



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](mailto:info@savantor.com).

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### Items in this issue:

<b>Savantor's View</b> .....	<b>1</b>	CBA blames money laundering reporting failures on ATM coding error .....	3
Open banking – the next evolution? .....	1	FS industry security concerns drive UK outsourcing market .....	3
<b>Products and Initiatives</b> .....	<b>2</b>	EC challenges Visa's inter-regional interchange fees.....	3
PSF lays down blueprint for new UK payments architecture .....	2	Cards overtake cash for consumer payments in Australia .....	3
US firm to implant employees with RFID chips .....	2	UniCredit confirms data breach .....	4
UniCredit among 30 banks to begin testing instant payments.....	2	<b>Mobile Money</b> .....	<b>4</b>
Mastercard to buy AI outfit Brighterion.....	2	Apple excluded from Beijing transit payments app .....	4
<b>Market News</b> .....	<b>2</b>	BBVA reaches over three million mobile customers in Spain .....	4
Class action suit against MasterCard blocked; appeal lodged .....	2	PayPal payments via Skype .....	4
Bank of England rejects animal fats replacement.....	3	Payconiq acquires Digicash .....	5

## Savantor's View

### Open banking – the next evolution?

Figures recently released by UK Finance continue to demonstrate the decrease in popularity in the use of cash, with the number of people using cash to pay for everyday purchases in the UK declining by 11% over the past year as growth in the use of contactless cards accelerated.

The downwards trend for cash is in contrast to monthly figures released earlier this week by UK Finance which show 143% growth in contactless payments in June, with consumers continuing to use their cards for lower value purchases.

Nevertheless, despite the decline, cash was still used 25% more often than the second most frequently-used method of debit cards. Whilst the number of cash payments is forecast to decrease by 43% over the next decade with the total value predicted to fall by 23% by 2026, the Chief Economist of UK Finance does not believe that the UK is on the verge of becoming cashless in the near future as, "People will always want to choose the payment methods that best suit them and, for the foreseeable future, in lots of cases that will continue to be cash."

This preference for cash extends to savings as well. Even though interest rates are at an all-time low, delivering minimal and derisory returns, there is a strong desire amongst UK savers to maintain their funds in cash instead of investing in shares and bonds.

One of the technological developments evolving in the banking market is open banking, which enables savers to choose accounts from many banks and even from many countries using just one overriding account. A company called Deposit Solutions offers an online open banking solution which is already operating in Germany, both as an online product in its own right (called Zinspilot) and via Deutsche Bank.

The service is due to be launched in Britain within the next 12 months.

There are multiple benefits of such a service; for the consumer, not only is everything more convenient with it being easier to both select the best accounts to use and to move money around accounts for the best interest rates, it will also be easier to keep within the FSCS limits for saving with one particular institution. For the underlying banks, it is likely to achieve a reduction in servicing costs per user as it will provide access to savers' funds without having to either actively attract new savers.

All of the UK's big banks are apparently considering open banking, either using a service such as Deposit Solutions or developing their own solution. It will be interesting to see how this service evolves over the next few years and whether it is embraced by UK savers.

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## Products and Initiatives

### ***PSF lays down blueprint for new UK payments architecture***

The UK's Payment Strategy Forum has delivered a blueprint for the future of the UK's payment system, setting out design and implementation approaches for the construction of a new 'National Payments Architecture'.

The PSF was created by the Payment Systems Regulator in March 2015 with a brief to chart a new course for unlocking competition and innovation in UK payments.

Many of the initiatives outlined in the blueprint have already been foreshadowed by the industry group, including plans to introduce Request to Pay, Assurance Data and Enhanced Data as well as improved financial crime fighting tools.

Over the next six months any feedback will be reviewed and the designs finalised, so that by the end of 2017 the final Blueprint can be handed over to the New Payment System Operator to implement. (Source date: 28 July 2017)

### ***US firm to implant employees with RFID chips***

An American company is inviting employees to get RFID chips that can be used to buy food in the office break room implanted in their hands. Three Square Market, which makes self-service micro markets for office break rooms, says it expects over 50 staffers to volunteer for the free chips, which it is working on with Sweden's BioHax.

The employees will get chipped at a 'chip party' on 1 August, after which they will not only be able to make contactless purchases at the firm's micro market but also open doors and log into their computers.

A spokesman for the company predicts that, "Eventually, this technology will become standardised allowing you to use this as your passport, public transit, all purchasing opportunities, etc." (Source date: 25 July 2017)

### ***UniCredit among 30 banks to begin testing instant payments***

UniCredit is preparing for the roll out of instant payment services to customers in Italy and Germany as it commences testing of EBA Clearing's RT1 real-time platform. The Italian bank plans to complete testing and introduce the first wave of services in November, in line with deadlines stipulated by the European Payments Council's SEPA Instant Credit Transfer ("SCT Inst") Scheme.

It is among the 39 funding institutions enabling the development of the new EBA Clearing infrastructure, which will provide a pan-European, real-time payment processing engine working 24 hours a day, every day of the year.

According to EBA Clearing, close to 30 financial institutions are planning to connect to RT1 in November while another 70 banks are preparing to join in 2018.

For UniCredit the implementation is seen as an important element in its internal digital transformation programme. The distressed lender is cutting thousands of jobs and closing hundreds of branches in a bid to realise EUR1.1 billion in savings. (Source date: 25 July 2017)

### ***MasterCard to buy AI outfit Brighterion***

MasterCard is looking to boost its fraud detection capabilities through the acquisition of artificial intelligence specialist Brighterion. The San Francisco-based company claims to offer the world's deepest and broadest portfolio of AI and machine learning technologies, used in homeland security, AML and cross-channel fraud prevention, data breach detection, marketing, trading and healthcare.

The firm's Smart Agent technology will be added to MasterCard's suite of security products that already use AI, promising greater accuracy in making fraud decisions. (Source date: 18 July 2017)

## Market News

### ***Class action suit against MasterCard blocked; appeal lodged***

A Tribunal Court judge has blocked a £14 billion class action lawsuit against MasterCard for overcharging customers, agreeing that the claims were not suitable under the current collective actions regime.

The case was set to be the largest and most complex case in UK legal history, involving 45 million people in Britain over a period of 16 years. More specifically, it focused on the use of interchange fees charged by numerous credit and debit card companies - fees which the card companies say are charged to merchant banks to cover the cost of innovation, security and operational overheads.

The ruling from the Competition Appeal Tribunal followed a High Court ruling in January in a dispute with retailers that MasterCard's use of interchange fees had been lawful and not anti-competitive.

Since the tribunal's decision to block the claim, an appeal has been lodged on the basis that the Tribunal was wrong in its analysis and in the legal test that it applied. MasterCard has until 8 September to respond in kind. (Source date: 14 August 2017)

### ***Bank of England rejects animal fats replacement***

In a decision that will anger vegans across the UK, the Bank of England has rejected the introduction of palm oil as a replacement for the use of animal fats in future production runs of polymer bank notes, citing environmental concerns and excessive costs.

Earlier this year, the central bank faced a backlash when it emerged that it was using tallow, a rendered form of beef or mutton fat, in its new plastic £5 note, which went into circulation in September.

In February, the BoE decided against ditching the use of tallow for the £5 note and the new polymer £10 note, which will launch in September. However, it had promised to investigate alternatives for the new £20 note and future reprints of the £5 and £10. (Source date: 10 August 2017)

### ***CBA blames money laundering reporting failures on ATM coding error***

Commonwealth Bank of Australia has blamed a three-year coding error in its intelligent deposit machines (IDM) for breaches of anti-money regulations. The Bank is currently being sued by financial crime regulator Austrac for failing to report suspicious transactions totalling A\$624 million.

In a statement, the bank says a software update to its IDM network in 2012 resulted in a coding error which meant that the machines failed to create Threshold Transaction Reports required under AML rules. The glitch went unnoticed and unresolved until its discovery in 2015. (Source date: 7 August 2017)

### ***FS industry security concerns drive UK outsourcing market***

The financial services sector drove the UK outsourcing market to record levels in the first half of 2017, with big firms signing major IT contracts.

Much of this spending was on IT, with private sector contracts in this area worth £3.8 billion during the period. The FS industry was responsible for the vast majority of this, with security a major driving force as firms ramped up spending on network infrastructure, security architecture and cloud computing.

Lloyds Bank alone agreed a £1.3 billion, 10-year mega outsourcing deal with IBM in June which will see 1500 bank staff and contractors moved to the company. (Source date: 4 August 2017)

### ***EC challenges Visa's inter-regional interchange fees***

The European Commission has taken another step in its long-running wrangle with Visa over interchange fees, turning its attention to the fees merchants in the EU must pay on transactions involving cards issued outside of the region.

In 2014, the Commission finally closed proceedings against Visa Europe after the card firm agreed to cap its interchange fees for cross-border credit card payments at 0.3%. A similar deal on debit cards was reached in 2010.

But now the EC has sent a 'statement of objections' relating to an investigation into inter-region interchange fees, most typically made on card transactions by tourists or other travellers.

These "represent an important part of the total fees within the Visa scheme" says the EC, which has given Visa two months to reply and has the power to levy fines of up to 10% of the card firm's global turnover. (Source date: 4 August 2017)

### ***Cards overtake cash for consumer payments in Australia***

Cards have overtaken cash as the primary method for consumer payments in Australia, according to data released by the country's central bank. The Reserve Bank's triennial Consumer Payments Survey (CPS) recorded information on around 17,000 day-to-day payments made by over 1500 participants

during a week. Cards were the most frequently used means of payment in the 2016 survey, overtaking cash for the first time, driven by the growing popularity of contactless tap-and-go transactions.

In 2013, cash was used in 47% of payments, compared to 43% for cards. Three years on, this outcome has now switched so that 52% of payments are now via card, compared to just 37% by cash.

Despite these trends, cash still accounts for a material share of consumer payments and is "intensively used" by some segments of the population, says the RBA. (Source date: 27 July 2017)

### ***UniCredit confirms data breach***

Italy's UniCredit says personal financial data of some 400,000 customers who took out loans through the bank have been hijacked by unauthorised third parties. The bank blames the breach on an Italian third party provider of customer reference data. A first break in seems to have occurred in September and October 2016 and a second breach which has just been identified in June and July 2017.

The bank stated that no data, such as passwords allowing access to customer accounts or allowing for unauthorised transactions, has been affected, whilst some other personal data and Iban numbers might have been accessed.

UniCredit has launched an audit and intends to file a claim with the Milan Prosecutor's office. (Source date: 26 July 2016)

## **Mobile Money**

### ***Apple excluded from Beijing transit payments app***

The refusal of Apple to grant access to the iPhone's NFC function looks likely to have an adverse effect on the firm's Chinese ambitions, leaving customers unable to use a new payments app for journeys on Beijing's public transport system. The firm has taken an uncompromising stance on NFC access, recently winning a long-running battle with Australia's big banks on the issue.

This week, Beijing's public transport payments company Yikatong launched its contactless payments app, enabling millions of travellers with Android devices to pay for rides with a tap of their handsets. However, Apple's policy of not letting third parties use the iPhone's NFC function, reserving it purely for Apple Pay, means that the American company's customers will be excluded from using the new app, according to the Financial Times.

Apple is already facing an uphill battle to gain a foothold in China's massive m-payments ecosystem, failing to crack the top ten of payments apps since launching in early 2016. Apple Pay accounts for less than one per cent of all mobile transactions in a market dominated by home grown giants such as Alipay and WeChat Pay. (Source date: 15 August 2017)

### ***BBVA reaches over three million mobile customers in Spain***

BBVA has reached over three million mobile customers in Spain, with product sales via the smartphone now surpassing online applications from the bank's Website. The Spanish bank says interactions via the mobile app have seen a 135% increase over the course of the past year, rising from 23.8 million in May 2016 to 56 million in May 2017. Mobile app subscribers have grown by 30% over the past seven months, continuing the strong momentum that has been in place since December 2015, when the bank had 1.9 million mobile customers.

The data complements figures released by the bank in June, that chalked up nearly a million product sales worldwide through purely digital channels, representing 22% of all sales for the year. Mobile is at the forefront across the group's international operations, with 14.5 million of the bank's customers using the mobile channel.

In November last year, BBVA took advantage of updated Spanish legislation on remote sales and rolled out a new mobile onboarding service that enables customers to open an account with just a photo ID and a selfie. The bank says this functionality is now responsible for 18% of the new monthly customer registrations via Website and mobile phone. (Source date: 11 August 2017)

### ***PayPal payments via Skype***

Skype is integrating with PayPal to enable users to send money to their contacts using iOS and Android mobile devices. Users will be able to use PayPal directly from their Skype app to transfer cash instantly

to their friends and family. The functionality is being rolled out to PayPal and Skype users in 22 countries.

The move extends PayPal's in-app reach for peer-to-peer payments across a multitude of popular messaging channels, such as a voice command with Siri, in chat with iMessage and Slack, and in email via Microsoft's Outlook.com. (Source date: 2 August 2017)

### ***Payconiq acquires Digicash***

Payconiq, the ING-derived mobile payments app supported by a coalition of banks in Belgium and Holland, is moving into Luxembourg with the acquisition of Digicash. The Digicash mobile wallet works in partnership with banks, shops, insurers and energy providers, among others, and its mobile app is used by one-quarter of the Luxembourg population.

The acquisition is part of a bold move by ING, in combination with Belgium's KBC, to create a multi-functional pan-European mobile wallet capable of initiating payments online, on the high street and from peer-to-peer via a direct connection with the customer's payment account at one of the participating banks. The all-in-one mobile app has drawn the support of Belfius in Belgian and five further Dutch banks - ABN Amro, ASN Bank, Rabobank, Regiobank and SNS - for a forthcoming roll out in the Netherlands. (Source date: 2 August 2017)