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## Savantor's View

### Prevailing Trends

There are a number of trends prevalent across the payments market today which can be seen to be indicative of how the payments landscape has evolved during 2018.

The latest annual payments survey released by the British Retail Consortium shows that for the first time ever, cards now account for over three quarters (76%) of the value of retail purchases in the UK. This increase has been encouraged by the popularity of contactless as a means of payment for small value purchases.

Alongside this cash has continued to decrease in popularity, both as a percentage of the volume of retail transactions (down 0.5%) and value of retail sales (down 1.2%), where it now accounts for only 22% of retail transaction value.

At the same time, the increase in online and mobile shopping is continuing to have an impact on physical bank branches, with an announcement by RBS this month of the forthcoming closure of another 54 branches in England and Wales in January with the loss of 258 jobs. Since 2014, branch transactions across RBS in England and Wales are apparently down 30%, whilst there has been a 53% increase in the number of customers using mobile banking during the same period.

However, the trend of branch closures is not limited to the UK; the latest figures from the European Banking Federation show an ongoing decline in branches across the region. In its annual report the EBF reports that European banks closed almost 6000 branches in 2017, and that by the end of 2017, European banks employed 40,000 staff fewer than in 2016 and the least since the ECB began its data series in 1997.

The fall in use of cash can also be seen to have had an impact on the availability of free-to-use ATM's. Apparently, according to Link, more than 250 free-to-use cash machines are being shut down a month as operators close down unprofitable ones. Whilst there are 53,000 free-to-use machines in the UK, the number is shrinking at a record rate partly as a result of people using less cash and the demand for cash withdrawals falling.

Although Link has set up "specific arrangements" to protect free-to-use ATMs more than 1km away from consumers' next nearest free-to-use ATM, apparently 76 of these protected cash machines closed between January and July. As a result the Payment Systems Regulator has expressed concern and is 'taking action' to ensure Link meets its commitments.

Success in one area of payments (use of cards; contactless) inevitably does not come without a corresponding negative impact on another area – but that is the process of evolution.

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## Products and Initiatives

### ***Barclays introduces caller ID feature***

Barclays is rolling out a new security feature for its online and mobile customers that helps them verify whether a call claiming to be from the bank is genuine.

According to Barclays' own data, 60% of UK consumers believe that they have received a fraudulent phone call and one in ten have actually been scammed in the last year.

In a UK first, customers who receive a call from Barclays will now be able to choose to receive an alert in their app or online banking confirming the details of the employee who is calling them. The customer can then choose to accept the call, knowing that they are not giving out any sensitive information to the wrong person. (Source date: 14 September 2018)

### ***MasterCard launches global trade platform***

MasterCard has launched a global trade platform, powered by Microsoft Azure, that is designed to streamline and automate the procure-to-pay process for companies around the world.

MasterCard argues that, while there has been a lot of innovation in consumer payments, the global B2B space is still inefficient and, largely, paper-based. The payment network is hoping to change this with Mastercard Track, to better connect buyers and suppliers with networks, banks and solution providers.

Initially it is partnering with nine B2B networks and procure-to-pay providers.

Track will help connect all types of payments - account-based, card-based or bank transfer - within the platform, whilst also connecting purchase order and invoice information. It will also look to enable B2B networks, banks, insurance companies and technology providers to extend value-added services to business customers, such as enhanced data analytics and trade finance. (Source date: 12 September 2018)

### ***TSB delays switch from Visa to MasterCard***

According to the Financial Times, TSB is postponing plans to move all of its customers from Visa to Mastercard debit cards.

In a coup for MasterCard, last year TSB decided to switch from Visa, which dominates the UK debit card market, and signed a seven-year deal with its rival.

Customers were supposed to be switched over in a big bang migration this autumn but this has now been delayed until next year, according to the FT. The decision to hold off comes after the disastrous migration to a new IT system in April, which locked customers out of online and mobile services for over a month.

For the first six months of the year, TSB recognised additional post-migration costs of £176.4 million and suffered huge reputational damage. The debit card delay will probably also cost TSB, a source close to MasterCard tells the FT, although it reduces the risk of another IT failure. (Source date: 27 August)

### ***Revolut launches metal card with cryptocurrency cashback***

Digital banking startup Revolut is launching a new metal card that comes with multiple benefits, including cashback in Bitcoin and other cryptocurrencies.

Made from a single sheet of reinforced steel and weighing three times as much as a plastic card, Revolut Metal costs £12.99 a month, or £120 a year, nearly double the £6.99 a month cost of the firm's basic premium subscription.

Aside from the unusual physical card, the main perk this extra cost secures is cash back in fiat and crypto currencies. However, this benefit is likely to appeal mainly to those who travel outside of Europe: within the continent users will get 0.1% cashback, outside they will receive one per cent.

Meanwhile, customers will get up to £600 per month in free international ATM withdrawals and a dedicated concierge service for booking things like flights and festival tickets. Unlimited foreign exchange, free international money transfers, 24/7 priority customer support and overseas travel insurance are all also included. (Source date: 27 August)

## Market News

### ***European committee plans tougher sentences for digital payments fraud***

The European Parliament Civil Liberties Committee has passed plans to combat fraud and counterfeiting of non-cash means of payment such as cards, electronic wallets, mobile payments and virtual currencies in an effort to remove gaps in national legislation and introduce more effective deterrents.

Under the new rules, five, four or three years of prison would be introduced, depending on the offence, as the minimum penalty in cases where a judge imposes the national "maximum" custodial sentence for non-cash payment fraud.

Virtual-currency transactions will also be included in the scope of offences. Additionally, it is proposed to improve EU-wide cooperation to ensure cross-border frauds are better dealt.

Measures will also be introduced to improve the support of fraud victims. (Source date: 13 September 2018)

### ***Ant refutes claims of Equifax IP theft***

Ant Financial has denied using Equifax's intellectual property or trade secrets in the development of its credit rating product, in response to a Wall Street Journal report on the subject.

According to the Journal, security officials at Equifax raised fears that former employees removed a huge trove of proprietary information before leaving the firm.

The ex-employee at the centre of the claims, who left Equifax for Ant to help launch the Sesame Credit system - says that he simply forwarded the confidential information to his personal email account in order to work at home.

Ant has issued a statement that it did not "use Equifax intellectual property or trade secrets, including code, algorithms or methodology in the development of our credit rating product." (Source date: 13 September 2018)

### ***Advisors sought for overhaul of UK payments***

The UK's New Payment System Operator (NPSO) is inviting industry players to apply to join various new specialist advisory groups that will help it shape the development of the country's retail payments infrastructure.

The first batch of groups will be for New Payment Architecture (NPA) participants, procurement, legal, the new Request to Pay service, and transactional data analytics. Technical, enhanced data, security and resilience groups will follow.

The groups will offer their takes on issues such as the interaction between clearing and settlement layer and existing and new overlay services; rules and standards; implementation, transition planning and migration from existing infrastructure.

Interested parties have until 5 October to nominate representatives with relevant subject matter knowledge, skills and experience for the first set of groups. (Source date: 12 September 2018)

### ***Regulator to crack down on ATM closures***

The UK's Payment Systems Regulator has committed to act to protect the availability of free-to-use cash machines across the country after the publication of new figures by network operator Link which show more than 250 machines a month disappearing from the high street.

Link's ATM Footprint Report found that between the end of January and the start of July 2018, the number of free-to-use ATMs fell from 54,500 to 53,200. Although Link's figures show the majority of closures in well-served areas, 76 machines in 'protected' rural areas (ie at least 1 kilometre or more away from another free-to-use ATM) were closed down.

To ensure Link meets its public commitments to preserve the broad geographic spread of FTU ATMs across the UK, the PSR has stated it will be developing a Specific Direction which will require Link to fully develop its policies and processes for applying and implementing its commitments and to report to the Regulator on a regular basis.

The PSR is also engaging with the banks to seek their renewed commitment to a widespread geographic network of free-to-use ATMs. (Source date: 12 September 2018)

### ***British Airways data breach affects 380,000 cards***

British Airways' systems have been compromised, involving the card details of around 380,000 customers who used its website and app over a two-week period between 21 August and 5 September.

The hackers gained access to names, street and email addresses, credit card numbers, expiry dates and CVV codes. BA is telling customers who made bookings during the affected period to contact their bank or card provider and is promising that it will not leave anyone out of pocket. (Source date: 7 September 2018)

### ***Cardnet glitch double charges consumers***

Lloyds Bank has apologised to consumers and merchants after a glitch in its Cardnet eftpos terminals charged thousands of customers twice for debit card payments and under- or overpaid settlement funds in merchant accounts.

Cardnet, a joint venture between First Data and Lloyds bank, apparently first became aware of the issue on the last Friday of August, when settlement files for transactions on Wednesday and Thursday were either duplicated or not submitted.

The company says the problems affected five percent of terminals at merchant customers who have since had their accounts corrected. Duplicate consumer payments have also been refunded. (Source date: 5 September 2018)

### ***UK and EU banks explore early warning systems***

Both UK and European banks are separately looking at projects to design an early warning system using market data to mitigate the threat of major misconduct or the beginning of the next financial crisis.

According to a report in the Daily Telegraph, an independent review of behaviour within UK banks is exploring the idea of an industry-wide data system that flags up early indications of misconduct or financial fraud. The review, led by former Institute of Directors Director General Simon Walker, has been carried out on behalf of UK Finance and is expected to issue its recommendations in October.

The report has been inspired by the number of recent mis-selling scandals, including payment protection insurance and lending to small businesses, both of which have incurred heavy fines for UK banks.

Meanwhile the European Commission is also busy developing its own early warning system, designed to give policymakers and regulators early indications of any potential systemic risks. The EARLINESS.Eu project recently released an update on its work and more details on its inner workings. It is looking at how early warning signals of systemic risk can be monitored at global and European levels and be used to help to prevent a potential crisis. (Source date: 28 August)

## **Mobile Money**

### ***Increase in mobile fraud***

Mobile fraud rates rose by nearly a quarter in the first half of the year. According to ThreatMetrix, there were 150 million mobile fraud attacks around the world in the first half of 2018, up 24% on the same period the previous year. In the US, the growth was 44%.

This is in line with the rise in mobile commerce over the last three years. Mobile transactions - which include account creations, logins and payments - reached 58% of all traffic by the middle of 2018.

Globally, one third of all fraud attacks are now targeting mobile transactions but ThreatMetrix says that mobile is still more secure than desktop. This is because mobile offers organisations unique opportunities for accurately assessing user identity, thanks to highly personalised device attributes, geo-location and behavioural analysis.

Meanwhile, ThreatMetrix says that financial institutions were subject to 81 million cybercrime attacks in the first half of 2018, of which 27 million were targeting the mobile channel. (Source date: 14 September 2018)

### ***Barclays introduces Open Banking functionality***

Using the UK's new Open Banking environment, Barclays has introduced a feature that lets customers view current accounts from several other banks within its mobile app.

Customers who have a personal or business current account with Lloyds, Halifax, Bank of Scotland, RBS, NatWest, Nationwide or Santander can now choose to view their balances and transactions when they log into the Barclays app. More banks will soon be added.

Barclays claims that it is the first to let UK consumers see their accounts from other providers from within its main app. HSBC rolled out a similar feature earlier this year, but its effort is via a standalone app.

The Barclays service uses the industry-approved Open Banking API to ensure that customers' accounts are linked into the app securely, without them ever needing to give out their other banks' usernames or passwords. Customers will also be able to view all their data permission history. (Source date: 12 September 2018)

### ***Australian launch of real-time payments with Osko***

Australia's New Payments Platform is expecting a surge in transactions as the country's Big Four banks roll out Osko, an overlay service which enables account-to-account real-time payments via e-mail and mobile phone numbers.

Osko will be available within the online banking channel of more than 60 financial institutions, reaching over 42 million consumer and business accounts. The functionality enables money to be sent and received in under a minute via a PayID or BSB and account number between participating Osko banks and financial institutions.

Over 1.9 million Australians have already signed up for a PayID and since its official launch in February, Osko has racked up more than 25 million transactions, processing \$19 billion in payments. Seventy five percent of Osko payments are between individuals with an average value of \$25 per transaction. (Source date: 4 September 2018)

### ***Starling to help RBS develop digital bank***

According to The Times, Royal Bank of Scotland (RBS) has reportedly enlisted the help of challenger bank Starling in its efforts to develop a digital bank of its own. The news came as a result of a letter to shareholders from Starling's chief executive which stated that it has signed a contract "to provide payment services to support new initiatives at RBS/NatWest".

According to the newspaper, these initiatives include "a secret project to build a standalone digital bank".

The deal with RBS has been seen as an example of Starling's new platform-as-a-service offering, an API-driven product whereby it provides its underlying payments infrastructure to other institutions looking to establish a digital banking service. Starling has already struck such a deal with online savings platform Raisin UK.

Analysts have praised the logic of such a strategy whereby fintechs such as Starling look to generate revenue from their technology and collaborate with incumbent institutions with much greater scale in terms of infrastructure and customers. (Source date: 28 August)

### ***Samsung Pay surpasses 1.3 billion transaction mark***

Samsung Electronics is celebrating the third anniversary of the launch of its mobile payment service, which has now surpassed more than 1.3 billion transactions globally.

With the roll out of Samsung Pay into Africa, the consumer electronics group now claims a presence in six continents and 24 markets globally.

The group now claims to have 2000 banking partners onboard offering a range of localised services, including online payments in 15 countries, transit payments in five markets, loyalty and membership cards in 20 territories and ATM transactions in five.

Despite the advances made, the numbers are dwarfed by rival Apple Pay, which claims 4900 bank partners and the processing of over one billion cumulative transactions in the last quarter. (Source date: 22 August)

### ***WeChat Pay launches in Malaysia***

WeChat, China's most popular social media app, has launched its digital payments service, WeChat Pay, in Malaysia, its first product to be released in Asia outside of China and Hong Kong. Users of WeChatPay will be able to send money to each other and make payments to offline merchants in

Malaysian ringgit, functions that suggest the company is aiming to establish a local payment service as opposed to one designed purely for Chinese nationals living abroad.

However WeChat has yet to form an alliance with any Malaysian bank which could curtail the success of its own payment service.

Moreover competition in Malaysia is likely to be fierce given that ride-hailing firm Grab launched its own digital payment service in Malaysia this year. GrabPay has also allied itself to local bank Maybank.

Nevertheless the potential for the growth of the digital payments market in Malaysia is encouraging. While cash remains the dominant means of payment, mobile phone usage is huge. The number of phones exceeds the 32m population by more than 10m. (Source date: 21 August)