

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

The roles of convenience and trustworthiness

Nearly a third of bank customers around the world would consider changing to one of the big technology providers, such as Amazon or Facebook, to provide their banking services, according to a recent survey undertaken by Capgemini for its latest retail banking report.

These large companies have become so integral to today's way of life, that people have developed a sense of trust in them as much as to the traditional 'experts' of retail banking.

Is this such a surprise? In the UK alone in the past month, there have been several instances of system outages when customers have been unable to access their accounts. This is in addition to numerous other system disruptions which have taken place during the year, the worst of which was suffered by TSB, which have significantly impacted and frustrated bank customers.

There has also been an increase in the amount of fraud experienced by bank customers, particularly in terms of fraudulent use of identity and of authorised push payments, where Banks appear to be reticent to take responsibility for the failure of their systems in preventing fraudulent activity from taking place.

Added to this is the continued shutting down of bank branches – which is more likely to increase with an increase in customer satisfaction and greater competition from other potential banking players.

Is it achievable, for the big technology companies to move into providing banking services? Almost certainly so, and to some extent this is already taking place. These companies hold a myriad of data about their customers, as well as already having numerous payment mechanisms in place – think Apple and ApplePay to name but one. A recent study, conducted in the US, found that US banks trail Amazon in customer loyalty, and suggests that Amazon can count on significant demand for basic banking services.

Two of the key factors which can be said to be important to consumers about the provision of their banking services are that they are in the first instance, trustworthy and dependable, and also that they are convenient and easy to use.

This is fully demonstrated by the increasing rise in the use of contactless. The growth in this means of payment is both due to ease of use and increase in trust of it as a means of payment. According to a survey undertaken by GoCompare, consumers are now looking for the contactless limit to be increased to at least £50.

If the idea of one of today's technology providers also providing financial and banking services had once been raised, it is likely that such a suggestion would have provoked a negative reaction of dismay all round. The same cannot still be said today.

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Products and Initiatives

Historic artefacts 'modernised' for the contactless era

Scotland's National Trust has embedded contactless technology into replicas of some of its most important artefacts in an attempt to halt a slide in cash donations at two of its historic locations. The replicas include a 200-year-old bust of Robert Burns at the Robert Burns Birthplace Museum in Ayrshire, and a historical painting of Colonel William Gordon at Fyvie Castle in Aberdeenshire.

The new artefacts come with a few tweaks for the modern era, including a hand with an in-built contactless device created on a plinth next to the Burns bust. The pastiche of Pompeo Batoni's painting at Fyvie Castle has also been updated to depict the goddess Roma holding a contactless card and swashbuckler Gordon brandishing a contactless reader.

The Trust collaborated with Visa and Bank of Scotland on the project, which may offend heritage hard-liners, but was deemed an inevitable upgrade with fewer people carrying cash to give to donation boxes. (Source date: 11 October 2018)

Metro Bank rolls out money management Insights

Branch-based challenger Metro bank has launched Insights, a long-awaited in-app money management tool developed in concert with Personetics.

Using predictive analytics capabilities alongside AI, Insights continuously monitors transaction data and patterns in real-time, in order to identify relevant trends and events in users' spending habits. These are then translated into tailored prompts and tips to help customers avoid unwanted charges.

The in-app alerts include informing customers when — based on previous months' activities — there is not enough money in their account to cover likely spend; when there has been a change in the amount of money paid to a regular supplier; and flagging to customers when they have been charged twice for the same item. (Source date: 11 October 2018)

Hong Kong faster payment platform goes live

Hong Kong has joined the faster payments club, launching a system that lets users send money nearly instantly to recipients using a mobile number or email address as an account proxy.

The FPS operates on a round-the-clock basis and connects banks and stored-value facility (SVF) operators on the same platform. Users can transfer money - both in Hong Kong dollars and Renminbi - anytime, anywhere, across different banks or SVFs with funds available almost immediately. People can use their bank and SVF mobile apps to register their phone number or email address for the service and will be able to start making and receiving payments on 30 September.

So far, 21 banks - including Bank of China, DBS, HSBC and OCBC - and another 10 SVFs - including Alipay and Octopus - are signed up for the service.

Meanwhile, the HKMA has also introduced a common QR code standard and launched an associated mobile application tool. Similar to the recently launched Singapore effort, this will convert QR codes from different providers into a single QR code, making it easier for merchants to accept the payment method. (Source date: 26 September 2018)

Stripe moves into in-store payments

Stripe has built itself up into a multi-billion dollar company off the back of making it easy for online sellers to accept card payments. Now it is launching its own point-of-sale payments terminal package targeted at online retailers making the jump to offline.

With Stripe Terminal, it is promising to bring the same ease of use to in-person payments thanks to pre-certified card readers, JavaScript and mobile SDKs, and cloud-based hardware management.

The firm says that its SDKs make it easy for websites to build a real-world checkout that fits their business, with a unified payments stack maintaining a single view of customers and sales across online and offline channels.

Stripe has worked with Verifone to make its product work with their devices and Terminal is also EMV Levels 1,2 and 3 pre-certified, cutting out the hassle of and time associated with gaining certification. (Source date: 17 September 2018)

Market News

Payments companies struggle to meet Indian deadline

Visa, MasterCard, American Express, PayPal and Amazon all appear to have failed to meet the deadline to comply with new rules that require information about transactions in India to be stored in the country. According to the New York Times, the American firms have asked for more time to meet the new Reserve Bank of India data localisation rules, which were announced in April and came into force on Tuesday.

Visa and others say that they have not had time to redesign their fraud detection and processing systems, which are scattered around the world, to meet the new rule. They have offered to store copies of the data in India but, according to the Times, the RBI has not been placated, threatening to impose fines for the missed deadline.

With its new rule, India is following in the footsteps of Russia and China, and says it wants to "ensure better monitoring" of data. (Source date: 16 October 2018)

UK Finance proposes tax to compensate fraud victims

UK Finance has floated the idea of imposing a universal tax on funds transfers which banks could dip into to compensate victims of push payments fraud, which happens when businesses or individuals are conned into sending money to a fraudulent account to pay for goods or services. Statistics released by UK Finance show that, in the first half of 2018, consumers lost £92.9 million because of this type of fraud.

The UK's Payment Systems regulator has been working with banks and consumer groups to develop an industry code for reimbursing victims of APP scams. Last month saw the publication of a draft voluntary code drawn up by a steering group of UK banks and consumer rights campaigners.

One sticking point which has yet to be resolved occurs in instances where a victim of an APP scam has met their requisite level of care, and so should be reimbursed, but no bank or other Payment Service Provider involved in the payment journey has breached their own level of care.

In a presentation to The UK's treasury Select Committee, the UK Finance chief suggested that "a tiny levy on each payment" made in the UK could be a suitable mechanism to resolve the deadlock, however the proposal has been derided by consumer groups and cyber-fraud firms as a cynical attempt among banks to shift financial responsibility to the customer before it really starts to impact their bottom line. (Source date: 10 October 2018)

EU payment terminal card fraud at lowest level for 13 years

Losses due to card fraud at EU payment terminals have apparently fallen to the lowest level since 2005. Figures released by the European Association for Secure Transactions (East) show total losses of €107 million for the first six months of 2018 - a 43% drop - primarily as a result of a 19% dip in card skimming scams (down from €118 million to €104 million).

The significant drop in card skimming incidents and losses is thought to reflect the continued effectiveness of EMV, as well as the work that has been put in by payment terminal deployers and card issuers with regard to counter-measures such as geo-blocking, fraud monitoring capabilities and fraud detection.

Logical attacks against ATMs were also down 46%; instead, criminals appear to be resorting to brute force tactics, with ram raids and explosive attacks showing an increase. Losses due to ATM related physical attacks were €15.1 million, a 24% increase from the €12.2 million reported during the same period in 2017. (Source date: 10 October 2018)

EU banks support launch of Open Banking Europe PSD2 directory

EBA Clearing subsidiary Preta has signed up 40 banks and tech firms to Open Banking Europe, an initiative launched in June last year to create a centralised PSD2 directory.

With the backing of major European banks, Open Banking Europe is seeking to address regulatory concerns about the interoperability of bank data sharing initiatives under PSD2.

Providing a standardised and machine-readable repository of regulatory data related to third-party providers (TPPs), the directory is considered an important element in enabling access-to-account (XS2A) services. Alongside the TTP data fields, the directory catalogues operational data for all

regulated account-servicing payment service providers (AS-PSPs) and TPPs in Europe as well as data on qualified trust service providers (QTSPs). (Source date: 2 October 2018)

Tesco Bank fined £16.4 million fine for cyber failings

The UK's banking watchdog has fined the banking arm of UK supermarket chain Tesco with a £16.4 million fine for its failure to prevent a cyber attack that affected thousands of customers in 2016.

The Financial Conduct Authority has criticised Tesco Bank for failing to exercise due skill, care and diligence in protecting its personal current account holders against the attack, which netted the perpetrators £2.6 million and was described at the time as an "unprecedented" assault against a UK regulated bank.

The FCA says the criminals exploited deficiencies in Tesco Bank's design of its debit card, its financial crime controls and in its Financial Crime Operations Team to carry out the attack. It is believed that Tesco Bank may have left itself open to fraud by issuing debit cards with sequential numbers.

The FCA says Tesco Bank avoided a much higher penalty by acting swiftly to correct the deficiencies identified and agreeing to an early settlement of the matter. (Source date: 1 October 2018)

UK banks suffer multiple outages

A spate of online banking glitches has hit the UK's leading high street banks during September, leading to discussions of resilience and operational risk in the industry.

Barclays suffered an outage that left millions of its customers locked out of their online banking accounts for more than six hours. The problem affected both website and telephone banking services and prompted a predictable storm of complaints on social media.

In a separate incident, customers of RBS, NatWest and Ulster Bank also experienced being unable to access their online banking services.

HSBC alerted customers to "intermittent issues" affecting mobile banking services in a social media post, while TSB's customers yet again found themselves locked out of online and mobile banking after months of IT problems at the bank.

At a time when banks are closing more branches and bolting on new digital banking services to legacy architecture in an attempt to keep up with greenfield startups, the resilience of the sector to IT failures has become a major concern for regulators. In July, the Bank of England and financial watchdog the FCA gave British financial firms a three-month deadline to demonstrate their operational resilience in the event of a cyber attack or IT breakdown. (Source dates: September 2018)

China UnionPay to enter European market

The world's largest payment card issuer, China UnionPay, is reportedly planning to enter the European market in a move that could cause serious competition for Visa and MasterCard. According to the Financial Times, the Chinese payments provider is planning to issue branded cards in the UK in October followed by similar moves in other European markets in December.

UnionPay is initially planning to issue virtual pre-paid cards to corporate clients to issue to their staff travelling to Asia. The cards will be accessible via a digital wallet and produced in collaboration with a UK company. It then intends to expand both the scope and reach of its service, targeting local customers in domestic markets across Europe. According to UnionPay it does not have to apply for a licence for its European venture as the cards will be issued by third party banks and the payments will be processed also by a third party.

It is not the first time that UnionPay has been present in the UK or Europe; in 2011 it opened an ATM terminal in Harrods department store in London whereby Chinese tourists could pay for goods directly from their domestic bank accounts.

Meanwhile Visa and MasterCard have long been frustrated in their efforts to enter the Chinese market. Both are currently awaiting approval from Chinese authorities for licences to clear renminbi payments. (Source date: 17 September 2018)

Mobile Money

MasterCard brings real-time bill payments to mobile banking app

MasterCard is working on a new technology platform to support bill payments via mobile banking apps, created to help banks recover ground lost to multiple direct billing sites. The card scheme says the new real-time service, dubbed Bill Pay Exchange, will make it easier for consumers to view, manage and pay telecom, utility, rent, credit card, mortgage and other personal bills without having to set up accounts with different billers or remember multiple passwords and dates for payments each month.

Bill Pay Exchange will enable consumers to use their mobile banking app to set up all billers, receive notifications when a bill is due, see bill details, and manage multiple bills in one place including specifying when and how much to pay. Payments out of accounts will be cleared instantly thanks to a link to The Clearing House's (TCH'S) real-time payments infrastructure.

The scheme will connect to MasterCard's network of 135,000 US billers and will be supported by multiple third party vendors, including FIS, ACI Worldwide, Aliaswire, Inlet and Transactis.

MasterCard says product integration and testing of Bill Pay Exchange with partners will begin in 2019, with commercial availability slated for later in the year. (Source date: 11 October 2018)

Akbank introduces mobile facial recognition

Turkey's Akbank has reported that 250,000 customers have signed up to use facial recognition technology as a means to unlock their mobile banking app. With the roll out, Akbank claims to be the first bank in Turkey to deploy facial recognition technology. The bank is using Daon's IdentityX platform, which has been incorporated by both Visa and MasterCard and is installed at a number of banks across the world.

Following a nationwide marketing campaign, nearly 250,000 of Akbank's mobile banking users registered to use the facial recognition technology.

Turks tend to be enthusiastic adopters of mobile financial services. Some 56% of Turks have used a mobile payment app, which is more than double the rate of France and Germany, according to a study by ING. (Source date: 11 October 2018)

N26 begins UK roll out

Berlin-based mobile-only bank N26 is opening for business in the UK, beginning with the onboarding of friends and family of current staff followed by the 50,000 or so prospective customers to have joined a waiting list set up a year ago.

Launched in Germany and Austria in January 2015, N26 began as a current account with a MasterCard. It now operates as a fully-featured bank, reaching 1.5 million customers in 17 European countries.

N26 is entering into an already crowded UK market, with home-grown peers like Revolut, Monzo and Starling fighting competing for customers. However, it views the competition as the sign of a healthy and deep market. A spokesman for N26 commented "The UK is one of the most advanced markets for online banking, but with 85% of users with big banks."

Much like its local rivals, N26 offers the usual MasterCard debit cards and an array of value-added features, such as instant overdrafts, goal-based savings pots, fee-free currency conversion, and investment options. (Source date: 4 October 2018)

Danske Bank begins wearable chip trials

Danske Bank is testing FastPay, a wearable contactless chip that can be clipped to a wristband, keyring, jewellery or watchstrap for tap-and-go payments at the checkout. The chip is currently being tested using thousands of customers in Denmark, Norway and Sweden.

Operating like a MasterCard debit card, FastPay enables users to make payments of up to Dkr350 without having to type in their PIN.

The bank has yet to set a launch date for commercial roll out of FastPay, preferring to gather feedback from customers participating in the pilot to refine the product ahead of a future release. (Source date: 3 October 2018)

BBVA app lets Spanish customers see products from other providers

BBVA customers in Spain can now use the bank's mobile app to view products held with other providers.

Earlier this year the bank opened its app to accounts and cards from other financial services providers, enabling customers to see information on these products within its Bconomy financial health diagnosis tool. Now, customers can also add investment funds, pension plans, deposits, securities and mortgage and consumer finance products.

Currently, the app allows users to check balances and movements of products but BBVA notes that from next year regulations will open up the possibility of actually operating between different products within the BBVA app. (Source date: 24 September)