



THE FUTURE OF THE CARD INDUSTRY: A ROUNDTABLE WITH MEMBERS OF THE ICMA BOARD OF DIRECTORS

By Kaitlin Friedmann

The end of the year is a natural time to reflect on industry trends and where cards are headed in the future. 2011 was a year filled with significant product launches and subsequent bold predictions that showed the card industry is in flux more than it ever has been before. *Card Manufacturing* talked to various ICMA board members to gain a clearer sense of the significance of this year's industry changes. We hope that the following insights from card industry leaders will help ICMA members plan for a prosperous 2012.

Our Panelists:



Kazim Raza Awan,
Cupola Plastic Cards



Barry Mosteller,
CPI Card Group



Michael Swiecicki,
Checkpoint Card Technology



Keith Yeates,
Bristol ID Technologies

Card Manufacturing: *In general, what does the future look like for the card industry? What are some growing segments and which do you see declining?*

Michael Swiecicki: I believe the use of plastic cards in the U.S. will remain steady with little growth over the next five years. I also believe there will be more value-added features added to the card in the way of inlays for RFID cards and security features. In my opinion, cards will be used as the main vehicle for transaction and retail gift cards for the next twelve years, which includes the use of paper as well as plastic. Telephone cards are the main market where we will see huge declines in card manufacturing.

Kazim Awan: In a nutshell, the picture is not rosy. There are secular trends at work which suggest that payment solutions will require less and less plastic. The general economic conditions add to the malaise. Having survived the “great recession,” we are now staring at a second worldwide slowdown primarily because of the prolonged uncertainty surrounding the future of the Euro.

In the MEA region, bank lending, particularly consumer finance, has seen severe cut backs, which has impacted the volume of cards being ordered. At the same time, the growth of the telecom sector has slowed down. Primarily because most people now have mobile (cell) phones, and consumers are choosing electronic vouchers, VOIP, Skype, etc, to make calls and send messages.

Segment wise, we see a decline in magnetic stripe cards, telephone cards and non-secure commercial cards. Growth is primarily coming from the migration of magnetic cards to chip cards. The other area of growth is the service bureau. Both personalization and fulfillment have opened up new revenue lines for us.

Keith Yeates: Bristol ID manufactures many different types of cards including both Teslin and PVC and sells into a number of different vertical markets. We have seen growth and believe we will continue to see growth in all the markets we serve. In recent years we have seen the most rapid growth in RFID and cards incorporating security features. We expect this to continue especially with RFID being used increasingly for many different applications.

Card Manufacturing: *What challenges do you perceive mobile payments will have that will cause the card to maintain staying power?*

Barry Mosteller: Even with Visa pushing dual interface EMV for the US market, many banks will stay away from the more expensive dual interface cards until the fledgling contactless POS infrastructure is broad based enough to support a potential business case for the more costly dual interface cards. NFC transaction growth is dependent on the building of this contactless POS infrastructure, and the lack of this infrastructure will add to the staying power of the card. Also, no issuer is going to move to a new technology platform like NFC without the safety net of a companion card to aid in potential issues arising with NFC, such as a dead battery on an NFC phone that needs power to make a contactless transaction or a POS that does not support contactless transactions.

Swiecicki: I believe consumer confidence, lack of security and public perception of the technology will hamper growth in this field, as well as merchants not having the proper equipment to transact mobile payments.

Awan: In our region, mobile payments are restricted to money transfers and a few public sector transactions like parking fees. The main challenges for

mobile payments are regulatory (for instance, demarking territory between telecoms and banks), the high cost of establishing the appropriate infrastructure and apprehensions about security with NFC technology. Given the experience of the time taken in migrating from magnetic stripe to chip cards, we do not see mobile payments causing a huge disruption to the card industry in MEA region for at least the next 3-5 years.

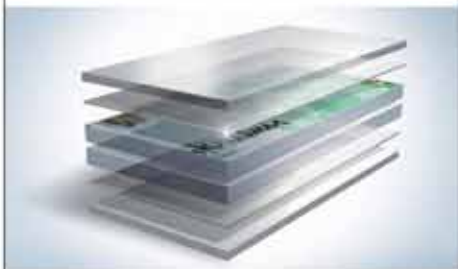
Card Manufacturing: *Are magnetic stripe cards going to be overtaken completely by smart cards worldwide? According to ABI research, smart card shipments, which include not only contactless payment cards, but also EMV and non-EMV payment cards, will reach one billion by the end of 2011. Smart card shipments will overtake mag-stripe card shipments by 2015.*

Awan: The answer for our region is an emphatic yes. We have already reached a tipping point, revenue from smart cards exceeds that from magnetic cards by at least 50 percent.

Yeates: I do not believe magnetic stripe cards will be completely replaced by smart cards. The application will determine the most suitable technology. Certain applications will not justify the inherent higher cost of a smart card plus the installation of smart card readers.

Swiecicki: This will probably occur in most other parts of the world, minus the U.S. We are far too entrenched in magnetic stripe technology to make the transition. Also, our corporate culture of purchasing cards well below the price of a smart card will limit growth due to bottom line advantages. This does not include the cost to transition the infrastructure to support smart cards in the financial markets. Gift cards and other non-secure cards will remain magnetic stripe driven.

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Lohmann GmbH & Co. KG
Irlicher Strasse 55
56567 Neuwied / Germany
Phone: +49 2631 34-0
Fax: +49 2631 34-6661
info@lohmnn-tapes.com
www.lohmnn-tapes.com



Card Manufacturing: Are there differences in consumer opinions on cards from country to country?

Mosteller: There are differences in consumer opinions on cards from region to region, generation to generation, market segments to market segment—all in the same country. You can be guaranteed there are going to be differences of opinions on cards from country to country, and each country will have divisions along different segments of their populations. This is one of the reasons there are so many different card products in the market today.

Awan: Yes. Ironically, the less developed the markets the more innovative the thinking. Kenya and Pakistan are using mobile payments, whereas the GCC (UAE, Saudi, Qatar, Oman, Kuwait) has yet to introduce these on a significant commercial scale. The reason is legacy systems—the cost of replacing high value infrastructure. In the former countries consumers see less of a future for plastic cards.

Swiecicki: Absolutely, yes. U.S. citizens are much less trustworthy of allowing personal information to be available on a plastic card no matter what the technology features claim.

Card Manufacturing: What can card manufacturers do to innovate and evolve with consumer needs?

Mosteller: Listen to their customers or try to get ahead of the curve by

listening to your customer's market. Attend industry events such as the ICMA North American Workshop, EuroForum and EXPO to see the new materials, market trends, new technologies and new processes that are out there. Talk with your customers and industry experts to understand the direction your market is taking. Think outside the box and utilize all you have gleaned to brainstorm with your key customers. This will usually result in some crazy ideas of which only one needs to take hold to be the next best thing out there.

Awan: Diversify—more revenue concentration from services and less reliance on products. Move up the technology curve instead of buying printers. Develop in-house capabilities in software. Make the elephant dance if possible.

Yeates: I believe consumers would like more environmentally friendly cards, cards with multiple technologies for multi-use reducing the number of cards carried and cards that are more secure. The first one is dependent upon the materials companies developing lower cost environmentally friendly card material. The second is more dependent upon the system integrator design systems that can utilize a multi-purpose card. The third one is in the hands of the card manufacturer.

Swiecicki: Keep reinventing your company and do not become close-minded to change. 🌐

