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## Savantor's View

### *The resilience of cash in a contactless world*

According to a report published recently by Payments UK, the increasing popularity of contactless cards is likely to mean that cash will be overtaken as the UK's most frequently used payment method by the end of 2018. It is forecast that debit cards will become the most frequently used payment method in late 2018, three years earlier than previously predicted, due largely to the rapid growth in the use of contactless.

In 2016, there were nearly 2.9 billion contactless payments in the UK, more than 2.7 times more than in the previous year (1.1 billion) and accounting for 7% of the total number of payments in 2016. Debit cards were used 11.6 billion times during that year, with just over one in five of the transactions made using contactless.

Cash remained the most frequently used payment method in 2016, with 40% of all payments being made using cash.

The tipping point, when debit card usage overtakes cash usage, is anticipated to occur in 2018, when 13.4 billion debit card payments are predicted, 4.6 billion of which are forecast to be contactless. It is forecast that cash will be used for 13.3 billion payments in 2018, meaning that, for the first time, it will not be the most frequently used payment method.

Payments UK is at pains to point out, however, that in spite of the acceleration in the use of contactless, any claims that the UK will soon become a cashless society are "wide of the mark".

This sentiment has been very much echoed by the Bank of England's Chief Cashier. In a recent speech at a celebration of the 50th anniversary of the cash dispenser machine, the point was made that the demand for cash continues to grow. Apparently the value of Bank of England notes in circulation peaked in the run-up to Christmas 2016, reaching over £70bn for the first time - an increase of 10% on a year earlier, and the fastest growth seen in a decade.

Although there have been many predictions about the death of cash, it should not be forgotten that many people rely on cash – according to the Bank of England, 2.7 million people, 5% of UK adults, spread relatively evenly across age groups, rely almost entirely on cash to make their day-to-day payments.

Whilst reliance on cash is less significant than in the past, it continues to have multiple benefits. It is often quicker than alternatives (especially in areas of poor communications network coverage), is universally accepted, it is immediate evident the transaction has taken place, and can be anonymous if required. Most importantly, it is easily available to and usable by everyone in our society.

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The continuing growth in usage of debit cards, in particular contactless, is significant and looks likely to continue to be so; nevertheless the importance of cash in our lives today should not be underestimated and may well trounce all predictions of its eventual demise.

## Products and Initiatives

### ***Santander relaunches Openbank as digital bank***

Banco Santander is overhauling the operations of Openbank, its direct banking subsidiary in Spain, transferring all IT assets and client transactions to the cloud and revamping its online and mobile presence as part of a group-wide mission to recruit 30 million digital customers by 2018. Launched in 1995 as a telephone-based banking offshoot, Openbank has since grown to provide a suite of mobile and online services to one million customers in Spain.

The overhaul will see Openbank relaunched as a modern digital-first operation, adopting the latest in machine-learning technology to gain a deeper, more personalised, understanding of its customers and enhance its go-to-market capability. The bank has undertaken a consultation programme with customer-based focus groups to rebuild its mobile apps and Website from the ground up, with a keen emphasis on improving the user experience.

As a result, the bank has bundled all mobile services into a single app, billed as a 'virtual branch', with on-call access to a dedicated team of personal account managers. The range of products on offer has also been expanded.

From an architectural perspective, Openbank is using a hybrid model of private and public cloud. The switch to the cloud is viewed primarily as a means to improve the provisioning of resources for running its machine learning capabilities in real-time. (Source date: 16 June 2017)

### ***Swift and EBA Clearing address instant payments***

Swift is set to launch an instant payment gateway to connect member banks to multiple market operators across Europe in November 2018. The gateway builds on Swift's experience in developing a national real-time payment system for the Australian market, which is expected to go live later this year.

The service can be used standalone, but it can also be integrated with Swift's Alliance Messaging Hub, which enables the processing of financial message flows and integration with back office systems.

According to Swift, their instant payments gateway is designed to meet the challenges their customers face. Banks across Europe are gearing up for a new era of real-time payments as multiple markets prepare to switch over to new instant payments systems.

On a similar topic, EBA Clearing, which is developing its own pan-European infrastructure platform RT1 for instant payments, has just issued a white paper addressing considerations for a successful roll-out and ramp-up of real-time payments across Europe. (Source date: 15 June 2017)

### ***Emirates Islamic to use blockchain technology for cheques***

Emirates Islamic is to use a combination of QR codes and blockchain technology as fraud prevention for old-fashioned paper cheques. Termed 'Cheque Chain', the bank will issue new cheque books carrying a unique QR code on every leaf, along with a string of 20 random characters.

In the next phase of the Cheque Chain project, the bank will have each cheque leaf registered on an inhouse blockchain platform enabling it to validate the authenticity of the cheque at source. (Source date: 12 June 2017)

### ***Dutch banks consider joint ATM network***

ABN Amro, ING and Rabobank are investigating the creation of a joint ATM network as the use of cash is declining but customers still demand easy access to paper money. In 2015, the number of consumer cashless transactions in the Netherlands outnumbered cash payments for the first time. With mobile and contactless payments gaining traction, the trend away from cash is set to continue, yet market research shows that the Dutch still want the option to use physical money.

To keep ATM coverage high, the banks are looking into the creation of a joint network that would be owned and run by Geldservice Nederland (GSN), a cash logistics JV they set up in 2011. The plan, backed by the Dutch central bank, would help create an "optimised and safer" network with fewer ATMs, say the partners. By following the Swedish model of having a dedicated brand for cash machines,

customers would be able to use the closest ATM within the new network, regardless of which bank used to operate it.

In addition, all new ATMs could provide similar services for clients of every bank, like access to their balance and the same cash withdrawal limitations. Similarly, businesses could deposit cash at any specially equipped machines in the network.

The banks stress that no immediate changes will be made to their services but that a partnership agreement is hoped to be agreed by the third quarter. (Source date: 31 May 2017)

### ***Worldpay creates VR payments prototype***

Worldpay is experimenting with the use of virtual reality to provide genuine card transactions for users immersed in a computer-generated environment. The payment processor has produced a prototype application for use with HTC Corp's Vive VR headset.

To make a purchase, users picking up objects in the virtual environment are presented with the item's price and a (virtual) eftpos terminal. Purchases under £30 mimic a real-world contactless payment with users tapping a virtual card against the terminal. For transactions above the £30 ceiling the VR headset displays a pop-up field of numbers which users can press to input their PIN codes.

The firm says it plans to market the tool to companies that produce virtual reality games, and other brands such as Ikea and Asos which are experimenting with VR-based shopping environments. (Source date: 25 May 2017)

### ***BBVA launches Open API marketplace***

BBVA is making eight of its APIs commercially available to companies, startups, and developers worldwide, enabling the integration of customer banking data with third party products and services. The launch of BBVA API Market comes after the Spanish bank spent more than a year working with developers and businesses to fine-tune the way the Open API service would be delivered. During this time, over 1500 businesses and developers registered with the experimental portal.

Initially only Spanish customers of BBVA will be able to benefit from the market, but the bank intends to roll the programme out to its US customers later this year, before expanding it further to include Turkey, Mexico, Latin America and beyond.

Companies from anywhere in the world will be able to apply to use the individual customer data sets from Spain to build personalised services with customer permission. There will also be some anonymous aggregated data sets made commercially available, with the data broken down geographically or by sector. (Source date: 24 May 2017)

## **Market News**

### ***Facial recognition firm included in FCA's "sandbox"***

The UK's Financial Conduct Authority (FCA) has accepted 24 firms into its so-called "regulatory sandbox", a scheme that allows businesses with inventive technology to run trials with consumers that are tightly supervised by the regulator, including a facial recognition firm that allows payments to be made with selfies.

It is part of the FCA's Innovate programme that was launched in 2014 and aims to encourage competition by helping fintech firms develop their products.

The 24 firms that are poised to run tests follow 18 businesses that were allowed to play in the watchdog's sandbox last autumn in the first round of trials. The companies that were part of the first trial group are now submitting their reports to the FCA, which will decide if they can move out of the testing scheme. (Source date: 16 June 2017)

### ***EU banks are likely to face hefty fines under GDPR***

European financial institutions could face fines of up to €4.7 billion total in the first three years under the new General Data Protection Regulation (GDPR), according to a study by Consult Hyperion. The report estimates that financial institutions may experience 384 data breaches during the timeframe, with fines as high as €260m per breach.

The figures were compiled from an analysis of historic data breach figures, adjusted for the size of financial institution. GDPR sanction levels were then applied to the data. It was assumed that breaches

were at the lower end of the GDPR fine scale, which is €10m or 2% of global annual turnover.

Consult Hyperion stresses that the €4.7 billion figure is a conservative forecast, as it excludes compensation claims, costs associated with lost customers, damaged reputations and senior executive resignations. It says that new European regulations such as PSD2, ePR and AMLD4/5 are likely to compound the issue by opening additional liabilities.

With less than a year before GDPR goes live the report advises banks to take urgent action by drafting in the expertise to deal with breach-specific issues and to handle the volume of queries generated when data loss is publicised. (Source date: 15 June 2017)

### ***Fiserv to acquire Monitise for £70 million***

Fiserv is offering to buy long-struggling UK mobile banking firm Monitise at 2.9 pence per share, valuing the company at £70 million. The business has been struggling over two years following repeated revenue warnings and widening losses as it attempted to keep pace with the fast-changing mobile banking market.

The Fiserv offer represents a premium of approximately 26.1% to the Closing Price of 2.30 pence per Monitise Share on 12 June 2017. The price is a big comedown from the firm's glory days, which saw it reach a valuation of £2 billion amid soaring expectations in the market for mobile banking. (Source date: 13 June 2017)

### ***Kmart suffers another card data breach***

For the second time in three years, hackers have installed malware on POS systems at US discount chain Kmart and stolen customer credit card data.

A forensic investigation found payments data systems infected with malware that had gone undetected by the firm's anti-virus software. No details have been provided on how long systems were compromised for or how many of Kmart's 700-plus stores were affected.

According to the retailer no personal information such as name and addresses were obtained but some credit card numbers appear to have been compromised. Despite this, Kmart claims that "in light of our EMV compliant point of sale systems, which rolled out last year, we believe the exposure to cardholder data that can be used to create counterfeit cards is limited". (Source date: 1 June 2017)

### ***First Data acquires CardConnect***

First Data is to acquire payment processor CardConnect for \$750 million in cash. CardConnect, which processes approximately \$26 billion of volume annually from about 67,000 merchant customers, went public last year when it was acquired by FinTech Acquisition Corporation. Although the company posted revenues of \$589 million last year it suffered a loss of \$16 million.

As a long-time distribution partner for First Data, CardConnect brings capabilities in integrated ERP payments to the table.

The deal marks First Data's largest takeover since flotation in 2015. (Source date: 30 May 2017)

## **Mobile Money**

### ***Zelle begins mass-market roll out***

Competition in the market for mobile P2P payments is about to reach a peak in the US as bank-backed network Zelle begins its roll out to the banking apps of more than 30 participating financial institutions. Changing the way money moves, Zelle allows for funds to be sent from one bank account to another in minutes, using only a recipient's email address or mobile number. It is the banking industry's response to the success of interloping competition from the likes of PayPal-owned Venmo.

So far Bank of America, US Bank, and Wells Fargo have already embedded aspects of Zelle within their mobile apps, processing aggregate transaction volume of \$55 billion last year, more than double that of rival network Venmo.

The full scale roll out - continuing on a rolling basis over the next twelve months - will see the tag line "Send Money with Zelle" appear within the mobile banking apps of more than 86 million consumers. A standalone Zelle app available through Mastercard and Visa is also set to become available later this year. (Source date: 12 June 2017)

### ***Apple moves into P2P payments***

Apple is to challenge Venmo and bank-backed network Zelle by introducing peer-to-peer payments as part of a forthcoming update to its mobile operating system. The new feature enables users to send money and get paid right in Messages, or tell Siri to pay someone, using the credit and debit cards they already have in Wallet.

Apple is partnering with prepaid payment card company Green Dot on the virtual Apple Pay Cash card, viewed by some as a stepping stone to the creation of a full bank-like payment service.

The popularity of mobile P2P payments among young American consumers was emphasised in a recent Bank of America survey, with more than a third of millennials using services such as Zelle and Venmo to pay each other back.

However, unlike Zelle and Venmo, Apple's service will only work across its own devices. (Source date: 6 June 2017)

### ***Atom Bank postpones launch of current accounts***

Digital only Atom Bank has put plans to open a current account on ice as a myriad of new regulations are set to be introduced over the course of the next year. The challenger bank received its banking licence in June 2015 and launched operations in April 2016, offering two fixed-saver accounts and secured business lending for SMEs.

Plans to move into the UK's current account market have now been put on the back-burner as the bank waits to assess the impact of new regulations in payments, open banking and data protection.

According to the bank, the current account launch would be "certainly not in 2017, and maybe not even in 2018". However, it is apparently still firmly on the digital bank's agenda as it is in the meantime investing in the technology, payments and operational capabilities to make it all possible. (Source date: 6 June 2017)

### ***Android Pay arrives in Canada and Taiwan***

Android Pay has arrived in Canada, with several of the country's biggest banks making the mobile payments service available to Mastercard and Visa credit cardholders as well as Interac debit card users. A number of FS firms, including three of Canada's big five - BMO, CIBC and Scotiabank - will begin rolling out support for Visa and Mastercard cards in the next few days. TD Bank and RBC are not on the list. Support for Interac debit cards will arrive next week, with American Express and Tangerine following in the summer.

All of the big banks have already signed up to Apple Pay, although CIBC is the only one to have so far also added support for Samsung Pay.

The move means that customers will be able to link multiple cards to the Android Pay app and use their NFC-enabled devices to make contactless payments instore at hundreds of thousands of shops. It can also be used for in-app purchases.

Deals have also been struck with CTBC and First Bank for Visa and Mastercard credit cardholders in Taiwan. More banks and cards are set to follow soon. (Source date: 31 May 2017)

### ***Google and PayPal partner for mobile shopping by fingerprint***

Android Pay users that have linked their PayPal accounts will soon be able to pay for goods when mobile shopping using the Chrome browser with just a touch of their fingerprint. The development is an extension of a partnership announced between the two companies last month which enables consumers in the US to use PayPal as a payment method in the Android Pay wallet in apps and in stores.

The new browser-based service removes the need to enter in usernames or passwords when shopping over an Android phone running OS4.4 and higher. Similar to PayPal's deployment of One Touch, merchants on the latest versions of PayPal Checkout will not need to do any integration to take advantage of the new capabilities. (Source date: 18 May 2017)

### ***App blocks credit cards if you've had too much to drink***

A new mobile app is promising to help users avoid drunken late night impulse spending by linking credit and debit cards to a breathalyser and, if too much has been imbibed, barring certain purchases.

The DrnkPay app asks users to link their cards and select the number of drinks they wish to have in advance of an evening out. The user can choose the types of payments which are to be blocked - pubs, food, online shopping - for a 12 hour period. After that, every time they want to make a payment they have to use the breathalyser, which is connected to the app via bluetooth. If the user is under the predefined limit, the card is activated and the payment can be made. If they are over, the card is blocked.

iBe TSE, the company which is introducing the app, says it plans to officially launch it in around 12 months, adding that it is in "discussions" with a number of banks and card providers about rolling out the technology to their customers. (Source date: 18 May 2017)