



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](mailto:info@savantor.com).

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### Items in this issue:

<b>Savantor's View</b> .....	<b>1</b>	PSD2: German regulator rules against restriction of e-payment services by banks.....	3
100 million debit cards now in circulation.....	1	Surge in European mobile banking.....	3
<b>Products and Initiatives</b> .....	<b>1</b>	Visa and MasterCard's \$7.25bn interchange settlement overruled by appeals court.....	3
TfL licensing deal for contactless payment technology....	1	Visa sues Walmart over Chip and PIN policy.....	3
NEC trials POS facial recognition technology.....	2	Potential implications of Brexit.....	4
ING and KBC create unified payments and loyalty platform.....	2	US supermarket chain Kroger sues Visa.....	4
<b>Market News</b> .....	<b>2</b>	Visa Inc completes Visa Europe acquisition.....	4
MasterCard to pay Sainsbury's \$91 million after losing interchange battle.....	2	Visa and MasterCard sued by Home Depot.....	4
FCA supports cloud services.....	2	<b>Mobile Money</b> .....	<b>5</b>
		Visa to push wearable payments for Rio Games.....	5
		ABN Amro uses WhatsApp for payments.....	5

## Savantor's View

### 100 million debit cards now in circulation

According to figures issued by the UK Cards Association, there are now more than 100 million debit cards in circulation in the UK for the first time.

The 100 million milestone was reached in April, as a result of a 2.7 % growth in debit cards over the previous 12 months, from 97.6 million in April 2015 to 100.3 million in April 2016. Debit card spending was up 6.8 % on the previous 12 months to £37.8 billion in April 2016.

The increase in debit cards and their usage reflects the changing patterns in consumer payment behaviour and choices. Along with the closure of the cheque guarantee scheme in 2011 and a decrease in popularity of ATM only cards, there has been a surge of interest in debit cards, which are typically issued as standard procedure as part of the new current account opening process.

Over 60% of debit cards now feature contactless technology and this figure is set to rise as more issuers embrace the technology in response to higher consumer popularity with this method of payment, fuelled to a great extent by the adoption of contactless as a means of transport payment.

According to a new report issued by Payments UK, it is predicted that debit cards will take over from cash to become the UK's most frequently used payment method. Although cash was still the most popular payment method in 2015 and accounted for just under half of all payments, it is predicted that by 2021 there will be 14.5 billion debit card payments, overtaking the forecast 13.0 billion cash payments for the first time.

Payments UK also forecasts that by 2025, credit, debit and charge cards will account for more than half of all payments made (50.2%). Again, this is expected to be driven to a great extent by the increasing popularity of contactless; contactless cards accounted for 16% of total card purchases in April, an increase of 6% from 2015.

It will be interesting to see how these forecasts fare in time. However, what we can be sure of is that debit cards and contactless together make a formidable combination as a consumer choice of payment mechanism.

## Products and Initiatives

### TfL licensing deal for contactless payment technology

Transport for London (TfL) has made a multi-million pound licensing deal that will allow the technology

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behind its contactless payments system to be used in other cities around the world. The agreement - worth up to \$15 million - gives specialist vendor Cubic Transportation Systems (CTS) access to London's contactless system, allowing it to be specifically tailored for other world cities' transport needs.

TfL and CTS have a long history, working together to introduce the Oyster card system back in 2003. CTS will be hoping that TfL's technology will help it in its bid to supply the New York Metro system. The firm already provides smartcard ticketing technology to a number of world cities, including Sydney, Brisbane, Vancouver and Chicago.

The money raised from the deal will be put towards infrastructure investment and freezing fares for London's commuters. (Source date: 13 July 2016)

### ***NEC trials POS facial recognition technology***

NEC has embarked on trials of 'cashless payment services' using facial recognition technology to verify consumer identities at small shops located inside its head office building in Tokyo. The two month trial applies NEC's NeoFace facial recognition algorithm to match employees' pre-registered images against the images taken by a camera installed beside vendor point-of-sale (POS) terminals.

NEC says it will use the trials to fine-tune the application of the technology at shop counters, trying out different cameras, installation positions and lighting conditions.

In April 2016, the company launched a large-scale trial of its "Walkthrough Facial Recognition System" at its head office. This more advanced biometrics system is capable of recognising people in motion using facial recognition technology without the need for the subjects to stop in front of the camera.

(Source date: 8 July 2016)

### ***ING and KBC create unified payments and loyalty platform***

ING and Belgian bank KBC have joined forces to launch an integrated mobile payments and loyalty platform in Belgium, combining the Dutch bank's payment app Payconiq with loyalty platforms Customer and KBC's CityLife.

The forthcoming integration will create a unified mobile payments and loyalty platform that is already used by over a million Customer, CityLife and Payconiq consumers and 6,500 retailers. (Source date: 7 July 2016)

## **Market News**

### ***MasterCard to pay Sainsbury's \$91 million after losing interchange battle***

Sainsbury's was awarded \$91 million by a London judge following a long-running dispute over interchange fees charged on card transactions with MasterCard. According to a Competition and Appeal Tribunal judgment, MasterCard charges on UK credit and debit card transactions restricted competition.

The judgment is the first in a series of claims brought by retailers in the UK and Europe, alleging that MasterCard and Visa charged anti-competitive and excessive fees on debit and credit card transactions. The retailers are seeking combined damages of more than £1.2 billion.

In June last year, MasterCard had to pay out \$61 million to UK supermarket chain Tesco in the first of an expected wave of settlements by card schemes over interchange fee lawsuits lodged by British retailers. Tesco was one of 20 UK retailers which filed suit against MasterCard in 2013 alleging historic overpayment of 'anti-competitive' interchange fees. (Source date: 14 July 2016)

### ***FCA supports cloud services***

The UK's Financial Conduct Authority (FCA) says there is "no fundamental reason" why FS firms cannot use public cloud services. The clarification was announced after industry players admitted that they were unsure how the watchdog applies its rules when it comes to outsourcing to the cloud.

With the FCA making a concerted effort to push innovation as a way of boosting competition, it is stressing the benefits of using cloud services, saying that their flexibility can bring "benefits to firms, their consumers, and the wider market".

However, it also recognizes the risks, particularly in relation to data security. The guidance says that firms should "agree a data residency policy with the provider upon commencing a relationship with them, which sets out the jurisdictions in which the firm's data can be stored, processed and managed".

(Source date: 11 July 2016)

### ***PSD2: German regulator rules against restriction of e-payment services by banks***

With PSD2 looming, German regulator Bundeskartellamt has ruled that the country's banking industry is violating competition law by putting up barriers that hinder competing online payments services.

The revised Payment Services Directive is designed to create a more level playing field for third party payment processors (TPPs) by making banks in Europe offer application programming interfaces (APIs) that provide access to account information to third parties.

The Bundeskartellamt says that Germany's banks and savings banks are violating both German and European competition law by enforcing "special conditions for online banking" that mean customers cannot use their PINs (personal identification numbers) and TANs (transaction authentication numbers) in non-bank payment systems.

The banks argue that their rules are designed to ensure the security of their online customers but the Bundeskartellamt has said that "the rules currently used cannot be considered as a necessary part of a consistent security concept of the banks and they impede non-bank competitors". (Source date: 8 July 2016)

### ***Surge in European mobile banking***

The prevalence of mobile banking in Europe is soaring, with nearly half of phone owners now managing their finances through their handsets, new research commissioned by ING suggests. A poll of nearly 15,000 people across 13 European countries as well as the US and Australia, shows that the share of mobile device users in Europe who bank through their phone has risen from 41% in 2015 to 47% this year. An even greater rise in adoption of 16% is expected in the next 12 months.

The Netherlands leads the way on adoption, at 63%, ahead of the UK on 55%. At the other end of the scale, just 22% of Romanians bank on their mobiles, although some 47% expect to within the next 12 months.

Mobile payments are also seeing steady growth, with 40% of European respondents having used an m-payments app this year, up from 33% in 2015. (Source date: 7 July 2016)

### ***Visa and MasterCard's \$7.25bn interchange settlement overruled by appeals court***

A US federal appeals court has ruled against a \$7.25 billion class action settlement over interchange fees between millions of retailers and Visa and MasterCard. The huge settlement over claims that the card schemes had improperly fixed credit and debit card swipe fees was agreed by law firms acting on behalf of class action plaintiffs in 2012, as Visa and MasterCard sought to put a long-running saga to bed.

However, the deal was rejected by a host of top retailers and trade groups, who counter-sued the card schemes in search of heftier fines and deeper reforms. Nearly 8000 merchants opted out, bringing the settlement down to \$5.7 billion.

Now the 2nd US Circuit Court of Appeals in New York has unanimously found against the settlement, ruling that a provision in the settlement stopping merchants from suing over fees was unfair; it also criticised lawyers that represented the retailers for not doing enough to protect their interests.

The settlement could now be renegotiated or the case could go to trial. Visa and MasterCard have both said that they will review the decision. (Source date: 30 June 2016)

### ***Visa sues Walmart over Chip and PIN policy***

The strained relationship between Visa and Walmart is reaching breaking point as the card scheme files a lawsuit against the supermarket chain for allegedly reneging on an agreement to allow the use of signature verification alongside Chip and PIN for transactions at the till.

In its suit, Visa claims that Walmart has secretly been testing a protocol that eliminates the need for signature verification for transactions paid for with a Visa debit card. The card scheme says it only became aware of the issue following a drop in debit card transactions at Walmart stores amid complaints from cardholders that they were unable to use their cards to make payments at the check-out.

In May, Walmart filed a legal challenge over Visa's failure to mandate the use of Chip and PIN payments, contesting that the continued use of signatures at the checkout creates an "unacceptable risk" to customers. This was followed in June by a decision by Walmart to refuse to accept Visa credit

cards in its 370 stores across Canada. In announcing its decision, the store claims that its Canadian arm pays over \$100 million in credit card fees each year.

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. Walmart has since been followed into the courts by rival supermarket chain Kroger and big box retailer Home Depot who have also taken legal advice over the issue. (Source date: 30 June 2016)

### ***Potential implications of Brexit***

The result of the EU referendum has caused concerns that Visa might move hundreds of jobs out of the UK; that the London Stock Exchange's merger with Deutsche Bourse could be hampered; and that the City's role running euro clearing is under threat.

According to Sky News, Visa may relocate hundreds of positions to the continent because of a clause in the recent multi-billion dollar acquisition of Visa Europe, which insists that transaction data does not leave Europe. It is thought that German regulators are likely to push for Visa's UK-based data centre operations to be moved to an EU country.

Several big banks - including Citi and Goldman Sachs - have already warned that they will move jobs to other EU cities if the UK does not get access to the single market's passporting regime.

Another potential Brexit casualty is the plan for a London headquartered post-merger LSE-Deutsche Bourse. A spokesman for the German regulator Bafin says that "it is hard to imagine that the most important exchange venue in the eurozone would be steered from a headquarters outside the EU".

There is also the issue of euro-based trading as well as where the European Banking Authority, currently established in London, is based, with Frankfurt being a potential contender. (Source date: 29 June 2016)

### ***US supermarket chain Kroger sues Visa***

US supermarket chain Kroger has filed a lawsuit against Visa over a disagreement about using PINs to verify EMV debit card transactions, according to the Wall Street Journal. Although Visa has been at the forefront of the push to finally bring America into the EMV era, it has not insisted that cards are Chip and PIN.

Despite this, Kroger requires customers to authorise debit card transactions with a PIN, routing transactions to networks other than Visa.

According to the lawsuit, Visa has responded to this by saying that the configuration of Kroger's payments terminals does not meet its rules and demanding that payments are routed through its network.

Visa has already fined Kroger \$7 million and is apparently threatening to raise fees and even to cut off the retailer's acceptance of debit cards. (Source date: 27 June 2016)

### ***Visa Inc completes Visa Europe acquisition***

Visa Inc has completed its acquisition of Visa Europe, creating a combined global company serving 17,100 financial institutions and partners, more than 40 million merchant outlets, and 3 billion card accounts worldwide. The acquisition follows approval from the European Commission of the buyout earlier this month, after Visa tweaked the terms of the deal to appease anti-trust concerns.

Visa expects to realise around \$200 million in annual pre-tax cost synergies through the deal by 2020, representing about 30% of Visa Europe's operating expenses.

In sealing the deal, the Visa board appointed Gary A. Hoffman, CEO of Hastings Group and chairman of Visa Europe, as a board member of the merged entity. (Source date: 21 June 2016)

### ***Visa and MasterCard sued by Home Depot***

Home Depot, the US retail chain that saw 56 million accounts hacked in 2014, is suing Visa and MasterCard over their failure to mandate more secure Chip and PIN technology at the checkout during the country's migration to EMV-based payments.

Similar to the suit lodged by Walmart in May, Home Depot says that by insisting that chip card holders in the US can continue to pay with signatures at the checkout, the card schemes are playing in to the hands of fraudsters. At the heart of the issue is the card schemes' 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 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. (Source date: 21 June 2016)

## Mobile Money

### *Visa to push wearable payments for Rio Games*

Visa is using the upcoming Olympic Games in Rio to push wearable payments into the mainstream, unveiling contactless watches, bracelets and rings. As official sponsor, Visa is teaming up with Swatch to launch the Bellamy 'pay-by-the-wrist' timepiece across Brazil. The watch is linked to a Visa prepaid card for tap and pay transactions.

Additionally, the Pulseira Bradesco payment bracelet from Visa, which will be available exclusively to the Brazil market in time for the Games, is sweat- and water-resistant and adjustable, and will be accepted by more around 4000 NFC-enabled POS terminals at Olympic Park.

Visa is also handing out ceramic NFC-enabled rings to favoured athletes competing in Rio this summer, enabling them to make payments around the city with a tap of the finger. (Source date: 12 July 2016)

### *ABN Amro uses WhatsApp for payments*

ABN Amro is using popular messaging service WhatsApp as a payments request channel, providing a direct link between customer mobile payment apps and WhatsApp contact lists. ABN Amro's new 'Tikkie' app enables users to select a person from their WhatsApp contacts to send a payment request alongside a one-click link to the Dutch online payment service iDeal. Funds transferred over iDeal are automatically credited to the customer's current account.

ABN Amro is actively exploring ways to provide financial services over the new generation of instant messaging services. In February, the bank started making use of the file-sharing app Snapchat, creating a two-way communication channel for customer queries and bank budgeting tips. (Source date: 23 June 2016)