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

Protection of the vulnerable in a digital society

The consumer organisation Which? published figures this month highlighting that whilst the number of free-to-use ATMs has been steadily declining, in March the numbers dropped sharply with 1,250 ATM's switching to charging fees in that one month alone.

Figures obtained by Which? from Link show that at the beginning of 2019, there were around 52,000 free-to-use ATMs in the UK. However, around 1,700 were converted to pay-to-use in the first three months of the year, with at least 1,250 switching over in the month of March. This represents a reduction of about 2.5% in a single month and shows a steep acceleration in the ongoing decline of the free cashpoint network.

Two of Britain's two largest cashpoint operators, Cardtronics and NoteMachine, told Which? that things are likely to get even worse as a further 5,000 free-to-use machines have been identified that could be switched to fee-charging in the coming months. Taking into account other expected losses, Which? warns that this would see there being around 15% fewer free-to-use cashpoints by the end of the year.

The significance of this decrease is the impact this will have on those who can afford it least, with society's most vulnerable being worst hit by reduced access to cash. In spite of the rise in popularity of digital payments, according to Which? around 2.2 million people are almost entirely reliant on cash in their daily lives.

Bank branch closures, changes to the way the industry is funded and a reduction in the demand for cash have all contributed to the decline in free-to-use ATMs, which Link has previously said is consistent with falling demand for cash.

However, as the loss of cash machines is a significant cause of reduced ATM withdrawals, it can be seen to be rather a self-fulfilling prophecy.

Which? is petitioning the government to intervene and appoint a regulator who can ensure that both cashpoint funding and wider cash access are planned and managed with consumer interest as a priority.

At the same time, the Treasury Committee has published a report saying that free-to-use ATMs and bank branches should be legally preserved with a new watchdog set up to prevent closures denying people access to cash. It is proposing a guarantee to ensure a right to access cash, potentially enforced by a legal duty of care on banks.

The Committee warns that if no action is taken, the UK risks becoming a cashless society which would have stark consequences on some of its most vulnerable members.

Whilst a cashless society may be seen by many as an ideal for which to strive, it should not be to the detriment of its weakest members. Such a change needs to be carefully managed to ensure that it does not lead to the financial exclusion of the vulnerable.

Products and Initiatives

RBS and NatWest to offer biometric cards

MasterCard has signed a deal with Royal Bank of Scotland (RBS) to offer its biometric credit card for the first time in the UK, just days after the bank's sister brand NatWest launched its first pilot for a fingerprint-enabled debit card with rival Visa.

The partnership will mean that RBS's credit card customers will soon be able to forget their PIN codes and use fingerprints to verify payments over £30 instead.

However, whilst the technology may seem to be a boon for anyone who has difficulties with their memory and struggles to remember a PIN, a research paper has been issued warning that over the age of 62, there is a noticeable decline in the number of fingerprints that may be read.

This was confirmed by Gemalto, the firm which developed the new RBS card. In such cases consumers will have to fall back on using their PIN in the old way. (Source date: 12 May)

MasterCard trials biometric cards in Mexico

MasterCard is teaming up with prepaid specialist Edenred and the Mexican state of Sonora to trial the use of cards with embedded fingerprint sensors for benefit programme disbursement. The biometric cards work with existing EMV terminals, adding an extra layer of security for in-store purchases.

Meanwhile, benefit programme providers can disburse funds to recipients and also "can glean greater insight into user spending," says a statement. (Source date: 7 May 2019)

Banco Santander adds Microsoft Azure to hybrid cloud programme

Banco Santander has signed a multi-year cloud banking deal with Microsoft Azure.

The Spanish bank is transitioning its IT infrastructure towards a multi-cloud environment with global platforms supported by agile methodologies, as part of a EUR20 billion spend on digital technology over the next four years.

Santander's digital banking offshoot Openbank has already migrated its entire tech platform to Amazon Web Services as part of this transformation programme.

The deal with Microsoft will extend the bank's cloud capabilities across new markets and applications, says Santander. In addition, Microsoft will support the delivery of Azure training and certification programs to employees. (Source date: 30 April 2019)

Card issuing company Marqeta signs first European firms

California-based open API card issuing and processing platform Marqeta is driving ahead with its global expansion efforts, signing up its first four European customers. French digital bank Morning, Swiss contemporary Yapeal, and Spanish POS lender Aplazame have all signed on to the platform.

Marqeta says that its platform and Just-In-Time Funding feature allows companies of all sizes to authorise their own card transactions, fundamentally changing how they engage with issuing and processing.

With Instacart, Square, Affirm, Kabbage and Alipay among its users, the company was recently reported to be on the verge of a $250 million Series E round at a $1.875 billion valuation.

The company sees the UK and Europe as a key market as it continues to expand our global footprint and the first step in a much larger international expansion. (Source date: 24 April 2019)

Market News

Card payments overtake cash in Germany

According to a new study from the Cologne-based EHI Retail Institute Germany, card payments have overtaken traditional cash-based payments for the first time in Germany.

The research showed that in 2018, consumers' card payments accounted for 48.6% of total retail sales, narrowly overtaking the 48.3% of cash payments.

According to EHI, the main cause of the result was a 4% increase in sales from Germany's debit card system to 30.1%. Another contributing factor is the growing trust in card payments among German consumers, especially the younger generation.

Yet despite the survey's results, cash shows no sign of disappearing from Germany's payments landscape, particularly for smaller sums - retailers surveyed by EHI stated that they believed "cash will still dominate low-value payments in five years' time". This correlates with a recent study by Germany's Bundesbank which found that 88% of Germans want to continue using cash in the future. (Source date: 10 May 2019)

Visa completes Earthport acquisition

Visa has completed the acquisition of UK-based Earthport, providing an entry for the card company into the $80 trillion account-to-account payments market.

Visa 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. MasterCard tried to gazump its rival with its own £233 million bid, forcing Visa to return with an improved £247 million package.

Visa eventually won after MasterCard dropped its bid and instead struck a deal to buy another money transfer network, Transfast, for an undisclosed amount.

The acquisition will make it possible for Visa clients to enable individuals, businesses and governments to utilise the Visa network to send and/or receive money through bank accounts around the world, skipping public and private wire transfer rails. (Source date: 8 May 2019)

Deutsche Bourse signs cloud deal with Microsoft

Deutsche Bourse is to accelerate the migration of its workloads to the cloud after closing a deal with Microsoft for its cloud services over Azure and office collaboration tools.

The German exchange group says the usage of public cloud services will support its adoption of key technologies such as distributed ledgers, big data/analytics and in the usage of specialised services for machine learning. It intends to deploy Red Hat OpenShift Container Platform on Microsoft Azure as part of a security-focused new hybrid cloud platform for building, hosting and managing banking applications.

In a first step, Deutsche Bourse says it will shift services such as the development and testing of business applications and parts of its SAP environment to Microsoft Azure. (Source date: 8 May 2019)

MasterCard to buy bill payment specialist Transactis

MasterCard has agreed to buy Transactis, a platform that helps businesses deliver bills and receive payments.

In spite of the trend towards digitisation, 44% of the 15 billion bills that Americans pay every year are still made by paper cheque or cash. Furthermore, people who do pay bills online do so in different ways, via banking applications or billers' sites.

Last year MasterCard set out to address the issue, unveiling APIs that let banks offer customers the ability to manage and pay bills such as utilities and rent through their banking apps.

Now the payments scheme is strengthening its position with Transactis, which provides a flexible digital service that helps even the smallest businesses support online bill pay. The company, which currently counts several banks among its investors, claims to deliver its technology to millions of businesses through a network of banks and other service providers. (Source date: 7 May 2019)

UK Government to set up cash strategy group

The UK Government is to set up a 'Joint Authorities Cash Strategy Group' to ensure continued access to notes and coins as the country moves towards a digital economy. The ongoing removal of bank branches and ATMs from Britain's high streets has led to a lively debate about the consequences for a disenfranchised segment of the populace - estimated to comprise eight million individuals - who would struggle to cope in a cashless society.

The Treasury has pledged to set up the new cash strategy group to provide "comprehensive oversight of the overall cash infrastructure, including steps to make this infrastructure more resilient and efficient, and consider how best to ensure access to cash for those who need it".

The Government has also confirmed that earlier plans to scrap low denomination 1p and 2p coins have been abandoned, saying that it has no plans to alter the current make up of UK coins and notes in circulation.

The UK's influential Treasury Committee has called on the Government to go further, urging a review into the incidence of shops that do not accept cash. It also wants the Chancellor to make cash policy an explicit responsibility of the relevant Treasury minister. (Source date: 3 May 2019)

MasterCard and Visa to cut inter-regional fees for tourist cards in EU

MasterCard and Visa have agreed to cut interchange fees for payments made in Europe by cards issued elsewhere by an average of 40% following an EU anti-trust investigation. The two payment card schemes were criticised by the EU's competition watchdog for applying higher inter-regional interchange fees for European retailers accepting payments from cards issued outside the EEA, which it claimed increased prices for consumer goods and services across the region.

The Commission is the first competition authority in the world to intervene on inter-regional charging structures.

The Commission has been fighting with the two dominant card schemes over the costs borne by merchants for accepting Visa and MasterCard cards, culminating in the imposition of caps on cross-border charges and a €570 million fine levied on MasterCard for limiting the possibility for merchants to benefit from better conditions offered by banks established elsewhere in the Single Market, in breach of EU antitrust rules. (Source date: 29 April 2019)

Saudi Arabia launches real-time payments with Vocalink

Saudi Arabia has taken a major step in creating a digital economy by launching a real-time payments system built by MasterCard-owned Vocalink. Run by Saudi Payments, a unit of the Saudi Arabian Monetary Authority, the system will enable account-to-account payments to be made instantly between financial institutions, businesses and consumers.

Vocalink says that the technology will positively impact the Kingdom's economy, significantly speeding up digital commerce and enabling fintechs and financial institutions to take advantage of the benefits of a digital economy.

For consumers and businesses, the platform will enable credit transfers, e-invoicing and billing, real-time payment acknowledgement, remittances and bulk payments instantly. The technology will also enable instant, mobile-based P2P money transfers between friends and family. (Source date: 26 April 2019)

AIB and First Data to acquire Payzone

AIB has formed a joint venture with First Data to acquire Payzone, Ireland's largest consumer payments network. The joint venture, which will be 75% owned by AIB and 25% owned by FDC, will acquire a 95.9% ownership interest in Payzone from existing shareholders including Carlyle Cardinal Ireland Fund for an enterprise value of up to €100 million.

Payzone processes consumer payments by cash, card and card-not-present for a 300,000-strong user base across over 7000 retail outlets, offering mobile phone top ups, card transactions, motorway toll and parking payments and bill payment services.

AIB and First Data will shell out €61 million as the initial cash consideration for their stake, and settle approximately €25 million in debt on completion.

The chief executive officer of AIB, says that for AIB, the transaction means acquiring significant fintech capability and Payzone’s substantial payments footprint in Ireland. This will allow AIB to continue to evolve and enhance their customer offering, enabling the bank to pioneer digital ecosystem products and services. (Source date: 18 April 2019)

Mobile Money

Facebook chooses London for WhatsApp payments

Facebook has chosen London as the base for a new team dedicated to bringing payments to its WhatsApp messaging service. Having trialled P2P payments in India, WhatsApp plans to begin rolling out the feature in several countries over the next year, Mark Zuckerberg confirmed last week.

According to the Financial Times, WhatsApp will add 100 employees to its 400-strong workforce to help develop the payments functionality as well as address safety and spam issues. Most of the workers will be based in London, with others in Dublin.

Facebook is also working on a stablecoin that would be pegged to major international currencies and used to send payments across the social media giant's messaging apps - WhatsApp, Messenger and Instagram.

According to the Wall Street Journal, Facebook is also planning to launch a full payments network and is in discussions with Visa and MasterCard, payments processors such as First Data as well as large e-commerce merchants to support the launch. (Source date: 8 May 2019)

Amazon launches P2P payments service in India

Amazon is launching a person-to-person mobile payments service in India that lets Android handset users make instant bank-to-bank transfers to their phone contacts. Amazon Pay users can also make instore payments by scanning UPI QR codes with the app.

Amazon is entering a crowded P2P payments field that includes local giant Paytm and Google, which has seen its app taken up by more than 20 million users. Facebook-owned WhatsApp has also rolled out a service to a limited number of Indians.

However, Amazon claims that Indians still lack a simple and intuitive way of making money transfers. The current experience is "sub-optimal due to lack of standard user interface, mandatory cool off restriction for new contacts and multiple log in steps," claims the firm.

The director of Amazon Pay says that the company's goal "…… is to make Amazon Pay the most trusted, convenient and rewarding way to pay for our customers." (Source date: 30 April 2019)

Sainsbury's trials cash and card-free store

UK supermarket chain Sainsbury's is experimenting with a till-free store with its first mobile scan and go outlet in London's Holborn Circus.

Using Sainsbury's SmartShop Scan, Pay & Go app, customers scan their groceries as they go round the store, pay in the app and scan a QR code before leaving which reassures them that they have paid, with no need to queue or pay at a till.

The system is already live in eight convenience stores across London, but this is the first time Sainsbury's has extended the programme to go cash and card-free, with the Holborn outlet completely refurbished to remove the checkout area and tills. The store will have a helpdesk to support anyone who wishes to pay with cash or cards says the company, adding that 82% of transactions in this outlet are already cashless.

Sainsbury's group chief digital officer says that this is an experiment rather than a new format, and that over the coming months, the company will iterate continuously based on feedback before deciding if, how and where this experience is made more widely available. (Source date: 29 April 2019)

T-Mobile launches US checking account

Telecoms company T-Mobile is teaming up with BankMobile to launch an app-based checking account. Following a soft launch late last year, the no-fee, interest-earning, mobile-first T-Mobile Money account is now available nationwide in the US. The account has FDIC-insured protection thanks to a partnership with BankMobile, the digital-only arm of Customers Bank.

The launch comes just two years after T-Mobile shut down its previous effort to shake up with US banking market with a similar product aimed at the underbanked.

Despite that false start, T-Mobile is convinced that there is an opportunity to disrupt the industry, citing the fact that seven out of 10 Americans now bank digitally but just 13% of traditional providers believe their core systems can keep up with the pace of innovation.

However, the firm is not just relying on a slick user experience to win people over, it is also offering eligible Un-carrier customers four per cent Annual Percentage Yield on balances up to $3000 - 50 times higher than the average US checking account. (Source date: 18 April 2019)