

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

2018 – the mobile story continues

As another year draws to a close, we can reflect on the key trends in payments over the past 12 months and anticipate how the industry is likely to evolve during the coming year.

One of the most prevalent trends is the continuing growth in the contactless and mobile markets as consumers become far more comfortable with using the technology. According to figures from MasterCard, almost one in two transactions are now contactless. As at September, during the year to date there was a 95% increase in contactless transactions, with the technology representing 46% of all transactions every month.

The evolution in payment behaviour by consumers who are happy to use their smartphone as the method of choice of facilitating payments, using Apple Pay or similar functionality, together with the continuing movement towards online shopping, is intrinsically linked to the retail market. The challenge for retailers is how they can manage and satisfy the requirements of their customers, particularly in online shopping. It will be interesting to see the year-end figures of payment methods and types once they are available, particularly for the run up to Christmas.

Digital-only banks have continued to grow in popularity with banks such as Monzo, Revolut and Atom. 'Traditional' banks are looking to counter this by setting up or becoming involved with digital start-ups to leverage the flexibility that the digital banks benefit from instead of being weighed down by their unwieldy legacy systems.

At the same time as an increasing dependency of consumers on technology for payments, this year has also seen a number of significant banking and payment system failures. Although the UK banking industry has experienced multiple disruptive system failures – for example TSB, Barclays, RBS, Natwest and HSBC – there have also been more wide-reaching system issues like the Visa network problems experienced in June when Visa customers were impacted on a Europe-wide basis.

In the UK the closure of bank branches has continued, causing problems to those who are not technically savvy or prefer a face-to-face style of banking.

A number of large company data breaches have taken place again this year, including Ticketmaster, Dixons Carphone and British Airways.

The large technology companies such as Amazon, Apple, and Google continue to make forays into the payments and financial services arena. Research undertaken during the year showed that 65% of US Prime subscribers would be prepared to open a bank account with Amazon.

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This year also saw the introduction of Open Banking in January. Initially this has not seemed to have had a major impact, with apparently still only 20% of consumers in the UK even aware of its introduction according to recent figures. Nevertheless, Banks are beginning to offer functionality using Open Banking technology and it could be that its use could show a marked increase next year – providing more is done to make customers aware of it and its benefits.

The uncertainty around Brexit has increasingly dominated the political landscape and whatever its outcome it is likely to have an impact on the financial sector in 2019.

Savantor wishes the very best for 2019 to all our MarketEye readers.

Products and Initiatives

Pay.UK rolls out new technology against APP fraud

Pay.UK's Faster Payments team is rolling out new technology from Vocalink that enables banks to track and pinpoint fraudulent payments transactions across multiple, connected 'mule' accounts.

The Mule Insights Tactical Solution (MITS) is being introduced following a series of pilots which enabled banks to shut down hundreds of mule accounts and disrupt large, well-concealed money laundering rings.

The technology is being implemented as part of a concerted pushback against APP fraud, in which customers are duped into sending funds to bogus accounts.

By bringing together payments data from multiple banks and overlaying it with proprietary analytics and algorithms, MITS follows suspicious payments as they move between different accounts regardless of whether the payment amount is split between multiple accounts, or those accounts belong to the same or different financial institutions. The technology creates a visual map of where and when money has moved, providing new intelligence for fraud teams to take action. (Source date: 11 December 2018)

MasterCard and Microsoft work on digital identity issues

MasterCard and Microsoft are joining forces to tackle the issue of digital identity verification, with a view to getting rid of passwords and giving people a secure, instant way to verify themselves online with whoever they want, whenever they want.

To verify their identity online, people are still usually dependent on physical or digital proof managed by a central party, such as a passport number, proof of address, driver's license, user credentials or other means. MasterCard says that this dependence places a huge burden on individuals, who have to successfully remember hundreds of passwords for various identities and are increasingly being subjected to more complexity in proving their identity and managing their data.

The company is working with Microsoft to address this, to create a service that allows individuals to enter, control and share their identity data on the devices they use every day.

Little detail has so far been provided about their plans, other than that MasterCard will create services powered by Microsoft Azure and built in collaboration with leaders in the banking, mobile network operator and government communities. (Source date: 3 December 2018)

ECB launches real-time payments system

The European Central Bank has unveiled its response to the rise of digital wallets with the launch of Target Instant Payments Settlement (TIPS), a pan-eurozone instant payments system.

The new service will be available to both consumers and businesses across the 19 states in the eurozone and will offer near real-time payments via smartphones, PCs and in-store payment points.

The initiative has been sparked by the growing popularity of digital, contactless payment services offered by big tech firms such as Apple, Google, Amazon and Alibaba in China.

While instant payment services for domestic use have been launched by banks, there are currently no such services for cross-border transactions.

The ECB is therefore looking to fill this void with the TIPS system which is directly connected to central bank funds therefore avoiding some of the settlement processes that can inhibit instant payments. (Source date: 30 November 2018)

IndusIndbank introduces push button credit card

IndusIndbank has launched an interactive credit card with push button controls for customers to choose their preferred mode of payment at the checkout.

Created in partnership with US-based Dynamics, the battery-powered payment card enables customers to choose between charging a purchase to their credit card account, taking out a loan or paying for the item with their reward points balance.

The card indicates a customer's desired payment choice using LED lights associated with the three options. (Source date: 22 November 2018)

Market News

Revolut secures banking licence

Revolut has been granted a European banking licence by the Bank of Lithuania. The firm says it will begin operations in early 2019, initially focusing on smaller European countries, before eventually passporting to key markets including the United Kingdom, France, Germany and Poland. The new bank will offer a range of traditional banking services, including full current accounts, consumer lending and commission-free stock trading.

Customer funds deposited at the bank will be protected up to €100,000 under the European Deposit Insurance Scheme. The company says it plans to offer standard overdraft facilities as well as personal and business loans at competitive rates.

The bank says that its vision is that retail and business customers will be able to apply for a loan in just two minutes from within the app, and then have the money in their account almost instantly, removing the bureaucratic process and coming in cheaper than traditional lenders.

Revolut is likely to provide a formidable competitor to banking incumbents, having grown significantly over the three years since launch by nibbling away at traditionally high-cost financial services, such as cross-border money transfers. (Source date: 13 December 2018)

Peruvian payments system to go real-time with Vocalink

Vocalink has won a contract with Peru's automated clearing house, Cámara de Compensación Electrónica (CCE), to overhaul the nation's payments systems. The deal will see the creation of a national architecture that will deliver real-time processing of all electronic payments.

As part of the upgrade, Vocalink will implement its Immediate Payments Solution (IPS) which will process credit transfers in real-time, as well as enabling users to send and receive payments from their mobile phones using just a phone number.

Vocalink's track record of national payment systems includes the implementation of Faster Payments in the UK and the launch of The Clearing House's RTP in the US as well as real-time mobile transfer systems in Singapore and Thailand. (Source date: 12 December 2018)

Card details at risk in Marriott data breach

The details of millions of payment cards may have been exposed in a hack on the Marriott hotel group affecting 500 million guests.

The firm says that it recently discovered that the guest reservations database of its Starwood unit has been compromised since 2014.

The database contains information on around 500 million guests. For an unspecified number of guests, the information also includes payment card numbers and expiration dates.

Marriott says that the numbers were encrypted using Advanced Encryption Standard encryption (AES-128) and that there are two components needed to decrypt them. However, the company has warned that it has not been able to rule out the possibility that both components were taken. (Source date: 30 November 2018)

EC and card schemes nearing inter-regional interchange fee agreement

Visa and MasterCard are nearing a deal with the European Commission which would see the interchange fees merchants in the EU pay on transactions involving cards issued outside of the region reduced by at least 40%.

In response to the EC's competition concerns, the American card firms have offered to cut their inter-regional multilateral interchange fees, bringing down the cost to, for example, a French merchant accepting a card payment from a US tourist.

Under the plan, card present transaction fees will be capped at 0.2% of the value of the transaction for debit and 0.3% for credit. For online payments, the cap will be 1.15% for debit cards and 1.5% for credit cards. The offer, which would be binding for five and a half years, would also see Visa and MasterCard promise not to circumvent the caps and to make sure that the fees are made clearly visible on their websites.

The EC is now opening up a one month consultation period for stakeholders to give their opinion before deciding whether the card firms have done enough to allay competition concerns. (Source date: 4 December 2018)

Revolut approved for Japan and Singapore push

According to Revolut, a mobile bank which provides pre-paid debit cards and current accounts as well as foreign exchange and crypto trading services, it has been granted a remittance licence by the Monetary Authority of Singapore (MAS) and full authorisation by the Financial Services Agency of Japan (JFSA).

It plans to launch its Asian offerings before the end of the first quarter of 2019 and intends to make Singapore its regional headquarters.

In addition to obtaining a licence to operate, Revolut is apparently also working with Singapore's central bank on developing new payments regulation. While in Japan, Revolut has partnered with a number of local operators including e-commerce company Rakuten, property insurer Sompo and printing firm Toppan.

Since launching in 2015, Revolut has built up a customer base in excess of 3 million while investors have contributed more than \$330 million in funding, giving it a valuation in the region of \$1.7 billion. (Source date: 29 November 2018)

UK Treasury Committee launches inquiry into bank IT failures

The UK's influential Treasury Committee is to launch an inquiry into bank IT failures after a string of high profile incidents at major banks. The Committee will examine the ability of financial services institutions to guard against service disruptions and to put things right in the event that disruptions do occur, and whether regulators have the relevant skills to adequately hold people to account.

The move comes in the wake of the massive IT crisis at TSB and a series of glitches and outages afflicting online banking and payment cards across the sector.

The Committee explained that as bank branches close and customers are ushered towards online services, the availability of those services is vital. The inquiry will consider the causes and consequences of these failures and will examine what industry and regulators are doing to promote operational resilience.

The inquiry, which will be chaired by an independent adjudicator, is welcoming submissions from relevant stakeholders by Friday 18 January 2019. (Source date: 23 November 2018)

Amazon explores expansion into retail and financial services

According to the Wall Street Journal, Amazon is talking to fuel stations, restaurants and other merchants that do not consider the company to be a direct competitor about accepting the Amazon Pay payment option in-store, promising low processing fees. Amazon Pay, which is more than a decade old, can already be used to shop online at several thousand third-party merchants.

Amazon has recently rolled out the first of its own brick-and-mortar Amazon Go stores. These have no cashiers, instead using "just walk out" technology, which taps sensors and cameras to track what items customers take from the shelves and then automatically charges through an app.

The move would be another example of Amazon blurring the boundaries between retail and financial services. In March reports surfaced that it had begun talking to banks, including JPMorgan Chase and Capital One, about developing a checking account-style product for its millions of customers.

Such a move could shake up the industry, according to a recent survey from Bain which found that 65% of Prime subscribers would be prepared to open a bank account with the e-commerce giant. (Source date: 22 November)

Two-thirds of UK bank branches have closed in the past 30 years

The UK has lost almost two thirds of its bank branches in the last 30 years, leaving a fifth of households now more than three kilometres from their nearest branch, according to figures compiled by consumer group Which?.

According to parliamentary records, there were 20,583 branches in 1988, but analysis of all the current account providers shows that there are just 7,586 today.

One in five (19%) of the population are now more than three kilometres from their nearest branch as the crow flies, almost one in 10 people (8%) have to travel more than five kilometres and six per cent are more than six kilometres from a bank.

Banks often justify branch closures by pointing to partnership deals with local Post Offices for populations in remote areas. However, Which? has called into question the viability of the Post Office network as a stopgap solution, pointing to research which indicates that almost half of adults (45%) in Great Britain are unaware that they could use a Post Office for banking purposes. Additionally, there are also a number of services valued by consumers that are not currently offered by the Post Office, such as opening or closing accounts, transferring money between accounts, and requesting a replacement debit card. (Source date: 20 November 2018)

Mobile Money

CBA rolls out Apple Pay

Commonwealth Bank of Australia has caved in over its acrimonious hold-out against Apple Pay, confirming that it will introduce the mobile payment application in January.

CBA was one of the five big Australian banks that engaged in a long-running battle with Apple over access to the Near-Field Communication (NFC) controller in iPhones. The dispute ended up at the Australian Competition and Consumer Commission, which ruled against the banks in March last year, thereby derailing their attempts to enter into collective bargaining with Apple.

CBA now joins ANZ - which was not involved in the original bank boycott - in introducing Apple Pay to customers. According to the bank, customer feedback repeatedly indicated that customers wanted Apple Pay. (Source date: 14 December 2018)

Monobank founders to launch UK banking app

Three of the co-founders of Ukrainian digital banking startup Monobank are planning to launch a banking app in the UK in 2019.

Launched in November last year, Monobank has gained 600,000 customers and a loan portfolio of £70 million. Monobank has also introduced free foreign currency deposits and virtual currency cards for Euro and US dollar payments and exchange.

Alongside its core lending product, the app-only bank also offers an unusual 'Sports Deposit' savings account, which sees the high interest rate fall from 21% to 11% if the customer does not complete 10,000 steps a day.

Encouraged by the success of the operation in Ukraine, there are now plans to launch a new digital banking app in the UK in 2019. Precise details of the product have not been disclosed. (Source date: 14 December 2018)

Danske Bank introduces account aggregation app in Northern Ireland

Danske Bank has introduced an account aggregation feature for its customers in Northern Ireland, using Open Banking APIs to collect transactional data from other banks to its mobile app.

Initially, Danske customers who have a personal current account with Santander can choose to view their Santander balances and transactions when they log on to Danske's New Mobile Bank, giving them a clear view of their money without switching between apps.

More banks are to be added in the coming months.

The Northern Irish arm of the Danish bank is following its Nordic parent, which in April revamped its mobile app to let Nordic customers view data from their accounts with other providers. (Source date: 13 December 2018)

Barclays introduces spend blocker for vulnerable customers

Barclays Bank has become the first of the UK's high street banks to follow the example set by challengers Starling and Monzo in enabling customers to block payments to certain categories of retailer, such as gambling services and premium rate websites and phone lines.

Barclays says it developed the new tool with customers in vulnerable circumstances in mind. A single button within the Barclays mobile banking app now allows the customer to choose which types of retailers they are able to spend with, meaning any attempted payments that fall within the 'turned off' category will be automatically declined.

The new feature is now available to all Barclays debit card customers, and will be rolled out to credit card holders in the near future. (Source date: 11 December 2018)