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## Savantor's View

### Open Banking – how will it evolve?

Seven months after the introduction of Open Banking in the UK, the majority of UK consumers still have little to no knowledge either of it or its potential uses. A survey undertaken by YouGov has revealed that almost three quarters (72%) of adults in the UK have not heard of Open Banking, with less than one in three (28%) able to say they are aware of it.

Interestingly, people in the older age groups are more likely to know of it, whereas normally it is the younger, more tech savvy age groups who are interested in new and innovative products and services. Almost four in ten (39%) of those aged 55+ have heard of open banking, compared to just 14% of those in the 18-24 age bracket.

Despite YouGov providing survey respondents with a clear description of open banking, a massive 45% apparently do not understand the ways they could use open banking, against 18% that do. However, it could be argued that this is because as yet, there has been very little launched in the way of new products or services which have captured the public's interest.

It is not surprising therefore that generally, consumers in the UK are fairly vague about whether Open Banking is a positive change that will benefit them or not, with only 14% believing that it will and 22% believing the opposite, meaning that the majority (63%) aren't sure either way.

Additionally, there is huge wariness about the security of sharing data, with over three quarters (77%) of survey respondents agreeing that sharing financial data with companies other than their main bank is a concern to them and only 6% feeling comfortable with the process. However, is this really such a surprise, with stories of compromised data from a number of big well-known companies, such as Ticketmaster, Equifax, Uber and Dixons Carphone, coming to light on a regular basis? Earlier this year there was the furore over Cambridge Analytica and the misuse of data obtained from FaceBook. Incidents such as these will only serve to enforce in the public's minds the risks and dangers associated with personal data.

With the potential benefits and advantages to consumers of Open Banking, it is difficult to believe that it will not at some point gain momentum and popularity amongst the general public. What would assist is a compelling product or service (or one that is marketed in a compelling way) such that it is perceived to offer significant benefits over what is currently available. Whilst there is still the (perceived) hurdle of data security to overcome, a compelling product proposition could well help resolve such concerns.

YouGov describes current market growth as a "slow and silent evolution". It will be interesting to see how this evolution develops over the next few months and whether it can flame the fires of public

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interest to enable Open Banking to be seen as a worthwhile innovation.

## Products and Initiatives

### *Norwegian banks co-operate with account aggregation*

Norwegian banks Sbanken, Sparebanken Vest, and Sparebanken Sogn og Fjordane are attempting to get ahead of the PSD2 innovation curve, enabling mutual customers to view their accounts across the banks from within their own online banking platform.

The initiative, which is set to be rolled out well ahead of the mandated introduction of the revised Payment Services Directive in autumn next year, is intended to give the banks a head start in the account aggregation space ahead of the entry of third party fintech firms and Big Tech players.

"If Norwegian banking customers are already used to seeing their customer relationships across banks, the entry barrier for foreign players will be significantly higher," say the banks in a joint statement. (Source date: 10 August 2018)

### *Consultation on Global Financial Innovation Network*

The UK's Financial Conduct Authority has collaborated with 11 regulatory bodies from Europe, the Far East and the US on the creation of a Global Financial Innovation Network (GFIN), building on proposals earlier this year to create a cross-jurisdictional fintech sandbox.

Having launched the world's first domestic regulatory sandbox in 2016, the FCA in February floated the possibility of a global version, enabling fintech firms to carry out tests in different countries at the same time and helping watchdogs to identify and solve common cross-border problems.

An earlier call for feedback on the idea resulted in 50 responses, mostly favourable, with an emphasis on encouraging cross-border collaboration on a wave of emerging technologies and business models, including artificial intelligence, distributed ledger technology, data protection, regulation of securities and Initial Coin Offerings (ICOs), know your customer (KYC) and anti-money laundering (AML).

Participants in the programme are launching a consultation on the role the GFIN should play in delivering its objectives, including the tools it will use. As part of the consultation, the group is seeking views on the mission statement for the GFIN, its proposed functions, and where it should prioritise activity. Feedback on the consultation questions is requested by 14 October 2018. (Source date: 8 August 2018)

### *ICE, Microsoft and Starbucks form cryptocurrency venture*

Intercontinental Exchange (ICE) is teaming up with Microsoft, Starbucks and Boston Consulting Group (BCG) to launch a platform that lets people and firms buy, sell, store and spend digital assets such as Bitcoin on a seamless global network.

Called Bakkt, the new venture will use Microsoft cloud technology for a digital asset ecosystem covering federally regulated markets and warehousing as well as merchant and consumer applications.

In the first instance, ICE plans a one-day physically delivered Bitcoin futures contract along with physical warehousing. This means that, unlike similar offerings from CME Group and Cboe, contract owners will get Bitcoin, not cash, upon expiration. Launch is slated for November, subject to CFTC approval.

Although Starbucks is not listed as an investor, the company is to "play a pivotal role in developing practical, trusted and regulated applications for consumers to convert their digital assets into US dollars for use at Starbucks." (Source date: 3 August 2018)

### *Moneybox teams up with Santander*

Santander has become the latest bank to open its API to Moneybox, enabling customers to round up and invest the spare change from their everyday purchases.

Moneybox lets users save through a combination of card transaction round ups, weekly deposits, payday boosts and one-offs. Customers can choose from three simple starting options - cautious, balanced and adventurous - which invest in tracker funds run by Vanguard, Henderson and BlackRock.

The firm claims to have been used by over 100,000 people since launching two years ago, with the average customers investing £20 a week. The Santander integration follows similar deals with Monzo and Starling. (Source date: 2 August 2018)

### ***Coinbase offers crypto gift cards for retail spending***

Cryptocurrency exchange Coinbase is giving customers a new way to spend their virtual cash by offering direct withdrawals into popular gift cards at major retailers.

Coinbase has partnered with WeGift to offer the fee-free service which unlocks crypto balances for spending at over 120 retailers, including Amazon, John Lewis, Nike, Tesco, Uber, Google Play, and Ticketmaster.

The service is currently available in the UK, Spain, France, Italy, Netherlands and Australia but the company intends to expand the number of retailers and markets over the next three months. (Source date: 25 July 2018)

### ***Worldpay runs PoC for 'Drone Pay' technology***

Worldpay is investigating the use of drone technology and 'contactless doormats' to combat the growing issue of parcel fraud.

Worldpay's Drone Pay proof-of-concept uses EMV contactless payment card technology to verify the identity of the recipient, ensuring a parcel is delivered to the right person at the right address. The technology is embedded into a drone landing pad, which is issued to the customer in the form of a doormat. When the drone lands to drop off the package, the card details stored within the doormat are read automatically. If the information matches that of the correct recipient, the parcel is released.

According to Citizens Advice, missing items was one of the most common problems with online shopping deliveries last year, with more than one in five (21%) online shoppers reporting the failed arrival of expected parcels.

Worldpay says that its own research suggests that consumers are ready to embrace drone delivery services, with 39% of a UK poll of 2000 citizens in favour of the concept. (Source date: 24 July 2018)

## **Market News**

### ***Square overtakes Venmo with Cash app***

Square's push into the cryptocurrency market is leading to a surge in downloads for the firm's Cash app, surpassing PayPal's popular Venmo mobile money service for the first time.

Cumulative downloads for the Cash App now total 33.5 million, exceeding Venmo's 32.9 million for the first time ever, according to data from Sensor Tower and Nomura. Square's service grew three times faster than its competitor from PayPal in July, just one month after the firm secured a virtual currency license from the New York State Department of Financial Services (NYDFS).

The payments company fully launched the ability to buy and sell bitcoin in its Cash app in January. While revenues from trading in bitcoin hit an impressive \$34 million in the first three months, the cost of buying bitcoin to run the service amounted to £33.9 million.

However, Square is actively working to improve its returns in the cryptocurrency markets, tweeting recently that it has secured approval to operate the service in all 50 US states. (Source date: 15 August 2018)

### ***India's Cosmos Bank falls victim to ATM cash-out fraud***

Indian co-operative Cosmos Bank has fallen victim to a sophisticated malware and ATM cash-out attack that saw 94.24 crore (\$13.4 million) stolen in 14,000 transactions across 29 countries. The attackers infiltrated the bank's ATM switch system, passing and approving transactions from cloned Visa and Rupay debit cards through a proxy switch.

The malware is believed to have originated in Canada. The money was withdrawn from ATM machines from 28 countries by about 12,000 international transactions and about 2,849 domestic transactions. The transactions were carried out using fake debit cards.

A spokesman for the bank confirmed that the deposit of account holders is safe and intact. However, as a precautionary measure, the online system was stopped for two days.

News of the incident came just days after the FBI sent out an alert to banks, warning that cybercrooks were planning an 'unlimited' global ATM cash-out operation (see below). (Source date: 14 August 2018)

### ***FBI warns banks of ATM cash-out threat***

The FBI has sent out an alert to banks, warning that cybercrooks are planning an 'unlimited' global ATM cash-out operation.

The confidential alert, obtained and published by the KrebsSecurity blog, says that the FBI has "unspecified reporting" about plans for the cash-out, which would see criminals hack a card issuer and use the details to create clones and then withdraw money from ATMs around the world.

The alert apparently says that historic compromises have included small-to-medium size financial institutions, likely due to less robust implementation of cyber security controls, budgets, or third-party vendor vulnerabilities.

As it also warns that it "expects the ubiquity of this activity to continue or possibly increase in the near future," the FBI offers banks a host of tips to combat the crooks. These include implementing strong password requirements and two-factor authentication using a physical or digital token; application whitelisting to block malware execution; and introducing dual authentication procedures for account balance or withdrawal increases above a set threshold. (Source date: 13 August 2018)

### ***Visa invests in B2B financing outfit Behalf***

Visa has invested in Israel-based point-of-sale financing provider Behalf, tapping in to a growing trend to provide working capital for small merchants and on-demand purchase financing through the checkout.

Founded in 2012, Behalf operates in the B2B sector, offering financing through its merchant network for business sales. Companies who accept Behalf get paid immediately - at a transaction cost far lower than credit cards. Meanwhile, companies choosing to pay with Behalf instead of cash or credit card get to customise their own payment schedule for each purchase.

Visa has not divulged the value of its investment, it's first in an Israeli startup, but has confirmed a working relationship with the firm, which will entail the distribution of virtual cards to Behalf's small business clients in the US. (Source date: 8 August 2018)

### ***Revolut reduces fraud using disposable virtual cards***

Digital banking startup Revolut is lauding its recent introduction of disposable virtual cards for online purchases, claiming a 30% reduction in card fraud cases.

In March Revolut began letting customers create disposable virtual cards in seconds, with card details that automatically regenerate after every transaction. This means that, even if the credentials of a large online retailer are compromised, customers are protected as their card details are no longer in existence.

The bank is also rolling out machine learning technology to boost its compliance efforts, applying personalised limits to customers based on their transactional activity. This means that individual risk ratings have been assigned to all of Revolut's two million plus customers, who will begin to start to notice the existing limits being removed over the next couple of weeks. (Source date: 26 July 2018)

### ***UK payments regulator to review card acquiring market***

The UK's Payments Systems Regulator is to conduct a market review into the card acquiring market in the wake of retail industry complaints about spiralling fees and ineffective competition.

In the UK in 2017, 13.2 billion payments were made by debit card and an additional 3.1 billion payments by credit card. In the same year, for the first time debit cards became the most frequently used payment method.

The PSR says the review will explore whether the supply of card-acquiring services is competitive and works in the interests of merchants, and ultimately consumers. In particular, it will address concerns that acquirers are holding on to the savings they made from EU-imposed IFR interchange fee caps, which could indicate that some merchants - especially smaller merchants - are suffering "significant harm" because competition in the supply of card-acquiring services is not working well.

The news has been welcomed by retail industry bodies. The draft terms of reference for the market review is open for consultation until 14 September 2018. (Source date: 24 July 2018)

### ***Commerzbank outsources all Sepa transactions to equensWorldline***

The arrival of instant payments in Europe brings with it a complex regulatory and operational burden for the banking sector. Commerzbank is preparing for it by outsourcing all of its payments processing in the

Single Euro Payments Area (Sepa) to equensWorldline.

The ten-year contract will see equensWorldline take over all Sepa instant, multi-currency, and domestic payments - equating to four billion transactions per year - on behalf of the bank, migrating legacy inhouse architecture to the equensWorldline platform.

In a separate contract, signed earlier this year, Commerzbank will also take the unusual step for a Tier 1 bank to outsource its Swift Infrastructure to equensWorldline, based on a new partnership with Intercope and its BOX Messaging Hub. (Source date: 24 July 2018)

## Mobile Money

### *Apple Pay growth likely to fuel smartphone sales*

The ability to conduct mobile payments is forecast to become a key theme in future marketing campaigns for the Apple iPhone, as international growth pushes transactions to new heights, according to research from US venture capital outfit Loup Ventures.

As the only digital wallet capable of supporting mobile, desktop, in-app, P2P, and POS transactions, Apple Pay is believed by Loup to be racing ahead of its competitors in converting users to the mobile payment concept.

The company explains that, whilst today, Apple often markets the iPhone around the camera and its filters, in the future, the digital wallet is anticipated to be a marketable iPhone feature. As adoption of Apple Pay is growing, it believes that 31% of iPhone users have used Apple Pay in the past year, compared to 25% a year ago.

Across the market as a whole, Loup estimates that less than 20% of global smartphone users actually use their wallet as a phone, but that this figure will rise dramatically as contactless payments become ubiquitous and users become more comfortable with the concept. The company forecasts that eventually the number of smartphone users will rise to above 80%. (Source date: 14 August 2018)

### *Bancomat partners with SIA for m-payment services*

Italian debit network Bancomat has teamed up with SIA to bring mobile money services to its millions of cardholders. Under the deal, Bancomat will integrate SIA's Jiffy service, enabling PagoBancomat cardholders to make instore, online and P2P payments from their handsets using just a mobile phone number.

From next autumn, the service will be made available to around five million users registered with Jiffy, at over 2000 outlets, as well as on PagoPA for payments to the Italian public sector.

In the longer term, Bancomat is promising to bring Jiffy to all of its 37 million cardholders, through their banks' apps or via the Bancomat Pay app. (Source date: 31 July 2018)

### *CYBG links B app to PayPal*

Customers of B, the mobile banking app from Clydesdale and Yorkshire Bank (CYBG), will soon be able to link their debit and credit cards to their PayPal account.

Launched as a standalone banking service in 2016, B recently introduced an account aggregation service enabling customers to view accounts they hold with other banks in their B mobile banking app. Moving forward, customers will later this year be able to use the same platform to sync up their plastic cards for paying with PayPal.

News of the agreement comes as Paypal reports another impressive quarter, which saw net income rise to \$526 million from \$411 million a year earlier. Revenue rose to \$3.86 billion from \$3.13 billion. (Source date: 26 July 2018)