

Hogan Lovells Global Payments Newsletter
20 March 2013



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1. REGULATORY DEVELOPMENTS

1.1 **Worldwide:** Financial Action Task Force ("FATF") updates grey list of countries

- FATF, an inter-governmental body setting global standards for anti-money laundering ("AML") and to combat the financing of terrorism ("CFT"), has published updated statements identifying (1) jurisdictions with strategic AML/CFT deficiencies; and (2) jurisdictions which have undertaken, but are yet to complete, action plans to deal with strategic AML/CFT deficiencies.
- Ghana and Venezuela have made sufficient progress to no longer be subject to FATF's on-going compliance process.

See the statements [here](#) and [here](#)

1.2 **United Kingdom:** HM Treasury updates AML/CFT advisory notice

- In response to the FATF statements referred to above, HM Treasury has updated its advisory notice for firms to apply enhanced due diligence measures for jurisdictions with strategic AML/CFT deficiencies, and to take appropriate action to minimise risk for jurisdictions which have yet to complete their AML/CFT action plans.

See the notice [here](#)

1.3 **Europe:** call for European Parliament resolution on organised crime, corruption and money laundering

- The European Parliament's special committee on organised crime, corruption and money laundering has published a draft interim report setting out a motion for a European Parliament resolution.
- The motion includes a shopping list of recommendations aimed at greater harmonisation of laws, and increased coordination of national authorities, to combat organised crime, corruption and money laundering, including to close loopholes being exploited by criminals.
- Among the many recommendations are (1) a regulatory framework that takes proper account of the interaction between the AML and data protection regimes, and operational solutions to enable appropriate access to data to carry out

customer due diligence; (2) an urgent need for a Europe-wide legislative framework and operational tools to combat cybercrime; and (3) fostering growth of electronic payments, which are more traceable than cash.

- The motion is highly ambitious, and it remains to be seen which recommendations are carried forward, and when.

See the draft interim report [here](#)

1.4 **United States:** Regulatory spotlight on new payments risks

- The Federal Trade Commission ("**FTC**") has published a report about the potential risks to consumers of new payments products, such as peer-to-peer payments, mobile wallets and contactless payments. The report identifies data security, privacy and dispute resolution of fraudulent or unauthorised charges as the primary concerns facing businesses and consumers.
- In particular, the report highlights (1) differing protections against a consumer's liability for fraud between a credit card, debit card and other payment methods; (2) the need to take steps to prevent "cramming", that is, third parties placing fraudulent charges on mobile phone bills; and (3) non-transparent collection of personal information in the context of mobile payments and the resultant privacy risks to consumers.
- The FTC warns businesses developing or deploying mobile payments services, and third parties with whom they share data, that it has broad jurisdiction over mobile payments and that it is continuing to monitor the industry. The report signals greater regulatory scrutiny of this growing sector.

See our report [here](#) and the FTC report [here](#)

1.5 **Poland:** Proposed legislation to cap interchange fees

- Two competing proposals on the maximum interchange fee rate, that is the fees paid between banks for the acceptance of card-based transactions, have been submitted to the Polish Parliament as an amendment to the Payment Services Act.
- The planned maximum interchange fee rates are 0.5% and 0.7%. One proposal provides for a subsidiary of the Polish Financial Supervision Authority to determine the interchange fee rate in particular cases where such rate exceeds 0.7%.
- The proposals are currently at the working party stage in the Public Finance Committee.

See the proposals (in Polish) [here](#) and [here](#)

2. **PAYMENTS MARKET DEVELOPMENTS**

2.1 **Worldwide:** Western Union expand payment app offerings

- Western Union have launched two mobile apps to enable people to manage and pay their bills.

- One app is targeted at billers in the utilities industry, enabling their customers to view and pay bills, monitor usage, and track and report outages.
- The other is for other types of billers, such as financial services providers and telephone operators, to offer their customers a biller branded app that allows them to make payments and access historic payment information.
- It is interesting to note how Western Union is continuing to diversify from its traditional, cash based money remittance business.

See the press release [here](#)

2.2 **Worldwide:** Samsung launch Galaxy S4 phone with integrated mobile payments and loyalty features

- Following the Samsung and Visa global alliance announcement (see previous update), Samsung has launched the Galaxy S4, a near field communications ("**NFC**") enabled phone which comes preloaded with the Visa payWave applet in the embedded secure element. This means that once the user has loaded their payment details, they will be able to make NFC contactless payments immediately without needing to download a mobile wallet application. Visa will not have exclusivity for long, however, as Samsung also plan to preload competitor mobile payments applets in the next few months.
- The phone also includes "mobeam" technology, which generates barcodes on smartphone screens without the screen glare that has sometimes made them unreadable by barcode scanners. Solving this problem could significantly increase merchant adoption of mobile payments, as it would work using retailers' existing barcode scanners without the need for costly upgrades to their point of sale ("**POS**") payment acceptance hardware.
- The phone will also contain a mobile wallet app for storage of coupons and loyalty cards that can be turned into scannable barcodes.
- There has been much debate as to whether NFC (which does require retailers to upgrade their POS devices) or quick response ("**QR**") barcodes would become the preferred means of making contactless payments by phone. Clearly, Samsung are hedging their bets.

See a report [here](#)

2.3 **Worldwide:** Microsoft trials new mobile payments system

- Microsoft has successfully trialed 'Zero-Effort Payment', a Windows Phone solution that will allow retailers to take mobile payments from in-store customers without the customer having to make the payment using NFC or a QR code.
- The service uses Bluetooth technology to detect the phones of customers who are in-store, combined with face recognition when a user comes to the cash till to pay. Once the retailer has taken payment, the service emails the customer with a receipt and a 10-second video, in case the customer wishes to dispute the transaction.

See a report [here](#) and Microsoft's paper [here](#)

2.4 **Worldwide:** Electronic Transactions Association publishes mobile payments white paper

- The mobile payments committee of the Electronic Transactions Association, an international trade association for the payments processing industry, has published a 'Best Practices and Guidelines' white paper.
- The aims of the paper are to (1) facilitate merchants and consumers having access to the most innovative and effective mobile payment solutions; and (b) establish best practice for delivery of a secure and reliable service to consumers. The paper covers best practice on security, privacy, competition, technology and contracts.

See the white paper [here](#)

2.5 **Europe:** Intuit launches mobile payments in Europe

- Following its pilot in December last year (see previous updates), Intuit has now launched a mobile point of sale ("**MPOS**") service in the UK, with plans to roll-out the product across Europe and more widely.
- To meet card processors' Europe requirements to authenticate the customer, Intuit has created a separate card reader with a keypad for users to enter their PIN. The card reader communicates with the app on the merchant's iOS device to process the payment and send receipts. Intuit plans to offer the service on other operating platforms soon.
- The reader is currently free along with the app and access to Intuit's online service. Transactions are charged at a 2.75% flat rate. The service may be attractive to small and medium businesses as it integrates with Intuit's accounting software, Quickbooks, and other business products.

See a report [here](#)

2.6 **United Kingdom:** Royal Bank of Scotland roll out mobile app for Visa person to person payments

- Royal Bank of Scotland and NatWest are launching a new mobile payments service in partnership with Visa Europe allowing their customers to send money to anyone with a Visa card in England, Wales or Scotland without needing to know the recipient's bank details. The service goes fully live after Easter with a "soft launch" to targeted customers in the meantime.
- Once a customer has downloaded the app, they can send money to anyone with a UK mobile phone number and a Visa card (all non-business Visa debit, credit and reloadable prepaid cards that are billed in UK sterling are supported). The recipient will be sent a text message with a link to a secure Visa website. They will need to enter the amount of the payment and their Visa card number into the site in order to access the funds.
- The banks have said that there is scope for this partnership with Visa Europe to be extended into cross-border payments in the future.

See a report [here](#)

2.7 **United States:** U.S. Bank launch mobile photographic bill payment app

- As foreshadowed in previous reports, U.S. Bank has launched a mobile bill payment service for its customers. Using Mitek's Mobile Photo Bill Pay app, customers can set up payments by taking a photograph of their bills with a smartphone or tablet camera.
- The technology extracts relevant information from the paper bill to automatically populate the fields required to make a mobile payment. The customer can then schedule and authorise the payment through the app. U.S. Bank are believed to be the first major bank to integrate this technology.

See a report [here](#)

2.8 **United States:** WePay launches innovative MPOS offering

- WePay has released a mobile app aimed at small businesses which allows users to generate invoices and process credit card payments from their smartphones or tablets. The app is available on iOS, currently with plans to launch on other operating platforms.
- With WePay's app, merchants enter credit card numbers by tapping on a numeric keypad on their device, rather than using an external card reader, or they can create an invoice and email it to the customer, who can then pay online by credit card via a link. WePay charge 2.9% plus 30 cents (USD) per transaction.
- To differentiate itself from MPOS competitors, WePay is focusing on the small business market, those with 10 or less employees, who currently collect most payments by cheque, which WePay estimate currently take \$USD1.1 trillion of payments a year.

See a report [here](#)

2.9 **Spain:** Bankinter app avoids need for secure element with mobile NFC payments

- From this summer, Bankinter will provide a contactless mobile payments service that does not require a secure element within the handset. Users with NFC enabled phones will merely need to download an app and register online.
- Similar existing services require the use of a secure element from a handset manufacturer or network operator. However, with this service, the customer temporarily downloads virtual one-time use replicas of their physical credit or debit card every time they make a payment.
- The system, developed with Visa Europe, Net1 UEPS and Seglan, does not require any change to the existing payment infrastructure, works with any NFC enabled terminal and is EMV compliant.
- The need to access a secure element has frequently been a hurdle for companies wanting to enter the mobile payments market, requiring a link up with a network operator or handset manufacturer. Consequently, this could be a significant development for the wider adoption of contactless payments.

See a report [here](#)

2.10 **Poland:** Major Polish bank launches ground breaking mobile payment system

- One of Poland's biggest banks (PKO BP) has introduced a mobile phone-based payment service called "IKO" available on the iOS and Android platforms.
- The technology involves contactless payments with the use of a mobile app, but crucially does not employ NFC technology, instead using the point of sale terminals of eService (PKO BP's settlement agent). It also offers ATM cash withdrawals, bank transfers, internet payments and "cheque" payment functionality.
- The system works by the user inserting a code generated by the mobile app into a payment device, such as a payment terminal or ATM.
- At present, the app is only available to PKO customers, although PKO still expects to have approximately 1 million users by 2015.

See a press release [here](#) (in Polish) and report [here](#) (in English)

2.11 **Australia:** National Australia Bank ("**NAB**") pilots person-to-person payment app

- NAB is piloting a mobile payments app, informally dubbed 'Kiss'. The app will allow users to send and receive money using email, text, QR code or NFC.
- The app is currently for Android devices only. However, it is being seen as NAB's response to ANZ's GoMoney and Commonwealth Bank's Kaching mobile banking apps.

See a report [here](#)

3. **SURVEYS AND REPORTS**

3.1 **Worldwide:** SAP Survey demonstrates need for retail mobile wallets and services

- A survey from the GSMA Mobile World Congress found that 53% of industry leaders believed that improving customers' retail experience would be fundamental to creating a successful mobile payments scheme.
- The survey was aimed at mobile operators, fixed telecommunication providers, over-the-top (OTT) players (companies providing services over the top of existing network providers) and mobile industry executives.
- Respondents believed that the key ingredient for delivering a better retail experience includes: location-based POS offerings (24%), POS services such as NFC (28%) and facilitating universal acceptance of mobile payments (25%). Integration with mass transit systems and targeted offers based on consumer shopping history were seen to be less important.

See a report [here](#)

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