

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

Growing support to maintain cash as a payment mechanism

The role of cash has continued to be a topic for discussion during the past month.

In July 2018 the Access to Cash Review was launched, to look at the future of cash access across the UK. The review was funded by LINK but is independent from it. It was commissioned as a response to the rapid decline in cash use, together with the resulting impact on those who are unable to either use or access cash in an increasingly digital society.

The Final Report of the Access to Cash Review was issued in March. It calls on the Government, regulators and banks to act now to ensure cash remains viable or risk leaving millions excluded. The Review outlines an action plan which includes a "Guarantee to Cash Access" for all, including those in remote and rural areas; a requirement for those providing essential services to allow consumers to pay in cash; and support for the cash infrastructure to ensure that cash remains viable as its use declines.

The report seems to have been met with positive reactions from industry parties, as well as various articles in the media highlighting issues relating to reduced accessibility to cash.

The Bank of England has welcomed the Review, commenting that it is committed to cash and that it is important that everybody has a choice about how they make payments. The Bank announced that it will convene relevant stakeholders to develop a new system for wholesale cash distribution that will support the UK in an environment of declining cash volumes. As the oversight and regulation of cash involves a number of authorities, it also stated its commitment to working together with HM Treasury, the Payments Systems Regulator and the Financial Conduct Authority to further understand and address the concerns identified in the Review.

UK Finance has also reiterated, in a blog on its website by the MD for Personal Finance, the belief that the option of cash should always be available to those who prefer or need to manage their money in cash.

At the recent Retail Banking Conference, the Chair of the FCA made a similar point, concluding that whilst mobile banking, cashless transactions and various other technological developments may be easy and accessible options for some, others will need access to cash or bank branches for some time to come and this fact should not be forgotten.

There are already some initiatives attempting to mitigate against the reduced accessibility of cash: LINK has committed to maintain the broad geographical coverage of the ATM network in the UK and has put in place specific arrangements to protect free-to-use ATMs more than 1 kilometre away from the next nearest free-to-use ATM; Lloyds Banking Group is to run a pilot scheme in conjunction with Visa which

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will offer retailers a fee for processing cashback transactions over the counter.

Nevertheless it is clear that a coordinated and concentrated approach by the appropriate bodies is required to manage this topic in a way which addresses the key issues that have emerged as a result of the move towards digitalisation and away from cash.

Products and Initiatives

MasterCard to buy Ethoca to reduce fraud in digital commerce

MasterCard has agreed to buy Ethoca, a firm that helps merchants and card issuers collaborate in real-time to identify and resolve fraud in digital commerce. The move comes days after MasterCard bowed out of a bidding war with Visa for Earthport and instead agreed to acquire money transfer network Transfast.

The Ethoca network brings together more than 5000 merchants and 4000 financial institutions around the world. When a fraudulent transaction is identified, near real-time information is sent to the merchant so they can confirm the transaction, stop its delivery or reverse it to avoid the chargeback process.

As a result, both merchants and card issuers should benefit from lower operational costs by reducing fraud at the source.

MasterCard says that it plans to scale these capabilities and combine Ethoca with its current fraud-fighting tools as it works to cut the \$130 billion in online fraud that retailers are expected to lose over the next five years. (Source date: 12 March 2019)

PayPal introduces instant funds transfer

PayPal is rolling out an Instant Transfer feature in the US, allowing consumers, and soon businesses, to move money instantly that they receive via the service into their bank accounts.

Instant Transfers is being rolled out to US consumers now, with businesses to get access in the coming weeks and international expansion set for the near future.

The move is part of PayPal's effort to make itself more attractive to new sectors, including gig economy workers - who are increasingly choosing the firm to get paid - by helping them get their hands on their money as quickly as possible.

The firm already offers an Instant Transfer to debit card option and has also targeted businesses with a Funds Now option that gives them access to money from completed sales within seconds.

The new feature is made possible thanks to a partnership with JPMorgan Chase that gives PayPal access to The Clearing House's real time payments network. (Source date: 13 March 2019)

N26 plans to open in Brazil

Having set its sights on becoming a "truly global bank", Germany's app-only bank N26 has announced plans to open in Brazil, its second overseas market after the US.

Having made inroads across 24 European countries, N26 has become Europe's most highly valued non-listed fintech startup, following a \$300 million fundraising round in January that prices the company at \$2.7 billion.

N26, which does not have a banking licence in the US, will partner with an as yet unnamed US bank for the first half of 2019.

The Brazilian market has some 87 million smartphone users among its population. In entering the country, N26 will face competition not only from established banks, but also from a number of like-minded digital banks, such as Nubank, which already claims to have recruited five million customers. (Source date: 27 February 2019)

Apple Wallet to launch Goldman-backed credit card

According to the Wall Street Journal, Apple is working with Goldman Sachs on the release of a joint credit card paired with personal financial management applications. Apparently Apple plans to beta test the product with employees in the coming weeks before a commercial roll out in the Spring.

The new Apple-branded card will offer cashback rewards for spending and will be complemented by new iPhone features designed to help users to track rewards, set spending goals and manage their account balances.

It forms part of a push by Apple to focus on fee-generating services and it continues Goldman's campaign to appeal to rank-and-file consumers.

The latest figures from Loup Ventures imply that Apple Pay is continuing to grow as a major player in the mobile payments market, with 43% of all iPhone users around the world enabling Apple Pay on their devices, up from 36% estimated in the September quarter, and 20% percent for the December quarter of 2017. (Source date: 21 February 2019)

Market News

FIS and Worldpay agree on a \$43bn merger

The financial-technology group FIS has agreed to take over the payment processor Worldpay for \$43bn including debt. Upon closing, FIS shareholders will own approximately 53% and Worldpay shareholders 47% of the combined company.

Worldpay, which was formed in January last year through a takeover by Vantiv, processes over 40 billion transactions annually, supporting more than 300 payment types across more than 120 currencies.

The combined firm will serve the "high-growth e-commerce industry" and have combined revenue of about \$12 billion.

The deal is the largest ever in the payments industry, eclipsing Fiserv's \$22 billion takeover of First Data in January. It is also the latest in a series of mergers which exemplifies the trend towards large scale consolidation in the payments processing space. (Source date: 18 March 2019)

MasterCard drops Earthport bid but acquires Transfast

Visa appears to have won the bidding war for cross-border payments firm Earthport after rival MasterCard dropped its bid and instead struck a deal to buy another money transfer network, Transfast, for an undisclosed amount.

Transfast is a cross-border payments network provider that covers over 125 countries across Asia, Europe, Africa, Americas and Australia. The firm offers direct integration with more than 300 banks and other financial institutions to enable P2P, B2P and B2B payments services via APIs, SFTP, web and mobile product applications.

MasterCard says that the firm will increase its worldwide connectivity in the account-to-account space, boosting compliance capabilities and offering more robust foreign exchange tools.

The acquisition is expected to close in the second half of 2019, subject to closing conditions. (Source date: 8 March 2019)

Bank of England takes action over Visa outage

The Bank of England is to take supervisory action against Visa following a widespread outage last year that disrupted payments for millions of shoppers across Europe. More than five million transactions across Europe failed during Visa's 10 hour outage in June last year following a failure of a component in its primary data centre. In the UK, 2.4 million transactions failed to process properly, with 1.7 million credit and debit cards affected.

Immediately following the incident, Visa Europe engaged an external party to conduct an independent review, with the scope agreed with both the Bank and the Payment Systems Regulator (PSR).

Despite Visa's commitment to the remediation actions, the Bank of England says that it intends to use its statutory powers to direct the card scheme to fully implement the recommendations of the independent review.

As a further action, it is also using its powers to require Visa Europe to appoint an independent third party, PricewaterhouseCoopers (PwC), to assess the company's progress in implementing the recommendations. (Source date: 8 March 2019)

Kroger extends Visa ban

Kroger, the United States' largest supermarket chain by revenue, is extending a ban on Visa credit cards to its Smith's Food and Drug Stores division in protest at "excessive" interchange fees.

The company last year initiated a Visa ban on 26 stores in its Foods Co. business. The new moratorium

will now see the policy extended to 142 supermarket and 108 petrol stations across seven states.

Kroger's action comes ahead of a possible rise in merchant acquiring fees, which will be levied on banks and likely passed on to retail stores.

The dispute marks the latest in a long-running battle between US retailers and credit card companies over interchange fees. Last week the US District Court agreed a \$6.24 billion disbursement to retailers in settlement of a class action lawsuit brought against Visa and MasterCard over card processing charges. (Source date: 1 March 2019)

EC considers regulatory push for TIPS instant payments

The European Commission is considering taking regulatory measures to encourage adoption of the new TIPS instant payments service and make it a genuine rival to the card schemes and tech giant-built digital wallets.

Launched last year, TIPS (Target Instant Payments Settlement) is available to both consumers and businesses across the 19 states in the eurozone, offering near real-time payments via smartphones, PCs and in-store payment points. The initiative was designed to help banks take on the growing popularity of digital, contactless payment services offered by big tech firms such as Apple, Google, Amazon and Alibaba in China.

However, with adoption yet to take off, the EC has said it is "reflecting on whether a stronger regulatory push would be needed to speed up" the process.

The EC is determined to make TIPS work as a pan-European, fast bank-to-bank payment network that "could have the capacity to disrupt existing payment solutions - including cards - at least for euro denominated payments". It considers TIPS and PSD2 as vital to Europe's competitiveness in the face of technological competition from the US, China and elsewhere. (Source date: 26 February 2019)

Dutch central bank accepts applications from UK firms for PSD2 licensing

The Dutch central bank says it is processing applications for PSD2 licences from UK firms looking to mitigate the repercussions of a no deal Brexit in order that they may continue to offer their services across the EU.

The revised Payment Services Directive is scheduled to enter into force on 19 February 2019 in the Netherlands.

De Nederlandsche Bank says it is currently dealing with up to 20 parties who want take advantage of PSD2 to provide payment initiation services and account information services.

DNB says that in addition to the parties wishing to provide new types of services under PSD2, there is another group of parties who submitted a draft licence application. This comprises UK-based organisations that provide existing services (PSD2 has already been implemented in the UK) and want to apply for a Dutch licence in order to be able to continue offering their services in the European Union after Brexit. (20 February 2019)

Mobile Money

Barclaycard extends partnership with Alipay

Barclaycard, which processes nearly half of the UK's credit and debit card transactions, has extended an existing provisional agreement with Alipay, enabling retailers across the country to accept the Chinese payment app at the point-of-sale.

Barclaycard first launched a pilot with Alipay in 2017, testing the QR code-based mobile shopping app in eight retail stores across the UK.

The new agreement will enable Barclays' entire network of 11,000 merchants to accept in-store Alipay payments without replacing their existing point-of-sale system. Barclaycard says it is already in discussions with around 70 clients interested in becoming early adopters.

The latest statistics from VisitBritain anticipate that Chinese visitors in the UK will spend more than £1 billion this year, up 50% from 2017, moving it well into the UK's top 10 tourism markets. (Source date: 14 March 2019)

NatWest pilots biometric payment card

NatWest is piloting in-card biometric technology that lets customers verify point-of-sale transactions with their fingerprints.

The bank is working with Gemalto, Visa and MasterCard on the upcoming small-scale trial involving 200 customers.

Instead of entering their PINs for transactions over the £30 contactless limit, participants will hold a finger over the in-card reader as they tap their plastic. (Source date: 11 March 2019)

Amazon talks to Banco de México about government-backed m-payments system

According to Reuters, the Mexican central bank is in talks with Amazon about support for a new government-backed QR code-based mobile payments service.

As part of an effort to boost financial inclusion, Banco de México is already building the system, called CoDi, which will let Mexicans make online and in-person payments with their mobile phones.

With a pilot set to kick off this month, Amazon and Argentinian e-commerce firm MercadoLibre are apparently already talking to the bank about adopting the system. (Source date: 6 March 2019)

EquensWorldline rolls out P2P routing service for pan-European mobile payments

EquensWorldline has rolled out a pan-European system for the interoperability of domestic P2P mobile payment schemes across borders, using the SEPA Proxy Lookup (SPL) protocol.

The SPL allows the exchange of the data necessary to initiate P2P mobile payments by linking a mobile telephone number to an IBAN. The strategy is aimed at overcoming a fragmented scenario characterised by multiple incompatible standards by providing a unified mechanism for P2P relay.

EquensWorldline was selected as the preferred SPL service provider by the Mobile Proxy Forum, a working group initiated at the request of the Euro Retail Payments Board (ERPB), to achieve pan-European interoperability for P2P mobile payments. The vendor's SPL service acts as an intelligent routing network among connected P2P payment providers and forgoes the creation of an additional central IBAN database.

EquensWorldline says the system is ready to be used, and the first provider has already integrated the service into its mobile payment solution. Apparently the service has been designed to allow future extensions, like the support of additional aliases such as e-mail addresses, the support of merchant payments (B2C), and the introduction of value-added services such as the transfer of e-receipts in the case of consumer purchases. (Source date: 5 March 2019)

Barclays to offer MasterCard's Pay by Bank

Barclays is to roll out MasterCard's Pay by Bank online checkout option to its merchant network and six million mobile banking customers. Pay by Bank enables customers of UK businesses to make online payments for goods and services via their banking app, and directly from their bank account.

The app was developed by Zapp, a unit set up by VocaLink in 2013 with the aim of bringing real-time mobile payments - in store, online and through apps - to millions of UK consumers by integrating its system into bank apps and utilising Faster Payments functionality.

The initiative signed up a number of big name retailers and banks ahead of a planned 2015 launch, vowing to win 20 million users by 2017, rivalling traditional payments giants such as Visa and MasterCard - which now owns Vocalink. However, Pay By Bank has so far failed to live up to the hype and is currently still only available to users of Barclays' Pingit app.

MasterCard regards Zapp as an important part of its Vocalink acquisition, giving it a new route into UK debit payments, currently a Visa stronghold. Barclaycard's plans to extend the services to online merchant clients, and - by 2020 - introduce it as an embedded feature in its mobile banking app, is expected to boost the visibility of the app by adding both supply and demand simultaneously. (Source date: 18 February 2019)