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

Bank branches, challenger banks and the future

In a month when statistics have been released showing that UK banks are closing 60 branches a month as more consumers move online, the place of the bank branch in today's technological world is becoming more and more precarious. The recently announced proposed merger of CYBG and Virgin Money will also add to this number, with the loss of a number of branches anticipated as a result.

Nevertheless, it is a digital world today and banks will take steps to focus on those areas where they can be most profitable and gain best competitive advantage. The high street banks in particular are struggling to survive against the newer challenger banks who are less shackled by unwieldy infrastructures and outdated business models.

In a recent survey undertaken by Vendor FIS, it is the challenger banks – which tend to focus on digital services as opposed to high street offerings, who score highest in terms of overall customer satisfaction. The results of the survey showed that 76% of first direct bank customers are 'very satisfied' with their banking relationships, compared to 69% of those who bank with one of the 'traditional' banks.

With the continuing trend towards online banking, the use of mobile is becoming increasingly popular, particularly amongst millennials; the FIS survey shows that 76% of digital bank interactions by people in this age group were conducted via mobile, while only 21% prefer desktops and laptops.

Some banks have taken active steps towards encouraging customers to move online; ABN Amro reports that 90% of their customers over the age of 65 use internet banking, although only a quarter of customers access their accounts via mobile phones. As a result, the bank has introduced financial coaches to offer extra support and assistance to older clients migrating to digital, for whom a switch to online banking, particularly mobile, is too big a change to get to grips with.

Banking consumers are demanding ever-more consistent and convenient banking experiences, and it could be said that it is the mobile interface - not physical locations or even personnel - that is now the 'face' of a bank.

This gives the challenger banks a clear advantage in today's technological environment. The more traditional, longer established banks need to find ways of competing successfully with them to be able to survive longer term. Moreover, the other potential players in this sphere should not be forgotten – the likes of Amazon, Apple and Google, all of whom are making forays of their own into the payments arena and who also have a huge amount of data about their customers and their spending habits. In this context it seems unlikely that the old 'bank branch model' of banking will survive.

Products and Initiatives

OCBC Bank and StarHub to create multi-industry loyalty platform

OCBC Bank and telco StarHub are developing a cross-industry platform that will enable consumers to exchange, consolidate and redeem loyalty rewards – such as discount points and air miles – earned from a coalition of partners across industries.

The Coalition Loyalty Programme aims to bring on board key players from ten industries - financial services, telecommunications, travel, insurance, retail, hospitality, food and beverage, grocery, petrol and transport - in an effort to substantially reduce the inherent wastage in low value rewards. The average redemption rate of a typical standalone loyalty programme is 50-70% based on OCBC Bank's estimates.

With the creation of an online tracking dashboard, consumers will be able to consolidate and monitor the expiry dates of the loyalty points and be aware of the available points any time and the rewards to redeem.

The programme currently boasts a total of seven partners across seven industries, with other companies set to come onboard. (Source date: 7 June 2018)

MasterCard Send to launch in UK

MasterCard has enlisted Starling Bank as the settlement agent for the forthcoming debut of its P2P and B2C disbursement service Send in the UK. MasterCard Send enables businesses and consumers to send and receive real-time payments to and from UK bank accounts. The launch in the UK comes three years after the service was first rolled out to US markets and follows Mastercard's purchase of Vocalink in 2017.

With payroll payments provider Income Group lined up as the first user of the service, MasterCard has selected Starling Bank to manage the funds that are to be disbursed before they are pushed to individual accounts via Faster Payments.

The divisional president of MasterCard in the UK says the arrival of Send will deliver on the promise of real-time payments for P2P and B2C payments. (Source date: 6 June 2018)

MasterCard seeks to break down barriers in Open Banking

MasterCard has unveiled a suite of services to help banks and fintechs navigate the Open Banking terrain. The programme seeks to address the liability worries of banks sharing their data with third parties and to help startups to communicate better with their banking partners.

For banks, MasterCard is building a pan-European directory of verified and legimate third party providers, backed by a fraud monitoring service and dispute resolution mechanism. Startups in turn will be provided with a 'connectivity hub' that will help third parties establish and maintain communication with banks.

The new suite of services will be launched first during a pilot phase in early 2019, with the UK and Poland being a particular priority, before being rolled out across Europe later that year. (Source date: 6 June 2018)

Ant Financial signs third Chinese bank technology deal

Ant Financial, the financial services spin-off of e-commerce giant Alibaba, has signed its third deal this month as a strategic technology supplier to the Chinese banking industry. The agreement with Shanghai Pudong Development Bank is the third of its kind announced this month between Ant Financial and established banks, following partnerships with Huaxia Bank and China Everbright Bank.

As in the previous agreements, Ant Financial and SPD Bank will partner in online risk management, including fraud prevention, with the former providing technological support to help the latter prevent loan, transaction and marketing fraud. The partnership will also leverage Ant's financial-grade technologies in AI, supply chain finance, biometric identification and risk management.

In addition to the bank partnerships signed this month, Ant Financial's consumer finance service Huabei also announced that it would support other financial institutions in the provision of consumer financing, while Alipay added two new third-party money market funds to the Yu'e Bao spare cash management platform.

In a separate development, Ant Financial has completed a $10 billion funding round from a clutch of global and local investors, valuing the company at $150 billion. The capital-raising comes ahead of a widely expected initial public offering (IPO) for Ant Financial, which currently services 870 million users worldwide. (Source date: 30 May 2018)

PayPal and Google extend relationship

PayPal and Google are extending their relationship across all Google products and services, including Gmail, YouTube, Google Pay and Google Store. The deeper integration between the two companies will enable users to adopt PayPal as an embedded payments option across all Google services, including P2P transfers.

It follows an earlier partnership between PayPal and Android Pay and builds on the wider ties that PayPal has been building with leading payment networks, financial institutions and technology companies.

The programme will initially be rolled out to PayPal and Google subscribers in the US. (Source date: 25 May 2018)

OCBC Bank introduce biometric POS to merchants

Singapore's OCBC Bank is to offer merchants a fingerprint-based point of sale device capable of handling multiple payment form factors and loyalty schemes. Developed by local technology company Touché, the platform is able to accept traditional card transactions as well as fingerprint-based payments and apply points and discounts to loyalty programme member accounts. Receipts are emailed - easing the reconciliation process and eliminating paper entirely.

A bespoke data analytics component also enables merchants to create personalised offers for customers based on their own preferences and buying patterns.

The company says the one-time registration process takes under two minutes wherein people can add their existing credit cards, loyalty/membership cards and link them to their fingerprints. Once registered, payments are completed in under four seconds at one touch, without the need for signature, PIN, card or mobile phone. (Source date: 25 May 2018)

Market News

UK banks closing 60 branches a month

According to research from consumer group Which?, UK banks are closing 60 branches a month as more consumers move online. Apparently 2,868 branches have closed in the UK since 2015, or are scheduled to close by the end of 2018.

The research also shows that the rate of closure has been accelerating since 2016. So far this year 670 branches have been shuttered or been scheduled for closure – making it likely that 2018 will overtake the number of 2017 closures (879).

Although online banking and mobile apps are on the rise there are still many people who either cannot engage with these services or simply prefer traditional forms of banking, says Which?, pointing to the recent IT meltdowns at TSB and Visa as a sign that such systems are not infallible.

A Which? money expert, says the closure of so many branches, combined with a withering of the ATM network, could leave the 2.7 million UK consumers almost entirely reliant on cash struggling to conveniently access their preferred payment method. (Source date: 15 June 2018)

BofE pushes for minimum service level from banks hit by IT failures

In the wake of the recent TSB outage, the Bank of England is planning to set a "minimum level of service" provision for banks hit by tech meltdowns or cyberattacks. Citing the TSB outage and the 2012 RBS fiasco, the deputy chief executive of the BOE's Prudential Regulation Authority told a conference that a growing reliance on technology means that there has been an "increase in the number of operational incidents - be they caused by internal failures or from external attack".

To tackle this risk, the central bank's Financial Policy Committee has been considering its tolerance for disruption to the key economic functions that the finance sector performs. As part of this work "it is likely that the FPC will set a minimum level of service provision it expects for the delivery of key economic functions in the event of a severe but plausible operational disruption".

The bank is working with the FCA on a discussion paper as it builds a common framework for regulators looking to ensure firms' resilience in the face of tech-based problems.

It also highlighted a growing concern for regulators around the world: the increasing reliance of financial services firms on a small number of third party tech providers, particular when it comes to the cloud. (Source date: 13 June 2018)

Dixons Carphone breach compromises 5.9m customers

UK consumer electronics retail group Dixons Carphone has suffered a massive data breach, compromising 5.9 million customer cards and 1.2 million personal data records. The firm says that it has discovered an attempt to compromise the cards in one of the processing systems of Currys, PC World and Dixons Travel stores.

However, Dixons Carphone is playing down the threat to customers, stressing that there is no evidence of any fraud on the millions of cards.

The vast majority of cards - 5.8 million - have chip and PIN protection and the data accessed does not contain PINs, CVVs or authentication data. However, around 105,000 non-EU issued cards which do not have chip and PIN have also been affected.

Separately, the company has found that 1.2 million records containing non-financial personal data, such as names and addresses, has also been accessed. (Source date: 13 June 2018)

Nets and Concardis to merge

Nordic payments processor Nets and German-based merchant service provider Concardis are to merge in the latest in a series of transactions in a rapidly consolidating market. The transaction is a merger structured as a share exchange which will see Concardis' private equity shareholders contribute their shares in return for Nets shares.

Both Nets and Concardis were only recently taken over by private equity groups. Nets shareholders struck a $5.3 billion deal with Hellman & Friedman in September last year, while Concardis was valued at EUR700 million in a January transaction with Bain and Advent.

The merger creates a business with approximately €500 million of Ebitda and €1.3 billion of net revenue. The deal follows closely behind last month's takeover of SIX Payment Services by Worldline. (Source date: 6 June 2018)

Citi corporate bank joins UK Open Banking framework

Citibank is to join the UK's Open Banking framework to provide an aggregated payments collections service for its business clients, tapping the APIs of the country's largest nine banks. It has become the first corporate bank to enrol with the UK Open Banking Directory as a Payment Initiation Service Provider (PISP), with a view to meeting the evolving needs for easy access to payment data without the need to build applications or interfaces to connect to proprietary banking portals.

Open Banking in the UK, which went live in January 2018, requires the nine largest UK banks to publish open APIs, enabling regulated third party providers to access bank accounts securely and with account holder consent.

While much of the focus on Open Banking has centred around data sharing with fintech startups, Citi is taking advantage of the framework to streamline the business of collecting and making payments on behalf of its business customers. (Source date: 4 June 2018)

Visa outage hits payments across Europe

At the beginning of the month, card network Visa suffered a "service disruption" in Europe, leaving shoppers unable to use their cards at the point-of-sale.

Visa says the breakdown in service was the result of a hardware failure within one of our European systems and is not associated with any unauthorized access or cyberattack.

The disruption apparently affected all payment providers across the UK and Ireland and prevented some Visa transactions in Europe from being processed. ATM and Mastercard transactions were not affected. Tesco reported that contactless payments had been hit but not chip and PIN transactions.
(Source date: 1 June 2018)

Digital transformations creating new systemic risks

Digital banking transformation programmes are creating a new wave of operational and systemic risks for which the industry is ill-prepared, warns UK Finance. Sustainable Financial Services in the Digital Age, a joint report from UK Finance and Parker Fitzgerald, highlights the need for firms to consider their exposure to risk and operational resilience in today's digital age.

As the industry races to capitalise on advances in open banking, artificial intelligence, cloud computing and distributed ledger technology (DLT), a failure to address emerging risks, as well as internal risk management processes, could lead to operational, as well as systemic, threats across the sector, warns the study.

The report calls on the industry to collaborate with technology suppliers as well as domestic and cross-border regulators to create a risk framework that embraces the benefits of digital transformation.

It warns that the legacy spaghetti that forms the core to many banks' IT system is not fit for this new future. It finds that while 71% of banks are focusing their digital investment on cyber security, only 17% are thinking about the risks from third-party relationships as a result of open banking. (Source date: 21 May 2018)

PayPal agrees $2.2 billion deal for iZettle

PayPal has reached an agreement to acquire Stockholm-based iZettle in an all-cash deal valued at $2.2 billion, its biggest ever transaction in a dynamic and fluctuating payments environment. The timing of the agreement comes just weeks after iZettle announced plans to float on Nasdaq Stockholm in a bid to raise $227 million at a valuation of $1.1 billion.

The combination brings together iZettle's in-store experience, digital marketing strength and mobile point-of-sale technology with PayPal's global scale, brand reputation and online and mobile payments expertise.

For PayPal, the deal delivers a ready-made competitor to Square with a franchise across 12 markets in Europe and Latin America and a small merchant base of a half-a-million clients.

The deal is expected to close in the third quarter. (Source date: 18 May 2018)

Mobile Money

BBVA to convert half customer base to mobile banking

Spanish bank BBVA has set a goal of converting 50% of its customers to mobile banking by 2019. The ambitious target comes as the bank records record growth in online sales, topping 37.5% for the first time.

As of the first quarter of 2018, BBVA had 24 million digital customers, of whom 19.3 million operate using mobile devices. Over the course of 2018, the bank anticipates that digital channel users will represent 50% of its global customer base. By 2019, the objective is to move 50% of its customers to app-based services.

BBVA's mobile app was recently ranked as the best in Europe by analyst group Forrester, citing a wide range of new generation functionality and tools for personal finance management and an excellent user experience. The bank's plan to ramp up customer numbers follows the recent roll-out of a global development platform. (Source date: 15 June 2018)

Alior to launch pan-European digital bank

Poland's Alior Bank is going pan-European, teaming with Berlin-based solarisBank, Raisin, and Mastercard to launch a new digital bank.

Expected to go live in the fourth quarter, the new enterprise will see Alior deliver multicurrency accounts with international transfers and deposits to all EU citizens, although the initial focus will be on Germany.

German banking-as-a-service platform solarisBank will provide the banking infrastructure with its technological, compliance and regulatory framework, while Raisin will use its network of partner banks to add a host of savings and investment options. Mastercard's Benefit Optimization programme will be used to offer additional value-added services. (Source date: 14 June 2018)

NatWest uses Open Banking for cardless online payments

NatWest has teamed up with the Carphone Warehouse to trial an online shopping system that lets customers pay directly through their bank account in place of using debit or credit cards. Apparently shoppers on the Carphone Warehouse site are presented with a NatWest button that they can press to be taken to the bank's app, where they log in and complete the payment.

NatWest says that the pilot has proven a big hit with customers, cutting purchase times and ensuring that bank balances are immediately accurate. Meanwhile, retailers like Carphone Warehouse benefit from lower processing fees and bank-grade security.

The bank plans to carry out more trials with other businesses in the coming months and, because the system harnesses the UK's new Open Banking regime, could eventually offer it to customers of other banks. (Source date: 12 June 2018)

Revolut launches in Russia

Digital banking startup Revolut is entering the Russian market after signing a deal giving it access to the payment infrastructure of local player Qiwi Bank.

Revolut will use Qiwi open APIs to gain access to banking licenses and technologies for customer identification, payment processing, and card issuance. This will enable the London-based company to begin offering products and services to Russian consumers. The firm will begin with an app and free multi-currency Visa card for payments, ATM withdrawals and FX transfers in 130 currencies.

Launched just three years ago, Revolut is now used by nearly two million people and 30,000 companies in the UK and the EU. Starting life as a money-transfer platform, it has moved further into traditional banking territory through a series of smart incremental add-ons to its product portfolio. In the last few months alone, the company has added features that allow customers to instantly buy and sell cryptocurrencies as well as a savings app for rounding up spare change from daily transactions.

The firm is also working on a commission-free trading platform that will allow customers to instantly explore and invest in UK and US listed companies as well as other instruments such as ETFs and options. (Source date: 7 June 2018)