

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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Items in this issue:

Savantor's View	1	Swift to move into low-value consumer payments	3
COVID-19 - acceleration of trends in consumer behaviour	1	TSB to close a third of branches and cut 900 staff.....	4
Products and Initiatives	2	New security measures could block one-third of online EU purchases.....	4
Ecosia invests in wooden debit card startup.....	2	Royal Mint will not make new 2p or £2 coins for 10 years.....	4
PayPal enters UK's buy now, pay later market.....	2	Mobile Money	5
Venmo launches credit card	2	Icici allows firms access to trade finance services via WhatsApp.....	5
Amazon rolls out palm payment technology	2	New digital bank to be launched for young professionals	5
Market News	3	Launch of One banking app	5
UK Government outlines plans for retail cashback without a purchase.....	3	EU could compel Apple to open up iPhone NFC functionality	5
ECB initiates consultation about creation of a digital euro.....	3		

Savantor's View

COVID-19 - acceleration of trends in consumer behaviour

The recently issued Capgemini World Payments Report 2020 has underlined the continued migration from use of cash towards digital methods of payments, hastened even more by the circumstances caused by the COVID-19 pandemic.

The findings of the report identify how non-traditional payment service providers are becoming more popular, with 30% of consumers choosing to use a 'Big Tech' company for payment services and 50% opting to use a challenger bank for payments. In addition, 38% of consumers apparently discovered a new payment provider during lockdown, with the possibility that they may decide to switch on an ongoing basis.

The environment generated by the COVID-19 crisis seems to have initiated a cross-generational shift towards digital channels and digital payment methods, such as contactless, digital wallets and QR codes, away from the more traditional methods of payment. During this period consumers appear to have been more open to trying different methods of payment: 41% of consumers who classified themselves as high cash users admitted to trying a contactless card; 35% who owned a card added it to a digital wallet; and 27% of customers experimented with QR code payments.

The findings indicate that the circumstances of the pandemic – increased online shopping from home; decreased acceptance of cash and increased use of contactless to avoid handling coins and notes; internet banking in preference to bank branch visits - have encouraged previously digitally non-savvy customers to consider new ways to pay.

The effects of these consumer behavioural changes are now making themselves apparent. With the decline in cash usage the requirement for ATM's has decreased. Only this month the Post Office announced that is to cut a third of its cash machines in the next 18 months with 600 ATMs to be shut by March 2022. The Royal Mint is not planning to make any new 2p or £2 coins over the next decade, due to the decrease in demand for coins.

The concern of moving away from cash too quickly has always been the impact upon the vulnerable and disadvantaged in society. New research released by the consumer group Which? revealed that thousands of people have been prevented from paying with cash since March – over 2,500 reported their problems to Which? Of those who did not have an alternative method of payment, 38% were attempting to pay for groceries and 17% were trying to buy medicine.

A decade ago, cash was used in 6 out of 10 transactions but by 2019 it was used in less than 3 in 10. Between early March and mid-April the market demand for notes and coins is reported to have declined

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by 71%. The effect of the pandemic has been to accelerate trends and changes in payments into a much shorter timeframe than might have otherwise been anticipated.

Products and Initiatives

Ecosia invests in wooden debit card startup

Eco-friendly search engine Ecosia has invested £1 million for a 20% stake in TreeCard, a wooden payment card that channels profits from merchant surcharges into reforestation programmes.

TreeCard comes with an app that lets users track spending, split bills with friends and monitor how many trees have been planted as a result of user spending. It uses the Mastercard network with back-end card processing services provided by Synapse. The product acts as a full debit account, able to receive top-up from a user's regular bank account, with support for chip and PIN, contactless transactions and mobile payments.

Apparently Treecard is looking to get at least 100,000 customers, which would help fund the planting of six million trees. TreeCard will be launching in the US and a number of EU markets over the next twelve months, but a lot will depend on the interest and sign-ups from Ecosia's users around the world.

Ecosia has set up a waiting list and expects to begin shipping the first cards in December. (Source date: 16 October 2020)

PayPal enters UK's buy now, pay later market

PayPal is to take on companies Klarna and Australia's AfterPay with the launch of a buy now, pay later shopping service that lets UK consumers pay for their purchases in three monthly instalments.

Through PayPal Pay in 3, businesses can offer their customers the option of making purchases between £45 and £2,000 by paying over three, interest-free payments, with seamless automatic re-payments each month. PayPal Pay in 3 will also appear in the customer's PayPal wallet, so they can manage their payments online or via the PayPal app. The move follows the August release of a 'Pay in 4' product in the US in the lead up to the busiest shopping season of the year.

Retailers including Crew Clothing, French Connection, Robert Dyas and Ryman have signed up for the product, which will go live later this month.

As online purchases increase and consumers look for more ways to save due to Covid-19, buy-now-pay-later has accelerated in popularity, showing a 39% year-on-year increase in the proportion of buy now, pay later payments in the UK in 2019. This trend is expected to double by 2023, according to figures from WorldPay. (Source date: 14 October 2020)

Venmo launches credit card

P2P payments company Venmo has launched its first credit card, which comes with a personalised rewards setup and a built in QR code.

The contactless Visa card, issued by Synchrony, can be managed within the Venmo app, where customers track their spending, which is organised into categories such as groceries, bills, dining and transportation. Each month, the card gives customers cash back to their Venmo account based on these spending categories: three per cent for the one on which most was spent, two per cent for second, and one per cent for the third.

The card, available in five designs, also has a unique QR code which can be scanned to activate it and by friends to send a payment or split a purchase. (Source date: 5 October 2020)

Amazon rolls out palm payment technology

Amazon has unveiled technology that lets shoppers at physical stores pay for their purchases by scanning the palm of their hands.

The firm has been experimenting with payment options, including the use of "just walk out" technology, which taps sensors and cameras to track what items customers take from the shelves and then automatically charges through an app. Now it has unveiled a new option, Amazon One, which uses "custom-built algorithms and hardware" to create and read a person's unique palm signature. To sign up, users insert their credit card and then hover their palm over the device.

Initially, the system will be used at select Amazon Go stores, which have entry gates that customers currently get through by entering a code on their phone. Customers will take the goods they want and

the card linked to their palm will be automatically charged.

However, Amazon plans to extend the rollout and also wants to sell to third parties, arguing it could be used for everyday activities like paying at a store, presenting a loyalty card, entering a location like a stadium, or signing into work. (Source date: 30 September 2020)

Market News

UK Government outlines plans for retail cashback without a purchase

The UK government has put forward proposals to allow cashback from shops without the need to buy anything, in a move to protect the nation's cash system. The decision follows years of campaigning from consumer advocates over the disappearance of cash from the UK's high streets as banks close branches and ATMs. The global pandemic has further accelerated the decline of cash, forcing the Government's hand to introduce new rules to ensure that cash remains available for those who prefer it to digital alternatives.

The Government says Britain's imminent exit from the EU will enable it to skirt PSD2 rules that currently label cashback without a purchase as a regulated payment service.

Alongside legislating for retail cash back, the Government is also proposing to provide the Financial Conduct Authority with overall responsibility for maintaining a "well-functioning" retail cash system. At present, The Bank of England, Financial Conduct Authority, Payment Systems Regulator, and HM Treasury each have specific roles and responsibilities for oversight of the cash system.

The Government has entered a six-week call for evidence from consumer organisations, businesses, financial institutions, and providers of ATM and payment services in order to seek views on "how to ensure industry continues to offer ways to withdraw and deposit cash, how to improve cashback, what affects cash acceptance, and where regulatory responsibility should sit". (Source date: 15 October 2020)

ECB initiates consultation about creation of a digital euro

The European Central bank is to conduct a public consultation on the possible creation of a digital euro, after a high-level taskforce sketched out possible scenarios that would require central banks to mint their own cryptocurrency.

The Eurosystem task force, bringing together experts from the ECB and 19 national central banks of the euro area, reported that an increased demand for electronic payments in the euro area could require a European risk-free digital means of payment.

Issues that might provoke the issuance of a digital euro include a significant decline in the use of cash as a means of payment and the launch of a global private currency, such as Facebook's Libra, that might raise regulatory concerns and pose risks for financial stability.

The public consultation will be launched on 12 October, but experimentation on the foundations for a euro-wide digital currency will start in earnest, without prejudicing the final outcome of the talks. (Source date: 2 October 2020)

Swift to move into low-value consumer payments

Interbank messaging network Swift is to move into the low-value remittance market, providing member banks with the means to make instantaneous transactions across borders for small and medium-sized companies and consumers. The banking co-operative is working with over 20 banks to develop the service, which builds on the strength of Swift gpi and the high-speed rails that have already transformed the business of high-value payments.

The initiative will enable consumers and SMEs to benefit from predictable payments, with costs and processing times known upfront, and real-time status available to both originator and beneficiary customers via their financial institutions.

Last week, the first payments through the new service were successfully exchanged between banks who are helping to develop it, including Bank of China, Barclays, BNP Paribas, BNY Mellon, Deutsche Bank, KEB Hana Bank, MYbank, National Australia Bank, SMBC, Standard Bank, StoneX, UniCredit and Wells Fargo. An additional seven banks will participate in a pilot phase starting at the end of October: Banca Intesa, BBVA, DNB, HSBC, Sberbank of Russia, Societe Generale and Standard Chartered.

The service is expected to be available to all gpi financial institutions in 2021. The new initiative will enable banks to participate in a market dominated by new challengers such as TransferWise and Revolut and other carriers that provide low-value remittance corridors across borders. (Source date: 1 October 2020)

TSB to close a third of branches and cut 900 staff

TSB is to shut a third of its branch network and layoff 900 staff, citing a shift in customer behaviour as users favour the use of digital banking services to the high street. The bank intends to close 164 of its branches, in addition to 21 closures already announced, reducing the network from 475 outlets to 290.

TSB says branches earmarked for closure have been selected to ensure 94% of customers can travel in 20 minutes or less to a branch, and the new network will have an average of 17,000 customers per site. In addition, it is strengthening its relationship with the Post Office, adding the ability to deposit and withdraw cash over the counter, and introducing 100 roving mobile advisors to reach communities outside the network.

The programme will see 969 jobs cut while 120 new operational positions are being created, resulting in an overall net reduction of 849 roles. Changes are being made across the branch network, and in mortgages and customer service operations teams. The bank expects the majority of job losses to come through voluntary redundancy. (Source date: 30 September 2020)

New security measures could block one-third of online EU purchases

New European rules on Strong Customer Authentication (SCA) could block more than one-third of online purchases and cost merchants more than \$100 billion in lost sales, according to an analysis by payments consultancy CMSPI. The consultancy says problems will arise for e-commerce merchants from January with the introduction of 3D-Secure Version 2.0, an authentication protocol developed by the major card schemes.

With the new security protocol adding between 60 seconds and two minutes to the checkout process, testing shows 25% of 3DS2 transactions are abandoned by consumers, compared with single-digit numbers without the technology.

Overall, as many as 35% of 3DS2 transactions fail to go through, either because they are declined, abandoned by frustrated consumers or because of technical errors. If not corrected, that would amount to €108.1 billion in lost sales based on 2019 sales volume - 100 times the annual amount of card fraud, according to CMSPI.

Large retailers with the resources to minimise delays are likely to win customers from smaller retailers that do not, the report says. Small retailers are expected to be the hardest hit, accounting for €69.4 billion of the total compared with €38.7 billion for large merchants. (Source date: 28 September 2020)

Royal Mint will not make new 2p or £2 coins for 10 years

Due to dwindling demand, the UK Royal Mint is not planning to make any new 2p or £2 coins over the next decade. With contactless payments surging, coin production in the UK shrank by 65% in the last decade to 383 million coins a year in 2019-20, from around 1.1 billion in 2010-11. As the Royal Mint's stocks currently exceed targets in all denominations, it has no plans to produce new 2p or £2 coins for at least ten years. In contrast, the demand for notes has continued to increase. In 2020, the number of notes in circulation reached a record high of 4.4 billion, with a value of £76.5 billion.

The decision is revealed in a National Audit Office (NAO) report on the production and distribution of cash, which calls for a co-ordinated effort from government and the public bodies overseeing the cash system to safeguard access to notes and coins.

A decade ago, cash was used in six out of 10 transactions but by 2019 it was used in less than three in 10. The outbreak of Covid-19 may have accelerated this trend, as data suggests that market demand for notes and coins declined by 71% between early March and mid-April, although demand has since been recovering. This has all put pressure on the cash system and, according to the NAO, this could mean that people who rely on cash - often the older and those on low income - find it more difficult to use it.

The NAO calls on the Treasury to set out more clearly the specific outcomes it wants the cash system to deliver for consumers and small businesses, and how this should be balanced against costs. (Source date: 18 September 2020)

Mobile Money

Icici allows firms access to trade finance services via WhatsApp

Customers of India's Icici Bank can now create fixed deposits, pay utility bills and access trade finance services through WhatsApp.

The fixed deposit and bill pay features are already live, with the trade finance services for business owners being piloted, enabling firms to view information on customer ID, Import Export code, limit availability of all credit facilities, status of pending inward remittances and history of inward remittances on-the-go.

The new features come six months after Icici began letting customers use WhatsApp to check their savings account balance, last three transactions, credit card limit, get details of pre-approved instant loan offers and block/unblock credit and debit cards.

The bank now offers 25 services via the massively popular messaging app, with some two million customers already using them. (Source date: 16 October 2020)

New digital bank to be launched for young professionals

A team of financial services experts has unveiled plans to launch Pennyworth, a new digital bank to serve the needs of young professionals and middle managers. The pre-application process to become an authorised UK bank was commenced in March 2020.

The neobank has now opened a waitlist with the aim of recruiting 1,000 'Pennyworth Pioneers' to gain advanced access to its mobile banking app as part of beta testing in early 2021.

A spokesperson for Pennyworth commented: " We are building a digital bank for 'aspiring affluent' young professionals, busy people climbing the corporate ladder with complex financial needs, who would benefit hugely from personalised service and financial planning insights, but who struggle to access them in their traditional form."

Pennyworth will not offer its own current accounts but will instead use Open Banking to provide financial planning tools across all customer accounts as well as offering high-yield savings and deposits, loans and overdrafts. (Source date: 12 October 2020)

Launch of One banking app

One, a digital banking startup founded by former PayPal and Capital One executives, has officially been launched. It targets the underserved market segment of middle-class Americans.

The app is designed to help users build healthy financial habits and emergency savings, get real interest on those savings, and get credit based on income rather than just credit scores.

According to One, it is "the first digital banking service that seamlessly combines saving, spending, sharing, and borrowing into one account - with one card." It can be used jointly with anyone in the account holder's life, and there are no fees, overdrafts or minimums. (Source date: 24 September 2020)

EU could compel Apple to open up iPhone NFC functionality

According to Bloomberg, the European Union is considering whether to force Apple to open up its NFC functionality on iOS devices to rival payment providers. Apple Pay is the only mobile payment service that may access the NFC 'tap and go' technology embedded on iOS mobile devices for payments in stores, a process that has been condemned by banks in a number of jurisdictions for preventing competition from their own proprietary apps.

In June, the EC opened an antitrust investigation into the issue. Now, according to documents seen by Bloomberg, the Commission will also look into new laws.

Apple has previously won a long-running battle with Australia's banks over access to its NFC functionality, arguing that giving third parties access would pose a security risk.

The EU document says that any laws would take "due account of the potential security and other risks that such access could pose". (Source date: 21 September 2020)