market eye

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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

How COVID-19 is changing payments

As the country attempts to emerge from lockdown without causing a second peak of infections, what are the changes within the payments industry which have taken place so far and what is the likely impact?

The virus has accelerated many existing trends, such as working from home, which will be life-changing for many people.

Similarly there has been an acceleration in changes in payments – contactless being the most obvious example. It is estimated that two-thirds of transactions globally are now contactless, around three times more than a year ago. Within these contactless transactions, some banks are reporting mobile wallet transactions up 17% compared to a year ago – around double the growth rate predicted for 2020.

Even cash-heavy economies such as Germany and Italy have seen a surge in (contactless) card-based and mobile payments, helped by the increase in the contactless payment limit in most European countries from €25 to €50 (UK £30 to £45).

One of the most significant ways the payments industry has been affected by the coronavirus crisis is in its economic impact. A reduction in consumer spending, declining international trade and a global economy on the verge of recession will inevitably lower the volume of payment transactions.

Besides the actual level of spending and the way consumers shop, what people are spending on has also changed significantly. Spending on holidays and associated industries such as airlines has inevitably declined dramatically, whilst pharmaceutical and fitness products, DIY supplies and online media have all seen a growth in volume.

Merchants have been actively encouraging customers to pay by card, ideally contactless, instead of using cash – merchants accepting only cash have found themselves at a significant disadvantage.

Unfortunately there have also been more negative impacts. As digital transactions have increased, fraudsters have seen more opportunities, and fraud has migrated into the mobile channel. According to ACI Worldwide mobile fraud attempts were up by 13% between March and April this year.

The accelerated move towards contactless and away from cash has highlighted the dependence on cash of a small section of society, particularly amongst the vulnerable and elderly, for whom it remains the key way of managing their finances and who struggle with the use of digital payments. How these people are protected and helped moving forward needs to be addressed and taken into account.

Whilst we can look at the developing trends and surmise how things will evolve moving forward, it is evident that an ability to adapt is key to survival for businesses, especially with circumstances dependent on the instability of the virus and our attempts to manage it. COVID-19 has caused changes to accelerate in payments such that we are already in a different landscape; companies in the payments industry need to make sure that they can adapt to it.

Products and Initiatives

Valencia public transport system to become cash free

Valencia is to become the first city in Spain to phase out cash payments for public transport in favour of a mobile ticketing system developed by Masabi and supported by BBVA and Mastercard.

The multilingual EMTicket app removes the need for passengers to carry cash or to physically purchase tickets. Once purchased in app, passengers can activate tickets on their mobile device and show them on screen to the driver when boarding EMT Valencia's services. Not only does the app enable services to be accessible and convenient, it also allows every aspect of the journey to be Covid-safe, including ticketing and payment.

EMTValencia is deploying Masabai's Fare Payments-as-a-service platform Justride for the roll out, using Mastercard Payment Gateway Services for digital payments with acquiring bank services supplied by BBVA. (Source date: 11 August 2020)

Google to offer US Bank co-branded accounts

Eight US banks have teamed up with Google to launch mobile-first bank accounts within the Google Pay app.

The new platform will pair Google's expertise in creating intuitive user experiences with the security of a reputable bank to provide a new way to manage money with financial insights and budgeting tools. When launched in 2021, the co-branded, FDIC-insured digital accounts will be offered via Google Pay and built on top of the banks' existing infrastructure.

The new banks coming onboard include Bank Mobile, BBVA USA, BMO Harris, Coastal Community Bank, First Independence Bank, and SEFCU.

Google is also said to be developing physical and virtual debit cards that would be co-branded with the financial services players, although details of this aspect have not been disclosed. (Source date: 3 August 2020)

Apple acquires softPOS firm Mobeewave

Apple has reportedly acquired Canadian SoftPOS company Mobeewave in a deal which could see iPhones used as contactless payment terminals.

Montreal-based Mobeewave lets users accept contactless payments with just their phones, without the need for any external hardware. The firm has agreements in place with National Bank of Canada, Australia's Commonwealth Bank and Polskie Platnosci.

According to reports from Bloomberg, Apple paid $100 million for the company. The deal would add an extra inducement for sole traders to switch to Apple, providing a means to accept card payments without the need to acquire a separate card reader from the likes of Square and iZettle.

Mobeewave already has a contract in place to incorporate its technology into Samsung handsets. The Apple rival is also an investor in Mobeewave. (Source date: 3 August 2020)

Mastercard enrolled into Pay.UK Request to Pay framework

Mastercard has enrolled with the Pay.UK Framework for its Request to Pay offering and signed up its first customer for the service.

Pay.UK issued the message standards, rules and terms and condition for the development of Request to Pay services in May. The messaging service enables billers to directly request funds rather than sending traditional invoices. For each request, receivers are asked whether they would like to pay in full or in part, request an extension, communicate directly with the biller, or decline to pay.

Mastercard's offering, developed with Exela Techologies, is one of the first to be enrolled to the framework. The payments giant says it will put control in the hands of the payer, providing more options and flexibility to settle bills between businesses and individuals.

Request to Pay Limited, an end-user application seeking enrolment into the ecosystem, has chosen Mastercard as its Repository provider. (Source date: 27 July 2020)

BNP Paribas joins IBM Cloud for Financial Services initiative

BNP Paribas is to become an anchor client in the EU for IBM's Cloud for Financial Services framework, developed in collaboration with Bank of America to drive financial-grade security and compliance controls in public cloud infrastructures. The bank will join a growing ecosystem of financial institutions and more than 30 new technology providers adopting IBM Cloud for Financial Services.

The news comes as IBM unveils a Policy Framework for Financial Services operating in the cloud and an advisory council to guide the ongoing effort.

As its first client in Europe, BNP Paribas will utilise a dedicated cloud, developed and managed by IBM, that will leverage IBM public cloud technologies, including Keep Your Own Key (KYOK) encryption capabilities to ensure GDPR compliance.

IBM has also expanded its growing ecosystem of Independent Software Vendors (ISVs) to include more than 30 partners, who will work alongside banks to explore new possibilities in the cloud via a newly-created IBM Research Cloud Innovation Lab, planned for August 2020. (Source date: 22 July 2020)

Mastercard launches sustainable card programme

Mastercard is launching a sustainable card programme to encourage its card issuers to switch to greener alternatives such as recycled, biodegradable and ocean plastics. Around six billion payment cards are produced each year - most of them made from non-biodegradable plastics such as PVC (polyvinyl chloride). Replaced every 3-4 years, these cards then collectively contribute around 5.7m tons of excess plastic in landfill around the world.

Already, more than 60 financial institutions - including top tier banks such as DBS, Santander and Crédit Agricole - are to begin issuing cards with approved materials.

To help further the effort, Mastercard has created a directory of sustainable card materials including information on where to source them, to help banks and other card issuers make the transition.

The switch to sustainable plastics was given a further boost last month, when Visa announced plans to roll out cards made from recycled materials to all financial institutions globally. The card scheme has collaborated with CPI Card group to produce the 'Earthwise High Content Card', which is made with up to 98% upcycled plastic. (Source date: 22 July 2020)

Market News

Standard Chartered signs three-year deal with Microsoft to become 'cloud first' bank

Standard Chartertered has signed a three-year deal with Microsoft as part of its ambition to become a 'cloud-first' bank.

Like many of its peers, Standard Chartered is adopting a multi-cloud approach, where significant applications, including its core banking and trading systems and new digital ventures such as virtual banking and banking as-a-service, will be cloud-based by 2025. The bank says it will also adopt a cloud-first principle for all new software developments and major enhancements.

The deal with Microsoft defines Azure as a preferred cloud platform, addressing customers’ security, privacy and compliance requirements across the bank’s global footprint.

Standard Chartered believes that the speed and scale of continuous innovation offered by Azure will allow the company to innovate with the latest AI services to meet evolving client needs, piloting new apps in one market and scaling them rapidly across others. (Source date: 11 August 2020)

Microsoft testing shows SCA leads to checkout abandonment

Strong Customer Authentication (SCA) testing undertaken by Microsoft shows that customers are abandoning their purchases at high rates when challenged at the checkout.

Currently scheduled to come into force at the end of the year, the SCA rule requires a two-step verification process for all European online purchases over EUR30, meaning customers will need two of the following: something they know (like a password), are (fingerprint/face ID), or have (phone).

Microsoft has been testing SCA for nearly a year, sending a small, random percentage of customer initiated transactions for authentication over EMV 3D-Secure. Apparently challenge success rates are "low to very low", meaning that merchants lose out on sales and customers miss out on their purchases. When challenged customers abandon the checkout at high rates, suggesting that customers are confused, don't like the authentication method, and/or encounter poor implementations of SCA, according to Microsoft.

Despite industry calls to reassess in light of the Covid-19 crisis, the EC recently confirmed that it will not follow the UK's lead and extend the SCA deadline from 31 December this year. (Source date: 10 August 2020)

Capital One fined $80m for extensive 2019 hack

Capital One has agreed to a $80 million fine from US regulators over a 2019 hack which exposed the personal information of more than 100 million customers and applicants.

Capital One revealed in July 2019 that a hacker accessed information relating to about 100 million American and six million Canadian customers that was sitting on Amazon Web Services servers.

The following month a software engineer was indicted on Federal charges for wire fraud and computer data theft related to alleged unauthorised intrusion into stored data of more than 30 companies, including Capital One. According to the indictment, the engineer created scanning software that allowed identification of AWS customers who had misconfigured their firewalls, allowing outside commands to penetrate and access their servers. She then used the access to steal data.

In addition to the fine, US regulators have told Capital One to boost its risk management programme and related governance and controls, specifically around cybersecurity. (Source date: 6 August 2020)

Reuters: antitrust investigation into Alipay and WeChat Pay?

According to Reuters, China's antitrust agency is considering an investigation into Alipay and WeChat Pay after the country's central bank raised concerns about them. The State Council's antitrust committee has apparently been collecting information on Ant's Alipay and Tencent's WeChat Pay for a month, although a decision on whether to open an investigation has yet to be made.

The People's Bank of China recommended that the committee look into non-bank payment companies earlier this year amidst concerns that Alipay and WeChat Pay use their significant influence in the market to kill off competition.

Alipay has more than 900 million users in China, while WeChat Pay has over 800 million. Recently, the central bank outlined plans to standardise the interoperability of QR code payments to boost competition.

Tencent has already gone some way towards this, agreeing to integrate its system with China UnionPay, giving the state-owned payments outfit a stronger foothold in the mobile money market. (Source date: 3 August 2020)

UK Government initiates fintech review

The UK Government has commenced a review into the nation's fintech industry, viewed as a key lynchpin in the country's economic recovery from the Covid-19 pandemic.

The independent Fintech Strategic Review will "establish priority areas for industry, policy makers, and regulators to explore in order to support the ongoing success of the UK fintech sector".

The UK fintech industry is estimated to be worth around £7 billion to the economy and employs around 60,000 people nationwide. Technology is seen as playing a vital role to play in the UK's Covid-19 economic recovery; the fintech review is intended to ensure that innovative technology can be leveraged to help consumers and businesses, through a joined-up strategy that combines investment, skills and policy to deliver it.

At an inaugural meeting of the Governance board on Monday, five workstreams were established to provide recommendations on skills and talent, investment, national connectivity, policy, and international attractiveness. The review is expected to report back to HM Treasury at the start of next year. (Source date: 20 July 2020)

Mastercard extends cryptocurrency interest

Mastercard is expanding its interest in virtual currencies, approving Wirex as the first native cryptocurrency platform to be granted principal membership, allowing it to directly issue payment cards.

Mastercard principal membership enables Wirex to issue payment cards directly to consumers, making it easier for people to buy, hold and exchange multiple traditional and cryptocurrencies.

The card scheme is inviting other crypto operators to join its Accelerate programme for emerging brands and fintechs, allowing for fast onboarding and technical and growth support.

A spokesperson for Mastercard commented “The cryptocurrency market continues to mature, and Mastercard is driving it forward, creating safe and secure experiences for consumers and businesses in today’s digital economy. Our work with Wirex and the wider crypto ecosystem is accelerating innovation and empowering consumers with more choice in the way they pay.” (Source date: 20 July 2020)

Mobile Money

BBVA introduces contactless cash machines

BBVA is offering customers zero-touch contactless cash withdrawals from ATMS as a means to promote safety and hygiene protocols during the pandemic.

An update to the bank's mobile app uses geo-location tech to direct customers to the nearest contactless ATM and near field communication technology to undertake transactions. Customers can instruct the app to make withdrawals up to the amount of €300 per day. (Source date: 11 August 2020)

Revolut losses triple despite rising revenues

Digital banking app Revolut saw losses triple to £106.5 million in 2019, despite a sharp rise in revenues and customers.

Losses were up from £32.8 million in 2018 as the UK-based digital bank invested heavily in staff, international expansion into markets including the US and Singapore, as well as new products, including a stock trading offering.

Revenues were up 180% to £162.7 million while customer numbers soared from 3.5 million to 10 million at the firm, which was valued at $5.5 billion in a funding round earlier this year.

Revolut follows rivals Monzo and Starling in reporting annual losses but unlike Monzo makes no warning about the Covid-19 pandemic and its ability to continue as a "going concern". A spokesperson for the company said, “Our continued growth and expansion during the pandemic has shown the resilience of our strategic plans and we are pleased that these plans are further endorsed by new investors. (Source date: 11 August 2020)

Monzo and Starling – contrasting fortunes

While other digital challengers struggle to keep afloat during the pandemic, Starling Bank says it remains on course to reach profitability by the end of 2020, overseeing significant growth in staff, customers numbers and its loan book over the past year.

The firm, which raised a further £100 million in funding from existing investors in 2020, has become an established lender with £1 billion of lending and now has 27 partners in its Marketplace and 22 clients in its Banking Services division.

The picture painted offers a stark contrast to the gloomy forecasts coming from rival challenger Monzo, which last month said fallout from the Covid-19 pandemic casts "significant doubt" on its ability to continue as a going concern after reporting a £113.8 million loss for the year. Monzo has grown through customer acquisition but continues to struggle to convert its young followers into fee-paying customers. In a £60 million fundraising round in June, the firm was forced to accept a humiliating 40% discount on its aggressive pre-Covid £2 billion valuation.

While Starling has grown its employee base by 352 since the end of the last financial year - including a net increase of 147 people since the start of the lockdown - Monzo has been forced into a retreat, laying off 285 staff and furloughing a further 295. (Source date: 7 August 2020)

Mastercard partners Microsoft for digital commerce innovation

Mastercard's research and development arm is teaming up with Microsoft to make use of the power of the cloud to drive digital commerce, startup innovation and financial inclusion.

The collaboration will accelerate Mastercard Labs’ cloud native research and development activities, enabled by Azure and AI, to advance its mission to de-risk and commercialise emerging technologies and platforms for digital commerce.

The two companies say that their deal will enable Mastercard's ecosystem of partners to explore the use of emerging innovations and new commerce capabilities such as devices that enable digital payments in new ways.

The Azure cloud environment will also serve as the native infrastructure for Mastercard Labs' financial inclusion efforts, supporting the payment firm's Community Pass - a platform that pulls together complex ecosystems and provides underserved communities with access to essential services, such as education, agriculture marketplaces and basic healthcare. (Source date: 28 July 2020)

Orange and NSIA launch Orange Bank Africa

Telco Orange has joined with bancassurance company NSIA to launch Orange Bank Africa, catering to the needs of the continent's financially underserved.

Launching initially in Abidjan and Côte d'Ivoire, Orange Bank Africa will offer clients a range of simple savings and credit services, allowing customers to borrow as little as 5,000 CFA francs instantly using their mobile phone. Apparently the app-based bank has identified Senegal, Mali and Burkina Faso as the next markets for expansion.

The chairman and CEO for Orange commented that new technology is needed to strengthen financial inclusion and support economic development, as proven by mobile money over the past few years. As banking is a new area of business for Orange in Africa, the association with NSIA will enable them to provide easy access to bank services for as many people as possible, with simple and essential services that benefit all their clients.

The firm is using a SaaS technology backbone from Temenos running on Microsoft Azure to enable it to scale as it moves into new territories. (Source date: 24 July 2020)