

ONLINE | PAYPERS

Rethinking Transactions – EPCA Payment Summit 2013

Exclusive Interviews

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A WORD FROM THE EDITOR EPCA PAYMENT SUMMIT 2013

For the past years, professionals and experts who share an active interest in the latest developments in the payments space have gathered in various European locations for an event dedicated solely to the changing payments landscape: the [EPCA](#) Payment Summit. In the past year, the transaction services sector has witnessed tremendous changes. SEPA is now being implemented, the mobile has emerged as a payments platform, online payments have entered a new age, cards are being challenged for new innovations and cost reductions, e-identity is a new territory for financial service providers and alternative currencies are now enjoying a renewed interest.

This year, payments professionals from all over Europe and beyond gathered in Brussels for a combination of expert debate, industry updates and networking. The 12th edition of the international EPCA Payment Summit has taken place under the heading "**Rethinking transactions**", through a focus on the continuous need for professional development in payments. EPCA 2013 featured parallel pre-conference workshops, conference tracks, panel discussions and expert sessions, which have given attendees the flexibility to select topics that are most relevant to their business and areas of interest. All conference

workshops and meetings were dedicated to discussing the developments required in particular focus areas (e-identity, online payments, mobile payments), but also the challenges posed by new technologies, regulations, consumer behaviour, all in an attempt to identify the best approaches to redefining the payment services landscape.

The event also hosted the second edition of the Florin Transaction Services Innovation Awards, an initiative aiming to stimulate innovation in transaction services while at the same time providing exposure and a marketing platform for nascent products. The 2013 edition of the conference was put together by Transactives, a joint venture between Dutch financial consultancy company Innopay and Smorenberg Corporate Consultancy (SCC), a provider of marketing and innovation strategy expertise for the financial services industry. The conference was organized on behalf of the European Payments Consulting Association (EPCA), a pan-European association bringing together independent national consultancies in the field of payment systems and payment products. The conference was chaired by Douwe Lycklama (Innopay) and Harry Smorenberg (SCC).

Florin 2013
Transaction Services
Innovation Awards



PAYMENT INSTITUTIONS - THE CONTEXT

The Payment Services Directive, which was introduced 4 years ago, is still an important force that shapes the payment landscape in the EU. Its aim is to ensure the user-friendliness, safety and efficiency of payments throughout the European Union/ European Economic Area, in particular for credit transfers, direct debit mandates, card payments, as well as for money transfer services. The PSD also introduces regulation on the 'payment institution' to already existing payment schemes such as credit and money institutions. Although a precise definition of a payment institution (PI) is provided, this definition and its transposition into national legislation leaves room for interpretation. It is, however, clear that payment institutions can transfer money, hold payment accounts and grant credit, and are prohibited from taking deposits and issuing e-money. Organizations that will start and implement such financial services need a license according to the PSD.

Half way 2011, there were 341 registered institutions in the EU. The UK is the clear front-runner in terms of authorised payment institutions (PI), with over 50% of all PIs and EMIs being registered in this country. We regard the establishment of licensed entities like Payment Institutions as an indication of how the PSD is making an impact in the payments landscape.

EXCLUSIVE INTERVIEW WITH IGNACIO GONZÁLEZ-PÁRAMO, PAYVISION

"REGULATION WILL BE THE MAIN GAME CHANGER IN THE PAYMENTS SECTOR"



Ignacio González-Páramo is VP for Compliance & Compliance Officer at Payvision. He is in charge of the corporate's compliance with all card schemes' rules as well as with domestic and international regulations and legislation. Also, Ignacio acts as the corporate's point of interaction with Home State and local regulators. He also takes care of relationships with the Card Schemes and handles Public Affairs on behalf of Payvision as a payment institution.

Why are payment institutions so relevant for the online payments industry?

Ignacio González-Páramo: In my opinion, payment institutions are highly relevant within the payment industry, primarily because they are a new player, created by the Payment Services Directive (PSD).

The Directive has provided payment institutions with the opportunity to enter the sector without being a banking institution. Another reason worth mentioning is the fact that payments institutions introduce innovation and competition and that will end up benefiting customers because they will have more choices and will be able to access more and better services, at a smaller price.

There are some voices claiming that regulation can be an impediment to the successful development of new services. Do you agree with that?

Ignacio González-Páramo: From my point of view, regulations might definitely be an impediment to innovation and the development of new services in the card payments space for several reasons. The most important one is the fact that these regulations can sometimes pose a huge administrative burden on -especially- smaller players, which will actually lead to less competition within the industry. For example, taking into account the latest recommendations from the European Central Bank on the security of internet payments, it is obvious that there are certain requirements that are quite difficult to implement if the subject provider do not have the necessary resources. Hence, it is important to point out that the way these regulations are enforced by local regulators will define what will be the rules of the game and it will also define whether more or less services can be developed in the future.

There is also a lot of discussion around online payments moving to new contexts such as mobile or offline. What are the challenges in this situation for a payment institution?

Ignacio González-Páramo: I think that in this context, the challenges for payment institutions include the ability to keep up to speed with innovation and do that in compliance

with the new rules and conditions that are somewhat unknown for everybody. For instance, a few years ago there was a clear difference between card-present and card-not-present transactions, but now, if we take the example of mobile proximity payments, for instance, things are changing. These are not pure card-not-present transactions because the cardholder is physically at the store during the purchase, although there is no card swiped at the terminal.

“Regulation is hard to adapt to the new conditions. This has a real impact not only on regulators and policymaking bodies within the European Union, but also on the card schemes, because sometimes their rules are not catered for the current situation.”

Ignacio González-Páramo, Payvision

Some of those card schemes' rules were issued way before the PSD was implemented and some of the new technologies started to being used. Therefore, these rules will have to be modified constantly, which is a real challenge for all players and from several angles.

From your point of view, what will trigger innovation: technology or regulation? You have also mentioned something about the symbiotic approach between major players, is this happening already?

Ignacio González-Páramo: In my opinion, technology combined with reasonable and consistent regulation will trigger innovation. Regarding your second question, actually Payvision already has quite a cooperative approach towards banks and other payment services providers. It is important to focus on what you do best and, for those parts not within your core business you can outsource and/or also obtain synergies from other stakeholders. For instance, Payvision connects international Payment Services Providers to acquiring banks worldwide, providing them with access to e-commerce markets outside their reach. Therefore, Payvision is a very good example of that symbiotic approach I have mentioned during the conference and I think this is the future of this business. In the pre-SEPA era, there were very few relevant players within the payments' industry, but now

things have opened up and the situation requires a change in mentality, in the way business is done. The companies that will not adapt might not survive.

In your opinion, what are the main trends in the online payments space that we will be witnessing in 2013?

Ignacio González-Páramo: In terms of business, I think managing aggregation in this industry is a huge challenge, because aggregation is one of the main ways forward. The recommendations ECB published and the way PSPs will adapt to them will also have a major impact, since players need to start working towards compliance with these rules, although they won't be effective until early 2015. These recommendations include, among other things, the need to have strong customer authentication. In my opinion, this will be a major challenge for the online payments ecosystem.

For a European PSP, what is the main challenge to a successful business development?

Ignacio González-Páramo: For a PSP to survive and really gain market share it is indicated to have a global presence. Moreover, it is very important to have appropriate partners and also adequate tools to comply with all the local rules. In my opinion, these things are inter-linked.

From this perspective, Payvision can be an important partner, because the company already has a global network, has the technology, and has the expertise on e-commerce, not only for international transactions, but also for e-commerce domestic transactions in markets which are far outside the reach of European PSPs. Therefore, we can help European PSPs to connect with markets that are difficult to get to.

The interview with Ignacio González-Páramo was made further to his participation in the special panel on payment institutions, at EPIF's (European Payment Institutions Federation) invitation.

[“Listen to Ignacio talking about the influence of regulation in payments at EPCA”.](#)

EPCA 2013 - EXPERT SESSION: E-IDENTITY

For a long time, online fraud and e-identity have been taken for granted as part of payments, but given the ever increasing importance e-commerce for the global economy, these two components have emerged as pressing issues for the business community and individuals alike - treatable but not curable yet, if ever.

With the fast growing digital economy, digital identity becomes indispensable for organizations offering digital services. Most banks have their own solutions in place, building upon their KYC capabilities. Governments are traditionally active in this area, with their own programs, often focused on their own applications.

"The issue of identity is hotly debated in many countries, but it often seems to be an oddly backward-looking debate that presumes outdated 'Orwellian' architectures: the mental model is of index cards and filing cabinets. In the modern world, surely we should be debating the requirements for identity management schemes and not simply inheriting ancient offline ideas about identity and trying to 'electronify' them. Can we do this? Can we assemble a set of requirements understandable to politicians, professionals and the public?"

David Birch, Consult Hyperion, in the [Web Fraud Prevention & E-Identity Market Guide 2012](#), by [The Paypers](#)

E-identity was an intensely debated topic at the EPCA Payments Summit and the in-depth discussions which took place during the second expert session led by Jaap Kuipers, Founder Identity Management Platform Netherlands) centered on the topic of reusing current payment capabilities to offer e-identity services and the potential benefits of this approach for service providers.

Participants discussed various e-identity models (Verizon, SecureKey, iSignthis, Signicat), as well as various e-identity challenges, including:

- What forces are shaping the European e-identity landscape?
- What propositions work for both users and relying parties?
- How to build and maintain a Trust Framework in e-identity
- Proposal for a regulation on electronic identification and trust services for electronic transactions: policy context and ambitions
- What new businesses will emerge as a result of e-identity? Can SEPA spur new business as well?
- How can e-identity reduce payment fraud?

Food for thought – Vincent Jansen, Innopay

- Uptake of e-identity is not determined by technology but by its application
- Government is not the most important service provider for users
- Trust needs are contextual (risk = effect x probability)
- E-identity is about two types of users
- Two users who want to achieve something online

The Paypers, media partner at the EPCA Payment Summit, sat down with John Karantzis, Executive Director, iSignthis, to discuss the company's business model and the key features of its offering.

EXCLUSIVE INTERVIEW WITH JOHN KARANTZIS, iSIGNTHIS

"IN THE E-IDENTITY SPACE, REGULATION DRIVES INNOVATION"

Eurlng N J (John) Karantzis holds a Bachelor of Engineering and a Master in Laws, and is a qualified electrical engineer and patent attorney. John's knowledge base includes secure communications for defence, encryption, digital rights management, secure internet communications and payment technologies. John Karantzis has authored patents granted in various jurisdictions on transaction verification, securing e-wallets and securing transactions. He is an executive director of iSignthis Ltd, responsible for leading the product development team out of Melbourne, Australia.

You have attended this year's EPCA Payments Summit in Bruxelles. What is your opinion on this event, especially the e-identity track?

John Karantzis: The event has been fantastic, with excellent presentations and a broad range of delegates. With regards to authentication, from my point of view, authentication needs to go to the next level and include a KYC element, per the European Central Bank SecuRE Pay requirements. Up until now, the industry has been very technology-centric in thinking that linking a device to someone who claims to be that person is good enough. But now, the industry needs to change due to the regulations and understands that it is important to have the proof that the claim of identity is accurate and link the KYC data to prove the identity of a person.

Would you say this is one of the reasons why e-identity is such an important topic lately? Why are we talking so much about e-identity?

John Karantzis: I believe that e-identity is a critical topic for a number of reasons. Fraud, anti-money laundering are critical aspects. The assumption and preservation of trust is a

basic foundation of modern society in commerce, as merchants need to be able to trust the person that they are dealing with. In the past, when a person walked into a store, merchants could see the person and determine whether they are trustworthy by analyzing the credentials they presented, such a credit card or an ID document, or cash. Therefore, the merchant was able to decide if it wanted to trust that person or not. In the online space, due to the anonymity and other barriers, there is no way to determine if someone is trustworthy. Hence, it is essential to have a process that can broker trust and can establish and hand over a "trust token" to assure the merchant that the person is who they says they are and are trustworthy to do business with..

Could you please elaborate a bit on iSignthis' business model?

John Karantzis: iSignthis offers a unique patented solution that can authenticate all credit card types from any scheme and issuer, originating anywhere in the world, via a single point integration. We secure the card not present space, by providing complete authentication coverage and a "trust token", across all card types, without any significant limitations.

The company will soon open a business office in the Netherlands. This means that over the next 1 or 2 years we will exclusively focus on the European market, particularly on European payment service providers. By 2015, PSPs must comply to the new regulation and have authentication in place, which is a huge opportunity for us. We have a variety of patents for online payment security, internet identity, e-mandates and e-contract validation.

"In my opinion, the biggest, the most interesting, and challenging opportunity nowadays is the new regulatory environment in Europe and the ripple effect which those regulations will have on the rest of the world. It is no secret that the European payments market has a major impact and influence everywhere else in the world."

John Karantzis, iSignthis

Thus, it is safe to say that what happens in Europe will influence the rest of the world, particularly as the ECB has moved first as a regulator. By getting it right here in Europe, then we have are ready for the rest of the world ready for payments authentication and e-identity.

There are a lot of voices claiming that in the online payments industry, regulation can be seen more as an impediment towards innovation, do you find that true for e-identity as well?

John Karantzis: From my point of view, regulation actually drives innovation in this particular case. So far, there has been no real requirement to have the identity proven over the internet, even as we see fraud rise. But now that ECB has mandated that there needs to be some kind of authentication of identity, I believe that this regulation will drive further innovation.

We have seen that 3D Secure really has done nothing in terms of overall take up rate. That may be for a number of reasons, but mostly because there hasn't been any regulatory driver for its adoption. In my opinion, there hasn't been any reason for merchants, issuers or acquires to adopt it, with halfway technologies such as risk scoring being considered good enough to date. That has been the case for authentication take-up irrespective of whether the technology is good or bad. The new regulation will bring entrants like ourselves into the market.

We have as a result focused our business plan to face the European regulation and market, and added an ECB compliance component to our anti-fraud, revenue leakage, revenue assurance product. We have re-engineered our product to ensure we offer a compliance solution not only for Europe, but also for the other jurisdictions that have had regulations come out almost on the same time. The Singaporeans have regulated on authentication, so is India, the Brazilians and the Canadians This is happening very fast and Europe is clearly leading the way.

Initial Registration and Authentication Process



What would be the main three trends we should watch for in 2013 in terms of e-identity and online payments?

John Karantzis: I think it is important for payment service providers to ensure that anything they do has what we call "open acceptance", so it allows for the broadest range of actors of any type, that is, the broadest range of card schemes and payment schemes. There will always be an opportunity for incumbents to try and skew things towards their own way. From my perspective, there is a great opportunity for iSignthis and the PSPs to work together to open the market up to make sure there are multiple players. This is good for the consumer, it is good for the merchant and it think that overall, it would be very good for the payments industry to ensure competition.

Could you elaborate on the following statement "risk-based assessment is not authentication" which was included in your presentation during the e-identity track?

John Karantzis: Risk-based authentication does not incorporate a feedback response from the cardholder, it's only a data profiling or predictive feed forward system.

This means that RBA systems look at all the data in front of them and they take a best educated guess as to what type of characteristics the person originating a transaction might have, that is, not even who you might be, but what your profile is. What RBA is then trying to do is profile users by a number of aspects including where they are, what device they are using, what they might be purchasing; but this doesn't tell anything about who they really are. It tells me what the customer may like, their habits, their preferences but not who the customer is. Authentication comes back to actually proving the person is who they actually claim to be, and whether they are the legally entitled to use say the credit card presented for a purchase. Thus, there should be no confusion between risk-based assessment and that of authentication, as RBA is broad trending and profiling, whilst authentication is specifically about identifying individual.



There is a lot of talk about interoperability between e-identity schemes. Do you see that happening in Europe?

John Karantzis: This is a very difficult aspect, it is all very complicated, not just by technology but also by the required commercial agreements that will need to be in place. Our approach at iSignthis is a little different, in that we try to avoid systems that require commercial arrangements in advance, relying more upon an 'open' model.

To answer your question, I think interoperability would certainly enable cooperation with all the schemes and other technologies. I am not sure when that might be available or if that is ever going to be available, given all the different things that have to line up for it to happen.

SPOTLIGHT ON FLORIN AWARDS WINNER - EPCA 2013

ValidSoft (www.validsoft.com), a global supplier of advanced telecommunications-based fraud prevention, authentication and transaction verification solutions, and a wholly owned subsidiary of Elephant Talk Communications, was awarded the highly coveted honors of "Winner: Jury Vote" at this year's prestigious "Florin" 2013 awards (The Florin Transaction Services Innovation Awards).

"Based on the Florin recently awarded to SMART, our ability to secure transactions performed on smartphones and the channels on which they operate is well documented. People's privacy, however, also needs to be understood and complied with, especially within the EU, given previous practices in the US particularly, relating to personal information obtained from Smartphones. Whilst there is information that can be very useful in the fight against fraud, this information can be very sensitive and is subject to strict regulatory use. All ValidSoft products are based on the principle of "privacy by design" and we are the only security company in the world with three prestigious European Privacy Seals."

Pat Carroll, CEO ValidSoft

You can read more about ValidSoft in *The Paypers'* [Interviews](#) section.

This award recognizes innovation in the transaction services industry. The Florins were established in 2010 by the EPCA Payment Summit and The Paypers, a leading independent source of news and analysis for professionals in the global payment community.

UPCOMING EVENTS



The **2013 ETA Annual Meeting & Expo**, April 30 - May 2, 2013, is the premier business and networking event of the year for the payments industry. This year will be the biggest in ETA's history, reflecting the rapid growth in our \$3.6 trillion industry. Register today!

ETA's 2013 Annual Meeting & Expo will feature more than 200 exhibitors across 150,000 square feet at the state-of-the-art Ernest N. Morial Convention Center in the heart of New Orleans. More than 3,000 CEOs, presidents, investors, principals, payment professionals and members of the media representing the entire electronic payments ecosystem will gather to conduct business, strategize, and unveil new products and network.

The Electronic Transactions Association is an international trade association representing companies who offer electronic transaction processing products and services. The purpose of ETA is to influence, monitor and help shape the merchant acquiring industry by providing leadership through education, advocacy and the exchange of information.



YOUR OPINION IS IMPORTANT TO US!

In the next editions of the Online Paypers newsletter will focus on providing a comprehensive insight into the latest trends and developments of the online payments industry (including omni-channel payments, the role of PSPs, regulation and innovation in this space etc), regional/national initiatives, but also challenges and opportunities in terms of strategies per country/region.

The coming issues will also comprise a series of exclusive interviews with representatives of some of major associations and organizations or experts/thought leaders in the field, who can provide an in-depth and objective overview of specific payment-related topics.

The Online Paypers newsletter will also continue to keep you informed with regard to online fraud prevention strategies and the most significant trends in the e-identity space (online vs mobile security, cybercrime in Europe, biometrics etc).

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