

# Making E-money a viable proposition

**Finding a viable alternative to cash for low-value transactions has arguably eluded the payments industry until now, with E-purse and contactless solutions failing to find the up-take among merchants and consumers that many had hoped for. The chicken-and-egg scenario of issuance and acceptance continues to pose a problem, with both issuers and merchants remaining unconvinced of the cost benefits of low-value electronic transactions.**

However, the business model behind low-value transactions could be set to change. Cardis Enterprises International has developed a solution that aims to reduce the cost of processing such transactions, which would ultimately make low-value transactions worthwhile for all the stakeholders in the payments chain.

Nebo Djurdjevic, CEO of Cardis, tells *Lafferty Cards Insider* that the main advantage of cash is its ubiquity – it is accepted everywhere. However, he argues that transactions may often fail in the sense that the funds are not always available to complete the sale, and so consumers have to visit an ATM to top up the cash balance in their wallet. Djurdjevic argues that consumers prefer the convenience of debit cards, but are often unable to use them because low-ticket merchants either do not accept cards, or impose a minimum spend in the region of £5 to £10 (\$7.50 to \$15).

The Cardis solution reduces processing costs by aggregating transactions. For example, if a consumer buys a number of songs through iTunes, the small purchases would be aggregated into a single credit card transaction.

However, unlike existing solutions, which require end-to-end processing of each individual transaction, the Cardis service means that a number of low-value payment transactions can be aggregated into a single, higher value debit card transaction without having to reconcile each individual transaction.

According to a report from financial services and payments consultancy Edgar, Dunn & Company (EDC), the Cardis technology removes the need for end-to-end processing of individual transactions within the four-party processing model. This alters the economics of payment processing in a fundamental way as the overall cost is significantly lower and varies with the transaction value. As a result, this makes the cost of processing directly proportional to transaction value and thereby allows penetration into micro payments.

Another feature of the solution is that it is an automatic stored-value system that allows for seamless reloads so that consumers do not need to worry about

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**Nebo Djurdjevic,  
Cardis**

having available funds. The solution allows an automatic reload at the POS, which is shown on the account statement in the same way as an ATM transaction is listed on a bank account statement.

Cardis’ solution is unique in that it can be used by all types of industry players. For example, it can be used within a closed-loop card model and mobile and online wallet models. It also covers the area of physical payments at the POS. “The Cardis solution is brand, scheme, processor, channel and form factor agnostic,” says Djurdjevic.

The solution can be used on EMV cards, contactless EMV cards and contactless-enabled mobile phones. It is not necessary, however, for contactless technology to be used to deliver the low-value payment option as it is the economics of the underlying

processing system that is key, rather than the form the payment takes for the consumer.

Cardis is currently in discussions with a number of global and regional players in Europe, North America and Asia and it is targeting all segments including banks, mobile operators, processors and networks. Djurdjevic says: “The Cardis solution has been implemented and tested in Canada as part of Scotiabank’s multi-application chip card trial. It represents a global opportunity by leveraging EMV infrastructure and mobile networks.”

Erik van Winkel, a director at EDC, points out that the solution fits into the EMV infrastructure so there is no need for additional hardware, such as new payment terminals, or different cards to be issued, as has been the case with many E-purse schemes.

The company has set its sights on penetrating the market for electronic low-value transactions. Research by EDC, notes that low-value cash payments of below €20 (\$25) represent approximately 170 billion transactions annually in the European Union, and more than half of those transactions are for less than €5 (\$6). There has also been a push by policymakers in Europe to move towards cash replacement, and this coincides with pressure from regulators around the globe to reduce the costs of accepting payment cards for merchants.

Van Winkel argues that the industry is caught in a vicious circle with its cash alternatives because current options are based on the existing infrastructure of debit cards, which does not have potential in the long-term because of the costs involved in processing transactions this way. “Rather than playing with fees and cross-subsidising losses, Cardis creates economic value for all stakeholders, rather than a continued cross-subsidisation of losses on payments or attempts to move around those losses across the different stakeholders,” says van Winkel. ●