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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Items in this issue:

Savantor's View

Reflections on 2020 and hopes for 2021

As we began this year, reflecting on trends in the previous year and how they might shape the payments environment going forward into 2020, none of us had any idea of how the year might unroll and the specific challenges it would bring.

The coronavirus pandemic has dominated every aspect of all our lives and at the end of the year is still continuing to do so.

Trends in the business, retail and payments worlds have primarily been driven by the effects of the pandemic upon people's behaviour. Online banking, online shopping, an increased use of contactless, a reduction in cash usage, working from home and the growth of technologies supporting remote working and communication have all been influenced by the pandemic, even if it has caused the acceleration of changes already underway. It is unlikely that our High Streets will ever return to the pre-pandemic state. In addition to the tragic effects of the virus upon both those who have suffered from it and their families and those who are involved in front-line care, the economic effects have been devastating.

These have been difficult times for us all and looking forward to 2021 we must hope that the coronavirus will be able to begin to be managed and that some stability can be achieved in our lives.

Savantor would like to take this opportunity to wish everyone a Merry Christmas at this difficult time and extend our heartfelt wishes to you and your families for a happy and healthy New Year.

Products and Initiatives

Australian domestic payment schemes to merge

Australia's three domestic payment organisations, eftpos, BPAY Group and New Payments Platform Australia (NPPA) intend to amalgamate to counter the threat from the growing scale of overseas multinational payment platforms.

The merger is the result of a review by the Reserve bank of Australia which noted consolidation of some domestic payment groups should be considered.

The amalgamation, agreed by an industry committee representing all stakeholders, will aim to address current inefficiencies in the system, by creating a NewCo that provides multi-service infrastructure, broad capability, low cost of acceptance and a unified roadmap catering to changing consumer expectations and technological advancements.

Eftpos, BPAY Group and NPPA will be preserved as distinct operations in a new combined entity with a single board which will determine a NewCo management structure. Customers will continue to have access to existing payments methods, including BPAY, Osko, eftpos, Beem It and PayID. Each entity will continue to have its own operating governance and management schemes. (Source date: 15 December 2020)

World first for Lloyds Bank

Lloyds Bank has become the first bank to switch on Swift gpi Instant, a new service from the Brussels-based interbank co-operative that enables consumers and businesses to send tracked payments in seconds across borders. The gpi Instant service works by connecting Swift gpi, the high-speed cross-border rails with real-time domestic infrastructure, in this case the UK's Faster Payments.

Remittance payments from anywhere in the world destined for the UK routed through Lloyds can now arrive in seconds, with clarity on fees and predictability on when an end beneficiary's account will be credited.

The launch of the live service follows a successful pilot that took place earlier this year and involved banks including Lloyds, Barclays, Commonwealth Bank of Australia, DBS, Wells Fargo and BBVA. It saw cross-border payments credited to accounts in the UK in seconds and built on the successful proof of concepts run by Swift and market infrastructures in Singapore, Australia and in Europe over the past two years. (Source date: 2 December 2020)

Libra attempts to distance itself from Facebook by rebranding as Diem

The Libra Association has hailed a "new day" for the Facebook-backed cryptocurrency project, rebranding as Diem in an attempt to stress its independence as it seeks regulatory approval for a 2021 launch. Plans for the cryptocurrency have been watered down excessively over the past year after facing a regulatory backlash and the departure of a number of key member associations from the payments sector.

The current iteration of the project involves the issue of a single stablecoin pegged to the US dollar, a significant scaling back from recently revised plans to issue a series of stablecoins backed by individual traditional currencies, as well as a token based on the currency-pegged stablecoins.

According to the Diem Association's CEO, the Diem project "will provide a simple platform for fintech innovation to thrive and enable consumers and businesses to conduct instantaneous, low-cost, highly secure transaction." Diem is "a new name that signals the project's growing maturity and independence."

The Diem Association is now prioritising technological and operational readiness for launch. The Financial Times last week reported that Libra was hoping to get the business up and running by January next year. The Association has committed that it will proceed only upon receiving regulatory approval, including a payment systems license for the operational subsidiary of the Association from Swiss regulator Finma. (Source date: 1 December 2020)

Lloyds to return cash to the high street with 500 retailers

Lloyds Banking Group is looking to sign up 500 retailers to provide over-the-counter cashback services in communities where cash availability is low. The initiative builds on the success of a 2019 pilot delivered in partnership with Visa, and could be extended further if successful, says Lloyds.

The bank intends to offer a financial incentive for retailers and businesses in identified locations, from corner shops to pubs and pharmacies, to offer cashback to all of their customers. Typically, these locations do not have access to cash from either an ATM, cashback enabled retailer, bank branch or Post Office within one mile of their home.

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 hit 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: 30 November 2020)

Nets and Worldline take stakes in rival to Visa and Mastercard

Worldline and Nets have become shareholders in the European Payments Initiative, a bank-backed joint venture that aims to build a rival to Mastercard and Visa. Backed by 16 major Eurozone banks, the European Payments Initiative (EPI) is striving to create a unified pan-European payment system, offering a card for consumers and merchants across Europe, a digital wallet and P2P payments.

Expected to enter the operational phase in 2022, the coalition established the EPI Interim Company in Brussels in July, with the intention of setting out clear deliverables including the completion of the technical and operational roadmap.

Worldline and Nets are the first non-banks to sign up to the scheme as shareholders, and discussions are underway with other third-party acquirers and strategic stakeholders in the payments ecosystem.

The group CEO of Nets commented “The European Payments Initiative will benefit the entire payments ecosystem in Europe. All stakeholders including issuers, acquirers, merchants and ultimately the end-consumers will gain from a strong and truly European digital payment solution." (Source date: 25 November 2020)

Market News

UK Supreme Court paves the way for £14 billion Mastercard class action

The UK's Supreme Court has upheld a Court of Appeal decision last year for a £14 billion class action lawsuit brought against Mastercard over interchange fee charges. The judgement marks the near-culmination of a four-year legal battle to have the case heard.

In 2016, former financial ombudsman Walter Merricks launched the legal challenge on behalf of 46 million customers and based on the European Commission’s 2007 finding that the issuer charged inflated card fees on consumer card transactions between 1992 and 2008. The claim was brought as an opt-out collective or class action, made possible by the Consumer Rights Act 2015.

The judgment could set the scene for Britain’s first mass consumer claim brought under the new legal regime. If the suit succeeds, almost every adult present in the UK between 1992 and 2008 could theoretically receive a payout of up to £300 from Mastercard.

The case now goes back to the antitrust tribunal to re-hear arguments about certifying the claim and constituting the class. (Source date: 11 December 2020)

Bank of England warns of Brexit payment disruption

The Bank of England has warned that there could be some disruption to the processing of payments for consumers and businesses at the end of the Brexit transition period.

Processing payments, including Single Euro Payments Area (SEPA) payments, between the UK and EU will require additional information to be included after the end of the transition period, such as payers’ addresses.

While banks will generally hold payers’ information for credit transfers originating from their customers, they are less likely to hold it for direct debits, where payments are initiated by creditors, says the Bank of England in its annual financial stability report.

According to the Bank, financial institutions should continue taking measures to minimise disruption including by engaging with clients and customers. (Source date: 11 December 2020)

China may impose more fintech regulation

Some of China's largest fintech companies may face more regulation following comments made by the top banking regulator. Speaking at the Singapore Fintech Festival, the chairman of the China Banking Regulatory Commission (CBRC), warned that "timely and targeted measures" may be needed to prevent "new systematic risks".

The regulator also highlighted big tech firms; whilst no companies were specified by name, the likes of AliBaba and TenCent have built enormous client bases through their messaging and social media apps and have furthermore added financial services to their offerings in recent years.

Areas of interest to the CBRC include data ownership, cybersecurity, micro-lending and anti-competitive behaviour.

In his speech the CBRC chairman stated that any regulatory action would be designed to prevent big tech firms blocking smaller newcomers and ensuring innovation while preventing any systemic risks. (Source date: 8 December 2020)

Cost of cybercrime to exceed $1trn in 2020

The global move to remote home working has contributed to a massive rise in cybercrime costs which are expected to top $1trn for the very first time this year. A report from cyber security firm McAfee and the Center for Strategic and International Studies, which canvassed 1,500 tech professionals in government and business in the US, Canada, Britain, France, Germany, Japan and Australia, found that the cost of cybercrime will increase by 50% from the 2018 total and will account for more than 1% of global GDP.

Researchers noted a surge in both the number and types of attacks, ranging from phishing and denial of service attacks to ramsomware, spyware and cryptocurrency theft. Weakened security as a result of the move to home or remote working was also cited as a contributing factor.

The financial services sector is generally subject to stricter cybersecurity requirements, however cyber risk still remains a concern for the industry, especially within emerging economies.

A recently published report from the International Monetary Fund stated that cyber risk is the "new threat to financial stability" and called for a collaborative effort to develop cybersecurity capacity in low-oncome countries. (Source date: 8 December 2020)

Banks view payments as 'tech arms race'

The vast majority of banks (94%) believe that the Covid-19 pandemic has turned the payments market into a technology arms race for which they are unprepared, according to a finding from a survey of 200 European banking executives carried out by card issuing platform Marqeta.

The pandemic has seen a massive increase in the use of digital payment services which has in turn led to an increased demand among consumers for more innovative services. However, while banks recognise that this demand is an opportunity to gain a competitive advantage, an overwhelming number (84%) believe they are struggling due to their legacy infrastructure.

Furthermore, new entrants in the payment market and non-banks have raised consumers' expectations to a level that many banks cannot match because of their current technology set-up. Consequently the majority (85%) believe that overhauling their existing payments infrastructure is a necessity if they are to compete in the current payments market and meet their customers' demands.

According to Marqeta's managing director in Europe. "The likes of Uber, Amazon, and Deliveroo, have set the bar when it comes to expectations around payments; having a slick and convenient way to pay has become a fundamental part of the customer experience……… In our view, COVID-19 has greatly shifted behaviours and led to a surge in adoption of new payments technologies. This may increase the pressure to innovate at speed and maintain pace with digital innovators, driving a technology arms race." (Source date: 7 December 2020)

Dutch watchdog calls for tighter EU rules for Big Tech in payments

The Netherlands Authority for Consumers and Markets (ACM) has recommended new rules to rein in the advance of Big Tech companies in the payments arena. The organisation argues that Big Tech companies such as Apple, Facebook, Amazon, or Ant Group (Alibaba) must ensure that their platforms or devices are suitable for different providers of payment services.

A market study conducted by the competition watchdog at the behest of the Dutch Ministry of Finance finds that Big Tech companies are strengthening their positions in the payments market through acquisitions and collaborations.

The Chairman of ACM commented that "Big Tech companies can act as a driving force behind competition and, by extension, behind innovation on the Dutch payment market. However, that role does require Big Tech companies to open up their platforms and devices to competing payment services, in the same way that banks do. Only with such a level playing field in place will payment services continue to compete and innovate, and will consumers continue to enjoy freedom of choice. It would be good if the European rules regarding this issue were tightened, before the market is dominated by one or several major competitors."

ACM also highlighted that Big Tech companies that only facilitate payment services currently do not fall under the the PSD2 Directive. It recommends amending this Directive, so that Big Tech companies that only play a facilitating role must also comply with it.

The European Union is already pondering whether to force Apple to open up its NFC functionality on iOS devices to rival payment providers. (Source date: 4 December 2020)

Black Friday shows rapid growth of buy now, pay later popularity

The use of buy now, pay later services like Klarna and ClearPay on Black Friday more than doubled in 2020, European data shows. A study from payment services provider Mollie, spanning 101,000 merchants across Europe, shows a 56% increase in the overall number of transactions on Black Friday between 2019 and 2020.

Buy now, pay later services are rapidly gaining in popularity, although they still only represented 2.5% of transactions, up from one per cent in 2019. Meanwhile, mobile payment methods remain niche, accounting for just 0.25% of Black Friday transactions, up from 0.2% in 2019.

Recent research from Capco shows that more than ten million people in the UK have purchased products or services through a buy now, pay later scheme over the past year.

However, the research also highlights related risks, with more than half of 18-34 year olds using the method having missed a payment and nearly two thirds saying it is making them spend more, potentially increasing their chances of getting into debt. (Source date: 30 November 2020)

ABN Amro plans significant cuts

ABN Amro is planning to cut its workforce by 15% and sell its head office in an effort to cut costs. Up to 2800 jobs are at risk under the strategic review, which aims to shave €700 million in costs by 2024. The bank says it will seeks to reduce the impact on staff through natural attrition and reskilling in roles where shortages are expected.

Like other banks across Europe, ABN Amro is taking a hard look at its real estate costs, with the trend to remote working now viewed as irreversible.

The bank says it intends to redevelop its second main locations in Amsterdam into a "Paris-proof workplace designed to facilitate the trend of remote working". The new office space will house some 10,880 staff and will be "a place to share ideas, meet colleagues and brainstorm new services". Alongside this, the bank is also selling its head office building and leasing back part of it.

With regard to digital transformation, ABN Amro says around 90% of high volume processes will be digitalised end-to-end by 2024. (Source date: 30 November 2020)

Mobile Money

Payconiq rolls out interoperable mobile payments across Benelux region

People in Belgium, the Netherlands and Luxembourg can now make mobile payments in each of the countries after Payconiq and its Digicash unit integrated their platforms. Payconiq, the mobile payments app supported by a host of Belgian and Dutch banks, acquired Luxembourg's Digicash in 2017.

Now, Digicash users can send money to Payconiq users in Belgium and the Netherlands, as well as scan QR-codes at tens of thousands of merchants in the countries. Belgian and Dutch Payconiq users can scan Digicash QR-codes and send money to Luxembourg users.

According to the CEO of Payconiq, “Our role is to enable banks, payment service providers and merchants to offer fast, reliable and innovative payment products to their clients anytime, anywhere. The Payconiq payment platform brings together multiple local solutions and value-added services.” (Source date: 2 December 2020)

Major overhaul for Google Pay

The Google Pay app has been given a makeover, growing from a simple payments tool to a full-blown financial management service and, from early next year, a gateway to a full bank account. Available now in the US, the redesigned Google Pay Android and iOS apps focuses less on the user's cards than their relationships with friends and businesses.

Americans can make P2P, contactless and e-commerce payments, see past transactions, and find offers and loyalty info in a UI built around conversations.

Meanwhile, Google has confirmed that next year Americans will be able to use the app to open a Plex bank account, co-branded with one of 11 different partner lenders. (Source date: 18 November 2020)