market eye

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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.

Items in this issue:

Savantor's View

Banks under threat

The encroaching of the large technology companies on the banks has been a slow but sure trend over the past few years.

At the end of December last year, Google was granted an e-money licence from the EU and authorised as a payment institution in the Republic of Ireland. The company will now be allowed to issue and acquire payments across the European Union under passporting rights. Whilst Google currently only offers limited financial services with its Google Pay digital wallet, it can now expand on its financial service offerings.

Many of the large technology companies such as Apple, Google and Amazon have been attempting to expand into financial services over the past few years. There are signs that Amazon in particular is interested in taking on the banks by setting up as a bank.

We are now very familiar with the use of services such as Apple Pay and the use of mobile payments is creeping ever more into every aspect of our lives. This advance is far broader than just internet shopping and much more intrinsic to day to day practices. Entwined with our usage and increasing dependence on smartphones, mobile payments are developing into an essential aspect of our lives.

It could be argued that the success of contactless has helped this progression, blurring the lines and between traditional and digital payments and aiding acceptance by the general public.

The traditional banking organisations are struggling to keep up with the flexibility of the new fintech digital banks and their mobile technology. With large and unwieldy systems (increasingly more prone to unreliability) they are unable to launch products quickly in response to market demands. The market which they once completely dominated is being threatened more and more by new entrants to the market. The closure of bank branches has become familiar news over the past couple of years and is likely to continue.

However, it is not only the new fintech banks which the traditional banks have to contend with, but also the expansion of role and services offered by the large technology companies such as Google and Amazon.

Ten years ago the thought of big technology companies being so involved in the payments industry was not particularly palatable. Since then, however, they have made significant inroads into developing their roles and clearly they will be playing an ever more significant role in payments. What will be interesting is how this will pan out in respect of banks, both new and traditional.

Products and Initiatives

Meniga buys Swedish rewards platform Wrapp

Icelandic digital banking tech startup Meniga has acquired Swedish rewards platform Wrapp in a bid to take on the likes of Google and Facebook in the European marketing arena. Financial terms of the deal were not disclosed.

Previously, Meniga and Wrapp were independently offering transaction-driven rewards - the former in Iceland and the latter in Sweden and Finland. They will now merge their respective technology and teams into one streamlined offering under the Meniga banner, operating from Stockholm, with the Wrapp CEO taking on the role of Meniga VP of rewards.

Meniga argues that past spending is the best predictor of future spending, and by employing machine learning technology it can match merchants with consumers in a more effective manner than that offered by traditional marketing platforms such as Google and Facebook.

Through its platform, any merchant can compete for consumer attention through a self-service interface similar to Google and Facebook Ads, but with the ability to offer personalised rewards based on purchase behaviour. (Source date: 11 January 2019)

MasterCard removes name in logo rebrand

MasterCard has removed its name from its logo in a move it says is inspired by the rise of digital banking and a future where there will be less reliance on card payments.

Apparently the company underwent two years of research to ensure that its logo of two interlocking red and orange circles was familiar enough to consumers without words, thereby putting MasterCard in the same wordless branding category as the likes of Apple and Nike.

A partner at the design firm responsible for the new logo said that the change was also designed to make the MasterCard logo look better on smaller digital devices. Meanwhile others have suggested that the rebrand could be an attempt for MasterCard to drop the word 'card' without actually changing its name. (Source date: 10 January 2019)

BBVA invests in invisible payments startup Grabango

BBVA's investment arm has been the primary investor in a funding round in checkout-free payments technology startup Grabango.

Originally founded in 2016, Grabango uses computer vision and machine learning systems to maintain a virtual shopping basket for each person’s store visit and claims to accurately process millions of simultaneous transactions. Checking out is automatic, with shoppers either paying the traditional way at a cashier or by smartphone.

The move to “cashierless” stores is gathering pace, with big players such as Amazon investing heavily in the technology.

Grabango is looking to be a significant particpant in the opportunity, having filed 17 patents and securing deals with four major US chains that serve more than 600 million shoppers a year. (Source date: 8 January 2019)

Starling sets sights on France and Germany

With Brexit on the horizon, UK challenger bank Starling is setting up an Irish subsidiary that will let it move into European markets, beginning with France and Germany. The previously announced subsidiary will protect Starling's passporting rights, enabling it to operate across the EU, even in the event of a no-deal Brexit.

Apparently the bank is targeting expansion in Ireland before moving on to the French and German markets.

Starling is hoping for 2019 to be very successful, aiming to hit one million customers and launch a host of new products and services, including Euro accounts for UK residents, credit cards and expanded lending options. (Source date: 7 January 2019)

Huawei Pay enters first overseas market

The Chinese multinational conglomerate Huawei is looking to push global adoption of its contactless payment services with the first overseas roll-out of Huawei Pay in Russia, competing with the rival products from Apple and Samsung.

First launched in China in August 2016, the entry of Huawei Pay into the Russian market follows a year-long co-operation agreement between Huawei and Chinese card company UnionPay aimed at spurring overseas adoption.

Available across a suite of Huawei smartphone models, the service emulates the likes of Apple Pay and Samsung Pay, enabling users to upload their debit cards and tap their phones against a contactless terminal to effect a payment.

UnionPay credit and debit cards issued by Gazprombank and Russian Agricultural Bank will be the first to use Huawei Pay when the service goes live in the first quarter. (Source date: 4 January 2019)

Market News

Fiserv agrees $22bn First Data acquisition

Fiserv has agreed a $22 billion, all-stock deal to buy First Data, creating a huge payments and fintech entity. News of the plan sent First Data shares soaring more than 20% in pre-market trading, while Fiserv saw a six per cent dip.

Two of the biggest and most established players in the fintech arena, the two firms say that their combination will enable them to offer a range of payments and financial services, including account processing and digital banking solutions; card issuer processing and network services; e-commerce; integrated payments; and the Clover cloud-based point-of-sale system.

The merger should also result in big financial benefits, with the transaction expected to generate at least $500 million of revenue synergies over a five year period. Meanwhile, about $900 million in run-rate cost synergy savings over five years are also predicted. Combined earnings per share are expected to rise by more than 20% in the first year.

The transaction is expected to close in the second half of the year, subject to shareholder and regulatory approval. (Source date: 16 January 2019)

Potential takeover in line for Atom

It is thought that Spanish bank BBVA may be preparing to add the UK's Atom Bank to its growing portfolio of 100%-owned neo-banking startups. Sky News has learnt that Atom Bank is in talks to appoint Citi to advise its board on options for the business.

In June last year, BBVA completed an £85.4m investment into Atom, increasing its stake in the UK mobile bank to 39%. Under the terms of its shareholder agreement, BBVA has an option to acquire the remainder of the shares.

Sources close to Atom denied that hiring Citi represented a "sale mandate" although they conceded that either a takeover, further equity fundraising or stock market listing was likely during 2019.

BBVA has been investing heavily in digital-only banking startups, including Simple in the US, German-based solarisBank, Finland's Holvi, Neon in Brazil and the inhouse grown Denizen. (Source date: 15 January 2019)

Canada launches open banking consultation

The Canadian government has launched a public consultation on the merits of Open Banking as it seeks to gauge consumer enthusiasm for sharing financial data with third parties. The Canadian Department of Finance set up an Advisory Committee on Open Banking in September to investigate whether the country should follow the UK in making it easier for people to let third party financial services providers access their banking data.

A consultation paper has now been published and individuals and organisations are being invited to offer their opinions on whether open banking would provide meaningful benefits, how risks related to consumer protection, privacy and security should be managed, and what role government should play in any implementation.

The government says that open banking could spur providers to offer more tailored products and services, on a more competitive and innovative basis. In addition, customers could benefit from greater transparency, helping them to make more informed decision and move and manage their money better.

Conversley, the Canadian Bankers Association has in the past warned that giving third parties access to customer data could "give rise to contagion, reputational and other types of risks with broad-ranging consequences". (Source date: 15 January 2019)

Google awarded payments licence in Ireland

Ireland's central bank has granted authorisation for Google to operate as a payments institution, a move that could see the company significantly expand its financial services offerings across the European Union.

The central bank's decision to authorise Google Payment Ireland under the second Payment Services Directive (PSD2) does not grant Google with the ability to offer a full banking service including bank accounts and loans but it will be able to acquire and issue payments anywhere in the EU under passporting rights.

Currently Google's primary payments product is its digital wallet Google Pay, which offers a limited number of financial services. The introduction of PSD2 is designed to bring more competition to the payments sector, particularly among non-traditional banks. However, Google executives have previously said that the company is more interested in working with banks to develop opportunities in the payments market rather than looking to compete. (Source date: 7 January 2019)

Nets and Concardis complete merger

European payments firms Nets and Concardis have finalised their merger which was first announced back in June 2018.

The merged entity will be based in Denmark, where Nets is based, and will be led by the Nets CEO. Meanwhile the CEO of Germany-based Concardis will continue in his role, reporting to the Nets CEO. The executive arrangement is in keeping with the decision to retain the two brands for the interim.

Consolidation has been on the increase in the payments market as providers look to industrialise their operations in the search for scale. The two companies believe that their merger will enable them to accelerate their European expansion and be a driving force behind the ongoing consolidation in the European payments industry. (Source date: 7 January 2019)

EU approves ruling to chop charges for cross-border Euro transactions

The European Parliament has approved plans to make banks reduce fees on cross-border euro payments between EU countries that are in the euro zone and those that are not.

Currently, there is no difference for euro area residents or businesses if they carry out euro transactions in their own country or with another of the 19 euro area countries. However, residents of EU countries outside of the euro area do not have the same privileges.

The EC believes this to be an obstacle to its vision of a single market, creating barriers to the cross-border activities of households and businesses, in particular SMEs.

The new rules also require that consumers are fully informed of the cost of a currency conversion before they make a payment, for example, with their card abroad. The ruling will hit banks, merchants or ATM operators who will all have to declare currency conversion charges in the same way, making it easy for consumers to select the best option. (Source date: 20 December 2018)

Square refiles for banking licence

Payments company Square has refiled its application for a bank licence with US regulators. Square first submitted an application to the Federal Deposit Insurance Corporation (FDIC)to become a deposit-taking bank via an Industrial Loan Company (ILC) license in September last year.

Industrial loan charters give companies permission to carry out banking services but also enables them to continue providing other non-financial commercial services - a practice that is denied to fully-licensed banks.

Square's attempt to open a back door to the banking industry was fiercely opposed by the Independent Community Bankers of America (ICBA), which protested to the FDIC that the company's application was designed to avoid legal prohibitions and restrictions under the Bank Holding Company Act.

In July, Square withdrew its application in order to address issues raised by state regulators on areas including the company’s products and services, as well as the proposed bank infrastructure and governance. If approved, the new division will be Utah chartered and branded as Square Financial Services. (Source date: 20 December 2018)

Mobile Money

Popularity of mobile charity donations increases in UK

With nearly 70% of charities in the UK seeing a fall in cash donation, a survey by Barclays shows that over a quarter of consumers in the UK would prefer to make donations via their mobile devices than traditional methods, such as cash, cheques and standing orders.

Nearly a third of UK consumers have indicated they are now more likely to fundraise online than they were five years ago and three in ten reveal they would rather do this on a mobile.

Yet, despite consumer preferences, just one in four UK charities have mobile apps through which they can receive donations.

Barclays is looking to change this with the Pingit Giving feature, which lets users raise money for charities, create a fundraising page, share it with their friends and family, and collect donations. Available to any UK-registered charity, Pingit Giving takes a once per cent cut of donations, with no additional fees. (Source date: 11 January 2019)

Apps more popular than online banking in UK

A survey has shown that smartphone apps have now surpassed online banking as the channel of choice for UK consumers. According to the study, which was commissioned by financial services review website Smart Money People, 39.2% of customers stated that their preferred means of dealing with banks is via apps, up from 30% in 2017.

In contrast, the preference for online banking has fallen from 45% in 2017 to 38.6% putting it below that of banking apps for the first time.

The survey also shows that the preference for digital channels (both mobile apps and online services) has grown slightly from 75% to 78% in the last year.

The figures shows a clear contrast in preferences among different age groups. As would be expected, apps are most popular among the 18-24 age group (53%) but far less so among those 65 and over (13%), however this is almost double the percentage of 2017 suggesting a growing use of digital channels among senior citizens. (Source date: 9 January 2019)

Apple to amend Apple Pay following complaints by Swiss banks

Apple has agreed to adjust the functioning of its mobile payments application to avoid a dispute with Swiss competition authorities over complaints by the banks that the company was trying to over-ride the Twint app at contactless payment terminals.

A preliminary investigation by Weko, Switzerland's Competition Commission, found that the automatic launch of Apple Pay when held close to a contactless payment terminal displaced payments using the Twint QR code application. By agreeing to a workaround, Apple has avoided the prospect of a full-blown trial before the Swiss Competition Commission, which had become active following a complaint from Twint.

Swiss banks are also striving to get Apple to open up its NFC interface and have thus far effectively boycotted the roll-out of Apple Pay in Switzerland, itself the subject of an ongoing investigation by Weko.

Apple is also in involved in a similar dispute in Germany, where the nation's savings banks have filed a complaint that the company's Apple Pay service discriminates against the home-grown bank-backed Girocard scheme. Like Twint, they want Apple to open the NFC interface to competitive offerings. However, a similar battle between Australian banks and Apple ended in victory for Apple, when the nation's competition commission found in favour of Apple's IP. (Source date: 20 December 2018)