



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

Growth of card payments in 2016

Figures have just been released by the UK Cards Association for card spending in 2016. They show that consumers spent £647 billion using payment cards in 2016 and that there were 14.8 billion card transactions during the year.

Just over three quarters of retail spending (76.4%) was undertaken on payment cards, equating to £298 billion, compared to £290 billion in 2015.

Debit cards were used for the majority of card spending, accounting for £461 billion of sales.

Perhaps not surprisingly, a massive growth was seen in the use of contactless cards during 2016. £25 billion was spent during the year using contactless cards, compared to £7.75 billion in 2015.

The monthly card figures for January underline these trends, with spending on payment cards totalling £57.1 billion, up by £0.5 billion on December's figures. Year-on-year this is an increase of £5 billion. The total number of monthly purchases reached a new record of 1.3 billion, with the share of total retail sales undertaken on debit and credit cards equating to 77.4% for the month. Spending online accounted for £15.3 billion and 176 million transactions and accounted for 27% of total card expenditure.

The ongoing rise in card usage is explained by the UK Cards Association as being partly driven by the continuing expansion in contactless and online payments together with a slight increase in consumer confidence in the economy.

The rise of contactless is expected to encourage consumers to use this form of payment instead of cash where possible. According to Barclaycard, more than half of payments under £30 in London are tap and pay, and cash volumes are forecast to fall by 30% over the next ten years. Although there are various predictions of and discussions about when cash will die out – the latest being 2043 according to an online casino company – nevertheless it is difficult to envisage a time when the use of cash as a means of payment becomes obsolete across all areas of UK society.

Products and Initiatives

New Galaxy S8 to use facial recognition

Samsung's new Galaxy S8 flagship handset will apparently use facial recognition to verify payments, utilising a mix of fingerprint, iris and facial recognition technology. The technology will be used to let S8

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owners access services, including Samsung Pay, while the firm is also working with banks to help them integrate the new technology with their own apps.

Previous Galaxy handsets have used facial recognition to let users unlock their phones, but the S8 will be the first to employ it for financial applications. The S8 handset is to be unveiled later this month, with the new payment capabilities arriving soon after, in an attempt to restore Samsung's reputation after the fire hazard issues of the Note 7 device. (Source date: 16 March 2017)

Alibaba leads \$200m investment in Paytm e-commerce unit

The e-commerce arm of Indian mobile wallet giant Paytm has raised \$200 million in a funding round led by China's Alibaba. The new investment will see Alibaba invest \$177 million into Paytm E-Commerce, with the remaining \$23 million pledged by Saif Partners.

Paytm announced plans to split its e-commerce business from the payments unit in the middle of last year, with a view to taking on local e-commerce malls Flipkart and Snapdeal and global giant Amazon. Sources says the firm plans to sell close to a billion products from merchants across South East Asia on its platform, dwarfing the sales lines on rival sites.

The diversification strategy is being helped along by Alibaba, and its financial services unit Ant Financial, which has spent over a billion dollars to acquire a 40% stake in the Indian firm. (Source date: 3 March 2017)

Singapore commuters to tap-and-pay with MasterCard

Singapore's Land Transport Authority is working with MasterCard on plans to enable commuters to pay for their fares with contactless bank cards. The LTA's collaboration with MasterCard was first announced in July last year. A pilot of the system will be launched next month with at least 100,000 commuters using tap-and-pay cards on public buses and trains.

According to MasterCard, it expects to broaden contactless access in the near future by enabling mobile and wearable devices for cashless use. (Source date: 1 March 2017)

Banks at forefront of UK Government Digital Strategy initiative

Lloyds Banking Group and Barclays have been named as key partners in a new drive by the UK Government to arm Britain with digital skills and place it at the forefront of a sweeping technological revolution. The Digital Strategy, unveiled by the government, aims to bridge the national digital divide and re-equip the country as a leading international tech hub.

The strategy includes a plan by Lloyds Banking Group to give face-to-face digital skills training to 2.5 million individuals, charities and small and medium businesses by 2020; plans by Barclays to teach basic coding to 45,000 more children and assist up to one million people with general digital skills and cyber awareness; and a pledge by Google, as part of its commitment of five hours of free digital skills for everyone, to help boost digital skills in seaside towns.

The programme will also see the creation of five international tech hubs in emerging markets to create and develop partnerships between UK companies and local tech firms. (Source date: 1 March 2017)

New UK clearing bank announced

Worldpay founder Nick Ogden has announced the introduction of ClearBank, the first new UK agency and clearing bank to be created in over 250 years. ClearBank is regulated and authorised and is apparently on track to open its doors in Autumn 2017 to financial services providers, FCA-regulated businesses and fintech startups that require access to UK payment systems and core banking technology to support current account capabilities. The service will not be open to the public.

Built on a combination of public and private cloud infrastructure using Microsoft Azure, ClearBank will launch with a purpose-built, integrated core banking technology system, and API developed in accordance with ISO 20022 to support easier connections.

The benefits of ClearBank's technology platform are being cited as a key differentiator for the bank. Figures from the Cruickshank Report apparently indicate that, with the improved efficiency delivered by ClearBank's built-for-purpose technology, between £2bn and £3bn could be saved from the annual costs that are paid for transactional banking in the UK.

ClearBank is to spend the next six months stress-testing its proposition with an e-money institution, a challenger bank and a building society onboard. (Source date: 28 February 2017)

Market News

Dispute continues over iPhone NFC in Australia

The group of Australian banks in dispute with Apple over access to the iPhone's near-field communication function say that it is "unrealistic" to expect them to settle for Android Pay and non-NFC alternatives as it would mean that 'potential mobile wallet providers other than Apple are locked out of the established payment infrastructure in respect of the clear majority of relevant customers'.

The submission also argues that if competing wallets had access to the iPhone's NFC function there would be more opportunities for cashback and other promotions, as use of an issuer mobile wallet rather than the Apple one would avoid the Apple Pay transaction fee, all or some of which could be shared with the customer in the form of discounts, cashbacks or promotions.

The submission also says that Apple's refusal to provide access to hardware is inconsistent, noting that third-party apps can use the iPhone's camera, microphone and speaker, leading to a 'proliferation of innovation'.

This latest submission comes after the Commission issued its provisional ruling in December, coming down in support of Apple and expressing concerns that a ruling in favour of the banks could reduce or distort competition in a number of markets. The ACCC is expected to issue its final ruling on the dispute later this month. (Source date: 16 March 2017)

Lloyds plans to transfer over 1900 staff to IBM in outsourcing deal

Lloyds Banking Group is planning to outsource large parts of its IT estate and transfer 1900 staff to IBM in a deal worth £1.3 billion over seven years. The agreement will see 2000 of the bank's 3200 applications running across Windows, Unix, Linux and IBM I-Series platform outsourced to IBM.

The deal, which is expected to be concluded in the coming months, will see the bank achieve £760 million in cost savings.

Concerns have been raised by the Lloyds Trade Union that the migration of the accounting details of 20 million customers onto a private cloud to be run by staff based offshore could 'weaken existing security controls and adversely affect the confidentiality and integrity of Bank data'. (Source date: 13 March 2017)

Monzo to move card processing inhouse following outage

Digital challenger Monzo is to move card processing inhouse after a severe outage at its current third party service provider left customers without service for most of Sunday. The problems started when card processor GPS ran an 'unexpected, large migration' that impacted services for cardholders at Monzo and other fintech startups such as Curve, Revolut and Loot.

Originally using a third-party processor made sense to the start-up when it first kicked off its alpha programme, however over the past year this decision has apparently been reassessed to ensure that total control over the customer experience is maintained.

The company has just finished a 12-month project to connect its systems directly to MasterCard in time for the launch of its current account later this year. (Source date: 7 March 2017)

Atom Bank raises additional £83m

App-based bank Atom is raising another £83 million from existing investors, including Spain's BBVA, as it builds up the reserves to take on Britain's high street giants. BBVA's contribution is £29.4 million, which keeps its stake at 29.5%, the amount acquired for £45 million in late 2015.

Woodford Investment Management, Toscafund Asset Management and others contributed to the funding, which brings the total capital raised by Atom to £219 million. More funding is expected in the 'near future'.

The challenger received its banking license in June 2015 and launched operations in April 2016, offering two fixed-saver accounts and secured business lending for SMEs. Since then, it has been building up its product range and has a number more in the pipeline.

All products are serviced through the bank's app using face and voice biometrics. Using machine learning technology at the heart of its system, it promises to shake up the traditional, branch-based retail banking world. (Source date: 3 March 2017)

EBA to relax PSD2 authentication rules

The European Banking Authority is to relax proposed rules on a requirement for strong customer authentication for all payments under EUR10, after multiple complaints from industry participants who claimed that the mandate would lead to more declined transactions and abandoned purchases at the checkout.

In a speech in London on the EU's revised Payments Systems Directive (PSD2), the EBA chairman said that the proposed standards would be modified to raise the threshold to EUR30 for remote consumer transactions, although there would be no exemption for corporate payments.

The European Banking Authority has been struggling to keep pace with the timetable for the delivery of Regulatory Technical Standards (RTS) for PSD2, after receiving a record 224 responses to its first four consultation papers on the issue. Particular issues include the drafting of standards for strong customer authentication on the one hand, and common open communications between banks and third parties for account access on the other.

With regard to third party access to consumer data, the EBA has come to the conclusion that 'screen-scraping' will be banned under PSD2, instead shifting the burden to banks to maintain access arrangements. (Source date: 21 February 2017)

Mobile Money

Google brings P2P payments to Gmail Android app

Google is returning to the crowded P2P payments arena, adding a feature to its Gmail Android app that makes sending friends funds as easy as attaching a file to an email. Google first began letting US users send and receive money through Gmail on desktop back in 2013 but is only now bringing the feature to the Android (but not iOS) app.

The service is free to the tens of millions of US Gmail account holders, although it remains to be seen whether this is enough to help it gain momentum in a fast-growing market dominated by PayPal's Venmo and including Square Cash and bank-backed Zelle. (Source date: 15 March 2017)

Germany's N26 aims to become Europe's leading mobile-only bank

The Berlin-based N26 bank has laid claim to becoming Europe's leading mobile-only bank, growing its user base to 300,000 and recording a seven-fold growth in transaction volumes over the past year. The two-year old bank operates in 17 markets across the EU and has processed more than EUR3 billion in transaction volumes since inception, with 60% of the total undertaken in the past year.

Launched in Germany and Austria in January 2015, N26 began as a current account with a MasterCard. It now operates as a fully-featured bank with instant overdraft, international transfers into 19 currencies through a tie-up with TransferWise, investment options via Vaamo and real-time consumer credits up to EUR25,000.

Last December N26 expanded its coverage to a variety of new markets, picking up 30,000 customers in France and 10,000 users in each of Spain and Ireland. The startup says it is currently gaining 1000 new users every day. (Source date: 15 March 2017)

RBC integrates with Siri for Interac e-transfers

Royal Bank of Canada customers can now use Apple's Siri assistant to send Interac money transfers with simple voice commands.

The feature is a first for Interac transfers but enabling people to use Siri to send money has been gaining traction around the world. PayPal and its subsidiary Venmo as well as Square Cash and money transfer outfit Azimo all integrated with Apple's assistant last year, along with European startup banks Monzo and Number 26. (Source date: 7 March 2017)

MasterCard rolls out mobile order ahead initiative to six new markets

MasterCard is to expand its mobile order ahead programme to Brazil, Canada, Ireland, Singapore, South Africa and the US. Qkr! with Masterpass enables consumers to order and pay for goods and services via their smart phone without having to wait in line or for a restaurant server.

The technology is already live in Australia, Colombia, Mexico and the UK and is being used at fast-casual restaurants such as Wagamama, ASK Italian, Young's Pubs, and Zizzi. The roll out to new

territories coincides with the introduction of a new feature to Qkr called 'Open Tab' that enables customers to open a tab at the bar, view their orders on the phone and split the bill with friends.

MasterCard is also partnering with Oracle to integrate Qkr and Masterpass in Oracle point-of-sale software and systems. (Source date: 27 February 2017)

mVisa to expand to 10 countries

Visa has announced that mVisa, its QR-based payment service currently live in India, Kenya and Rwanda, will soon be available to merchants and consumers in Egypt, Ghana, Indonesia, Kazakhstan, Nigeria, Pakistan and Vietnam.

mVisa is a mobile solution which brings the benefits of easy and secure digital commerce to financial institutions, merchants and consumers in emerging markets, thereby helping accelerate the global migration from cash to electronic payments. It allows consumers to use their mobile phones to make cashless purchases at merchant outlets, pay bills remotely and even send money to friends and family members by securely linking their Visa debit, credit or prepaid account to the mVisa application. It digitizes the underlying account and allows consumers to transfer funds from their account to the retailer's account reliably and securely by scanning a QR code.

Visa describes mVisa as an agile solution that allows merchants around the world to immediately accept digital payments from their customers without investing in POS infrastructure. (Source date: 27 February 2017)

Bank of America first to launch Zelle P2P payments

Bank of America has become the first member of the US bank-backed Zelle network to roll out its P2P payments functionality. It is one of 19 banks to back mobile P2P payment network Zelle, which is being progressively rolled out to take on competition from Paypal-backed rival Venmo.

While Venmo payments are routed through Nacha's same-day payments ACH, funds sent through Zelle will materialise in recipients' bank accounts within minutes.

Apparently mobile users will be able to use the existing contacts on their mobile device to securely transfer money to - or request money from - almost anyone within minutes, regardless of where they bank. The bank's clients will also be first among Zelle users to be able to split expenses among multiple contacts or friends - such as a group dinner check - and add a personal note along with the payment transfer or request. (Source date: 23 February 2017)