

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	Revolut to allow employees to work from abroad up to 60 days a year.....	4
Changes in business models and consumer spending	1	HSBC to move 1200 UK call centre staff to permanent home working.....	4
Products and Initiatives	2	Contactless payments surge across Europe.....	4
Mastercard unveils carbon calculator for banks	2	PSR accuses Mastercard and rivals of operating pre-paid card cartel.....	4
Zilch introduces BNPL feature	2	Visa raises UK-EU online interchange fees	5
Facebook tests QR code-based P2P payments.....	2	Mobile Money	5
Visa expands global money movement.....	2	Fintech apps more popular than bank apps as pandemic shakes consumer finances	5
Revolut applies for US banking licence	3	Barclays to shut down Pingit on 30 June	5
Market News	3	PayPal allows users to pay in cryptocurrency	5
New Zealand introduces financial sector climate reporting law	3		
PSR consultation on bank fraud draws to a close	3		

Savantor's View

Changes in business models and consumer spending

The pandemic has dominated life both in the UK and globally over the past year, affecting almost every aspect of everyday life. The finance industry is no exception and the impact can be seen in many different aspects as well as in consumer spending patterns and behaviour.

Many service businesses, including banks, have had to adapt their operational working model to support the requirements and restrictions imposed as a consequence of the virus. This has resulted in new and flexible working practices, primarily involving working from home, as well as a reduction in staff either through furlough or redundancy.

This has enabled businesses to assess the new practices in terms of cost and efficiency and to consider how to move forward in the light of restriction easing and the hope of some previous normality being regained.

As part of this process, many financial institutions are deciding to adopt to a greater or lesser extent the new model of flexible and hybrid working patterns, driven by savings in premises costs and improved staff satisfaction. Examples of such companies include Bank of Ireland, Revolut, HSBC and Nationwide building Society to name but a few.

Consumer spending patterns have likewise been affected by the pandemic resulting in an increase in online spending, increased usage of banking mobile apps, a rise in contactless usage and even an increase in the contactless transaction limit.

Figures released by UK Finance show that in terms of UK cardholders:

- There were 1.2 billion debit card transactions in January, 26.6% fewer than in December and 18.1% fewer than in January 2020. The total spend of £47.8 billion was 18.8% less than in December and 7.3% less than January 2020.
- There were 196 million credit card transactions in January, 32.9 % fewer than in December and 31.1 % fewer than in January 2020. The total spend of £10.7 billion was 27.6% less than in December and 37.9% less than January 2020.

The figures also show that outstanding balances on credit card accounts have reduced by 20.7% over the 12 months to January, as a result of repayments being in excess of new borrowing over the year. These figures seem to indicate that unable to spend as normal, consumers have chosen to pay down their debts. Statistics released by the Office for National Statistics said that household savings increased significantly over 2020 with deposits up by £186.1 billion.

With the recent easing of restrictions for shops and restaurants, spending behaviour seems to be

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showing an increase: according to Springboard, footfall at retail destinations has risen to three quarters of its old level and numbers of diners eating out has been back to within 50% of pre-Covid levels, according to reservations website Opentable.

Going forward it will be interesting to see whether the rebound in spending results in debts soaring again. Apparently last year even in August, the peak rebound month of the year after the first lockdown, credit card balances rose by only £368 million compared to the January fall of £3.18 billion.

Products and Initiatives

Mastercard unveils carbon calculator for banks

Mastercard has teamed up with Swedish fintech Doconomy to develop a carbon calculator that banks can integrate into their apps to give customers a snapshot of the emissions generated by their purchases across spending categories. Mastercard and Doconomy have been working on carbon footprint tracking based on purchases for the past couple of years but are now offering it to banks around the world, which can integrate the calculator into their apps through new APIs.

A Mastercard-commissioned survey of more than 25,000 people, from 24 countries, shows that 54% of respondents see reducing their carbon footprint as more important now, and 58% have become more conscious about how their actions can impact the environment than ever before, with Gen Z and Millennials (65%) leading this trend.

The carbon calculator's calculations are powered by the independently verified Åland Index and can be supplemented by banks with relatable and easy-to-understand equivalents, such as the number of trees required to absorb the same amount of CO₂, and tips about living more sustainably.

Customers can also contribute to the forest restoration projects of the Priceless Planet Coalition - whether by donating or using banks' loyalty rewards programmes. (Source date: 12 April 2020)

Zilch introduces BNPL feature

UK-based buy now, pay later business Zilch is rolling out a 'tap and pay-over-time' feature that lets shoppers make in-store payments using their digital wallet, with the cost spread over a six week period.

Zilch opened in beta in 2019, looking to distinguish itself in the crowded BNPL arena by connecting directly with customers and using soft background credit checks performed by Credit Kudos via Open Banking to determine affordability. Now signing up more than 125,000 shoppers a month, the startup is looking to bring the BNPL benefits that are now common online to bricks-and-mortar shops through a Zilch card that can be added to a digital wallet.

The company says it has created a completely easy and seamless journey for its customers in-store that does not rely on annoying QR codes or Barcodes.

Acknowledging the criticism that the BNPL industry has faced in recent months over responsible lending, Zilch stresses that unlike many other UK players, it is fully regulated by the FCA. (Source date: 8 April 2020)

Facebook tests QR code-based P2P payments

Facebook has begun trialling QR code-based person-to-person payments and personalised payment links. Some US users are now seeing a new "Scan" button on the Facebook Pay carousel. When they hit the button, users can scan a friend's QR code, select an amount to send or request and then make the payment.

On the same screen, users see a personalised payment link which lets people publish their payment address outside of Facebook.

Facebook Pay was launched in late 2019, consolidating payments service that works across the social media giant's main app, Messenger, Instagram and WhatsApp.

Users can already make P2P payments but the QR code option opens up physical, in-person payments. Venmo already offers a similar service. Users have to be at least 18 years old and have a Visa or Mastercard debit card, a PayPal account, or a supported pre-paid card. (Source date: 6 April 2020)

Visa expands global money movement

Visa has expanded its Visa Direct platform to help businesses push payments to eligible cards for domestic payouts, and to eligible cards and bank accounts for cross-border payments.

The Visa Direct Payouts APIs are designed to reduce the complexities often associated with managing and sending money across multiple networks and intermediaries worldwide. Users can apparently move money globally through a single connection to VisaNet, enabling financial institutions, fintechs, remittance providers and corporate banks to capture new payment flows.

The system supports real-time domestic and cross-border person-to-person, business-to-small business and business-to-consumer use cases, such as insurance disbursements, marketplace seller payouts, providing workers faster access to their earnings, as well as remittances.

According to Visa Direct, "As digital commerce accelerates, Visa is innovating to give financial institutions, governments, individuals and businesses new ways to pay and get paid beyond the card. The launch of Visa Direct Payouts marks an important milestone in Visa's expansion of its account-to-account capabilities to now reach an additional 2 billion bank accounts around the world." (Source date: 30 March 2021)

Revolut applies for US banking licence

Revolut has filed a draft application for a banking licence with the Federal Deposit Insurance Corporation (FDIC) and the California Department of Financial Protection and Innovation. The move follows Revolut's recent decision to exit the Canadian banking market, after a two-year beta trial without a banking licence failed to make a dent in the dominance of the Big Four incumbent banks.

Revolut currently offers financial services in the US through a relationship with FDIC-insured Metropolitan Commercial Bank. The firm says having its own bank charter would enable it to offer a broader range of products, including overdraft protection, loans and deposit accounts.

Revolut has been operational in the US retail market for a year, and is now launching its business banking across all 50 states. Revolut Business allows companies to sign up for multi-currency accounts, issue physical and virtual corporate cards, and make free money transfers in 29 currencies.

Since launching in the UK in 2015, Revolut has gathered more than 13 million retail customers and 500,000 business clients. The company currently holds an EU banking licence, and in January initiated the process to obtain a banking licence in the UK following the UK's exit from the European Union. (Source date: 22 March 2021)

Market News

New Zealand introduces financial sector climate reporting law

New Zealand has become the first country in the world to introduce a law that requires the financial sector to disclose the impacts of climate change on their business and explain how they will manage climate-related risks and opportunities. The Financial Sector (Climate-related Disclosure and Other Matters) amendment bill will make climate-related disclosures mandatory for around 200 organisations, including most listed issuers, large registered banks, licensed insurers and managers of investment schemes.

All registered firms with total assets of more than \$1 billion will be covered by the programme, ensuring that about 90% of assets under management in New Zealand are included within the disclosure system.

Introduced this week, the bill, once passed, will see disclosure required for financial years commencing in 2022.

Last month, the UK government published a consultation paper proposing mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs. (Source date: 15 April 2020)

PSR consultation on bank fraud draws to a close

The UK's Payment Systems Regulator is to begin collating views from a public consultation on the protection and reimbursement of victims of authorised push payments fraud and consumer protection in bank-to-bank payments. The amount of money lost to victims of authorised push payments fraud in the UK rose to £479 million in 2020, as criminals used the Covid-19 pandemic to target people online.

The introduction of a Contingent Reimbursement Model (CRM) has seen some victims getting their money back, but consumer groups say the implementation of the code by banks is patchy at best, with many customers not being reimbursed.

The PSR is proposing that banks publish their APP scam data, including reimbursement and repatriation

levels, and adopt a standardised approach to sharing data which will help identify these scams in the first place. It also suggests making reimbursements mandatory at a minimum standard by changing payment system rules.

In addition to APP scams protections, the PSR is also looking at the levels of protection available to consumers when they make an account-to-account payment using a smartphone app or online banking. (Source date: 8 April 2020)

Revolut to allow employees to work from abroad up to 60 days a year

In February Revolut announced plans to move the majority of its 2000-strong employees to a permanent remote working model. The company has now extended its remote working policy to enable employees to work overseas for up to two months a year. The new policy has been launched to enable the company's widely international workforce's requests to visit families more often and for longer periods.

Revolut says it has studied the applicable corporate tax, immigration, income tax and social security regulation implications associated with the initiative.

A report recently issued by recruitment company Robert Half found that two fifths of finance workers (39%) plan to relocate to another country or city and continue working remotely, and almost half (49%) want to switch to a compressed four-day week in response to increased workloads over the last year. A large majority (68%) also express a desire to continue working from home for between one and three days a week post-pandemic.

According to the company, "What an employee produces is more important than where they do it, which is why businesses are increasingly comfortable with remote or hybrid working." (Source date: 8 April 2020)

HSBC to move 1200 UK call centre staff to permanent home working

According to Reuters, HSBC is to move 1200 of its call centre staff to permanent working from home contracts. Apparently around 70% of the bank's 1800 call centre staff based across England, Wales and Scotland have volunteered to never return to the office.

A quarter of staff declined the offer as they wanted to work in the office at least some of the time, while five percent preferred to go back to the office permanently.

The Bank acknowledges that it plans to radically cut back on its office space and switch to having a more permanent agile workforce.

Similar moves are afoot at JPMorgan, which expects ten percent of its staff to continue working from home post-pandemic. (Source date: 7 April 2020)

Contactless payments surge across Europe

In less than a year since contactless limits increased across Europe, Visa has hit a processing milestone of one billion additional PIN-free transactions.

The growth of contactless has been a key trend during the pandemic, with touch-free payments seen by the public and merchants as a means of minimising the risk of Covid-19 transmission.

Growing demand for contactless transactions is evident across Europe, with over 80% of in-store Visa payments now contactless. In France and Germany, the number of contactless transactions has increased by two thirds and almost half respectively year-on-year.

Of the one billion transactions, 400 million took place in the UK, with further growth expected as the contactless limit is lifted to £100 later this year. (Source date: 7 April 2020)

PSR accuses Mastercard and rivals of operating pre-paid card cartel

According to the UK's Payment Systems Regulator (PSR), Mastercard and four other companies broke UK law by engaging in cartel behaviour in the pre-paid card market. In its provisional findings, the PSR says that Mastercard, allpay, APS, PFS and Sulion engaged in anti-competitive behaviour by agreeing not to compete or poach each other's clients when it came to pre-paid cards that are used by local authorities to distribute welfare payments to vulnerable members of society, such as the homeless, victims of domestic violence and asylum seekers.

Mastercard, allpay and PFS have already agreed to settle and admitted that they took part in the alleged anticompetitive arrangement. Should the PSR ultimately conclude that there have been infringements, the three have agreed to pay maximum fines totalling over £32 million.

According to the PSR there were two infringements of competition law. The first, involving all five firms took place between 2012 and 2018. The second, involving APS and FPS lasted between 2014 and 2016. (Source date: 31 March 2021)

Visa raises UK-EU online interchange fees

According to the Financial Times, Visa is set to raise interchange fees on cross-border transactions between the UK and EU as a result of the UK's withdrawal from the EU.

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 country withdrawing from the EU, from October Visa will apparently increase the fees for online and over-the-phone purchases to 1.5%. The fee for debit card payments is also set to rise from 0.2% to 1.15%.

The rise mirrors a move already announced by Mastercard, which has prompted widespread anger.

Visa is also increasing scheme fees on UK-EU transactions from July 2022, as well as charging more for domestic payments using British company credit cards from April 2022, says the FT. The news comes shortly after Visa said it would delay interchange fee changes in the US to help businesses as they emerge from the Covid-19 pandemic. (Source date: 19 March 2021)

Mobile Money

Fintech apps more popular than bank apps as pandemic shakes consumer finances

Downloads of finance apps peaked by 15% during the pandemic, with mobile fintech applications outperforming banks by a factor of more than ten, according to figures from mobile analytics platform App Annie.

The report found that amid economic uncertainty, demand grew for finance apps across investing, banking, cash transfers and government aid. Finance apps were downloaded 4.6 billion times in 2020, with consumers spending 16.3 billion hours scanning their mobiles to check their finances.

Downloads increased in April globally amid widespread shutdowns, with the most significant surge occurring in December - indicating the pandemic's impact on financial wellbeing.

Notably, users took to fintech apps with enthusiasm, with fintech outperforming even the best banking apps by a factor of up to 10.8 times more. Investment and trading apps like Robinhood were among the top downloaded finance apps worldwide as many consumers took to day trading in the Covid era. (Source date: 15 April 2020)

Barclays to shut down Pingit on 30 June

Barclays Bank has confirmed the closure of mobile P2P payments app Pingit, almost ten years after its pioneering launch in 2012.

Barclays last big push on the app came in 2019, when it moved its bpay wearable brand to Pingit and introduced a raft of new features in a last gasp attempt to keep up with innovations from Big Tech giants and fintech startups in the money transfer space.

Barclays has written to customers confirming the closure of Pingit from 30 June, when users will no longer be able to use the app to send, receive or make payments. Customer cash stored in Pingit savings jars will be transferred back to linked accounts and users of Pingit wearables will be entitled to a refund for the price of the payments fob. (Source date: 13 April 2020)

PayPal allows users to pay in cryptocurrency

PayPal customers in the US can now pay at millions of online merchants around the world with bitcoin, litecoin, ethereum or bitcoin cash.

The Checkout with Crypto feature converts users' crypto holdings to fiat currency at checkout, with certainty of value and no additional transaction fees. The option will automatically appear in the PayPal wallet at checkout for customers with sufficient cryptocurrency balance to cover an eligible purchase.

For businesses, PayPal says Checkout with Crypto provides a new way to get paid. All transactions are settled in USD and converted to the applicable currency.

The feature comes soon after PayPal began offering its users the chance to buy, hold and sell cryptocurrency directly from their PayPal account. (Source date: 30 March 2021)