"Payvision is all about Connect and Grow "

- Exclusive interview with Michael Burtscher, Payvision -

Michael Burtscher is responsible for the further development of Payvision's global card payment network. In his previous role as Head of Third Party Risk at Visa Europe, Michael successfully led a number of initiatives which increased Security for consumers and payment solution providers in the e-commerce market. At the EPCA Payment Summit 2012, which took place in Rome 18—20 April 2012, The Paypers sat down with Michael Burtscher to discuss the company's growing presence, services and strategy.

What is your perspective in terms of online vs. mobile or online vs. offline, do you see these combinations between channels as a future development in the next 12 months?
Michael Burtscher: From my point of view, the mobile space will certainly be much more mature in the near future, we'll know which players have really been able to take off properly and which ones have fallen behind.

Also, there are definitely going to be some more developments with regard to risk management, not only in terms of regulations but also from a technological perspective. We will see new and more secure technology, which will both secure the physical card-present base and provide more clarity around these new technologies, because from certain aspects, like PCI, there are still open questions around the security of certain new applications. Within the next 12 months we will know who has actually been certified and who hasn't and that will really determine who will survive within the industry.

What can you tell us about your unique selling propositions as a PSP, processor and acquirer, which give you an edge over your competitors?
Michael Burtscher: In my opinion, besides innovation, one global reporting interface, one internationally approved Risk and Underwriting Protocol, it is definitely the technology, because that is what enables us to switch transactions and process them across the world.

The culture is also an important aspect, because we are a quite dynamic and lean organization. This means that our customers can talk to us easily, they can also get in touch easily with our executives and that really gives us an edge over the other organizations.

Do you have a global coverage?
Michael Burtscher: We have a strong presence in Europe, where we provide processing services for PSPs, merchants and banks, we also have a large presence in the US and Asia-Pacific as well. We have offices in Singapore, Hong Kong and Macau, which was opened in 2011, and we are now expanding across Canada as well, the Pacific region and also Latin America.

Everywhere we go, we first focus on putting together a team of local experts, who have been in the industry for 10 to 15 or maybe 20 years, in order to make sure we have the local knowledge in place and the networks, before we go live. Otherwise, we are just another player who enters the market but doesn't understand the local specificities. For us, local knowledge and the ability to be compatible with the local culture are the most important.

Which market or region do you find most attractive?
Michael Burtscher: The Asia-Pacific area is where we see the biggest growth. In Singapore, for instance, we see an increase of nearly 200 percent and in Hong Kong of 82 percent. That's why we have also opened a business unit in Macau. Obviously, each country has to be managed on its own terms due to geographical limitations and Taiwan, China, South Korea will also be very big players. Also, recent trends have shown us that shoppers in Japan are buying a lot again.

What about merchants in the region? Are they interested in expanding in Europe or in the US?
Michael Burtscher: This is definitely an interesting question. There are several European and US companies who have moved towards Asia and in a number of cases they have had to enter partnerships. For example, Yahoo has partnered Taobao, just because these players are very strong and well-connected out there. Obviously, via those partnerships,

the Asian players will have a very easy way of entering all the markets so it's all about remaining relevant, something we strongly believe in, and realising where you can add value by working together. Of course, in some markets it may be a competitor and you may not work together, but in all the markets where the needs of the merchants and the consumer are different and allow for collaboration, I think that will really add value.

Merchants have, however, stated that communication between them and PSPs is not very efficient. What is your opinion on this matter? Is there a balance between their needs and what PSPs are offering?

Michael Burtscher: There are merchants who are more aware and have more experience in terms of payments and how they work and some large merchants have their own payment experts and teams within their organization. Thus, they will know what is best for them and what they want. When we offer payment solutions, we usually don't say that you have to take all of them, they are the ones we can support you with, but you have to tell us what you want. There might be services that we are not able to provide, but we will be working with partners so we will be able to redirect you over there for other payment services that we can't provide, which means merchants will be able to see the value in it. The way we are growing as well is really in discussion with our customers. Before deciding to expand in a certain region, we ask our customers where are they planning to grow, which markets would they like to enter.

Since you have a global coverage, I am sure you have your own opinion on how the online payments market is developing in different regions. Do you think that we, as Europeans, have learned or should learn from what is happing in the US/Asia-Pacific market or is it the other way around?

Michael Burtscher: We can see a strong growth in e-wallets, especially in the Asia –Pacific region, where is the most popular. For the mobile point of view, Asia has always been quite ahead of Europe and actually it is Europe and the US which are only just catching up with everything that has been happening in the Asia-Pacific region. It is clear that a lot of innovation is coming from Asia.

How do you see the online payments eco-system three years from now on?

Michael Burtscher: From my point of view, this is going to continue to grow. There are a lot of discussions about alternative payments, different payments solutions which are coming up and different ways of payment, but certainly the established card organizations such as Visa, MasterCard, (China) UnionPay Ltd. and American Express will continue to be the main drivers of change in the industry, because they've been around for 50 years, they know the business, they know where they are going, they are in absolutely every single market and they will continue to shape the agenda in conjunction with technology. This means that all the other payment methods will still be relying on these major brands and technology providers to be able to grow themselves.

With regard to online fraud, this is going to continue to come down, it is already at the historical low, just under 4 basis points and it is going to come down again. If you look at the card- present fraud, 10 or 20 years ago it was 15 to 18 basis points and it has come down as a result of a better understanding of how the market works, better technology and better use of the technology itself. In the card-present transactions there has been traditionally more fraud but this has been coming down as the market develops and people understand better what are the risks they have to look out for. I think that the problem with fraud in the card-not-present space has to do with the fact that a lot of the acquiring players traditionally came from a domestic face-to-face environment and believed that applying the same technology to e-commerce will be sufficient. And, in fact, it is completely separate, because you need a different set of skills to understand how transactions work and it is important to do more in terms of educating issuers to prevent friendly fraud. I hope that issuer education will make a difference as well.

What is your opinion on cross-border e-commerce in Europe?

Michael Burtscher: Merchants in the e-commerce space are very much aware that they can go from one country to another and that they can have an acquirer from the US or any other part of the world, if they want, although there are some limitations from the card organizations and once must always be mindful of that. That is why merchants working globally across multiple continents will often require multiple acquiring relationships; however there are solutions to streamline this process and that is one of our strengths at Payvision. Typically, merchants will go for those acquirers which offer them good services, which can support them from a language point of view and also which share the same kind of vision in terms of looking outside borders. The challenge is really in the card present space where is harder to do cross border and in countries where you still have domestic schemes as for instance in France or Spain.

EXPERT OPINION

The growth in PSPs is directly attributable to the deficiencies in the current merchant acquiring models

By Kevin Gallagher, E-commerce Manager Merchant e-Solutions

Kevin Gallagher has over 16 years experience in the payments space and is currently General Manager, E-Commerce at Merchant e-Solutions. Kevin is responsible for the E-Commerce Division, including the National Sales Force, Inside Sales Division, Strategic Alliances & Partnerships, Marketing and Public Relations. Prior to Merchant e-Solutions, Kevin was SVP of Global Alliances and Partnerships at JPMorgan's Chase Paymentech.

The growth in PSPs is directly attributable to the deficiencies with the current merchant acquiring models, especially in the areas of credit underwriting, account boarding and costs.

Credit

Take credit underwriting for example. In order to open up a new merchant account, there is a tremendous amount of information and supporting documentation that is required. A merchant many need to fill out 4-5 pages of information, supply bank statements, financials, voided check, drivers license, previous processor statements, etc. After all of this is received, the credit department then performs credit checks, reviews the data and a merchant account is then setup. In some cases this may take 2-3 days for a small merchant, all the way up to weeks for setup on a larger merchant. Compare this to a PSP that essentially does their own underwriting and account setup with an online application that takes 3-4 minutes to fill out, with an account being setup within the same day.

Costs

For a very small merchant that only processes a handful of transaction per month, the current merchant account model is not a good fit for both the merchant and the acquirer. For the merchant, it is too expensive to pay setup fees, statement fees, PCI fees, etc. It just does not justify setting up an account and pay all of these fees for just a few transactions a month. In addition, for the acquirer, there are underwriting and credit check costs, setup costs, account on file, customer service, PCI and technology costs that are typically needed to be recouped from merchants in order not to fall into the red. If the merchant is too small to be able or want to pay these fees, it is hard for the acquirer to justify going after that market. For a PSP, essentially most of these costs are either eliminated or are just charged once at the PSP level and not at a sub merchant level. This allows the PSP to offer no setup fees, no monthly fees and eliminates issues like PCI fees for each individual merchant. Due to the reduction/elimination in costs, it allows the PSP's to offer flat rate pricing of just a discount rate and in some cases a per transaction fee (pay as you go). This is much more attractive for the merchant as well. Even though the discount rate may be a bit higher than a full merchant account, by not paying miscellaneous fees and a pay as you go model, it is typically a much lower costs overall for a smaller merchant.

PSPs Beware!

With the success of several PSP's in marketplace lately, it has spurned an increase in the amount of companies wishing to be setup as a PSP, especially new start-up companies. The one thing that they need to understand is the sheer amount of risk they take on as a PSP. A PSP is ultimately liable for every sub merchant underneath them, so it just takes 1-2 bad sub merchants for a PSP to get into some serious trouble. Maybe the sub merchant processes thousands of dollars in orders, then closes the business. Maybe the sub merchant sets up an account selling clothes online, then changes it a week later to sell illegal merchandise or services. I have seen several big PSPs over the years either get shut down or slapped with 6 or 7 figure fines due to such issues. In all of these cases, the PSP's thought they had adequate systems in place to prevent issues from occurring. So, my