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

Security and convenience

A recent study, conducted by the online payments processor GoCardless, across the UK, France, Germany and Spain, revealed that almost half (43%) of UK consumers felt that "speed and ease of payment" was the most important factor when paying for something online. This compared to less than a fifth in Spain (17%) and a third in France (32%) and Germany (33%).

Yet shoppers in all markets in the study considered that a secure checkout process is important, with French shoppers indicating the greatest preference for security (62%), followed closely by German (61%), Spanish (58%) and UK (55%).

It does not seem unreasonable that the dual primary requirements of shopping online are both ease of use and secure dealings online.

Under PSD2, it has been mandated that Strong Customer Authentication (SCA) should come into force across Europe from 19 September 2019. SCA is a two-stage verification process which means customers will have to take extra validation steps to pay online with a card.

This will have significant implications, particularly for online retailers who will need to be fully prepared for the changes to ensure legal compliance. The British Retail Consortium (BRC) estimates that 75% of small businesses are not aware of the requirement for SCA or the 14th September deadline.

Additionally retailers will also need to consider how to mitigate the possibility of more consumers abandoning their basket at checkout when being faced with additional steps in the payment process. The Gocardless survey indicates that 44% of UK shoppers had abandoned an online order because of complex or lengthy security. This figure is likely to increase with the additional security requirements, let alone any increase in website loading times experienced by consumers due to service providers not being ready to fully support the new standards.

Last month the European Banking Authority (EBA) conceded that some firms, on an "exceptional basis", could get an extension of the September deadline for the new SCA. The UK's Financial Conduct Authority has correspondingly confirmed a delay to the enforcement of the stronger payment security standards to give firms more time to prepare.

Whilst it is essential that online payments are as secure as is possible, nevertheless the ease and convenience side of the transaction process must not be forgotten. This is not merely to avoid inconveniencing consumers, but to mitigate the inevitable consequences that this will have upon the retail sector, small businesses in particular, of abandoned sales. It is in the interests of all parties to achieve as smooth a transition to the new authentication standards as possible.

Products and Initiatives

PayPal launches Xoom in Europe

PayPal is to launch its international money transfer service Xoom across 32 European markets. Acquired by PayPal in 2015, Xoom allows people to send money, pay bills or top up phones to more than 130 markets internationally.

Already available in the US and Canada, the roll out across Europe is expected to increase PayPal's share of the $689 billion remittance market.

Xoom is available via a standalone mobile account or through the PayPal app. (Source date: 16 July 2019)

Visa invests in payments infrastructure builder Finix

Finix, a payment infrastructure platform built by former executives from First Data, PayPal, and Worldpay, has secured a $17.5 million Series A funding round led by Bain Capital Ventures, with participation from Insight Partners, Aspect Ventures and Visa.

Finix enables companies to build their own payments processing stack using a series of basic APIs and dashboard reporting systems. Available on a fixed pricing model, apparently enterprises will be able to have their systems up-and-running in as little as two months and at a fraction of the $3-5 million average cost of building a framework inhouse.

The company says that their mission is to provide the foundation for the next generation of multi-billion dollar payments businesses by empowering them to become payment facilitators in months, not years. (Source date: 16 July 2019)

Nordic banks get EC green light for shared KYC platform

A group of six top Nordic banks is forging ahead with plans to set up a joint platform for handling Know Your Customer (KYC) data. Having secured European Commission approval for the platform, Danske Bank, DNB Bank, Nordea, SEB, Svenska Handelsbanken and Swedbank have set up a joint venture company to build the platform.

The new company is autonomous and will initially, from next year, offer KYC services to the market concerning large and medium-sized companies based in the Nordic region.

In recent years, compliance with requirements for processing customer data has become a critical component in fighting financial crime and a growing regulatory overhead for the banking community.

Bank customers are, however, struggling with time-consuming KYC information requirements, often including many banks and formats. (Source date: 8 July 2019)

P27 selects MasterCard as Nordic payment infrastructure partner

Nordic bank-backed P27 has struck a deal with MasterCard to provide the underlying infrastructure for its real-time, cross-border payment project. Owned by Danske Bank, Handelsbanken, Nordea, OP Financial Group, SEB and Swedbank, P27 is bidding to replace ageing domestic infrastructures with a real-time and batch multi-currency platform that will enable consumers and businesses to send and receive funds across the Nordic markets.

A spokesman for P27 Nordic Payments Platform commented by joining forces across the Nordics “we will be able to develop instant payment solutions in a way that each country never would accomplish by themselves”, resulting in “a state of the art payment infrastructure in the Nordics with the highest standard when it comes to security and efficiency”.

For banks, the new platform will provide a real-time view of the multiple schemes that are running, participant information, balances across schemes and the addition of a data-rich message set, opening the way for the creation of new revenue opportunities.

The ambition is to go live 2021, subject to a merger filing approval, clearing license application and final investment commitments. (Source date: 28 June 2019)

Market News

£99 million fine for Marriott under GDPR rules

Hotel chain Marriott International is facing a £99 million fine under GDPR rules for a massive data breach which exposed the personal data of approximately 339 million guests over a four-year period. The UK's Information Commissioner's Office has confirmed plans to levy the penalty on Marriott after the hotel chain raised the issue in a recent SEC filing.

It is believed the vulnerability began when the systems of the Starwood hotels group were compromised in 2014. Marriott subsequently acquired Starwood in 2016, but the exposure of customer information was not discovered until 2018.

The ICO has been investigating the case as lead supervisory authority on behalf of other EU Member State data protection authorities. Its investigation found that Marriott failed to undertake sufficient due diligence when it bought Starwood and should also have done more to secure its systems. (Source date: 10 July 2019)

British Airways fined £183m over data breach

British Airways faces a record £183.39 million fine for a data breach last year that compromised the personal information, including payment card details, of hundreds of thousands of people.

The Information Commissioner's Office (ICO) says it intends to fine BA for infringements of the General Data Protection Regulation (GDPR), criticising the firm for "poor security arrangements".

The breach saw users of BA's website diverted to a fraudulent site, through which details of about half a million people were harvested.

The company has 28 days to appeal. (Source date: 8 July 2019)

US Congress demand halt to Facebook digital currency plans

In a letter to Facebook chief Mark Zuckerberg, democrats on the US House Financial Services Committee demanded an immediate moratorium on the implementation of Facebook’s proposed cryptocurrency and digital wallet, Libra and Calibra.

The letter states that “Because Facebook is already in the hands of over a quarter of the world’s population, it is imperative that Facebook and its partners immediately cease implementation plans until regulators and Congress have an opportunity to examine these issues and take action.”

While Facebook has published a 'white paper' on these projects, the scant information provided about the intent, roles, potential use, and security of Libra and Calibra exposes the massive scale of the risks and the lack of clear regulatory protections, the letter contends. The Committee says that Investors and consumers transacting in Libra may be exposed to serious privacy and national security concerns, cyber security risks, and trading risks.

The chair of the Committee has announced plans to convene a full Committee hearing entitled, 'Examining Facebook’s Proposed Cryptocurrency and Its Impact on Consumers, Investors, and the American Financial System'. (Source date: 3 July 2019)

Huge increase in cyber incidents reported by financial services firms

New data obtained by accountancy firm RSM under a freedom of information request has revealed that financial services firms reported 819 cyber incidents to the Financial Conduct Authority in 2018, a significant increase from the 69 incidents reported in 2017.

The key root causes for the incidents were attributed to third party failure (21% of reports), hardware/software issues (19%) and change management (18%).

According to the data, there were 93 cyber-attacks reported in 2018. Over half of these were phishing attacks, while 20% were ransomware attacks.

RSM believes the upsurge reflects the increased onus on security and data breach reporting following the GDPR and recent FCA requirements. Banks had previously rebutted claims that they were under-reporting security breaches for fear of unsettling customers. (Source date: 2 July 2019)

FCA delays introduction of Strong Consumer Authentication rules

New Strong Consumer Authentication (SCA) rules for e-commerce transactions demand a two-step verification process be implemented for all online purchases over EUR30.

The rules, which are being pushed through under the PSD2 Directive, have faced strong opposition from a market which is widely seen to not be ready for the switch.

Earlier this month, the EBA paved the way for some firms, on an "exceptional basis", to get an extension of the September deadline for new Strong Consumer Authentication (SCA) rules. (Source date: 28 June 2019)

Mobile Money

Samsung Pay integrates loan and credit card applications in India

Samsung has struck a deal with Paisabazaar, an Indian online marketplace for financial products, to let people apply for things such as credit cards and loans through Samsung Pay.

The service makes use of Paisabazaar's 'Chance of Approval' feature, which uses predictive algorithms to connect consumers with the most suitable lender with the best chance of approving a loan.

According to Samsung India, their partnership with Paisabazaar.com has helped create a "holistic platform" that gives customers the comfort of opting for various financial products besides using it as a payment platform." (Source date: 12 July 2019)

N26 launches in the US

German digital bank N26 has launched in the US, beginning a phased roll out of its app-based account and debit card. The firm is making its app available to 100,000 Americans who signed onto a waitlist with a full launch following later this summer.

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.

In the US it will operate through a partnership with FDIC-insured Axos Bank and offer customers a Visa debit card.

N26 sees the US launch as a major milestone "to change banking globally and reach more than 50 million customers in the coming years". (Source date: 11 July 2019)

Domino's trials cashless stores in Australia

The chain Domino's Pizza is the latest mainstream retailer to try out cashless payments, rolling out a new 'Tap & Take' model at five of its outlets in Australia.

Apparently the trial stores will no longer accept cash as an option and instead will only accept credit card, debit card, eftpos and mobile/apple watch in-store and for online delivery.

According to Domino's, with the growth of tap-and-go payment systems and mobile payment technology, the use of cash is slowing in their outlets, something that can be seen right across their network. An additional benefit will also be to increase employee safety, with no cash being held on the premises or carried by take-out drivers. (Source date: 10 July 2019)

Major 7-eleven payments app security breach

7-eleven has suspended its new mobile payment app in Japan after an appalling security lapse led to the loss of $530,000 from 900 accounts within a day of its launch.

The 7pay app enabled users to pay for goods and services instore by scanning a barcode and debiting funds from a user's stored debit and credit cards. However, the app had a password-reset function that enabled anyone to request the posting of a new password to a different email address to the one that was used to set up the account.

As customers flocked to Twitter to complain about money being drained from their bank accounts, 7-eleven was forced into a humiliating shut down. The company has promised to refund all customers who lost money due to the attack. (Source date: 9 July 2019)

Facebook reveals digital wallet plan

In addition to its proposed digital currency offering called Libra, the social media platform Facebook is also launching Calibra, a separate subsidiary to manage the payments network.

The first product to be developed through Calibra will be a digital wallet service that will be available as a standalone app or accessible through the Facebook, Whatsapp and Messenger platforms. Facebook users will be able to send money to other individuals around the globe as well as pay for goods, services and public transport using Facebook's cryptocurrency rather than their own local currency. It will also allow Facebook to manage the payments internally rather than relying on payment processing partners as it has done in the past.

Backers of the new global digital currency include payment providers Visa, MasterCard, Paypal, PayU and Stripe; e-commerce companies eBay, Booking Holdings, Farfetch, Lyft, Mercado Pago, Spotify and Uber; telecoms companies Iliad and Vodafone; blockchain services Anchorage, Bison Trails, Coinbase and Xapo Holdings and a number of venture capital firms and NGOs.

Notable absentees from the roster of backers include Google, Amazon and Apple and incumbent banks which are reportedly concerned about logistics and regulation.

In addition to competition and privacy concerns, regulators are also concerned about Facebook's wish to enable its cryptociurrency to be converted into other currencies, raising the prospect of increased money laundering. (Source date: 18 June 2019).