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market eye

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

Technology and the pandemic

The coronavirus pandemic and ensuing lockdowns across the world have not only highlighted but also increased our dependency on technology. This was underlined recently by Satya Nadella, CEO of Microsoft, who declared that Microsoft has seen two years' worth of digital transformation in just two months during this period.

This acceleration and dependency can likewise be seen in the retail and payments spheres. In the UK, as the pandemic took hold in March and the country went into lockdown, many of the country's e-commerce businesses suddenly found themselves facing a previously unprecedented level of demand.

According to e-commerce provider Edge by Ascential, coronavirus is expected to have increased the UK's ecommerce sector by £5.3 billion by the end of the year. Online sales in 2020 are now expected to grow 19 % year-on-year, up from pre-pandemic estimates of 11%, rising from a total of £66.3 billion in 2019 to £78.9 billion this year. Amazon is likely to be one of the winners during this period.

Likewise Deloitte has found that ecommerce growth in the US as at 1st May was up 68%, accounting for over 40% of total retail sales.

A direct impact of the pandemic is that it is causing retailers to accelerate their digital transformation efforts. It is estimated that two-thirds (60%) of UK retail companies are reviewing their business strategies, with almost half (42%) looking to invest in digital, according to research by Livearea, another e-commerce services provider.

The impact on retail will be long-lasting, with the key to survival being business agility. As no-one at this stage knows what the post-covid resultant consumer behaviour will be – how much of the switch to online shopping remains permanent or how much footfall will return to the high street — businesses will need a strategy that can adapt instantly. Effectively this means adopting a digital approach, developing the technology and culture to put online first.

One shift that is likely to be permanent is the increased use of contactless, both from a hygiene perspective and ease-of-use habit.

It could also be said that the current situation offers an opportunity to those retailers who are able to grasp and exploit it. In addition to contactless, there are a number of technology-enabled enhancements which have been introduced or strengthened by Retailers in response to new consumer behaviour. Virtual queuing, footfall analytics to identify number of checkouts required, self-checkout and chatbots helping customers identify the least busy time to shop are some of the initiatives which are being explored by retailers.

The retail businesses that are able to adopt a digital strategy and develop technology-based solutions are likely to be the ones that survive the pandemic.

Products and Initiatives

HSBC signs multi-year deal with Amazon Web Services

HSBC has signed a long-term strategic cloud deal with Amazon Web Services to create a more personalised banking experience for its millions of customers worldwide.

As part of the deal, HSBC will make AWS technology available across the bank's lines of business, starting with customer-facing applications and application modernisation in its Global Wealth & Personal Banking business.

The bank says it will use AWS's portfolio of cloud services, including compute, containers, storage, database, analytics, machine learning, and security, to develop new digital products and support security and compliance standards.

Like most of its peers, HSBC is progressing with a multi-cloud strategy, having already signed a long-term deal with Google Cloud. (Source date: 15 July 2020)

NAB signs five-year multi-cloud deal with Microsoft

National Australia Bank has signed a five-year deal with Microsoft to co-design, develop and invest in the bank's multi-cloud strategy, porting 1000 of its 2600 apps to Azure as the primary cloud.

Under the agreement, NAB and Microsoft will share development costs and resourcing investment to architect a multi-cloud ecosystem that will host 1000 of the banks' applications on Microsoft Azure as the primary cloud, while ensuring the same applications can be moved to or run across a secondary cloud if necessary.

NAB says it has already moved more than 800 applications to public cloud providers, primarily across Amazon Web Services. The bank's proportion of apps on public cloud will apparently move from one third, to around 80 per cent by 2023.

As part of the deal, Microsoft will also train 5000 NAB and BNZ technologists under the bank's Cloud Guild programme, ensuring staff are equipped with the skills to maximise the investment in the technology. (Source date: 14 July 2020)

Dutch banks to create AML transaction monitoring utility

Five Dutch banks have joined forces to create a transaction monitoring utility in the fight against money laundering and the financing of terrorism. The coalition, comprising ABN Amro, ING, Rabobank, Triodos Bank and de Volksbank, will use Transaction Monitoring Netherlands (TMNL) to idenitify unusual patterns in payments traffic that individual banks cannot identify.

Estimates suggest that €16 billion of criminal money is laundered in the Netherlands each year from activities including drug trafficking, human trafficking, child pornography and extortion.

Research conducted by the banks shows that collective transactions will allow for better and more effective detection of criminal money flows and networks in addition to what banks can achieve individually with their own transaction data.

The banks are also working closely with government partners such as the Ministries of Finance and Justice and Security, the FIOD and the Financial Intelligence Unit (FIU) on the initiative, which ties in with the Money Laundering Action Plan announced by the government in mid-2019. As part of this plan an amendment of the Anti-Money Laundering and Anti-Terrorist Financing Act is expected to enable full-scale collective transaction monitoring. (Source date: 9 July 2020)

Deutsche Bank and Google Cloud agree multi-year deal

German banking giant Deutsche Bank has agreed a multi-year partnership with Google Cloud for the provision and joint development of cloud services. The arrangement will see the bank accelerate its plan to transition services to the cloud but also co-develop products with engineers from Google Cloud with the two parties sharing any revenue that arises.

The bank, Germany's biggest lender, has prioritised a revamp of its infrastructure as it seeks to cut costs. It has also pledged to invest €13bn on new technology over the next four years.

Much is likely to be made of the co-development part of the deal with Google Cloud, with Deutsche referencing the fact it will gain access to the data science, AI and machine learning capabilities of its new partner. Potential use cases include cash flow forecasting and risk analysis for treasury clients and digital services for the private banking business.

The deal is also a success for Google which managed to beat off competition from Amazon and Microsoft in a three month tender process that began in February. Until this year, Google Cloud's only major banking client was HSBC but a five year deal was signed in March 2020 with UK high street bank Lloyds. (Source date: 7 July 2020)

Indonesia's Amar Bank uses Google Cloud for smart phone bank launch

Indonesia's Amar Bank has launched an app-only banking offshoot housed entirely in Google Cloud.

Using technology from the bank's fintech subsidiary Tunaiku, with support from FIS Cloud and Infofabrica, the My Smile app currently offers a savings account backed up by personal financial management and account aggregation tools.

Amar bank already uses Google Cloud for Big Data architecture, AI and analytics and intends to gradually bulk up the offering from My Smile, which currently exists as a 'Lite' version. (Source date: 3 July 2020)

Eurozone banks to take on Visa and Mastercard with new payments platform

Sixteen major Eurozone banks have come together to start the implementation of a new payment system to take on Visa and Mastercard and the threat posed by Chinese and US Big Tech firms. The European Payments Initiative (EPI) aims to build a unified pan-European payment system, offering a card for consumers and merchants across Europe, a digital wallet and P2P payments.

The banks backing the project - BBVA, BNP Paribas, Groupe BPCE, CaixaBank, Commerzbank, Crédit Agricole, Crédit Mutuel, Deutsche Bank, Deutcher Sparkassen- und Giroverband, DZ BANK Group, ING, KBC Group, La Banque Postale, Banco Santander, Société Générale, UniCredit - have the full support of the European Central Bank, which has long floated the idea of a home-grown cross-border scheme capable of taking on the big brands, but so far without success.

The beginning of the implementation phase is expected to materialise in the coming weeks through the creation of an interim company in Brussels, which will set out clear deliverables including the completion of the technical and operational roadmap.

Other payment service providers are invited to join the initiative; until the end of 2020, a window remains open for European market players, individual banks or banking syndicates, as well as third-party payment service providers to apply and join EPI as a founder. EPI is expected to enter the operational stage in 2022. (Source date: 2 July 2020)

Market News

PayPal confirms cryptocurrency interest

In a letter to the European Commission, PayPal has confirmed its long-suspected interest in cryptocurrency and distributed ledger technology.

The letter, in response to the EC public consultation on building a framework for markets in crypto-assets, confirms PayPal is "continuously monitoring and evaluating global developments in the crypto and blockchain/distributed ledger space". It stresses PayPal's support for a harmonised EU approach to licencing, calling for a "clear set of definitions" on various crypto activities and a technology-neutral approach to regulation.

PayPal says it is particularly interested in how the technology can be used to boost financial inclusion and reduce some "pain points" in the industry.

The company also addresses its decision to back out of the Facebook-led Libra stablecoin project, confirming that it is taking its own "unilateral and tangible steps to further develop its capabilities in this area". (Source date: 16 July 2020)

FCA warns banks that access to cash is a regulatory priority

The Financial Conduct Authority has made it clear to banks that maintaining access to cash in local communities remains a regulatory priority that the industry should consider when making decisions on the future of their branches and ATMs.

The watchdog has published draft guidance for firms setting out its expectations for banks, building societies and credit unions when they are considering closing branches or ATMs, or converting a free to use ATM to pay to use.

The guidance sets out the FCA's expectation that firms should carefully consider the impact of a planned closure or conversion on their customers' everyday banking and cash access needs, including withdrawals, deposits and other cash-related branch services such as cheque cashing.

It also sets out the FCA's expectation that firms consider providing, and put in place alternative access arrangements where it is reasonable to do so, such as sharing services with other providers, providing mobile banking hubs or cash delivery services, or commissioning a free-to-use ATM. (Source date: 16 July 2020)

Impact of EC refusal to delay SCA

According to payments consultancy CMSPI, the European Commission's refusal to delay further the introduction of Strong Customer Authentication rules for online transactions could cost merchants up to EUR90 billion in lost sales for 2021 alone.

Despite industry calls to reassess in light of the Covid-19 crisis, last month the EC confirmed that it will not follow the UK's lead and extend the SCA deadline from 31 December this year. The deadline had already been extended by 15 months.

CMSPI says the rules - which demands a two-step verification process for all online purchases over EUR30 - will add complexity at the checkout and make life harder for retailers after what has already been a tough year.

The consultancy claims that the extended deadline for the UK - until September 2021 - should prevent EUR17 billion in disruption to the economy, with "only" EUR7 billion in failed transactions. Conversely in Europe, merchants could face up to EUR90 billion in losses as they rush to implement what may be "suboptimal solutions". (Source date: 13 July 2020)

Card schemes to take Click to Pay standard global

American Express, Visa, Mastercard and Discover are to roll out the online 'Click to Pay' standard globally, having signed up 10,000 merchants in the US since launch in 2019.

The major card schemes are each beginning technical preparations for global expansion of Click to Pay - based on the EMV Secure Remote Commerce industry standard - in additional geographies including Australia, Brazil, Canada, Hong Kong, Ireland, Kuwait, Malaysia, Mexico, New Zealand, Qatar, Saudi Arabia, Singapore, United Arab Emirates and the United Kingdom, with others to follow.

Major payments service providers, gateways and acquirers across the ecosystem are also participating in the initiative, including the likes of ACI Worldwide, Aurus, Blackbaud, BlueSnap, Braintree, Cybersource, Global Payments, Mastercard Payment Gateway Services and Square.

Click to Pay aims to make online shopping easier for consumers by replacing time-consuming key entry of personal account numbers and information at checkout with a universal payments button. For merchants, a single virtual terminal for all card brands is expected to help reduce friction at the checkout and lead to a reduction in cart abandonment. (Source date: 8 July 2020)

Mastercard to buy Finicity for open banking initiative

Mastercard is accelerating its open banking strategy through the $825 million acquisition of real-time financial data aggregation service Finicity. Salt Lake City-based Finicity works with thousands of banks and fintechs, using APIs to help smooth the exchange of customer data.

The deal will be good for consumers and businesses, says Mastercard, helping to streamline the credit decisioning process and providing an improve ACH and real-time payments experience.

The deal comes months after Visa agreed to pay $5.3 billion for Plaid, another bank data sharing startup, which Mastercard has previously invested in. (Source date: 23 June 2020)

UK Finance proposes new oversight model for Open Banking

UK Finance is proposing that the oversight of Open Banking functions should be moved to a new service company upon completion of the implementation roadmap in early 2021. The Competition and

Markets Authority (CMA) final OB implementation roadmap is due to end in early 2021, with the banking and finance industry then required to keep the OB function running.

Since 2016, the Open Banking Implementation Entity (OBIE), overseen by the Implementation Trustee, has played a key role in developing the standards, providing operational and technical services, and generally supporting the open banking community. However the Trustee has said that after the roadmap is successfully delivered, it will bring the Open Banking implementation phase to a close.

UK Finance is arguing that "The OBIE cannot be simply wound up……..functions that the wider ecosystem depend on will need to continue: such as maintenance of Open API Standards and the provision of a directory of whitelisted Open Banking participants." In its stead, the trade body is proposing the creation of a new service company, with firms paying "fair and equitably" for their use of central services. As part of this, a separate monitoring function would be established to review ongoing compliance with the CMA's Order.

The Financial Conduct Authority is due to publish results from a consultation initiated last year on proposals to extend open banking rules to a wider range of products, under a new model billed as 'open finance'. It believes that by making it easier for consumers and businesses to compare price and product features and switch product or provider, open finance could be beneficial to a wider range of services in the general insurance, cash savings and mortgage markets. (Source date: 18 June 2020)

UK court rules against Visa and Mastercard in interchange fee battle

The UK's Supreme Court has come down in favour of the UK's biggest supermarket chains in a long-runnning legal battle over the level of interchange fees charged by Visa and Mastercard.

The Supreme Court unanimously upheld the conclusion of the Court of Appeal that the multi-lateral interchange fees (MIFs) infringed EU antitrust rules by illegally restricting competition in the acquiring market.

The landmark ruling concludes several years of economic and legal battle over the rate of interchange fees set by Visa and Mastercard. Many of the UK's biggest retailers have already lodged substantial claims against the global schemes, with Sainsbury's et al. previously being awarded over £69 million at the Court of Appeal.

In announcing the judgement, the judge dismissed all grounds of appeal brought by the credit card companies, except one point over the degree of precision required to calculate loss, the so-called broad axe issue.

The judgement does not specify exactly how much the merchants are entitled to in repayment, but it is expected to pave the way for other cases to be brought to the commercial court.

It has been estimated that the maximum pay-out for merchants could be €17bn if Visa and Mastercard fail to prove pass-through benefits. If European merchants then proceed, it could be as much as €68bn - representing the total Interchange paid since 2013. (Source date: 17 June 2020)

Mobile Money

Zimbabwe to suspend mobile payments

Zimbabwe has ordered mobile payments firms to suspend transactions, accusing them of conspiring to sabotage the economy. The stock exchange has also been closed.

According to central bank data, with a scarcity of bank notes, mobile payments account for more than 80% of all transactions in the southern African country. However the administration claims that operators, particularly the hugely popular Ecocash, have been conspiring to sabotage the Zimbabwe dollar, which has lost nearly all of its value over the last year, causing rampant inflation.

The suspension is designed to facilitate "intrusive investigations, leading to the arrest and prosecution of offenders".

Ecocash initially told customers to continue using its service as normal, arguing that only Zimbabwe's central bank had the power to suspend its operations. However the bank has since issued its own statement, specifying a ban on mobile money agents facilitating transactions but allowing merchants to receive payments for goods and services. (Source date: 30 June 2020)

Brazil Central Bank suspends WhatsApp payment service

The central bank of Brazil has suspended Facebook's WhatsApp payment service within ten days of its roll out, citing competition issues in the mobile payment space. The central bank said it was taking the decision to “preserve an adequate competitive environment” and to ensure “functioning of a payment system that’s interchangeable, fast, secure, transparent, open and cheap.”

The injunction demands that Visa and Mastercard suspend launching payments and transfers on WhatsApp, or cease such operations immediately.

The central bank also stated that it hadn't had the opportunity to analyse the P2P messaging system in advance of its roll out.

WhatsApp began testing P2P payments in India in 2018 but Brazil, where the messaging service has 120 million users, became the first country to get a nationwide rollout. Banco Central do Brasil's pushback is a serious blow to Facebook's ambitions in the payment space and mirrors the firm's difficulties in gaining regulatory approval in the vast Indian marketplace. (Source date: 24 June 2020)

G+D introduces SCA for EMV cards

The security technology company Giesecke+Devrient has developed a system that lets customers use EMV payment cards and their mobile phones for the upcoming Strong Customer Authentication (SCA) rules.

Under SCA, shoppers will be required to go through a two-step verification process for all online purchases over EUR30.

G+D Mobile Security says that its Convergo tap solution is an answer for SCA, with shoppers tapping their card against their Android handset for one step of the verification process.

Convergo has other use cases, says G+D, for example activating newly issued bank cards - the bank’s app on the device reads the token stored on the EMV chip and the card is ready for use. (Source date: 18 June 2020)