

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

Savantor announces new Managing Director

Savantor, a specialist consultancy providing strategic, business and technical expertise to the payment and banking industry is delighted to announce the appointment of a new Managing Director, Craig Oldroyd. Geoff Durham, Savantor's founder and outgoing MD, will continue to support the business as a Non-Executive Director.

Craig comes to the role with over 30 years' experience in the card and payments industry. Prior to commencing his consultancy work with Savantor in 2015, Craig held senior roles at Citigroup, Alliance & Leicester, Telefonica and Hewlett Packard Enterprise Services. With significant experience in acquiring, issuing, digital and mobile payments and third party processing, his recent experience with Savantor has been advising international clients who are undertaking large scale transformation programmes centred around new platform implementations and portfolio migrations.

Craig Oldroyd, Managing Director of Savantor said "I am delighted to take up the position of Managing Director. Over the 10 years I have known Geoff and the Savantor organisation, initially as a customer but more recently as a Principal Consultant, I have always been impressed with the breadth and depth of experience that the organisation has within its Consultant network, the way in which it conducts business and the significant value that it delivers to its clients. Looking to the future, I am excited to have the opportunity to build upon the great reputation that Savantor has within the industry, evolving our consultancy and recruitment services and continuing to exceed our clients' expectations."

Geoff Durham, Non-Executive Director of Savantor said, "After over 20 years managing the growth and development of Savantor, it is time for me to place the company into Craig's extremely capable hands. It has been a tremendous privilege to work closely with so many large and small banks and other clients in the UK, across Europe and further afield. Savantor has always focused on providing our clients with highly qualified and committed specialists. I would like to thank all of our consultants for their loyalty, integrity and professionalism over the years. I look forward to supporting Craig and the Savantor team as they further develop the company, delivering service excellence to existing and new clients."

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Products and Initiatives

Mastercard to process cryptocurrency payments

Mastercard is preparing its network to handle the direct processing of cryptocurrency payments later this year.

The company has already had some cryptocurrency dealings, having teamed up with Wirex and BitPay last year to create crypto cards that allow people to transact using their cryptocurrencies. The card scheme has also joined forces with LVL, an up-and-coming cryptocurrency exchange. In all of these cases, the cryptocurrencies themselves do not move through the network, but are instead converted to fiat for onward transmission.

A Mastercard spokesman for the initiative said that the change to supporting digital assets directly will allow many more merchants to accept crypto, an ability which is currently limited by proprietary methods unique to each digital asset. It will also cut out inefficiencies, letting both consumers and merchants avoid having to convert back and forth between crypto and traditional currency to make purchases.

The card scheme has yet to determine which currencies will be supported and will determine them on a case-by-case basis according to levels of consumer protection and compliance. (Source date: 11 February 2021)

Cashplus becomes the UK's newest challenger bank

Cashplus, an established fintech firm offering digital banking services to UK businesses, has secured a full UK bank licence. Founded in 2005, the UK's newest bank provides current account and lending services for small businesses and consumers.

The UK banking licence entitles Cashplus to use part of its deposits from its 1.6 million customers for lending. The firm says it aims to provide £1bn of credit to UK small businesses to support the UK's post-Covid-19 recovery.

The company is already an established lender with total lending of over £640m and uses advanced data techniques to support its underwriting capabilities. (Source date: 3 February 2021)

NatWest to convert all debit cards to Mastercard

NatWest is to convert all of its debit cards to Mastercard, thereby helping the card scheme in its efforts to break the UK dominance of rival Visa.

The agreement includes all NatWest Group brands: NatWest, Royal Bank of Scotland, Ulster Bank and Coutts, totalling 16 million cards.

The deal demonstrates Mastercard's drive to increase the issuance of its debit cards across the UK and Ireland, extending its coverage to approximately one in three of all consumer debit cards in circulation by banks in the UK and one in four in Ireland, once card conversions are complete. NatWest joins Santander, First Direct and Monzo in issuing Mastercard debit cards.

Across Europe, almost 200 million consumers now use Debit Mastercard to pay at 43 million locations instore, online and in-app, but the UK debit card issuing market has long been dominated by Visa. (Source date: 4 February 2021)

Visa prepares to handle cryptocurrencies

Visa has said that it is preparing its payments network to handle a full range of cryptocurrency assets.

Apparently the company intends to treat the cryptocurrency market as two distinct segments: traditional cryptocurrencies, such as bitcoin and Ether; and fiat-backed digital currencies including stablecoins and central bank digital currencies.

For the first segment, Visa will work with "wallets and exchanges to enable users to purchase these currencies using their Visa credentials or to cash out onto a Visa credential to make a fiat purchase at any of the 70 million merchants where Visa's accepted globally". The card scheme has already struck card deals with some 35 organisations in the crypto-markets, such as BitPanda and BlockFi.

Visa also intends to focus on upcoming stablecoins that can be handled as a traditional and globally accepted mean of exchange, including bank-issued coins and central bank digital currencies. (Source date: 1 February 2021)

EC and ECB to investigate digital euro jointly

The European Commission and European Central Bank are working together to investigate the policy, legal and technical questions emerging from a possible introduction of a digital euro.

Having just closed a public consultation on the subject, the ECB says it will now consider whether to start a digital euro project towards the middle of the year as it looks to answer design and technical questions ahead of any decision to actually issue the CBDC.

The ECB and the EC have now created a joint technical group to look at the policy, legal and technical aspects of the possible introduction of a digital euro.

The EC says that one of the reasons a digital euro is appealing is that it could help promote global use of the currency. However, the Commission has also stressed that there are significant issues to address relating to financial stability, financial inclusion, and anti-money laundering and counter-terrorism financing. (Source date: 20 January 2021)

Market News

Ikea acquires 49% stake in Ikano Bank

Furniture retailer Ikea is to acquire a 49% stake in Ikano Bank with the aim of offering a full suite of banking services instore and online. The acquisition, by the retailer's parent company Ingka Investments, is described as a "decisive step into financial services" that will "help make Ikea more affordable, accessible and sustainable".

Ikea and Ikano bank have a shared history - originating from the same founding family - and a longstanding commercial partnership, where Ikano Bank has served as Ikea's financial service provider across eight countries.

Ikano Bank has been operating in the UK since 1994, offering easy-access and fixed-rate savings accounts direct to the public as well as store cards for a number of major retailers.

Ingka said it was acquiring the stake through the issue of new shares by Ikano Bank, with the option to acquire the remaining 51% at a later date. (Source date: 12 February 2021)

Rabobank to downsize staff and branch network

Rabobank is to cut its workforce by 5000 over the next five years as a result of the impact of the global pandemic upon its profits. The bank reported profits 50% down in 2020 over the previous reporting period.

The bank says it will downsize its traditional branch network and invest further in digital technology over the coming years in a bid to improve its operational and financial performance in a low interest environment. This is expected to result in an average annual reduction of the 40,000-strong workforce by 1000 full time roles over the next five years. (Source date: 11 February 2021)

Mastercard consumer claim scheduled for March hearing

A £14 billion Mastercard consumer damages case is to return to the UK's Competition and Appeals Tribunal for certification next month. The return of the case to the Appeals Tribunal follows a Supreme Court judgement in December that ruled that the original dismissal of the class action suit included five errors of law.

A former financial ombudsman originally launched the legal challenge in 2016 on behalf of 46 million customers and based on the European Commission's 2007 finding that the card scheme 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.

If the suit succeeds, almost every adult present in the UK between 1992 and 2008 could apparently receive a payout of up to £300 from Mastercard.

In a statement, Mastercard says: "This claim isn't being brought by UK consumers but is being driven by US lawyers, backed by organisations primarily focused on making money for themselves. We fundamentally disagree with this claim and know people have received valuable benefits from Mastercard's payments technology." (Source date: 10 February 2021)

Equifax acquires Open Banking partner AccountScore

Equifax has acquired long-term Open Banking partner AccountScore in a deal that will enable traditional credit bureau information held by Equifax to be combined with bank transaction data.

The acquisition positions Equifax at the forefront in the transition of Open Banking to Open Finance and the extension of consumer financial data to additional products such as insurance policies, pensions and mortgages.

Equifax says the integration of the two firms will enable clients to carry out more granular assessments of affordability and expenditure and improve an individual's ability to demonstrate their creditworthiness by enabling information that isn't currently used to be taken into consideration. (Source date: 9 February 2021)

Swift and China's central bank form JV

Swift has set up a joint venture with the Chinese central bank's digital currency research institute and clearing centre.

China's Cross-border Interbank Payment System and the Payment & Clearing Association of China are also part of the JV, called Finance Gateway Information Services Co.

While the venture raises the possibility of China looking to take its digital yuan global, Swift says in a statement to Reuters that "its services will be limited in scope and entirely focused on maintaining compliance with applicable regulations in China". (Source date: 8 February 2021)

PSR requests feedback on New Payments Architecture amid risk concerns

The Payment Systems Regulator (PSR) has launched a consultation on the delivery and regulation of the UK's New Payments Architecture (NPA) as it considers narrowing the scope of the delivery contract amid concerns about the current programme's "unacceptably high risks".

The NPA is to replace the UK's current Faster Payments and Bacs retail interbank payment system, with clearing and settlement taking place over a single purpose-built central infrastructure.

As it launches its consultation, the PSR says there are "unacceptably high risks" that the NPA programme - run by Pay.UK - will not provide value for money, will stifle competition and innovation, and will delay the realisation of the benefits of the NPA.

The regulator is seeking feedback on "narrowing the scope of the initial contract for delivery to those NPA services that will provide an enhanced immediate payments service and enable Faster Payments transactions to move to the NPA". (Source date: 5 February 2021)

PayPal to quit Indian payments market

PayPal is to wind down its domestic payments business in India after failing to make a significant dent in a fiercely competitive market. It will no longer offer domestic payment services within India from 1 April.

The company first entered the Indian domestic scene four years ago and currently operates as a payment option for over 300,000 merchants in the vast territory.

The Indian mobile payments market is one of the most hotly contested in the world, with Big Tech companies like Facebook, Google, Amazon and TenCent competing for market share with multiple local players, including PhonePE and PayTM.

News of PayPal's retreat comes as the company reports record results driven by new products, including cryptocurrency payments and buy now, pay later services. With the global pandemic forcing a shift to e-commerce, PayPal grew its total payment volume by a third to \$936 billion and reported a 22% growth in net revenues to \$21.45 billion. (Source date: 5 February 2021)

Ant Group to become financial holding company

Ant Group has agreed on a restructuring plan with China's regulators that will turn the fintech giant into a financial holding company subject to capital requirements similar to those for banks, Bloomberg News reported.

Apparently the overhaul will see all of Ant's businesses migrated to the holding company, including its technology offerings in areas like blockchain and food delivery.

The restructure follows a move by Chinese regulators to impose tighter restrictions on fintech firms entering the banking market, a decision which led to the derailment of Ant's planned \$37 billion IPO late

last year.

Whether Ant will resume its planned float is now unlikely in the short term, with the resolution of the new structure set to take some time. (Source date: 3 February 2021)

FCA to regulate BNPL sector

The UK's Financial Conduct Authority is to introduce new rules for buy now, pay later firms amid mounting fears of a growing debt burden for consumers.

The BNPL industry has seen huge growth in recent years, with companies like Klarna and Affirm becoming multi-billion dollar concerns, and banks also increasingly offering such products. The use of BNPL products nearly quadrupled in 2020 and is now at £2.7 billion in the UK, with five million people using these products since the beginning of the coronavirus pandemic. However, there is growing concern that consumers are taking on debt they cannot afford.

The emergence and expansion of unregulated BNPL products gives consumers a significant alternative to more expensive credit, states the FCA, but this also comes with "significant potential for consumer harm." The watchdog cites figures which show that more than one in ten customers of a major bank using BNPL were already in arrears. New figures published by Comparethemarket.com indicate that a fifth of UK consumers who used buy now, pay later (BNPL) schemes to fund their Christmas shopping are now unable to meet their repayments without taking on more debt.

The FCA says the provision of debt advice will be critical to a sustainable market in the long term, especially through the recovery from coronavirus. Lenders will also be required to carry out affordability checks on customers and ensure the vulnerable are treated fairly. (Source date: 2 February 2021)

Mastercard raises interchange fees for UK online purchases from the EU

Mastercard is to impose a five-fold increase on credit card interchange fees charged for UK online purchases from the EU, following Britain's withdrawal from the European Union. The increase in fees is set for introduction on 15 October.

Prior to Brexit, UK merchants and card holders benefitted from a 0.3% cap on credit card interchange fees imposed by the European Commission.

But with the withdrawal from Europe, these fees will increase to 1.5%, as payments between the UK and the European Economic Area are now deemed "inter-regional". The fee for debit card payments is also set to rise from 0.2% to 1.15%.

In response to accusations of "opportunism" from the all-party parliamentary group on Fair Business Banking, Mastercard points out that this level of interchange is paid by EEA merchants on all cards issued outside of the EEA, and there is no evidence European businesses charge consumers in these markets higher prices than consumers in the EEA as a result. (Source date: 25 January 2021)

Mobile Money

Irish bank payments app JV plan rejected

Ireland's competition watchdog has rejected a plan by four of the country's biggest banks to create a joint payments app, but says it is willing to "further engage" on the issue.

Earlier this month Bank of Ireland, AIB, Permanent TSB and the Irish arm of Belgian bank KBC outlined plans to set up Syntech Payments, a joint venture company to oversee the project, which is designed to take on the likes of Revolut.

The partners sent a notification letter on the issue to the Competition and Consumer Protection Commission (CCPC), which has now been rejected.

Explaining its decision, the CCPC says the "notifying parties have not provided full details of the proposed transaction as required," and so it has "been unable to determine whether the proposed transaction is a 'merger or acquisition'." (Source date: 22 January 2021)