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.

Items in this issue:

Savantor's View

Fraud and the pandemic

The coronavirus pandemic has resulted in a significant increase in the amount of time we all spend online. Unfortunately this has led to cybercriminals taking advantage of the situation with the result that there has been a considerable increase in fraudulent activity.

Barclays has reported a 66% increase in scams for the first six month of this year; the trend does not appear to be slowing down as recent figures indicate volumes for July are up a further five percent on June data. The bank also recorded a 49% jump in July in the volume of investment scams being committed, the highest Barclays has ever reported.

UK Finance has also just issued a warning that criminals have been exploiting and adapting to the circumstances created by the virus with a growth in fraud and scams that target people online. Figures collated by the industry body indicate that there has been an 84% increase in impersonation scam cases compared to the same period last year.

Many of these scams target customers to obtain their personal and financial details, for example through phishing emails or text messages impersonating trusted organisations. As there is often a delay between criminals obtaining people's details and using them to commit fraud, the full losses from these Covid-19 related scams in the first half of this year have probably not yet have been fully realised.

Figures collated by UK Finance suggest criminals have been eschewing more traditional forms of fraud due to the impact of the pandemic. Contactless card fraud, which takes place using lost and stolen cards, fell by 20%, the first year-on-year decrease since this data started being collected in 2013. This is likely to be related to the reduced number of face-to-face transactions by consumers using contactless cards during the lockdown. Cheque fraud losses also saw a significant fall of 78% to £6.4 million, similarly likely to have been driven by the reduced use of cheques during the lockdown period.

Unauthorised fraud also fell by 8%, with the industry preventing £853 million of attempted unauthorised fraud over the same period, up four per cent on the previous year. This equates to almost £7 in every £10 of attempted fraud being blocked in the first half of this year.

There has not been an increase in Authorised Push Payment (APP) fraud which remained in line with the same period last year. Encouragingly, finance providers were able to return £73.1 million of APP fraud losses to victims, which is up 86% compared to last year.

Nevertheless, criminal gangs have no compunction about ruthlessly exploiting the pandemic to commit fraud. As urged by UK Finance, the public need to be extra vigilant in their dealings and transactions online.

Products and Initiatives

Hungarian biometrics payment company to target Europe

Hungarian startup PeasyPay is preparing to expand its biometrics-based point-of-sale payments technology to Spain and the UK.

To sign up for the system, shoppers download the PeasyPay Android or iOS app and then take a selfie and a picture of their palm with their mobile's camera before registering their bank card.

To make instore purchases, special POS terminals equipped with cameras and facial recognition software scan customers' faces and palms and compares them to the biometric template created in advance. If the scans match, the payment is authorised and charged to the linked card.

Launched by EIT Digital, PeasyPay has been operating in Budapest since December thanks to partnerships with E-Group and OTP Bank. A pilot involving up to 25 retailers is underway in Guadalajara, Spain, with partners Ci3 and Liberbank, whilst in the UK, the system is being set up to let taxi drivers seamlessly pay the fee to enter Glasgow Airport's parking area. In Slovenia, a pilot is set to go ahead in a restaurant. (Source date: 11 September 2020)

Mastercard launches CBDC testing platform for central banks

Central banks around the world are warming to the concept of creating their own digital currencies. A recent survey from the Bank for International Settlements found that 80% are working in some way on CBDCs, while 40% have moved beyond conceptual research to experimentation.

Mastercard has built a virtual testing platform to help central banks assess and explore national digital currencies.The new platform promises to enable the simulation of issuance, distribution and exchange of CBDCs between banks, financial service providers and consumers.

The payments company is inviting central banks, as well as commercial banks and tech and advisory firms, to assess CBDC tech designs, validate use cases and evaluate interoperability with existing payment rails.

A spokesperson for Mastercard said that the new platform "supports central banks as they make decisions now and in the future about the path forward for local and regional economies." (Source date: 9 September 2020)

Starling Bank launches children's debit card

Starling Bank is to launch its Kite debit card, which can be used by children under the age of 16 for spending online, instore and withdrawing cash from ATMs. The card can be ordered by parents from the app, providing complete oversight of spending and a maximum allocation of £5000 in funds.

Parents, whether using a personal or joint account, receive notifications whenever their child spends money. They can also check, control and limit specific functions such as online payments and ATM withdrawals, and set a daily transaction limit which can be controlled and adjusted as the child's financial needs and awareness grows.

Starling Bank commented that "Understanding the value of money and learning skills such as budgeting and saving from a young age, can help people lay the foundations for them to achieve better financial wellbeing later on in life."

Once children turn 16 they will be invited to open a Starling Teen Account for 16-17 year olds, which will automatically change to a Starling personal account after their 18th birthday. (Source date: 9 September 2020)

PayPal introduces interest-free BNPL product

As online purchases increase and consumers look for more ways to save due to Covid-19, buy-now-pay-later has accelerated in popularity.

PayPal has launched Pay in 4, a short-term interest-free buy-now-pay-later instalment product for merchants in the US.

The company says Pay in 4 can help merchants drive conversion, revenue and customer loyalty without taking on additional risk or paying any additional fees.

Merchants get paid upfront while customers pay for purchases between $30 and $600 in four instalments over a six-week period with no fees or interest. (Source date: 31 August 2020)

Visa uses AI to reduce declined transactions during service outages

Visa is using real-time AI to help financial institutions manage transaction authorisations during service outages and disruptions. The Visa Smarter Stand-in Processing (Smarter STIP) uses deep learning to analyse past transactions before generating decisions to approve or decline transactions on behalf of issuers if their systems go offline.

Smarter STIP analyses pass transactions down to the cardholder level so it does not rely solely on static rules applied across an entire card portfolio. Visa claims this gives it the potential to decrease transaction declines for cardholders by up to 50% in some cases.

The technology will be available in October and has "generated interest from a range of financial institutions around the world," says Visa. (Source date: 26 August 2020)

JPMorgan to launch UK digital bank early 2021 – Sky

According to Sky News, American bank JPMorgan Chase is looking to launch its UK digital challenger in the first quarter of 2021. The US bank is understood to have signed on with Amazon Web Services for its cloud needs and 10x Future Technologies for its digital infrastructure.

JPMorgan was rumoured to be planning a sizeable equity investment in 10x, the fintech startup founded by former Barclays boss Antony Jenkins, back in 2019.

The bank will be following the lead of rival Goldman Sachs, which launched its Marcus brand in the UK in 2018 and now boasts over 500,000 customers. In June it closed its savings account to new customers after an influx of deposits during the Coronavirus pandemic.

JPMorgan's previous attempt at offering digital-only banking was short lived, with US mobile brand Finn lasting only a year before being shut down in June 2019. In the UK it will be entering a crowded market, taking on digital challengers such as Monzo, Atom, Starling and Revolut, as well as the traditional high street giants. (Source date: 21 August 2020)

Market News

UK banks sign Fintech Pledge

Some of the UK's biggest banks have signed a government-backed pledge to improve collaboration with fintech firms. Launched by Tech Nation with support from HM Treasury, the Fintech Pledge is designed to boost the sector by helping to establish efficient and transparent commercial partnerships between banks and fintech firms.

Barclays, HSBC, Lloyds, NatWest and Santander have already signed the pledge, the key principles of which require them to provide clear guidance to technology firms on the onboarding process.

The banks will - within six months of signing the pledge - provide a dedicated landing page and a named contact, as well as guidance and feedback to firms looking for partnerships.

A spokesperson for the Treasury commented “The UK is already the best place in the world to start and grow a Fintech, and we’re committed to that remaining the case as our economy bounces back. So I welcome the Fintech Pledge from some of our leading banks and look forward to more firms becoming signatories.” (Source date: 14 September 2020)

FCA sets expectations for access to cash

The UK's Financial Conduct Authority has warned banks that every time they plan to close a branch or ATM they will need to provide an analysis of the impact on customers' access to cash. The FCA says banks, building societies and credit unions are now expected to keep it informed of any plans to close branches or ATMs, or to convert ATMs to pay-to-use, in good time before any final decision is made.

If a firm decides to implement its closure or conversion proposals, it will be expected to clearly communicate information about this to its customers no less than 12 weeks before implementation, making people aware of alternatives.

Concern has been growing for years about the removal of fee-free ATMs and bank branches in small communities, which is leading to the creation of 'cash deserts' that leave vulnerable groups such as the elderly. Last year, the independent Access to Cash Review said the UK is not ready to go cashless and set out a series of measures necessary to ensure no one is left behind as the country moves towards a digital society.

In March, with the Covid-19 pandemic hitting cash usage, the government committed to legislating to protect access to cash for as long as people need it. (Source date: 14 September 2020)

ECB considers development of digital euro

The president of the European Central Bank has suggested that the Euro Zone's central bankers are close to making a decision on whether to press ahead with the development of a central bank digital currency (CBDC). The comments came in a speech given to Germany's Bundesbank's conference on banking and payments in the digital world where it was argued that the EU cannot afford to be left behind in the development of digital payment methods.

The pandemic has accelerated the "transition to a digital new normal" while competition to dominate payments on a global scale has led to the dominance of a small number of large players. It was stated that Europe has fallen behind in this competition and also highlighted that the lack of payments integration within Europe as another barrier to progress.

However, it was also argued that digital payments bring new risks that must be taken into account. These include the potential disruption of the payments market by big tech firms such as Facebook which is developing its Libra payment project. Such developments could in turn lead to a weakening of operational resilience and more difficulty in tracking illicit activity.

And whilst it was said that introducing a digital euro would "allow the Eurosystem to be at the cutting edge of innovation", it was also acknowledged that there needs to be a thorough examination of the associated risk. (Source date: 11 September 2020)

US warns North Korean hackers have returned

US authorities are warning that a North Korean-controlled hacking team called the BeagleBoyz has stepped up its attacks on banks around the world, attempting multiple fraudulent money transfers and ATM cash outs.

A UN report last year estimated that North Korea has generated $2 billion in revenues for its weapons programme through the state-sponsored looting of financial institutions and cryptocurrency exchanges. A US alert earlier this year listed a host of acts believed to have been carried out by the North Koreans, including the 2016 Bangladesh Bank heist, the WannaCry ransomware campaign, the FASTCash ATM cashout scam, and a $250 million digital currency exchange hack.

Although the hackers appeared to have gone quiet last year, they have resumed their attacks since February, warns a new alert put out by the FBI, US Treasury, US Cyber Command and the Cybersecurity and Infrastructure Security Agency. In particular, a team called the BeagleBoyz is posing "severe operational risk for individual firms," says the alert, citing a 2018 attack on a bank in Africa which could not resume normal ATM or point of sale services for its customers for almost two months following an attempted FASTCash incident.

The gang has targeted banks in dozens of countries over the last five years, netting hundreds of millions of dollars for the North Korean regime, says the alert. (Source date: 27 August 2020)

Bank-issued stablecoin used for e-commerce payment

In what is being hailed as a world-first, a bank-issued stablecoin has been used to carry out an e-commerce payment.

Sygnum Bank's digital Swiss Franc (DCHF) was used to make a payment on the site of Swiss online retailer Galaxus. The transaction was enabled by Danish digital currency platform provider Coinify.

The value of Sygnum's DCHF is pegged 1:1 to the Swiss Franc. When used for e-commerce payments, no intermediaries are involved and the transactions happen in real-time with stable values.

The partners say this reduces costs for online retailers by eliminating card systems and protecting against fraud, as well as simplifying and speeding the customer purchase experience. (Source date: 27 August 2020)

Indian competition watchdog dismisses case against WhatsApp

The Competition Commission of India (CCI) has dismissed a case accusing WhatsApp of abusing its dominant market position in messaging to move into the country's payments space. It says it did not find that Facebook-owned WhatsApp was in contravention of antitrust laws.

WhatsApp's payments feature is still in beta in India, limited to less than one per cent of its customers in the country. The company began testing P2P payments in India in 2018 but has yet to secure clearance for a full launch.

The firm also told the CCI that users are not required to register for the payments service in order to use the main messaging service.

Recently, the firm launched payments in Brazil only to be shut down by the central bank within ten days over competition issues. (Source date: 19 August)

EU approves Mastercard takeover of Nets' units, subject to concessions

The European Commission has approved the €2.85 billion take-over by Mastercard of key business units of Nets, subject to the transfer of a licence for the Nordic payment processor's account-to-account core infrastructure services to a rival brand.

The concession on the sale was offered by Mastercard after the EU voiced concerns over anti-trust issues in the A2A CIS market, in which both companies compete.

To seal the deal, Mastercard and Nets offered to transfer a global license to a rival player to distribute, supply, sell, develop, modify, upgrade or otherwise use Nets' Realtime 24/7 technology. In particular, the purchaser will have access to the licensed technology on an exclusive basis in the EEA and, on a non-exclusive basis, outside of the EEA.

The transfer also includes all necessary personnel and services, such as consultancy services and transitional support services, including access to all necessary components and capabilities to provide managed services based on Nets' Realtime 24/7 technology. (Source date: 18 August)

Mobile Money

Credit Suisse to launch app-based service to rival digital challengers

Credit Suisse is to launch an app-only banking service to compete with digital challengers. Set for launch next month, CSX will offer a range of online banking tools, free foreign exchange transactions, mortgage loans and a fully digital wealth management service.

Credit Suisse, who last month revealed plans to close a quarter of its branches, said that over the past two years the use of online banking had grown by approximately 40%, while the use of mobile banking more than doubled.

The arrival of the new online service will run parallel to a revamp of the bank's remaining physical outlets to cater for clients with more complex advisory needs. The 'future-oriented' branch concept will include 'digital bars' offering one-to-one sessions with specialists via video conferencing and 'event zones' to attract startups. (Source date: 10 September 2020)

EU to investigate Visa digital wallet licencing rules

The European Commission has opened a preliminary investigation into Visa's rules regarding staged digital wallets. Initiated in June, the probe was briefly referenced in Visa's most recent regulatory filing.

Referencing "industry insiders", the Times newspaper points to concerns among regulators that some financial technology start-ups are pushing the rules too far through a desire to offer ultra-speedy payments to customers, making it difficult for Visa to check for money laundering and fraud.

The filing also reveals a lawsuit lodged in the UK by Euronet, alleging that certain rules affecting ATM access fees in Poland, the Czech Republic and Greece breach various competition laws.

Euronet is seeking damages, costs, and injunctive relief to prevent Visa and Mastercard from enforcing the rules. (Source date: 7 September 2020)

Vipps to extend beyond Norway via Visa

Norwegian payments app Vipps is attempting to break out of its home market through a strategic partnership with Visa.

Under the arrangement, Visa’s clients and partners will be able to take advantage of the Vipps platform to create their own digital wallets and offer customers new ways to send, pay and receive money via their mobile phone.

Collectively owned by 110 Norwegian and launched in 2015, Vipps has achieved 85 percent market penetration in its home territory, attracting 3.7 million users in Norway. (Source date: 3 September 2020)

Mastercard targets touchless economy

As merchants adapt to the Covid-19 world, Mastercard has unveiled AI-powered technology designed to enable touchless shopping.

The payments system is working with AI and computer vision technology partner Accel Robotics on its Shop Anywhere platform, which promises to improve the speed of the shopper journey by eliminating points of friction through robust inventory and participating shopper analytics - offering consumers no wait, no checkout lines, and secure payments.

Among those trialling the technology is a Dunkin' restaurant where customers can approach the store and pick up their coffee and doughnuts - walking away without any face-to-face interaction.

Meanwhile, Mastercard is also working with SoundHound and Rekor Systems on an AI-powered Drive Through platform. The system uses vehicle recognition, voice ordering, and AI to remove the need for an employee to take an order. In addition, customers can receive personalised and dynamic menu offers based on historical purchasing trends either based on the store or the individual. (Source date: 28 August 2020)