



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

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Savantor's View

Cash, cheques and contactless payments

Several milestones have been reached over the past month in the world of UK payments.

On 13th September, the Bank of England launched a new plastic £5 note. Whilst its advent has been heralded as an 'exciting development' in some quarters, nevertheless there has been news of other payment methods which serves only to remind us that the use of cash is becoming increasingly less popular compared to mobile and contactless payments.

According to new figures released by research analyst Mintel, contactless card use in the UK has overtaken cheque usage for the first time. Their research shows that cheques have been used by 31% of UK consumers over the past three months, down from 40% who used them to make a payment during 2015. This decline makes cheques the least popular form of payment, with contactless debit card use rising from 28% in 2015 to 39% and contactless credit card use rising from 28% to 34%.

Meanwhile, data gathered by the UK Cards Association indicates that spending using contactless in the first half of 2016 has already overtaken figures for the whole of 2015. According to their figures, £9.27 billion was spent using contactless methods between January and June of this year, more than the total 2015 contactless spend of £7.75 billion. This comprised of 1.1 billion contactless transactions in the first six months of 2016, compared to 1.05 billion for the whole of 2015.

In June of this year, 18% of purchases were made using contactless cards, compared to 7% in June 2015.

It is widely expected that the growth in usage of contactless cards will continue to rise during the rest of 2016. The latest Barclaycard Contactless Spending Index, which monitors the shopping trends of millions of UK customers, shows that usage has increased 173% by value and 112 % by volume in the year to end of July. Interestingly, usage in the over 60's age group is growing so quickly that the number of users in this age group is now greater than those aged 18-25.

Products and Initiatives

PayPal and MasterCard strike deal

Following a similar agreement with Visa, PayPal has struck a deal with MasterCard that will help PayPal gain presence in the bricks-and mortar market. The deal comes just weeks after PayPal and Visa

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embarked on a "new path", and marks a new strategy for the card schemes and their long-term digital rival.

Under the new arrangement, MasterCard 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.

In exchange, PayPal will expand its presence at the point-of-sale by utilising MasterCard tokenisation services. This will allow customers to use their tokenised MasterCard in their PayPal Wallet to make in-store purchases at the more than five million contactless-enabled merchant locations across the globe. (Source date: 6 September 2016)

Wirecard opens up Alipay to European merchants without POS integration

Alipay's advance into Europe is getting a boost from Germany's Wirecard, which has developed a mobile app with which retailers can accept and process Alipay payments through a QR code scan. Wirecard says retailers will soon be able to download the 'Scan Alipay' iOS app from the app store. An Android version will follow in the course of this year.

To use the app, retailers enter the amount payable into the 'Scan Alipay' app on a mobile device - in US dollars, euro or British pounds - and then scan the QR code on the customer's smartphone. The back-end processing is handled by Wirecard Bank.

The firm says the app offers retailers a simple entrance to benefit from Alipay payment acceptance for Chinese tourists and can also be used by large retail chains as a way to deploy Alipay as a new payment method without large integration efforts at eftpos terminals. (Source date: 2 September 2016)

Visa seeks bank volunteers for blockchain-based payment trial

Visa Europe is looking for banking partners to participate in a pilot project exploring the application of blockchain technology in domestic and cross-border funds transfers. The project will be run by Visa's innovation unit, Visa Europe Collab, in conjunction with Vancouver-based blockchain outfit BTL.

Visa says the proof-of-concept will use BTL's interbank settlement platform Interbit to explore the ways in which a blockchain-based settlements can reduce the friction of domestic and cross border transfers between banks - reducing cost, settlement time, credit risk, and by applying smart contracts to automate many of the regulation and compliance requirements of domestic and international transfers.

This is not the first time Visa has dabbled with blockchain technologies. In September last year, the card scheme's innovation unit kicked off a two-month POC in collaboration with Epiphyte to simulate real-world remittance transactions using the bitcoin blockchain. (Source date: 1 September 2016)

Singapore drive for cashless payments

Singapore is set to introduce a payments system similar to the UK's Paym, which will let people send money using only recipients' mobile numbers, as part of a concerted effort to move the city state away from cash.

One of the key reasons for the reliance on cash and cheques is that people do not know the bank account numbers of people that they want to send money to. Therefore, MAS and the country's banks are developing a Central Addressing Scheme (CAS) that will allow payments to be made through Fast, the existing real-time interbank fund transfer system, using only a recipient's mobile number, or NRIC number, or Unique Entity Number.

Singapore's complicated point-of-sale situation, which sees many stores cluttering up counters with multiple terminals to accept different cards, is also seen as an obstacle to the take up of Fast. To tackle this, the country is pushing ahead with a unified POS terminal that can read all kinds of cards at retail and hospitality outlets.

Meanwhile, Singapore's Land Transport Authority 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. (Source date: 19 August 2016)

Ingenico provides gateway to Europe for Alipay

Ingenico is to provide a gateway to European merchants for Chinese powerhouse Alipay, embedding the popular mobile app into its instore payments gateway.

Under the deal with Ingenico, Chinese tourists visiting Europe will be able to pay via their Alipay App

conveniently at any store that uses the Ingenico merchant terminals.

The Ingenico payment gateway processed more than 3.5 billion transactions in 2015, while China's 10 million visitors to Europe in 2014 represented a total purchasing power of \$21 billion. (Source date: 18 August 2016)

Market News

Potential £14 billion lawsuit against MasterCard in UK

Lawyers handling a £14 billion class action lawsuit against MasterCard have handed in a 600-page sheaf of documents to the Competition Appeals Tribunal (CAT) in the UK in support of allegations that the card scheme imposed "illegal" interchange fees that were ultimately borne by UK consumers. The claim, brought under the Consumer Rights Act of 2015 which paved the way for class action lawsuits, is being led by former financial ombudsman Walter Merricks.

The appeal to CAT comes after MasterCard lost a 10-year legal battle with the European Commission over the level of interchange fees levied on debit and credit card charges.

The documents handed in to CAT include a report from independent expert economists and accountants that support the claim; and a detailed plan for managing the claim, including how the proposed class of 46 million consumers will be communicated with through a claims website, newspapers, magazines and social media. High profile consumer groups such as Which? and moneysavingexpert.com have also agreed to follow the progress of the proposed claim and keep consumers updated.

MasterCard is taking the challenge seriously, using one of the most highly regarded 'Magic Circle' defence law firms, Freshfields Bruckhaus Deringer, to represent its case in place of its normal legal team. (Source date: 9 September 2016)

Contactless card fraud issues

Security measures for the UK's contactless card programme have been derided as 'chaotic' after it emerged that customers can still be subject to fraudulent transactions up to eight months after reporting lost or stolen cards. An investigation by consumer website moneysavingexpert.com has discovered that customers whose lost or stolen contactless cards have been cancelled may need to comb through months of statements to check for fraudulent transactions. The problem arises when tap and go card payments are authorised offline by retailers without first going through the bank's filters.

Industry bodies say there are no readily available figures for the number of contactless cards lost or stolen every year, but there were 152,727 cases of fraud involving lost or stolen debit and credit cards reported in 2015.

The UK Cards Association states: "Fraud on contactless cards is rare and considerably lower than overall card fraud. Consumers are fully protected against any fraud losses and will not be left out of pocket." (Source date: 9 September 2016)

Bitcoin a threat to card acquirers and issuers: Santander

The rise of bitcoin and blockchain technology could have a profound impact on the card market, hurting acquirers and issuer banks but ultimately benefiting Visa and MasterCard, according to experts from Santander.

In a paper focused on the Brazilian market, researchers from Santander warn that the country's largest credit and debit card operator, Cielo, is likely to be negatively affected if acceptance of Bitcoin grows, with the firm's entire business model challenged by the risk to merchant discount rate and POS revenues. Issuer banks would also see their interchange revenues threatened, while card suppliers and POS manufacturers could also face some issues thanks to fewer physical cards in circulation.

In contrast, the big card brands such as Visa and MasterCard could benefit from blockchain technology, seeing lower transaction, IT and back-office costs.

For banks, too, the blockchain is likely to be a net benefit, offering the chance to eliminate difficult, time-consuming, and costly trading between parties. (Source date: 9 September 2016)

Wells Fargo fined \$185m for opening millions of unauthorised accounts

Wells Fargo has been fined \$185 million for opening up to two million deposit and credit card accounts without customers' knowledge, issuing and activating debit cards without consent and creating phony email addresses to enrol people in online services.

The bank says that it has fired 5300 staff over the scandal, which according to the Consumer Financial Protection Bureau (CFPB) was driven by sales targets and compensation incentives.

The CFPB has levied a \$100 million fine, with the Office of the Comptroller of the Currency issuing Wells with another \$35 million penalty and the City and County of Los Angeles \$50 million. In addition to the fines, Wells Fargo has been told to refund all affected customers, something which is likely to cost at least \$2.5 million. The CFPB has also ordered the bank to hire an independent consultant to conduct a review of its procedures. (Source date: 8 September 2016)

Nets files for IPO

Nordic payments processor Nets has applied for an Initial Public Offering in a partial share sale that is expected to generate proceeds of about Dkr5.5 billion (\$824 million) for equity owners Advent International Corporation and Bain Capital Private Equity, as well as Danish pension fund ATP. Nets was acquired by the current consortium of shareholders in July 2014 from 186 primarily Danish and Norwegian banks for Dkr17 billion.

Nets employs approximately 2,400 employees in six countries across the Nordic region and last year processed approximately 7.3 billion card transactions through its business relationships with more than 300,000 merchants and 240 banks. Nets also has contracts with more than 240,000 corporate customers for payment services and manages over 8 million digital identities.

The company expects to list on the Nasdaq Copenhagen market as early as October. (Source date: 1 September 2016)

Apple Pay Dispute in Australia

The disagreement between Apple and some of Australia's biggest banks is growing increasingly heated as the financial collective accuses the consumer electronics group of acting against the interests of customers in the ongoing row over collective bargaining rights for NFC access to iPhones.

The banks - Commonwealth Bank of Australia, Westpac Banking Corporation, National Australia Bank, and Bendigo and Adelaide Bank - are seeking permission from Australian Competition and Consumer Commission (ACCC) to engage in collective negotiation and boycott activities with Apple in relation to the Apple Pay platform and with other third party wallet providers. By working together, the banks hope to exert pressure on Apple and win access to the iPhone NFC antenna for their own contactless payments apps, as they already have with Android devices.

Apple in return has accused the banks of exhibiting cartel-like behaviour, stifling competition and creating undue security risks.

The banks have already won the backing of Australian merchants in the debate, with both Coles and the Australian Retailers Association writing supportive submissions to the competition watchdog.

Only ANZ has broken ranks, this week commencing the rollout of Apple Pay to more than 500,000 customers with a MasterCard credit card, following an earlier release to its five million debit card holders in April.

The ACCC is now not expected to make a formal decision on the matter until October. (Source date: 30 August 2016)

Singapore proposes new payments regulatory framework

Singapore's central bank is to streamline its regulatory framework to accommodate new innovations in payments systems and establish a National Payments Council to promote interoperability and common standards among competing services. The consultation paper from the Monetary Authority of Singapore (MAS) proposes to merge legislative rules under the Payment Systems (Oversight) Act (PS(O)A) and the Money-changing and Remittance Businesses Act (MCRBA), which govern stored value and remittances respectively.

MAS intends to create a single framework that will provide for the licensing, regulation and supervision of all payments services, including stored value facility holders, remittance companies, and virtual currency intermediaries.

To co-ordinate the initiative and ensure interoperability, MAS proposes to establish a National Payments Council, which will draw its members from among users and providers of payment services.

The public consultation will run from 25 August 2016 to 31 October 2016. (Source date: 25 August 2016)

Mobile Money

Visa competes with M-Pesa in Kenya

Visa is teaming up with several Kenyan banks on a service that aims to break M-Pesa's stranglehold on the country's mobile payments market. The new mVisa offering enables consumers to access all of the funds in their bank accounts to pay merchants and people. Co-Operative Bank, Family Bank, KCB, and NIC Bank have signed up to the service.

Although Visa is the world's largest payments network it been outshone in Kenya by telco Safaricom and its hugely successful M-Pesa. The card scheme hopes to change this with the new service, stressing that because transactions run through the Visa network, the consumers and merchants do not need to be customers of the same bank or mobile operator.

The mVisa service was first launched last year, in India, where it has so far signed up several banks and around 30,000 merchants. Visa now plans to expand throughout Africa, with Uganda, Tanzania, Rwanda and Nigeria likely to join Kenya by the end of the year. (Source date: 13 September 2016)

NAB enhances mobile app using Visa developer platform

National Australia Bank is rolling out a series of card-linked enhancements to its mobile banking app, including a 'world-first' feature which enables consumers to use the app to pay for purchases while waiting for the arrival of new Visa credit cards. The new suite of card transaction control features will enable customers to select and modify when and how their Visa debit and credit cards can be used.

The card transaction control enhancements result from a strategic partnership struck between the Australian bank and Visa last year which has seen NAB utilise the card scheme's developer platform.

An open pilot of the new app is to commence soon for compatible Android devices, with feedback from iOS devices following in the coming weeks. The fully-featured app will be launched in stages over the coming year.

NAB is also in the process of launching new NAB PayTag stickers which can be attached to mobile devices to enable contactless payments linked to a customer's Visa debit card. (Source date: 13 September 2016)

Barclays and CommBank team up to offer cross-border mobile payments

Barclays is teaming up with the Commonwealth Bank of Australia to enable customers to send instant mobile payments around the world using just a phone number. Barclays has connected its Pingit m-payments app to CBA's equivalent, CommBank, for the service, letting their respective customers transfer funds without needing to enter banking details.

By teaming up with each other, Barclays and CBA hope that they can take a bigger slice of the fast growing international money transfer sector, which has seen a host of new entrants, such as TransferWise and Azimo, undercutting banks.

Launched in 2012, Pingit now claims three million users and is available to non-Barclays customers. Although it can be used for sending money overseas - including to India and Kenya - the CBA arrangement marks the first time that the setup allows for two-way transfers. (Source date: 8 September 2016)

Samsung Pay hits 100m transaction mark on first anniversary

A year after launch, Samsung Pay has been used to make around 100 million unique transactions in seven countries, with the electronic giant's home market of South Korea leading the way. Nearly 11 million cards related to value-added services, including membership, ATM and transit cards, have been registered to the service in the country.

In addition to the US and South Korea, the service is available in Singapore, China, Spain, Australia, Brazil, with some 440 bank issuers onboard. Other markets, including the UK and Canada, are expected to follow soon. (Source date: 24 August 2016)