



Hogan Lovells Global Payments Newsletter

May 2016



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Lovells**

Welcome to the Hogan Lovells Global Payments Newsletter. In this monthly publication we provide an overview of the most recent payments, regulatory and market developments from major jurisdictions around the world as well as sharing interesting reports and surveys on issues affecting the market.

For our latest news and commentary on payments innovation, follow us on Twitter [@HLPayments](#).

For more information on our Payment Services team please click the link [here](#).

For more Financial Institutions resources please click the link [here](#).

Key Developments

Key developments of interest over the last month include:

- **Branchless banks:** Mobile-only start up Atom Bank goes live in the UK following the lifting of regulatory restrictions.
 - **Fintech booms in Asia Pacific:** Study reveals fintech investment in Asia Pacific quadruples to US\$4.3bn in 2015.
 - **Blockchain breakthrough:** Seven Wall Street firms successfully test blockchain for credit default swaps.
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Regulatory Developments

Global

United Kingdom: Payment System Regulator (PSR) statement confirms there are no current plans to apply new access or governance requirements to card payment systems

- On 7 April 2016, the PSR published a statement on indirect access and governance requirements for card payment systems.
- The statement refers to the PSR's previous policy statement (PSR PS15/1) of March 2015, in which it set out in detail how it would regulate UK payments systems, and confirmed directions for interbank operators on requirements around access and governance. The PSR introduced these directions following specific concerns within the interbank payment systems sector.
- When this policy statement was published, the PSR also committed itself to further considering whether access and governance directions should be introduced for card schemes.
- Having engaged with stakeholders across the industry, the PSR believes that introducing new directions on card schemes would not improve access and innovation. It further notes that existing EU legislation, specifically the Payment Services Directive (2007/64/EC) (PSD), has delivered improvements on access to card schemes.
- Therefore, the PSR has decided that, for now, it will not apply any new access or governance requirements to card payment schemes. However, it will continue to consider these issues.

See the statement [here](#).

Read the March 2015 policy statement [here](#).

United Kingdom: PSR consults on changes to reporting requirements for general directions on direct access and governance

- On 14 April 2016, the PSR published a consultation paper on proposed changes to the reporting requirements for its general directions on direct access and governance (CP16/2).
- The PSR's current General Direction 2 (GD2) imposes access requirements on payment system operators that are not subject to the access requirements of the Payment Services Regulations 2009 (SI 2009/209) (PSRs).
- General Direction 3 (GD3) imposes additional access requirements on those operators that are subject to Part 8 of the PSRs.
- General Direction 4 (GD4) sets out certain governance requirements for the operators of Bacs, CHAPS, C&C, Faster Payments and LINK.
- All three general directions impose requirements on operators to provide reports on their compliance with the general directions. The PSR published the initial versions of these general directions in March 2015.
- In CP16/2, the PSR consults on proposals to:
 - amend GD2, GD3 and GD4 to introduce a single compliance report, rather than having separate reports as at present, and to set the deadline for the report to 31 October; and
 - introduce a transitional provision (TP3) to extend the first year of reporting on GD2 and GD3, so that the first combined access and governance report will be due on 31 October 2016.
- The deadline for responses to CP16/2 is 5:00pm on 6 May 2016.

See the PSR's consultation paper [here](#).

United Kingdom: Payments UK launches new standards collaboration framework

- On 19 April 2016, Payments UK published a press release announcing the launch of a new standards collaboration framework.
- Payments UK developed the framework in response to feedback from its members. It is designed to reduce the time, effort and cost of standards management in payments. It will also provide easy access to important up-to-date information on standards from a single, authoritative source. Access to the framework will be granted via a web interface.
- Users of the framework can utilise the central library to simplify how they access and receive notifications about updated documentation, as well as mapping to future standards.

See the press release [here](#).

France: The French government publishes a draft bill on transparency, the fight against corruption and the modernisation of the economy

- The most relevant provisions of the draft bill include:
 - Article 27, which authorises the French government to directly implement PSD2 without parliamentary debate.
 - Article 25, relating to the French government's objective of limiting the use of cheques as a means of payment, reduces the cheque validity period from 12 months to six months.

See the draft bill [here](#).

France: The National Committee for Payments meets for the first time ("Comité National des Paiements Scripturaux")

- On 4 April 2016, the French National Committee for Payments met for the first time. Following this, the committee stated its main objectives as:
 - the promotion of instant payments;
 - encouraging payments by means of payment cards and wire transfers;
 - encouraging the implementation of contactless payment terminals; and
 - initiating debate on alternatives to cheques.

See the press release [here](#).

Europe: European Payments Council (EPC) consults on first pan-European scheme providing customers with instant payments

- On 12 April 2016, the EPC published the following consultation papers relating to the Single Euro Payments Area (SEPA) instant credit transfer scheme (the Scheme):
 - A consultation paper on the Scheme rulebook (EPC 004-16).
 - A consultation paper on the maximum amount for instructions (EPC 023-16), as referred to in section 5 of the proposed Scheme rulebook.
- The Scheme rulebook describes the business and technical rules that all payment service providers wishing to adhere to the optional scheme should follow. Key features of the Scheme include the following:
 - The Scheme spans across the 34 countries within the scope of the current SEPA schemes.
 - The Scheme, as far as possible, is based on the existing SEPA credit transfer scheme.
 - It applies to credit transfers made in euros, up to an initial maximum amount of EUR 15,000 per transaction.
 - The money will be available in the account of the payee within ten seconds.

- Individual scheme participants can agree on a lower maximum execution time and a higher maximum amount if they wish.
 - All adhering scheme participants must be technically capable of processing the Scheme for the whole day, every day of the year.
 - The finalised Scheme rulebook will be published in November 2016 and will be implemented a year later. It is intended that, in November 2017, all live Scheme participants will be ready to execute the Scheme's first transaction.
 - The consultation closes on 10 July 2016.
- See consultation paper (EPC 004-16) [here](#).
- See consultation paper (EPC 023-16) [here](#).

See the ISO 20022 Registration Management Group website [here](#).

Global: International registration body approves ISO 20022 real-time payment message guidelines

- On 18 April 2016, Payments UK issued a press release announcing that the ISO 20022 message guidelines have been published after gaining approval from the international registration body, the ISO 20022 Registration Management Group.
- Payments UK believes that the ISO 20022 message guidelines are essential in creating real-time payment systems that are globally interconnected. These guidelines have been developed by the ISO Real-Time Payments Group, in partnership with Payments UK, to ensure a greater level of harmonisation of international standards.
- The guidelines are the first in a series which aim to cover all the ISO 20022 messages that may be used for real-time payments. The first guidelines to be published focus on the interbank payment messages. The ISO Real-Time Payments Group hopes to deliver the message guidelines relating to customer-to-bank real-time payments by the end of summer 2016.

See the press release [here](#).

Payment Market Developments

Global

United Kingdom: The government maps out its fintech strategy and the Financial Conduct Authority (FCA) unveils the sandbox initiative at the Innovate Finance Global Summit 2016.

- In a keynote speech at the 2016 Innovate Finance Global Summit the Economic Secretary to the Treasury, Harriett Baldwin, confirmed the government's support for the country's new burgeoning fintech sector with the creation of:
 - a fintech panel and delivery support function which will set an overarching fintech strategy for the UK and drive forward fintech initiatives;
 - a professional services information hub for fintech startups, making it easier for them to source legal and accountancy services, and access practical and cost-effective basic services; and
 - 'fintech bridges' with priority global markets, helping UK startups to expand internationally.
- The FCA's director of strategy and competition, Christopher Woolard, then unveiled the sandbox initiative. This initiative aims to provide a 'safe space' in which businesses can test innovative products without immediately incurring all the normal regulatory consequences of pilot activities.

See more [here](#).

United Kingdom: Mobile only start-up Atom Bank goes live in the UK

- Atom Bank, the mobile-only startup that uses face and voice biometrics along with machine learning technology to service consumers, has launched in the UK following the lifting of regulatory restrictions.
- Since its creation in April 2014, Atom Bank has raised more than £135m in capital through the

support of a group of over 100 private and institutional investors.

- The bank was granted a restricted licence in June 2015. Now the restrictions have been lifted, Atom has launched with a package of fixed term savings for consumers and secured lending to small and medium sized businesses.
- By the end of 2016, Atom aims to provide its customers with access to fixed savings, current accounts, overdrafts, debit and credit cards, instant access savings and residential mortgages, all serviced via their app.
- Face and voice biometrics are used to log into the app, with paper-free accounts opening in just a few taps.

See more about the launch [here](#).

United Kingdom: Barclays backs UK launch of social payments app Circle

- With the support of Barclays Bank and an e-money issuer licence from the FCA, Circle has now launched in the UK.
- Circle enables UK consumers to send and receive cross border payments with instant conversion between pound sterling and US dollars with zero fees. For payments transferred to countries where Circle hasn't yet launched, the company uses the bitcoin blockchain to transfer currencies in and out of the national denomination.
- Barclays Corporate Banking is providing the account that Circle needs to store sterling for consumers, and the processing for transfers from any UK bank account in and out of Circle.

For further information on Circle see [here](#).

United Kingdom: Brits embracing higher contactless spending limit

- New figures from Visa reveal that the decision to increase the UK contactless spending limit from £20 to £30 six months ago has proved popular.

- Contactless transactions over £20 saw an average monthly growth rate of 19.1% between October 2015 and March 2016, double the growth rate of tap and pay under £20. In total, contactless usage between £20 and £30 now accounts for more than 10% of all face-to-face card transactions within that spending band.
- Supermarkets, where the average basket is £25, have seen a 100% increase in contactless transactions compared to the six months before the £30 limit was introduced. Likewise, Restaurants have seen a 155% increase as a meal for two has come more into this range.

See more on contactless usage [here](#).

United Kingdom: Tesco nears launch of mobile payments app

- According to multiple media reports, Tesco will roll out its PayQwiq mobile payments app to more locations following a successful pilot.
- Tesco first tested the app in 2014 and extended the pilot last year to 50 locations in Edinburgh and London. Tesco now plans to expand PayQwiq acceptance to 500 locations.
- The app enables users to pay up to GBP 400 for groceries and collect points for the Tesco's loyalty program, Clubcard.

See more about the app [here](#).

United Kingdom: PayPal Credit launches in the UK

- PayPal Credit, a mobile and online payment platform, is now available to existing and new PayPal account holders in the United Kingdom.
- Consumers can apply directly at the PayPal website or through selected retailers to add a credit limit to their digital wallet. If approved, PayPal Credit is available straight away to start using at all stores that accept PayPal.
- PayPal Credit also allows consumers to spread the cost of larger purchases over longer periods

with monthly instalment offers at selected UK online retailers.

See more about the launch [here](#).

France: Gemalto and Worldline launch mobile payments service for banks

- Payment and transactional services market leader Worldline has partnered with the digital security business Gemalto to create a service enabling banks and card issuers to more easily deploy mobile payments wallets with their cards.
- Worldline will provide the tokenisation service. This will transform the physical card into a digital token. Tokenisation substitutes a series of numbers for customers' actual account information, ensuring that sensitive information is not exposed.
- Gemalto will provide the credential delivery service, allowing the tokens to be embedded into the mobile wallet.

See more about the partnership [here](#).

Europe: Bank of Ireland and BNP Paribas announce blockchain breakthroughs

- Bank of Ireland, in association with Deloitte, has completed a trial which illustrates how financial institutions can combine blockchain technology with their existing systems to provide new client experiences and regulatory oversight at a lower cost.
- The trial combined data from multiple systems across Bank of Ireland's Global Markets division and associated functions to form a database that spanned the full trade cycle. This database provides relationship managers and regulators with enhanced views of trade position and the ability to conduct near real-time auditing.
- BNP Paribas has announced plans to run a pilot scheme, in partnership with crowdfunding business Smart Angels, which will allow private companies to issue securities on the primary

market and give investors access to the secondary market using blockchain technology.

- Under the partnership, BNP Paribas Securities Services is developing a blockchain-based share register which will automatically register financial securities issued by Smart Angels' client companies.
- Investor payments will be processed immediately and e-certificates will be issued to them.

See more on the breakthroughs [here](#).

Europe: Alipay announces its expansion into Europe.

- Chinese payments service provider Alipay announced its official expansion into the European market at the Money2020 conference.
- The platform, operated by Alibaba's Ant Financial Services Group, claims its European presence will facilitate Chinese tourists' interactions with Western merchants when transacting overseas.
- In China, Alipay currently has 450m active users, and more than 200 financial institution partners. The company owns more than 50% of the market share in online payments and 80% in mobile payments.
- Alipay's European service will include a "Local Services Platform" within the app. This will use geolocation to provide users with a detailed description and reviews of the shops and restaurants around them. Subscribers can plot a route via a bilingual interactive map, and receive customised location based offers and coupons.

See more on the expansion [here](#).

Canada: Mobeewave launches its mobile P2P payment application PayMeTap to people across Canada.

- PayMeTap allows users to accept a payment by tapping their phone with a credit card. This enables people to pay back their friends and family, collect donations, sell used items or receive payment for their services.
- The app uses near field communication technology, ensuring that there is no need for an external card reader and the person making the payment does not need to be signed up to the service.
- Unlike other software P2P platforms, PayMeTap does not store credit card information in the cloud. The application also offers an additional layer of protection through the option to add a PIN for a specific account.

See more about Mobeewave [here](#).

USA: Seven Wall Street firms successfully test blockchain for credit default swaps

- Seven firms representing various stakeholders in the credit default swaps trading process announced the successful replication of the process using blockchain technology.
- The test began in early March and included 85 structured test cases to evaluate the network's functionality, resilience and data privacy. According to the statement, the implementation achieved a 100% success rate across the tests.
- Test members included financial institutions, Bank of America, Merrill Lynch, Citi, Credit Suisse and JPMorgan; financial information company Markit and distributed ledger specialists Axoni.
- This reflects the increasing interest of big banks in the use of private blockchain, viewing it as an opportunity to cut out middlemen and costs.

See more on the test [here](#).

USA: Facebook Messenger set to add an in-store mobile payment option.

- Facebook announced its intention to allow payment methods through Facebook Messenger.
- Speculators believe that Facebook will be in a position to combine users' financial and social data in order to extend credit and become a financial services company, potentially providing new opportunities for currently unbanked persons to receive credit through a new emergence of social credit.
- Additionally, Facebook lending may increase the value of their advertisements as users could click and pay immediately through Facebook.

See more on the potential mobile payment option [here](#).

USA: Chip cards lead to dip in fraudulent transactions

- Among the 25 merchants who suffered the most instances of counterfeit fraud at the end of 2014, the five that began processing transactions using the EMV technology (chip-enabled cards) saw fraudulent transactions fall 18.3% as of the final quarter of 2015.
- Conversely, five merchants who had not yet begun processing transactions with the EMV technology saw an increase in fraudulent transactions of 11.4%.
- The rollout of chip-enabled cards and terminals is now moving at a strong pace, with Visa introducing a new "Quick Chip" which allows customers to withdraw their card within two seconds or less.
- See more [here](#).

USA: Study reveals that PayPal's online checkout conversion outperforms competitors by 36%

- With more than 15 million transactions a day on the PayPal platform, and 28% of them on mobile devices, shoppers are completing their purchases with PayPal at almost twice the rate of legacy systems.
- The introduction of One Touch a year ago, which allows users to skip the traditional log-in screen for future purchases, has become one of the most rapidly adopted products in PayPal's history and has paved the way for the increased conversion rate for online shoppers.

See more on PayPal [here](#).

USA: New app, Plastiq, allows consumers to pay bills with a photo

- Plastiq enables consumers to take a photo of any bill and charge it to a credit card.
- This application is targeted at consumers who wish to pay their bills with one credit card, usually in an effort to accumulate card specific rewards.
- The application analyzes the photo to determine the amount due, the due date, and the account information. Bills can be filed into a "bill stack" and notifications are sent prior to the due date so consumers do not miss payments.
- Customers pay a convenience fee of 2.5% for credit card transactions and 1% for debit card transactions.

See more about the app [here](#).

China: MasterCard partners with Chinese commercial banks to boost online payments

- MasterCard has partnered with the Chinese banking industry in China to develop cross-border payments.
- The partnership was agreed at the inaugural industry conference held in Ningbo, China. The conference centred on the impact of China's outbound travel market on commercial banks,

looking at how banks could build on the growing outbound travel sector to innovate and develop cross-border payment products.

- According to a report authorised by the People's Bank of China, the number of bank cards issued and the volume of bank card transactions has grown steadily in China throughout the year.
- Furthermore, the volume of payment clearing and settlements through commercial banks has seen an associated rapid growth, increasingly making up a significant share of the banking business with outbound travel forming the bulk of these transactions.

See more about the partnership [here](#).

India: Yes Bank partners with T-Hub to set up fintech centre of excellence in Southern India.

- Yes Bank has signed a Memorandum of Understanding with the government-sponsored innovation agency T-Hub, aimed at positioning Hyderabad as India's fintech hub.
- Yes Bank will not only provide a support system for emerging fintech firms but also contribute its various products and payment gateways to the startup community.
- The bank says it will act as a mentor to help startups navigate the regulatory landscape, offering quick proof of concept options to on-boarded startups to prove their business and technology models. Yes Bank will also provide the startups with investment banking advisory support for fund-raising.

See more on the proposed centre of excellence [here](#).

India: DBS Bank launches a mobile-only bank in India

- Utilising a host of ground-breaking technologies, Singaporean DBS Bank has launched a mobile-only bank in India.

— DBS claims the bank will deliver a paperless, signature-less and branchless bank.

- Potential customers will be able to open accounts at a network of partner outlets which includes more than 500 cafes across India. The biometric ID Aadhaar card will be used for customer authentication.
- Customer service will be provided by a virtual assistant that the bank claims can anticipate and answer over 10,000 questions.
- The bank will further provide a smart budgeting tool, which will analyse user spending habits and make recommendations.
- Cash can be withdrawn at up to 200,000 ATMs across India using a physical Visa debit card.

See more about the mobile-only bank [here](#).

Surveys and Reports

Global: Accenture publishes report on fintech's evolving landscape

- Accenture's report reveals that technological advances in financial services have resulted in venture capitalists, private equity firms, corporates and others investing more than US\$50bn into nearly 2500 fintech startups since 2010.
- The report states the value of global fintech investment in 2015 grew by 75% to US\$22.3bn, largely driven by deal-flow across continental Europe and Asia-Pacific.
- Accenture cite the slowing down of fintech investment in some regions, coupled with the continued increase in larger deal sizes, as signs that the industry has reached a new level of maturity.
- Accenture's report reveals the decreased rate of investment in the more mature fintech hotspots of Silicon Valley and London has been offset by increased investment in places such as Austin, Stockholm and Mumbai. In particular, the report highlights the explosion in investment that the Asia Pacific has experienced; with investment quadrupling to US\$4.3bn in 2015.
- Accenture's report also highlights the increase in the number of big-ticket investments as a sign of the maturing fintech market; 2015 saw 94 fintech deals larger than US\$50m.
- The report also comments on how the market has diversified, expanding out from retail payments to areas such as wealth management and insurance.
- The report further notes that collaborative fintech ventures, those primarily targeting financial institutions as customers, are gaining ground over so-called 'disruptive' players that enter the market to compete against those institutions. This is particularly true in the most mature market, North America.

See the report [here](#).

Global: Morgan Stanley report sets out predictions for blockchain in 2025

- Morgan Stanley's report assesses whether blockchain is a threat to big banks, concluding that the short-term benefits of the technology are likely to be minimal, but that future growth is probable.
- The report sets out a timeline for how Morgan Stanley expects blockchain tech to progress over the next decade. It outlines a four stage adoption of the technology, with the report predicting that the banking industry's current proof-of-concept phase will complete in 2018.
- According to the report, institutions must successfully scale the technology, enable the transacting of assets and assess if the technology offers benefits that go beyond traditional legacy systems.
- The report does, however, highlight ten obstacles to the adoption of blockchain technology including the need to align incentives, establish



governance standards, evaluate the legal risks and respond to regulatory concerns.

See the report [here](#).

USA: KPMG, in partnership with others, produce report on the US alternative finance market

- The report reveals that the online alternative finance market, including crowdfunding and P2P lending, is exploding in the US. In 2015, the alternative finance market generated more than US\$36bn in funding, a US\$25bn increase on 2014.
- The report collected data from more than 250 online alternative platforms in the Americas, and concluded that marketplace/P2P consumer lending is the largest market segment in the US, responsible for more than US\$25bn of funding in 2015.
- Limited by nearly a decade of tight credit and declining loan approvals from banks and traditional lenders, the report found that US businesses are increasingly tapping into alternative finance. In 2015, this market provided US\$6.8bn of business loans.
- In addition to consumer and business funding, the report also found that the alternative finance market is expanding into real estate, generating nearly US\$1.3bn in real estate funding in 2015.
- The report claims that the scale of institutional interest in the market shows no sign of faltering, with over 72% of marketplace/P2P business loans and 53% of marketplace/P2P consumer loans funded by institutional investors between 2013 and 2015.
- The report highlights algorithmic technology, transparency and customer centricity, as well as new definitions of creditworthiness, as game-changing drivers of transformation in the online lending marketplace

See the report [here](#).

Our Global Payments Team

Hogan Lovells' global payments practice is made up of financial services and technology lawyers working closely together as a single team from our network of offices, including offices in all the major financial centres.

The practice covers traditional payment services as well as technology driven innovations that affect products, business structures, services and markets.

Our Clients

The team provides strategic advice to all market participants including:

- lenders
- card issuers (including banks and e-money institutions)
- acquirers
- money remitters
- payment schemes
- mobile operators
- retailers
- payment platforms or technology providers
- payment processors
- networks and settlement services

How we can help

In addition to advising on payment specific regulation, the team:

- advises on all related regulation such as money laundering, data and privacy, technology law and IP, e-commerce and consumer protection
- negotiates commercial contracts
- leads or supports on mergers and acquisitions in the payments sector
- engages with Government on new regulation and implementing new legislation
- advises on multi-party arrangements to develop new payment services or networks and on related loyalty and incentive programmes
- negotiates outsourcing of payments processing and settlement
- drafts related customer and commercial documentation

The global payments practice is part of Hogan Lovells market leading Financial Institutions Group, one of the largest practices of its kind with approximately 200 lawyers worldwide.

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