

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

Trust and digital banking

There are a number of challenger digital-only banks which have been launched over the past couple of years in competition against the traditional high street banks, examples of which include Monzo, Revolut and Atom. New research has recently been undertaken on behalf of Moneysupermarket.com about digital-only banks and consumer perception and behaviour in relation to these banks.

With one in five UK consumers apparently having accounts with three banks, it seems that people are used to 'multi-banking' and shopping around to satisfy their money and finance requirements. However it is also reported that two out of five people have never heard of digital-only banks.

Surprisingly, the research showed that younger people are the least aware of digital-only banks – apparently only 47% of those aged 18 to 24 have heard of a challenger bank. Conversely, 68% of those aged 35 to 44 and 64% of those aged 25 to 34 are familiar with at least one digital-only bank and seem more likely to explore their banking options.

The research also shows that whilst British consumers may feel comfortable in choosing a digital-only bank to complement their existing bank, with over three-quarters saying they'd be comfortable choosing a digital-only bank for at least one financial product, only one in ten users would prefer to use a digital-only bank over a traditional one.

The reason for this reticence may well be to do with trust, as the survey also showed that almost two in five UK consumers are concerned about their data being shared with other banks under Open Banking, even though this will be governed by strict security rules and should lead to the development of apps and services which give consumers more control of and greater choice with their finances.

In response to the emergence of the digital-only banks, the high street banks are also focusing on developing their digital options. The advantage that the digital-only banks have, however, is that they can focus on providing a limited number of products whereas the high street banks generally provide a much wider offering of services. Nevertheless, the competition to their monopoly helps ensure that they have to remain competitive in their offerings in the context of today's technological advances and in the long run provides greater choice to the consumer.

The issue of trust, however, has wider implications than the uptake of digital banking services, whether it be via a digital-only or mainstream bank. The success of open banking will be dependent on consumers feeling comfortable with sharing their financial data and allowing their bank to do so.

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Products and Initiatives

Santander rolls out blockchain-based money transfer service with Ripple

Santander has rolled out its Ripple-based international money transfer service for personal customers in Spain, the UK, Brazil and Poland. The new service, known as 'Santander One Pay FX', makes it possible for customers to complete international transfers in near real-time or by the next day. Santander has been piloting the mobile-based application for 18 months with bank staff.

The bank is using xCurrent, a technology based on distributed ledgers owned by California-based Ripple to power the service. InnoVentures, Santander's \$200 million fintech venture capital fund, invested in Ripple in 2015.

Under the current offering, each of the four countries will offer customers different payment options depending on the market. Customers in Spain, for example, will be able to send dollars to USA and pounds to UK. Customers in the UK will be able to send euros to 21 countries and dollars to USA, and from Brazil and Poland, pounds can be sent to the UK.

Apparently the bank plans to add more features in the coming months, including offering instant international payments in several markets before the summer. (Source date: 12 April 2018)

PayPal to offer debit cards and mobile cheque deposits to unbanked

PayPal plans to roll out a new debit card for online and offline shopping and an FDIC-insured cheque deposit system for account holders. The new services, likely in the coming weeks, are apparently being offered "in collaboration with some of the leading financial institutions in the US".

PayPal says the move is intended to target unbanked US consumers "in order to give access to financial services that are less expensive, less time-consuming and more convenient".

The PayPal Cash Mastercard will let users access the money in their PayPal account to shop online or in stores and withdraw cash from ATMs anywhere Mastercard is accepted.

People who don't have a bank account will also be offered the opportunity to directly deposit their paycheque into their PayPal account for free. Customers who enroll in these features will be eligible to receive FDIC pass-through Insurance on the funds held in their PayPal account, with no minimum balance required.

According to the Wall Street journal, the firm is managing to comply with US bank licensing rules by partnering with several small banks that can provide those services, including a Delaware bank that will handle debit cards, a bank in Georgia for mobile cheque deposit and a Utah bank for offering loans to customers and small businesses. (Source date: 10 April 2018)

Walmart launches global money transfer service

Retailer Walmart is pushing further into the financial sector through a service that lets people transfer money from its US stores to 200 countries.

The firm has teamed up with Moneygram on Walmart2World, promising simple, low fees and competitive exchange rates. Transfers can be made from 4700 stores and take less than 10 minutes, with the funds delivered to agent locations around the world or into international bank or mobile wallet accounts.

The service builds on Walmart2Walmart, a domestic money transfer service launched four years ago which the company says has saved customers nearly \$700 million in fees. (Source date: 3 April 2017)

Swift to deliver end-to-end tracking of all payment messages crossing the network

Swift is extending its gpi (global payments innovation) Tracker to cover all payment instructions sent across the network, enabling member banks to achieve full visibility over payments activity. Available since May last year, the gpi Tracker is getting a major upgrade in November with the incorporation of an end-to-end transaction reference for all payment messages flowing over the network.

Available as an API plug-in, the tracking engine automatically provides status updates to all gpi banks involved in any gpi payment chain and allows them to confirm when a payment has been completed.

Launched in 2017 in a bid to improve correspondent banking services, gpi already accounts for 10% of Swift cross border payment traffic. More than 150 banks, representing over 78% of the co-operative's cross-border payments activity have signed up to the service. (Source date: 23 March 2018)

Revolut takes lead in fight against online card fraud with disposable virtual cards

Revolut is upping its security game with plans to allow customers to pay online with disposable virtual cards. Customers will be able to create disposable virtual cards in seconds, with card details that automatically regenerate after every transaction.

The disposable virtual cards will work alongside Revolut's existing security features, including location-based geo-tagging, the ability to freeze and unfreeze physical cards, as well as being able to disable functions such as contactless and swipe payments.

A spokesperson for the company said that as it will take approximately 800 years before it begins to run out of 16-digit card numbers, disposable virtual cards are viewed as a sustainable, long-term solution to tackling online card fraud. (Source date: 23 March 2018)

RBS plans to create digital challenger bank

According to Sky news, Royal Bank of Scotland is secretly working on plans to create its own digital challenger bank to counter the threats from startups like Monzo and Starling.

Details are sketchy and subject to change, with uncertainty about a potential launch date, its autonomy within RBS and the branding of the new venture.

In a statement issued to Sky News, an RBS spokesperson acknowledged that the industry is changing rapidly and that it therefore needs to keep pace with this by launching new approaches to better serve customers. Whilst not commenting on media speculation, the Bank commented that it is focused on using automation and technology to deliver a more efficient banking experience that better reflects the changing way its customers now bank.

News of the plans comes as Monzo celebrates the opening of half a million current accounts in the UK. (Source date: 19 March 2018)

Market News

Verifone to be acquired for \$3.4 billion

POS payments firm Verifone is to be acquired by private equity outfit Francisco Partners for \$3.4 billion in cash. The company is benefitting from the wave of VC interest in payments processors as it seeks to make the transition from a pure-play terminal provider to a commerce partner to its merchant customer base. It currently has 30 million POS payment devices installed in more than 150 countries.

The Verifone board have accepted the offer but have been given a one-month extension to encourage third party suitors to stake a claim.

The Verifone deal will likely lead to mounting speculation over the fate of Ingenico, another terminal manufacturer operating in an increasingly saturated market. (Source date: 10 April 2018)

Rabobank uses IBM for GDPR compliance

Rabobank is working with IBM to use cryptographic pseudonyms on its clients' personal data to help comply with the EU's new General Data Protection Regulation (GDPR).

Coming into effect at the end of May, GDPR will create a harmonised data protection law framework across the EU with the aim of giving citizens back control of their personal data, whilst imposing strict rules on those hosting, moving and processing it.

As part of its efforts to comply with the new rule, Rabobank has teamed up with IBM to cryptographically transform its most sensitive client data - including names, birthdates and account numbers - into a desensitised representation, meaning it looks and behaves like the real data, but is not.

The move not only helps with GDPR compliance, says Rabobank, it also makes it easier for its Radical Automation DevOps team to use the data for performance testing of new technologies and services, such as mobile apps and payment solutions. (Source date: 5 April 2017)

Monzo users upgrade to current accounts

UK digital challenger bank Monzo launched its prepaid account in 2015 but last April received a full UK banking licence, paving the way for current accounts. As it shuts down its prepaid beta programme, Monzo says that 94% of its active users have upgraded to full current accounts.

In October the challenger began migrating users who agreed to new terms and conditions to the current

account. Since then, more than 362,000 customers - including 94% of active users - have upgraded. Another 98,000 have not, meaning that their prepaid cards have stopped working.

In total, Monzo now has more than 500,000 current account customers, making it the biggest digital challenger bank in the UK. Users get all the perks of its prepaid offering in addition to bank transfers, direct debits and standing orders, and protection for up to £85,000 under the Financial Services Compensation Scheme. (Source date: 4 April 2017)

Hackers steal 5m cards from Saks Fifth Avenue and Lord & Taylor

Notorious hacking collective JokerStash has been identified for an attack that has compromised more than five million card numbers from customers of Saks Fifth Avenue and Lord & Taylor.

Toronto-based Hudson Bay, which owns both retail brands, confirmed that it recently became aware of a "data security issue" which saw cards used in some North American stores compromised.

According to cybersecurity outfit Gemini Advisory, hacking group JokerStash posted online last week that it was releasing the details of over five million credit and debit cards.

Gemini says that it has worked with several banks to confirm with a "high degree of confidence" that the data come from Saks and Lord & Taylor stores. The majority of stolen cards were obtained from New York and New Jersey sites between May 2017 and this March.

JokerStash has a string of successful high-profile breaches behind it, including against Whole Foods, Chipotle and Trump Hotels. (Source date: 3 April 2017)

EC proposes cheaper euro transfers across EU

The European Commission has set out plans to make banks cut fees on cross-border euro payments between EU countries that are in the euro zone and those that are not. Currently, there is no difference for euro area residents or businesses if they carry out euro transactions in their own country or with another of the 19 euro area countries. However, residents of EU countries outside of the euro area do not have the same privileges.

The EC says this is an obstacle to its vision of a single market, creating barriers to the cross-border activities of households and businesses, in particular SMEs.

However, the rules would not apply to cross-border transactions between EU countries outside of the euro area, neither would it apply to countries outside of the EU, meaning migrant remittances will not see fees come down.

The move could hit profits for EU banks outside the euro area but the EC says that "these payments already benefit from an efficient infrastructure and are processed without manual intervention".

The proposal will also require that consumers are fully informed of the cost of a currency conversion before they make a payment, for example, with their card abroad.

The legislative proposal will now be submitted to the European Parliament and Council for adoption. (Source date: 28 March 2018)

Payconiq to merge with Bancontact in Belgium

Payconiq, the mobile payments app supported by multiple Belgian and Dutch banks, is to merge with Bancontact, the Belgian market leader in electronic payments. In 2017, Payconiq and Bancontact together processed some 15 million mobile payments - quadruple the number in 2016.

Created from a merger of ING's Payconiq with loyalty platforms Qustomer and KBC's CityLife, the all-in-one Payconiq app has drawn the added support of Belfius, AXA Bank and BNP Paribas Fortis in Belgium and four further Dutch banks - ASN Bank, Rabobank, Regiobank and SNS.

The merger with Bancontact, which follows a recent takeover of Digicash in Luxembourg, is part of a bold move by Payconiq 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 merger is expected to be completed in the second quarter of 2018. (Source date: 27 March 2018)

UK fintech sector eager to embrace Open Banking

According to a survey from EY, UK fintech firms are working hard to make the most of the Open Banking era, with the vast majority actively getting ready to take advantage of the customer data that is being

opened up to them.

EY questioned 31 UK fintechs that have raised about £500 million between them for the survey, finding that 94% of the 31 UK fintechs questioned by EY see Open Banking as a major area of opportunity.

Apparently 81% are getting ready and 29% say that they are already fully prepared, with almost a third of survey participants claiming to have teams of 10-plus working on Open Banking projects.

Meanwhile, 59% of participants see Open Banking as an opportunity to review their collaboration strategies - something that could see them looking outside the financial services sector, with three-quarters believing that new competitors such as tech firms will become increasingly important over time. (Source date: 22 March 2018)

Mobile Money

Uber applies for e-money license

Uber has applied to the Dutch central bank for an e-money license as it looks to broaden its range of consumer-facing services.

An Uber spokesperson confirmed the intention in a statement issued to Sky News, explaining that the company is constantly expanding the range of products it offers and improving the experience for those who use its apps. It sees that the way payments are handled to be an important part of that.

According to Sky sources, the application is being handled by a new subsidiary called Uber Payments BV.

Uber may be hoping to emulate the success of South East Asian rival Grab, which has its own P2P payments app and recently moved deeper into financial services with the launch of a dedicated unit and the introduction of micro-loans and insurance products. (Source date: 28 March 2018)

Barclays partners seven watch brands for contactless timepieces

Barclays has teamed up with seven watch makers to bring its bPay wearable contactless payments technology to the masses. Guess Watches, Mondaine, Timex, Kronaby, Suunto, Adexe and LBS have all agreed to embed the bPay chip into a host of devices, from traditional timepieces to fitness trackers.

Building on last year's Fairfield Contactless watch, Timex will roll out eight bPay-enabled pieces in May, while Guess is working on a six watch strong range. LBS will introduce a contactless strap that can be fitted to any watch.

Barclays says that wearable payments are surging in popularity, with spending via bPay jumping 129% year-on-year in 2017. (Source date: 19 March 2018)