

This is a 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 info@savantor.com.

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Savantor's View

The growth of contactless

In under a year spending on contactless cards has trebled in value in the UK, according to the latest figures released by the UK Cards Association. In March, contactless payments totalled £1.508 billion, up from £0.5 billion in May last year. There is now a total of 86.5 million contactless cards in circulation in the UK, with one in seven of all card transactions now contactless, compared to one in 16 a year ago.

This trend is supported by data produced by Visa Europe for the use of contactless across Europe, where one in five face-to-face transactions are now contactless. The card scheme says that it has processed three billion contactless payments in Europe in the last year, which is nearly triple the amount in the previous 12 months.

Poland, Spain and the UK are the countries in Europe where the use of contactless is most prevalent, according to the figures from Visa Europe. British usage grew by 300% from 51 million transactions in April 2015 to 153 million in April 2016.

There are a number of factors which have encouraged this rise in the UK. The adoption of contactless as a means of payment by Transport for London has certainly played a major role in causing the growth spurt, aided by the introduction of mobile payment technology such as Apple Pay and the increase of the contactless limit to £30.

The Co-op supermarket has predicted that contactless transactions will outstrip the use of cash within the next ten years, after experiencing a sharp rise in customers using contactless to pay at the till, even though almost two thirds (65%) of all transactions in its stores are currently paid for with cash.

Perhaps more surprisingly, according to Barclaycard, Britons over the age of 60 are the fastest growing group of people taking to contactless card payments, with spending in this age group more than doubling in the last year. The Barclaycard data indicates that the number of over-60's using contactless payments increased by 116% over the last 12 months, whereas previously this segment of the population seemed to be more reticent about using this payment method.

There continues to be speculation about the role and future of cash, with a variety of different views and opinions held and expressed about its longevity as a payment method. However, one thing that is certain is the importance that contactless now has as a means of payment and that it unquestionably has a place in the payment landscape of tomorrow.

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Products and Initiatives

Charity introduces contactless donation boxes

Mary's Meals, a Scottish charity that works to feed hungry children around the world, is taking the donation box digital, placing terminals at cafe checkouts where diners can contribute 30 pence to the cause by tapping their contactless cards. The charity is piloting the new NFC-enabled boxes, created by Earnest Labs, in cafes across England, hoping that the locations will draw interest from cafe customers.

A spokesman for the charity said that the innovation uses some of today's best technology to allow people with busy lives to make a real difference in the world without having to set aside time to do it. (Source date: 10 May 2016)

Citi to roll out voice recognition tech across Asia

Citigroup is to roll out voice recognition software to its Asian customer base, resulting in the shrinking of its branch network as more customers move to online and mobile banking. The bank will roll out the voice recognition technology in Singapore first, followed by Australia, Hong Kong, India and Taiwan over the next few months.

The Asian plan follows the introduction of voiceprint technology in the US credit card market, where the bank has enrolled some 70% of its customer base. It plans to have at least 1 million Asian users of the technology within the next 12 months.

The bank reduced the number of branches in Asia by nine percent to 481 in the first quarter from a year earlier, according to a statement in April, adding about 1 million new digital banking clients. (Source date: 5 May 2016)

Yorkshire and Clydesdale Bank launch digital challenger bank B

Clydesdale and Yorkshire Banks are launching an online and mobile-only bank dubbed B. The B proposition is built around an app, available for free for the first 12 months, then for £2 a month. As well as allowing users to sweep cash between current and savings accounts and make payments at the touch of a button, B offers multiple savings pots, tagging and tracking of spending and tailored messages, and hints and tips to help customers. Dedicated customer support is available via the app, through a call centre and across the branch network.

B is intended to appeal to the new tech-savvy generation of banking customers that are the target base of a host of UK banking startups. Its launch represents the first major initiative for the Banks since the company's IPO in February this year and signals the importance of innovation to its future growth strategy. (Source date: 3 May 2016)

Turkey launches national payments system

Turkey has gone live with its own card payment system, dubbed Troy, hoping that building its own card system will boost its economy by reducing the use of cash, lowering inflation and tackling the black market. The objective is apparently to create a cashless society by 2013.

The country's ATMs, POS terminals and e-commerce sites are ready for Troy transactions and cards bearing the Troy logo will now start making their way to customers. (Source date: 29 April 2016)

DBS launches mobile-only bank in India

Singapore's DBS has launched a mobile-only bank in India, incorporating a host of ground-breaking technology, from AI to biometrics.

Prospective customers can open accounts at a network of partners outlets which includes over 500 cafes across India, with authentication conducted using the biometric ID Aadhaar card. Customer service is provided by a 24x7 AI-driven virtual assistant, capable of handling natural language queries on banking transactions performed and conducting account transfers.

The bank also provides a smart budgeting tool, capable of analysing user spending habits and making recommendations, while cash withdrawals can be performed at up to 200,000 ATMs across India using a physical Visa debit card. (Source date: 26 April 2016)

Online challenger Masthaven Bank secures banking license

Masthaven Bank has joined the ranks of new financial institutions to receive a retail banking license from the Prudential Regulation Authority and Financial Conduct Authority.

The digital-only startup is to launch officially in the summer offering a range of competitive online fixed-interest savings products, enabling customers to tailor maturity dates and interest rates in a way which suits them. It will also build on the experience of parent company Masthaven Finance to provide specialist mortgages for UK borrowers who might struggle to get loans from the big, established lenders.

The new bank is majority-owned by founder Andrew Bloom, with the remaining ownership in the hands of the billionaire Pears family and Masthaven's employees. It will be led by managing director Jon Hall, a former CEO of Saffron Building Society, who joined the business in December 2014. (Source date: 22 April 2016)

Forty banks support EBA Clearing instant payments plan

EBA Clearing says that close to 40 financial institutions have committed to supporting and funding the development and installation of its pan-European instant payments platform for transactions in the Single Euro Payments Area. Owned by 53 of the major banks operating in Europe, EBA Clearing says the funding institutions will be involved in shaping the system design, functionality and interface specifications. The future infrastructure service is scheduled to be live in the fourth quarter of 2017.

The new platform is planned to be in line with ISO 20022 messaging standards and fully compliant with the SCTInst Scheme that is currently being created by the European Payments Council. Operating around the clock, the instant payments service will be available to payment service providers (PSP) across the EU. (Source date: 19 April 2016)

Market News

Banks could lose 43% of retail payments revenue under PSD2

According to data compiled by Accenture, UK banks could lose up to 43% of their retail payments based revenues by 2020 as the revised Payment Services Directive accelerates advancements in e-commerce and contactless technology. Set for introduction in early 2018, the revised Directive, PSD2, will bring in new forms of payment institutions, introduce new interaction models, and mandate the opening of banks' payment and bank account systems through application programming interfaces (APIs) to third parties.

The consultancy estimates that the new breed of payment initiation service providers will erode 33% of online debit card transaction volumes and 10% of online credit card transaction volumes resulting in a total market share of 16% of online retail payment volume by 2020. Taking the UK as an example, this would result in the loss of over £1.45bn of card transaction revenues between 2017 and 2020 - money that was previously captured by the banks and card networks. (Source date: 16 May)

HSBC to cut 850 IT jobs in UK

HSBC is to axe 850 British IT jobs as it embarks on a three-year restructuring plan that will eliminate 8000 positions at the UK arm of the global bank. About 600 of the job losses will be sustained at the bank's IT outpost in Sheffield, with work shifting to offshore centres in India, China, and Poland.

The 8000 UK jobs under threat are part of a mammoth restructuring plan aimed at eliminating 50,000 jobs worldwide in an effort to cut the bank's expenses by \$5 billion per annum by 2017.

Up to twelve percent of the bank's branches globally will be closed as it emphasises a shift to more online and self-service channels. (Source date: 16 May 2016)

Royal Bank of Scotland announces more cuts

Royal Bank of Scotland is to axe another 200 jobs from its retail network, following the announcement of plans in April to cut 600 jobs, shut 34 high street locations and reduce opening hours in hundreds more. This will mean that RBS will have eliminated more than one in 10 positions at its UK branch network in the past two months, according to Reuters, which cites sources close to the bank on the cuts. Another 20 branches are also said to be up for review.

RBS has cut about 1,350 positions out of a workforce of 12,000 people in its branch network since mid-March, says Reuters, and has closed more branches than any other British lender in the past two years. (Source date: 12 May 2016)

Wal-Mart sues Visa over failure to mandate Chip and PIN

Wal-Mart is suing Visa over its failure to mandate the use of Chip and PIN payments. The US retailer says that Visa's position on the continued use of signatures at the checkout creates an "unacceptable risk" to customers. Although acknowledging in many other countries that Chip and PIN offer greater security, Visa nevertheless demands that signature verification for debit transactions in U.S. stores is allowed because, according to Wal-Mart, "Visa stands to make more money processing those transactions."

At the heart of the issue is Visa's continued control of the transaction during a signature checkout. PIN transactions, in contrast, can be routed through cheaper third party networks. Visa and MasterCard EMV rules around consumer choice have led some merchants and point of sale (POS) terminal providers to implement POS processes that force consumers to select a debit AID (account identifier) for routing when presenting a chip-enabled debit card for payment at the POS, effectively overriding merchant routing preferences.

Wal-Mart has filed suit with the New York State Supreme Court, seeking a jury trial on the issue. (Source date: 11 May 2016)

BBA launches review into branch closure protocol

The British Banking Association is launching an independent review into the protocol on minimising the impact of bank branch closures on customers.

Last March the major high street banks worked with consumer groups and government on an industry-wide agreement on closure procedures. The protocol requires banks to provide 12 weeks' notice of branch closures, engage with local communities and to publish assessments of the impact on customers - but stresses that decisions on whether to close sites are ultimately commercial.

The agreement included a provision for a one year review, which is now being carried out to consider how the protocol is being applied and the outcomes for affected customers and communities. (Source date: 6 May 2016)

MasterCard enters exclusive talks over VocaLink

According to a report by Sky News, MasterCard has entered exclusive talks over a possible \$1 billion takeover of VocaLink, the operator of the UK's Faster Payments system and Zapp mobile service. Apparently, the 13 banks which are shareholders in VocaLink have approved a period of exclusivity within which Mastercard can negotiate a takeover of the company.

News of the talks comes two months after the UK's Payment Systems Regulator (PSR) said banks should sell their stakes in VocaLink to help increase innovation and competition in the nation's critical payments infrastructure. The PSR believes that the common ownership of VocaLink by a small number of banks is having a "negative impact on innovation and competition in the industry".

Both MasterCard and VocaLink have declined to comment. (Source date: 22 April 2016)

Visa Inc amends Visa Europe deal

Following feedback from the European Commission, Visa Inc has tweaked the terms of its acquisition of Visa Europe, scrapping a planned earn-out in exchange for an extra EUR1.75 billion in cash. Under a deal struck in November, Visa Inc was set to pay an upfront consideration of EUR16.5 billion in cash and stock with the potential for an additional earn-out of up to EUR4.7 billion payable following the fourth anniversary of closing.

However, in an effort to keep the EC on-side, the US card giant says that it has reached preliminary agreement with bank-owned Visa Europe to change the transaction details. The deal is still subject to negotiation and may not now be closed by the end of the third quarter, as initially planned.

Meanwhile, Visa Inc has also posted its second quarter results, revealing adjusted net income of \$1.6 billion, up five per cent on the prior year, on revenues of \$3.6 billion. (Source date: 22 April 2016)

Mobile Money

Walmart Pay launched

American retailer Walmart has begun the rollout of its mobile payments service, introducing its Apple Pay rival to nearly 600 stores in Texas and Arkansas. From this week customers visiting Walmart

locations in the two states will be able to add any major credit, debit, prepaid or Walmart gift card to the retailer's mobile app and then scan a QR code at checkout with their iPhone or Android cameras to pay. First announced late last year, Walmart Pay sees the retailer take on the likes of Google, Apple and Samsung in an increasingly crowded mobile money market. (Source date: 16 May)

Telefonica to launch mobile bank

Telefonica Germany is to launch a mobile banking service in late summer. Using Fidor Bank's white-label cloud-based infrastructure for its back-end technology, it will onboard customers using a video link for documentation checks via smartphone and permit P2P account transfers from the mobile-only account using the recipient's phone number.

The account comes with an O2 MasterCard for cash withdrawals and shopping, and a financial planning tool to provide an overview of spending.

Under the partnership, Fidor Bank provides O2 with a banking licence that is valid throughout Europe, along with individual customer, card and transaction services. (Source date: 12 May 2016)

Barclays launches payments service for Android users

Barclays Bank is to roll out a stand-alone contactless payment service for Android phone users ahead of the forthcoming launch of Google's Android Pay service in the UK.

Android Pay is due to make its debut in the UK in the coming months with support from some of the country's biggest banks, including HSBC and Lloyds. Barclays is taking advantage of the open source qualities of Android to launch its own service on the Barclaycard app, which offers support for HCE-based NFC mobile payments.

According to Barclays, up to five million of its customers use its mobile banking app, with average access running at 27 log-ins per month. (Source date: 12 May 2016)

Samsung Pay launches in Singapore

Samsung Pay is to launch in Singapore as early as Q2 2016, with support from major banks such as DBS/POSB, OCBC Bank and Standard Chartered. Singapore will join South Korea, US and China in the list of Samsung's priority markets for roll out of the mobile payment service.

According to MasterCard's Mobile Shopping Survey 2016, digital wallets have seen the fastest uptake amongst Singapore consumers with a four-fold increase over the last year.

While Samsung has the support of all three major card schemes and a number of prominent banks for its launch into SouthEast Asia, rival Apple Pay is currently only available in Singapore for American Express cardholders. (Source date: 20 April 2016)