

Time for plan b



Like many Eastern European countries, Bulgaria is significantly behind the curve when it comes to not only digital banking, but card payments, too.

Despite its stable economy and highly educated population, less than five per cent of banked individuals in Bulgaria use internet banking, compared to the European Union (EU) average of 46 per cent. With just 11.1 card payments per capita in 2015, plastic is less popular here than anywhere else in Europe, too.

It may be hard to separate a Bulgarian from his/her cold cash, but Borica, the country's interbank organisation and card authorisation centre, is giving it its best shot.

Borica's Bcard, a national debit card that enables residents to access everything from government services to social activities and vending machines, was

Bulgaria's interbank organisation **Borica** is on a mission to popularise plastic with the launch of the Bcard, as CEO **Miroslav Vichev** explains



launched in response to local banks demanding a 'more cost-efficient servicing of the cards industry'.

"Ninety-five per cent of card usage in Bulgaria is local," explains Borica CEO Miroslav Vichev. "So, utilising an international brand for a person to withdraw money or pay for food is a little bit extreme and costly.

"This has now improved because local settlement of card transactions is happening through us and we don't use international schemes for that purpose. Our role in the market is related to local currency net settlement and the card infrastructure of the country. We provide a major share of its card-related services."

It's indicative of how the differing needs of some economies, coupled with the potentially revolutionary impact of the revised Payment Services Directive (PSD2) in opening up the market is creating unexpected opportunities for some niche players to operate local payment services – services that many in the industry thought were doomed six years ago.

"Paying for tickets or for the Metro in a standardised way, accepting transactions related to social services, or using vending machines – these are a few of the transaction types and products that we plan to launch through the national card scheme because the Bcard is a cheaper and more efficient local service," says

Vichev. "You can imagine the reaction of the international card schemes, though. It's quite a challenging initiative."

This low-cost local upstart will, Vichev hopes, not only popularise card use among fellow Bulgarians, but also help to accelerate innovation in other payment areas.

While the country is likely to take time coming around to some of those ideas, Vichev says Borica is determined to have the latest technology ready and waiting for them when they do. A policy of continuous innovation has seen it focus specifically on point of sale (POS) and ATMs.

"The country is relatively conservative and not an early adopter of instant payments, so anything that we do on contactless, no matter if it's ATM or some kind of microtags, helps the adoption of electronic payments and card payments," he says.

"On the POS side, we're looking especially at host card emulation through mobile phones. Most of our investment in pilots and proofs of concept is around mobile wallets and the adoption of tokenisation, which enables phone transactions over POS devices.

"Microtags are interesting, too, to enable payment through any device, watch or bracelet, although the mobile seems to be the focus here at the moment and is what many of our customers are interested in.

Right now, though, Bulgaria is still very much a cash-fuelled nation and that is likely to continue so long as access to electronic POS is restricted by the 'grey economy', adds Vichev.

"We still have to convince all the merchants to offer the service widely and not deny use of POS devices. The banks are pushing them a great deal and almost every merchant has one, but some will pretend theirs is not working because they prefer cash. Some of this also relates to the ability to hide part of their income."

That's more a cultural trait than a deliberate attempt to outwit the Exchequer, says Vichev, but it does make life complicated for payment services.

"They don't necessarily hide their income for tax purposes because the income tax here is quite low, in fact we're almost a tax haven in terms of income and profit tax," he says.

"Many larger merchants have adopted POS technology and operate legitimately. Many small and medium businesses, however, still attempt to hide income, especially in the food and tourist industries. This means there is a lot of cash in them that doesn't surface as income within the economy."

A barrier to growth

The resulting lack of clarity over Bulgaria's financial health has held the country back from joining the Eurozone, despite being a member of the European Union since 2006.

"So targeting small and medium businesses is the key right now, to

of this, but they don't see any benefit in it, so we will be opening more business lines related to device monitoring and terminal management. That's in addition to a major project to revamp our core card infrastructure."

So, what does Vichev see in his crystal ball, when it comes to the future of the financial services industry?

He believes that the introduction of PSD2 will significantly shake up the wider financial marketplace.

"The ability to interface the banking and payments infrastructure directly from third party providers will change the landscape," he says, although he's concerned by the current debate over screen scraping.

"This is a controversial and decisive moment for PSD2 and I hope things sober up and we have good,



Lev it alone: Bulgarians have been keen to hang on to cash payments

“The Bcard is a cheaper and more efficient local service... you can imagine the reaction of the international card schemes

encourage them to adopt electronic payments and bring them and their revenue onto the 'white side,'" says Vichev. He's confident that POS will

come into its own eventually and Borica is extending its services accordingly.

"Our organisation has been servicing cards and devices, but we haven't been sufficiently involved in device management and monitoring services. So, we are putting a lot of effort into these areas, as well as terminal management services for the banks," he says.

"Until now, the banks were doing most

documented interfaces with the banking infrastructure," say Vichev.

"Banks have been very proprietary in their attitude to interfacing the customer electronically. But in a couple of years we should see a lot of difference as a result of PSD2."

As for payment trends, he can't see popular mobile methods, like Apple Pay and Samsung Pay, getting a foothold in Bulgaria any time soon.

"We are not a large enough market for Apple Pay and Samsung Pay," says Vichev, "Although we are piloting host card emulation services and mobile wallets, it's not those versions.

"It will take ages before they reach this market... if at all."