

RECENT TRENDS IN BANK CARD MARKET IN THE EUROPEAN UNION

Stoica Ovidiu

*Universitatea „Alexandru Ioan Cuza” Iași Facultatea de Economie și Administrarea Afacerilor
Bd. Carol I no. 22, Iasi, 700505 E-mail: ostoica@uaic.ro Tel. +40 232 201433*

The bank card is more and more common worldwide. From its beginning, it suffered profound transformations, that led to a modern product, alternative to cash money. Nowadays, the new technologies opens the road for offering high quality and flexible financial services, more securely and at lower costs. The article analyses the main trends in bank card markets in developed countries and especially in the European Union and compares with the state of market in Romania, trying to highlight the future trends, transformations and challenges.

Keywords: cards, banks, competition, trends, technological challenges, European Union

JEL code: E42, G21

1.Introduction

The bank card is more and more common worldwide. From its beginning, it suffered profound transformations, that led to a modern product, alternative to cash money. Nowadays, the new technologies opens the road for offering high quality and flexible financial services, more securely and at lower costs.

2.Trends in the card market in the developed countries

Analysing the card market in the last decade, we can identify some major trends, both technological trends and behavioural trends. Thus, as *behavioural trends*, it can be noticed the transition from debit to credit cards and the one from bank cards to co-branded cards; from a *technological point of view*, from magnetic stripe cards, the future clearly belongs to the chip cards, the smart cards (r)evolution, being compatible with the transition from classic to smart and contactless cards.

The rhythm of technical innovation is higher and higher. The problem is to select the most promising characteristics and to promote them in order to be implemented worldwide, to become generalised – *new standards in the very dynamic bank card industry*. The question is: what are the realistic prospects of integrating multiple applications in a single card (public and private applications)? *Not if technically is possible, but if it will be accepted by the market.*³⁵⁴

From another point of view, the market (the clients) wants more and more freedom: the cards leave traces; *the electronic money sometimes invades the intimacy*; for those wanting some privacy, *the prepaid cards* are the solution; as result, those cards are more and more used in developed countries. Even, there is a Prepaid Trends e-Newsletter that analysis the *trends and transformations* in the field.

The technological innovations are nowadays present in the cards industry, including biometrics (fingerprint control and sophisticated sensors, voice response systems). The idea of combining ID and card technologies in order to enable offering secure services, applications and payments; it means to integrate the sophisticated card technology with the biometric capability for exploiting its synergies. The challenge for the card industry will be *to manage the cost of implementing the new technologies*, in order to offer reliable products, easy to use and at an *affordable price*. For example, European Card Review,

354 Stewart, John, “The 10 most pressing issues in e-payments”, Digital transactions, volume 5, number 11, November 2008

estimated in 2001 at over 30 billions of USD the total cost of implementing the smartcards worldwide.

Technological developments targets more and more convenient use for bank cards. Thus, a series of devices are offered by banks in order to increase the use of cards and to make them more and more convenient. For example, *the mini cards* (plastic cards, nearly half the size of a standard-sized cards, with a perforated hole at the bottom left corner, in order to attach it to a key chain, usually a companion card to the standard card, because can be used in a point-of-sale terminal but not in a ATM) are more and more common worldwide.

Contactless cards are developing very fast for small payments. All important players are improving their offer; thus, it exists *Visa payWave*, *J/Speedy* (the JCB Global Contactless Payment Program), *MasterCard PayPass* and *American Express ExpressPay*. For payments usually under 25 USD, the contactless cards seems to be a solution for the future: simply waving the card in front of the special reader device in close proximity (with or even without signature on receipts), makes the transactions more convenient and rapid, beside reducing the risk of fraud as result of retaining the control of the card during the transaction (there is also a computer chip embedded in the card). *The idea of contactless cards can be connected with the micro tags* (key fob payment device embedded with contactless technology, also a companion device to an existing card).

But, the necessity of globally standardized contactless payment service for markets around the world still was not completely solved and the common merchant acceptance (an agreement for the use of a common protocol for conducting contactless payments signed by all card networks is recognized).

The security issue is still the main barrier when using cards online; potential users are thinking about the security of their own money. A new direction for development is to ensure secure remote ID authentication in the area of Internet, telephone and mobile commerce use, including fight against phishing and scammers. Identity theft challenges could find an answer with some new hi-tech solutions; protection of sensitive data need high security. This challenge supposes both sophisticated architecture and security system integrators.

The security standards are improving continuously, in order to face the challenge: the increasing losses due to card frauds. EMV (Europay, MasterCard and VISA) standard and CCD (Common Core Definitions) compliance, 3-D secure protocol, recently improved, or PCI Security Standards Council are proofs of the efforts to strengthen the security. Payment Card Industry Security Standards Council was created to enhance payment account data security by driving education and awareness of the PCI Security Standards.

According to Javelin's 2008 Online Retail Payments Forecast, the alternative payment methods will gain some market share compared with bank cards, for online payments³⁵⁵, meaning that the competition in the market will increase.

POS services are also diversifying; the POS equipments are more and more affordable and more and more intelligent. The new POSs allows the use not only for debit and credit cards, but also for prepaid cards; they not only allow payments for goods and services offered by a specific merchant, but also offer the general payment of bills (in specific paypoints). The suppliers are offering now new and innovative POS devices. The terminals are endowed with privacy shields (for introducing the PIN in total confidence), are mobile (GPRS or WIFI), are colour touchscreen with signature capture, accept chip,

355 ***, "Online Retail Payments Forecast Market Factors Square Credit Cards Against Alternatives—Both Bank and Non-Network", <http://www.javelinstrategy.com/2008OnlineRetailPaymentsForecast.html>

magnetic and contactless cards; they even permit to print a tip line on the receipt for restaurants and other specific locations, meaning that are continuously customer-focused. Gift cards programs; loyalty programs and products; card personalisation, prepaid cards, proximity cards, SIM cards, all are part of the current life in the developed countries³⁵⁶. The bank cards are continuously evolving due to technological improvements, due to more and more exigent clients and the increasing competition; however, the cash is still very convenient to use and will be in the next period³⁵⁷.

3. Characteristics of the EU bank card market

The EU bank card market is still very fragmented; there is no one unique bank card market, but still 27 national bank card markets. In fact, beside the EU area, at European level, taking into account especially the candidate countries, only Turkey has an important bank card market, being, from the innovativeness point of view, one of the most dynamic, with spectacular developments.

Of course, those EU national card markets have nowadays more and more similarities; more than half of them are leading world bank card markets, being developed markets. Sixteen of them having euro as national currency confers more coherence. In fact, the single currency and the EU integration as process brings the most important challenges. One single bank card market supposes more than the possibility to pay with a certain EU bank card in another EU based POS or to access a certain EU ATM. *The main problems are about particularities in acceptance, difference in developments, trends and especially charges.*

The Single Euro Payment Area brings in front the local treatment for a payment made with a bank card made in another EU country. VISA and MasterCard faced charges from the European Commission several times due to this different treatment. On 1st of April 2009, MasterCard agreed to slash the fees it charges banks across Europe as part of a deal with the European Commission. On 6th of April 2009, the European Commission sent preliminary antitrust charges against Visa Europe, saying certain fees assessed on some Visa card transactions are too high and violate the EU competition rules. The main concern is that the interchange fees that Visa Europe sets for all transactions in which the two banks (merchant's and cardholder's) are in different countries raise costs for retailers and consumers, and that card networks act essentially as cartels when setting them.

The EU market as a whole, is one of the most dynamic in the world; the French, British or German market, are leading markets in the world, both from technological or behavioral point of view, as well as from the point of view of deepness and consistency.

4. Trends in the Romanian bank card market

4.1. Radiography of the Romanian card market – Main characteristics:

Romanian bank card market suffered profound transformations especially in the last decade. Currently, in Romania there are 95 types of cards, issued by 23 banks and 6 non-bank financial institutions. An analysis of the Romanian card user behaviour shows that plastic money gains; now being more than 10 millions card users.

In the market, can be noticed the *high presence of VISA and MasterCard*, American Express being more and more visible (after the partnership with Bancpost). Comparing with other EU markets, *it can be noticed the absence of JCB and Diners Club, both of them accepted not only in all developed countries, but also with significant power in CEE*

356 Cheney, Julia, An Update on Trends in the Debit Card Market, Discussion Center, Payment Cards Center of the Federal Reserve Bank of Philadelphia, June 2007

357 Lee, Mike, Another 100 years of cash?, <http://www.atmmarketplace.com/article.php?id=9819&prc=11&page=>

countries. Also, there is a *lower development of proprietary cards*, comparing with other EU countries.

The lack of consistence and maturity in the market is proven by the *still low visibility and low advantages for elite cards* (gold and platinum), compared with the higher charges and with the advantages offered abroad.

In the last couple of years, the bank cards with *collateral advantages* were emerging and are growing fast, as result of competition: *discount cards* (like Selects programme at AMEX, Alpha Club from Alpha Bank or Partner card from RBS, formerly ABN AMRO Bank); *bonus cards* (like Card Avantaj from Credit Europe, Bonus Card from Garanti Bank or Punct Card from BRD-GSG); *co-branded cards* (like AMEX Tarom, Raiffeisen-Vodafone); *cards issued by non-bank financial institutions* (like EuroLine or Estima Bonus).

4.2. Main trends in the Romanian bank card market

As *main trends*, nowadays in the Romanian bank market we could identify the followings:

1. *The savings are increasingly connected with the card* (like Card Cont'Rol from ING, or the savings card offered Libra Bank), offering more flexibility and increasing income.

2. *The e-payments are more and more connected with the credit cards*, comparing with a couple of years ago, when it were connected with the debit cards.

3. *The (slow) transition from magnetic stripe card to chip card*. In 1995, when in Romania was issued the first card (magnetic stripe card) and was realised the first POS payment, the smart cards market was growing fast in the developed countries. The transition to smartcards started in 2001, for the acceptance part, and it was estimated to take two to three years, but it took more than that: Romanian Commercial Bank was the first bank that adapted his network of ATMs and POS for accepting smart cards in April 2005.

Even now, *the development of the smart cards* (chip cards) market is still at the beginning, with only four issuers banks. Procredit Bank was the first issuer (in November 2005 - for example, Hungary issued the first smartcard in 2002), in a moment when at global level were more than 175 millions of smart cards. It was followed in early 2006 by ING Bank, in November 2007 by Garanti Bank and in September 2008 by Alpha Bank. The *"hybrid" cards*, those that had both magnetic stripe and chip are continuously developing in some countries, like Romania. *This trend is somehow different with the developed countries*. Card reader devices must read now both magnetic stripe and chip cards and maybe also the same merchant would offer the contactless alternative. From the safety point of view, having both chip and magnetic stripe means the same vulnerability as having only magnetic stripe, so until the transition is complete (as acceptance infrastructure), the security issue will continue to be very delicate.

4. *The development of credit cards offered for companies*, a segment where the offer is still at its beginning; most of the cards in the Romanian market are for individuals, not for companies. Soon, the potential to growth in the market share for individuals will be reached and thus the banks will need to look forward for new interesting segments.

5. *The development of contactless cards*. In November, 2008, Garanti Bank, one of the most advanced at international level in the field of technological innovations for smart cards, started its pilot project in Romania, choosing MasterCard with PayPass technology. Also, as a world premiere, in November 2008 ING Bank chooses Romania for its 6 months contactless pilot project, developed together with Nokia and using the Maestro PayPass account in order to realize small payments.

This short review highlights that Romania has still an important potential to growth, being sometimes among the pioneers in the world, but more often one of the underdeveloped markets in Europe, but the catching up being possible, if we take into consideration the growth rate in the last couple of years.

5. Conclusions

These *cornerstone technologies* used alone (smart cards, terminals, infrastructure and transaction security) would not offer the key to success. The secret is to approach all those separate technologies and components together, *the integrated development and upgrade being the guarantee to offer in the future end to end secure, low cost* (low transaction cost, low cost of infrastructure, low cost of ownership), *reliable and fast electronic transactions*.

Bibliography

Balaban, Dan, "Converging on ticketing: are banks and transit operators ready?", Card Technology, volume 12, number 8, November 2007

Bărboi, Dan Cristian, Bârligea, Bogdan, Pavel, Cristian, Cardul, un campion electronic, e-Finance, year VII, no. 79, March-April 2007

Cheney, Julia, An Update on Trends in the Debit Card Market, Discussion Center, Payment Cards Center of the Federal Reserve Bank of Philadelphia, June 2007

Diaconu, Simona, "Programele de loializare se agață de carduri", e-Finance, year VIII, no. 97, September-October 2008;

Dempsey, Paul Stephen, "Privacy issues with the use of smart cards", Legal Research Digest, Transportation Research board of the National Academies, no. 25, April 2008

Lee, Mike, Another 100 years of cash?,

<http://www.atmmarketplace.com/article.php?id=9819&prc=11&page=> accessed on 10th of October, 2008

Rueter, Thad, "Biometrics and smart cards: state of the art", Card Technology, volume 12, number 1, January/February 2007

Stewart, John, "The 10 most pressing issues in e-payments", Digital transactions, volume 5, number 11, November 2008

***, "Online Retail Payments Forecast Market Factors Square Credit Cards Against Alternatives—Both Bank and Non-Network",

<http://www.javelinstrategy.com/2008OnlineRetailPaymentsForecast.html>, accessed on 10th of November 2008;

<http://www.apero.ro/>

<http://www.atmia.com/>

<http://www.cardforum.com/>

<http://www.contactlessnews.com>

<http://www.europeancardreview.co.uk/>

<http://www.mobilepaymentsworld.com/>

<http://www.no-cash.ro/>

<http://www.paymentsnews.com/>

<http://www.smartcardalliance.org/>

<https://www.mcnearby.com/>

<https://www.pcisecuritystandards.org/>