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Lovells**

Hogan Lovells Global Payments Newsletter
26 July 2013

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1. REGULATORY DEVELOPMENTS

1.1 Europe: Commission publishes payments legislative package

- The European Commission has published two pieces of draft legislation in relation to payments:
 - a proposal for a draft Payment Services Directive ("**PSD2**"); and
 - a proposal for a Regulation on Multilateral Interchange Fees ("**MIF Reg**").
- We will soon be sending out a briefing note on PSD2 and the MIF Reg.

See the payments legislative package [here](#)

1.2 Europe: Mobile wallet payments white paper

- The European Payments Council ("**EPC**"), the coordinating and decision-making body of the European banking industry in relation to payments, has published a white paper on mobile wallet payments. The paper focuses on mobile wallets as an enabler for mobile payments using the existing Single European Payments Area ("**SEPA**") schemes for direct credits, direct debits and card payments.
- The paper describes mobile wallets and the services they support and takes a high-level look at the current mobile wallet models and the stakeholders involved. It suggests some principles for the development of mobile wallets, including that:
 - consumers should be able to use mobile wallets to make mobile payments throughout SEPA, regardless of where the wallet was issued;
 - there is a need for consistency in specifications and guidelines for mobile wallets by the multiple standardisation and industry bodies;
 - usage should not impact the security of the underlying payment; and
 - a consumer should be able to control and easily select any mobile payment service offered (particularly where a number can be supported) and should be able to manage their use of the wallet, including updates and cancellations.

- The EPC also recognises that a number of challenges need to be addressed before mobile wallets can drive mobile payments in SEPA, particularly the co-existence of multiple services within a wallet, the co-existence of multiple wallets accessed through one device and aligning the security of mobile wallets with existing and forthcoming requirements for mobile payments (including the SecuRe Pay "Recommendations for the security of internet payments").
- Comments are invited until 30 September 2013 and the EPC hopes to issue an updated version based on feedback received.

See the white paper [here](#)

1.3 **United Kingdom:** Consultation on money laundering guidance

- The Joint Money Laundering Steering Group ("**JMLSG**"), the body of UK financial services trade associations that sets guidance in interpreting the UK Money Laundering Regulations and promotes good practice in countering money laundering and terrorist financing, is consulting on proposed amendments to its Money Laundering Guidance.
- The guidance, and in particular chapter 4 (Risk-based Approach), has been updated to deal with areas of omission and provisions that are difficult to implement or that no longer reflect current practice. A specific noteworthy addition is the list of risk factors (i.e. customer, geographical, and product or service risk factors) which indicate whether the transaction is considered higher or lower risk for money laundering purposes. While the draft guidance includes the revised Financial Action Task Force recommendations, the guidance does not anticipate changes that will be required by the proposed fourth money laundering directive.
- Comments are requested by 16 September 2013.

See the marked-up guidance [here](#)

2. **PAYMENTS MARKET DEVELOPMENTS**

2.1 **United Kingdom: EE launches mobile wallet with near field communication ("NFC") payments**

- Mobile network operator ("**MNO**") EE has launched a mobile wallet called "Cash on Tap" in partnership with MasterCard. Customers can use the service to make payments by NFC of up to £20 at more than 230,000 merchants across the UK and can also use a virtual card to make online payments.
- The service will be available initially to EE pay monthly customers with a Samsung Galaxy S4, Samsung Galaxy S3 LTE or Sony Experia SP handset and a compatible SIM (this provides the secure element). More handsets will be added in the next few months. Customers need to download the EE Tap Wallet app
- EE is offering a £10 incentive to use the service: a £5 credit when a customer activates the Cash on Tap element of the wallet, and a further £5 when they first load money, using a UK credit or debit card, into their wallet.
- EE has emphasised the security of the service. It meets MasterCard's security standards for the protection of transaction and personal data. The app is PIN

protected and customers can choose to insert a PIN for all transactions, including NFC payments. The service also allows users to monitor their spending and balance from their phone.

See a report [here](#)

2.2 **United States: Co-branded mobile point-of-sale ("mPOS") product launched**

- Payments firm, iTransact, has introduced a co-branded mPOS reader for its corporate clients, who include banks and credit unions, which will be compatible with any mobile device running the iOS or Android operating systems.
- Available for free, a client will be able to use the reader, which plugs into a device's audio jack, once they have established a merchant account and downloaded the iTransact mobile app.
- Clients will be able to accept payments, pre-authorise transactions, handle refunds and email receipts from any location.

See a report [here](#)

2.3 **France: Restaurant voucher issuers to move from paper to plastic**

- The four largest issuers of prepaid restaurant vouchers, Edenred, Groupe Chèque Déjeuner, Sodexo and Natixis Intertitres are to enter the Groupement Cartes Bancaires CB ("**Cartes Bancaires**"), France's major interbank network and debit card payment system.
- For the four issuers of the long-standing employee benefit, whose networks extend to 160,000 restaurants and cover a market worth €5.3 billion, the collaboration allows them to expedite migration from paper based vouchers to a chip card-based technology.
- The move will also improve traceability and management of the voucher system, while offering consumers a familiar means of payment. Implementation costs should also be low for restaurants as 90% of those who currently accept the vouchers already possess a Cartes Bancaires payment terminal.

See a press release [here](#)

2.4 **France: Payments at your fingertips**

- A six month trial where 900 shoppers at major retailers Auchan and Leroy Merlin were able to pay for purchases using their fingerprints has been hailed a success by its developer, Natural Security (a part of Banque Accord).
- The trial, which involved Banque Accord, BNP Paribas, Crédit Agricole and Crédit Mutuel Arkéa, asked the shoppers to carry a payment card storing their fingerprint data and a case that was used to communicate with the retailer's point-of-sale ("**POS**") terminal. To pay, customers placed their finger on a reader that read either their fingerprints or finger veins.
- There was a high adoption rate amongst the shoppers with almost 5000 transactions taking place and an average spend of €58.60. 94% of participants also said that they were willing to use the payment option for all in-store

purchases. The results suggest consumers may be open to wider use of biometric payments.

See a report [here](#)

2.5 **Poland:** Banks' mobile payments joint venture bypasses card schemes

- Six leading Polish banks, who together account for 70% of the country's electronic banking market, are creating a joint venture to develop a system for mobile payments under standards agreed with the national regulator. Since the system bypasses the card schemes, commentators and the banks themselves are suggesting that it may threaten their dominance in the country.
- The system from Alior Bank, Bank Millennium, Bank Zachodni WBK, BRE Bank, ING Bank Śląski and PKO Bank Polsk, will be based on PKO Bank's IKO app, which, as we reported in March 2013, allows customers to make payments in store and withdraw cash from cash machines by entering a code generated by the app. Customers can also send money to others using just the recipient's mobile phone number.
- The six banks will share the same platform, with each bank adding their own features to differentiate their service. Other banks and acquirers may also be able to join in future.

See a report [here](#)

2.6 **Kenya:** Online service links Bitcoin with M-Pesa

- Kipochi (meaning "wallet" in Swahili) is a web-based service which links Bitcoin, the popular global virtual currency, with M-Pesa, the mobile money platform set-up by Safaricom and Vodafone and widely used across Kenya.
- Kipochi lets users buy Bitcoins using M-Pesa. To speed up the exchange process, Kipochi places the user's order with a local Bitcoin exchange. When the Bitcoins are delivered by the exchange to Kipochi's servers, the user receives an SMS indicating that their account has been credited.
- The Bitcoins are not stored on a mobile device; rather the user's phone number is mapped to a 34-character alphanumeric Bitcoin address. Users are also able to send Bitcoins to others using just a phone number.
- Since M-Pesa is generally used for low value transactions, and because one Bitcoin is currently worth about US\$89, Kipochi works in "millibits", or one-thousandths of a Bitcoin.
- To encourage uptake, Kipochi itself is free (although there is a 2% buy/sell spread for conversions to/from Bitcoins) and there are plans for an operator menu for use on feature phones.
- The service enables Kenyans to use Bitcoins to send and receive overseas payments without high bank charges or wire transfer fees. It will be interesting to see whether the service can capture part of this market as Kenyans outside the country send approximately US\$99 million a month back to Kenya.

See a report [here](#)

2.7 **Hong Kong:** NFC payments service launched

- Hang Seng Bank, part of the HSBC Group, has launched an NFC payments service using MasterCard's PayPass technology that will be accepted at approximately 1,000 retailers in Hong Kong (expected to grow to 2,500 retailers by the end of the year).
- Customers of the bank who have a MasterCard account, and who are also customers of MNO, PCCW-HKT, with an NFC-enabled smartphone will be able to make purchases of up to HK\$500 by tapping their phones at the POS. Users will first need to obtain a free replacement NFC SIM card, which will house the secure element, and download the app.

See a report [here](#)

3. **SURVEYS AND REPORTS**

3.1 **Europe:** Strong appetite for m-commerce

- Research commissioned by mobile payments firm Monitise has revealed an increased uptake in m-commerce among Europeans. The research shows that in the UK, Germany and Spain, approximately half of consumers have purchased something (other than an app) through their mobile device (52% in the UK, 57% in Germany, and 46% in Spain).
- The research also looked at those consumers who have not yet bought anything on their phones and do not intend to do so (so a guide to future adoption levels). The figures for this are 21% in the UK and 19% in Germany and Spain.
- The research also suggests that consumers trust the banks when it comes to mobile payments. The majority of users said they would be more confident shopping on their handsets if they could use apps provided by their banks.

See a report [here](#)

3.2 **Poland:** Rapid growth of contactless payments in Poland

- First Data Polska (the owner of Polcard, the leading acquirer in Poland) has released contactless payments growth figures. Poland remains a European leader in the adoption of contactless payments, with over 15 million NFC payment cards issued and 40% of POS terminals accepting contactless.
- The number of transactions in March 2013 compared to March the previous year grew three and a half times (from 900,000 to over 3.5 million). The value of the contactless transactions in that period quadrupled (from approximately PLN 14 million to almost PLN 60 million).

See a report [here](#) (Polish language)

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