



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

E-commerce and the increase in online spending

Figures released by the Office for National Statistics show e-commerce is an area where consumer usage continues to grow. The number of adults buying goods or services online in 2016 increased to 77%, up from 53% in 2016. This increase has been fuelled by the use of mobile devices, in particular smartphones, which accounted for over half of online sales in the UK, up from 26% in 2013.

According to a report recently published by the UK Cards Association, online spending accounted for 26% of total card expenditure in December 2016, with 12% of the number of sales made by payment card as a proportion of total card purchases. Over the last two years, the volume of online sales grew by 42% compared to 23% for total card expenditure, whilst the value of online sales grew by 28% compared to 13% for total card expenditure.

In total, 1.8 billion online purchases worth £154 billion were made in 2016, showing a significant increase from the figures two years previously when 1.3 billion worth £120 billion were undertaken. It should be noted that these figures do not include online purchases at online retailers, such as Amazon, Google and iTunes, who process their transactions outside of the UK.

There are a number of factors which can be seen to be driving this growth: whilst an increase in consumer awareness and acceptance of the internet as a purchasing tool has played its part, the choice of services and ease of use of retailer websites are evolving and improving continuously. The introduction of various technological developments – ranging from digital wallets to one-touch payment functionality or links from social media websites – has also helped drive the increase. Omni-channel retailers offering services such as 'click and collect', as well as marketing initiatives such as Black Friday and individual retailer promotions, can also be seen to be driving online spending.

Whilst e-commerce is apparently the fastest growing retail market worldwide, the UK leads the way in Europe with the largest e-commerce market and, globally, with the highest online spending amount per household. The report issued by the UK Cards Association shows that the UK ranks as the third largest economy following China and the United States in terms of total value of online sales.

Products and Initiatives

Ant Financial JV launches mobile payments in Indonesia

Ant Financial has teamed up with Indonesia's Emtel Group on a mobile payments and financial services joint venture. The company has made numerous deals over recent months in an attempt to become a

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global player in the payments market.

The latest deal will see it bring its payments expertise to a platform offered on BBM, which is operated by an Emtel subsidiary in Indonesia and is the country's most-installed and most commonly used messenger app, with 63 million monthly active users.

The JV will also offer its mobile payments technology to e-commerce, over-the-top and online-to-offline services, merchants and platforms in Indonesia, taking advantage of Emtel's position as the country's top media conglomerate. (Source date: 12 April 2017)

Swift introduces fraudulent message identification tool

Swift has unveiled a real-time payment controls service designed to help banks spot fraudulent messages. Bank customers will be able to integrate the service directly into their Swift messaging flows, making it easier to detect unusual patterns, screening the messages according to their own chosen risk and compliance policies.

Launched as a hosted utility, meaning no hardware or software installation or maintenance, the service will be initially targeted at smaller financial institutions and central banks struggling to meet new, more stringent security rules.

The tool is the latest attempt from Swift to boost cybersecurity in the wake of the Bangladesh Bank attack, which saw hackers use the messaging network to steal \$81 million from the bank's account with the Federal Reserve Bank of New York. Similar attacks have targeted firms in Ecuador and Vietnam. (Source date: 12 April 2017)

Google agreement with Android Pay banks

Google has teamed up with several banks to let customers add cards to Android Pay from within their apps. Until now, Google has struck deals with banks that enables users to add their bank cards to Android Pay from within its app.

The new arrangement with Bank of America, Bank of New Zealand, Discover, Poland's mBank and USSA, tweaks the model in an effort to give the service valuable screen space within popular apps. Customers of the partner banks can add their cards to Android Pay with a click and then immediately use the service for contactless, online and in-app payments. (Source date: 12 April 2017)

Visa and UK banks support launch of Amazon Business

Visa and four of the UK's leading banks are partnering with Amazon for the launch of a new commercial marketplace for businesses shopping on the popular e-commerce site. The launch of Amazon Business in the UK will see the e-commerce firm open a marketplace designed to cater the needs of businesses of all sizes, from sole traders to large institutions. As part of the launch, Visa is working with four of the UK's leading banks to provide a comprehensive expense management service for corporate card account holders who move their procurement needs to the site.

The new enhanced transaction data, available to Barclaycard, Citi, HSBC, and Lloyds Bank UK commercial account holders, provides line-item details on all purchases for Amazon Business customers and integration with reconciliation tools. Amazon Business users get access to VAT-exclusive pricing and invoicing, the option to add a Purchase Order number to orders, and a set of customised account management tools, including the ability to set up multi-user accounts and spending limits.

Amazon Business first launched in the US in April 2015 and now serves more than 400,000 companies, generating more than \$1bn in sales in its first year. Last December it rolled out in Germany, where it is now used by more than 50,000 business customers. (Source date: 4 April 2017).

ANZ to use voice prints for mobile authentication

ANZ is to pilot the use of voice biometrics on mobile devices to automatically authorise high value payments. The Australian bank is beginning a trial of the technology, provided by Nuance Communications, with bank staff and selected customers using the Grow by ANZ mobile app.

ANZ is aiming for a full-scale roll out by the middle of the year. The biometric authentication technique will enable customers to authorise payments above the current ceiling of \$1000 from their mobile.

According to a spokesman from the bank, a person's voice has five to ten times as many security points than other methods such as fingerprints. The development is seen as a natural extension of current technology and the enhancement is expected to be a popular enhancement of the bank's mobile apps.

(Source date: 3 April 2017)

VocaLink and BancTec win UK cheque clearing mandate

VocaLink and BancTec have won the mandate to build and run the infrastructure for a new industry-wide image-based cheque clearing system in the UK. The new clearing system is set to be introduced in October by the Cheque and Credit Clearing Company (C&CC) with the aim of cutting processing times from six weekdays to one day and paving the way for the introduction of interbank mobile cheque deposits.

Under the deal, VocaLink will run the central infrastructure behind the new system, which will use its IPS software for immediate payments processing and archiving and case management tools from BancTec.

Although cheque usage is in decline, 477 million were written in 2016. Legislative changes to enable the passing of digital cheque imaging came into force in July 2016 and marked the onset of a number of bank trials of mobile cheque deposit systems for intra-bank clearing. Under the new system, banks will be able to accept and clear cheque images drawn from their peers. (Source date: 30 March 2017)

Market News

Blockchain technology not yet mature enough for ECB

The European Central Bank (ECB) has stated that blockchain technology lacks the necessary maturity to be part of its market infrastructure. The statement was made within a special report that was published alongside its annual report this week.

In the report the ECB acknowledges the various benefits of Distributed Ledger Technology (DLT), such as the ability to lower back office costs and improve reconciliations by enabling automatic updates of records as well as shortening settlement cycles and therefore reducing collateral requirements.

However, the report says that the technology does not yet meet the ECB's standards for safety and efficiency and therefore cannot be used in the Eurosystem's market infrastructure.

As DLT-based solutions are constantly evolving, the ECB will continue to monitor developments in this field and explore practical uses for the technology. (Source date: 12 April 2017)

Mastercard VocaLink acquisition gains CMA approval

The UK's Competition and Markets Authority (CMA) has cleared Mastercard's £700 million acquisition of VocaLink after the card scheme agreed to take steps to address the watchdog's concerns. In January, the CMA announced that the proposed acquisition would face an in-depth investigation unless the companies could address its competition worries over the deal.

However, this has been avoided due to an agreement to open up connectivity to the Link ATM network for alternative providers, transfer or licence the intellectual property rights relating to the Link Lis5 messaging standard, and contribute to member switching costs.

The acquisition is now expected to close within weeks, providing a windfall for VocaLink's 18 bank and building society owners.

The CMA had feared that the acquisition would give MasterCard too much of an advantage when bidding for contracts in the provision of infrastructure services to Link, which accounts for 70,000 cash machines across the UK and Europe. VocaLink and MasterCard are considered by the CMA to be two of just three credible providers of the hardware, software and secure telecommunications networks for the Link ATMs - the third being Visa. (Source date: 11 April 2017)

Payday loan firm suffers data breach

Wonga, a prominent UK payday loan firm, has warned 270,000 of its customers that their accounts may be at risk following a data breach. No details have yet emerged as to the cause of the breach but customers have been warned that personal data ranging from name and address to bank account details and sort codes could be at risk. However, Wonga has also stated that it does not believe any passwords were stolen.

The notification process for data breaches is likely to become a much more important issue next year when the EU's revised Data Protection directive comes into force, under which all firms will be required to notify data protection authorities within 72 hours in the event of a data breach or face fines of up to €10 million or 2 percent of global turnover. (Source date: 10 April 2017)

Cash usage in Europe

According to the European Central bank, three-quarters of all Euro zone payments at the point-of-sale are still made in cash. In terms of transaction values, this equates to slightly more than half. The data comes from a soon-to-be published survey conducted by the ECB to mark the launch of the new €50 bank note.

The survey is based on a daily diary completed by over 65,000 respondents between October 2015 and July 2016. National studies with similar methodology were conducted by the national central banks in Germany and the Netherlands.

The €50 is the most widely used euro banknote denomination. There are over 9 billion of them in circulation and they account for 46% of all euro banknotes.

New €100 and €200 banknotes featuring improved security against counterfeiting are set to be issued at the beginning of 2019. (Source date: 4 April 2017)

Australian banks lose battle with Apple Pay

The Australian Competition and Consumer Commission has ruled against some of Australia's biggest banks to bargain collectively with Apple and boycott Apple Pay. The ruling ends a long-running and often acrimonious battle with Apple over access to the Near-Field Communication (NFC) controller in iPhones. In taking their claim to the ACCC, the banks sought to offer their own integrated digital wallets to iPhone customers in competition with Apple's digital wallet, without using Apple Pay.

The banks expressed disappointment in the ruling, saying they will individually review and determine their future strategy for mobile wallets and mobile payments. (Source date 31 March 2017)

US e-commerce fraud soars

As the US finally made the switch to EMV chip cards, last year saw e-commerce fraud rates jump by 33%, according to data from Experian. In late 2015 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.

Experian notes that the increase in e-commerce fraud follows a similar trend pattern from countries that previously rolled out EMV cards - UK, France, Australia, and Canada - that also saw gradual increases in card-not-present fraud. The company said that it suspected that the EMV liability switch and increased adoption by merchants of chip-and-pin enabled terminals have had a profound impact on driving up e-commerce attacks.

Fraudsters that typically relied on committing counterfeit fraud have shifted their focus to the digital channels where they could have more success, and as more attackers enter a rapidly growing mobile and online commerce space it becomes increasingly difficult for merchants to spot them.

Experian says that the biggest component of credit card fraud trends is the fact that 2016 was a record year for data breaches. There were 1,093 breaches, a 40% increase from 2015, according to the Identity Theft Resource Center. (Source date: 30 March 2017)

Mobile Money

Westpac supports Samsung Pay after Apple Pay defeat

Having lost its bitter Apple Pay battle, Australia's Westpac has signed up to support a rival NFC mobile payments service from Samsung. The move enables Westpac Mastercard and Visa debit and credit cardholders to make contactless payments with their Samsung handsets at thousands of retail sites across Australia.

Westpac customers can now use either Westpac Tap and Pay, Android Pay or Samsung Pay to make contactless payments and is the first Australian-owned bank to offer the choice. (Source date: 11 April 2017)

ISO rolls out new standards for mobile banking

International standards body ISO has rolled out a new set of specifications for mobile banking aimed at promoting financial inclusion. The new technical standards were put together by a working group comprising representatives from the European Payments Council and Swift, and consumer representatives like Consumers International, among others.

ISO 12812, Core banking - Mobile financial services, defines common terms and requirements for greater interoperability. It specifies the technical components and their interfaces and the role of the various parties so that everyone works to common standards with the objective of bringing secure financial services to a wider audience. (Source date: 6 April 2017)

Monzo receives full banking license

Unveiled in 2015 under the name Mondo, mobile-only Monzo has received a full banking license from the Financial Conduct Authority and Prudential Regulatory Authority. It now intends to introduce current accounts to its users.

The process will take several months but the milestone sees Monzo ahead of another digital challenger, Tandem, which last month missed licensing deadlines imposed by the PRA after Sanpower, the Chinese conglomerate which owns House of Fraser, was forced to cancel a £29 million cash injection. (Source date: 5 April 2017)

Deutsche Bank rolls out mobile NFC payments for Android handsets

In a first for Germany, Deutsche Bank has added host card emulation-based contactless payments to its Android app. Customers with NFC-enabled Android handsets will be able to link their Mastercard debit or credit card and make contactless payments of up to EUR25 by unlocking their phones and holding them against a POS terminal. For larger payments, they will need to enter a PIN.

The bank's move comes as Germany's economy minister Wolfgang Schaeuble defended the role of notes and coins in a debate in Europe about the merits of limiting cash payments to counter terrorism. According to the Bundesbank, the average German citizen regularly carries about EUR103 in their wallets. (Source date: 5 April 2017)

Square launches in the UK

Mobile POS pioneer Square has launched in the UK, enabling small traders to use the Square card reader. The reader, which retails at £39, connects via Bluetooth to a phone or tablet, and comes with a companion app that accepts card payments and includes tools such as real-time sales data, invoicing and digital receipts.

Figures from Barclaycard and FSB/BIS indicate that the average UK adult now carries less than £25 in cash, and 70% of UK shoppers prefer to pay by card. However, it is estimated that half of the UK's 5.4 million small businesses do not yet take card payments.

Square will be competing with a number of well-established local operators, including the UK's SumUp and Sweden's iZettle. (Source date: 28 March 2017)

Wells Fargo introduces cardless ATM transactions

Wells Fargo customers can now use their mobile phones to make cash withdrawals at the bank's 13,000 American ATMs. Wells' 20 million mobile customers are able to log into the bank's app and select the Card-Free ATM access option to request one-time eight digit access codes. At the ATM, users enter the code along with their PIN before carrying out transactions as normal.

The bank says that as well as being more convenient than using a card, the new system is also secure because not only do customers receive a one-time code, they have to access the app with their password or fingerprint.

Wells Fargo is the first major US bank to introduce cardless transactions across its customer base but it is not alone in employing the technology. Bank of America and JPMorgan Chase began limited roll outs last year, with the latter also signalling its intent to eventually use NFC technology to enable withdrawals with a tap of a handset. (Source date: 27 March 2017)