

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.

Savantor Limited
68 Lombard St
London EC3V 9LJ
Tel: +44 20 7868 1734
email: info@savantor.com
www.savantor.com

Items in this issue:

Savantor's View	1	Market News	3
Cash versus cashless: or is it?	1	Worldline to acquire SIX Payment Services	3
Products and Initiatives	2	AIB accused of spying on customers	3
Apple to partner with Goldman Sachs on credit card	2	Australian Government resists delaying tactics on Open Banking	4
Microsoft to embed payments option in Outlook e-mail ...	2	CYBG to shake up challenger bank market with \$1.6 billion offer for Virgin Money	4
Deutsche Bank works with airlines on new payments model	2	RBS to close 162 branches with loss of 792 jobs	4
MasterCard allows cardholders to register biometric cards from home	2	Open Banking completes managed roll out phase	4
PayPal and Barclays work together on digital payments .	2	Mobile Money	5
Major card schemes support single 'buy' button for online commerce.....	3	French banks to introduce P2P mobile payments	5
Revolut launches spare change savings tool	3	HSBC launches Connected Money app	5
		Samsung Pay introduces cash back feature	5

Savantor's View

Cash versus cashless: or is it?

In the continuing debate about the potential longevity of cash as a payment instrument, a new report has been released this month about the popularity of physical cash. According to the 'World Cash Report' published by G4S, cash is still by far the most widely used form of payment in all regions of the world and cash in circulation is growing.

The findings of the report show that demand for cash continues to rise globally, despite the increase in electronic payment options in recent years. Cash in circulation relative to GDP has increased to 9.6 per cent across all continents, up from 8.1 per cent in 2011.

The report also highlights the variety of payment habits in different regions. In Europe cash is apparently used for 79% of point-of-sale transactions, whereas in North America, where use of payment cards is more popular, cash use still accounts for 31% of point-of-sale transactions. In Asia, more than 75% of online purchases are paid for by cash on delivery in a number of countries. In emerging markets, G4S reports that cash usage continues to increase.

Whilst these findings may seem surprising, to some extent they echo the findings of a report by the Bank of England less than a year ago which showed that the value of banknotes in circulation has tripled over the last 20 years. Whilst acknowledging that the number of cashless payments in the UK has overtaken the use of notes and coins, it concluded that overall demand for cash is likely to remain resilient and that cash is not likely to die out any time soon.

On the other hand, the popularity of contactless payments in the UK for transit has again been highlighted by new figures released from Transport for London which show that half of all underground and rail journeys are now undertaken using tap and pay bank cards and mobile devices. Contactless is now being used to make around 17 million journeys a week across London.

Whilst many feel that the future of payments is in cashless transactions – particularly mobile, online and contactless - nevertheless it does not necessarily mean there is not a requirement for a diversity of options, including cash, to be available – and this diversity may well vary across different areas of the world according to cultural habits, the availability of technology and local payment infrastructures. One size does not necessarily have to fit all.

The Open Consultation on cash and digital payments announced by the UK Treasury in the Spring Statement closes at the beginning of June. The results and conclusions of the consultation and any resulting proposals will be very interesting to discover as well as assessing the potential impact on the use and role of cash in the UK.

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Products and Initiatives

Apple to partner with Goldman Sachs on credit card

According to the Wall Street Journal, Apple is teaming up with Goldman Sachs to launch an Apple Pay-branded credit card next year.

Apparently, Goldman replaces Barclays as Apple's credit card partner in a relationship which could also see the bank offer in-store loans to people buying Apple products.

The move sees Apple increase its efforts to be a success in payments, an area in which it has worked hard, with mixed success, to gain a foothold in the last few years. Recent research from LoupVentures found that while the number of active Apple Pay users and transaction numbers have risen sharply in the last year, only 16% of global iPhone users have turned on the service.

For Goldman, the tie-up would represent a first foray into consumer credit cards. (Source date: 10 May 2018)

Microsoft to embed payments option in Outlook e-mail

Microsoft is to embed a payments panel into Outlook to enable users to pay bills and invoices directly from their inbox. The company is at pains to point out that the service is intended to streamline the payments experience within Outlook and that the company is not acting as a bill pay agent.

Instead Payments in Outlook will be supported by a number of payments processors, including Stripe and Braintree, billing services from Zuora, and invoicing from the likes of FreshBooks, Intuit, Invoice2Go, Sage, Wave, and Xero. The company is also working to incorporate Fiserv's Innovation Network within the ecosystem.

Payments in Outlook will roll out in phases, initially to a limited number of Outlook.com customers over the next few weeks and will be available more broadly in the coming months. (Source date: 8 May 2018)

Deutsche Bank works with airlines on new payments model

Deutsche Bank is teaming up with the International Air Transport Association (IATA) to pilot a payments model that takes money directly from customer bank accounts in preference to using payment cards.

The German lender says that the new model, in line with PSD2, will offer better fraud protection for the airline trade association's members thanks to two-factor authentication.

Meanwhile, the fact that direct payments will be processed and received in near-real time means that airlines will benefit from the acceleration of their funds, generating significant working capital and liquidity benefits.

For travellers, Deutsche Bank claims, this will result in more choice, a smoother and less complex payments process and ultimately more convenience when paying for airline travel. (Source date: 7 May 2018)

MasterCard allows cardholders to register biometric cards from home

MasterCard is hoping to boost the popularity of its biometric cards by letting users register their fingerprints from the comfort of their own homes.

As it seeks to make the password a thing of the past, MasterCard has been pushing the use of biometric cards for the last year but, until now, customers have had to make a trip to their local bank branch to register their details.

The company has now unveiled a battery-powered sleeve to let people self-enrol their card. Their fingerprint is scanned by the sensor on the card and an encrypted digital template is created and securely stored.

MasterCard says that simplifying the registration process will help speed adoption of biometrics by consumers but also issuers because it eliminates the need for additional infrastructure in branches. (Source date: 7 May 2018)

PayPal and Barclays work together on digital payments

PayPal is working with Barclays to reduce digital payments friction for UK and US customers. The partnership will see consumers get a raft of new features that will make it easier to manage their PayPal

account in Barclays digital channels, and to use the bank's products in their PayPal digital wallet.

Meanwhile, PayPal's small business customers in the UK will now be able to choose to see a snapshot of their PayPal balance, recent transactions and sales on the Barclays SmartBusiness Dashboard.

PayPal has been busy building ties with the big banks in the last year, entering a range of agreements across a full spectrum of payment channels with the likes of Bank of America, Citi, JPMorgan Chase and HSBC. (Source date: 26 April 2018)

Major card schemes support single 'buy' button for online commerce

Major card schemes are rallying around the new EMVCo Secure Remote Commerce (SRC) framework in a bid to create a ubiquitous online shopping technology standard backed by token-only storage of payment details.

Both Visa and MasterCard have set out their plans to support the standard at an industry event in Las Vegas. The idea is to replace the myriad multiple steps that consumers must take to purchase online with a consistent one-button checkout experience for any card, no passwords needed.

For Visa, the standard is expressed through the formation of a new Digital Commerce Programme, incorporating the Visa Checkout base of 33 million customers, 350,000 merchants and 1600 financial institutions. The ambition is to adopt a phased approach to implementing the new standard beginning in late 2018.

Likewise MasterCard is encouraging merchants, acquirers, issuers and other technology players to support the initiative. The card scheme believes there is an opportunity for SRC payments standards to work alongside the W3C browser standards to bring more security and consistency to consumers at the merchant checkout. (Source date: 26 April 2018)

Revolut launches spare change savings tool

Digital banking startup Revolut has launched a tool, called Vaults, that lets users round up and save the spare change from their everyday purchases. Revolut, which is used for over 15 million transactions every month, says that users can save in any of the 25 currencies it supports, as well as Bitcoin, Litecoin and Ether.

One-off or regular payments can also be added to a Vault at any time and if users feel like saving more or less at any point, the settings can be easily adjusted in the Revolut app. Money in the Vault can be withdrawn instantly at any point. (Source date: 17 April 2018)

Market News

Worldline to acquire SIX Payment Services

Worldline is to acquire the payments service business of Switzerland's SIX Group in a deal which values the cards unit at \$2.75 billion. Under the terms of the transaction, SIX Payment Services will receive a 27% stake in Worldline, while Atos will retain its majority 51% share in the business.

The transaction is the latest in a series of deals across a rapidly consolidating payments market in Europe, in which large players with a broad product and geographic offering are gaining a competitive edge. SIX says the combined company will be the largest European provider in the payments industry.

The current management and over 1300 employees of SIX Payment Services in Switzerland, Luxembourg, Austria, Germany, Poland, as well as other locations in Europe, will become part of Worldline's organisation when the deal closes in Q4, 2018. (Source date: 15 May 2018)

AIB accused of spying on customers

Allied Irish Bank (AIB), which is 71% owned by the Irish state and is also the country's biggest lender, has been accused of spying on its customers after it emerged that it monitors mortgage holders' social media accounts. According to a report in the Irish Independent newspaper, mortgage applicants now have to sign a consent form allowing the bank to check their social media accounts.

Whilst the bank says that this "helps us to understand your behaviour", mortgage brokers that spoke to the Independent have accused AIB of playing "Big Brother with their social media information".

Although AIB is not the only bank to monitor social media, not all lenders have a similar consent clause in their credit applications. Meanwhile data privacy experts have asked whether consumers have the right to opt out of any analysis of their online data.

The bank has defended its social media monitoring, stating that it complies with all data protection requirements and only monitors "personal information provided on AIB Group social channels to respond and deal with customer queries". It also stated that it never analyses individual customers' social media accounts or uses that information to analyse individual's behaviour. (Source date: 14 May 2018)

Australian Government resists delaying tactics on Open Banking

The Australian Government has pushed back against attempts by the country's top banks to stall the introduction of Open Banking reforms, setting a one-year timetable for the move to data sharing with third party providers.

The Australian Banking Association, alongside Westpac and Commonwealth Bank, had urged the Government to delay plans for Open Banking and limit its scope to exclude lending products, citing high costs and security issues.

The Government rejected this and instead pushed ahead with its initial proposals to allow bank customers to pass on their transaction, deposit and debit and credit card data to other accredited financial services providers by July 2019. It has, however, decided to delay mortgage data access to February 2020, and information on personal loans until July 2020.

The announcement was welcomed by the country's fintech startups, who had been campaigning to keep the reform programme on track and for a formal role for the Australian Competition and Consumer Commission "to stop knee-jerk anti-competitive measures by banks". (Source date: 10 May 2018)

CYBG to shake up challenger bank market with \$1.6 billion offer for Virgin Money

Clydesdale Bank and Yorkshire Bank has made a £1.6 billion takeover offer for Virgin Money in a move which may herald a shake-up of the UK's challenger bank market. Virgin Money is currently considering the offer, which would create a brand with six million personal and business customers capable of taking on the UK's biggest lenders.

Virgin Money spent £38.3 million last year building the technology backbone for a new digital challenger bank, while CYBG launched its own online and mobile-only bank B, back in 2016.

A financial commentator on the BBC's Today programme said that it was possible that the proposed takeover could trigger a wave of deals among other challenger banks. (Source date: 8 May 2018)

RBS to close 162 branches with loss of 792 jobs

Royal Bank of Scotland is to close 162 branches with the loss of 792 jobs after pulling back from plans to launch a standalone 'challenger bank' using the Williams & Glyn brand. The bank had previously announced plans to divest Royal Bank of Scotland in England & Wales and NatWest retail banking business in Scotland with the intention that it would become a completely separate bank.

The bank says in a statement that the divestment is now not going ahead and so the Williams & Glyn business, including its branch network, are being reintegrated back into the core bank.

RBS had originally tried to carve out the Williams & Glyn business and develop a new banking platform for the operation but scrapped the plans in 2016 after admitting that the IT challenges had been overwhelming.

RBS has stated that vast majority of branches to be closed are in close proximity to either another Royal Bank of Scotland in England & Wales branch or a NatWest branch. A bank spokesman adds: "The way customers bank with us has changed radically over the last few years. Since 2014, branch transactions across Royal Bank of Scotland in England & Wales are down 30%. During this same period, there has been a 53% increase in the number of customers using mobile banking and mobile transactions have increased by 74%."

This follows on from the news last month that Lloyds Bank is to lay off 305 staff and close 49 bank branches as part of a three year programme programme aimed at cutting costs. (Source date: 1 May 2018)

Open Banking completes managed roll out phase

The UK's Open Banking initiative has completed its three-month managed roll out programme, leaving regulated firms free to start offering related services. Since mid-January, the Open Banking Implementation Entity has carried out a managed roll out designed to prove that the systems designed

to give customers control over their financial data are ready.

Now, the OBIE says that the operation has proven the account data access functionality of the Open Banking system, meaning that FCA authorised and registered third parties are now able to offer products based on it to customers.

However, payments functionality has not been tested to the "same degree" and so any new payments-focused services will have to go through extensive proving.

With the roll out complete, consumers and businesses can now start sharing their financial data with third parties. To help these new developers make the most of the system, the OBIE has set up a service called Launch Support, offering end-to-end guidance on things such as getting regulatory clearance to actually connecting to accounts. (Source date: 17 April 2018)

Mobile Money

French banks to introduce P2P mobile payments

Paylib, the mobile wallet developed by a consortium of French banks, is set to introduce person-to-person payments utilising customer phone numbers. BNP Paribas is the first bank to roll out the P2P option, enabling users to send cash to friends by simply keying in a phone number.

Other members of the Paylib consortium, which includes Societe Generale, La Banque Postal, and Credit Agricole, will progressively introduce the service over the summer months.

Initially conceived for making payments on the Internet, Paylib has gradually evolved to become a contactless payment option on the high street. The app currently has 1.2 million users. Credit Mutuel-CIC is currently in talks to join the group, a move which will extend the network to 90% of the French consumer market.

Operating with a daily limit of EUR500 per transaction, payments are transferred to recipient accounts within one-to-two days. Instant payments will come onstream when France switches over to a real-time payment network at the end of the year. (Source date: 15 May 2018)

HSBC launches Connected Money app

HSBC has taken another step into the open banking era through the launch of its Connected Money app, enabling customers to see account information from all their providers in one place. The service is now live for all customers, who can see their UK current accounts, savings accounts, mortgages, loans and cards held across 21 banks, including Santander, Lloyds and Barclays, in one app.

Connected Money also has a spending analysis feature, shows customers how much money they will have after bills, and in-app messaging for insight into finances. In the pipeline are a feature that rounds up debit card purchases and puts the extra money in a savings account, and a savings 'nudge' tool.

Earlier this year, HSBC's first direct business began taking the open banking concept a step further, trialling an app that not only allows users to bring accounts from different banks together in one place but also see products and services from other providers. (Source date: 9 May 2018)

Samsung Pay introduces cash back feature

Samsung is adding a cash back feature to its mobile payments service, enabling American users to get money back on purchases made at partner retailers.

In a new Cash Back section of the Samsung Pay app's home screen, users will find a range of exclusive offers from retailers. When they click on the offer they want and complete a purchase through the participating merchant, the user will receive a percentage back which they can then spend toward a purchase anywhere they use Samsung Pay.

Meanwhile, the firm is planning to start letting users buy Samsung Rewards points, in the same way that airlines offer the chance to purchase extra miles. (Source date: 7 May 2018)