



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

Opening the flood gates?

Facebook has announced its intention to launch a digital currency, Libra, to rival traditional banking and enable those without a bank account to make secure payments.

This prompted a warning from the Chief Executive of Clydesdale and Yorkshire Banking Group for the banking sector to be ready for an onslaught from the tech company giants.

For some time, there has been the challenge within the banking industry to traditional banks from digital challenger banks, such as Monzo and Starling. These app-based digital banks have proved particularly popular amongst younger generations for their ease of use. Lacking the overheads of running a bank branch system and able to focus on key service offerings as opposed to the full spectrum of financial services, the challenger banks have been able to pose a strong challenge to mainstream banks.

Moreover, from April next year the traditional banks are to lose a major income stream with a radical overhaul of overdraft charges imposed by the FCA, whereby a number of 'hidden' fees and fees relating to unauthorised lending will be abolished.

It is probably not a surprise to many that the tech giants are beginning to encroach into banking territory. The success of this infiltration has until now seemed more likely to be achieved by stealth involving a number of different initiatives, such as Apple and Google Pay and the Amazon checking account, with differing success rates.

However the recent announcement by Facebook seems to be a more substantial challenge.

Whilst the immediate concerns that spring to mind with Facebook are trust and data privacy, especially with the company's reputation to date in these areas, nevertheless Facebook has access to substantial funds and has gained the backing of some influential partners including MasterCard, Visa, PayPal and Uber and Booking.com. The company also has 2.3 billion active monthly users as potential customers.

Whether Facebook is successful or not with its proposals for a new digital currency, nevertheless the announcement may open the floodgates to other similar initiatives launched by its rivals. The success or otherwise of the initiative is likely to have significant long-term implications on both the traditional banking sector and the banking sector in general.

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Products and Initiatives

Dutch banks transition to joint ATM network

ABN Amro, ING and Rabobank have begun the process of transferring their ATMs to a new operator. The first Geldmaat ATM has been opened in a shopping centre in the Dutch town of Soest, commencing a process that will see the bright yellow machines appearing across the country over the next two years. With the fall in the popularity of cash, in 2017 ABN Amro, ING and Rabobank began investigating the creation of a joint ATM network that would keep coverage high through an "optimised and safer" network with fewer machines. By following the Swedish model of having a dedicated brand for cash machines, customers would be able to use the closest ATM within the new network, regardless of which bank used to operate it.

The banks chose Geldmaat, formally called Geldservice Nederland, a cash logistics JV they set up in 2011, to operate the new independent network. The basic premise remains that, in sparsely populated areas, a cash machine should be available within a radius of five kilometres.

Geldmaat says that in busy areas the number of ATMs will be reduced, but by recasting the network, machines will be more evenly spread based on criteria such as the number of transactions, peak times and the catchment area. (Source date: 14 June 2019)

Visa launches DLT-based cross-border payments platform

Visa has officially launched B2B Connect, its distributed ledger-based, non-card platform for high-value corporate, cross-border payments.

Visa first announced in 2016 that it had teamed up with blockchain outfit Chain to develop Visa B2B Connect, improving B2B payments by providing a system that promises near real-time notification and finality of payment aligned with an immutable system of record over a permissioned private blockchain.

Now the platform is live, covering more than 30 global trade corridors, with the goal of expanding into as many as 90 markets by the end of the year.

Visa has inked deals with FIS and Bottomline Technologies to bring the platform to bank clients as it seeks to take on interbank funds transfer network Swift and other emerging challengers such as Ripple. (Source date: 11 June 2019)

Amazon launches 'Credit Builder' card for unbanked

Amazon has partnered with Synchrony Financial to launch a secured credit card targeted at Americans with no credit history or bad credit.

The Amazon Credit Builder has many of the same features as other Amazon cards, with no annual fee and five per cent cash back on purchases for Prime members. However, cardholders have to make a refundable security deposit of between \$100 and \$1000. This deposit then determines the credit limit.

Approved cardholders then use the card on Amazon, make payments and build up their credit before, if they choose to, upgrading to an unsecured card.

The card could bring millions of people into Amazon's reach. According to a Fico survey, 11% of Americans have a credit score below 550. (Source date: 10 June 2019)

MasterCard rolls out Open Banking suite

MasterCard has unveiled a suite of open banking applications and services designed to help financial institutions and third party providers make the most of the PSD2 era.

The company has put together four offerings to help deliver on the promise of Open Banking:

- a single connection to banks' Open Banking functionality
- real-time verification of TPP registration status
- a centralised enquiry and dispute resolution service
- advice and hands-on support service for banks building their Open Banking strategies

MasterCard has already signed up several partners - including Kikapay, Streeva, Tribe Payments and Alior Bank - in the launch markets of Poland and the UK. (Source date: 4 June 2019)

Facebook to launch cryptocurrency in 2020

Facebook is finalising a digital payments system which is expected to be available across 12 countries by the start of 2020. According to the BBC, testing on the virtual currency will begin this year.

Facebook's aim is to ensure those without a bank account can make secure payments and the company will collaborate with banks and cryptocurrency exchanges to exchange fiat currencies into virtual coins, placing the company in a better position to further disrupt traditional lenders and fintech startups trying to do the same.

On May 2, Facebook registered a new entity called "Libra Networks" in Geneva, which will "provide financial and technology services and develop related hardware and software."

It is thought the company may try to convince online merchants to accept the cryptocurrency in return for lower transaction fees. Facebook is also in discussions with Western Union to provide cheaper remittance alternatives for the unbanked population. Discussion are also already being held with the Bank of England and the US Treasury to ensure that risks are avoided and regulations complied with. (Source date: 24 May)

Market News

UK banks commit to free cash access

The UK banking industry is promising to work with local communities to ensure that consumers continue to have free access to cash 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.

In May the government outlined plans for a 'Joint Authorities Cash Strategy Group'. The banking industry, through UK Finance, is promising to engage with consumer representatives, local authority representatives, and market participants, including Link, in order to map the channels through which consumers can access cash, such as branch networks, the post office, ATMs, merchant cashback.

It will also develop an approach to working with local authorities to identify and fill gaps in cash provision, as well as develop a definition of the industry's commitment to customers and communities in terms of the "appropriate provision for free access to cash".

UK Finance is also floating the idea of an independent body with responsibility for responding to access to cash representations and coordinating and facilitating appropriate industry action, "setting out a clear statement of intent and a series of practical next steps to ensure that cash will remain widely accessible and free for those that need it to help manage their finances and pay for goods and services." (Source date: 12 June 2019)

PayPal invests in Tink

PayPal has made a strategic investment in Swedish Open Banking platform Tink as part of a wider partnership between the two firms. Tink's technology, which is designed to give bank customers personalised advice based on their transaction history, has been integrated by leading European banking companies including NatWest, ABN Amro, BNP Paribas Fortis and Klarna.

Tink has been aggressively pursuing European expansion after raising EUR56 million earlier this year. Now it has received an extra cash boost from PayPal which has also agreed to utilise the startup's account aggregation technology to "improve product experiences" for PayPal customers.

PayPal commented that it is excited to work together with Tink as the company has developed the infrastructure and data services for the new financial world of open banking, allowing customers to move more easily and manage their money. (Source date: 4 June 2019)

Payment firms raise fears over EU security rules

A lack of preparedness for the EU's new regulations on authentication could cost Europe's online economy more than €50bn according to a number of payment processors and e-commerce merchants. A study produced by payment firm Stripe and research firm 451 Research found that only half of the 500 businesses it surveyed expect to be compliant with the EU's Strong Customer Authentication (SCA) rules which are due to come into force in September.

Part of the PSD2 regulation, SCA was brought in to bolster security and reduce fraud in online

transactions. However, it also requires technology and system changes and cooperation from consumers, many of whom may be unaware of the additional steps that will be added to the payment process.

Even for those firms aware of SCA, Stripe contends that there is an underestimation of the complexity of SCA compliance tools required and a misunderstanding of how possible exemptions might work. Most worryingly for e-commerce vendors and merchants, a failure to properly implement SCA could exacerbate the already low consumer tolerance for so-called 'bad checkouts' and lead to a sharp rise in cart abandonment.

According to an analyst at 451 research, SCA is unequivocally the single most disruptive event to impact European digital commerce, and many businesses, especially smaller ones, have yet to fully grasp its extensive impact. Stripe shares these concerns, saying that "SCA will make or break internet businesses. The urgency to get ready for it cannot be overstated." (Source date: 4 June 2019)

China UnionPay to offer European payment cards

The world's biggest card issuer, China UnionPay, has stepped up its European ambitions after striking a deal with a UK back-office startup, Tribe Payments, that will see it offer debit and credit cards in Europe. The deal makes Tribe one of the first issuer processors in Europe to have the necessary certification to allow banks to issue UnionPay cards.

The company, founded in 2002, has long enjoyed a near monopoly in China where it comfortably issues more cards, roughly 6bn, than both Visa and MasterCard - both of which have struggled to get the necessary authorisation from Chinese authorities to expand their Chinese presence.

However, UnionPay's domestic dominance has been challenged in recent years by the emergence of digital payment services from Ant Financial's AliPay and TenCent's WeChat Pay. Consequently, the company has looked to expand internationally, most notably across Asia. Its cards are currently accepted at more than 2 million ATMs and by more than 41 million merchants.

Apparently there are two unnamed clients looking to issue UnionPay's cards - one for a virtual card in Europe and another for a debit card in the UK. (Source date: 3 June 2019)

Global Payments agrees deal with Total Systems Services

Global Payments has agreed a \$21.5 billion deal to acquire Total Systems Services. Combined, Global Payments and TSYS will provide payments and software to approximately 3.5 million predominantly small to mid-sized (SMB) merchant locations and more than 1,300 financial institutions across more than 100 countries.

It is the latest in a series of multi-billion transactions in the payments processing market this year, as companies seek to scale up to tap the opportunities arising from the boom in global online sales.

The deal will enable Global Payments to process in excess of 50 billion transactions annually in 38 countries physically and over 100 countries virtually, employing over 3,500 sales and sales support professionals worldwide.

Billed as an all-stock merger of equals, Total Systems holders are to receive 48% of a combined company with a total equity value of roughly \$40b. (Source date: 28 May 2019)

Which? raises concern over APP losses

Ahead of the introduction of a new voluntary code to reimburse customers who fall victim to authorised push payment (APP) fraud, consumer group Which? says that losses from money transfer scams are 'spiralling out of control', with £674 per minute drained from consumer accounts.

Which? bases its calculations on industry figures which reveal that £354m was lost to APP fraud in the last year alone, which equates to £40,445 per hour or £674 per minute. The consumer group says that last year, just 23% of losses were returned. It is calling on all banks to sign up to the new voluntary code, which comes into effect from the end of the month.

The industry has committed to provide initial funding from the implementation of the Code on May 28th until the end of 2019 to reimburse customers in those situations where both the customer and their payment service provider have acted with due care and attention, the so called 'no blame' scenario. However, the issue of longer-term funding for this pot has been a key stumbling block.

According to UK Finance, "This initial 'no blame' funding is intended to provide the necessary time for the industry to work with the regulators and government to deliver sustainable long-term funding for this

reimbursement fund by January 2020”, adding that it hopes that “the Payment Systems Regulator will do everything in its power to support the industry to ensure a long-term solution can be introduced, including using its regulatory powers if required, to ensure a sustainable 'no blame' funding solution.” (Source date: 22 May 2019)

Mobile Money

N26 and Monzo to launch in US

German mobile bank N26 says it intends to enter the US market within 'the next few weeks'. UK challenger Monzo has also confirmed that it will open its first accounts to US consumers in summer 2019.

Launched in Germany and Austria in January 2015, N26 began as a current account with a MasterCard. It now operates as a fully-featured bank, serving 3.5 million customers in 24 European markets. The firm first indicated its intentions to open in the US in October 2017, setting up a waiting list and indicating a mid-2018 launch date, while it searched for a licenced bank partner.

Monzo, meanwhile, has opened a waitlist and will host face-to-face events in major US cities, a few hundred people at a time, over the coming months. The UK challenger bank, which has amassed two million customers in the two years since it achieved its banking licence, says it will begin the roll out with a MasterCard debit card and mobile app, enabling savers to get instant spending notifications, conduct P2P payments, split money into pots, and enjoy fee-free spending abroad.

Like N26, Monzo will partner with an FDIC-insured US bank - in the case of Monzo, Ohio-based Sutton Bank - at launch before applying for its own US licence. (Source date: 13 June 2019)

Revolut opens public Beta in Australia

Revolut, the digital alternative to traditional banks which has attracted over five million customers in the UK and Europe, has opened a public Beta to a 20,000-strong waiting list in Australia. The money transfer firm is setting up in Melbourne, with plans to hire 30 staff for a gradual roll out of its money transfer app.

Since launching, Revolut has processed more than \$50 billion in transaction volumes for customers in the UK and Europe. The company has raised more than \$336 million in funding and boasts a current valuation of \$1.7 billion.

Revolut has set its sights on global expansion, recently launching an operation in Russia and securing remittance licences in Singapore and Japan. (Source date: 13 June 2019)

Tap and Pay launched on New York subways and buses

New York commuters will soon be able to use a new 'tap and pay' option on subways and bus routes at the end of the month. Dubbed Omny, the new fare payment option from New York's Metropolitan Transportation Authority (MTA), will allow passengers to use their debit and credit cards and mobile wallets to pay for their ride.

The roll out will be limited at first but the system is expected to be available across all subway stations and bus routes by late 2020.

Developed by Cubic, the MTA is the first US transit agency to implement contactless payments using Visa's global transit framework.

The arrival of the system in New York and other mass transit centres across the US is likely to spur demand for the full-scale implementation of contactless payments by the major banks. As with the experience in London, tap and pay passenger payments can also encourage mobile payment uptake. Apple has already committed to enabling Apple Pay on the Apple Watch or iPhone for Omny by summer. (Source date: 23 May 2019)

Monzo achieves two million customer milestone

UK challenger bank Monzo has broken through the two million customer mark, with sign-ups continuing to accelerate for the app-only bank. The milestone was reached just over two years since Monzo achieved its banking licence and eight months after surpassing the one million account mark. The company says it is currently signing up 35,000 new customers every week.

While incumbent banks take comfort in the fact that the vast majority of Monzo customers have yet to start banking their salaries with the challenger just yet, Monzo's slick interface and range of customer-friendly features - including budgeting and savings tools and fee-free spending abroad - is clearly winning over smartphone users.

More than £10.7bn has been spent through Monzo since the bank's founding in 2015, with £2.9m sent between Monzo users every day.

Monzo is already looking beyond the UK as it bids to export its successful model to other countries. In April, there were reports that the challenger was lining up a £100 million investment from an American investor, which would raise its valuation above £2 billion and lead to a US launch. (Source date: 20 May 2019)