market eye

Savantor Limited
68 Lombard St
London EC3V 9LJ
Tel: 0870 734 6250
Fax: 0870 734 6251
email: info@savantor.com
www.savantor.com

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

Beginning of the end…….?

The eventual demise of cash in the UK is a topic which has been much discussed and continues to be so. An announcement in the Budget/spring statement may have brought that day a little closer.

It was announced by the Chancellor of the Exchequer in the Spring Statement that the Government is going to seek views on the role of cash in the economy, as digital technology has changed the way people shop, sell and save. Whilst acknowledging that cash will continue to be an important method of payment, the government also recognises that more people are moving towards digital payments every year.

The announcement immediately sparked reactions and outpourings within the media and social media about whether this review signalled the end of copper coin usage, to the extent that Downing Street felt it necessary to issue a clarification statement the following day. The statement stressed that there are no proposals to scrap 1p or 2p coins in the consultation and that the call for evidence is simply intended to enable the Government to understand better the role of cash and digital payments in the new economy.

The review has been prompted by a sharp decline in the use of small value coins and a significant increase in contactless and phone payments. Apparently 6 in 10 copper coins are used just once and never again, either because they are saved or, in 8 per cent of cases, thrown away. The Royal Mint has to produce and issue over 500 million 1p and 2p coins a year to replace those falling out of circulation, even though they cost as much to make as higher value coins. According to the Treasury, some retailers and vending machine operators have already started to phase out transactions requiring copper coins in change.

In terms of daily usage, copper coins, particularly the 1p coin, are very frequently used as change for items priced below a round pound value for marketing purposes, ie to make the price seem cheaper.

As a result of the Chancellor's statement, a review of cash usage will be undertaken and it is highly likely to include some recommendations regarding copper coin usage. Whilst there are many arguments around the subject of the cashless society and getting rid of cash, in the case of copper coins it could be argued that it makes practical and financial sense to remove them from usage. Many countries, including Canada, Australia Brazil and Sweden have already removed their low denomination coins from circulation.

However, if this step is undertaken, it could also be seen to have broader implications and perhaps to signal a step towards a cashless society in the UK. It will be interesting to see the outcome of the review and its recommendations.

Products and Initiatives

Barclays provides entry for Coinbase into Faster Payments

Digital currency exchange Coinbase has been granted an e-money licence by the UK's Financial Conduct Authority (FCA) and joined the Faster Payments Scheme as an indirect member courtesy of a tie-up with Barclays Bank. While other major lenders are shying away from the cryptocurrency markets, Barclays Bank is the first to strike a deal with a major global exchange, enabling the fast settlement of money transfers to UK customers.

The bank has been in active talks with UK regulatory bodies about how it can bring cryptocurrencies into play in the UK, with the granting of an e-money licence seen as an essential prerequisite. Barclays struck a similar deal with social payments outfit Circle - which enables sterling, dollar and bitcoin money transfers across popular messaging platforms and other media - shortly after it won approval from the watchdog in April 2016.

Coinbase plans to start with a pilot, giving a small number of institutional users access to Faster Payments before a roll out to all UK customers.

The US-based firm will not be the only cryptocurrency exchange in the Faster Payment Scheme, as there is also news of a similar opening for the London Block Exchange. LBX is offering a Crypto Payment Account which will enable the instant transfer of GBP to digital currencies. The company has not provided details of the bank sponsor for FPS access. (Source date: 14 March 2018)

Estonia's LHV to open UK bank

Estonia's LHV Bank is swimming against the Brexit tide by setting up shop in the UK to service the country's thriving fintech market. The bank is to open a UK branch from which to engage with London's burgeoning fintech industry. The market entry will see it join with the UK's major payment schemes and provide financial intermediaries with a real-time euro and sterling payments service.

A spokesman for LHV Bank UK commented that the bank has "become a partner to many new generation fintechs" and serves as a link between them and existing banking infrastructure. Against the backdrop of Brexit, many banks are thinking about withdrawing from London, but LHV Bank are "eager to swim against the current" as London is one of the most important financial centres in the world where fintech companies around Europe and the world have gathered. (Source date: 14 March 2018)

Ant Financial enters Pakistan through Telenor deal

China's Ant Financial has agreed to buy a 45% stake in a Pakistani local mobile financial services outfit owned by Norwegian telco Telenor. The company, Telenor Microfinance Bank (TMB), launched Pakistan's first mobile financial services platform called Easypaisa in 2009 and now claims more than 20 million customers.

The partners say that combining TMB's knowledge and local market presence with Ant's Alipay technology will enable them to bring mobile payments and other financial services to people and small business throughout Pakistan, where more than 100 million are unbanked.

Ant has been aggressively pursuing international expansion over the last 12 months in an effort to reach its stated aim of securing two billion users within 10 years. The firm has struck deals with local players in Indonesia, Malaysia, the Philippines and South Korea, although it failed in a bid to buy America's MoneyGram. (Source date: 14 March 2018)

Bank of Amazon could attract 70 million US customers within five years

The consultancy Bain and Co has estimated that a banking service from Amazon could grow to more than 70 million US customer accounts within five years, equalling the size of the country's third largest bank, Wells Fargo. The analysis follows reports earlier this week that Amazon has begun talking to banks, including JPMorgan Chase and Capital One, about developing a current account-style product for its millions of customers.

For Amazon, a banking tie-up would enable the firm to skirt regulatory barriers, but it may also act as a Trojan Horse, enabling the firm to save on interchange fees and move into other more lucrative financial products. By making it easy for customers to pay right from their Amazon bank account instead of with their credit cards, Bain & Company estimates that Amazon could avoid more than a quarter of a billion dollars in annual interchange fees in the US alone.

The 70 million customer figure assumes that Amazon forges a financial relationship with up to half of its customer base, the same share of people who said in a recent Bain survey that they expect to buy a financial product from a major technology firm over the next five years. The consultancy expects Amazon to move from a basic cobranded banking service into other financial products, including lending, mortgages, property and casualty insurance, wealth management and term life insurance. (Source date: 9 March 2018)

Ripple makes new connections to emerging markets

Ripple has announced deals with two banks and three payment processors across India, Brazil and China, as the firm seeks to fulfil a promise to transform payment flows into and out of emerging markets.

Itaú Unibanco, Brazil's largest private sector bank, IndusInd in India and Singaporean money transfer outfit InstaReM have announced plans to use Ripple's enterprise-ready ledger product xCurrent to provide real-time cross-border payments to other financial institutions around the world.

Two fast growing remittance providers, Beetech in Brazil and Zip Remit in Canada, have also come onboard, using Ripple's xVia API to open payment corridors for their customers around the world. Additionally, both will look to establish a connection for their customers into China via e-commerce network LianLian, which signed up to RippleNet last month.

According to the World Bank, global remittance payments are on track to grow by 3.4 percent or roughly $466 billion in 2018, with India and China having the highest incoming flows in 2017. (Source date: 21 February 2018)

Market News

Dark Web Price Index reveals scale of online fraud

According to the UK's first Dark Web Market Price Index by Virtual Private Network (VPN) comparison service Top10VPN.com, fraudsters on the dark web could buy your entire personal identity for just £820. Top10VPN.com reviewed tens of thousands of listings on three of the most popular dark web markets, Dream, Point and Wall Street Market.

The research found that while bank details will fetch in the vicinity of £168 and Paypal logins with a healthy credit balance around £280, many important personal details are changing hands at a much lower price point. Passport details can be obtained for as little as £40, while access to online shopping accounts such as Amazon and Tesco are rarely worth as much as a £5.

A spokesman for Top10VPN.com said that the research underlined how easy it is to get hold of personal info on the dark web and that it "really underlines the importance of two-factor authentication and more generally, secure use of websites and apps." (Source date: 8 March 2018).

Equifax identifies another 2.4m breach victims

Equifax has identified another 2.4 million US victims of the massive data breach the credit referencing firm suffered last year. The newly-found victims had their names and partial driver's licence information stolen but not Social Security numbers - which is why they have only just been identified. The total number of people affected by the breach now stands at 147.9 million.

Equifax says it will now notify those affected and offer them free identity theft protection and credit file monitoring services.

Equifax first admitted that its systems had been breached on 7 September last year, with hackers exploiting a US website application vulnerability to steal the personal details of more than 100 million US consumers. Around 200,000 Visa and MasterCard cards were also compromised.

The credit rating agency received massive criticism for its handling of the breach and by November was already facing more than 240 class-action lawsuits from consumers, in addition to suits from shareholders and financial institutions. (Source date: 2 March 2018).

UK contactless mobile payments hit tipping point

UK consumers used their NFC-enabled mobile phones to spend nearly a billion last year, a 328% year-on-year rise, according to figures from Worldpay. With Apple Pay, Google Pay and Samsung Pay all beginning to establish themselves, the number of in-store contactless transactions made via mobile devices totalled 126 million last year, with the amount spent topping £975 million.

The Worldpay figures show that almost a third of consumers are now taking advantage of their phone's payment capabilities, and the company predicts exponential growth over the next 12 months.

The supermarket sector has been an important driver in the uptake of digital wallets and accounts for 59% of all in-store mobile transactions. Pubs, bars and restaurants make up a further 12.5% of the total spend. However, shoppers are also now starting to use their phones for higher value items. In the second half of 2017, the average spend per transaction increased by 11%, driven in part by the increase in retailers accepting 'limitless' Apple Pay transactions in May.

The Worldpay stats are backed up by Barclaycard, which has released data showing strong growth in mobile and wearable payments, with the amount spent increasing by 365 per cent and 129 per cent respectively in just 12 months. (Source date: 1 March 2018)

PSR sets up work group on push payments fraud

The UK's Payment Systems regulator has set up a steering group composed of representatives from banks and consumer groups to develop an industry code for reimbursing victims of authorised push payment (APP) scams.

APP fraud - when businesses or individuals are conned into sending money to a fraudulent account to pay for goods or services - was brought to the fore by consumer group Which? in a super-complaint to the regulator expressing concern that consumers had no legal right to claim money back from their banks in such circumstances.

Which?'s position was reinforced by a review of the way banks handle APP scams conducted by the Financial Conduct Authority that found banks' procedures were inconsistent, their existing fraud detection systems could not easily detect APP scams, and they didn't collect enough data.

While the PSR initially sided with the banks, merely calling on the industry to do more to protect consumers, the watchdog backtracked in November to propose a contingent reimbursement model that would shift some of the onus of liability to the banks. (Source date: 28 February 2018).

Open Banking could boost UK GDP by £1 billion

The introduction of Open Banking in the UK may contribute over £1 billion annually to the UK economy and support the creation of up to 17,000 new jobs, according to analysis by economics consultancy the Centre for Economics and Business Research (Cebr).

The research, conducted on behalf of online reviews platform Trustpilot, assumes that the wider availability of customer account data will exert downward pressure on interest rates charges on financial products, such as mortgages, due to a clearer understanding of a person's underlying credit risk.

In generating the £1 billion figure, Cebr analysts estimated that every one percent reduction in the credit spread on mortgages leads to a £153 million increase in GDP, with Open Banking assumed to result in a seven percent reduction in today's credit spread.

However, it is recognised that the degree to which these economic benefits are realised is dependent on the readiness of consumers to consent to sharing data. Recent research from Accenture found that 69% of people may not consent to share their banking data with third-parties. (Source date: 26 February 2018)

Mobile Money

Nordea rolls out contactless payments for wearables

Nordea is to provide customers with contactless payment options across a range of Fitbit and Garmin wearable devices. The service will be available to all customers with a private Nordea MasterCard or Visa debit or credit card in Sweden, Denmark and Finland.

The move into wearables coincides with an update to Nordea's mobile wallet to include improved navigation, a new overview page and support for card enrolment for wearable payment services.

The bank says more features, such as a receipt storage functionality, will be launched soon. (Source date: 13 March 2018)

Denmark's Danske Bank invites Finnish banks to join MobilePay

Danske Bank-owned MobilePay is making a major play for the Finnish market through a deal that will see its mobile payments service accepted at nearly a thousand S Group grocery stores. The agreement between MobilePay, S Group and its S-Bank unit will bring instore and online mobile payments to Finnish consumers from this autumn.

MobilePay, which became an independent company last year but is still owned by Danske Bank, is hugely popular in its home market of Denmark, installed on 90% of consumer smartphones. However, it has not found conquering other markets so easy. After a two year struggle, in October it gave up in Norway, instead going with the rival Vipps service.

In Finland it is setting up an independent subsidiary to act as a neutral partner for local banks and others in the hope of winning over more partners for the service. (Source date: 1 March 2018)

Visa supports wearable payments

Visa has struck deals with National Bank of Greece and CaixaBank to enable customers to carry out transactions through their jewellery and watches.

National Bank of Greece and Visa have enlisted Folli Follie and Links of London to create rings and bracelets that will let people make secure payments with a tap at any contactless-enabled terminal. Visa has also teamed up with Spain's CaixaBank to let Garmin watch owners make contactless payments with their devices from later this year.

The deals - both announced at Mobile World Congress in Barcelona this week - come as research from Visa rival Mastercard suggests that one-quarter of Europeans expect to start using tap-and-go payments with a smartwatch, bracelet, keyring or other wearables. (Source date: 27 February 2018)

KBC incorporates non-banking services in mobile app

Belgian bank KBC is integrating services from non-banks into its apps, enabling customers to pay for their parking and check the balance on employer-issued meal vouchers.

In what it claims is a Belgian first, KBC has teamed up with the firms behind the 4411 parking app and Monizze card on the feature, which will roll out this summer. (Source date: 27 February 2018)

Quarter of Europeans ready to try out wearable payments

The overwhelming popularity of contactless cards appears to be raising shopper interest in new form factors, as fresh research from Mastercard suggests that one-quarter of Europeans expect to start using tap-and-go payments with a smartwatch, bracelet, keyring or other forms of wearable payments.

The data comes from a study conducted among 50,747 people by GCT Research, across nine countries countries: UK, France, Russia, Spain, Italy, Germany, Netherlands, Poland and Sweden. It points to a potential market for wearables of 175 million European consumers.

Interest in wearables comes as more and more people turn to contactless as a convenient way to pay. Contactless spend on Mastercard and Maestro grew by 145% in the last year, as psychological barriers to uptake lowered. In particular, concerns around fraud showed the greatest decline (-24%), with the Netherlands (-41%), Spain (-33%) and the UK (-31%) seeing the biggest drop in fraud concerns across local markets. (Source date: 22 February 2018)