

# Innovative Business Strategies

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# Questions we'll address

- What are the most promising new markets for retail payments over the next five years?
- How have companies changed their corporate strategies in the last few years?
- How have companies altered their offerings to reflect changes in the economic climate?



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# **The Hedgehog On The Highway**

**How the payment and financial services industry  
often worries about the wrong things**

Ron Shevlin

Aite Group

Senior Analyst



# Leading causes of hedgehog death

- 3) Cars
- 2) Insecticide
- 1) Hibernation

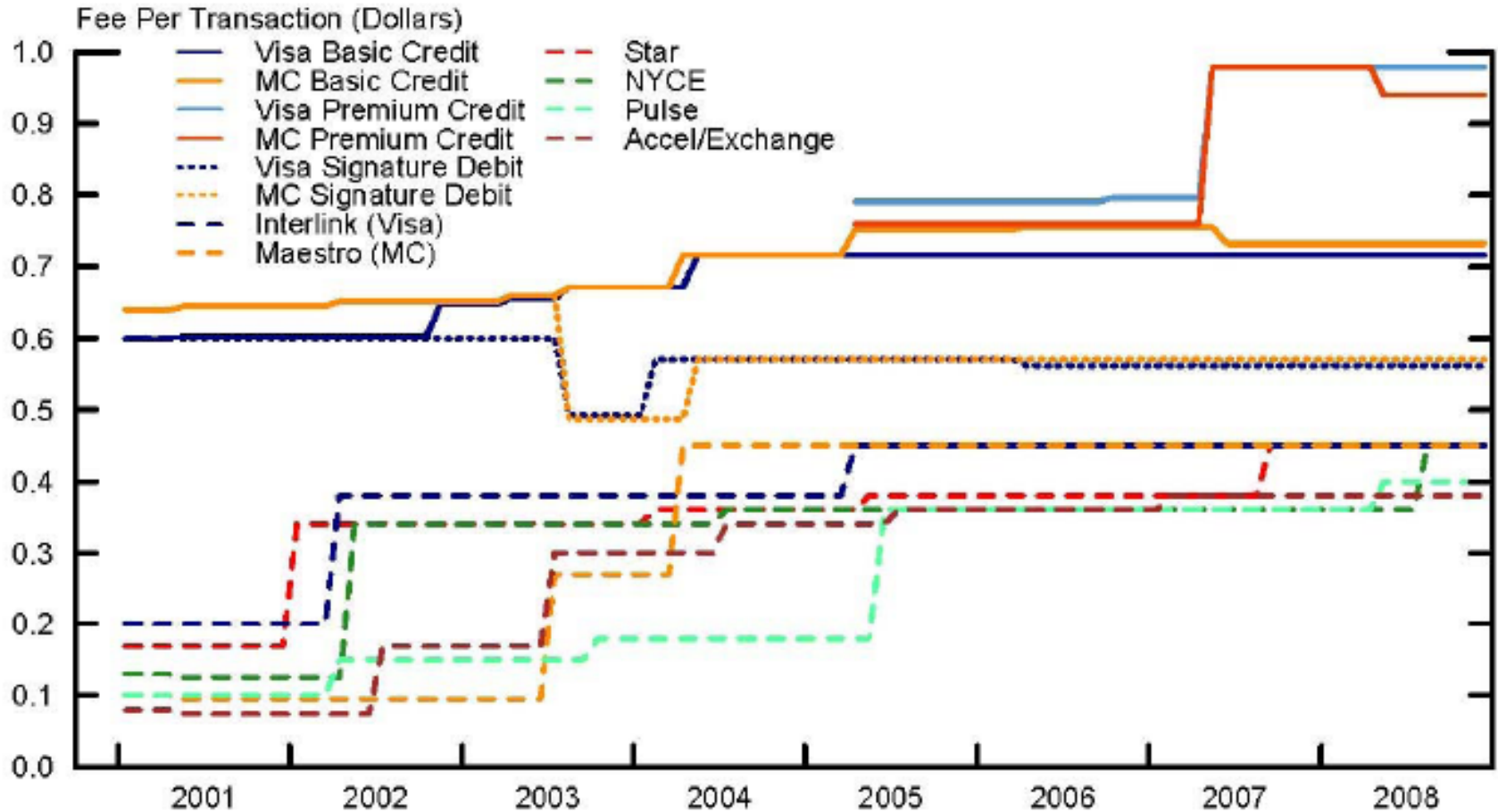
# Theme

**Financial institutions are  
mis-reacting to changes  
in the retail payments world**

# What do FIs mis-react to?

- Regulations
- Fraud
- Innovation

# Competition drives up interchange rates



Source: Finance and Economics Discussion Series, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, Washington, D.C.

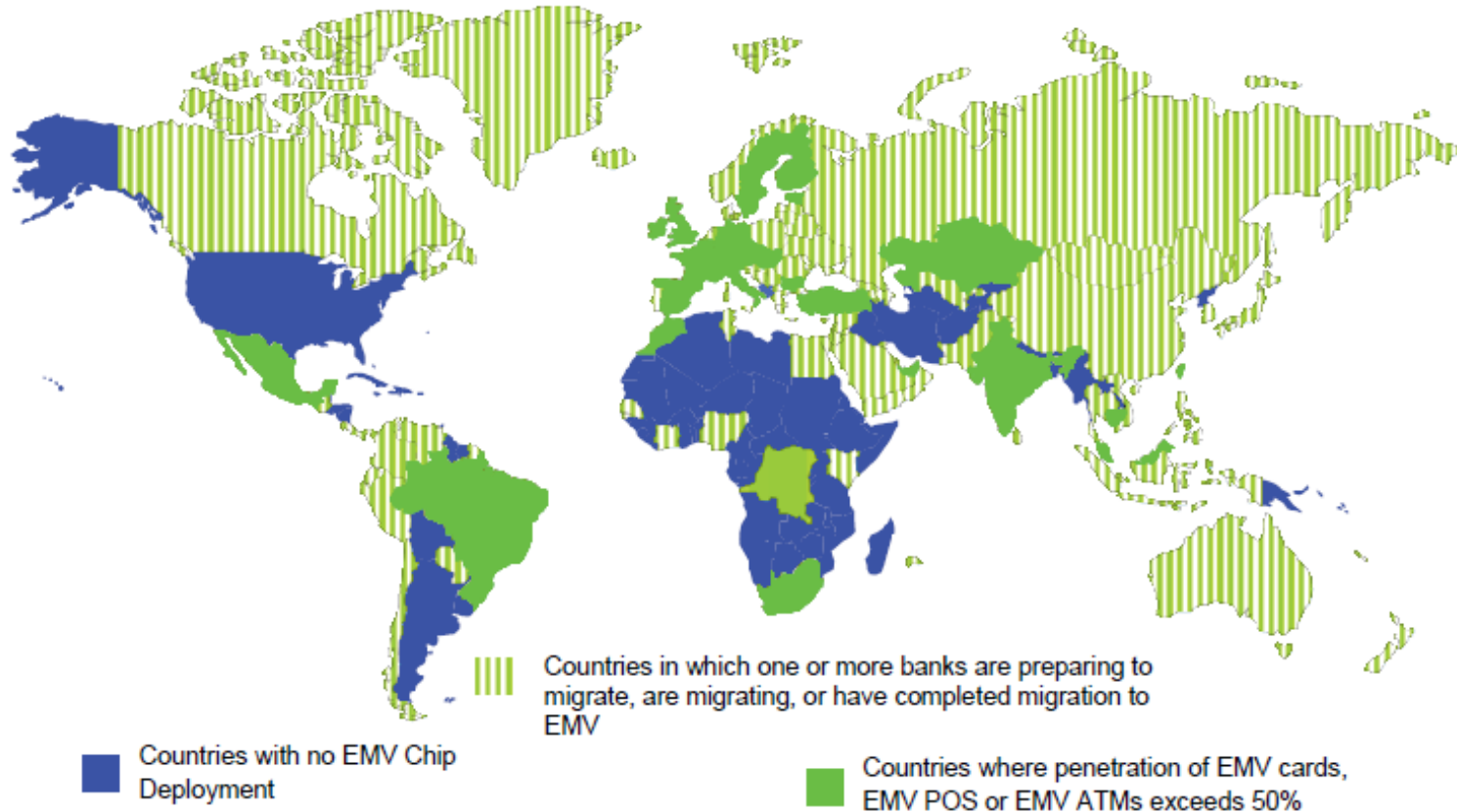


# What *should* FIs do?

## Delivering more value to merchants

- Good job:
  - Automated transactions/POS efficiency
  - Reduced fraud incidence
  - Reduced credit risk
- Needs work:
  - Multi-channel (mobile, eCommerce)
  - Marketing (analytics, efficiencies)

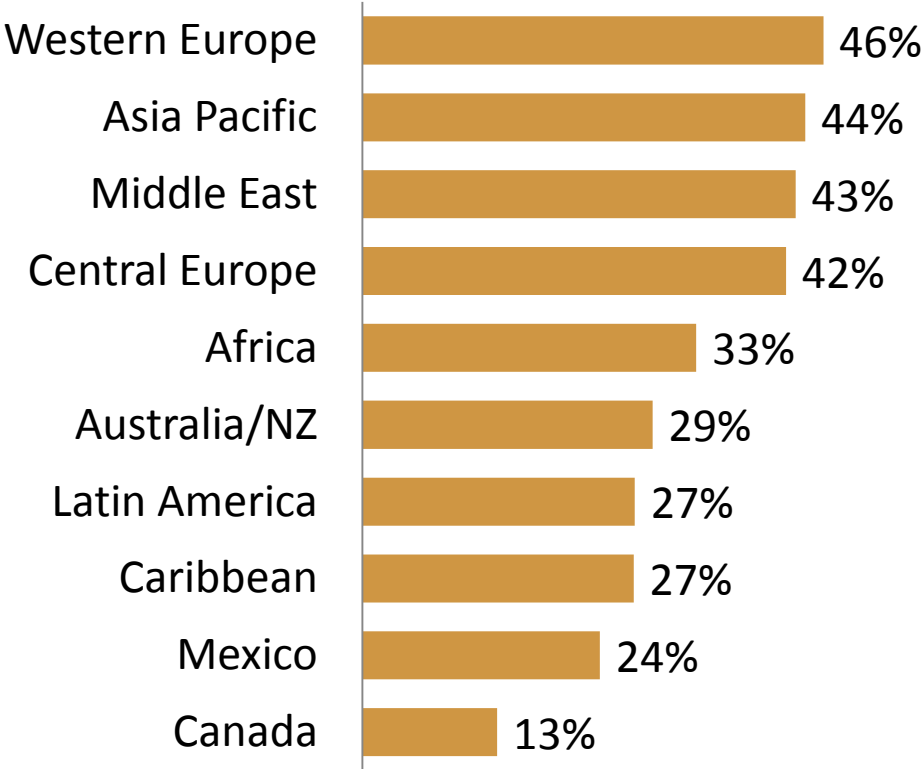
# FIs say they have a better fraud mouse trap



Source: Richard Detura, Managing Director, Citigroup Global Consumer Fraud Risk Management

# US cardholders face card issues in Europe

Incidence of Card Problems by Region (n=781)



## What *should* FIs do?

### Keep the “pay anytime/anywhere” promise

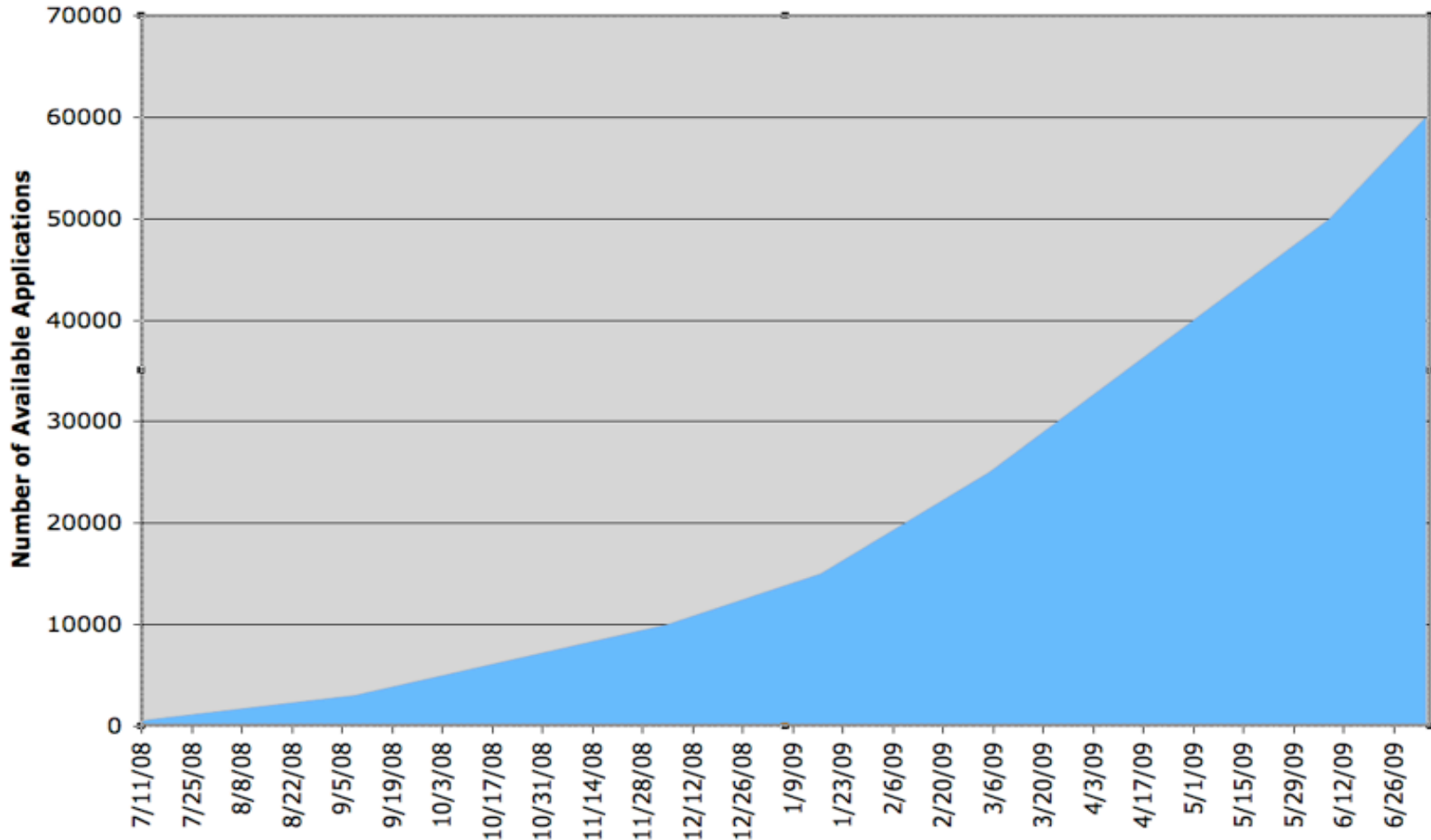
- It’s not just about who has the better mouse trap and catches the most fraud
- It’s about preventing fraud from undermining institutions’ promises to their customers

# FI: Obsessed with in-house innovation

- Institutions tend to think about innovation as a homegrown effort
- The open platform development concept has yet to be embraced by the industry at large

# Open platform strategy: iPhone apps

Number of iPhone Apps over time



# Paypal leads the payment industry with its open platform for developers

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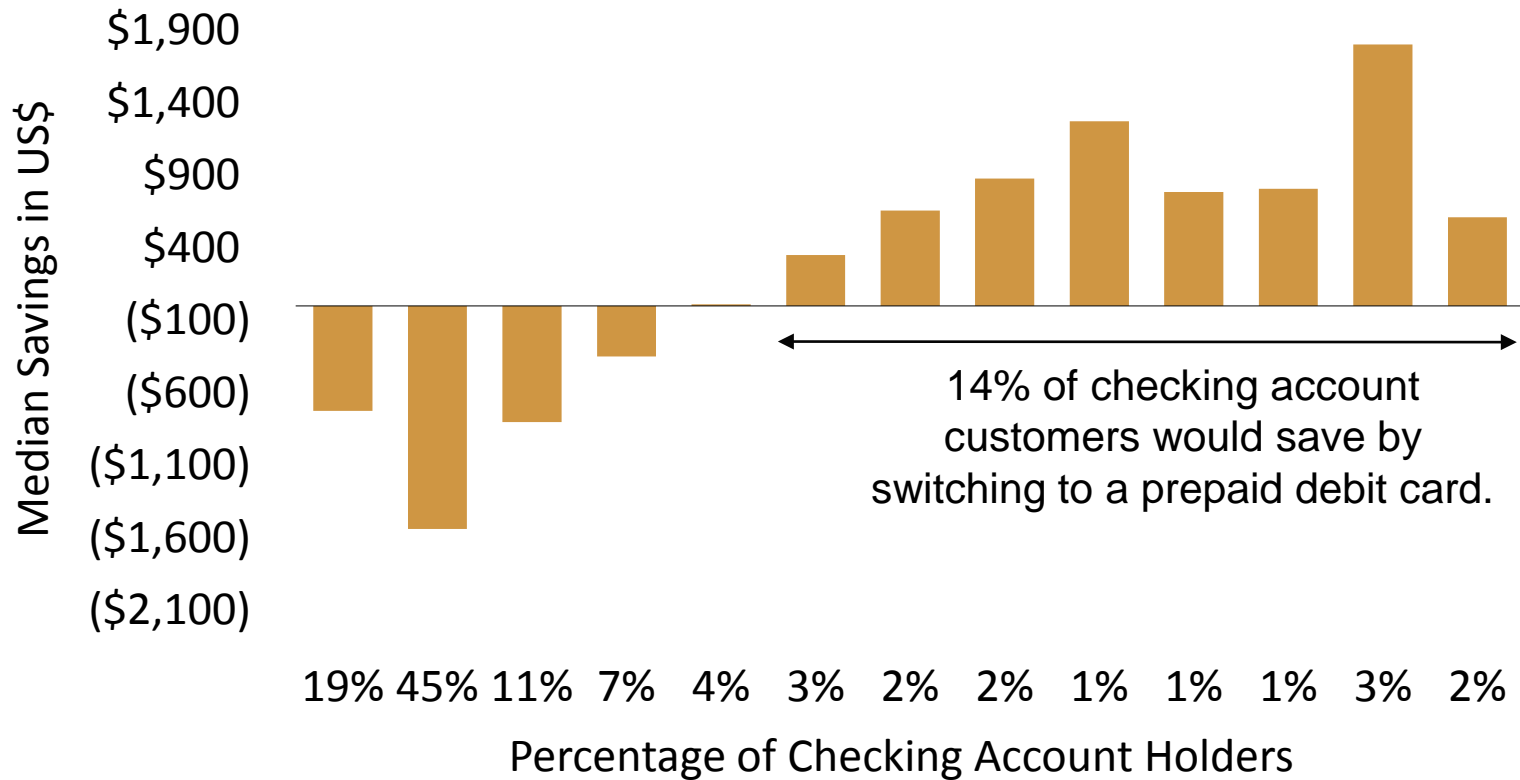
# **What *should* FIs do?**

## **Improve industry economics**

- Leveraging technology innovations through partnerships, networks, and communities
- Integrating product innovations like procurement and prepaid cards



# Potential savings for switching to prepaid debit cards



# What *should* FIs do?

## Improve industry economics

- Leveraging technology innovations through partnerships, networks, and communities
- Integrating product innovations like procurement and prepaid cards
- Capitalizing on social media and technologies

# Looking ahead: Innovative strategies

- Strengthening the FI/merchant relationship
- Repairing the FI/consumer relationship
- Improving the economics of the industry





# Aite: Partner, Counterpart

Aite Group (pronounced eye-tay) is an independent research and advisory firm focused on business, technology and regulatory issues and their impact on the financial services industry.

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