market eye

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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

The death knell for loyalty cards?

Earlier this week Tesco announced immediate changes to its Clubcard loyalty scheme to 'simplify' the rewards available, which will result in many cases cutting back on its rewards, particularly for those such as restaurant chain meals and days out. Customers reacted angrily, particularly as there was no advance notice of the changes. A campaign to delay introduction of the changes was immediately started with such support that Tesco has now delayed implementation until June.

It has been reported in the media that the move by Tesco can be seen to be part of a trend to move away from loyalty programmes, as the days of shoppers using plastic loyalty cards and collecting supermarket reward vouchers are numbered and that customers' spending behaviour is no longer so influenced by their use. But is this really the case?

Go back a few years and there seemed to be loyalty cards available for all types of retailer – supermarkets, coffee shops, airlines, retail chains. So many cards available posing the conundrum of how to carry them all and have them all available!

It could be said that generally people have now become more astute about rewards and benefits and are more likely to be driven by immediate benefit such as cheaper prices over accruing points towards rewards. For example, neither Lidl or Aldi offer a loyalty scheme, yet both are serious contenders for market share against the traditional supermarkets.

However, over the years many loyalty schemes have been integrated with other functions, for example the John Lewis Partnership credit card, the M&S Bank credit card and the Tesco Bank card. There are current accounts available where debit card usage enables customers to collect reward points which are converted to cashback on their account. The Nectar card, which can be used in multiple retailers, allows reward points to be converted into 'spend' in specific retailers. These are just a few examples.

Other loyalty programmes are packaged in such a way that it is not immediately obvious that they are loyalty schemes – take Amazon's Prime for example, which allows free one-day delivery on Amazon purchases and various other benefits for a monthly fee.

It is also true that loyalty cards can now be loaded onto smart phone apps to be instantly available to the holder without the bother of having the physical plastic in hand.

So whilst loyalty plastic cards may have seen their heyday, loyalty schemes and programmes and the influencing of customer spending habits and behaviour are still very much a part of the retail landscape. The data collected by retailers as a result of these programmes is key to understanding their customer base. The use of loyalty is in the process of evolving, particularly with developing technologies, similar to many other aspects of life – the most obvious being mobile phones, which as smart phones can now have multiple uses including acting as a payment instrument.

Hence rather than sounding the death knell for loyalty plastics, the changes being introduced by Tesco can be seen to form part of the wider evolution of customer loyalty programmes.

Products and Initiatives

Russia launches new service using blockchain

The largest commercial bank in Russia, Alfa Bank, is developing a new digital cash service where all transactions will be transmitted and cleared via the blockchain. The service is to be developed in partnership with HashCash, a private, permisionless digital cash system, and will see the latter create a clearing house and payment router enabling all transfers to Alfa bank to take place on its open source blockchain platform HC Net.

Russia has adopted a conservative stance on cryptocurrencies with President Putin last week suggesting that future legislation on cryptocurrency trading is a certainty, however it has been far more positive about the future of the blockchain, including plans to pilot the technology for local voting systems. (Source date: 15 January 2018)

Visa begins pilots of new biometric payment card

Visa has announced that it has initiated pilots with Mountain America Credit Union and Bank of Cyprus of a new EMV dual-interface (chip- and contactless-enabled) payment card, making these the first commercial pilots to test an on-card biometric for contactless payments.

The biometric payment card pilots will test the use of fingerprint recognition as alternatives to PIN or signature to authenticate the cardholder. Both pilots will begin in early 2018 to assess the cardholder experience and the technology of the biometric cards in different retail environments. The Bank of Cyprus pilot utilizes technology from Gemalto, and the Mountain America Credit Union pilot is being supported by technology from Fingerprint Cards and Kona-I. (See also item *Bank of Cyprus to issue fingerprint payment cards* below.) (Source date: 14 January 2018)

Kodak announces blockchain plan

Photo firm Kodak has announced plans to develop its own cryptocurrency, KodakCoin, which it says will help photographers to control their image rights via a distributed ledger. The company has also shared plans to develop Bitcoin mining rigs at its New York headquarters. The scheme, called Kodak KashMiner, will require customers to make upfront payments to rent mining capacity.

Kodak has essentially repositioned itself over the last six years, licensing its brand to a range of manufacturers, from drones to tablets to printers to digital cameras, and the blockchain plans appear to be its latest brand strategy.

However, despite a positive reaction from Kodak shareholders, there are questions over both initiatives as the requirement of the Kodak KashMiner service for miners to pay upfront would leave them liable for any loss should there be a crash in the bitcoin market. Meanwhile Kodak says that its KodakCoin service will form part of a wider effort to develop a global ledger for picture image rights and use its own software to trawl the web for any unlicensed use of images.

Kodak will work with UK firm Wenn Media Group on the Initial Coin Offering for KodakCoin which is set to take place on January 31st. (Source date: 10 January 2018)

Petal develops alternative to credit score process for new credit card

Petal, a US credit card startup, is ditching traditional credit scores in an effort to sign up young people and the underbanked. The company says that decades-old traditional credit scoring methods put lower-income consumers, immigrants and people of colour in a Catch-22 situation - they can't get access to credit without a credit history, and they can't build a credit history without access to credit.

In response, the startup has developed an alternative, which it calls 'Cashflow Underwriting', that uses machine learning and "common sense" to analyse, in real-time, an individual's digital financial record, measuring objective components of their creditworthiness, like how much they make, save and spend over time, and the bills they pay each month. Petal believes this gives a more accurate and precise understanding of how much someone can safely afford to borrow, and can identify consumers who are a good credit risk without having to rely solely on credit history.

In September, the firm unveiled its no-fee credit card, along with a mobile app to help users own and manage it. (Source date: 10 January 2018)

JCB to test 'world's most accurate' biometric authentication system

Japanese card brand JCB is running trials of a combined biometric palm print and vein identification system which claims a false acceptance rate of only one in one billion transactions.

The tests, run in conjunction with Universal Robot Co. and the National Institute of Advanced Industrial Science and Technology, use different technology to the palm vein technology using near-infrared light currently in general use.

Universal Robot has made it possible to capture vein patterns with visible light for authentication purposes, which means that authentication can be done with just a smartphone camera. The company claims its technology has the world's highest level of accuracy, with only a 0.0003% possibility of misidentification.

JCB says it will be studying how to utilise the technology for a wide variety of services while only requiring the customer to register their palm information in the authentication server once using their own smartphone. (Source date: 5 January 2018)

Bank of Cyprus to issue fingerprint payment cards

Bank of Cyprus is to issue a biometric EMV card which uses fingerprint recognition instead of a PIN code to authenticate the cardholder.

The biometric sensor card, supplied by Gemalto, is powered by the payment terminal and does not require an embedded battery; it is also compatible with existing payment terminals already installed across the country, says the vendor.

Bank of Cyprus' customers will be required to enrol for the cards at bank branches, where fingerprints will be captured and card activation completed using a purpose-built tablet device to avoid over-the-air transmission of personally-identifiable data. (Source date: 4 January 2018)

NCR to roll out bitcoin-enabled ATMs in the UAE

NCR has teamed up with UAE cryptocurrency exchange CoinHub to enable users to make cash withdrawals from their bitcoin accounts at the ATM.

NCR says the execution of the cryptocurrency transaction is as simple as any other at the cashpoint - a withdrawal begins with authenticating the user either by scanning a standard ATM card or via cardless access with a mobile device. Similar to the selection of current or savings accounts, the user can opt to withdraw funds from their linked CoinHub cryptocurrency account. (Source date: 18 December 2017)

Market News

Europe begins Open Banking era

The EU's second Payment Services Directive (PSD2) took effect on Saturday 13 January, bringing with it the start of Open Banking. The central feature of the directive is the rule that banks must allow third parties, including digital startups and challenger banks, access to their customers' financial data including transaction history and spending patterns. The rule has been seen as bringing an end to the banks' long-held grip on payment services and as a catalyst for a potential revolution in retail banking.

Fintechs and digital payment service providers will gain greater access to high street banks' consumers. These same banks will also be able to develop more innovative and wide-ranging payment services of their own via greater use of application programming interfaces (APIs). However many features of PSD2 will not come into effect until at least 2019.

A spokesman for Accenture Payment Services, which has undertaken research on the topic, said that the success of Open Banking will hinge on customers embracing the changes, not least because any sharing of financial data with third parties is dependent on consumers' consent.

While the rate of adoption of new services among consumers is unknown, what is more certain is an increase in the number of new services that will be launched in the coming months to come as banks and their digital challengers vie for the upper hand in the Open Banking era. (Source date: 15 January 2018)

PSD2: ban on credit and debit card surcharges

A ban on credit and debit card surcharges is effective across the EU from Saturday 13th January 2018, and will apply to all purchases made where the banks of the consumer and retailer are within the EEA. In the vast majority of other circumstances surcharges are capped at the cost to the retailer for processing the payment. The UK Government took the decision to also include other payment methods such as PayPal in the ban to further protect consumers.

In the UK, the new rules will be enforced by Trading Standards who will have the power to take civil enforcement action against traders who breach the regulations. It will also entitle customers to receive a refund of any unlawful surcharge they have paid and enable them, if necessary, to take legal action to recover any such surcharge. (Source date: 13 January 2018)

Crypto mining threatened by power capacity concerns

The popularity of cryptocurrency mining is apparently putting increasing strain on electrical grids, raising concerns about capacity around the world and the prospect of a migration of coin mining operators to new jurisdictions. The current demand for digital currencies such as bitcoin and the huge computer power needed to mine these currencies has led some local authorities to complain of excessive electricity consumption amid concerns that their electrical infrastructure is unable to cope. Two of the world's largest financial markets - the US and China - are both feeling the strain on their respective infrastructures, even if the two are reacting in different ways.

The problem is especially acute in a number of counties in the US, where in some cases more megawatts of infrastructure are being added to data centres to keep up with the demand. The problem is not limited to the US and other countries are taking a much harder line on the issue of excessive consumption. In China, authorities are looking to remove cryptocurrency mining outright in order to preserve its power resources by enforcing stricter rules on electricity consumption, tax and land use on mining operators.

In the face of this crackdown, cryptocurrency mining operators may look to move abroad to countries with a more accommodating regulatory regime as well as a cheap and bountiful supply of electricity and a climate cool enough to prevent computers overheating. The Financial Times cites Canada, Iceland, Russia and Eastern Europe as possible destinations for the bitcoin mining centres of the future.

And while migration may be a suitable long-term solution to the problem, it will likely be disruptive in the short-term and another potential headwind for cryptocurrency investors who recently saw bitcoin values tumble following the news that South Korea is considering a ban on bitcoin exchanges. (Source date: 12 January 2018)

Tandem takeover of Harrods Bank approved

The Bank of England has authorised the takeover of loss-making Harrods Bank by digital challenger Tandem. The approval is a major step forward in Tandem's plan to enter the UK banking market, granting access to a full banking licence and 10,000 new savings and mortgage customers.

Tandem's bid to buy Harrods Bank came just months after the startup appeared to divert from its original plans to launch a fully-licensed UK bank after losing out on a £29 million investment from Sanpower, the Chinese conglomerate which owns House of Fraser.

A spokesman for Tandem Bank said that the acquisition "will transform Tandem into one of the UK's leading digital challenger banks with a fast-growing range of products, and a genuine commitment to build a good bank". (Source date: 20 December 2017)

Tsys agrees $1.05 billion takeover of Cayan

Tsys has agreed a $1.05 billion deal to buy out Boston-based merchant acquirer Cayan, a portfolio company of Parthenon Capital Partners, which provides technology led acquiring services to more than 70,000 merchants and 100+ integrated partners in the US. The combined company will serve about 730,000 merchant sites with an annual processing volume of more than $138 billion.

The Tsys board has approved the transaction, which is expected to close in Q1 2018, subject to regulatory approvals and other customary closing conditions.

Tsys' last acquisition in the payment space came in January 2016, with a $2.35 billion all-cash deal to buy out US merchant process TransFirst. (Source date: 19 December 2017)

Gemalto accepts EUR4.8 billion takeover offer from Thales

Gemalto has refused overtures from Atos and instead accepted a EUR4.8 billion takeover deal from fellow French company Thales. The offer price, representing a premium of 57% over Gemalto's closing price as of 8 December 2017, beats Atos' unsolicited EUR4.3 billion offer for the ailing French company.

The combined group will be a world leader in trusted identities and data security, employing more than 28,000 engineers, 3,000 researchers, and investing more than €1bn in self-funded R&D. (Source date: 18 December 2017)

Mobile Money

Google consolidates payment services

Google is merging its various payment programmes, including Android Pay and Google Wallet, into a single brand dubbed Google Pay, saying the initiative is intended to provide consumers with a consistent and simpler way to pay for purchases, whether online or on the high street. The company says that it will be easier for consumers to use the payment information saved to their Google Account, so that checkout can be speeded up. Google Pay is apparently already available on Airbnb, Dice, Fandango, HungryHouse, Instacart, and other popular apps and websites.

A spokesman for Worldpay, one of the official launch partners for Google Pay, says that Google Pay addresses one of the biggest barriers for mobile commerce today - the inconvenience of entering card details. This new service is designed to automatically retrieve payment details from the Google ecosystem, reducing checkout to a couple of clicks and avoiding the high level of purchases abandoned before completion.

The new services can be integrated into retailer websites and apps, thereby streamlining the online checkout process. (Source date: 9 January 2018)

Mobile banking prevalent in US but payments lag behind

Although US consumers seem to have enthusiastically adopted mobile banking, the same cannot be said for device-based payments which continue to be blighted by security and privacy fears according to new data from the Federal reserve.

A survey of 706 financial institutions by the Federal Reserve Bank of Boston showed that mobile banking is offered by 89% of respondents. Of those financial institutions tracking customer adoption, just over half now have more than 20% of their retail customers enrolled; and 44% have one-in-five actively using these services. The figures for mobile payments adoption are however more patchy, with just one-in-four currently providing payments services, although 44% plan to roll out an option within the next two years.

The key security concern holding back roll-out by institutions is “inadequate customer security behaviour,” with card-not-present fraud coming a close second.

Consumer uptake is also being affected by security worries, as well as merchant acceptance issues. Usage data from banks in the study shows minimal take-up, with 81% reporting an enrolment rate of less than five percent of the customer base. (Source date: 8 January 2018)