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## Savantor's View

### Trends in the payments market

BIS has just released its annual Red Book report on payments and financial infrastructures, compiled in co-operation with central banks and other national authorities. The statistics presented demonstrate how the payments landscape continues to evolve, driven by a variety of factors including innovation and technology, consumer preferences, new market players, new systems and new methods.

Increasingly, systems offering near instant person-to-person retail payments are available around the world, with many payment systems operating seven days a week, 24 hours a day.

The combination of innovation and consumer preference continues to shift payments towards more convenient electronic payment methods with the statistics showing that the value of card payments relative to GDP is increasing in most countries.

The value of small denomination notes and coins in circulation is either decreasing or remaining static. Conversely, large denomination notes (typically used as an alternative to bank deposits) is generally increasing. The net result of this means that the total cash in circulation has grown in most countries and that the 'cashless society' is still some way in the future. The exception to this is Sweden where cash in circulation is decreasing and mobile payments are booming at the expense of card payments.

Convenience is seen to be a key driver in choice of payment method, with the number of contactless cards per consumer rising rapidly in both advanced and emerging markets. In addition, consumers are increasingly using debit or credit cards when abroad. Cross-border card payments have grown twice as fast as domestic payments since 2012.

The introduction of new players into the market has brought with it both innovation and policy changes. Competition from both fintechs and the big tech companies has impacted the traditional bank-based landscape. Non-banks now account for about a quarter of the institutions offering payment services or payment instruments, up from 14% in six years.

## Products and Initiatives

### Turkey looks to introduce Open Banking

The Turkish Government has passed new legislation to pave the way for the introduction of Open

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Banking and full compliance with PSD2.

The rules pass on responsibility for co-ordinating the shift to Open Banking to the Central Bank of Turkey and establish a Union of Payment and Electronic Money Institutions of Turkey.

The move has been welcomed by Turkey's Payment and Electronic Money Association (ÖDED), which represents the interests of companies in the payment and electronic money services sector. (Source date: 14 November 2019)

### ***Google partners with Citi on checking account***

Google is to partner Citi and a small Stanford University-affiliated credit union to launch a checking account. Code-named Cache, the account is slated to launch early next year, according to the Wall Street Journal.

In contrast with Apple's tie-up with Goldman Sachs on its new credit card, Google seems to be taking a backseat on the checking account, with its partners' brands front and centre. The tech company is currently less interested in creating a banking brand than in obtaining the valuable financial data - on things like income and bills - associated with the accounts. However, an executive from Google told the WSJ that the firm will not sell customers' financial data.

For their part, Citi and Stanford Federal Credit Union hope to gain access to new, potentially lucrative young and educated customers, helping them stave off the threat from tech firms going after their business in a more direct way than Google.

Users will be able to access the account through Google Pay, helping the digital wallet in its fight with rivals from Apple, Samsung and Facebook. (Source date: 13 November 2019)

### ***Google Pay to work with all banks after Curve integration***

Following on from the launch of its integration with Samsung Pay earlier this week, UK fintech Curve is now allowing its users with Android-operating devices to shop with Google Pay. The banking platform provides its users with a single Curve card which can make payments from any other bank card they have.

Curve's integration with Google Pay means its users will be able to link all their bank cards to Google Pay irrespective of the provider. At the same time, it provides all banks whose cards use Mastercard and Visa with Google Pay support. Support for Apple Pay is also reportedly in the works.

While many major UK banks already offer Google Pay, there are some that have instead built NFC-enabled payments into their own apps, such as Barclays and Virgin.

Curve will be looking to drive use of its platform through the added convenience of being able to shop without having the physical card handy. Google Pay also has the advantage over standard contactless payments of not being limited to transactions of £30 or less. (Source date: 8 November 2019)

### ***Starling issues dual currency debit card***

Starling Bank has issued a dual currency debit card which enables users to pay for purchases in either pounds or euros.

With the new account, clients can transfer money from their business account to their euro account with a single tap in the app. Account holders will be charged a flat fee of £2 per month. Transfers into the account will be made at the prevailing exchange rate, plus a 0.4% fee on the transaction value.

Business and personal customers need to open a Euro account to begin using the dual currency card. Their existing debit card can be switched on (in-app) to operate in either pounds or euros, depending on the currency of the transaction. (Source date: 30 October 2019)

### ***Uber launches financial services division***

Uber is moving deeper into financial services with the launch of a new division, Uber Money. The team has been charged with delivering new financial products and technologies, including a mobile bank account, digital wallet and upgraded credit and debit cards.

The first product to be launched will provide Uber drivers and couriers with real-time access to their earnings after every trip through the Uber Debit account, which will be run in association with Green Dot. The refreshed Uber Debit Card will launch with cash back on fuel starting at 3% and up to 6% for the highest tier of Uber Pro drivers.

Initially being introduced to drivers in the US, the company plans to export the system globally over the

coming months.

In tandem with the new account, Uber will also launch a digital wallet, through which users track their earning and spending history, manage and move their money, and discover new Uber financial products. The firm is also relaunching the Uber Credit Card, in partnership with Barclays, offering five percent back in Uber Cash from spending across the Uber platform. (Source date: 29 October 2019)

## Market News

### ***Faster Payments fee proposal to cover APP fraud rejected***

Proposals by seven UK banks to levy a per transaction fee for certain Faster Payment transactions as a means to provide a long-term, sustainable funding arrangement for the reimbursement of APP scam victims, have been rejected by governing body Pay.UK following an industry-wide consultation.

The industry has recently implemented a Voluntary Code which agrees to refund all customers who fall for APP scams, provided they did everything expected from under the Code. To fund this compensation, as an interim arrangement a number of the launch signatories of the Code established a “no blame” fund to provide reimbursements from implementation until a new long-term funding arrangement is in place. However, this bail out fund is due to end on 31 December, with no new models for compensating customers in place.

The industry's failure to agree a robust model for refunding customers has been recently criticised by a scathing Treasury Select Committee report, which suggested that the Code should be made compulsory and applied retrospectively. MPs have also called for a 24-hour delay on a subset of Faster Payments transactions to give people the chance to consider if they are being defrauded.

The chief executive of industry lobby UK Finance has expressed disappointment that a solution to the problem has yet to be reached. He says the industry will continue to call for new legislation to make the Code mandatory and agrees with the Treasury Committee and consumer group Which? that issues of liability and reimbursement should best be addressed by new laws rather than just a voluntary Code alone. (Source date: 15 November 2019)

### ***EU supports ECB cryptocurrency plans***

The European Union believes the European Central Bank should look into issuing its own cryptocurrency similar to the proposed Libra project by Facebook. The ECB has expressed an interest in the long-term potential of a public digital currency, which may undercut projects like Libra. However, it is likely that such plans were mooted before Libra's announcement in June.

The ECB would not be alone in looking into a centralised digital currency. China's plans in this area are well known, while Turkey, Tunisia and the Marshall Islands have all announced similar ventures.

There have been numerous bullish signs from China in the area of cryptocurrency and blockchain. Most recently, the state-run news outlet, Xinhua, published a Bitcoin explainer on its front page, referring to it as the “first successful application of blockchain”.

It is likely that the European states are keen to express their interest in a centrally-backed cryptocurrency in light of China's plans. Rumours circulated in August that a launch could happen as soon as November 11th, though the People's Bank of China has subsequently described this as “inaccurate speculation”. (Source date: 12 November 2019)

### ***EU banks consider rival system to card schemes and 'Big Tech' firms***

Twenty European banks are reportedly working on the development of a rival payment system to challenge the dominance of Visa and Mastercard and the threat from Chinese and US Big Tech firms, according to a report by AFP.

The Pan European Payment System Initiative (Pepsi) would apparently handle all forms of cashless transactions. The participants reportedly include most French banks as well as Germany's Deutsche Bank.

In April, a senior executive at Deutsche Bundesbank called on the banking sector to develop a pan-European mobile payments platform capable of competing with systems from Big Tech giants from the US and China.

Similar sentiments have emerged from the European Central Bank in the payment cards market, which is dominated by US schemes Mastercard and Visa. The ECB has long floated the idea of a home-grown

cross-border scheme capable of taking on the big brands, but so far without success. (Source date: 12 November 2019)

### ***Payment service providers co-opted into EU battle against VAT fraud***

EU banks and payment networks will be obliged to hand over data on e-commerce purchases to security services under a European Commission-led initiative to clamp down on VAT fraud. The agreement will for the first time make relevant data on online purchases available to anti-fraud authorities in their fight against VAT fraud in the sector, estimated at around €5 billion a year in the EU.

The rules will seek to ensure that anti-fraud experts in EU Member States have access to VAT-relevant data held by payment intermediaries such as credit card and direct debit providers that facilitate over 90% of online purchases in the EU.

Practically, payment service providers will be obliged to provide authorities with certain payment data from cross-border sales, which anti-fraud specialists operating within the 'Eurofisc' network can then access and analyse.

The new rules will now need to be confirmed by the European Parliament before entering into force in January 2024. (Source date: 11 November 2019)

### ***German banks propose digital euro***

The Association of German Private Banks has presented a position paper advocating the establishment of a European digital currency and a common identity standard across the Eurozone.

The Association, which represents more than 200 private commercial banks and eleven member associations, says the arrival of Facebook's private cryptocurrency Libra raises serious questions about what the global monetary system will look like in the digital age and who will shape it in the future. To this end, the Association is calling for the creation of a crypto-based digital euro operating across a common pan-European payments platform.

According to the report, for this to be achieved lawmakers and financial regulators must first lay the foundations for a level competitive playing field between sovereign entities, banks and private interests, by introducing a European or global identity standard.

"With every form of digital money, customers should be identified using a standard that is just as strict as that which banks and other obligated entities are required to apply under current legal framework pursuing the combat against money laundering and terrorist financing." (Source date: 31 October 2019)

### ***UK MPs demand urgent action on bank IT failures***

UK politicians have attacked the nation's banks over an "unacceptable" level of IT crashes and outages, calling on regulators to take action to improve operational resilience across the sector and to consider the implementation of new rules on cloud service providers.

The publication of the report by the powerful Treasury Select Committee follows a series of high-profile disruptions to financial services firms, including TSB, Visa and Barclays.

The Committee notes that with bank branches and cash machines disappearing, customers are increasingly expected to rely on online banking service. "These services, however, have been significantly disrupted due to IT failures, harming customers left without access to their financial services," states the report. "The current level and frequency of disruption and consumer harm is unacceptable."

The Committee has made a number of recommendations, including an increase in levies paid by banks to cover regulatory costs in order to ensure that the country's top three regulatory bodies are sufficiently staffed. It has also called into question bank reliance on third party cloud providers, warning of potential concentration risks. (Source date: 28 October 2019)

### ***EBA sets new EU-wide deadline for payment security rules***

The European Banking Authority has pushed back the deadline for the migration to Strong Customer Authentication (SCA) standards to 31 December 2020, giving national authorities a 15-month extension to implement the new rules.

Initially scheduled for introduction last month, the EBA in June acknowledged the complexity of the requirements, a lack of preparedness and the potential for a significant impact on consumers, paving the way for some firms, on an "exceptional basis", to get an extension if cleared by national authorities.

Since publishing the edict, some national authorities including the FCA and the Central Bank of Ireland, have announced a delay to the roll out in order to give firms more time to prepare. UK Finance has also recommended a further one-year extension over and above the 31 December 2020 deadline for the hospitality and travel sector.

However, there was concern about the failure to agree a harmonised approach to the migration time periods across the European Union. In setting down the new deadline, the EBA has moved to clarify the position across Europe, urging domestic market regulators to focus on "monitoring migration plans instead of pursuing immediate enforcement actions against payment service providers that are not compliant". (Source date: 17 October 2019)

## **Mobile Money**

### ***Apple condemns German rule change on mobile payments***

New legislation has been passed in Germany that would force Apple to open up its mobile payment system to rival providers. The rule change, passed as part of an amendment to an anti-money laundering bill, represents an attempt to curb the power of US Big Tech firms in Germany.

Banks in Germany and neighbouring Switzerland have been striving to get Apple to open up its jealously-guarded NFC interface for some time, arguing that it discriminates against home-grown mobile payment schemes.

A previous effort to get Apple to open up its infrastructure in Australia failed following a fierce battle between the US consumer electronics giant and five of the country's biggest banks.

The German bill does not name Apple specifically, but instead requires 'operators of electronic money infrastructure' to offer access to rivals for a reasonable fee. It is slated to come into force next year. Apple has condemned the plans as an assault on user privacy and security. (Source date: 15 November 2019)

### ***Facebook Pay consolidates payments across apps***

Facebook is taking on Venmo, Apple Pay and others with a consolidated payments service that works across its main app, Messenger, Instagram and WhatsApp. People have been able to make purchases and send money to each other through Facebook's various apps for some time but the new Facebook Pay service promises to make the experience more convenient, secure and consistent.

Users will be able to add preferred payment methods - including most major credit and debit cards, as well as PayPal - once and then use Facebook Pay without having to re-enter their details. Facebook Pay will roll out on Facebook and Messenger this week in the US for fundraisers, in-game purchases, event tickets, P2P payments and some parts of Facebook Marketplace. It will eventually arrive on Instagram and WhatsApp and in other countries.

The move to consolidate payments is part of a wider effort by Facebook to integrate its messaging platforms, binding the firm's disparate entities closer together as it faces growing antitrust scrutiny.

Facebook says the new offering is separate from the Calibra wallet that the social media giant is building to run on the controversial Libra cryptocurrency network, which is likely to be a long way off launching. (Source date: 12 November 2019)

### ***Salvation Army introduce mobile payments***

The Salvation Army is adding NFC chips and QR codes to its collections tins to enable smartphone users to make a donation via Apple Pay or Google Pay. The charity is fitting out of all its 25,000 red kettle tins nationwide with the features which will enable passers-by to tap or scan their phones to make a digital donation.

Donors will be directed to a custom donation page that accepts Apple or Google payment options. The funds will then be distributed to local Salvation Army units based on the donor's billing ZIP code, and an email receipt will be sent directly to their phone. (Source date: 8 November 2019)

### ***Apple Pay beats Starbucks as most popular US mobile payments app***

Apple Pay has overtaken Starbucks as the most popular mobile payment app in the US, according to figures from eMarketer.

Starbucks has long held the top spot in the US mobile payments market, tempting users with special offers, discounts and order ahead queue-jumping.

However, the gradual spread of contactless terminals across the US retail market has been worked in Apple's favour. According to Digital Trends, Apple Pay is expected to be available in 70% of US retailers by the end of 2019.

The strong uptake has prompted eMarketer to revise its figures upward for 2019: Apple Pay is now expected to account for 47.3% of mobile payment users, with the Starbucks app following closely behind with 25.2 million users this year, representing 39.4% of proximity mobile payment users. (Source date: 24 October 2019)

### ***Card schemes work together for one-click payments button***

American Express, Discover, Mastercard and Visa are rolling out interoperable one-click checkouts at select e-commerce sites across the US, eliminating the laborious and repetitive key-entry of personal account numbers and information when shopping online.

Based on the new EMV Secure Remote Commerce (SRC) industry standard, the networks have tested the technology in market with issuers and merchants and are preparing to introduce click to pay at select sites in the United States this month, leading up to wide availability in early 2020.

The initial focus will be on converting existing Masterpass and Visa Checkout merchants to click to pay, with payment processors and payment platforms, such as Adyen, Authorize.Net and CyberSource - Visa solutions, FIS, Global Payments, Mastercard Payment Gateway Services and Stripe all onboard.

The card schemes are promising merchants a reduction in shopping cart abandonment rates and a way to offer multiple card brands for digital checkout in one seamless integration. (Source date: 22 October 2019)