



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

Continuing growth of contactless payments

New figures released by the UK Cards Association show that one in five card payments are now made via contactless. Usage jumped from being 7.9% of card purchases in August 2015 up to 21% of card purchases in August 2016. During that period, the number of contactless transactions almost tripled, increasing from 89 million in August 2015 to 260.7 million, while the number of contactless debit cards in circulation increased from 74.5 million to 97 million during the same period.

The £2 billion milestone for contactless spending was reached in July this year, when a total of £2.1 billion was spent on contactless cards, more than three times higher than the same period last year.

This growth in usage is also evident across Europe, according to research undertaken by RBR. By the end of 2015, the number of contactless card payments had increased three-fold during the year to 3.7 billion - equivalent to 5% of all card payments.

RBR forecasts that by 2021, half of all European cards will be contactless, with a resulting increase in contactless payments of more than six-fold over the next five years to almost 25 billion, equating to 22% of all payments on European cards.

Not surprisingly, the POS market is forecast to show a similar trend. According to market research company Berg Insight, more than 77% of the world's POS terminals will be NFC-ready in 2020, up from 46% in 2016. Although previously the installed base of NFC-ready POS terminals has grown quickly, in many cases the contactless technology was not been activated. However, this is now changing and the research company estimates that approximately 15.0 million POS terminals were able to accept contactless payments by mid 2016.

It is interesting to note that whilst 'millennials' (18-35 year olds) in the UK are fully embracing contactless payments, preferring it to Chip and PIN, according to research undertaken by VodaLink recently into payment usage habits across Europe, this payment method has been slower to take off in other European markets, such as Germany and Italy.

Products and Initiatives

Metro Bank tests smartcard payments on the blockchain

SETL, Deloitte and Metro Bank have successfully demonstrated a contactless blockchain smartcard

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retail payment system for 100 customers of the UK-based challenger bank. For the tests, SETL provided a contactless smartcard enabled blockchain allowing digitised payments, Deloitte exercised its blockchain ID system known as Smart Identity and Metro Bank hosted a connected client account.

Over 100 users were issued with contactless smartcards and used them to make purchases from merchants, with all balances updated live-time from accounts held at Metro Bank.

The service, which is provided by SETL Payments Ltd, subject to appropriate regulatory approval, apparently could launch as early as 2017. (Source date: 15 November 2016)

Apple Pay opening up to non-profit companies

Apple Pay can now be used in America on the web and in apps to make donations to nonprofit companies, including Unicef and WWF.

Currently 19 nonprofit organisations have added 'donate with Apple Pay' buttons to their sites and apps, enabling people to give money via Touch ID. The initial batch of participants includes huge organisations such as the American Red Cross with several more, including American Cancer Society and PBS, set to follow suit.

Apparently, websites and apps see twice as many people actually completing a purchase with Apple Pay than with other payment methods. (Source date: 15 November 2016)

Visa looks to replace passwords with biometrics

Visa is stepping up its efforts to replace passwords, teaming up with BioConnect to bring multiple biometric authentication options to a single app.

However, users will still have the option to bypass biometrics with a password or PIN, resulting in a weak link in the security chain. To remove the weak password link, Visa is working with vendor BioConnect on an app that uses multiple biometric technologies so that when the default option fails, a user can just switch to another. The app also works across multiple devices, removing the need for consumers to reload payment information and login credentials when they acquire a new device.

(Source date: 14 November 2016)

Alipay enters US market with First Data/Verifone deals

Chinese payments platform Alipay is moving in to the US market through deals struck with Eftpos terminal suppliers First Data and Verifone. Under the deals Alipay will be available to Chinese tourists as a payment option on First Data's Clover mini point of sale terminal and Verifone's e355 mPos device.

It marks Alipay's first foray into the US market, a key shopping destination among Alipay's 450 million Chinese user base. Approximately two million of those users visit the US every year, with spending projected to reach \$40 billion in 2017.

In Europe, Alipay has signed similar deals with Ingenico, Wirecard, and Zapper to put its mobile app into high street shopping terminals. Verifone says it will also offer Alipay as an embedded payment option to users of its mPOS device in Europe. (Source date: 25 October)

Visa tells Europe to be ready for 3-D Secure 2.0 by April 2018

As EMVCo prepares to unveil a major update to the 3-D Secure specification for authenticating online transactions, Visa says that it expects to set a migration deadline for European merchants of April 2018.

EMVco is preparing a 3-D Secure 2.0 in a bid to help the industry deliver a globally interoperable and better user experience that also accommodates new devices, such as mobiles, and ways to pay, such as in-app purchases. Documentation is slated for release in the first half of 2017 and Visa says that it is already doing internal development to make Verified by Visa and its consumer authentication service ready ahead of early industry adoption by the middle of next year.

However, the card giant says that to make sure stakeholders have time to implement new products and services, it will hold off on certain rules - such as fraud chargeback protection on merchant-attempted 3-D Secure 2.0 transactions - until the programme activation date, which will vary between regions. In Europe, where risk-based authentication is already heavily in play, activation is likely to be April 2018, but the plan for other markets has not yet been decided. (Source date: 25 October)

Market News

Lloyds closes another 49 branches

Lloyds Banking Group is putting a fleet of mobile branches on the road in a bid to partially offset the closure of another 49 permanent sites and axing of hundreds of jobs. The closures are the latest stage of a three year programme to shut 4000 branches by the end of next year as the bank bids to cut costs and prepare for the digital age.

Meanwhile 665 jobs are to be cut as part of the plan to slim the 75,000 strong workforce by 12,000. The latest losses will be partially offset by the creation of 145 new roles.

To help compensate for the branch closures, eight mobile replacements will begin operating next spring, driving around communities "to help ensure there is a continuity of branch banking services available in some of those areas affected by branch closures". (Source date: 10 November 2016)

Apple deal with Cuscal in Australia

In the face of fierce resistance from some of Australia's biggest banks, Apple's attempts to gain a foothold in the country for its mobile payment service has received a significant boost from payments processor Cuscal, which says that 31 of its banking members will soon be able to access the service.

The deal with Cuscal comes as Apple awaits a ruling from the Australian Competition and Consumer Commission on an attempt by five of the country's biggest banks to enforce collective negotiations and open up NFC access on iPhones.

The banks accuse Apple of trying to piggyback on their investment in the country's national contactless infrastructure, while remaining "intransigent, closed and controlling" in dictating terms for support of Apple Pay. Meanwhile Apple is accusing the banks of acting like a 'hard core cartel' in stifling competition in the market. (Source date: 10 November 2016)

Tesco Bank fraudsters drain £2.5 million from customer accounts

Tesco Bank has refunded £2.5 million to 9000 customers who fell victim to a fraud that siphoned money from their current accounts over a weekend. The number of victims of the attack are less than half the 20,000 initially thought to have been hit.

The bank's move to refund accounts and resume full services following an earlier suspension of all transactions comes just 12 hours after FCA chief Andrew Bailey told MPs that the breach of the bank was "unprecedented in the UK".

Precise details of the assault have yet to be revealed, although the bank has pinpointed the security hole. A statement by the bank stressed that no personal data was compromised and that the bank is working with the National Crime Agency and regulators to track down the fraudsters. (Source date: 9 November 2016)

Russia wants to make new payments system compatible with China

The Russian prime minister, Dmitry Medvedev, says he wants to make the country's new payments system compatible with China's UnionPay as a way to guard against Western sanctions. Earlier this year Russia launched its Mir national payments card at the behest of President Putin in response to US and EU sanctions over the annexation of Crimea, which saw MasterCard and Visa cut off services to several of the country's banks.

In an interview with China Central Television, quoted by Reuters, Medvedev says that they are currently considering ways of harmonizing the national payments system, both in terms of the Mir card and the UnionPay system as it is believed that this would enhance the reliability of financial settlements.

Medvedev says that the compatibility would reduce Russia's reliance on Western-dominated payment systems such as Swift. (Source date: 9 November 2016)

Misys cancels plans to float

UK core banking supplier Misys has cancelled its plans to float on the London Stock Exchange, citing current "market conditions".

Despite claiming overwhelming support for the move to the public market earlier this month, the private equity owners of Misys have since seen the value of the company crash in the face of Brexit scares and volatile trading conditions. With plans to lower the valuation of the company by £1 billion and sell a

smaller share of the business dominating early discussions Misys has now put all plans on hold. (Source date: 4 November 2016)

India to overtake US as ecommerce superpower

India is set to overtake the US as the world's second largest ecommerce market within the next 20 years thanks to a young, connected and growing middle class, according to research from Worldpay. While India accounts for less than one per cent of the world's ecommerce spend today, the country's online retail market is set to grow by 28% per year over the next four years, making it worth US\$63.7 billion by 2020. By 2034, India's digital shoppers will be spending \$2,039 billion, making the country the world's second biggest market, behind China.

This growth will be driven by a combination of technological change, rising income levels and favourable demographics. Around 730 million Indians will be internet users by 2020 - 250 million higher than today. Many of these new users will be mobile-first, with India both the world's fastest growing smartphone market and one of the cheapest places to access the mobile internet with data plans two times cheaper than in China.

One currently popular payment method is however set to decline. Cash on delivery accounts for 22% of online purchases in India this year, but this is forecast to fall to nine per cent by 2020. (Source date: 27 October)

Nets warns of card data breach

Denmark's Nets has warned local banks and international card schemes of a data breach which may have compromised up to 100,000 credit cards. The Danish payment processor has alerted banking customers to the hack, which it believes was linked to a single overseas Internet retailer.

The company is working with Visa and MasterCard to investigate the breach. (Source date: 26 October)

Mobile Money

New real-time mobile payment platform launched in Finland

A real-time multi-bank mobile payment platform has been launched in Finland by three of the country's top banks. The new service, dubbed Siirto, has been designed and implemented by Tieto on behalf of Automatia, which operates a shared ATM network on behalf of OP Bank, Nordea and Danske Bank.

Siirto will only require end-users to have a mobile phone number for sending or receiving money both online and phone-to-phone, with all transfers occurring in real-time on the user's bank account.

The service is similar to the successful Swish platform in Sweden, which is credited with ushering the country towards a cashless status.

The PSD2-ready platform offers an open interface to connect any licensed payment service provider to the service, in the expectation that it will provide the foundations for a new payments ecosystem in the country. (Source date: 16 November 2016)

Samsung Pay rolls out points-based rewards system

Samsung is rolling out a rewards programme for users of its mobile payment system in the US. Operating in much the same way as a points-based credit card loyalty programme, Samsung Rewards will offer incentives for subscribers to use Samsung Pay for their everyday purchases.

Users can redeem their points for Samsung products, vouchers for Samsung.com, Samsung Rewards Visa Prepaid Card value, and gifts cards to some of the country's leading retailers. The scheme will also offer limited-time bonus offers, he says, partnering with retailers and small businesses to give users seasonal opportunities to earn additional points. (Source date: 15 November 2016)

Contactless poppy collection boxes

This year NatWest placed contactless charity collection tins in 13 of its branches in support of the Royal British Legion's Remembrance Day Poppy Appeal. The trial used a tin which has been developed by Worldpay and doubles up as a contactless terminal so users can donate £2 per tap. Mobile phone users can donate using Thyngs stickers which instantly direct them to a dedicated donation page.

The development enables the Royal British Legion to collect gift aid, making sure they get the most from each donation.

If the trial is deemed successful, the technology could be rolled out across the country for next year's Poppy Appeal and made available to other charities. (Source date: 11 November 2016)

PayPal sends cash with Siri

PayPal has integrated with Apple's Siri to enable subscribers to use voice commands to transfer payments in 30 countries and in a variety of languages. The new facility for iPhone and iPad users running iOS 10 is being made available in time for the busy holiday season, with PayPal predicting more than 17 million P2P transactions in the month of December alone.

Users can transfer cash to friends and family with a simple voice command.

PayPal subsidiary Venmo added Siri support in September, as did competitor Square Cash and money transfer outfit Azimo. (Source date: 10 November 2016)

BBVA rolls out mobile onboarding

BBVA has rolled out a new mobile onboarding service that enables customers to open an account with just a photo ID and a selfie. The new remote registration service asks users to scan a photo ID and provide a selfie. The bank has implemented face recognition technology at the back end to ensure that both images coincide, before switching over to a BBVA rep to verify the customer's ID through a video call. The entire process takes just minutes to complete.

BBVA follows in the footsteps of Self Bank, the Spanish online banking subsidiary of French financial group Boursorama, which is using a combination of video-conferencing, biometrics and electronic signatures, to cut registration times for new customers joining the bank.

Both are taking advantage of recently-enacted legislation which removes the need for customers to be physically present to open an account. (Source date: 4 November 2016)

In-store mobile payments fail to take off in North America

The number of North Americans using their mobile phones for payments at the point of sale has remained flat over the last year, despite growing awareness of the technology and a drop off in the popularity of cash, according to a survey from Accenture. Regular use - at least weekly - of mobile payments remains flat at 19%, way below the numbers for cash and cards.

Although there has been a drop of seven percentage points in the number of North Americans using cash in store at least once a week, 60% still use paper money. Debit card use has remained flat at 59% and credit cards have seen a three percentage point bump to 53%.

There is some optimism about mobile wallets, with survey respondents predicting a 60% increase in the use of options provided by card networks and tech giants by 2020, although this would still mean less than a quarter of the population paying by phone.

There are no clear favourites when it comes to which providers will win over mobile customers. Of those who have used mobile payments apps in store, respondents most frequently use their bank's mobile app (26%), and three quarters say they are satisfied with this experience. (Source date: 20 October)