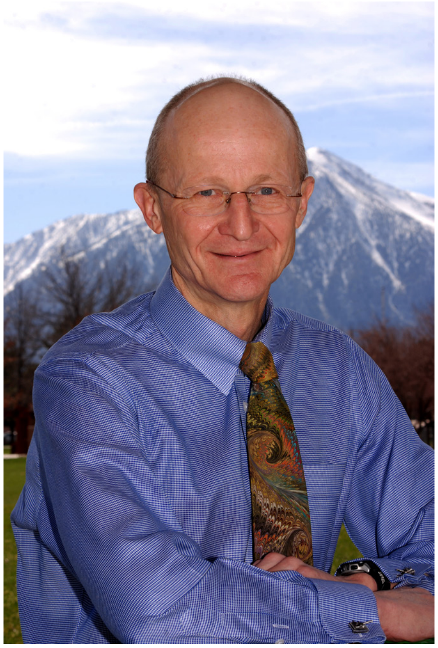

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What do you expect the payment industry will look like in 2015?

To a man from 1914 the 2014 payments landscape would appear radically different. For contemporaries however, payments in 2015 will look substantially the same as 2014. In payments consumers and merchants are conservative, and in the developed world existing systems work well. Incremental change is the watchword.

Aspiring global payment schemes AliPay and UnionPay striking acceptance deals with acquirers worldwide and a raft of emerging-market P2P and retail payment systems getting traction, highlight notwithstanding powerful network effects and consequent entry barriers, the network space remains vibrant.

In processing a global land rush is underway with processors expanding their footprints through M&A, relationships with multinational banks, retailers and integrated-POS-system providers, and Greenfield national launches.

Distinctions between e-commerce, mobile commerce and physical-POS payments will continue to blur, facilitated by digital wallets slowly gaining traction. In a fast-food restaurant a consumer with an Internet-connected smartphone might access a digital wallet in the cloud or on the handset, pay using NFC or in the cloud, or have prepaid from a desktop.

Electronic payments will continue displace cash, at a rapid pace in cash-centric emerging markets, and slowly in mature markets where high penetration levels, the grey economy, and regulatory constraints, make sustained double-digit growth well-nigh impossible

While payments have long been a mainstay of bank profitability, they will continue to cede payments share to more nimble and innovative nonbanks.

E-commerce growth will continue to outpace payments at the physical POS and mobile commerce will grow faster than desktop e-commerce. Omni-channel acquirer Adyen reported in the 3rd quarter mobile devices contributed 23.3% of its online payments, up from 21.5% the prior quarter. Interestingly notwithstanding its smaller share, iOS across tablets and smartphones led Android with 62% versus 38% of its mobile payments, though Android was gaining share.

By yearend close to 40% of deployed POS terminals in the US will be NFC capable. Just perhaps, 2015 will be an inflexion point for much-hyped proximity mobile payments.

Will there be significant improvements in new technologies, regulations or business models?

On the technology front, enthusiasts hail cryptocurrencies such as Bitcoin as inevitably upending the global money-transfer and retail-payments industries and government fiat money. While the underlying technology has plausible use cases competing against Swift, cryptocurrencies are not going to displace the dollar, euro or pound, gold, global money transfer networks such as Western Union and MoneyGram, or retail payment schemes like Visa, MasterCard and PayPal, in 2015, or in the next decade.

Tokenization and P2P encryption will gain steam enhancing payment security, with scuffling between networks, processors and large issuers over control and fees, but won't fundamentally alter the business model(s).

The competitive digital wallet maelstrom will intensify.

On the regulatory front, the question bespeaks optimism I wish I could share.

"Improvements" are unlikely except in the US where, notwithstanding industry passivity, there is at least a slight chance the incoming Republican Congress will curb or eliminate the Durbin debit-interchange price caps and the Consumer Financial Protection Bureau.

EU interchange price controls are likely to be approved by the European Parliament in early 2015 and take effect 6 months later, slashing issuer revenue and consequently reducing card issuer innovation and cardholder value.

In October China's government indicated it intends to end UnionPay's domestic payment-card monopoly. I don't think however this means Visa, MasterCard, Amex, JCB and Diner Club will be free to compete on a level playing field as they do in the US and UK anytime soon. My guess is China will drag out an approval and certification process, demand the networks install domestic switches in China, which they will, and delay giving major Chinese banks (controlled by the state) the green light to support domestic transactions.

It's worth recalling in 2001 China committed to completely open up its domestic payment-card market by the end of 2006. In 2010 the US filed a WTO complaint I like to think in part inspired by my call in "Press China to Keep Card Promises" and "Reckless Trade Policy" for it to do so. The first time I spoke with the USTR about China's domestic payment network market they were completely unaware of China's noncompliance because none of the networks complained as all believed by playing nice they would win themselves a privileged position in China. In 2012 the US largely prevailed and China said it wouldn't appeal the WTO's decision. As of today however, there hasn't been a single domestic Visa transaction in China. Hopefully, Beijing will prove my cynicism wrong.

Effective in April the U.K. placed MasterCard and Visa under supervision of its new Payment Systems Regulator. It bears watching. Regulators tend to treat payment networks as public utilities, suppressing competition, innovation and value for consumers and merchants.

The payments industry should be hoping against hope for its regulators to play the role of the night watchman rather than of an activist central planner.

The biggest business-model development in 2015 may be new and nontraditional players vying for a piece of incumbents' economics.

Taken as a whole, the payments topography comprises overlapping, interdependent and competing networks. While it's not a zero-sum game, if one network becomes relatively stronger, inevitably, it will capture greater economics. In the US Apple Pay is extracting 15 basis points of credit-card-issuer interchange, much like traditional cobrand partners. If however an überbrand and network relegated card issuers to being mere backend payment and credit utilities, it would be a tectonic shift. It wouldn't happen quickly, but we could see a glimmer in 2015 if Apple Pay takes off.

We may start to see increased friction between merchant acquirers and processors and POS terminal suppliers like Ingenico vertically integrating with its EasyCash, Ogone and GlobalCollect acquisitions.

The most interesting payments business model experimentation is in the realm of taking fees for generating incremental sales, for example card-linked-offer platforms such as Cardlytics, Cartera, Edo Interactive, and ERN Global, and perhaps promotions within Chase Paymentech's closed-loop acquiring segment.

How do you see the near future when it comes to payment acceptance?

While acceptance seems ubiquitous in Europe and the U.S., there's still growth to be had with tens of millions of small, casual and nontraditional merchants.

Facilitated by mobile and a more expansive view of managing risk, origination channels and servicing, and profitability of small merchants, the minimum-merchant-size frontier the payments industry serves will continue to shrink.

Emerging markets remain cash centric and consequently fertile ground for electronic retail-payment-scheme expansion. In many MNOs could be a powerful channel through which to build SME acceptance.

Today 40 million merchants worldwide accept MasterCard and Visa. In five years acceptance likely will have doubled. Acceptance of competing aspiring and tier-two global retail payment schemes including Amex, Discover, PayPal, AliPay, UnionPay, and perhaps a dark horse like M-Pesa, while trailing, will ride in MasterCard's and Visa's slipstream.

If the networks' P2P products ever gain momentum, acceptance could become truly ubiquitous.

Additionally, in emerging markets mobile P2P and retail payment systems, such as M-Pesa in Kenya, Tanzania, South Africa, Namibia, Lesotho, Afghanistan, India, and Romania, IMPS in India, EcoCash in Zimbabwe, mKash in Bangladesh, BBM in Indonesia, and Smart Money and Globe Cash in the Philippines, are enjoying terrific growth. Hybrid models with companion branded MasterCard and Visa products are a logical endgame for many of them. Whether any in their own right aspire to and can build coherent multinational payment schemes remains to be seen.

What will be the biggest payment challenges for merchants and for payment providers in 2015?

Security. It's not sexy or fun; but, a catastrophic data breach while unlikely could destroy most merchants and processors.

Notwithstanding a raft of highly successful retail credit card programs and efforts to build multi-retailer payment schemes such as Merchant Customer Exchange CurrentC in the US and Auchon's Flash & Pay in Europe, while they're vital, payments aren't merchants' business. They accept payments and offer proprietary credit, loyalty and promotional programs to generate incremental sales. Period. They need to keep their eyes on the ball.

For payment acceptance providers the big challenge is to avoid being commoditized in an ever more competitive environment, to lean forward into their opportunity space, enhancing and expanding their product suites, and origination and delivery channels and footprints, and to keep regulators at bay.