

market eye

This is a confidential, high-level industry news and business intelligence update bulletin. For further information on any of the items contained within the bulletin or to discuss the potential impact of these items on your business, please contact Savantor on our dedicated support centre e-mail address (info@savantor.com).

Savantor Limited
68 Lombard St
London EC3V 9LJ
Tel: 0870 734 6250
Fax: 0870 734 6251
email: info@savantor.com
www.savantor.com

Click on the links below to see back copies of MarketEye or view Savantor Resourcing services



Items in this issue:

Savantor's Views	1	Fraudulent misuse of bank accounts on the rise.....	3
The next big thing never comes	Error! Bookmark not defined.	UK finance sector IT spending to remain flat	3
Products and Initiatives	1	New ATMs launched to boost circulation of £5 note	4
Metro Bank to open.....	1	Digital Money	4
Microsoft develops Internet fraud alert system	2	Soaring mobile payments uptake in 2010.....	4
Liquid encryption number used to beat skimmers.....	2	Barclaycard promotes pre-paid cards as substitute for cheques	4
New m-banking platform kicks off.....	2	SocGen targets Africa for m-payments roll-out.....	4
Market News and Views	2	Outsourcing, Acquisition and Deals	5
Co-op Bank tops UK web site review	2	Spanish processors Sermepa and Redes propose merger	5
Zopa beats traditional banks in public trust	3		
Poll reveals priority for ATM usage.....	3		

Savantor's Views

Why Credit Card interest is on the rise

There have been a few newspaper headlines about credit cards recently in the UK mostly along the lines of banks continuing to rip customers off charging high interest rates on credit card balances when the base rate remains at a mere 0.5%. This is a fairly frequent occurring cheap shot by journalists looking for an easy headline. Perhaps they should look at the latest Financial Stability Report, where the Bank of England notes that write-off rates on credit card lending hit a record high of 10.4% in the first quarter of 2010, amounting to £1.25 billion – the second highest quarterly amount on record. Its statistics show that the average UK credit card rate was 16.51% in April this year, slightly higher than in July 2007 when it was 15.2%.

The Bank warns that a setback to the economic recovery could “aggravate household distress, particularly among borrowers with high unsecured debt repayment gearing”. According to the report, unsecured lending to households accounts for a relatively small proportion of UK banks’ loans to domestic customers but since the beginning of 2007 these exposures have accounted for around two thirds (£23 billion) of domestic write-offs by the banks.

In the case of credit card debt, over £4.5 billion has been written off in the past year, amounting to about 10% of all money lent on credit cards, which probably has rather more to do with the current level of interest rates on cards than the base rate.

Products and Initiatives

Metro Bank to open in UK

Metro Bank, the first new high street player to enter the UK market for 100 years, will open its doors to customers in six weeks. The first branch - at One Southampton Row, Holborn, London - will open for business on 29 July, with a second in Earl's Court following a week later. Metro says it plans a further 12 stores for Greater London over the next two years as part of a 200 store expansion.

Branches will be open seven days a week. There will be a 15-minute turnaround time for approved account applications over-the-counter and branch services will be backed up by online services and a

Whilst Savantor Limited ("Savantor") has used reasonable efforts to obtain information from sources which it believes to be reliable it does not make any representations or give any warranties or guarantees that the information provided or any opinions expressed herein are accurate, reliable or complete and none should be relied upon as statements of fact. In no event, including (without limitation) negligence, and in no circumstances will Savantor be liable for any loss or damage of any kind whatsoever, including (without limitation) any direct, special indirect or consequential damages, caused by the use of or reliance upon information provided or opinions expressed herein.

24/7, London-based, call centre. (Source date: 16th June, 2010)

Microsoft develops Internet fraud alert system

An Internet Fraud Alert system designed to provide security researchers with a way to report information they find online about stolen account credentials has been launched by a Microsoft-led coalition. Security researchers from disparate fields - retail, financial services, technology, academia, consumer advocacy and government - often find stolen and compromised credentials relating to other institutions. However, until now, when the security community uncovered this information there was no simple mechanism to quickly and effectively warn the service provider or bank. Internet Fraud Alert is designed to provide this mechanism so participating researchers can report stolen account credentials - such as username and password login information and compromised credit card numbers - to the appropriate institution. (Source date: 18th June, 2010)

Liquid encryption number used to beat skimmers

National Australia Bank (NAB) is rolling out technology designed to combat card fraud by automatically updating magnetic stripe security information every time an ATM transaction takes place, according to NZPA. The "liquid encryption number" (LEN) technology was developed by NAB subsidiary Bank of New Zealand, which now uses it for all credit and debit cards.

By changing the mag-stripe number, the technology helps tackle skimming fraud, where crooks attach devices to ATMs to copy details which can then be used to clone cards. LEN allows the bank to automatically detect if a card used at one of its ATMs has been copied or duplicated and take action to stop transactions. According to NZPR, the system has helped BNZ cut the number of fraudulent transactions from cloned cards by 50%, prompting its Australian parent to take it up. (Source date: 23rd June, 2010)

New m-banking platform kicks off

Intelligent Environments is claiming early success for its new mobile banking offering, signing up three clients to the service. IE signalled its intention to take on market leader Monitise in February after raising £0.75 million through a share placing to fund development of a new mobile banking platform.

At the company's annual general meeting, chairman Clive Richards revealed that in addition to First Data, two other existing clients, Generali and LaSer have signed up and are expected to go live in the third quarter of 2010. However, the positive mobile news is tempered by a "subdued" UK retail banking market which has affected the NetFinance business, where sales cycles have been extended, reducing implementation fees, although this is expected to pick up in the second half. (Source date: 29th June, 2010)

Market News and Views

Co-op Bank tops UK web site review

The Co-operative Bank has topped a review of how well UK retail financial services Web sites sell services and products, with Yorkshire Bank bottom. The report, from Forrester, ranks the Web sites of the ten largest UK retail banking brands based on the results of a benchmark using a test persona to research and apply for a particular product, taking in 25 content and functionality criteria.

Out of a possible 100, the Co-op scores 64 points, with its site doing "well in supporting the user both in researching and in applying for a current account online". The site excels in attracting customers with effective campaigns and provides well structured and complete product information and educational content. It also earns a high score in post-application support by providing detailed information on the next steps, both online and via e-mail.

NatWest claims second spot with a score of 59, followed by Santander on 57, Barclays 53, Lloyds TSB 51, Halifax 50, first direct 47, HSBC 43, Nationwide 36 and Yorkshire Bank on 15. No Web site is good across the board, says Forrester, with banks that provide excellent content and functionality in some areas fail to meet the standards in other aspects. First direct, for example, does well at attracting users and providing product information but "is surprisingly weak for a direct bank in supporting product applications". Santander's site is good in the attraction phase and also does well in supporting the application for a current account "but fails to provide clear and well-structured product information, comparisons, or selection tools".

There is a clear incentive for banks to improve their sites because, says Forrester, almost 60% of British Net users have researched a financial product online in the past 12 months, more than in any other European country. In addition, 40% have applied for a financial product online in the past year, double the European average. (Source date: 17th June, 2010)

Zopa beats traditional banks in public trust

With traditional high street banks losing public confidence in the wake of the financial crisis, online provider first direct and P2P lender Zopa have emerged as the industry's most trusted players, according to research from Moneywise magazine. The research, based on responses from over 10,000 people for the magazine's customer service awards, shows first direct is the most trusted overall service provider. It also comes out on top as a provider of travel insurance, credit cards and mortgages.

However, the surprise winner is Zopa, the social lending platform set up in 2005 to challenge the traditional banking model. It has been named the most trusted personal loan provider, beating off competition in the category from Alliance & Leicester, First Direct, Halifax, Lloyds TSB and Northern Rock. Zopa's win was part of a wider trend that also saw other non-traditional financial service product providers such as John Lewis, Tesco and Marks & Spencer gaining recognition in a sign that trust is as much about brand as it is about product. (Source date: 18th June, 2010)

Poll reveals priority for ATM usage

Level Four Software has announced the results of a survey that revealed the top priority for 39% of ATM industry professionals is maximising ATM revenue. The annual survey of delegates at the ATMIA European ATMs show also showed 25% of respondents believe the opportunity to enhance customer services at the ATM lies in integrating the ATM channel with other banking channels. In 2009, the survey showed that the top focus was reducing network downtime.

As ATM developers go further beyond the point of creating and fine tuning ATM technology, the evidence shows that the priorities are now shifting and 27% of industry players are focusing on improving customer service available at the ATM. This result highlights a change in priorities from last year where 11% of respondents saw rolling out new customer services as important.

At the same time 30% of respondents are making future technology investments to generate cost savings through improved efficiency at the ATM. These technology investments go against the grain of most during the downturn. Indeed 21% of respondents claimed that budget cuts elsewhere in the bank have resulted in increased budgets for self-service channels such as the ATM. (Source date: 20th June, 2010)

Fraudulent misuse of bank accounts on the rise

Members of CIFAS the UK's Fraud Prevention Service reported nearly 16,000 instances of fraudulent misuse of bank accounts in the first 5 months of 2010. This was 1% higher than in 2009 and 2009 was 42% higher than 2008 with just 11,000 cases.

Other types of misuse of accounts, insurance policies and other facilities have reduced by 9% this year, making the rise for bank accounts all the more remarkable. For fraudsters the bank account is clearly the financial product of choice.

Reasons for the bank account surge:

- Over 75% of misuse cases involved a bank account
- Over two thirds of these cases involved altered or false cheques (or other fraudulent financial instruments) being paid in.

As economic uncertainty continues, the link between financial difficulties and the high level of fraudulent use of bank accounts cannot be ignored - with individuals, for example, doctoring cheques or the paying in, or out, of cheques and electronic payments that will certainly not be honoured. Some of this activity is highly organised but banks are recognising these scams and intervening to stop the organised movement of dirty money from one account to another. (Source date: 25th June, 2010)

UK finance sector IT spending to remain flat

Spending on IT by UK financial services firms is set to remain flat over the next year, while employment in the sector could be set for a modest rise, according to a survey from the CBI and PwC which also reveals industry growth in the last quarter has been lower than expected.

According to the survey of 73 market participants, activity in UK financial services grew in the last three months at the fastest rate since September 2007 but was still much lower than expected and well below "normal". Profitability rose for the fourth consecutive quarter, but respondents expect this to level off during the next three months. Meanwhile, the numbers employed in the sector continued to fall during the last three months but only modestly - a balance of minus six per cent - and slightly slower than expected. Firms now expect staff numbers to increase next quarter and, if this materialises, it will be the first increase since December 2007. The survey also shows that concern about the impact of regulation and legislation on future business remains high. The number of firms saying they are concerned about the impact of statutory legislation on their ability to expand in the next 12 months remains high at 62%, following the previous quarter's record 74% level of concern. In addition, the percentage of firms believing there is a high likelihood of further deterioration in financial markets has risen to 23%, the highest proportion since the first quarter of 2009. (Source date: 28th June, 2010)

New ATMs launched to boost circulation of £5 note

In a bid to boost circulation of the £5 note, ATMs which only dispense fivers have been installed across Britain, following a two-year trial in London. Almost two dozen machines, run by the ATM operator Bank Machine, have been installed in various locations, including Manchester, Stroud, Oxford, Cardiff and Portsmouth.

The launch comes after the Bank of England has previously said it will encourage shops to give out more £5 notes in change to meet demand. The belief is that the ability to withdraw £5 notes will help people to budget – particularly as household finances continue to be squeezed. However, the downside of stocking machines with £5 notes means ATMs need to be stocked more frequently, which raises security issues. (Source date: 28th June, 2010)

Digital Money

Soaring mobile payments uptake in 2010

The number of people using their mobile phones to make payments is set to grow from 70.2 million in 2009 to 108.6 million this year, a 54.5% rise, according to research house Gartner. This represents 2.1% of all mobile users, with the fastest take-up of the technology witnessed in developing markets such as Asia, Eastern Europe, the Middle East and Africa, driven by the unbanked and underbanked. In Asia Pacific, m-payment users will surpass 62.8 million in 2010 and represent 2.6% of all mobile owners. In Europe, the Middle East and Africa there will be 27.1 million while in North America the figure is expected to be just 3.5 million, or 1.1% of all mobile users in the region.

SMS remains the dominant mobile payment technology, says Gartner, because of its ubiquity and ease of use although Web and app-based systems gaining some ground in developing markets. However NFC technology is still struggling to take off, with many banks seeing no business case. (Source date: 22nd June, 2010)

Barclaycard promotes pre-paid cards as substitute for cheques

Barclaycard Commercial has announced the launch of its new Pre-paid card, providing organisations with a simple way to improve efficiency and gain more control over their spending and the way funds are distributed. The new card can benefit organisations by removing the need for them to rely on traditional paper-based methods of making payments, which are becoming increasingly costly, complicated and time-consuming. In addition to speeding up the process of managing funds, the new card can provide extra accountability and control, with the ability to implement bespoke spending controls. (Source date: 23rd June, 2010)

SocGen targets Africa for m-payments roll-out

Societe Generale has launched a mobile money transfer and bill payment service in Senegal that is open to anyone with a handset, whether or not they have a bank account and regardless of their network operator. SocGen says the Yoban'tel service - which is based on technology from Obopay - is designed as a universal payment method open to the largest number of people possible, whether they have bank accounts or not.

Any mobile phone can carry out the transaction, using SMS to send transfer requests, without having to change the SIM card or install an application. The Senegal deployment will be followed by an African-

wide roll out, with Yoban'tel eventually becoming the bank's m-payments system worldwide. (Source date: 28th June, 2010)

Outsourcing, Acquisition and Deals

Spanish processors Sermepa and Redes propose merger

Spanish card payments network processing operators Sermepa and Redes y Procesos have agreed a merger deal designed to pool resources and compete in a Sepa-based European market. The merged entity, to be called RedSys, will process transactions for cards belonging to the member banks of Spain's two largest payments systems, ServiRed and Sistema 4B. It will handle around 3300 million transactions a year, originating mainly from the 60 million banks cards, 45,000 ATMs, and about one million point-of-sale terminals that are owned by the banks belonging to the networks. (Source date: 30th June, 2010)