



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.

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

Items in this issue:

Savantor's View	1	Possible MasterCard and PayPal alliance	3
Consumer banking reforms and mobile banking	1	UK payments regulator demands structural reform	4
Products and Initiatives	2	Lloyds to cut further 3000 jobs and close 200 branches..	4
Mondo acquires banking licence.....	2	Indian digital payments market to hit \$500bn by 2020.....	4
Barclays rolls out voice biometrics for phone banking	2	Strategic partnership for rivals Visa and PayPal.....	4
Singapore transit system to trial contactless bank card payments.....	2	Mobile Money	5
MasterCard agrees £700m Vocalink acquisition	2	Visa to roll out mobile payments in Nigeria	5
MasterCard to apply for China payments licence	2	UnionPay launches QuickPass mobile payments in Canada.....	5
Square to launch in Europe	3	O2 moves into mobile point of sale	5
Market News	3	Czech bank ČSOB launches HCE-based mobile wallet ..	5
Apple hits back at Australian banks	3	Telefonica Germany launches Fidor-backed mobile banking service	5
US EMV move slower than anticipated.....	3		

Savantor's View

Consumer banking reforms and mobile banking

The Competition and Markets Authority (CMA) has just published its report on its two year investigation into the retail banking market. The report concludes that the larger traditional banks do not have to compete hard enough for customer business and that the newer entrants into the banking market find it difficult to become established and grow their client base. The result of this is that many consumers end up paying more than they should do and do not benefit from new services.

Whilst this may not be a surprise to many people, the result of the investigation is that the CMA will be implementing a package of reforms, central to which are measures to ensure that customers benefit from technological advances and that new entrants and smaller providers are able to compete more fairly.

Key to the reforms is the requirement for Banks to implement Open Banking by early 2018, thereby enabling customers to manage their accounts with multiple providers through a single digital app making it easier to control their own financial data and to compare products on the basis of their own requirements.

The move is likely to enable customers to undertake all their banking via their mobile phone, thereby reducing the need to visit bank branches. Industry commentators have referred to it leading to people 'effectively having a bank branch in their pockets through their mobile phone'.

Whilst there will no doubt be a number of security concerns, the proposed reforms must be good news for UK challenger banks and tech companies challenging services offered by traditional financial institutions – and therefore good news for the majority of consumers too.

Recent research undertaken by the BBA shows that in 2015, banking app logins showed a rise of 50% over the previous year. Hence the new measures being introduced by the CMA will only serve to encourage the trend to use mobile phones for banking.

There will inevitably be an impact upon bank branches – already under threat of closure as customers become more tech-savvy. In consumer terms, however, we need to ensure that those who are less comfortable with mobile banking – typically those from the older generation - are either provided with the means to use it or given viable alternatives.

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.

Products and Initiatives

Mondo acquires banking licence

The app-only bank Mondo is the latest UK challenger bank to gain a banking licence from the Financial Conduct Authority and Prudential Regulatory Authority. In being granted a restricted banking licence, Mondo follows in the footsteps of other digital-first startups Atom Bank, Tandem and Starling, although only Atom Bank has officially launched.

Mondo, which has so far raised £9 million, is moving exclusively into the current account market. Earlier this week, the startup announced that 30,000 users signed up to its mobile banking app in a public beta trial had so far spent £20 million using the product. The company claims to have a waiting list of 200,000 prospective users ahead of its planned launch later this year or in early 2017. (Source date: 11 August 2016)

Barclays rolls out voice biometrics for phone banking

Barclays is introducing voice biometric technology in place of passwords at its call centres, meaning that customers will be authenticated when they start talking. Previously, customers who call Barclays have previously needed to share their passcodes or 16-digit debit card numbers in order to verify themselves.

With the new system, customers will have their voice recorded and held on file by the bank. When they call to access their account, they engage in a few seconds of conversation with a member of staff, during which time Nuance FreeSpeech voice biometrics technology is used to compare the customer's voice to their unique voiceprint on file. Successful verification will be silently signalled to the employee.

Barclays began using the Nuance system at its wealth management arm in 2013, finding that 93% of customers rated the technology at least 9 out of 10 for speed, ease of use and security. Next month the bank is extending it to all customers (although there is an opt-out option), claiming that the technology is not only quicker than passwords but a more secure barrier against fraud. (Source date: 1 August 2016)

Singapore transit system to trial contactless bank card payments

Singapore's Land Transport Authority (LTA) is teaming up with MasterCard for a pilot that will see participants pay for their train and bus journeys by tapping their contactless credit and debit cards. The LTA plans to enrol at least 100,000 people in the account-based ticketing system trial, which will save commuters the hassle of having to use a separate transit card and make fare top-ups.

Although the trial initially only involves contactless cards, the LTA says that it is also working on enabling mobile phone-based NFC payments for rail and bus fares. (Source date: 28 July 2016)

MasterCard agrees £700m VocaLink acquisition

MasterCard has agreed to pay about £700 million to buy 92.4% of VocaLink, the bank-owned operator of the UK's Faster Payments system and Zapp mobile service. Under the definitive agreement, VocaLink's existing 13 bank shareholders are also in line for a potential earnout of up to £169 million if performance targets are met.

Philip Hammond, the UK's new Chancellor of the Exchequer, welcomed the move, saying: "MasterCard's decision to buy VocaLink shows that Britain remains an attractive destination for international investors. Britain is and continues to be an open and globally facing country in which to do business."

The deal comes just 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 acquisition gives MasterCard access to VocaLink's Immediate Payments System, which is live in Singapore and has won deals in the US and Thailand, and the Zapp system, which would give the card scheme a new route into UK debit payments, currently a Visa stronghold. (Source date: 22 July 2016)

MasterCard to apply for China payments licence

MasterCard is considering an application to become a licenced payment services provider in China, according to Reuters. The plan follows the Chinese government's recent decision to open its payments market to international providers under the condition that they meet certain cyber security rules and hold more than CNY1bn of registered capital in a local company.

MasterCard is reportedly yet to decide if it will recruit a partner to enter the Chinese market or go it alone. China's card payments market is estimated to be worth more than CNY55trn (\$8.25trn) and is forecast to be the world's biggest by 2020. The market is currently dominated by state-owned China UnionPay.

Both MasterCard and Visa, the world's two largest card providers, have lobbied China for direct access to its cards market for more than 20 years. In 2013 it was reported that China's regulator had blocked Mastercard from processing any card transactions settled in the local currency. China was also rebuked in 2012 by the World Trade Organisation for discriminating against the likes of Visa and MasterCard in its domestic market in favour of local players such as China UnionPay. (Source date: 22 July 2016)

Square to launch in Europe

Mobile payments firm Square is finally gearing up to launch in Europe after incorporating a business, called Squareup Europe Ltd, in the UK, according to Reuters. The company launched its mPOS service in the US back in 2009 and has since branched out into Canada, Japan and Australia but until now it has steered clear of Chip and PIN-friendly Europe, leaving the way clear for local clones such as iZettle and SumUp.

However, according to Reuters, registration documents show that the new Squareup Europe subsidiary now has the right to provide payment services such as transactions in the UK. Square apparently began beta testing in London last month.

The company also has a 'passport' that lets it provide services in other EU member states, although this could be threatened by Britain's recent Brexit vote. (Source date: 20 July 2016)

Market News

Apple hits back at Australian banks

Apple has accused Australian banks of using "innuendo and misstatements" to support their attempts to overcome restrictions imposed by the consumer electronics firm on the use of iPhones for mobile payments. Apple Pay was launched in Australia in November 2015 through a limited partnership with American Express but was met with resistance from local banks because they are prevented from accessing Apple's near field communication (NFC) technology, which enables tap and go payments.

Commonwealth Bank, National Australia Bank, Westpac and Bendigo have applied to the Australian Competition and Consumer Commission (ACCC) for permission to negotiate collectively with Apple over NFC access and to challenge what they see as anti-competitive behaviour.

The banks would like to offer their own digital wallet services via Apple's iPhones but instead have to either work around the restriction, by placing a tap-and-go sticker on the back of the phones, or else sign up to Apple Pay and share any revenue with the technology company. (Source date: 10 August 2016)

US EMV move slower than anticipated

America's move to EMV is being hampered by slow merchant adoption, with chip cards accounting for just four per cent of all debit transactions, according to research from the Pulse network. Last October the liability for fraud-related losses switched to retailers that have not upgraded their hardware for EMV. By the end of 2015 about a third of all debit cards had chips with just 45% of issuers issuing EMV plastic, far less than the 90% that had said they would a year earlier.

Even among Americans with chip debit cards, only 11% of transactions were at chip-enabled terminals, with the rest either at old-fashioned mag-stripe checkouts or online. When taking into consideration all debit card transactions, chip accounted for only four per cent, although Pulse does note a triple digit growth rate year-over-year.

Meanwhile, the Pulse research shows the rising availability of mobile payments. By the end of 2015, two-thirds of issuers had debit cards eligible to be loaded into a mobile wallet - more than 100% up on the previous year. (Source date: 9 August 2016)

Possible MasterCard and PayPal alliance

According to a report in the Financial Times, MasterCard and PayPal have engaged in a "constructive dialogue" about a possible strategic alliance. Apparently the two companies have been exploring a possible link-up that would ease some of the competitive tension that has built up between the two as PayPal continues to build its market share.

Talk of a potential alliance follows the recent reciprocal deal struck between PayPal and Visa. Under the terms of the agreement, consumers will be able to use Visa cards for PayPal payments and also use PayPal for transactions at bricks and mortar retail outlets. (Source date: 29 July 2016)

UK payments regulator demands structural reform

The Payment Systems Regulator (PSR) has called for an overhaul of the UK's payments infrastructure to generate more competition and meet consumers' needs. The PSR has just completed a market review which concluded that there is no effective competition for any of the UK's three payments systems - Bacs, Faster Payments and LINK.

One of the biggest problems identified by the PSR is the common ownership and control of payment systems and infrastructure providers - a small number of large banks control the majority of payment system operators. The same banks also currently own and control VocaLink, the infrastructure that processes payments. The PSR has called on the banks to sell their stakes in VocaLink, however, its recent sale to MasterCard may actually resolve this issue.

In addition to the call for the banks' divestment in VocaLink, the regulator also wants to see a more competitive procurement process from payment system operators and also a common messaging standard that can be applied to all three payment systems.

Payments UK, the industry association formerly known as the Payments Council, which has long argued for open access to the UK payments market, has welcomed the PSR's report but also warned that any changes to market structure or ownership must be implemented in an orderly way. (Source date: 28 July 2016)

Lloyds to cut further 3000 jobs and close 200 branches

Lloyds Banking Group is accelerating its cost-cutting drive by announcing more job cuts and branch closures despite doubling its profit in the first half of 2016. The UK high street bank made £2.5bn pre-tax profit, up from £1.2bn for the same period in 2015, however much of this was down to the fact that the bank was not forced to set aside cash to cover penalties for PPI mis-selling.

Instead the bank is planning to cut 3,000 jobs and close 200 branches in order to save an extra £400m by the end of 2017 as a result of the recent Brexit vote and a likely slump in customer activity.

According to Lloyds, the decision to increase the amount of branch closures and job cuts is also a result of changing customer behaviour. The number of branch transactions continues to drop and has accelerated from 8% to 15% in recent years. In addition Lloyds has continued to invest heavily in its digital banking offering, which it claims is now the biggest in the UK with more than 12 million online users. (Source date: 28 July 2016)

Indian digital payments market to hit \$500bn by 2020

According to research from Google and the Boston Consulting Group (BCG), India is set for a digital payments revolution, with the value of transactions forecast to hit US\$500 billion by 2020, ten times its current level. The Indian government has made the migration from cash to electronic payments a key plank of its strategy to boost financial inclusion, joining the UN-based Better than Cash Alliance, launching a Unified Payments Interface, and relaxing the regulatory environment for new mobile-based financial services providers.

These factors, along with the expected rise in the number of smartphone users to 520 million by 2020, will contribute to a massive increase in digital payments, says the research, which is based partly on data from Nielson.

By 2020, more than half of India's internet users will make digital payment, which will account for 15% of the country's GDP. There will be more than 10 million merchant sites that will accept digital payments, driving growth in person-to-merchant transactions, while B2B and P2P payments will also see huge growth. (Source date: 28 July 2016)

Strategic partnership for rivals Visa and PayPal

PayPal has agreed to make it easier for customers to pay with their Visa cards in exchange for long-term "fee certainty" from the card scheme. The two firms, which have long been at odds, say that the US strategic partnership puts them "on a new path" that will benefit consumers, issuers, acquirers and merchants.

Under the deal, Visa cards will be presented as a "clear and equal payment option" and PayPal will stop encouraging Visa cardholders to link to a bank account via ACH, a cheaper option for PayPal.

PayPal is also promising to ensure that data provided to issuers and their cardholders for Visa-funded transactions will be consistent with the information that is received with traditional Visa transactions. In exchange, PayPal gets economic incentives from Visa for increased volume and "greater long-term Visa fee certainty".

The two organisations have also agreed to enable Americans to instantly withdraw and move money from their PayPal and Venmo accounts to their bank accounts via their Visa debit cards. PayPal will also join the Visa Digital Enablement Program to expand point-of-sale acceptance. (Source date: 21 July 2016)

Mobile Money

Visa to roll out mobile payments in Nigeria

Visa says it is in "advanced discussions" with leading Nigerian banks over the launch of its QR-code based mobile payment service mVisa before the year's end.

mVisa enables consumers to pay for goods by scanning a QR code on a smart phone or entering a merchant number into their feature phones. Payment goes straight from the consumer's Visa account into the merchant's account and provides real-time notification to both parties. Consumers can also use mVisa agents for domestic remittances as well as to access their cash if there is no ATM network.

The card scheme says the interoperable nature of the service and its ability to work on both smartphones and basic handsets opens up access to all 150 million active phones in Nigeria, with a positive benefit for the country's financial inclusion policy. (Source date: 16 August 2016)

UnionPay launches QuickPass mobile payments in Canada

The Chinese bankcard association UnionPay is launching its QuickPass HCE-based contactless mobile payments service in Canada. Launched in China late last year, QuickPass lets customers with Android handsets make NFC-based payments without having to open up an app or secure internet access.

Compatible with handsets from Huawei, MI, ZTE, and Lenovo, the service is now being accepted by several restaurants, hotels, retail outlets, supermarkets, and convenience stores in Canada. (Source date: 16 August 2016)

O2 moves into mobile point of sale

The Telecomms operator O2 is to move into the mobile point of sale market through a deal in the Czech Republic with Germany's Wirecard. The drive into the Czech POS market comes on the back of new rules requiring retailers in the country to conclude payment transactions online. Payment details are then forwarded to the national tax office where they are reviewed in order to avoid tax fraud.

O2 says it will offer local merchants a tablet based fiscal till system, dubbed eKasa, together with credit card payment transaction services.

Under the agreement with Wirecard, the German firm will act as the acquirer that processes all payment transactions, as well as the technical service provider which enables O2 to use the company's mPOS Software Developing Kit (SDK). (Source date: 5 August 2016)

Czech bank ČSOB launches HCE-based mobile wallet

Czech Republic bank ČSOB has enlisted Italy's SIA to launch what it claims is the country's first NFC payments mobile wallet for Visa and MasterCard. The NaNákupy wallet uses SIA's infrastructure to virtualize MasterCard and Visa debit and credit cards through Host Card Emulation technology that stores data securely, regardless of the customer's mobile operator.

ČSOB says that by the end of the year it plans to extend the wallet beyond instore payments to the internet. Other features on the horizon include the addition of virtualized loyalty cards and store receipts and shared shopping lists. (Source date: 1 August 2016)

Telefonica Germany launches Fidor-backed mobile banking service

Telefonica Germany has launched a mobile banking service using white-label technology supplied by Fidor Bank. The free O2 Banking app is now available for download for iOS and Android devices,

offering onboarding via video link, transactions via phone number, a free debit MasterCard and "minor" instant loans.

Telefonica says that the service is the first mobile-only bank account from a Mobile Network Operator. The firm has enlisted the expertise of local digital bank Fidor, which is providing cloud-based infrastructure as well as a banking licence that is valid throughout Europe, along with individual customer, card and transaction services. (Source date: 25 July 2016)