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Global Payments Newsletter
1 October 2014

A thick, solid yellow horizontal bar spanning most of the width of the page, positioned below the title and date.

Global Payments Newsletter

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1. REGULATORY DEVELOPMENTS

1.1 Europe: PSD2 Compromise Text.

- On 12 September, the EU Presidency published a further compromise text on PSD2.
- The compromise text reflects further movement on a number of key provisions, including:
 - Scope
 - Change of control
 - Passporting
 - Third Party PSPs
 - Liability
 - Security

See the compromise text [here](#).

1.2 Europe: MIF Regulation Compromise Text.

- On 5 September, the EU Presidency published a compromise text on the MIF Regulation.
- The proposed Regulation forms part of the EU's 'payments package', with PSD2 and aims to regulate interchange fees across the EU.
- Key changes include:
 - Changes to some of the fundamental definitions
 - Changes to the level of caps for debit card transactions

- Changes to timing so that domestic interchange will be capped at the same time as cross-border interchange and other provisions will come into effect at different times
- Changes to the Honour All Card rules

See the compromise text [here](#).

1.3 **Europe:** ECJ dismisses MasterCard appeal on interchange fees.

- On 11 September 2014, the ECJ dismissed the appeal by MasterCard in relation to multilateral interchange fees ("MIFs").
- This judgment will give fresh impetus to the Commission's ongoing investigations into MasterCard's MIFs applicable to inter-regional transactions and cross-border acquiring.
- Other competition proceedings in the EU against MasterCard can now be expected to resume.
- The CMA issued a statement that it expects to make a decision regarding how to proceed with its investigations by the end of October 2014.
- Several appeals in France, Italy and Hungary have also been stayed pending judgment. Other investigations are underway in Germany, Cyprus and Hungary.

See the judgment [here](#) and the CMA statement [here](#).

1.4 **Europe:** ECJ Groupement des Cartes Bancaires judgment.

- On 11 September 2014, the European Court of Justice ("ECJ") handed down its judgment on the appeal by Groupement des Cartes Bancaires ("GCB").
- The ECJ found that the General Court was wrong to conclude that the pricing measures GCB had adopted in relation to its payments card system had the object of restricting competition.
- The case has been referred back to the General Court.

See the judgment [here](#).

1.5 **United Kingdom:** Bank of England reports on digital currencies.

- On 11 September 2014, the Bank of England published a series of reports on digital currencies. The reports include:
 - "Innovations in payment technologies and the emergence of digital currencies"; and
 - "The economies of digital currencies".
- The Bank concluded that digital currencies do not, at present, pose a threat to the broader financial system.

- If adopted more widely, the central bank's chief monetary authorities would become increasingly unable to influence prices and economic activity as a whole. However, price volatility and the risk of diminishing returns for miners are systemic problems that will keep digital currency from becoming more than an auxiliary payments infrastructure.

See the reports [here](#).

1.6 **United Kingdom:** FCA publishes thematic review on mobile banking and payments.

- The FCA assessed mobile banking and payment solutions at a number of banks, building societies and payment institutions. It also looked at governance processes and policies and interviewed staff to obtain "a view of how firms manage any current risks around their mobile products and services, and how they deliver consumer outcomes".
- The report, published on 11 September 2014, identified five key issues that firms must address when providing mobile banking services. These included:
 - making it easy for consumers' to understand their rights and responsibilities;
 - ensuring senior management had sufficient knowledge to exercise proper oversight;
 - putting in place systems to ensure security and technology resilience;
 - exercising proper third party oversight when outsourcing; and
 - ensuring new payment firms providing similar services are aware of the regulatory framework.
- The FCA said it was aware of outages affecting mobile banking services in recent times and said banks that "monitor consumer behaviour" are likely to be able to prevent outages occurring. Where disruption to services does occur, banks must have "robust recovery processes" in place.
- The FCA said it expected the payments market to evolve further and stressed it wanted to work with companies to help them understand how their innovations can be harnessed in compliance with existing regulations through 'Project Innovate'.

See the report [here](#).

1.7 **Spain:** Three-party payment systems to be exempt from the cap on interchange fees.

- Three-party payment systems, such as American Express, where the card issuer also has a contractual relationship with the retailer will be exempt from the cap on interchange fees recently established by Spanish Regulations.
- Four-party systems, used by entities such as Visa or MasterCard, are prohibited from charging interchange which exceeds the 0.3% for credit cards and 0.2% for debit cards. These are the same levels proposed in the MIF Regulation.

- The exemption established for three-party systems does not apply to:
 - company credit cards;
 - cash withdrawals; or
 - limited network credit cards.

See a report [here](#) (in Spanish).

1.8 **Ecuador:** Ecuador central bank sets date for issue of digital currency.

- As reported in the August Newsletter, the Ecuadorean central bank is to issue its own digital currency.
- The currency will begin circulating in December 2014.

See a report [here](#).

1.9 **India:** Two-factor authentication enforced by Indian Reserve Bank.

- The Reserve Bank of India shut a legal loophole last month by clarifying that online payments taking place between two Indian 'residents' cannot bypass two-factor authentication. The central bank also stated that transactions must be carried out in Indian rupees and not dollars.
- This affects companies such as Uber.
- Companies have until 31 October 2014 to become compliant.

See a report [here](#).

2. PAYMENT MARKET DEVELOPMENTS

2.1 **United Kingdom:** Vodafone to launch NFC payments in the UK next month.

- Vodafone has developed its own service with Visa that will work with a special SIM card embedded with NFC technology.
- Vodafone has gradually rolled out similar services across Europe. It has so far launched in Spain, Germany, the Netherlands and Italy.

See a report [here](#).

2.2 **United Kingdom:** London tube launches contactless payment.

- On 16 September 2014, Transport for London introduced contactless payments on most of London's transport networks.
- Passengers are able to use contactless debit and credit cards and no longer need tickets or Oyster smartcards on the tube, tram, DLR, London Overground and rail services that currently accept Oyster cards.
- It is estimated that around half of Londoners already have a contactless debit or credit card.
- Contactless debit and credit card payments have been used on London buses since December 2012 and cash payments were abolished in July 2014.

See a report [here](#).

2.3 **United Kingdom:** Tesco trials mobile payments service.

- Tesco is trialling a mobile payments service that enables customers to pay for their shopping and earn Clubcard points using their mobile phone.
- The PayQwiq service is currently available at 16 of Tesco's smaller Express stores in London, as well as at 26 of its Express, Metro and Superstore store formats in Edinburgh. It is currently limited to a small number of staff members with plans to extend the service to customers in October 2014 if the trial is successful.

See a report [here](#).

2.4 **United Kingdom:** The Co-operative Group to complete contactless roll-out by the end of 2014.

- The Co-op Group will complete its roll-out of contactless payment technology in its stores by the end of the year.
- Customers can currently pay via contactless payment in 2,000 of the Group's 2,800 stores.

See a report [here](#).

2.5 **United States:** Apple announce new mobile wallet 'Apple Pay'.

- On 9 September 2014, Apple announced the launch of its new mobile wallet 'Apple Pay'.
- Apple Pay supports most major credit and debit cards providers as well as US banks. More specifically, Apple Pay is compatible with Visa, MasterCard, and American Express cards from financial institutions such as Bank of America, Capital One, Chase, Citi, and Wells Fargo.
- Apple Pay uses NFC technology, allowing customers to make in-store payments by touching their iPhone or Apple watch to a contactless terminal. iPhone apps can also integrate with Apple Pay allowing customers to select "Apple Pay" at checkout when ordering.
- The service will initially roll out in the US only. It is expected to launch in Europe some time in 2015.

See the press release [here](#).

2.6 **Europe:** MasterCard sets 2020 deadline for European contactless acceptance.

- On 10 September 2014, MasterCard announced its plan to establish contactless acceptance as a standard for all merchants in Europe by 2020.

See a report [here](#).

2.7 **Africa:** Orange Money partners with Bank of Africa for mobile transfers.

- Orange has agreed a partnership with Bank of Africa to expand its mobile money services across the region.

See a report [here](#).

2.8 **South Africa:** PayPal partners with PayGate in South Africa.

- The partnership will make it easier for merchants to accept online payments in South Africa adding PayPal to the payment options offered through PayGate.
- PayGate hopes the partnership will boost overseas sales for merchants who use its services.

See a report [here](#).

2.9 **Australia:** goMoney reaches A\$100bn of transactions.

- goMoney, ANZ Bank's mobile-to-mobile payments system, has reached A\$100bn of transactions since its launch in 2010.

See a report [here](#).

2.10 **China:** Alipay and Huawei to develop fingerprint-based mobile payments.

- Alipay has partnered with Huawei, to use fingerprint sensor technology in Huawei's new smartphone.
- Huawei will integrate the technology with the Alipay Wallet app, allowing users to pay avoiding the use of a pin code.
- Any fingerprint data saved will be fully encrypted.

See a report [here](#).

2.11 **Worldwide:** McDonald's to launch NFC payment app.

- McDonald's will begin to roll out their mobile payment platform in September.
- The platform is reportedly called "McD Ordering" and the app links to a credit card or debit card. It will automatically charge when the customer arrives at the restaurant and scans the given code after the order is placed.

See a report [here](#).

2.12 **Worldwide:** Twitter to introduce a "buy" feature.

- The "buy" button will sit inside a tweet and allow people to click to buy an item directly from that message.
- Once users have clicked, they will be prompted to enter payment and shipping details. If a user is already known and registered with a service or merchant, they will be asked to tap the button again to confirm purchase.
- 19 partners have signed up to test the feature.

See a report [here](#) and Twitter's blogpost [here](#).

2.13 **Worldwide:** YouTube introduces fan funding feature via Google Wallet.

- The new feature allows fans in United States, Japan, Mexico, and Australia to donate between US\$1 and US\$500 at a time through Google Wallet.
- Google will take as a charge 21 cents plus 5% of each donation in the US.

See a report [here](#).

2.14 **Virtual Currency:** PayPal enters agreements with major Bitcoin processors.

- PayPal has announced partnerships with three major payment processors in the Bitcoin space – BitPay, Coinbase and GoCoin.
- Online merchants will now be able to accept Bitcoin via all three companies through its PayPal Payments Hub.
- However, PayPal has not added Bitcoin as an option in its digital wallet and will not process these payments on its platform.

See a report [here](#).

2.15 **Virtual Currency:** Coinbase to launch Eurozone consumer service.

- Coinbase will launch its Bitcoin brokerage services in 13 countries across Europe, initially allowing consumers to buy and sell up to €500 in Bitcoin per day.
- Countries include: Austria, Belgium, Cyprus, Finland, France, Greece, Italy, Latvia, Malta, the Netherlands, Portugal, Slovakia and Spain.
- Coinbase has more than 1.6million wallet users in the US and already offers its wallet service to European Bitcoin holders.
- On 8 September 2014, Coinbase also revealed a new partnership with Braintree to enable customers to accept Bitcoin.

See a report [here](#) and [here](#).

2.16 **Virtual Currency:** The Royal Canadian Mint set to sell digital currency project.

- MintChip is a digital currency project from the Royal Canadian Mint.
- The Boston Consulting Group have been instructed to spend six weeks valuing MintChip's assets – including an application, as well as one approved and nine pending patents on the MintChip technology – and developing a plan to sell those assets.

See a report [here](#).

3. REPORTS AND SURVEYS

3.1 **United Kingdom:** The Payments Council reports on the electronic payment needs of low-income consumers.

- The report, published on 2 September 2014, found that there are significant barriers to the use of electronic payment services for consumers on low incomes. These consumers can incur disproportionate costs and face risks to their financial well-being.
- Standing orders, debit cards and direct transfers via phone and internet banking appear to have the potential to provide low-income consumers with the control and flexibility they need to manage their finances. In practice, however, people on low incomes rarely use these methods to pay regular commitments.
- Around half of low-income consumers and two-thirds of people who are benefit-dependent choose to manage their money primarily or entirely in cash.
- The Payments Council plans to engage with a range of stakeholders, including banks, with a view to addressing the wider challenges of the electronic payment inclusion of low-income consumers.

See an executive summary [here](#) and the full report [here](#).

3.2 **United Kingdom:** The Payments Council reports on the Current Account Switch Service.

- The Payments Council issued a report on 11 September 2014 (the anniversary of the launch of the Current Account Switch Service (CASS)). The report sets out progress that has been made and in particular notes the following:
 - 1.1 million switches using the new service during the first 11 months;
 - 19% increase in comparison with the same period the previous year;
 - 70% of the public are aware of the service;
 - 61% of the public are confident in the service and how it works;
 - The majority of consumers and businesses who used it found it easy; and
 - The central processing and redirecting service has worked well from day 1.
- Figures are based on a monthly sample size of 2,200.
- The FCA is due to undertake a review of the first 12 months of CASS and will publish details of timing and scope in due course.

See a report [here](#).

3.3 **United States:** Bitcoin taking hold in Latin America.

- Latin America, particularly Argentina, Brazil and Chile, are reportedly the next major targets for Bitcoin.
- There are currently over 8,000 users of Bitcoin in Argentina.

See a report [here](#).

3.4 **India:** Low-cost smartphones fuelling mobile commerce growth.

- A study by Accel Partners found that mobile commerce grew 800% in 2013 and is expected to have a compound annual growth rate of 150% until 2016.
- However, the mobile traffic-to-revenue gap remains high. From 23% of traffic, only 9% results in a sale.

See a report [here](#).

3.5 **Worldwide:** Bank for International Settlements ("BIS") publishes report on "Non-banks in retail payments".

- The report by CPMI was published by BIS on 9 September 2014. It examines the role of non-banks in retail payment services and analyses the implications of the growing importance of these entities in retail payments.
- The report reveals a significant presence of non-banks at all stages of the payment process and across different payment instruments.
- The main issues identified by the report for central banks and other authorities, relate to the potential impact of non-banks on operational risk, level playing field issues, consumer protection aspects and the risks that might emerge if outsourcing of payment services is concentrated in a single or a few non-banks.
- Although the report is aimed at those with oversight of the systems, its findings should be of interest to the participants in the systems as well, since they provide an indication of possible future interest for and intervention by regulators.
- Central banks are invited to consider the challenges identified, including risk and level playing field issues, and take action as appropriate in their jurisdictions.

See the report [here](#).

3.6 **Worldwide:** Retail figures suggest mobile visits to retail websites top PC for the first time.

- Figures from IMRG and a series of retailers suggest that 52% of traffic to retail websites now comes from mobile devices.
- Bounce rates (that is those that do not proceed to a sale) have also increased, however checkout abandonment is at its lowest rate ever at 27%.

See a report [here](#).

3.7 **Worldwide:** Global mobile wallet market to value US\$1.6 trillion in 2018.

- A recent report published by Transparency Market Research, found that the global mobile wallet market is expected to reach US\$1.6 trillion by 2018, growing at a compound annual growth rate of 30.7% from 2012 to 2018.
- The report highlights that the retail sector formed the largest application of mobile wallets in 2011. It was valued at USD 144.8 billion.
- The research also found that the EMEA is expected to be the largest market for the mobile wallet industry in 2018.

See a report [here](#).

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