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# E-SAFE

Backed by casino money and aimed partly at the online gaming market, director of operations at Ivobank **Richard Maddams** talks to Barry Mansfield about the first independent online UK savings bank to be launched since the dotcom bubble burst.

Against a background of record breaking stock market falls and an international overhaul of the banking sector, a management team including three former Cahoot managers has this year set up the first standalone internet-based UK savings bank since the dotcom boom. Ivobank has been in the planning since 2005, with backing from Indonesia's wealthy family, the Sampoernas, owners of London casino Les Ambassadeurs.

Tim Sawyer, former chief executive

## Virtual debit

Customers in France, Italy and Germany now have access to a virtual debit card – the Ivobank Virtual Card – which can be used to make purchases online anywhere that MasterCard is accepted. Every time customers use the card a new card number is produced and customers can set a transaction limit. This means that, once the transaction has been made, the card cannot be reused, increasing security for online shoppers.

of the Abbey-owned internet bank Cahoot, and Martin Peterlechner, Cahoot's ex-head of sales and marketing, launched the service in May to provide secure online shopping services and simple, cost-effective cross-border money transfers. Sawyer, who serves as managing director, says the target market is 'anyone who shops online but does not want to use a credit card'. So far this has meant online bankers, gamers and shoppers, with Ivobank available from September to customers in France, Italy and Germany as well as the initial launch countries of the UK, Spain, Ireland and Canada.

Sawyer admits that online gamers constitute one of the firm's initial target markets. The billionaire Sampoerna family know this market well; having made their fortune in the Asian tobacco industry, they also own Mansion Poker and Sportsbook. 'The online gaming industry has developed rapidly in recent years, but the financial services supporting it have not kept pace,' explains Sawyer. 'Many online businesses and customers have been ill-served to date, resulting in relatively high costs and relatively low levels of service.'

In some ways reminiscent of PayPal, the online payment service acquired by auctioneer eBay in 2002, Ivobank accounts are free to sign up to and require no minimum deposit. Customers are offered round-the-clock customer support via

telephone, live online chat and secure email, with competitive interest rates on deposits held.

Additionally, Ivobank allows customers to move money instantly from their account to friends and family overseas for free, which Sawyer hopes will make it attractive for international money transfers. For example, parents can now transfer money to a child who may be studying in France, or European property owners can now send maintenance money overseas to management agents without the inconvenience and cost of exchange fees and delays.

## International aid

At the heart of Ivobank's offering is its use of the Single European Payments Area to offer private or small business customers free cross-border money transfers – current cross-border transfers can incur a charge of around £30 made by banks. Ivobank also claims to offer small online businesses better transaction terms than credit card providers, which can charge up to 5% of the value of a purchase.

Richard Maddams, director of operations at Ivobank, claims that the service's virtual card and direct money transfer services provide greater security for both the purchaser and the merchant than typical online credit card transactions. He also

- Financial services have not kept pace with the online gaming market
- Customers are looking for a blend of online payments, with the breadth of service of a UK bank

points out that, in times of great uncertainty and with margins under pressure both on the high street and among online retailers, merchants have been searching for insurance against the charge-back problem.

'A quick survey of e-wallet, or e-payment service providers, tells you that they tend not to be banks,' he says. 'In today's climate, customers obviously want the reassurance that their deposits are protected by the Financial Services Compensation Scheme. I think they're looking for a blend of online payments, with the breadth of service of a UK bank. They need a cost effective means of getting funds into their businesses, but they also want to be indemnified by the bank, with the risk of charge-backs removed. Online retailers are really plagued by this issue of charge backs on credit cards.'

Maddams believes customers also want the convenience of being able to open accounts online and in real-time. 'Part of what we need to adhere to is "know your customers" [KYC] regulation. It takes a great deal of effort to get that part of your system correct. You have to go out and call on various services to enable you to go through name, address and age verification of the applicants. You can use technologies like IPG allocation checking, or Global Address Verification. There are a number of KYC sources available online, but it varies from one country to another.'

He gives the example of Spain, where the national ID card number is frequently used for verification. 'Also on the horizon is device fingerprinting, which is more targeted than ID checking. It's a good idea to go through these external services, to check and verify the details, and use an internal decisioning engine, in order to place your applicants in different risk categories. Based on the category, you can decide on the amount they can transact.' Ivobank also asks its customers to register an external bank account, which they can verify. 'They have control of that process. We ask them to register debit or credit cards with us online, which they can use to deposit funds with us. We've looked at this in quite a lot of detail. The automation of the workflow is critical.'

This hasn't caused too many problems for Ivobank so far, because 80% of the transactions it handles don't need to pass through its contact centre – these are

carried out online from start to finish. But Maddams points out that support centre location is a major cost source for any financial services firm. If online support through the site is not adequate in satisfying the customer query, the next preferred medium is email, followed by online chat, and lastly voice.

'We went out to market and looked at the options available to us, and decided to base our contact centre in Asia. If your ambition is to support customer contact around the world, in other words your operation is not purely UK focused, then the current outsourcing hotspots like India will continue to be an attractive



location to run these functions in future. If you want to stay low-cost, it's an important consideration.'

According to Maddams, one of the benefits of being a startup in the financial services space is that new companies are not hamstrung by legacy technology. He describes how Ivobank developed its business plan three years ago, testing its value proposition with target merchants and customers, and beginning work on technical feasibility studies. In 2006 the bank wrote out its business requirements, soliciting tenders from a number of technology and service providers.

By the close of 2006 it had settled on its preferred technologies and contracted out. 2007 was 'about the build integration test of both the technology platform, as well as building our offshore contact centre capability. We have not had to worry about migration from legacy to new. It's using tried and tested applications available in the market today, but I'm a big believer in using service oriented architecture (SOA) to integrate the applications you need to provide your service. We're using it for 30–40 of our own applications and services, 20 of which we host, but which call out to other services.'

In January 2008 Ivobank was awarded its full bank deposit taking licence, as well as an e-money issuing licence, which enabled it to set its own correspondent banking relationships and to achieve access to various payment mechanisms. 'It makes

## Ivobank and Unibet

In late September 2008 Ivobank announced its partnership with online gaming giant Unibet to provide fast and secure online payment and banking services to its customers. Ivobank will be activated as a payment option to Unibet's customers on country-by-country basis, with Spain first on the list. Unibet is one of the largest online gaming operators in the European market, with 2.5 million customers in 150 countries. It offers an online sportsbook, casino, poker, games and scratch cards.

Ivobank says that it has designed its products and services to minimise costs for gaming merchants and gamers and to offer them a higher level of service. Daniel Alsén, CIO and Head of Business Development at Unibet, admitted that Ivobank's ability to indemnify and settle funds immediately at anytime was an attractive feature, as well as the possibility of offering customers competitive interest rates.

Unibet customers can apply for an Ivobank account online at: or can access Ivobank's payment service through the Unibet website by logging on to the Unibet website.



### Pocket the e-wallet

An Ivobank eWallet is the online equivalent of a real wallet, used to securely store money. It can be funded in various ways: by transferring money from an Ivobank Savings Account or from a registered external bank account or using existing debit or credit cards. Money in the Ivobank eWallet can be used to make online payments, directly to merchants' accounts who partner Ivobank or to another Ivobank Account holder.

sense for a new venture to target niche segments that tend to be underserved, and then offer services to merchants in that segment, growing the customer base through fairly aggressive customer campaigns,' adds Maddams.

However, as recently as June, Sawyer admitted that he did not expect individual customers to deposit much more than

grow other aspects of its business model, including person-to-person payments and international transfers, and Maddams says the plan is to carry this out in stages as user numbers grow. He believes the success of a transaction-based business depends on the successful identification and understanding of frequent users and their needs. 'If you're

says that firewall technology, real-time network intrusion prevention monitoring, internal and external vulnerability scanning, virus protection, third party services, penetration testing and patch management are all must-haves, but stresses that there is no single solution to IT security. 'Those are the expected security measures and security has to be top of mind,' he says. 'But it's important to take account of the wider picture, with a focus on business continuity and disaster recovery methods, both for onshore and offshore operations. At this time the FSA is very interested in those areas, as

**'Customers want the reassurance that their deposits are protected by the compensation scheme. They're looking for a blend of online payments, with the breadth of service of a UK bank.'**

£1,000, because the savings rate is not particularly competitive, but that he planned to have 'one million active users within three to five years' – attracted by the secure online shopping and money transfer service.

#### Geographical expansion

The plan is to roll out the business, which employs 75 people, to additional countries within the EU, such as the Netherlands and later the Far East. Additionally, Ivobank is hoping to

a transaction based operation and you don't give credit, secured or unsecured, then you're relying on the fees generated from customers.

You don't have to go out and raise credit. You have no toxic debt. A small proportion of your customers are likely to use your services extensively. You have to provide exceptional service to them. You achieve value from the segmentation of our customers and differentiating service to them.'

As for internet security, Maddams

it prepares to deal with incidents created by the financial instability in the markets.' FBA

#### Richard Maddams

Richard Maddams is director of operations for Ivobank. He has over 20 years' experience in information systems and technology, including a four-year spell at Logica plc, where he served as divisional director at the international business unit for payment solutions. He has also been head of consulting practice at AT&T Solutions in Hong Kong and spent 11 years at PA Consulting Group in the UK, US and Asia.

