

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

Open Banking

On 13th January, the same day as the implementation of PSD2, the Open Banking initiative was launched in the UK. A month after its introduction, what has been the impact of the introduction of this significant change to UK banking practices?

Briefly, legislation has been implemented in the UK which mandates that banks and building societies must allow regulated businesses access, using API technology, to a customer's financial data, if that customer has given their permission. The objective is that individuals can allow apps and online services to analyse their spending and find better deals on anything from financial products such as loans and mortgages to other items such as shopping and broadband.

Initially not all of the nine Banks mandated to offer it were fully ready for the launch date and a number of revised dates were agreed for several of the Banks including Nationwide, Barclays, HSBC, RBS, Bank of Ireland and Santander.

There have, however, been several new Open Banking initiatives already launched: Yolt, the smart money management app owned by ING, became the first third party provider to complete a successful connection under the new Open Banking system (with Lloyds Bank). Openwrks, another money management app, was the first third party provider to connect to all banks currently providing functional APIs. Zopa, an online personal finance peer-to-peer lending company, is partnering with TrueLayer to enable consumers to verify their income using Open Banking, without having to upload documents.

Whilst the topic has received a significant amount of attention in the media – “Open Banking revolution”, “a fundamental change” - what is not yet clear and unlikely to be so for some time is how it is regarded by consumers and the rate of take-up for it. Certainly the consumer can benefit from the advantages it offers, yet there is also the question of security and whether the new freedoms are either fully secure or could be subject to fraudulent practices.

Whilst the Open Banking website states that Open Banking is safe and secure and that customers' data is encrypted and shared securely, and will only be shared if a customer gives their consent, nevertheless concerns about the issue of security have been raised by consumer organisations and websites such as Which? and MoneySavingExpert.com.

After all, it was only at the beginning of December that it was revealed that a number of supposedly secure banking apps were actually vulnerable to hacking and could allow fraudsters to retrieve, user

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names, password and PIN codes. It will therefore be unsurprising if it takes time for consumers to gain confidence in the new initiative. Recent research by consultants Accenture apparently found that 85% of those asked said the fear of fraud would put them off sharing data, and 69% said they would not share financial data with businesses that were not banks.

Whether Open Banking is a success or not must depend to a great extent upon whether or not it is adopted by consumers. Initially this is likely to be slow, but market analysts and regulators expect consumer behaviour to change steadily over time. By the end of 2018 it will be interesting to see how willing consumers have been to adopt and make use of the new functionality.

Products and Initiatives

Openwrks, Zopa and TrueLayer implement Open Banking

The UK's major banks are not as ahead as non-bank competitors in the Open Banking space, with new announcements by TrueLayer in tandem with Zopa, and Openwrks demonstrating the determination of third party providers to open up access to consumer account data. Six of the largest UK banks missed the 13 January deadline for implementing Open Banking, prompting a fresh warning from the Competition and Markets Authority that it will step in to punish banks that continue to delay.

Zopa has worked with TrueLayer to create an income verification product which removes the need to manually upload documents to verify income by replacing it with Open Banking data.

Separately, Openwrks - which likewise enables providers of consumer and small business products and services to access consumer's financial data - has become the first third party provider to successfully connect to all of the banks currently providing functional APIs (Lloyds, RBS, AIB, HSBC and Danske). (Source date: 9 February 2018)

Nordea to use biometrics to protect customer data assets

Nordea is implementing biometric authentication from Veridium for employees handling confidential customer data. The Bank has contracted to deploy the VeridiumID platform, 4 Fingers TouchlessID and VeridiumAD, to replace tokens with biometrics for the protection of high-privileged access to confidential data.

The initiative is part of an enterprise-wide strategy by the bank to improve how employees access data and accounts while meeting new regulatory compliance demands. (Source date: 7 February 2018)

Lloyds Banking Group bans customers from buying virtual currencies on credit cards

Lloyds Banking Group has banned customers from buying bitcoin on credit cards, concerned that wild fluctuations in cryptocurrency prices could leave it footing the bill for unpaid debts. The banking group has told its nine million cardholding customers at Lloyds, Bank of Scotland, Halifax and MBNA that it will not recognise virtual currency transactions on its credit cards with immediate effect.

A sharp acceleration in the price of bitcoin and other virtual currencies such as ether and XRP in the run-up to Christmas provoked an explosion of interest in the market among ordinary savers suffering from years of low interest rates. However, a 57% crash in value during New Year's trading has caught many novice investors flat-footed and nursing huge losses.

The crackdown comes as law enforcement agencies and regulators promise to tighten anti-money laundering rules to counter the use of anonymous virtual currencies by criminals who are looking to evade detection by the authorities.

Lloyds is currently the first of the UK's main banks to disbar bitcoin transactions on its cards, although several US banks, including JPMorgan Chase, Bank of America, Capital One, Discover, and CitiGroup have instituted similar cryptocurrency bans in recent months. (Source date: 5 February 2018)

Singapore Airlines to develop blockchain-based loyalty wallet

Singapore Airlines is to develop a blockchain-based digital loyalty wallet for frequent flyers in collaboration with retail partners. The first-of-its-kind lifestyle digital wallet app for an airline loyalty programme will be enabled through blockchain technology, using an SIA-owned private blockchain involving only merchants and partners.

It will allow the members of SIA's KrisFlyer frequent flyer programme to use 'digital KrisFlyer miles' for point-of-sale transactions at participating retail merchants.

Plans to roll out the app in the next six months follow on from a successful proof-of-concept exercise carried out in collaboration with KPMG Digital Village and Microsoft. (Source date: 5 February 2018)

Market News

Australian real-time payments platform goes live

Australia's real-time payments platform went live on the 13th February, with customers of three of the country's big four banks able to transfer funds in seconds. The New Payments Platform (NPP) will enable customers of Commonwealth Bank, National Australia Bank and Westpac to send money via a service called PayID, which requires users to enter only the recipients' mobile phone number or email address. Other financial institutions, including ANZ, will follow.

The billion dollar project is being run by NPP Australia, which was set up by the industry in late 2014 in response to the country's central bank, eager to catch up with the likes of the UK in the faster payments arena.

Swift was brought in in 2015 on a 12-year contract to design, build and operate the platform's basic infrastructure. (Source date: 13 February 2018)

Monzo considers US launch

The UK app-only bank Monzo has had preliminary discussions with regulators about the possibility of expanding its business to the US consumer market. Apparently the company is in the "very early stages" of exploring the market, talking to regulators and sounding out potential hires.

Any potential expansion overseas is unlikely to come to fruition until the UK challenger reaches profitability, which puts a launch date back to late 2019/2020 at the earliest.

In the meantime, Monzo is moving all pre-paid card users to its current account and beta-testing functionality for overdrafts. The bank has signed up more than 450,000 UK users since it was founded in 2015 and says it is increasing that total by more than five per cent each week. (Source date: 12 February 2018)

Ripple signs largest Middle East client UAE Exchange

UAE Exchange has become the latest money transfer brand to join the RippleNet network to speed up the processing of remittance transfers across the Middle East and Asia. Headquartered in Abu Dhabi, UAE Exchange has more than 9,000 employees in over 40 countries, with particular emphasis on India where over 40% of its offices and staff are based.

Ripple is making significant inroads into the global cross-border remittance industry, recently signing deals with IDT, MercuryFX, MoneyGram and Cuallix. Unlike the latter examples, UAE Exchange will not use Ripple's digital coin XRP as an intermediary currency.

UAE Exchange follows in the footsteps of India's Axis Bank, which also recently joined the RippleNet messaging system to speed remittance flows between India and the Middle East through an arrangement with the UAE's Rakbank.

The large Indian workforce in the UAE is estimated to send home nearly \$12.6 billion annually. (Source date: 12 February 2018)

Nordic banks attempt to harmonise cross-border payments infrastructure

A group of major Swedish, Danish, Norwegian and Finnish banks have banded together to explore the possibility of establishing a pan-Nordic payment infrastructure supplemented by common products.

The initiative, which is backed by Danske Bank, DNB, Handelsbanken, Nordea, OP Financial Group, SEB and Swedbank, shares the objectives of current domestic infrastructure projects in Norway and Sweden, but aims at achieving them on a Nordic scale.

The Nordic payment market are among the most advanced in the world but remain fragmented along national borders. The banks backing the project believe that a harmonisation of the domestic infrastructures and the products offered would ease cross-border payments and foster further trade between the Nordic countries, stimulating growth and employment.

Consultations with national utilities and stakeholders are to take place in advance of drawing up a firm blueprint. (Source date: 9 February 2018)

Hong Kong sets out guidelines for new virtual banks

Hong Kong's efforts to encourage new digital banking providers advanced today when the island's central bank published a set of revised guidelines for new entrants.

In September, the Hong Kong Monetary Authority (HKMA) said that it would facilitate the establishment of virtual banks as part of a wide-ranging set of reforms - from the introduction of faster payments to open API standards - intended to prepare the territory for a revolution in retail banking services.

To pave the way for the new virtual banks, which financial institutions and tech firms will be able to apply to own and operate, the HKMA has now published revised guidelines for public consultation. The virtual banks should "play an active role in promoting financial inclusion" and take care of the needs of their target customers, with no minimum account balance requirement or low-balance fees.

Apparently 10 local and overseas firms have already expressed interest in applying, with the first licenses expected to be issued by the end of the year. (Source date: 6 February 2018)

eBay terminates relationship with PayPal as payments provider

eBay is terminating a 15-year relationship with PayPal and instead turning to Amsterdam-based Adyen as its primary payments provider at the checkout. Shares in PayPal slid 12% in after-hours trading following the announcement.

PayPal was spun out of eBay in 2015 and has since been ending relationships with card schemes and big technology firms in an effort to reduce its reliance on its former parent. Buying and selling on eBay currently accounts for about 13% of PayPal volumes, a figure which has been going down over time as the company moves into new markets.

The switch to make Adyen the primary checkout option will take place in 2020, with PayPal dropping down the rankings to become a supplementary service. (Source date: 1 February 2018)

Link plans interchange fee reduction

UK ATM network operator Link is to introduce a phased reduction in interchange fees paid by banks in a move that could see tens of thousands of cash machines disappear from the high street.

The measure will see the interchange rate reduced from 25p to 20p per withdrawal, in annual steps over four years. Link's hand has been forced by major high street banks who have balked at the costs incurred every time customers use a non-branch machine at another bank.

Acknowledging consumer concerns about the creation of 'cash deserts' in some areas, Link says all ATMs one kilometre or more from the next free machine will be exempt from any reductions in interchange. An enhanced subsidy will be paid wherever needed to ensure that free ATMs remain in areas that could not otherwise sustain them.

The plans have not been received positively by consumer campaigning groups such as Which?, who are calling on the Payments Systems Regulator to conduct an urgent market review. The concern is that Link's plans could still lead to a significant reduction in free-to-use ATMs across Britain, leaving consumers struggling to access the cash they need. (Source date: 31 January 2018)

ING acquires a majority stake in Payvision

ING has acquired a 75% stake in international card acquirer and payments platform Payvision. Founded in 2002, in Amsterdam, Payvision facilitates more than 80 payment methods, including Maestro, Visa, IDEAL, Alipay, JCB and Union Pay across more than 150 currencies.

The move demonstrates how payments transactions data is becoming incrementally important to financial services companies, which are looking to understand and interact with customers in new ways.

The transaction is expected to close in the first quarter of 2018. After completion, Payvision's founding management team will hold a 25% minority stake and will continue to lead the company. (Source date: 29 January 2018)

Nets wins contract for instant payments in Hungary

Nordic payments processor Nets has won an international tender to provide an instant payments system to Hungarian ACH Giro. Wholly-owned by the Hungarian central bank, Giro has a near monopoly on interbank payments and clearing in the country. The ACH went to tender for the new instant payments framework last year, following a market-wide consultation conducted between the central bank and payment stakeholders in the spring of 2016.

The new system, which will be able to initiate payments 24 hours a day and create opportunities for new electronic and mobile-based services, is planned to go live in 2019.

The Hungarian win for Nets follows contracts for its RealtTime24/7 platform in the Italian and Slovenian markets. (Source date: 26 January 2018)

Mobile Money

Mobile network giffgaff to use Open Banking rules to move into personal finance

Giffgaff, the mobile network run by Telefonica, is to use Open Banking rules to provide a personal financial management service to its users in the UK. The free-to-use service, dubbed giffgaff gameplan, aims to offer actionable insights on how to cut down daily expenses and save towards defined goals.

Popular among the millennial segment, giffgaff says the gameplan app and website will analyse spending habits and offer suggestions to help users to grow their savings.

Set to launch this summer, the service will also come with a built-in comparison tool providing an unbiased overview of alternative credit card options, energy providers, car insurance and loans. (Source date: 8 February 2018)

Banco Santander prepares for Q1 roll out of personal payments via Ripple

Banco Santander has set a Q1 2018 launch date for the introduction of same day mobile international payments for personal customers using Ripple's distributed ledger technology. Santander has been piloting the technology for 18 months with bank staff.

Plans for the live roll out were revealed in the bank's 2017 earning presentation. The bank plans to introduce the service in four countries simultaneously and promises full transparency on fees and FX upfront.

A spokesperson for Santander commented that it expects to be "one of the first global banks to roll out distributed ledger technology-based payments for individuals". (Source date: 2 February 2018)

MyPOS launches in the UK

A new mPOS company has launched in the UK, promising to give retailers instant access to their funds by eschewing the bank system in favour of its own e-money account. MyPOS combines a mobile point-of-sale terminal with a free online account and prepaid business card. Payments are stored in the e-money account, enabling retailers to spend new funds immediately via their card, or to make an online transfer to another account.

This, claims the startup, means that users can accept card payments as readily as cash, addressing the cash flow concerns that cause many SMEs to choose not to accept plastic - which traditionally take days to appear in their accounts.

Founded in 2014, myPOS now claims 40,000 users across Europe and is moving into the UK having received an FC license late last year. The firm does not charge monthly payments or subscription fees, instead selling the mPOS devices and relying on transaction fees. (Source date: 1 February 2018)

MasterCard supports biometrics for online European payments

From April, online shoppers in Europe will be able to use biometrics, such as fingerprints or facial recognition, to identify themselves at the checkout when they pay with MasterCard.

MasterCard Identity Check, which lets people use biometric identifiers to verify their identity using a mobile device during online shopping and banking activities, is already available in 37 countries.

However, with new EU regulatory requirements on authentication coming into force through PSD2, the card firm says that banks across the continent must offer the biometric option by April 2019. (Source date: 23 January 2018)