

market eye

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Savantor's Views

Focus on collections

Collections used to be the 'forgotten' area of banking – under-resourced, underfunded and with low status. Things have changed with the credit crunch – as one bank MD put it recently – 'We all have to be collections experts now'. A very laudable thought but will it be translated into action or forgotten once the immediate danger is past? The key is whether the collections department is seen as an expense area or as contributing to the bottom line, as a place to cut costs or to improve income. If the double dip recession does occur, or even if we only have a prolonged period of little growth and tough economic conditions, will our lending organisations be prepared to invest in the additional people, training and technology to meet an increased workload in the collections department? With net losses on some UK card portfolios reaching 10%, the focus on collections and recovery has never been sharper. The market is responding in a number of different ways to these and other challenges.

Self service – in the same way that the government is trying to persuade people to do more online, doing more on-line or by text is increasingly popular. If nothing else, this option can be designed to address the forgetful, 'casual' arrears and who knows how many other customers would be more willing to deal with faceless, on-line processes rather than explain their circumstances and mistakes to another human being. The caveat is that self service may be only a filtering mechanism – the first step in the overall collections process.

Earlier intervention with pre-delinquency strategies – again very dependent on the technology, and on the availability of good bureau data. Customers identified as having a higher than average risk of delinquency need very careful treatment - some organisations have found that making contact with these customers can actually **lead** to delinquency (they had been trying to keep the problem to themselves, but once the lender knows about it, they 'give up'). Early intervention can also lead to a reduced share of the customer wallet – they had been paying all that was due each month, but after contact with the lender they may ask for and get reduced payment terms. What is more likely to be successful with pre-delinquent customers is using the opportunity to make sure you have good, working contact details (usually phone numbers), to control or reduce limits so that the lenders exposure does not increase and to flag these customers in some way so that if they do miss a payment or pay late, they are escalated to immediate action, rather than being given grace days or a period of letters only.

Expanding the range of contact mechanisms – if collections is a contact sport, the more methods of

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contact available will increase the chances of success. In the past this meant making a phone call as well as sending a letter or putting out a statement message. Now this might mean using SMS messages to drive up inbound call volumes, specific emails or use of secure messaging on internet banking sites. The key point here is to make all of these messages consistent with each other and to introduce new, firmer messages as the delinquency becomes more severe.

Extending the range of payment options – many credit cards still only offer the options of minimum payment or payment in full each month. A full range of options including fixed payment amount, 25% or 50% of balance outstanding give the willing but over indebted a chance to make inroads into their debts. The practice of reducing the direct debit amount if additional payments are made could also be working against the interests of both borrower and lender in the current economic environment.

Products and Initiatives

First Data introduces contactless payment tag

First Data Corporation and INSIDE Contactless have announced the companies have expanded their partnership by introducing a MasterCard® PayPass™ contactless payment tag product. Based on INSIDE's MicroPass® payment platform and containing all the functionality of a traditional credit or debit card, the new MasterCard PayPass mobile payment tag product offers a solution for enabling mobile phones with contactless payment capabilities, and will be marketed and sold to MasterCard licensed financial institutions and card issuers.

The MicroPass-based tag products offer shielding design to protect the chip and antenna inside from interference caused by the mobile handset, resulting in enhanced transaction performance. The tag includes new adhesive backing to adhere to mobile phones better while allowing the sticker to be removed and reapplied without losing its grip. Because the tags are pre-cut within and break-away from a standard credit card form factor, they can be personalized and fulfilled using existing card manufacturing equipment in scalable volume. The new First Data tags will enable card issuers to realize cost savings over comparable sticker solutions, depending on quantities ordered. (Source date: 1st July, 2010)

Barclaycard unveils cross-border online payments system

Barclaycard has announced that it is planning to launch Barclaycard SmartPay, a new payment processing system to help Barclaycard's e-commerce customers manage their cross-border payments. Barclaycard SmartPay, which has been piloted during 2010, will work by giving organisations access to one single payment processing system to use across markets that can be tailored to provide a range of language and currency settings dependent on where the customer is paying from. When it launches later this year Barclaycard SmartPay will protect customers with a wide range of built-in fraud and risk tools, be PCI DSS compliant, and will appeal to merchants in key online sectors such as gaming, retail and travel. (Source date: 1st July, 2010)

PayPal launches mobile version of Express Checkout

PayPal has introduced a mobile version of its Express Checkout service designed to make online purchases quick and easy for customers on the go. The Mobile Express Checkout lets customers make purchases with just a few clicks, without having to re-enter billing, shipping and payment type data. PayPal says its one-stop payment service gives merchants access to millions of mobile shoppers and is easy and quick to integrate with strong fraud prevention. It is initially only being rolled out on iPhone and Android 2.0 (and higher) devices by a limited number of retailers, including Nike and Buy.com, ahead of a full deployment later in the summer. (Source date: 2nd July, 2010)

UK ATMs open up to German girocard users

German girocard debit card holders can now withdraw cash from 63,000 Link network cash machines in the UK. Link and girocard scheme operator Zentraler Kreditausschuss struck the deal through Eaps, which aims to unite independent card schemes throughout Europe under a single framework, providing an alternative to the international offerings. The UK/Germany ATM access deal follows a similar link-up between Germany and Italy that went live under Eaps in 2009. (Source date: 12th July, 2010)

BBVA trials designer ATMs

Spanish bank BBVA has begun piloting state-of-the-art, touch screen ATMs developed in conjunction with design consultancy Ideo. The finished machine - built with NCR and Fujitsu - sees all operations, including PIN entry, completed on a 19-inch iPad-style touch screen that displays only information relevant to the transaction at hand, with cash, statements and receipts handled in and out through a single slot. To improve security, the customer stands at 90 degrees to anyone else who may be waiting, shielded by a frosted panel. (Source date: 13th July, 2010)

Market News and Views

Banks must wake up to mobile virus threat

Banks offering m-payment services need to start working with mobile network operators and handset manufacturers to improve security in anticipation of increased malware threats, according to Ovum. Ovum argues that mobile banking is inherently vulnerable because handsets are liable to be lost, stolen or hacked and are used in situations that are less secure than sitting in an office or at a home computer. Ovum says defence has to be designed incrementally to a level that is at least equivalent to that deployed in Internet banking but it cannot be a simple copy. While many of the concerns and strategies are similar, the approach must be tailored to the characteristics of the channel and the way in which it is used. In addition, security must not detract from usability - unobtrusive enough not to interfere with normal transaction flows while still providing users with the confidence to know that their banking activities are protected. (Source date: 6th July, 2010)

'Traditional Bank' on the horizon

The new high street bank being set up by Lord Levene and Sir David Walker is eyeing up the acquisition of Lloyds' online unit Intelligent Finance, according to press reports. The new Project will look to buy government-owned bank assets, with the 600-strong Cheltenham & Gloucester branch network that the EC is forcing Lloyds to sell, the group's top target. Northern Rock is widely reported as another potential acquisition. According to City AM the group are also in the market for an online banking acquisition and have set their sights on Intelligent Finance, which the EC is forcing Lloyds to sell. (Source date: 12th July, 2010)

Visa Europe releases best practices for card data tokenisation

Visa Europe has announced global industry best practices for tokenisation to provide guidance to retailers, vendors, service providers and acquirers and to promote safer payment environments. Based on Visa Europe's experience working with the industry and also insights from data compromise investigations, these tokenisation best practices are the latest in a series of guidance documents from Visa Europe to help merchants reduce or eliminate sensitive card data from payment systems and simplify data security and compliance efforts.

Tokenisation is a process through which a card number is replaced by a proxy value. Merchants and processors that use tokens in accordance with best practices are able to limit PAN storage, significantly reducing the risk that sensitive cardholder data may be stolen by data thieves. By reducing the amount of vulnerable information that needs to be protected, merchants can simplify their payment systems and improve payment security. (Source date: 14th July, 2010)

Digital Money

Visa contactless cards in issue in UK to reach 12 million by year end

The number of Visa contactless cards in use in the UK is expected to reach twelve million by the end of 2010. Visa payWave cards in circulation in the UK passed the eight million mark in June and this is expected to continue to climb in 2010 as more banks introduce the functionality. Much of the current output can be attributed to Barclays' decision to issue contactless cards as standard for all UK customers. Visa says the recent rise in the contactless transaction limit from £10 to £15 is also making the cards a more attractive proposition. Visa says average transaction values on the cards currently runs at £4.30, with evidence emerging of an increase in use among cardholders. (Source date: 7th July, 2010)

Co-op to introduce contactless payments

The Co-operative Food will become the UK's first major grocery retailer to introduce contactless payment in its stores nationwide after joining forces with Barclaycard. The roll-out will begin with a pilot in 100 Co-operative food stores next year after an agreement was signed with Barclaycard in partnership with Visa. If the pilot is successful, The Co-operative says it will roll out the terminals to the majority of its food stores in time for the 2012 Olympics. The Co-op expects contactless to increase throughput as research has shown that a large number of customers will walk out of a shop if they see an excessive queue length. (Source date: 14th July, 2010)

Outsourcing, Acquisition and Deals

IE agrees Documetric deal

Intelligent Environments has outlined plans for a reverse takeover of Documetric, a provider of outsourcing services in finance and administration, including payments processing, content management and business intelligence. The deal, subject to shareholder approval, values the entire issued share capital of Documetric at £13.8 million. The combined firm will be called Parseq Documetric has a 6% market share in UK wage and salary BACS payments market and provides a BACS BPO service on behalf of banks to over 79,000 of their SME. (Source date: 5th July, 2010)