

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

2020 – the Year of Coronavirus and Contactless

Whilst we are all aware of the growth in popularity of contactless during 2020, figures recently released by Barclaycard have confirmed its increase in usage during the year.

In spite of several lockdowns when non-essential retailers were closed and the inevitable rise in online shopping, the total value of all contactless transactions increased by 7% last year. The data indicates that contactless accounted for 88.6% of all eligible card transactions (i.e. face-to-face or in-store debit or credit card transactions, up to the value of the contactless limit).

During the year, contactless increased massively in popularity with both consumers and retailers as a 'safe' method of payment, helping prevent the spread of coronavirus. Not only does it obviate the need for consumers to touch card terminals or handle cash, it also helps increase the throughput of people in stores by reducing queue times to pay and therefore reducing time spent in store.

In April 2020 the UK limit was raised from £30 to £45, enabling even more transactions to be eligible for contactless payments. Since the introduction of the new limit, the average value of contactless transactions has increased by almost a third (29%), from £9.60 (2019 average) to £12.38. Although the total volume of contactless payments fell by 11.8 % cent compared to 2019, due in a large part to the fact that many stores were unable to open for much of the year due to lockdown restrictions, the total transaction value actually increased by 7%.

On an individual basis, the average contactless user made 141 contactless payments in 2020, totalling £1,640. It is also interesting that the over-65 age group showed the greatest rise in usage growth amongst all consumer age groups, with a 12% rise in active users over the year.

The last Saturday before Christmas saw the highest daily spend using contactless in 2020 at 71.9 % more than the daily average for the year.

Contactless was already a fast-growing trend prior to 2020 and the impact of the pandemic, as in so many aspects of business, technology and home environments, has been to accelerate the growth of this trend by a means unlikely to have been envisaged at the start of the year.

Products and Initiatives

GM, Goldman and Mastercard form credit card partnership

General Motors, Goldman Sachs and Mastercard have agreed a multi-year relationship for co-branded rewards-based credit cards.

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Goldman Sachs bought GM's credit card business late last year for around \$2.5 billion; Mastercard will continue to act as the network of choice when Goldman starts acting as issuing bank for the cards later this year.

The GM deal is the latest of a number of forays into consumer banking for Goldman. Only this week it signed up card issuing platform Marqeta to help deliver its first digital current accounts. The bank is also the issuing partner for Apple's credit card. (Source date: 15 January 2021)

Mastercard unveils cloud POS acceptance

Mastercard has teamed up with NMI and Global Payments to launch its first cloud point-of-sale acceptance technology. The company is working with IT services provider Computer Engineering Group to pilot a cloud version that has software hosted on Microsoft Azure.

Cloud POS moves key parts of the acceptance software - the components which enable the processing of contactless transactions and certain security functions - from the individual smartphone to the cloud.

According to Mastercard, this ensures strong security, cuts development and maintenance costs, and creates scalable distribution channels by allowing immediate connectivity to partners.

Cloud POS also becomes a new channel for Mastercard and its partners to offer value added services to customers and businesses. The firm says it will make its pre-certified Cloud POS SDKs openly available in multiple cloud environments, encouraging fintechs, acquirers and processors to innovate and co-create new cloud-first products. (Source date: 11 January 2021)

Trump signs executive order banning the use of Chinese payments apps

Outgoing US President Donald Trump has signed an executive order banning transactions with eight Chinese apps. The apps include popular payments platform Alipay, as well as QQ Wallet and WeChat Pay.

The order, which takes effect in 45 days, says that the apps are being banned because they are a threat to US national security. It flags the possibility that the apps could be used to track and build dossiers on US federal employees.

Tencent QQ, CamScanner, SHAREit, VMate and WPS Office are also included within the order, which only kicks in after Mr Trump has left office. (Source date: 6 January 2021)

Nets' subsidiary Paytrail to acquire Checkout Finland

Nets Group's Finnish online payment subsidiary Paytrail is to acquire fellow e-commerce specialist Checkout Finland from OP Financial.

Checkout Finland, serving both ecommerce and physical stores with a wide array of payment options, has around 8,000 ecommerce merchants on its customer list and is expecting close to EUR12m of revenues in 2020, up from a reported EUR 8.2m in 2019.

The deal follows a ten-year partnership with OP Financial in the merchant acquiring segment and continues the ongoing process of consolidation in the payments sector.

The completion of the transaction is subject to approval from FIN-FSA, and is expected to close during the first half of 2021. (Source date: 5 January 2021)

16,000 ATMs in the UK support bitcoin encashment

Cryptocurrency holders can now cash out their bitcoin at 16,000 ATMs across the UK thanks to a collaboration between East London-based Cryptocurrency company BitcoinPoint and independent cash machine operator Cashzone. A lack of user-friendly processes to securely buy, sell and use cryptocurrency has previously been a hurdle to widespread adoption.

BitcoinPoint has been working to break down these barriers with a mobile app that makes it possible to buy and sell bitcoin at a network of agents, from Bureaux de Change to newsagents, as well as online through an instant bank transfer solution via Open Banking.

The company, which has so far handled 20,000 transactions online and in store, believes the collaboration with Cashzone will finally deliver on the potential for mass adoption that will allow bitcoin to compete on a level playing field with fiat currencies.

To withdraw cash, bitcoin holders download the app, enter the amount desired to be withdrawn, scan a QR code, and receive an SMS message with a pin code to be entered at the ATM — no card or bank membership is required and the transaction is processed within seconds. (Source date: 23 December

2020)

Market News

UK Government rejects regulation of BNPL firms

The UK Government has voted down a bill supported by 70 MPs to regulate buy now, pay later firms like Klarna, Laybuy and Clearpay.

The BNPL industry has seen huge growth in recent years, with the likes of Klarna and Affirm becoming multi-billion dollar companies. There is a concern that the entry of a host of BNPL firms heralds the "next Wonga waiting to happen".

According to research by Credit Karma, a quarter of Brits used buy now, pay later services to fund Christmas shopping, setting up a £2.3 billion bill. A recent study by Capco reveals that more than half of 18-34 year olds using it have missed a payment and nearly two thirds say it is making them spend more, potentially increasing their chances of getting into debt.

The Financial Conduct Authority is conducting a review into buy now, pay later firms, but some MPs worry that the lengthy process could push regulation out by another 18 months, leaving consumers drowning in debt during an economic downturn. (Source date: 15 January 2021)

PayPal takes ownership of Chinese payments business

According to Reuters, PayPal has taken complete ownership of GoPay, making it the first foreign firm to have 100% control of a Chinese payments platform.

PayPal became the first foreign firm to get an online payments license in China in 2019 after buying a 70% stake in Guofubao Information Technology Co (GoPay). GoPay holds a payment business license, meaning that PayPal became the first foreign company to enter the Chinese market some two years after Beijing promised to open up.

PayPal has apparently now bought the remaining 30% stake, says Reuters, taking full control of a small player in a massive market dominated by Alipay and WeChat Pay. (Source date: 14 January 2021)

Visa and Plaid terminate merger

Visa and Plaid have terminated their merger agreement after the US Justice Department filed suit to block the combination over competition concerns.

The DoJ filed its antitrust complaint in federal court in November in an effort to prevent the huge \$5.3 billion takeover. It was concerned that the acquisition of Plaid by Visa would eliminate a nascent competitive threat to the card scheme's own business.

Announcing the decision to scrap the deal, the chairman and CEO of Visa said that they were confident they would have prevailed in court as Plaid's capabilities are complementary to Visa's, not competitive. However, as it has been a full year since the intent to acquire Plaid was announced, protracted and complex litigation would probably take substantial time to fully resolve.

Plaid said that although the two companies would have been a "great combination," it will now work with Visa as an investor and partner to "fully focus on building the infrastructure to support fintech". (Source date: 13 January 2021)

Record response to ECB consultation on digital euro

The European Central Bank has received a record of over 8000 responses to its consultation on the creation of a digital euro, an electronic form of central bank money accessible to all citizens and firms. The public consultation was launched on 12 October 2020, following the publication of the Eurosystem report on a digital euro.

An initial analysis of raw data shows that privacy of payments ranked highest among the requested features of a potential digital euro (41% of replies), followed by security (17%) and pan-European reach (10%).

The ECB says it will publish a comprehensive analysis of the public consultation in the spring, "which will serve as an important input for the ECB's Governing Council when deciding whether to launch a digital euro project". (Source date: 13 January 2021)

Third anniversary of Open Banking in the UK

It is three years since the implementation of Open Banking in the UK and the technology is reaching maturity, with close to 300 third parties in the ecosystem and almost three million users among the population.

The latest data from the UK's Open Banking Implementation Entity (OBIE), the body charged with overseeing the roll out of the technology, shows that the number of API calls has increased from 66.8 million in 2018 to almost 5.1 billion in 2021, while the number of open banking payments made has grown from 320,000 in 2018, to over 3.4 million in 2020.

The OBIE says that the number of users doubled from one million in January 2020 to two million in August 2020, and is set to hit three million over the coming months. At the same time, the number of third party providers making use of the technology has grown to 294 regulated entities, of which 102 have live offerings in the market.

A spokesman for the OBIE commented that the significant progress of open banking infrastructure and functionality over the past three years is reflected, "not only in the millions of active users of open banking technology each month, but in the sustained momentum of growth we are seeing." (Source date: 13 January 2021)

Unexploded bomb forces lockdown of Dutch cash collection network

Dutch banks were forced to shut down all ATMs used for depositing cash by small businesses after the discovery of an undetonated bomb in a machine located in the West-Frisian harbour town of Enkhuizen. The network of 500 machines - run by the largest bank' shared ATM provider Geldmaat - are a popular option for cash deposits by business users in the Netherlands, providing a quick way to drop off takings and receive an account credit.

The attack on the machine in question failed to detonate, but the entire network was temporarily shut down as a matter of safety.

Geldmaat is reportedly considering the stationing of security guards at machines to prevent future copycat attacks. (Source date: 12 January 2021)

£2.3bn BNPL bill for UK Christmas shopping

A quarter of UK consumers used buy now, pay later services to fund Christmas shopping, accumulating a £2.3 billion bill, according to Credit Karma. Consumers who opted for the payment method over Christmas apparently face an average bill of £170 - nearly 40% of their total outlay for the holiday.

The BNPL industry has seen huge growth in recent years, with the likes of Klarna and Affirm becoming multi-billion dollar giants. Nearly half of under 35s relied on such payment schemes before Christmas, with men more likely than women to have used the option. Those living in London, the South East and North East of England also used this payment route more than average.

Credit Karma is warning that, unlike regulated methods of borrowing, BNPL products don't benefit the borrower's credit score for paying back debt within the interest free period. This means consumers who rely more heavily on these schemes than regulated agreements might struggle to prove to financial institutions that they are responsible borrowers when it comes to longer term lending like personal loans, mortgages or car finance.

BNPL can negatively affect users' finances in other ways: recent research from Capco reveals that more than half of 18-34 year olds using it have missed a payment and nearly two thirds say it is making them spend more, potentially increasing their chances of getting into debt. (Source date: 8 January 2021)

Which? investigation finds worrying gaps in bank security systems

Santander, Tesco Bank and TSB have "serious vulnerabilities" in security that could leave their customers exposed to fraud, according to an investigation by consumer watchdog Which?. The company conducted a probe with independent security experts 6point6, scrutinising the online banking safety measures in place across the largest current account providers.

In some instances, it uncovered the potential for scammers to access information which could be used as the building blocks of a sophisticated scam, says Which?, arming a fraudster with enough sensitive information to pull off convincing cons, such as posing as a bank employee to persuade a customer to transfer money from their bank account to a fraudulent one.

Tesco Bank received the poorest rating for online security in Which?'s testing, with an overall score of

just 46 per cent. At the other end of the table, Starling came out on top, with a score of 85 per cent. Whilst experts found nothing concerning with its recently launched online banking website, this is partly due to limited functionality, as users can only change sensitive data via the app.

Barclays, HSBC and First Direct tied for second spot, with a score of 78 per cent, but had areas for improvement, according to Which?.

The editor of Which? magazine commented, “The serious failings we have exposed with some providers reinforce the need for banks to up their game on scam protections, and for greater transparency and stronger standards on fraud reimbursement to be made mandatory for all banks and payment providers.” (Source date: 7 January 2021)

Mobile Money

UK Banks push for increase to contactless limit to £100

In the wake of Brexit, banks are pushing the UK government to increase the contactless payments limit to £100, breaking with an EU cap of £45. Industry body UK Finance has proposed the increase to the Treasury, according to the Times newspaper. The Financial Conduct Authority would also need to approve the change.

The limit was only raised from £30 to £45 in April, partly in response to the Covid-19 pandemic, which has prompted a surge in tap and pay at the expense of cash.

In September, contactless accounted for 64% of all debit card transactions and 46% of credit card transactions, according to UK Finance.

Contactless payments first arrived in the UK in 2007, with a £10 ceiling which has been gradually increased over the last decade. (Source date: 4 January 2021)