping to pay’.

QR code technology is beginning to take off in India and it is estimated to mirror the rapid adoption seen in China through applications such as **Alipay**.





**Is the current payment terminal infrastructure able to accommodate these payments?**

Following the roll-out of contactless, the POS infrastructure has greatly advanced in recent years and could easily accommodate mobile payment acceptance.



Contactless payments have not yet taken off in India, so proposing an NFC based solution would be limited by the need to upgrade the terminal infrastructure. QR code acceptance, however, is far simpler and more cost-effective for retailers to begin accepting.



# 6. Designing and delivering new services with minimal impact.



Migration to new services should be planned in accordance with the needs of member banks and the state of the existing payments infrastructure to guarantee a smooth service launch.

With regulations constantly evolving, especially surrounding new and emerging technologies, payment schemes will need to accommodate these changes and assess how they will impact their ecosystem.

Payment schemes need to understand how new technologies can best be adapted to integrate into their current systems and how they can best be included into existing business models.



To ensure end-users can still transact abroad and use their cards for e-commerce transactions, it is also **worth considering a partnership with international schemes or other bodies to support this.**



Building upon the example of mobile payments again, it's important to understand which technology will deliver the most appropriate solution to your existing market; with Australia's high smartphone penetration and advanced POS infrastructure, an NFC based option would work well.



However, in other markets, such as China, mobile payments may be better delivered using QR codes.

In addition, this will influence whether an offering is best developed in-house or in partnership with an OEM Pay or another body.

Some schemes are also offering new services by setting themselves up as a token service provider, supporting banks to integrate with OEM Pay solutions by delivering tokenization security services.



To navigate these challenges and ensure a successful service launch, finding an implementation partner who can provide both consultancy expertise and offer technical support and solutions, is essential.







# 7. Ensuring service readiness at each segment of the ecosystem.



Before going live with new services, schemes need to guarantee compliance and interoperability at all points of the ecosystem **to ensure the security, reliability and ultimately market trust of their offering.**





## **Specifications must align at each stage.**

This ranges from the cards and mobile devices used to pay, the network itself, and all payment acceptance points. There are three essential testing steps to ensuring service readiness:

- Component testing and certification
- Third-party integration testing and certification
- End-to-end validation and field testing



Whether developing bespoke certification processes, bodies, test plans and test tools from scratch, or updating existing processes, it's vital these are vigorously tested ahead of service launch.



# 8. Gaining the support of members.



Payment schemes need to consider any digitalization from the perspective of their members.

After all, their support is essential to the successful deployment of new services on behalf of the scheme.

Educating members about the specifics of a new migration project is an important investment, in addition to requesting their input.



Understanding the benefits of these new services and how migration will impact existing business structures and systems will both generate the engagement and desire to transition, and ensure members have an effective, well-planned migration solution.



More practically, payment schemes should consider how they can support members during deployment and validation.

Whether that's with project management support and consultancy, or with testing and certification services for new products.







# 9. Getting to the next level.



Launching new services is a complex process, wrought with a number of strategic, technical and time pressures.

Whilst the rewards of migrating to new services may be high, reaching this end goal can be headache.

**To best understand how new opportunities can be maximized and tailored to each market space, selecting a leading project implementation partner with a global presence smooths the path to a successful migration.**





Support from the start of projects ensures challenges can be swiftly overcome and opportunities can be exploited.

**The right partner works as part of your teams, from market analysis through to the effective, design, deployment and validation of new services before widespread deployment.**



# 10. The trusted implementation partner for domestic payment schemes.



With unrivalled experience and a truly global presence, **Fime is uniquely positioned to support your migration to new services.**

Fime has worked with leading payment standards, schemes and specifications for over twenty years, including AMEX, CUP, Discover, EMVCo, JCB, Mastercard, Visa and more.





**With 40+ consultants located across the globe, Fime understands both your local market and the complexities of the international landscape.**

From initial market research and consultancy support, to the effective design and deployment of new specifications and the onboarding of members, Fime can provide end-to-end project management to navigate a smooth, cost-effective path to deployment.

**Visit the Fime website  
for more information**

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Find out how we supported BKM to develop Troy, Turkey's first domestic payment scheme with our case study.



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