

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

Coronavirus and its impact upon spending behaviours

The lockdown imposed on the UK public on 23rd March, as well as self-imposed decisions to minimise travel outside the home in the preceding days, have inevitably had a massive impact on our spending habits.

According to the Office for National Statistics (ONS), retail sales in the UK dropped by a record amount in April, falling by 18.1%.

Clothing sales halved as many High Street shops were shut under the lockdown measures but online shopping as a proportion of all retail reached a record high of 30.7%, according to the ONS.

All types of shop, other than those selling clothing or household goods, saw record amounts being spent with them online, however the increase in online shopping did not offset the collapse in High Street spending.

The fall in non-food sales in April resulted in the lowest levels of clothing and shoe sales seen since the ONS started collecting the data.

In April, the proportion of online spending on food increased from 5.7% to 9.3%; off-licence sales also continued to increase, seeing a slight rise after a 23.9% jump in March. Total grocery sales rose 14.3% during the three-month period to 17 May, the fastest rate since 1994.

The shift in demand to online shopping has clearly identified those companies with the most robust e-commerce operations as retailers have struggled to cope with online demands. Online grocery retailers in particular found that their online services have been subject to unprecedented demand.

The latest grocery industry figures also show a marked change in shopping behaviour by consumers during the high street lockdown, with small local shops benefiting alongside online retailers. Corner shops and independent grocery stores have reported a 63% increase in trade as shoppers have turned to local outlets.

The number of shoppers visiting UK High Streets, retail parks and shopping centres fell at its fastest rate ever in April as the lockdown forced people to stay indoors, with footfall decreasing by more than 80% according to industry figures. This was almost double the level of March's downturn when there was a 41.3% drop in visits to shopping locations.

Whilst it is unlikely that the increase in online shopping will be sustained at these levels once restrictions on movement begin to be lifted, nevertheless it has probably accelerated the move towards online which

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was already in process. Grocery retailers in particular have gained new customers, many from the older demographic of the population – they may well continue using these services in the future.

One other major change in shopping behaviour resulting from the lockdown has been in the use of cash. For both practical and perceived hygiene reasons, cash usage in the UK has changed radically, with ATM withdrawals falling 60% during the lockdown and 75% of UK consumers reporting that their use of paper money is down.

Prior to the pandemic, cash was very much under attack as a payment method, with various industry initiatives to try and ensure that it remains an option for the various sectors of the population that rely on it. Just how much the current decrease in cash usage remains a permanent trend post-lockdown and the impact this has upon continuing to support it as a means of payment will be interesting to see.

Products and Initiatives

Canadian credit unions select IBM for payments modernisation

A group of more than 75 Canadian credit unions have agreed an eight-year, multi-million dollar deal with IBM for a digital payments overhaul.

Credit Unions from Alberta, Saskatchewan and Manitoba provinces have established a Prairie Payments Joint Venture (PPJV) to lead a payments modernisation effort in line with their customers' migration away from cash.

A Payments-as-a-Service platform will be developed and managed by IBM Services and hosted in a dedicated, private cloud environment on Big Blue's public cloud. Onboarding will begin later this year.

IBM says the credit unions will use the platform to drive innovation and new product offerings, and to ensure they can comply with evolving regulatory requirements at a lower investment. The platform will also enable the integration of key third party fintech partners. (Source date: 12 May 2020)

ECB focuses on retail CBDC

The European Central Bank is stepping up its analytical investigations into the potential for creating a central-bank backed digital currency for retail customers. The central bank currently has a task force working through the implications of CBDC.

According to the ECB, a wholesale CBDC, restricted to a limited group of financial counterparties, would be largely business as usual - however, a retail CBDC, accessible to all, would be a game changer. "So a retail CBDC is now our main focus."

The creation of a retail CBDC would need to address the currency's legal tender status and the relationship between a CBDC and euro banknotes and coins, along with the process by which one could be exchanged for the other.

For the moment, the ECB's investigation is purely analytical, but the company wants to be ready for "if and when the time comes". (Source date: 11 May 2020)

Revolut launches licenced bank in Lithuania

Revolut has formally launched as a licenced bank in Lithuania, enabling its 300,000 customers in the country to deposit their salaries and other funds in deposit-protected bank accounts. Existing customers are able to upgrade from e-money accounts to bank deposit accounts from their Revolut app with just a few taps on their mobile.

Revolut plans to offer consumer lending services in the coming months, including loans and credit cards, alongside 'Junior Accounts' for 7-17 year olds.

The company received its European banking license in late 2018 from the Bank of Lithuania and the European Central Bank (ECB).

Revolut says it will passport its Lithuania banking license to other Central and Eastern European countries later in the year, with Lithuania acting as a hub for the region. (Source date: 4 May 2020)

Natwest launches carers card

NatWest, Royal Bank of Scotland and Ulster bank have followed the example set by Starling Bank in launching a companion card which vulnerable customers can give to trusted people to pay for their groceries or other essential items.

To enhance security, the 'carers card' - which can be topped up with £100 every five days - will be associated with the customer's existing bank account but kept separate on the bank's systems. The card does not share a PIN or long card number with the customer's existing debit cards and ATM withdrawals are restricted to £50.

Starling Bank was first to introduce a spare card for vulnerable individuals, launching its 'Connected card' earlier this month. Protected by a PIN and with a balance limit of £200, the card only permits users to spend in-store and not online.

RBS, NatWest and Ulster are claiming a banking first by offering vulnerable customers and those in extended isolation a fee-free cash delivery service to their door, with almost £250,000 delivered to around 750 customers to date since 25 March. Additionally, customers can request a 'Get Cash' code that enables a trusted third-party to make ATM withdrawals up to £100 on someone's behalf from any of the banks' cash machines. (Source date: 24 April 2020)

Google developing debit card product

According to Techcrunch, Google is developing physical and virtual debit cards that would be co-branded with financial services players such as Citi and Stanford Federal Credit Union.

If launched, the cards would let users make in-person, in-app and online purchases and strengthen Google Pay, helping the digital wallet compete with rivals from Apple, Samsung and Facebook.

The November WSJ report suggests that Google is less interested in creating a banking brand than in obtaining the valuable financial data - on things like income and bills - associated with the accounts.

The Google plan is also significantly different to Apple's effort, which is a credit card, launched in partnership with Goldman Sachs last August. (Source date: 17 April)

Market News

Which? intervenes in lawsuit against Mastercard

UK consumer group Which? is intervening in Mastercard's appeal in the Supreme Court over a £14 billion class action lawsuit against the card issuer relating to interchange fees. In 2016, former financial ombudsman Walter Merricks launched a class action on behalf of 46 million customers against Mastercard. The claim relates to the European Commission's 2007 finding that the issuer charged inflated card fees on consumer card transactions between 1992 and 2008.

This month, the landmark Merricks vs Mastercard collective action will reach a significant moment as the Supreme Court hears the card issuer's appeal against a ruling that may allow the £14 billion collective action to proceed to the next stage of litigation.

The claim was brought as an opt-out collective or class action, made possible by the Consumer Rights Act 2015. Which? says that it has decided to intervene because, five years after the act was introduced, no claims have yet been allowed to proceed to trial.

The Which? director of advocacy said that the Supreme Court hearing is vital for consumers and Which? has intervened to ensure the regime achieves its purpose of providing real access to justice. (Source date: 13 May 2020)

UBS to apply for Chinese digital banking licence

UBS is to apply for a digital banking licence in China with the aim of reaching 200,000 mass affluent clients within two years.

UBS Asia Pacific told the South China Morning Post that the Swiss bank will apply for the licence when new rules are firmed up in June or July. The intention is to incubate the platform in China serving customers with a minimum of \$100,000 in liquid assets before rolling out globally.

UBS estimates that it costs roughly US\$25,000 to acquire a wealth-management client, which the company could slash down to as little as US\$60 via a digital bank and using artificial intelligence technology.

China has granted 18 licences for privately run banks since 2014, including those to Tencent-backed WeBank, Alibaba's affiliate MYbank and aiBank, whose investors include Baidu. (Source date: 12 May 2020)

Mastercard makes financial inclusion pledge

Mastercard has expanded its worldwide commitment to financial inclusion by pledging to bring a total of 1 billion people and 50 million micro and small businesses into the digital economy by 2025.

Driven by the Covid-19 crisis, the strategy will include a direct focus on providing 25 million women entrepreneurs with solutions that can help them grow their businesses.

The new commitment is an extension of Mastercard's pledge in 2015 to bring 500 million excluded people into the financial system.

Reaching the one billion goal will require a broad push across a range of fronts, including ongoing work on government disbursements, wage digitisation of private sector workers, partnerships with mobile network operators, solutions for gig workers, scaling efforts with fintechs, digital platforms and digital wallets/apps and tech that addresses needs of the financially vulnerable. (Source date: 11 May 2020)

US coalition forms to protect right to pay with cash

As contactless payments gain traction during the Covid-19 pandemic, a group of vendors, trade associations and consumer groups in the US have banded together to fight for the right to pay by cash.

Data from Mastercard and Visa suggests that around the world contactless payments have surged in popularity during the coronavirus crisis, while in the UK ATM withdrawals have plummeted by 60%.

The pandemic has accelerated a trend towards card and mobile payments that was already well established, prompting concerns among many that more vulnerable members of society could be locked out of the system if cash began to disappear.

The Consumer Choice in Payment Coalition (CCPC), made up of vendors such as Diebold, associations like the National ATM Council, and advocacy groups including The Consumer Federation of America, claims that cash payments have widespread public support. It also insists that scientific literature shows that cash is as safe as card payments - so long as standard public health recommendations about washing hands and not touching one's face are followed. (Source date: 7 May 2020)

HMRC removes nearly 300 Covid-19 phishing scam sites

The UK's Inland Revenue has formally asked Internet Service Providers (ISPs) to remove 292 scam web addresses exploiting the Coronavirus outbreak since 23rd March, according to official figures.

The data, obtained under the Freedom of Information (FOI) Act by Griffin Law, revealed that of the 292 sites removed, 237 were proactively identified and requested for removal by Her Majesty's Revenue and Customs (HMRC) independently, with the remaining 55 flagged by members of the public.

HMRC also disclosed that it had identified a total of 62 active phishing scams related to Covid-19 since March, with the majority in the form of text message scams. (Source date: 6 May 2020)

Pressure increases on EBA to amend SCA timetable

Payments Europe, an industry association representing the views of card issuers and card acquirers, has joined the growing calls for a delay to the introduction of strong customer authentication (SCA) rules and for a harmonised approach across national markets.

In a position paper setting out its views, the body urges the European Banking Authority to take note of the Covid-19 crisis and extend the December 2020 deadline for introduction of the new rules, which require a two-step verification process for all online purchases over EUR30.

Pointing to the recent decision of the UK's Financial Conduct Authority to push the timetable back to September 2021, Payments Europe stresses the need for a harmonised approach across national markets.

Payments Europe's intervention follows similar calls from lobby groups representing European payment providers and merchants. (Source date: 6 May 2020)

Charity calls on FCA to ensure elderly have access to cash during pandemic

A leading UK charity is asking regulators to force banks to support older and vulnerable customers who are struggling to access cash during the Covid-19 lockdown. The pandemic is radically changing cash usage in the UK, with ATM withdrawals falling 60% during the lockdown and three quarters of UK consumers reporting that their use of paper money is down.

Age UK has written an open letter to the Financial Conduct Authority warning that the rush towards a

cashless society could leave some older people unable to pay their way. The letter asks the FCA to consider introducing guidance to force banks and building societies to offer further support for their older customers, and to share the best practice that has emerged so far.

The charity welcomes the action that many banks have already taken during the lockdown to help their older customers by, for example, establishing helplines, sending cash through the post and making it easier for people to get cash on older people's behalf. However, it says more needs to be done and warns that the measures already introduced won't be of much use to those older people who struggle with the new processes; for example those who have a health condition that limits their ability to talk to their bank.

Age UK is also concerned that banks are pushing customers to digital channels. A third of the 70-plus population in England, the equivalent of 2.3 million people, live in a household without access to the internet. (Source date: 6 May 2020)

FCA extends SCA deadline by a further six months

The UK's Financial Conduct Authority is to delay the implementation of strong customer authentication rules by six months in an effort to minimise disruption to consumers and merchants during the ongoing Covid-19 crisis.

The move to set back the date for implementation of the rules - which demands a two-step verification process for all online purchases over EUR30 - from 14 March 2021 to 14 September 2021, comes amid mounting pressure from the European payments industry.

The FCA's ruling is likely to be followed by national authorities across Europe.

The European Payment Institutions Federation (EPIF), which includes Visa and Mastercard among its members, earlier this month wrote to the European Banking Authority - which favours a December 2020 timeline - arguing for the possibility of "at least an additional six months". (Source date: 30 April 2020)

UK cash withdrawals plummet 60% during Covid-19 lockdown

Research conducted by YouGov for ATM network Link shows that since the coronavirus lockdown, 58% of UK consumers are using cash a lot less and 54% are avoiding it and using alternative payment methods.

The changes seem set to continue, with 76% of those questioned by YouGov saying that they think the crisis will affect their future use of cash over the next six months. Around half say they will use cards more, while 44% will use contactless or mobile payments more, 34% will do more shopping online, and 31% will use ATMs less frequently.

However, cash is still far from dead, with Link data showing there are still 11 million withdrawals a week worth £1 billion.

In fact, some users - 14% - say that they are actually keeping more cash at home in case of emergencies. This is in line with data from the Euro area and Russia, which shows that people are hoarding money during the crisis. (Source date: 29 April 2020)

Monzo applies for US banking licence

UK challenger bank Monzo has applied for a US banking licence and is preparing to open a San Francisco office, according to the Telegraph newspaper.

Monzo has long planned to enter the American market, last year hiring an ex-Visa executive to lead the push and opening a waitlist for a service comprising a debit card and mobile app. However, a full banking licence would allow the firm to offer Americans fully insured deposit accounts and lending products.

The lengthy application process, run by the US Office of the Comptroller of the Currency, could take two years to complete.

Monzo recently decided to close a Las Vegas call centre but this serviced UK customers. (Source date: 23 April 2020)

Worldline progresses M&A strategy with majority stake in GoPay

Worldline has reinforced its merchant services business in Eastern Europe with the acquisition of a majority stake in Czech online payments processor GoPay.

GoPay, which generated EUR7 million of revenue in 2019, serves more than 9000 e-commerce sites in

Central Europe including Czech Republic, Slovakia and Poland. As well as strengthening Worldline's online collecting capabilities in the fast-growing Eastern European market, the acquisition also reinforces the company's market position in the Czech Republic and its partnership with Komerční Banka.

Under the terms of the agreement, Worldline will take over 53% of the stake in GoPay and is entitled to acquire the remaining shares in 2022.

The announcement forms part of Worldline's M&A strategy and follows the recent deal to acquire French peer Ingenico for EUR7.8 billion, creating a European payments powerhouse and the fourth-largest player in payment services worldwide. The transaction is expected to close in Q3 2020 as previously announced. (Source date: 23 April 2020)

Mobile Money

TrueLayer launches charity application

TrueLayer has launched a fee-free, stand-alone charity donation app using Payments Initiation technology for account-to-account transfers. It enables donations to be made directly from online banking, clearing funds in minutes and eliminating card fees. The firm says charities signing up for the Donate Direct platform can be up and running within a few hours.

Women's Aid, FareShare, End Youth Homelessness, The Wonder Foundation and The Brokerage are the first charitable organisations to take advantage.

TrueLayer has said it will match up to £10,000 worth of donations made through Donate Direct.

Another fintech-inspired initiative to raise funds for struggling charities comes from The Giving Room, a collaboration between contactless business conference outfit Purple Pot and Thyngs to provide charity donation links and QR codes to businesses holding video conferencing calls over Zoom. It forms part of an appeal to raise £200,000 over the summer for NHS charities, people affected by Covid-19 and other vital charities. (Source date: 13 May 2020)

Mastercard: Covid-19 spurs contactless payments takeup

According to a Mastercard study covering 19 countries, more than three quarters of consumers are now using contactless payments.

Increased concern about hygiene during the Covid-19 pandemic appears to have spurred contactless payments, as people refrain from using cash. Of 17,000 people from 19 countries interviewed by Mastercard, 46% have swapped out their top-of-wallet card for one that offers contactless - this proportion climbs to 52% among those under 35 years old.

The majority of respondents (82%) view contactless as the cleaner way to pay, while the speed of tap and pay is also seen as a benefit, enabling customers to get in and out of stores faster.

It appears that the trend towards contactless will outlive the virus, with 74% of those quizzed saying they will continue to use the option once the pandemic is over. (Source date: 30 April 2020)