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## Savantor's View

### *Sometimes the tide cannot be turned*

The announcement in June by Facebook about the proposed new Libra currency unleashed a huge amount of reaction to the project.

Whilst much of it has not necessarily been favourable, it is understandable that there are serious concerns relating to the security and the regulation of such a currency, particularly in light of the reputation that Facebook has gained in relation to online security and adequate regulatory controls.

As it is a proposal which has the backing and support from many significant bodies in the payments industry – Visa, Mastercard, Paypal, Stripe, eBay and Vodafone to name but a few - perhaps the proposed digital currency should be regarded as a serious contender and not as an aberration that needs to be kept out of the system at any cost. Serious and critical investigation into and analysis of the project will help ensure that if it does progress, serious flaws in its design and method of operation can be addressed and mitigated.

Indeed the Committee on Payments and Market Infrastructure from the Bank for International Settlements, which comprises central bank chiefs from the world's biggest economies, has been questioning Facebook in detail about the scope and design of the proposed cryptocurrency Libra, to assuage mounting concerns over the threat it poses to financial stability and monetary sovereignty and to ensure that high standards of regulatory approval are applied to prevent serious security risks.

However, there have been recent media reports that some European countries, in particular France, are reacting so strongly against it that the French Finance Minister has stated "the monetary sovereignty of states is under threat."

Whilst Libra and other digital currencies certainly have implications upon currencies in global terms, refusing to have anything to do with them will not prevent their development from being pursued. Perhaps a more productive approach might be, instead of trying to deny their future existence in a 'King Canute' fashion, to be involved so that any concerns and issues can be addressed.

Although many national entities have perceived development of the Libra as a threat in various contexts, not all reactions to it have been so hostile. The Bank of England governor has said that it could "substantially improve financial inclusion and dramatically lower the costs of domestic and cross border payments," whilst also proposing that the Bank could open up access to its balance sheet to new payment providers. His statement that "The Bank of England approaches Libra with an open mind but not an open door," seems to be a constructive approach to adopt.

In the ever-changing world of payments, how digital currencies evolve and integrate into the payments

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market going forward will be a fascinating topic to follow.

## Products and Initiatives

### ***Visa and Mastercard join Plaid financing***

Visa and Mastercard have joined a \$250 million financing round in Plaid, a US startup that links consumer bank accounts with fintech apps.

Whilst the size of Visa and Mastercard's share of the deal has not been disclosed, other prominent previous investors include Goldman Sachs, Citi and American Express.

The startup has focused on helping financial applications interact with checking and savings accounts, striking deals with big banks such as JPMorgan Chase and fintechs including Robinhood and Acorns.

The company claims that a quarter of US consumers with bank accounts have connected to Plaid through an app. Hoping to replicate its success in the US, the company is opening a UK office to support European expansion and planning to hire 25 staff locally by 2020. (Source date: 16 September 2019)

### ***Mastercard partners R3 on blockchain-powered cross-border payments***

Mastercard has joined forces with R3 to develop a blockchain-powered cross-border payments system connecting global faster payments infrastructures, schemes and banks supported by a clearing and settlement network operated by the card processor.

The plan, which will initially build towards a pilot, brings together Mastercard's payment systems assets, brand and distribution with R3's blockchain expertise.

Mastercard has been looking to boost its cross-border efforts, recently acquiring Transfast to increase its worldwide connectivity in the account-to-account space. The latest deal adds to this by providing access to R3's Corda ecosystem, which includes more than 300 of the world's leading financial services firms, technology companies, central banks, regulators and trade associations. The R3 agreement comes just days after Mastercard joined the blockchain-based Marco Polo trade finance network.

The card firm's rival Visa is also working hard in the space, recently officially launching its distributed ledger-based, non-card platform for high-value corporate, cross-border payments, B2B Connect. (Source date: 11 September 2019)

### ***Stripe launches credit card***

Payments giant Stripe continues to develop its product suite with the launch of a corporate credit card for business customers.

Stripe argues that many existing solutions for managing business spending simply aren't well-suited to modern internet companies. Its card promises to change this. Companies can simply upload their logo directly into the Stripe Dashboard and they will have a virtual card instantly or a physical card in a matter of days.

The card also has built-in, dynamic spending controls that can set limits per person, per day, or per category. Users also get real-time expense reporting and dynamic rewards.

The card is free - with no annual fees, foreign transaction fees or late fees. Instead Stripe will make money through interchange fees on transactions. However, cardholders must pay their balance in full every month. (Source date: 10 September 2019)

### ***Link vows to protect free access to cash***

The UK ATM network Link has promised to ensure that every high street in the country will have free access to a cash machine.

Closures of existing ATM's have led to lively discussions 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.

Industry-owned Link has now set out plans to placate authorities worried about the removal of ATMs. The network says that if any high street is threatened with the loss of an ATM or Post Office, it will step in to ensure that a machine is made available and paid for with funding from all the UK's main banks and building societies.

In addition, Link has said that it will run a pilot that sees it directly commission free-to-use ATMs in

communities with poor access to cash. (Source date: 29th August 2019)

## Market News

### ***Cybersecurity rises as investment priority for UK banks***

According to a Lloyds Bank report, cybercrime has emerged as a major concern for UK financial services firms. While Brexit remains the biggest risk for the 100-odd financial services decision makers quizzed by Lloyds Bank Commercial Banking, followed by economic uncertainty and new regulations, cybercrime has leapt from eighth place to fourth since 2018.

This increased concern is reflected in budgets. Last year, 46% of respondents said one of their firm's top three technology investment strategies was to improve cybersecurity, behind improving customer satisfaction and reducing operating costs. In 2019, cybersecurity has moved to top of the technical issue agenda and with greater prominence, with 70% now prioritising it. (Source date: 16 September 2019)

### ***UK Mastercard issuers to pay retailers for cashback transactions***

Mastercard is rolling out a service which will offer UK retailers a fee for processing cashback transactions over the counter, as part of an effort to mitigate against the tide of criticism from politicians and consumer groups over the disappearance of ATMs and bank branches from the high street.

Under the initiative, local shops and businesses will from April 2020 earn a fee of 12 pence every time they dispense cash to a shopper paying with a Mastercard debit card.

Mastercard says all of its debit card issuing partners will take part in the scheme, including: Clydesdale Bank, Metro Bank, Monzo, N26, Starling Bank, Virgin Money, Yorkshire Bank and starting later this year Santander.

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. (Source date: 12 September 2019)

### ***Xinja Bank gains banking licence and issues accounts***

Xinja Bank, one of several digital-only challengers to Australia's Big Four banking institutions, has rolled out its first accounts after winning a full banking licence from the country's Prudential Regulation Authority.

Xinja joins fellow challengers Volt Bank and 86 400 in gaining regulatory approval for its digital-only banking proposition.

Initially launched in February 2018 as an app and prepaid travel card, Xinja has 28,000 prospects on a wait-list for its first transactional banking accounts. Once bedded in, the company plans the immediate launch of a range of savings accounts followed by the addition of lending products in the first quarter of 2020.

The startup, which has raised \$45 million in capital, is using the SAP Cloud for Banking platform as its technology backbone, promising rapid customer onboarding and real time risk and financial assessment. (Source date: 9 September 2019)

### ***Profits remain elusive for digital banks***

According to research from Accenture, digital-only banks operating in the UK are set to experience massive growth over the next year, amassing 35 million customers around the world. However, the research also highlights obstacles to profitability.

Digital banks that operate in the UK now claim 13 million customers in Europe, with five million new accounts opened in the first six months of 2019. The customer base is also broadening beyond millennials with several firms now citing their average customer as being in their mid-40s and increasingly outside of London. Accenture predicts that this customer growth is set to increase over the next year, as the digital banks win customers both in the UK and new markets such as the US.

As they mature, digital startups are now turning their attention from customer acquisition to becoming profitable. Whilst the digital challengers have a substantially lower cost-to-serve than the incumbent banks, the majority of new entrants are apparently still not profitable, with the average digital bank losing

£9 per customer. Account switching remains low across the industry and while digital banks are now gaining primary account customers and larger balances, the pace is slow.

A spokesman for Accenture commented that “how these banks convert more customers to primary account holders and manage core challenges in terms of balance sheet scale and funding, risk management and compliance, will ultimately be the critical deciding factors to their future success.” (Source date: 6 September 2019)

## Mobile Money

### ***One in every 20 adults in the UK now bank with Monzo***

UK challenger bank Monzo has broken through the three million customer mark, with sign-ups continuing to accelerate for the app-only bank. The milestone was reached just four months after Monzo hit two million users. The company says it is currently signing up 55,000 new customers every week.

While the high street incumbents take comfort in the fact that the vast majority of Monzo customers have yet to start banking their salaries with the challenger, 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 £18bn has been spent through Monzo since the bank's founding in 2015, with £4.9m sent between Monzo users every day. (Source date: 16 September)

### ***Nissan to fit contactless payment tags into all cars sold in Brazil***

Nissan is to equip all new and used cars in Brazil with contactless payment stickers, enabling drivers to pay for tolls, fuel, car parking and drive-thru meals from behind the steering wheel.

The Sem Para Rfid tags, provided by US outfit Fleetcor, will be factory-installed into all new Nissan vehicles manufactured in Brazil as well as used vehicles available at dealerships.

Nissan vehicles equipped with the tags will become available to consumers beginning in late 2019. (Source date: 12 September 2019)

### ***Visa, Samsung and Fiserv unit First Data to offer dongle-less mPOS payments***

Samsung, Visa and Fiserv unit First Data have teamed up to replace mPOS dongles with a software-based system that lets merchants accept contactless payments of any amount on their handsets without the need for any additional hardware.

The SoftPOS system uses the NFC functionality in a merchant's smartphone or tablet to let them accept payments from contactless cards as well as NFC-enabled handsets and wearables.

Visa is providing contactless capability, while Fiserv offers settlement of transactions via a mobile app and Samsung provides security protocols in both hardware and software, as well as the mobile devices.

SoftPOS is being showcased at the IFA tech fair in Berlin before a pilot begins in Poland later this year ahead of a wider Emea and Apac rollout. (Source date: 9 September 2019)

### ***Sainsbury's abandons cash and card-free store pilot***

UK supermarket chain Sainsbury's has added a manned till and two self-checkout kiosks to its first mobile scan-and-go outlet after a three-month pilot trial failed to win over the general public.

The experimental cash and card-free store was opened in London's Holborn Circus in April. The supermarket chain had completely refurbished the store to remove the checkout area and tills with the aim of enabling customers to scan and pay for their groceries as they picked them off the shelves using the chain's Pay & Go app.

It appears that customers did not take well to the new changes, forming long lines at a specially-installed helpdesk in the store in an attempt to pay for their groceries in a more conventional manner. (Source date: 9 September 2019)

### ***ING partners Dutch supermarket to trial cashierless store***

ING has teamed up with Dutch supermarket chain Albert Heijn and US tech startup AiFi to pilot a cashierless store where customers tap their bank card as they enter, pick up their groceries, and walk out.

The concept is being tested in a tiny, 14 square metre, store in the city of Zaandam to test the concept. Customers wave their bank card at the store entrance to open the doors. As they take items from the shelves, cameras and weight sensors record the process. When the shopping is completed, the customer stands at the exit, sees the amount spent on a display, and the payment - up to EUR25 - is processed.

The system is similar to that being used by Amazon Go stores in the US. However, ING says that its effort is particularly smooth because there is no need to register or download an app.

The system will be tested by members of staff over the next couple of months, before moving to another store later in the year. (Source date: 6 September 2019)

### ***M-Payment firms form Euro association***

Seven mobile payment firms covering more than 25 million registered users are clubbing together to form the European Mobile Payment Systems Association (EMPSA) which its members say will foster collaboration and facilitate international payments.

The association will be based in Zurich and its members cover nine European countries - Belgium, Germany, Austria, Denmark, Finland, Norway, Portugal, Switzerland and Sweden, more than one million merchant acceptance points and 350 associated banks.

The primary aim of the group is to enable more cross-border interoperability for different, domestically focused m-payment systems and it has set up a specific working group to address the issue.

The imperative to encourage more interoperability has become more urgent given the plans for big tech firms to develop their own payment systems and currencies, such as Facebook's Libra project. (Source date: 3 September 2019)

### ***Bank of America announces surge in mobile P2P payments***

Bank of America has announced record-breaking person-to-person payments uptake, with millennial users of the Zelle app leading the charge. The bank says that in the first nine months, Zelle users sent and received a total of 163 million transactions, compared to 157 million transactions throughout 2018.

As people increasingly turn to cashless solutions to move and manage their money, Bank of America now has nearly 8.4 million clients actively using Zelle, including 68% of millennials and Gen Z, 20% of Gen X, and 12% of baby boomers and seniors.

The app is apparently most often used for paying rent, splitting utilities, family care and gifting.

Business uptake is also surging, with 180,000 small business owners using their small business accounts to send money using Zelle since the service was first offered in June. (Source date: 22nd August 2019)