

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

Debit card transaction volumes overtake cash sooner than predicted

The latest report produced by UK Finance, 'UK Payment Markets 2018', identifies the most recent trends affecting all types of payments in the UK, as well as providing forecasts for the next ten years. According to the report, 38.8 billion payments were made in the UK in 2017.

What is of particular interest is that during the last quarter of 2017, debit card usage overtook cash usage for the first time as the most frequently used payment method in the UK. Apparently this was several months earlier than previously predicted by UK Finance - the forever increasing popularity of contactless is thought to be mostly responsible for this.

The majority (98%) of UK consumers now hold a debit card; in 2017 there was a 14% increase in debit card transactions compared to the previous year, up to 13.2 billion debit card payments for the year.

Credit card transactions saw a similar percentage growth (13%) over the previous year, to 3.1 billion payments in 2017. However credit cards are held by less than two thirds of the population, with only 64% of consumers in the UK holding a card.

Over the next ten years, debit card payment volumes are forecast to grow by more than any other payment method, increasing by 49% to 19.7 billion payments in 2027. Contactless payments will help drive this, together with the continuing popularity of online shopping as well as increasing card acceptance amongst all businesses and in particular small businesses wanting to enjoy the growth in contactless usage.

Credit card volumes are also predicted to increase, reaching 3.9 billion by 2027. The growth in credit cards is forecast to be very much tied to the state of the economy and how much consumers are prepared to take on unsecured debt.

The number of contactless payments made in the UK increased by 97% during 2017 to 5.6 billion payments. By the end of 2017 there were nearly 119 million contactless cards in circulation in the UK with 78% of debit cards and 62% of credit cards having contactless functionality.

Cash payments continued to decline in 2017, falling by 15% to 13.1 billion payments. However, this still means that cash was used for over a third (34%) of all payments and was the second most frequently used payment method, just behind debit cards. The increasing use of debit cards, in particular contactless, is seen as the main cause for the decline in cash as a payment method.

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During 2017 there were 3.4 million consumers who virtually did not use cash at all, yet there were also still 2.2 million consumers who predominantly used cash when shopping.

Whilst the number of cash payments is expected to continue to fall over the next 10 years, as a payment method it is still forecast to account for 16% of all payments, remaining the second most frequently used means of payment.

To summarise, changes in consumer preferences, innovation in payment methods and technological developments have caused significant changes in the UK's payment market over the last decade and had a considerable impact on consumer payment behaviour. Rather than it becoming cash-free over the next decade, the UK seems to be developing into a market where cash is becoming less important than it once was, but nevertheless remains the payment method of choice for many.

Products and Initiatives

Link revises ATM fee plans as usage falls

UK ATM network operator Link has pulled back from a plan for a progressive revision of interchange fees after outrage from consumer groups over an apparent acceleration in ATM closures across the UK. In January 2018, Link announced a phased 20% per cent reduction in Interchange rates over four years, from around 25p to 20p. The first five percent cut took effect on 1 July 2018 and the second is scheduled to take place on 1 January 2019.

The introduction of the first set of fees earlier this month led to calls from consumer groups for regulatory intervention to halt the closure of cash machines across the UK as banks and convenience stores re-assess the commercial viability of their networks under the new charging model.

However it appears that a dip in ATM usage as consumers turn away from cash, rather than political uproar, has caused a rethink at Link. A decision to cancel the third reduction, due in January 2020 and put on hold the fourth cut, due in January 2021, has been prompted by figures showing a six percent year-on-year fall in the volume of ATM transactions. (Source date: 16 July 2018)

Square reviews FDIC application

Payments processor Square has temporarily suspended its application to the Federal Deposit Insurance Corporation (FDIC) for a special purpose banking licence.

Square submitted its application to become a deposit-taking bank via an Industrial Loan Company (ILC) license in September last year. Industrial loan charters give companies permission to carry out banking services but also enable them to continue providing other non-financial commercial services - a practice that is denied to fully-licensed banks.

Square's attempt to open a back door to the banking industry was fiercely opposed by the Independent Community Bankers of America (ICBA), which protested to the FDIC that the company's application was designed to avoid legal prohibitions and restrictions under the Bank Holding Company Act.

The decision to withdraw from the process is apparently only temporary, as the firm says it will re-file the paperwork in due course, after amending and strengthening some areas of its FDIC insurance application. (Source date: 6 July 2018)

Alipay takes on MoneyGram with blockchain-based remittances

Having failed to buy MoneyGram, Ant Financial is looking to better it with the launch of a home-grown blockchain-based cross-border remittance service.

The first remittance corridor for the new service will run between Hong Kong and the Philippines through a partnership between AlipayHK and GCash. Standard Chartered, which has developed a strong relationship with Alipay in Hong Kong, will act as the settlement bank, with all three parties to the transaction acting in parallel over a shared ledger, enabling the verification and execution of the payment to occur simultaneously.

Alipay Payment Services (HK) says the service will provide round-the-clock, real-time money transfer between Hong Kong and the Philippines at a competitive exchange rate with much lower transaction fees, which will be further waived during an initial three-month trial period. (Source date: 25 June 2018)

Venmo launches debit card

The popular PayPal P2P payments app Venmo is looking to become successful in the US through the

introduction of a MasterCard debit card. Venmo has been testing a Visa card for several months but is now working with MasterCard and issuer the Bancorp Bank for the "limited release" launch, inviting customers to reserve a spot.

The contactless Venmo card lets Americans use their Venmo balance instore and to withdraw cash from ATMs.

Card purchases show up in the Venmo in-app transaction history, for easy splitting among friends.

Users can choose to be alerted to each purchase and can also disable the card from their phone.

Venmo is following in the footsteps of another mobile payments firm, Square, which has also recently begun offering users a debit card. (Source date: 25 June 2018)

Spanish banks move ahead with blockchain platform for digital IDs

A consortium of Spanish banks is moving ahead with the development of a blockchain-based digital identity platform with the intention to undertake live testing before the end of the year.

Supported by eight companies (Abanca, Bankia, Caixabank, Caixa Ontinyent, Ibercaja, Kutxabank, Liberbank and Unicaja Bank) and led by Cecabank in collaboration with Grant Thornton, the Niuron consortium was established in 2017 with the aim of building tools designed to combat money laundering and boost KYC efforts.

The project is the continuation of a proof of concept stage completed last September, which demonstrated improvements in cybersecurity and the traceability of operations, increased transparency and privacy, savings in costs due to removing intermediaries and ultimately, making the client the owner of their data.

A similar initiative, Red Lyra, initially backed by Banco Sabadell, Banco Santander and BBVA, has since rebranded as Alastria and expanded its focus to bring on telecomms firms and utilities to serve as a common national hub for sharing client bona fides. (Source date: 21 June 2018)

Market News

Faster Payments outage delays thousands of transactions

The UK's Faster Payments system suffered a system failure this month that saw thousands of transactions take two days to process.

The Faster Payments Scheme, which is used by all the major UK banks, says that it experienced "intermittent issues with its central infrastructure" for four and a half hours on a Sunday afternoon. The "vast majority" of the backlog payments were processed later that day but, nearly two days later, around 8000 were still outstanding.

The scheme is working with MasterCard-owned Vocalink, which is behind the Faster Payments IT infrastructure, to investigate the cause of the problem. While details are scant, the issue is apparently related to the central infrastructure, not the bank gateways. (Source date: 10 July 2018)

UK regulators focus on bank IT failures

UK regulators have given British financial firms a three-month deadline to demonstrate their operational resilience in the event of a cyber attack or IT breakdown. The demand by the Bank of England and the Financial Conduct Authority for banks to report on their exposure to risk and contingency planning for disruptive outages comes after the disastrous IT upgrade at TSB and the recent black out of the Visa network.

In a joint statement, the FCA and BoE said "Operational disruption can impact financial stability, threaten the viability of individual firms and financial market infrastructures, or cause harm to consumers and other market participants in the financial system."

The companies say that banks should have backup plans in place to enable full recovery within two working days. Penalties for those firms that fail to demonstrate adequate planning could result in a requirement for higher capital levels, sanctioning of executive leadership and a demand for more IT investment.

The discussion paper follows the publication of the bank of England's Financial Stability Report which last week, which set out plans to test banks' resilience to resist and recover from a cyber attack on their payments systems. (Source date: 5 July 2018)

Increase in popularity of biometric payments forecast under PSD2

MasterCard is forecasting a bright future for biometric technology, as new rules on strong customer authentication under PSD2 come into force across Europe.

The European rules aim to tackle online fraud, by increasing the number of transactions subject to two factors of authentication by the payer. While in-store transactions using Chip and PIN technology already comply, the biggest impact will be felt in online shopping, where consumers are already overwhelmed by password fatigue.

With regards to card payments, currently just 1 - 2% of online transactions require cardholder authentication to complete a transaction, but this is set to rise to up to 25% from next autumn, according to MasterCard.

A spokesman for the company points to the card scheme's implementation of selfie payments and fingerprint cards, alongside changing consumer attitudes, as key for the future of biometric transactions, as it is apparently both easier and safer to authenticate with a thumbprint or a selfie. (Source date: 5 July 2018)

Cash machine fee row continues

Consumer champion Which? is calling for regulatory intervention to halt the closure of cash machines across the UK as banks and convenience stores re-assess the commercial viability of their networks under a new charging model which takes effect next week.

Which? says the imminent arrival of the new structure has led to an acceleration in ATM closures across the UK, with 300 cash machines disappearing off the high street every month.

The consumer group arrived at the figure by analysing data from Link to track cashpoint numbers from November 2017 up until April 2018. It claims that almost 1500 machines closed during this period - marking a near six-fold increase from a steady rate of fewer than 50 closures a month since 2015. Link, however, disputes the numbers, insisting that "during this period the number of free-to-use ATMs actually increased".

Which? is calling on the Payment Systems Regulator to intervene and halt the cuts until a thorough analysis of the impact on communities is conducted. (Source date: 29 June 2018)

Ticketmaster confirms data breach three months after bank warning

Ticketmaster has admitted to a data breach affecting the personal and payment card details of 40,000 customers, despite being warned about suspicious activity on customer cards back in April.

Ticketmaster formally informed customers who bought concert, theatre and sporting event tickets between February and 23 June of the breach.

The company was first warned by digital bank Monzo of a spike in fraud on Ticketmaster customer accounts back in April. However, the company failed to act, saying that an internal investigation had found no evidence of a breach.

The source of the data breach was a single piece of JavaScript code which was modified by the attackers to extract the payment information of Ticketmaster customers processed between February and June 2018. (Source date: 28 June 2018)

Visa and MasterCard near \$6.5bn interchange settlement

Visa, MasterCard and some of America's biggest banks look set to pay merchants around \$6.5 billion to settle a long-running battle over interchange fees, according to the Wall Street Journal.

Bank of America, Citi and JPMorgan Chase are among the banks joining Visa and MasterCard in the proposed settlement of an antitrust lawsuit with merchants over fees paid for accepting card payments, says the journal.

It is not known how the parties will split the costs but, in a statement on Thursday, MasterCard said that it plans to increase reserves by \$210 million "as a result of advances in negotiations". Visa says it has put aside \$600 million. (Source date: 28 June 2018)

Visa says 5.2m payments failed during 10 hour outage

More than five million transactions across Europe failed during Visa's 10 hour outage earlier this month, but the company's response has satisfied the UK government ministers probing the incident.

10% of 51.2 million transactions across Europe were affected during the outage, which lasted from 14.35 on 1 June until 00.45 the next day. In the UK, 2.4 million transactions failed to process properly, with 1.7 million credit and debit cards affected.

Apparently a component in Visa's primary data centre "suffered a very rare partial failure". This meant that Visa's secondary data centre was not able to kick in properly and automatically process all transactions.

While technical steps have been taken to reduce the chances of a repeat failure, in the longer term Visa says that by the end of the year it will migrate European processing to its global system, VisaNet, which is "more resilient in its ability to detect and recover from partial malfunctions of the type that impacted the European system".

Visa looks set to escape further action from the UK government, with the Treasury Committee declaring itself satisfied with Visa's answers regarding the system failure. (Source date: 19 June 2018)

Nets to acquire Poland's Dotpay/eCard

Denmark's Nets is to expand into Poland through a EUR73 million acquisition of online payment providers Dotpay/eCard.

A licensed card acquirer, DotPay and eCard employ 100 people in Warsaw and Cracow to service over 30,000 merchants in Europe's sixth-largest economy.

The deal comes shortly after Nets and German-based merchant service provider Concardis announced plans to merge in the latest in a series of transactions in a rapidly consolidating market.

The acquisition from private equity group MCI Capital is subject to approval by the relevant Polish authorities. Closing is expected to be in Q4/2018. (Source date: 19 June 2018)

Mobile Money

MasterCard to push Vocalink's Pay by Bank app

Mastercard has partnered with Worldpay to push the 'Pay by Bank' app that lets British online shoppers bypass the payment processor networks. Pay by Bank enables customers of UK businesses to make online payments for goods and services via their banking app, and directly from their bank account.

The app was developed by Zapp, a unit set up by VocaLink in 2013 with the aim of making real-time mobile payments - in store, online and through apps – accessible to UK consumers by integrating its system into bank apps and using Faster Payments. In spite of multiple big name retailers and banks being signed up ahead of a planned 2015 launch, Pay By Bank has so far failed to live up to the hype and is currently still only available to users of Barclays' Pingit app.

Although Pay by Bank rivals traditional payment schemes such as Visa and MasterCard itself, MasterCard, which now owns Vocalink, sees Zapp as an important part of its Vocalink acquisition and a potential new route into UK debit payments, currently a Visa stronghold. (Source date: 16 July 2018)

JPMorgan Chase begins nationwide roll-out of mobile-only bank

JPMorgan Chase is taking its mobile-only banking offshoot Finn nationwide in the US following its debut in St. Louis in October.

The bank designed mobile-only Finn by working closely with millennials for more than a year to understand their unique money challenges and what influences their spending. The app comes complete with a set of smart budgeting tools, autosaving features and the ability to use emojis to rate transactions and purchases bought using the app.

The new app is supported by Chase's digital account opening platform, which allows consumers to sign up directly from their phone and start banking in minutes.

The bank is putting its considerable financial support behind the nationwide launch, offering \$100 to people who open accounts and complete 10 transactions of certain types, such as sending money to another person or paying a bill. (Source date: 29 June 2018)

Op Financial mobile wallet to go contactless with Nets

Finland's OP Financial is to make its Pivo mobile wallet available for contactless payments at Nets' 300,000-strong network of merchants, both instore and online. Pivo is Finland's largest mobile wallet,

with 1.2 million downloads and over 800,000 registered users who use the Android app to transfer money, pay online and in stores, as well as send and receive Siirto payments.

Under the deal with Nets, Pivo payments will be made available at selected brick-and-mortar shops that use Nets terminals and in online stores at a later date. The agreement includes support for digital receipts management from Nets subsidiary Storebox, Apple Pay acceptance, and contactless functionality leveraging a bluetooth standard that has already been rolled out in Denmark.

The objective is to provide the same level of ease when paying in-store by mobile as when making contactless payments, regardless of handset. (Source date: 21 June 2018)