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**Savantor Limited**  
68 Lombard St  
London EC3V 9LJ  
Tel: 0870 734 6250  
Fax: 0870 734 6251  
email: [info@savantor.com](mailto:info@savantor.com)  
[www.savantor.com](http://www.savantor.com)

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## Savantor's View

### Biometrics and payments

The past few weeks have seen news released of a number of biometric developments in the payments industry. A recent report by Visa shows that 64 per cent of consumers are keen to start using biometric data as a method of payment authorisation.

Biometric technology is being widely trialled and is already being used by a number of banks. It includes fingerprint recognition, voice recognition, facial recognition, iris scanning, and behaviour recognition. Even heartbeat recognition is being explored as a means of secure identification.

The form of biometric technology that is most familiar to the general public is fingerprint recognition, as it is used by many smartphones in lieu of a password. It is also used to authorise payment transactions, for example with Apple Pay, or as a means of identification for mobile banking, such as offered by HSBC.

Use of voice recognition technology is likewise becoming increasingly more common in UK banking, with both established banks such as Barclays and HSBC and smaller challenger banks such as Atom. It is proving to be a popular technology to introduce as it does not require users to acquire hi-spec equipment.

Facial recognition is also an area of biometrics that is expected to grow rapidly over the next few years. Atom is the first UK bank to allow customers to access their accounts by means of their facial features. Lloyds Banking Group has just introduced facial recognition technology for opening a current account online with Bank of Scotland.

Other areas of biometric technology such as heart and behavioural biometrics are also being explored as a means of authorising transactions although they are still in the early stages of development.

In the Visa study, fingerprint recognition software was the most popular form of biometric payment, with 88 per cent of respondents viewing it as the most secure form of payment. Iris scanning was deemed secure by 83 per cent of people, but only 65 per cent were comfortable with facial recognition technology.

So how secure is the use of biometric technology? Biometrics are considered more secure than passwords because passwords can be guessed or even shared with other people. Nevertheless there are concerns about security, particularly if fraudsters manage to gain access to the biometric details, as they are integral to an individual and cannot be changed. However the Banks appear to be of the view that the technology is nevertheless far more secure than traditional passwords and PINs.

In spite of the concerns, biometric technology in payments is obviously here to stay and is making steady progress into becoming part of everyday banking.

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## Products and Initiatives

### ***Lloyds to use Pindrop tech to identify fraudulent calls***

Lloyds Banking Group is to be the first organisation in Europe to use 'Phoneprinting' tech from Pindrop to identify fraudulent callers to its contact centres across the Lloyds Bank, Halifax and Bank of Scotland brands.

Pindrop's Phoneprinting technology creates an 'audio fingerprint' of each call by analysing 147 unique call features - such as location, background noise, number history and call type - to highlight unusual activity, identify potential fraud and stop criminal callers.

Pindrop was founded in 2011 and is venture backed by Andreessen Horowitz, Citi Ventures, Felicis Ventures, Google Capital, GV and IVP. The company says installations of its technology in US call centres has helped detect over 80% of fraudulent calls.

The contract with Lloyds follows the publication of Pindrop research earlier this year which revealed that one in 700 calls to UK financial institutions are fraudulent. (Source date: 11 October 2016)

### ***Atom Bank opens to all UK customers***

Atom Bank, the mobile-only startup that uses face and voice biometrics plus machine learning technology to service customers, has opened its services to all UK consumers following the conclusion of a six-month invitation-only programme. The Durham-based bank went live in the UK in April to customers who had already registered an interest in the new bank via its website.

Since its creation in April 2014, Atom Bank has raised in excess of £135m in capital through the support of a group of over 100 private and institutional investors. In November last year, Spanish bank BBVA ploughed £45 million into the business, becoming the largest shareholder in the digital-only startup with a 29.5% stake.

Atom currently offers two Fixed Saver accounts, along with SME lending via a panel of specialist business intermediaries. The bank's ultimate ambition is to provide customers with a full suite of fixed savings, current accounts, overdrafts, debit and credit cards, instant access savings and residential mortgages, all serviced via its mobile app. (Source date: 6 October 2016)

### ***US increases prepaid card protection***

US regulators are clamping down on the fast growing prepaid card market in a bid to give users the same protection offered by credit and debit cards.

The amount Americans put on 'general purpose reloadable' prepaid cards grew from less than \$1 billion in 2003 to nearly \$65 billion in 2012, with the amount expected to nearly double again by 2018. But while the cards have proved popular with those who struggle to obtain more traditional checking accounts, they have also been criticised for high and unclear fees and a lack of protection when funds are stolen or lost.

Under new rules from the Consumer Financial Protection Bureau (CFPB), from next October Americans will have protection against unauthorised transactions if their cards are lost or stolen. Financial institutions will also have to cooperate with consumers who find unauthorised or fraudulent charges, or other errors, on their accounts to investigate and resolve these incidents in a timely way, and where appropriate, restore missing funds. (Source date: 5 October 2016)

### ***US Bank uses Visa technology to reduce card declines***

US Bank is using technology from Visa that is based on the geolocation capabilities of mobile phones to determine whether payment cards are being used fraudulently. The opt-in technology is integrated into US Bank's mobile apps, enabling the location of a card transaction to be matched to the location of the user's phone.

The bank says this means it can help ensure that transactions on customers' cards are approved, minimising disruption and reducing the risk of fraud. (Source date: 5 October 2016)

### ***Stripe launches Instant Payouts service***

Digital payments firm Stripe has launched Instant Payouts, a service designed for the gig economy, enabling marketplaces to pay contractors in minutes via their debit cards. The new service uses debit cards as the means of transfer and the funds are automatically deposited to the linked bank account.

The service has been trialled in beta for several months by firms including Instacart, Postmates and Lyft, which has already used it to send over \$500 million to drivers.

It is now available to all marketplaces in the US using Stripe's Managed Accounts, which simply need to add a few lines of code to their site. Stripe charges 1.5% of the payout amount, with a minimum fee of 50 cents. (Source date: 20 September 2016)

## Market News

### *Lloyds to axe more staff*

Lloyds Banking Group has announced plans to cut a further 1,340 jobs as part of a cost-cutting strategic review.

The latest round of job cuts, which will hit staff operating in retail, group operations, marketing and finance and risk division, follows a pledge in July to slash 3000 jobs and close 200 branches in order to save an extra £400m by the end of 2017. The bank has already removed 4000 positions this year under plans announced in 2014 to lose 9000 jobs by the end of 2017. (Source date: 12 October 2016)

### *Swift customers vulnerable to new Trojan*

Several banks have been attacked by a group using a new Trojan and tools that can manipulate Swift customers' transfer logs, warns security outfit Symantec. Apparently the Odinaff Trojan has been used against firms around the world in the banking, securities and trading sectors since January.

The malware is typically deployed in the first stage of an attack to gain a foothold onto a network, providing a persistent presence and the ability to install additional tools.

One of the tactics used by the Odinaff group is the use of malware to hide customers' own records of Swift messages relating to fraudulent transactions. The tools used are designed to monitor customers' local message logs for keywords relating to certain transactions. They will then move these logs out of customers' local Swift software environment.

Symantec says that there is no evidence that the Swift network itself has been compromised. (Source date: 11 October 2016)

### *NAB systems fail for third time in a week*

National Australia Bank has had to apologise to customers for the bank's third outage in a week. NAB customers were left fuming as the bank's online and mobile systems once again went down during a two-hour period on Tuesday afternoon. The outage is the latest of a series of failures over the course of the past week.

NAB has yet to give an explanation for the problems, although some have pointed the finger at the bank's ongoing roll-over to a new core banking platform supplied by Oracle. A different spin came from IT News, which pointed the blame last week at an offshore IBM member of staff who deleted a key DNS record during business hours. (Source date: 11 October 2016)

### *UK consumers prefer cards to cash - MasterCard*

MasterCard has posted research showing that 44% of UK consumers would do away with cash altogether if card payments were accepted everywhere. Of 2000 people polled, 62% say that they now prefer to pay electronically than with cash and 69% say they already use e-payments more often than notes and coins.

Security is a factor for many when it comes to their choice of payment method, with two in five uncomfortable carrying cash for fear of losing it or having it stolen, whereas misplaced or stolen cards can be cancelled.

Cards have become so ubiquitous that 38% say they feel inconvenienced when a shop does not accept them, with 20% avoiding or walking out of shops and restaurants when they realise that they don't accept card payments.

However, the hard data does not suggest that physical money is on the way out. Just this week the Bank of England noted that the amount of cash circulating in the UK economy is twice the level of a decade ago, with the much hyped growth in contactless cards and mobile P2P making little headway in reducing the amount of notes and coins in people's pockets. (Source date: 7 October 2016)

### ***Misys to float in early November***

UK-based core banking supplier Misys is to sell £500 million of stock in an initial public offering on the London Stock Exchange early next month.

The float would prove a boon for Vista Equity Partners, which acquired Misys in 2012 for just £1.27 billion after merger talks between the core banking vendor and Swiss rival Temenos collapsed. Vista is understood to have been looking for a buyer since late 2014.

With just 25% of the vendor's stock going to market, the valuation is expected to rise as high as £5 billion once trading commences. (Source date: 6 October 2016)

### ***Durability of cash - Bank of England***

According to the Bank of England, the amount of cash circulating in the UK economy is twice the level of a decade ago. The Bank comments that growth in cashless payment methods, such as contactless cards and mobile P2P, are making little headway in reducing the amount of notes and coins in people's pockets. Today, there are apparently over £60 billion worth of notes in circulation, twice as much as ten years ago, equating to an additional £1000 per person.

Reasons for the glut include its convenience, wide acceptance and ease of budget management. Other factors include hoarding and greasing the wheels of the shadow economy.

The Bank agrees that it is likely that alternative digital payment methods will become ever more widely accepted, but foresees that many people will continue to use cash in their daily lives. It acknowledges that while the future demand for cash is not known for certain, it seems unlikely that cash will die out any time soon. (Source date: 4 October 2016)

### ***Security of biometric data - concerns***

The UK government's Treasury Select Committee has called on banking industry regulators to develop action plans and policies to protect consumer interests in light of the increasing use of biometric technology to access accounts. The Committee chair has raised concerns about the growing trend for biometric access to customer accounts, based on evidence that biometric data can be "relatively easily obtained by fraudsters".

Noting that compromised biometric data cannot be changed by the customer, the Committee states that Banks and regulators will need to plan for what they will do if biometric details are lost and/or illegally obtained by third parties. They should also consider how affected customers will be compensated as they may be unable to persuade their banks to release all the technical details needed to pursue their claim in court. (Source date: 30 September 2016)

### ***US becomes Visa's largest chip card market***

A year after the official launch of chip payment technology in the US, Visa is claiming steady progress, with the country already its largest EMV card market and fraud rates falling sharply.

Last October the US finally followed much of the rest of the world when Visa and other card schemes switched the liability for fraud-related losses to retailers that have not upgraded their hardware for EMV.

The switch has been far from plain sailing, with some merchants dragging their feet, customers grumbling about long transaction times and lawsuits against Visa from major retailers over the failure to mandate chip and PIN. However, a year on Visa says that it has seen "steady" progress and that there are now more than 1.46 million chip-enabled businesses and 363 million chip-enabled Visa cards. The number of Visa chip transactions surpassed half a billion in August, representing a 1000+ per cent annual increase.

Meanwhile, businesses that have completed their transition to chip terminals benefited from a 47% reduction in counterfeit fraud in May compared to the same period a year earlier, although Card Not Present fraud is rising sharply.

While Visa talks up progress, retailers are complaining that delays by the card industry have left thousands of new chip readers unused and consumers with far less improvement in security than what was sought by merchants. This latter relates to the card scheme's insistence on the continuing use of chip and signature at the checkout, a factor which has led to friction between the card companies and merchants and sparked a spate of law suits. (Source date: 30 September 2016)

### ***Nets valued at \$4.5 billion in IPO***

The private consortium of owners of Nordic payments processor Nets have almost doubled their money as the company realised a value of 30 billion kroner (\$4.5 billion) as it floated on Nasdaq Copenhagen. Advent International, Bain and Danish pension fund ATP acquired Nets for 17 billion kroner from a group of 186 Nordic banks in March 2014.

Nets opened trading with a share price of 150 kroner, following a massively oversubscribed offering of 52% of the company's equity in a free float to institutional investors. The share price rose by 4.7% in early trading, before subsiding to 1.7% off the opening to 147.4 kroner by mid-morning.

Nets plans to use the proceeds to pay down debt and retool the business for growth in the booming digital payments market. (Source date: 23 September 2016)

## **Mobile Money**

### ***Nordea switches to Danske Bank's MobilePay***

Nordea is abandoning Swipp, the Danish mobile payments JV it runs with local banks, and moving to rival Danske Bank's MobilePay service.

MobilePay has established itself as Denmark's leading m-payments service, with millions of people using it for P2P transfers and in-store and online purchases. It is now being offered by Danske Bank to all Nordic banks, with Nordea the first to sign on, offering the service to its customers in Denmark and Norway.

The news is a blow for Nordic payments processor Nets because it will be removed from the equation when Nordea customers use MobilePay, meaning it will no longer receive fees from Danske. Nets, which floated last month, saw shares fall by more than six per cent today.

Nordea and Danske say that they have decided to join forces to give them a better chance of seeing off fierce and growing competition from international organisations such as Google, Apple and Samsung. (Source date: 13 October 2016)

### ***MasterCard rolls out selfie payments***

MasterCard is launching its Identity Check Mobile technology in 12 European countries, enabling online shoppers to authenticate themselves through facial recognition and fingerprints. The new technology means that cardholders no longer need passwords and can authorise payments using biometrics, either via finger scan or selfie recognition.

Following trials in the Netherlands, US and Canada, MasterCard is now bringing the system to the UK, Austria, Belgium, Czech Republic, Denmark, Finland, Germany, Hungary, the Netherlands, Norway, Spain and Sweden. Other parts of the world will follow in phases next year.

The Dutch trial proved popular with 750 ABN Amro credit card users. More than three quarters of participants said that they wanted to continue using a fingerprint and/or facial recognition to complete payments and some nine out of 10 wanted to replace their password with biometric identification definitively. (Source date: 4 October 2016)

### ***Apple Pay launched for the Russian market***

Apple Pay has launched in the Russian market allowing Sberbank clients and holders of Mastercard cards to use the American company's contactless payment service. The service will use Mastercard's Digital Enablement Service platform (MDES), which uses industry-standard EMV-level security, and is protected using standards-based payment tokens.

The launch in Russia means Apple's payment service is now live in ten countries including the UK, the US, China, Australia and Canada.

Samsung Pay launched in Russia last month while Android Pay is live in the US, the UK, Australia and Singapore and last month suggested it will move onto the web. Apple Pay has already expanded into computer payments with Apple Pay for the Web. (Source date: 4 October 2016)