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.

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Savantor's View

Concerns about the reduction in cash usage

In its recent report 'Global Payments Cards Data and Forecasts to 2023', RBR forecasts that global card expenditure will grow at an average of 10% per year between 2017 and 2023, although the average value of a payment will fall by 7.45% over the same period. This will be primarily as a result of the growth in use of contactless cards at the expense of cash in smaller retailers for goods such as drinks and snacks.

On the face of it, therefore, this is another step towards the demise of cash. On a global basis, consumers are becoming more comfortable with using their cards for inexpensive purchases, particularly as contactless cards become more commonplace, and the average ticket value will continue to decrease.

Whilst a reduced usage in cash might also be considered to reduce the need to be able to access it, in the UK there are serious concerns that a decrease in the number of bank branches and ATM's is leaving many people struggling to pay in shops.

Both the Consumer group Which? and the Federation of Small Businesses say that consumers' access to cash as an alternative to digital payments should be protected by a dedicated regulator, with Which? calling on the government to appoint one.

Recently Link has announced extra subsidies and said that, from April, it was raising the fee it paid cash machine operators to keep remote free-to-use machines available.

As well as being concerned at the rate of cash machine and bank branch closures leaving people struggling to access the cash they rely on, Which? also believes cash to be a necessary contingency to digital payments and the fallibility of the systems supporting them.

A recent report by an ex-financial ombudsman suggests the UK is risking "sleepwalking" into becoming a cashless society with many being disadvantaged as a result, as banknotes and coins are a necessity for eight million people.

Additionally the Federation of Small Businesses has warned that ATM and bank closures will have a potential impact on the High Street, which is already struggling from, amongst other factors, the effects of online shopping.

UK Finance has said that a mix of different ways to pay is vital for consumers. Their research shows that while cash usage is declining, it will still be the second most common payment method in 10 years' time.

Whilst the utopian solution may be seen by many to be a cashless society, in the UK at least it would seem that there are many other 'real life' factors which need to be taken account of and which necessitate the use of cash to continue to be supported in the short term. In March 2018 the Government issued a call for evidence on the role of cash and digital payments in the new economy; the consultation period finished in June and the feedback to the consultation is still awaited. It will be interesting to see both the results and analysis of the feedback and the proposed strategy going forward.

Products and Initiatives

Nordea teams up with Divido for instant credit

Nordea is moving into the up and coming market for instant credit at the point-of-sale, striking a relationship with white label platform provider Divido. Nordea Finance will licence Divido's technology under its own brand, rolling out the platform across key markets, beginning in Norway, quickly followed by Finland, Sweden and Denmark.

Backed by MasterCard and American Express Ventures in its latest funding round, Divido's software suite provides Nordea Finance with the ability to provide instant credit in multiple currencies across multiple markets.

Changing global retail appetite has seen the importance of point-of-purchase finance solutions grow in popularity over the last few years, providing an entry point for non-bank providers such as Amazon and Paypal, and fintechs like Sweden's Klarna. (Source date: 6 February 2019)

Starling Bank opens Euro Account

Starling Bank has unveiled a new Euro Account offering as part of its Brexit preparations. The move comes as it works to apply for an Irish banking licence as a gateway to European expansion.

Starling says the fee-free account will be attractive to European expats living in the UK and UK citizens on the continent who are paid in euros, or those who need to make regular payments in euros. Apparently thousands of customers have already signed up for the new account on a waiting list which has been open since September.

Euro Account holders will initially be able to hold, send and receive payments in euros. Later this year, Starling personal account debit cards will be enabled to work with the Euro Account.

Users will be able to transfer money from their personal account to their Euro Account with just one tap. Transfers into the account will be made at real market exchange rate with no markup. (Source date: 4 February 2019)

Cognizant to acquire Finnish bank-backed Oy Samlink

Cognizant is to acquire bank-owned Finnish IT supplier Oy Samlink as part of a programme to implement a shared core banking platform for three of the country's savings banks.

US-based Cognizant has signed a multi-year agreement with Savings Banks Group, Oma Savings Bank Plc and POP Bank Group to construct a cloud-based shared ledger based on Temenos T24 and Savings Hub products.

The acquisition will provide Cognizant with a local pool of knowledgeable development talent and two delivery centres in Finland.

Oy Samlink said that the company needed a strategic partner with global scale, and proven success in modernizing banking IT systems and delivering the type of robust capabilities required to foster its collective digital transformation goals, a key part of which is the core banking platform renewal. It described the initiative as the most significant digital transformation project to date in the banks' histories. (Source date: 23 January 2019)

Australia's Volt Bank wins banking licence

Australia's Volt Bank has become the first of a number of digital challengers to win a fully-fledged banking licence, paving the way for a full-scale commercial launch later this year.

The online-and smartphone-only bank offers a range of retail banking products and smart savings and account aggregation tools. The firm also intends to compete with Australia's biggest banks in the SME and business banking sector, entering the market sometime in 2020.

Volt is one of several digital banking startups seeking to break the dominance of Australia's Big Four banks. The challenger bank 86 400 is also expecting approval for an unrestricted banking licence later this year. (Source date: 22 January 2019)

Square launches debit card for businesses

Square is launching a debit card for businesses that gives sellers real-time access to funds. The company says that the Square Card will give small businesses more flexibility when it comes to accessing and managing their funds by eliminating the time between making a sale and having the money available to spend.

The Square Card can be used anywhere MasterCard debit cards are accepted, while purchase activity can be seen alongside a record of sales in Square Dashboard and Square Point Of Sale. The card also encourages commerce among the small business community by offering sellers a 2.75% instant discount on purchases made at other Square sellers.

Square - which already offers a Visa debit card aimed at consumers that is linked to its Cash App - has made no secret of its desire to strengthen its challenge to the banking establishment. Last month, the company refiled an application for a bank charter which would let it hold federally insured customer deposits. (Source date: 17 January 2019)

Market News

New rules on EU cross-border payment charges

The EU Parliament has passed new rules which will force banks to reduce fees on cross-border euro payments between EU countries that are in the euro zone and those that are not.

The new measures will also protect consumers from being charged arbitrary costs for currency conversions. At each transaction, they will be informed about the amount to be paid in the local currency and the currency of their account.

Consumers will receive an electronic push notification such as a text message, e-mail or notification through the payer's mobile or web banking application about the applicable currency conversion charges. These notification services have to be offered free of charge and banks will also have to disclose the estimated full cost of currency conversion in the case of bank transfers before the payment is made.

The measures are seen as a major step forward to completing the Single Market for payments, putting Eurozone and non-Eurozone businesses on a level playing field. (Source date: 15 Feb 2018)

IBM successes in financial service markets

IBM has successfully won several financial services contracts, including a major $700 million global deal with Banco Santander, as well as agreements with ICBC Argentina and the card unit of Hyundai and Kia Motors.

The five year global technology agreement with Santander is part of a business transformation programme at the Spanish lender as it seeks to move to a more open, flexible and modern IT environment that delivers better and more innovative digital services.

IBM has also agreed a $63 million, five year IT service deal with ICBC Argentina to support the bank's digital transformation. As part of the deal, ICBC Argentina will be utilising IBM AI and Cloud.

Finally, Hyundai Card Commercial, the FS subsidiaries of Hyundai and Kia Motors, are working with IBM to advance their use of cloud-based AI and blockchain technology in order to improve customer experience and expand business globally. (Source date: 13 February 2019)

ECB consider instant payments to break Visa/MasterCard duopoly

The European Central Bank is considering using instant payment networks to link up national card schemes as a means to break the duopoly enjoyed by Visa and MasterCard, who between them account for over 80% of all EU card transactions.

The ECB has for the past twelve years been seeking a mechanism to challenge the dominance of Visa and MasterCard in the European payments landscape. Interchange fee caps have brought a measure of control, but calls for banks to set up a rival third scheme to take on the two payment schemes and promote increased competition have so far fallen on deaf ears.

The ECB sees the implementation of a European infrastructure for instant payments as an opportunity to instantly clear and settle card transactions, which would offer a possible way of supporting the interlinking and interoperability of national card schemes. Instant payments at the point-of-sale, bypassing traditional card schemes altogether, is also a potential option.

To this end, the Euro Retail Payments Board - set up by the ECB to help foster the development of an integrated market - has established a working group to analyse in detail the barriers to pan-European reach and usability and ways to overcome them. (Source date: 8 February 2019)

Visa and MasterCard battle for Earthport

MasterCard and Visa are currently engaged in a bidding war for cross-border payments company Earthport. Earthport provides cross-border payment services to banks and businesses but had a difficult 2018 that included the loss of a major payment customer, reduced transaction volumes and a management shakeup.

Visa originally made a surprise £198 million bid for Earthport over the festive season, an offer which was recommended by the company's Board and put to shareholders. This was followed by a rival bid from MasterCard of £233 million, causing Earthport to withdraw its recommendation of the Visa offer.

Visa has since increased its first offer to £247 million. Having backed the earlier MasterCard bid, Earthport has done an abrupt about-turn to welcome Visa's new valuation.

Visa's retaliation may force MasterCard back to the table with a higher offer, raising the prospect of a sustained bidding war. MasterCard has urged shareholders not to accept the Visa deal while it considers its options. (Source date: 8 February 2019)

Metro customers hit by text-targetting attack

Metro Bank has fallen victim to a new type of cyber fraud that targets the codes sent via text messages used to verify transactions. The UK-based challenger bank admitted the breach but added that only a small number of customers had been affected and that none has been left out of pocket. The incident is also believed to be part of a wider attack on UK banks although no others have yet gone public.

Hackers were able to exploit a weakness in the additional layer of security offered by Metro and other banks that asks customers to type in a code sent by text message to confirm transactions as part of its 2-factor authentication (2FA) process.

Apparently the weakness in the SS7 protocol used by telecoms companies has been known by cyber security bodies and telecoms companies for a number of years. By tracking the phones remotely and then intercepting the messages, fraudsters are able to gain access to customer accounts.

While admitting that text messages are not the most secure form of communication, a spokesperson for the National Cyber Security Centre in the UK told the Daily Telegraph newspaper that 2FA still offers a huge advantage over not using any 2FA at all. (Source date: 5 February 2019)

Most UK banks failing to protect online customers with two-factor authentication

UK consumer association Which? has criticised much of the banking industry for failing to protect online customers with two-factor authentication (2FA). According to the organisation, seven out of Britain's top 12 online banking providers do not offer 2FA. despite having the technology to do so. The offending banks are named as the Co-operative Bank, Clydesdale and Yorkshire Bank, Lloyds Bank (and sisters Bank of Scotland and Halifax), Metro Bank, NatWest and RBS, Santander and TSB.

Which? argues that this is dangerous in an era where crooks can glean valuable information about people from social media, rendering passwords less safe.

However, it is thought that more payment providers are likely to adopt 2FA ahead of new 'strong customer authentication' regulations, due to be introduced from September. (Source date: 31 January 2019)

Banco Santander to close 140 branches in the UK

Banco Santander is to shut a fifth of its UK branches with a loss of 1279 jobs. The bank says it has consulted with trade unions on the closure of 140 branches and will seek to find alternative roles for about a third of the staff affected by the closures.

The move is part of a plan to reshape the bank's network, based around a combination of larger branches offering improved community facilities to support local businesses and customers, and smaller sites using technology for customer access to banking services.

Santander says the number of transactions carried out via Santander branches has fallen by 23% over the past three years, while transactions via digital channels have grown by 99% over the same period. As a result, difficult decisions have had to be taken over less visited branches, and those where there are other branches in close proximity.

In total, 100 Santander branches will be refurbished over the next two years through an investment of £55m. Santander will retain a nationwide network of 614 branches following the proposed changes. (Source date: 23 January 2019)

European Commission fines MasterCard EUR570 million over interchange rules

The European Commission has fined MasterCard EUR570 million fine for obstructing merchant access to low-cost cross-border payment services. The financial penalty resulted from an anti-trust investigation which kicked off in April 2013 and concluded that MasterCard's rules prevented retailers from benefiting from lower fees and restricted competition between banks cross border, in breach of EU antitrust rules.

The infringement ended when MasterCard amended its rules in view of the entry into force on new regulations of interchange fee caps in December 2015.

Prior to that, MasterCard obliged acquiring banks to apply the interchange fees of the country where the retailer was located. As a result, retailers in high-interchange fee countries could not benefit from lower interchange fees offered by an acquiring bank located in another Member State. (Source date: 22 January 2019)

Mobile Money

Lloyds app allows access to accounts from other banks

Lloyds Banking Group now enables customers to see their current accounts from other providers from within its app, using Open Banking.

The new feature, which was rolled out for Bank of Scotland users in December, is now also available to millions of Lloyds Bank and Halifax customers. It means that customers can securely see their current accounts from six other providers - including HSBC, RBS and Barclays - without having to go through multiple logins.

Barclays rolled out a near-identical feature in September, while HSBC has introduced a similar offering, although via a standalone app. (Source date: 7 February 2019)

American Express blocks Curve

American Express has blocked attempts by Curve to load Amex cards into its all-in-one wallet, just days after the UK startup announced support for the feature. The addition of Amex support would allow Curve customers to spend with Amex anywhere MasterCard is accepted for the first time, solving the annoyance card members have of retailers not accepting Amex cards due to their high fees.

Curve has been trialling Amex compatibility with its platform in closed Beta since November. During this time, at least 500 Curve users spent more than £1 million on their Amex cards, the company says.

In blocking the feature, Amex says it is not obliged to work with any third parties or individual merchants and that it terminated support for "business reasons".

Curve intends to challenge Amex's decision and take its case to the relevant regulatory bodies in the UK and Europe. It believes that UK payment regulations clearly state that Curve should be allowed to access the Amex payment network on a level-playing field with every other fee-paying and legitimate merchant. (Source date: 30 January 2019)

Microsoft Wallet to be withdrawn

Microsoft is to withdraw its contactless payments app for Windows phones. Microsoft Wallet will be "officially retired" on 28 February 2019.

Similar to Apple Pay and Google Pay, Microsoft Wallet promised to bring the convenience of contactless payments to mobile phones when it launched in 2016.

However, the app only supported a handful of unsuccessful Windows phones and so failed to gain traction. (Source date: 23 January 2019)