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market eye

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.

Items in this issue:

Savantor's View

Debit cards, cash and card charges

The British Retail Consortium (BRC) has just released a report relating to breakdown of retail sales by payment method for 2016.

According to the report, card payments have overtaken cash for the first time ever, with more than half of all retail transactions being paid for by card instead of cash in 2016.

Overall, 54% of all retail payments – equating to £10.3 billion - was spent on debit, credit or charge cards in 2016. Of this, nearly 43% of retail transactions were paid for by debit card, showing a growth of 4.5%, while cash payments dropped by 5% to 42% of total retail spend.

The BRC attributes the growth of debit card use to the rise in use of contactless, particularly since the limit was increased to £30 per transaction at the end of 2015. A third of all card transactions are now contactless, according to The UK Cards Association.

One of the other findings of the BRC was that the cap on Interchange Fees introduced at the end of 2015 has helped achieve savings for Retailers, enabling investment to be made in POS technology for payment acceptance, particularly in respect of cards, contactless and other new payment applications both online and in store.

Additionally, the BRC said the cost of processing cards remained high for retailers, particularly for credit cards.

It is interesting to reflect therefore upon the impact of the recent announcement by the government about the banning of "rip off card charges" fees from January 2018.

Whilst as consumers we are all aware of the practice of surcharging, particularly in areas such as online airline ticket sales, nevertheless there is likely to be an impact upon prices, particularly for small businesses who may have smaller profit margins and financial resilience than their larger counterparts.

Additionally Visa has announced a 'war on cash' which, depending on how whether and how it is introduced in the UK and whether a similar stance is adopted by other payment schemes, may also result an impact upon retailer and consumer payment behaviour.

Whatever the impact of both these developments and others in the near future, and in spite of the recent assertion by the Chief Cashier of Bank of England that "Technology is not a threat to cash - it provides opportunities", cash as a payment method is certainly facing some strong challenges to its longevity.

Products and Initiatives

EPC prepares for pan-European instant payments

A new voluntary pan-European instant credit transfer scheme that will bring real-time money transfers across the Single Euro Payments Area (SEPA) is on course to go live in November, with five countries on board from the outset. The European Payments Council is introducing the SEPA Instant Credit Transfer (SCT Inst) scheme in response to concerns that the emergence of new domestic platforms, such as the UK's Faster Payments, might end up creating a fragmented market in Europe, similar to that which previouslyexisted in regular payments.

Under the SCT Inst blueprint, people will be able to transfer up to EUR15,000 within 10 seconds, every day of the year, across borders between accounts in any of 34 SEPA countries. PSPs willing to increase the amount limit and transaction speed can bilaterally or multilaterally agree to do so.

Apparently payment service providers (PSPs) from Austria, Spain, Finland, Italy and Latvia are ready to participate from launch, with more countries - including Germany, Portugal, Belgium, Sweden and some PSPs from the Netherlands - to follow in 2018.

Meanwhile, seven large clearing and settlement mechanisms (CSMs) - including EBA Clearing, Equens Worldline, Iberpay and Stet - will be able to support SCT Inst transactions from November. (Source date: 14 July 2017)

Visa incentivising shops to go cashless

Visa will pay businesses not to accept coins and notes after its chief executive pledged to “put cash out of business”.

In a statement, Visa said that following the launch of the scheme in the US, it hopes to bring similar cashless initiatives to other countries, including the UK.

The payments company is selecting 50 small companies in the US to receive $10,000 if they only use cards. The companies have to bid for the money by explaining how going cashless would affect them, their staff and customers.

However, the idea has been criticised by consumer groups, who say cash is still vital for many people. (Source date: 13 July 2017)

Nordea to deploy AI to speed up customer service

Nordea is to introduce artificial intelligence technology to analyse customer text queries and forward the correspondence to the right department. The bank is rolling out the technology, developed by Estonian startup Feelingstream, across its Nordic operations after conducting pilot tests last year.

The AI analyses and categorises messages sent by customers so that they can be forwarded automatically to the right person or unit in Nordea for further processing. The software can apparently parse hundreds of messages per second, speeding up response times and improving the customer experience.

Nordea's collaboration with Feelingstream stems from the company's participation last year in the bank's fintech accelerator programme. (Source date: 7 July 2017)

Twenty-eight global banks to test Swift blockchain application

Interbank messaging network Swift says that 22 additional global banks have joined its blockchain proof of concept (PoC), designed to validate whether the technology can help banks reconcile their international nostro accounts in real time. The PoC is part of the Swift gpi initiative to re-arm the correspondent banking system for a new age of technological disruption.

The additional banks join the original group of six founding banks to test and validate the new blockchain application and evaluate how the technology scales and performs. Results of the tests will be released at the co-operative's annual user meeting at Sibos in Toronto in October.

Currently, banks cannot monitor their account positions in real time due to lack of intraday reporting coverage. As such, the PoC recognises the need for banks to receive real-time liquidity data in order to manage funds throughout the business day. (Source date: 7 July 2017)

Curve promises card users 'financial time travel'

London-based payments startup Curve claims to have found a way to let customers switch the card used for a transaction - after the purchase is made.

Curve lets users replace multiple cards with a single piece of Mastercard plastic and a mobile app. The new 'go back in time' option means that people can switch the card used for a transaction any time in the two weeks after a purchase.

Curve claims more than 50,000 sign-ups in beta mode for its cards, which have been used for over £50 million in payments, and is planning a full launch later this year. (Source date: 4 July 2017)

New biometrics company Veridas results from BBVA partnership

BBVA and the startup Das-Nano have formed Veridas, a new biometrics technology company that will develop client identification and authentication systems. Veridas will be dedicated to the research and development of software for the digital verification and authentication of personal identity, through facial, voice, image or document recognition, or fingerprint reading.

The Spanish banking group says the creation of Veridas will help it to guarantee the authoritative identification of employees and/or customers remotely, which means simplifying the forms of access to off-site services and giving a new degree of security to transactions and interactions over digital channels.

BBVA and Das-Nano originally collaborated in 2015 in the development of joint projects in personal identity authentication. Das-Nano, founded in 2012, is a startup that has focused on nanotechnology, biometric and document verification solutions.

Veridas will allow both companies to continue investigating and growing in the use of biometrics in the area of technological security, so as to offer the best solutions and experiences to its customers. (Source: 20 June 2017)

Market News

CMA approves plans to merge UK payment schemes

The UK Competition and Markets Authority has approved the consolidation of the operators of Bacs, the Cheque and Credit Clearing Company and Faster Payments Scheme into a New Payments Systems Operator. The Payments Strategy Forum set up by the UK's Payment Systems Regulator initially proposed the idea as a means to open the UK's payments market up to more competition.

The PSR and the Bank of England have already agreed a delivery plan, with the merger of the three independent schemes set to be substantially completed by the end of 2017.

The unified entity will then become responsible for the next stage of the development of the New Payments Architecture (NPA), an industry-led initiative that aims to increase competition and resilience as well as enhance innovation across the payments and banking industry. (Source date: 12 July 2017)

HSBC and Barclays join EU project to test the use of digital IDs for cross-border banking

HSBC and Barclays are among a consortium of private and public sector organisations testing the use of a citizen’s national digital identity from France to open a bank account in the UK. The Project, co-financed by the European Union's Connecting Europe Facility, brings together HSBC, Barclays, the UK Government Digital Service (GDS), Orange, OT-Morpho and the Open Identity Exchange (OIX UK), to test the use of public sector eIDAS (Electronic Identity and Signature) standards for banking across borders.

The Consortium will develop a prototype model utilising the Mobile Connect authentication process to enable users to request a digital ID that is validated via eIDAS.

For the pilot tests, Orange will create the services that will allow a digital identity to be set up for use by a French citizen through Mobile Connect, while OT-Morpho will develop services and infrastructure for the identity authentication process. (Source date: 11 July 2017)

Worldpay and Vantiv agree £9.1 billion merger

US payment processor Vantiv has agreed to merge with its British rival Worldpay in a deal valuing the company at about £9.1bn. Vantiv has offered to pay 385p a share for Worldpay, or £7.7bn, plus £1.4bn to cover debts.

In a joint statement, the two companies said that both boards of directors had reached an "agreement in principle" on the deal and that the proposed agreement "creates a scale world-class payments group in a dynamic market", with substantial cost synergies from the deal, as well as the potential for strong revenue growth by leveraging at-scale engineering and innovation at the company's three hubs in the UK, Europe and US.

Rival suitor JP Morgan Chase has withdrawn.

Worldpay processes millions of payments a day in stores, online and on mobile phones. It operates worldwide, but with strength in the UK and US markets.

Vantiv is largely focused on the US, helping merchants, banks and credit unions accept card payments, as well as gift cards and online payments.

Under terms of the proposed deal, FTSE 100 firm Worldpay will delist from the London stock market, but will be run by two chief executives. It will be operated between London and Vantiv's base in Cincinnati.

Worldpay's share price fell 11.27% to 362p on news of JP Morgan Chase's withdrawal, putting a stop to any bidding war. (Source date: 5 July 2017)

EBA rejects Commission amendments on screen scraping under PSD2

The latest twist in the ongoing row between banks and fintech companies over the future of customer data sharing under the revised Payment Services Directive (PSD2) comes courtesy of the European Banking Authority, which has rejected a proposed amendment to the rules from the European Commission that would have allowed for the continuation of screen scraping.

The EBA published its final draft report in February 2017, following 18 months of intensive policy development work and consultation with the different payment market players. It contained an unexpected bombshell in a commitment to outlaw screen scraping in favour of bank-led access to client data under APIs.

The suggestion caused an outcry among mature fintech startups, who have lobbied hard for a reversal of the decision, claiming that the reforms will provide banks with the means to control what data is shared, putting new entrants at a disadvantage. The European Commission subsequently intervened on their behalf, asking the EBA not to ban screen scraping outright but to hold it in reverse as a back-up mechanism should bank interfaces fail to function properly.

This however led to a strong push back from banks, who claim that the amendments take no account of the burden of compliance and would jeopardise the privacy of client data, cybersecurity and innovation.

In response, the EBA has come down firmly on the side of the banks. It has however suggested a compromise entailing more rigorous checks and balances on bank APIs alongside a set of minimum performance and availability standards that would release compliant banks from the burden of providing a screen-scraping fall back.

It is now for the EU Commission to make the final decision on the text of the Regulatory Technical Standards (RTS) and to adopt the standards as a delegated Act in the Official Journal of the EU. (Source date: 30 June 2017)

Rise in online and mobile shopping causes rise in card fraud

European card fraud losses hit a record €1.8bn in 2016, with the UK seeing the highest losses at £618m, fuelled by a boom in CNP-based online and mobile shopping. The nine percent rise in UK card fraud over 2015 topped the previous peak set in 2008 after the introduction of chip and PIN.

The figures, produced by Fico and Euromonitor, show that card not present (CNP) fraud across European markets has gone from 50% of gross fraud losses in 2008 to 70% in 2016. Ten countries saw an increase in fraud losses, while eight saw a decrease.

In 2015 the UK's card fraud rise was the highest in Europe, but in 2016 two countries saw higher rises — Poland (+10%) and Sweden (+18%t). The UK's rise from 2015 to 2016 was just half of that from 2014 to 2015. (Source date: 29 June 2017)

UK banks will need to change one million sort codes

The UK's banks will have to change one million customers' bank sort codes under new ring-fencing rules set to be introduced in 2019. The implementation of the ring-fence, in which retail banking services are separated from riskier investment and international banking activities on bank balance sheets, was legislated in 2013 as a key element of the country's post-crisis reform package.

The banks estimate that almost a million retail and corporate customers will see changes to their sort codes. To minimise disruption, banks will need to ensure that any outgoing payments, for example standing orders and Direct Debits, are made as normal. Banks and payment schemes will also redirect any incoming payments to the new account details.

The looming split has been billed as the largest UK banking infrastructure project since the Y2k bug scare or the adoption of the euro and will likely cost the industry billions of pounds to implement. (Source date: 19 June 2017)

Mobile Money

Potential IPO for IZettle

Having doubled revenues and substantially cut losses last year, Swedish mPOS outfit iZettle says that it is preparing for a potential IPO.

Launched in 2011, iZettle quickly established itself as the Square of Europe, helping small businesses accept card payments through their mobile phones. The firm has since moved deeper into the merchant value chain, offering tools to take payments, register and track sales and to get funding. It now operates in 12 markets in Europe and Latin America, with 1000 small businesses signing up every day.

According to the CEO, going forward the company's focus will continue to be to build a "world-class company" and to prepare it for a potential IPO. (Source date: 6 July 2017)

Monzo experiences service issues

UK challenger bank Monzo was forced to disable card payments for customers after suffering an unspecified issue with a supplier. This caused transactions to be declined, incorrect balance entries to display, top-ups to the Monzo prepaid card to fail and P2P payments between Monzo users to crash.

The issue was resolved later in the day and the company apologized to its customers and their cardholders, saying that it was trying to identify the root cause to prevent reoccurrence.

The news came a day after Monzo published annual results showing fast user growth and widening losses of £6.7 million (see below). (Source date: 6 July 2017)

Monzo's popularity comes at a cost

App-only challenger bank Monzo is looking to move more customers to its forthcoming current account and away from its loss-making pre-paid card service after accruing a pre-tax annual loss of £6.7 million.

The company has recorded an average of five percent weekly growth in customer numbers and seven percent weekly growth in transaction volumes since January and will achieve 500,000 -800,000 accounts by the end of the year. However, the rapid growth has come at a cost for the startup bank, which saw losses balloon to £6.7 million for the year ended Febuary 2017, compared to £1.4 million in the comparable period.

The bank believes its unit economics will improve significantly once customers move to the current account which is to be rolled out to all existing customers in the late summer. (Source date: 5 July 2017)

BBVA brings Alipay to Spain

BBVA is to provide a bridgehead into Spain for Alipay, the QR code-based mobile payment service from Chinese giant Ant Financial. The project will see BBVA add Alipay as a payment option on its SmartPay mobile app and work with Spanish merchants to adjust their cash registers to accept the new payment mode.

The deal with BBVA is one of a string of agreements struck by Ant Financial with European banks and payment processors, enabling Chinese tourists to use Alipay while shopping abroad. By the end of the year, one and a half million Chinese holidaymakers are expected to visit Spain, spending a total of EUR1 billion. (Source date: 28 June 2017)

Worldpay pilots app-only mPOS for small retailers

Worldpay is conducting extended trials of a software-based mobile points of sale system which helps cash-only mobile and micro retailers to accept card and phone payments on their NFC devices.

My Business Mobile enables businesses to download an app and accept face-to-face contactless card transactions on their smartphone without the need to plug in any additional hardware. The company believes the innovation gives it an advantage over long-established vendors like iZettle, SumUp and Square, which require the use of chip-and PIN reader peripherals.

The UK payments processor says the technology will be piloted among up to 50 micro-businesses in London in 2017, including coffee carts, barbers, festival vendors, pop-up shops and market traders. (Source date: 19 May 2017)