



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

A challenging world

We are all aware that the current economic environment is not particularly stable, resulting in many casualties in the retail industry. Numerous retail brands have either closed down, for example Maplin, Toys R Us, or been sold off, such as House of Fraser, or are having to undertake massive cuts and store closures in an attempt to survive. Even the household name staple of Marks and Spencer has not been immune.

The traditional banks are also grappling with how to manage their presence and shape themselves in competition with the newer challenger banks who are unburdened by legacy systems and unwieldy organisational and system infrastructures.

There are many contributory factors for this uncertain economic environment, but consumer payment behaviour together with technical innovation in payments are two of the key underlying reasons for change which have had and will continue to have significant impact on the retail and payments domains.

Consumers today, particularly millennials, are becoming more and more comfortable with the mobile as a method of undertaking payment and banking transactions and expect the apps and necessary support for mobile payments to facilitate this. There is a requirement for immediacy and responsiveness which is not always easily able to be provided by the traditional banks and which the challenger banks without the burden of legacy systems can more easily satisfy.

This in turn results in a greater emphasis on digital services and less priority given to traditional functions such as bank branch banking with the inevitable branch closures that this results in.

The change in consumer retail behaviour, with an increasingly greater usage of online services and a demand and expectation for almost immediate fulfilment has meant that retailers are likewise having to adapt their services and supporting infrastructures to fulfil these needs.

Technical innovation is also intrinsically involved in the behaviour changes, all of which require the technology to enable them – and the corresponding means of acceptance to enable them to be used.

The Bank of England is likewise considering the evolution of payments and has just launched an open forum on 'the future of money'. It is interested in hearing how people in the UK use their money, what payments they make and where, and what they think the future of cash will look like. As part of the forum it has launched a Cash vs Cashless Challenge for people to undertake for a week and to report their experiences.

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With so many challenges present in the payments sector of today, it will be interesting to see which of the many players are successful in defining or adapting their roles to prevail in the future payments landscape.

Products and Initiatives

Switzerland gets ready for QR bill payments

Switzerland has outlined alterations to its upcoming QR-bill, which will replace seven different payment slips when it rolls out in June 2020. The QR-bill will contain a digitally readable QR code holding all the data for a payment, thereby streamlining the processing of bills and credit transfers for companies, government bodies, non-profits and consumers.

Companies will be able to print the QR-bill themselves and the bill recipient can trigger payment with just a few clicks on a smartphone. Incorrect entries of payment information will be displayed directly in ebanking and business software, and can be immediately corrected, saving time and investigation orders.

SIX, the market infrastructure provider overseeing the project, says that, following a consultation, six of eight proposed changes to the QR-bill have been agreed. (Source date: 16 November 2018)

Nationwide takes stake in Moneyhub

Nationwide Building Society is using some of its £50 million venture fund to take a minority stake in UK-based personal financial management app Moneyhub, the third startup to benefit from the Nationwide fintech fund.

Moneyhub recently secured Payment Initiation Services Provider (PISP) authorisation by the FCA, enabling users to initiate payments across accounts from a single site.

The firm already operates as an Account Information Services Provider (AISP), consolidating data from multiple accounts into one place so people can easily see and engage with all of their finances. The company also offers users a series of smart nudges that proactively alert consumers to overspending or better interest rate offers.

Moneyhub, which is currently connected to Starling and Monzo and is in the process of linking to other bank APIs, additionally operates an API gateway for data sharing and product building with third party businesses. (Source date: 16 November 2018)

Nets to embed 'pay later' option in merchant terminals

Nordic payment processor Nets is collaborating with Finnish fintech Mash to provide an omni-channel 'pay later' option to shoppers across Scandinavia.

The service allows consumers to forego payment at the time of purchase by simply selecting the Mash option from a Nets enabled terminal for instant on-boarding and credit approval. Within 14 days, the consumers will receive an invoice to pay the balance in full or choose to convert the payment into a monthly instalment plan.

The service, which is very similar to a digital credit facility from Stockholm-based Klarna, will initially be made available in Finland and Sweden followed by a roll out in Denmark and Norway.

Founded in 2017, Mash has offices in Finland, Sweden, Poland, Luxembourg and Spain. The company is currently mid-way through a \$50 million financing round. (Source date: 9 November 2018)

Lloyds invests in cloud-based Thought Machine

Lloyds Banking Group has paid £11 million for a 10% stake in core banking developer Thought Machine as part of a strategic partnership designed to accelerate the UK lender's digital transformation plan.

Thought Machine, set up originally by former Google engineers, has spent the last few years trying to solve one of the biggest problems in banking: how to replace the decades old legacy core systems which hamper the delivery of new customer-facing digital services. The firm's answer is Vault, a cloud-native modern alternative that comes with a full suite of retail banking products that are implemented via a system of smart contracts and has cryptographic ledgers for watertight security.

Lloyds has been carrying out extensive testing and proofs of concept with Thought Machine since 2017 in the belief that the technology can provide customers with more tailored products, as well as enable faster development cycles and further digital banking improvements.

The bank is now ready to go to the next level and will enter into a development and deployment phase in 2019. (Source date: 7 November 2018)

KBC introduces spare change investing service

Belgian bank KBC is adding a spare change investing feature to its app, offering customers the option to round up their transactions and put the difference into an investment plan.

KBC believes that many people are put off investing and saving because they believe that they need to begin with a substantial pot of money and also suspect it involves a lot of paperwork and hassle.

The bank's new feature aims to make investing as simple as possible by rounding up a customer's transactions throughout the day to the nearest euro. Once 10 euros is saved up, the money is invested in one of the bank's dynamic strategy funds and can be tracked through the KBC app. (Source date: 30 October 2018)

NAB and Microsoft test ATM facial recognition

National Australia Bank has teamed up with Microsoft on a proof-of-concept utilising AI to let customers make ATM withdrawals using facial recognition and a PIN.

The cloud-based application, developed using Azure Cognitive Services, has been designed to improve the customer experience, removing the need for a card or even a phone. The system does not store images of customers' faces, only the biometric data, which is held securely on Microsoft's trusted cloud platform.

The Australian bank has committed to cloud computing as part of its "transformation initiative", transitioning key workloads to Microsoft's recently opened Azure Central region. (Source date: 24 October 2018)

SocGen tests limitless contactless payment cards

Societe Generale is trialling a payments card with a built-in fingerprint reader that enables users to make contactless payments of any amount.

Using technology from Idemia, the biometric element eliminates the need for shoppers to enter a PIN, letting them tap and pay for any amount.

When a customer receives the card, they record their fingerprint themselves. Because the data is verified directly on the card, no element of it is transmitted to either the bank or merchant.

The card also functions normally for all contact-type payments in-store, on the internet and ATM withdrawals. (Source date: 19 October 2018)

MasterCard looks to remove card signature panel

MasterCard is introducing a voluntary programme for banks to eliminate the signature panel on physical plastic, as well as enabling token services on all cards by 2020 for shopping online. The company says the removal of the signature panel on the back of cards is in tune with changing consumer preferences, highlighting a survey conducted among 1000 US adults which found that only 40% said they had signed the back of their cards, and one-third of those who haven't signed said they don't see the point in doing so.

The initiative, which will come into force by April 2019, has been welcomed by retailers.

In the online space, MasterCard is also pushing the adoption of new security technologies to streamline the shopping experience at the checkout. In early 2019, the card scheme in partnership with payment processors, banks and merchants will introduce one-time tokens to obviate the need for tedious and repetitive input of cardholder information.

With token services, consumers can store their card credentials with a merchant or retailer without the risk of exposing actual card account details. It also prevents service disruptions by automatically updating card credentials should a card expire or need replacement.

Visa is likewise extending its token service, looking to provide support merchants moving to credential-on-file digital payments. (Source date: 18 October 2018)

Market News

American Express wins approval to enter Chinese payment card market

American Express has become the first foreign card scheme to win direct access to China's bank card market after winning approval for a clearing and settlement licence from the country's central bank. The card scheme has formed a joint-venture with China's LianLian to build a network business that will enable charges on American Express branded cards to be cleared and settled domestically by the joint-venture.

Up until now, foreign card companies have had to partner with state-controlled monopoly UnionPay for access to the country's payments network.

The opening up of the market comes as China bids to mend fences with the US and follows almost a decade of lobbying by US-based payment schemes.

Both MasterCard and Visa have submitted licence applications and await approval from the People's Bank of China to follow suit. (Source date: 9 November 2018)

Lloyds to create thousands of jobs in digitisation drive

Lloyds Banking Group is cutting 6000 jobs but creating 8000 new ones as part of a multi-billion pound technology investment programme, according to reports.

First reported by Sky News, the job cuts will come from a host of areas across the bank, while the new positions will be focused on digital expansion.

Specifically, many of the new roles will be in Lloyds' group transformation unit, which is tasked with a £3 billion, three year effort to transform the business into a "digitised, simple, low risk, customer focused, UK financial services provider". (Source date: 5 November 2018)

Sweden's central bank prepares for e-krona

Sweden's central bank is progressing with plans to build a technical framework for the issuance of a new electronic currency, the e-krona.

The Riksbank started a project in the spring of 2017 to examine the scope for the creation of a central bank digital currency (CBDC). With cash usage on the decline in Sweden, the central bank says an electronic currency could ensure that the general public will still have access to a state-guaranteed means of payment.

The Bank envisages an electronic currency that can either be held in an account at the Riksbank (account-based) or be stored locally, for example on a card or in a mobile phone app (value-based).

A spokesperson for the bank said that developing one or more possible technical solutions for an e-krona would provide the Riksbank with greater room for manoeuvre and knowledge prior to a decision on whether or not to issue an e-krona.

"Whilst a preliminary technical solution for the e-krona should focus on a value-based e-krona without interest and with traceable transactions, the bank should also continue investigating an account-based e-krona which would require coordination with other authorities". (Source date: 26 October 2018)

Payments infrastructure renovation key for Banks' digital strategy

According to a new report from Ovum, nearly two-thirds of banks believe their payments infrastructure will need a significant upgrade in the next three years as a key part of firms' digital strategy. Of 226 banking representatives quizzed by Ovum on behalf of Temenos, 65% expect their payment systems to need significant upgrade work or even replacement within the next three years. Among Asia Pacific banks this rises to 77%.

There are many reasons for this, including rapidly growing customer expectations, competitive pressures, domestic and regional level regulation, and payment infrastructure changes.

Customer impact is now key to a modern payments transformation investment case. Banks are recognizing the need to improve customer service, and the essential role that new payment services can play here - almost 90% of executives interviewed say that it is more challenging to win and retain new client business than it was a year ago.

Building real-time capabilities and adaptability for future innovation is also becoming increasingly important. New architectures need to leverage APIs and micro-services to deliver a foundation for future

product and service innovation. (Source date: 22 October 2018)

Vendors invited to bid for UK's New Payments Architecture

Pay.UK is searching for a strategic partner to build the clearing and settlement backbone of the UK's New Payments Architecture. The former New Payment System Operator has published a 'Strategic Partner Procurement Prospectus', marking the starting point of a competitive process to define, deliver and operate the UK's future payments system.

The new infrastructure will take over the processing of Bacs, Faster Payments and potentially cheque payments, all of which have been brought under the aegis of Pay.UK in an effort to simplify the rules, standards and processes that banks and others need to follow to use the systems.

Pay.UK is inviting applications from single suppliers or a prime-led consortium, who will be responsible for the design and build of the clearing and settlement layer of the NPA, which includes the provision of hardware, software, secure communications and security standards and operating environments.

The successful bidder for the project is not expected to be unveiled until Q2 2020. (Source date: 18 October 2018)

Mobile Money

Alipay wins QR code payment deal for Hong Kong subway

Alipay has won a competitive bid to be the sole QR code payment provider for passengers on the Hong Kong subway. Under the terms of the deal, AlipayHK will design and build a new mobile-payment system for MTR that allows users to use the mobile app to pay for subway rides, removing the need to buy a single-journey tickets or refill a subway pass.

The system is set to go live in 2020 when users will be able to gain access by simply scanning their phones at turnstiles in 91 metro stations. (Source date: 16 November 2018)

Mobile-only challenger Starling expands reach of services

App-only bank Starling is coming to the high street thanks to a partnership with the Post Office to offer 'Everyday Banking' services to both its personal and business customers. The mobile-only bank says the arrangement enables it to provide banking services across the Post Office's 11,500 branches nationwide and at 1500 rural 'banking deserts', where remote communities are left with no access to a bank branch.

Starling customers will now be able to withdraw and deposit cash from a network that provides close proximity to 99.7% of the UK population. Starling says the deal will be particularly beneficial to business customers who will be able to see near 'real time' credit into their account from their cash deposits into Post Offices.

The Post Office, which offers similar proxy banking services to more than 28 of the UK's banks, handled around 125m banking transactions last year, a figure that has risen significantly since 2014 - in part, due to bank branch closures. (Source date: 12 November 2018)

Deutsche Bank launches standalone mobile wallet

Deutsche Bank has set up a subsidiary "startup" called Yunar, which will gradually roll out a mobile wallet offering a host of services, beginning with loyalty scheme management.

The free app launched this week, initially focusing on making loyalty schemes easy to use, with customers able to collect points from up to 200 providers widely used in Germany.

Deutsche says that Yunar will be continually upgraded with new banking and non-banking services, functions and products - such as mobile payments, multibank aggregation and digital ID - until it becomes "the mobile wallet in the customer's pocket".

The Yunar brand is a wholly-owned Deutsche Bank subsidiary with its own management, IT, a staff of 80 people, and, subject to approval, a ZAG licence enabling it to offer payment services. The enterprise is initially targeting a digital savvy demographic which traditional banks now find it very difficult to turn into regular customers. (Source date: 9 November 2018)

Western Union enables cross-border payments for M-Pesa

Western Union has partnered with Safaricom, Kenya's mobile network and wallet provider to allow 28 million M-Pesa users to send outbound money transfers overseas. In what has been dubbed a global-first, M-Pesa customers can now leverage Western Union's global-money movement platform to make cross-border payments in over 200 countries and territories, circumventing traditional infrastructure.

Western Union's cross-border platform processed around 32 transactions every second and \$300 billion across 130 currencies in 2017.

While M-Pesa wallet holders can already receive money, this integration of platforms has allowed Safaricom to scale its business in a way that shows that the Kenyan pioneer is continuing the financial inclusion revolution.

1.7 billion transactions are processed over M-Pesa annually, equivalent to over 50% of Kenya's GDP value and Safaricom has enabled millions of Kenyans to manage their money on mobile wallets within the East African region. (Source date: 7 November 2018)

Mobile now channel of choice for first direct customers

Mobile has become the channel of choice for customers of direct banking pioneer first direct, overtaking desktop interactions for the first time and far surpassing the original dial-in telephony volumes. The switchover to a mobile majority took place in August and was confirmed in September's figures.

On average, first direct's customers now interact with the bank through digital channels around 25 times more than telephony each month.

A spokesperson for first direct commented that their customers want an omni-channel approach to banking but are now choosing the app as their primary way of managing their accounts. (Source date: 31 October 2018)