



Hogan
Lovells

Global Payments Newsletter
March 2016



The banner features the Hogan Lovells logo on the left. The central text reads 'Sponsors Europe Money20/20' with a date '4-7 APRIL 2016' and location 'COPENHAGEN' next to a three-dot icon. On the right, it says 'USE HOGAN LOVELLS DISCOUNT CODE HOGLO200 AND SAVE €200'.

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:

- **Happy Birthday:** Chip and PIN celebrates its 10th birthday in the UK.
- **An Inspector Calls:** The EU in their Commission and Council guises unveil detailed security and inspection plans to hinder money laundering and assist consumer security for innovative payments.

Hogan Lovells ushers in the new era for financial institutions

- Our inaugural Financial Institutions Sector Summit took place on 11-12 February in London.
- Under the theme 'The Changing Face of Finance', we brought together senior leaders from the world's most influential financial institutions, technology start-ups and the non-bank competitors, to discuss new developments, such as blockchain and robo-advice, which are sending tidal waves through the sector. We heard first hand from the innovators and disruptors who have been instrumental in driving this change.
- To learn more about what was discussed, visit our [microsite](#). Please also feel free to join the conversation using [#HLFinTech](#). For more information, contact [Claire Walsh](#).

Regulatory Developments

Europe

United Kingdom: FCA call for input on approach to current payment services regime

- On 10 February 2016, the FCA published a call for input on its approach to the current payment services regime.
- The FCA has published the call for input as a result of the requirement to transpose PSD2 ((EU) 2015/2366) into UK law and regulation by January 2018. It explains that PSD2 brings about changes to the way payment services are regulated, and the changes need to be reflected in the FCA guidance provided to firms. Before the FCA starts to update its guidance, it is seeking views on whether the guidance has kept pace with market developments and the growth in payment services. The guidance that the FCA is referring to consists of its payment services approach document and chapter 15 of its Perimeter Guidance manual (PERG).
- Responses to the call for input can be made until 23 March 2016. Alongside the call for input, the FCA will be proactively engaging with relevant stakeholders over the coming months, details of which will be published on its website. The FCA also anticipates further consultation over the next two years focusing specifically on changes to its approach resulting from PSD2.
- HM Treasury is expected to consult on how PSD2 will be transposed in the UK in summer 2016. The FCA plans to share responses to the call for input with HM Treasury.

See the Call for Input [here](#).

Europe: Jersey, Guernsey and the Isle of Man to join SEPA in May 2016

- On 4 February 2016, the European Payments Council (EPC) published a press release announcing that, from 1 May 2016, Jersey, Guernsey, and the Isle of Man will become part of the geographical scope of the Single Euro Payments Area (SEPA) scheme.
- The EPC states that the three month time period before this date allows payment service providers (PSPs) in Jersey, Guernsey, and the Isle of Man to become operationally ready to implement the SEPA schemes and provides existing scheme participants and other technical players sufficient time to adapt their systems.
- The EPC has also published an updated version (version 2.3) of its list of SEPA scheme countries that contains details of the bank identifier codes (BICs), international bank account numbers (IBANs) and currency codes for Jersey, Guernsey, and the Isle of Man.

See the EPC press release [here](#) and the updated list of SEPA scheme countries [here](#).

Europe: ECB publishes revised Eurosystem oversight framework for retail payment systems

- On 19 February 2016, the European Central Bank (ECB) published the Eurosystem revised oversight framework for retail payment systems (RPS).
- Until now, Eurosystem oversight of retail payment systems has been based on its 2003 oversight standards for euro retail payment systems, which, in turn, were based on the Bank

for International Settlements' (BIS) 2001 Core Principles for Systemically Important Payment Systems. Given the increased integration of retail payment systems in the Single Euro Payments Area (SEPA), and the replacement of the BIS core principles with the 2012 CPSS-IOSCO principles for financial market infrastructures (PFMIs), the Eurosystem decided to produce a new comprehensive oversight framework for retail payment systems.

- In this revised framework, the ECB Regulation on oversight requirements for systemically important payment systems (Regulation 795/2014) (SIPS Regulation), by means of which the Eurosystem has adopted the PFMIs, has also been taken into account. The Regulation covers all systemically important payment systems (SIPS), both large-value and retail payment systems.
- The framework identifies RPS categories and clarifies the oversight standards applicable to each category. Also, to ensure effective coordination, it provides guidance on the organisation of oversight activities for systems relevant to more than one central bank.

See the oversight framework [here](#).

Europe: EU to tighten money laundering controls

- The European Commission is proposing an action plan to strengthen the fight against terrorist financing.
- The measures include closer monitoring of bitcoin and cash transactions and the creation of national payment account registers.
- The efforts will complement the 4th AML Directive introduced in 2015 with further tightening of checks on financial flows from countries with more lax controls and the creation of centralised national bank and payment account registers.
- Furthermore, under a legislative proposal on illicit cash movements, the Commission intends to extend the scope of the existing regulation to include cash shipped by freight or post and allow

authorities to act upon lower amounts of cash where there are suspicions of illicit activity.

- On 15 February 2016, the European Council added that they were planning to propose new rules for digital currency exchanges by June 2016.

See a press article on the planned controls [here](#) and a press article on the European Council's proposed rules for bitcoin activity [here](#).

France: Reform of the anti-money laundering legislation impacting prepaid cards and e-money issuers

- A bill strengthening the fight against funding organised crime and terrorism has been presented on 3 February 2016 to the Council of Ministers (the "**Bill**") in view of the implementation of the 4th AML-TF Directive.
- In addition of the implementation of the 4th AML-TF Directive, the Bill aims at
 - reforming the regime applicable to prepaid cards by imposing limits on such cards so to avoid undetectable financial transactions as part of organised crime or terrorism; and
 - imposing additional obligations to e-money issuers which will have an obligation to collect and keep, for a duration of five (5) years, personal information and technical data in relation to the activation, loading and use of electronic money charged on a physical device.
- The Bill will be discussed in the National Assembly from 1 March 2016.

See the Bill, in French, [here](#).

Asia and Oceania

China: Imminent regulations planned for non-banking payment institutions

- China's online payment market is growing at break-neck speed. In the first three quarters of 2015, the total number of online transactions processed by payment institutions exceeded RMB56bn , and the monetary value represented by such transactions was close to RMB3.3tn.
- But looking behind these impressive figures reveals significant "growing pains" in the industry, as the growth in the number of market players has not always matched the quality of some of the industry participants. The collapse earlier this year of peer-to-peer lender eZubao, an apparent Ponzi scheme that has reportedly cost 900,000 lenders over USD\$7bn, has made the case that tighter regulation is needed in order to curb the excesses of China's payments revolution.
- Against this background, on 28 December 2015, the People's Bank of China (**PBOC**) issued the Internet Payment Business of Non-bank Payment Institutions Administrative Procedures (**Procedures**), which will become effective on 1 July 2016.
- Online payments via non-bank payment institutions are now a feature of the landscape across China. Payments are not just being used for retail purchases, but also in increasingly innovative ways to support all manner of payment obligations, investments, loans and money transfers, whether on a business to consumer basis, between consumers or between businesses. The rapid evolution of payments services models in China has led to a number of problems and risks faced by the online payment industry and its regulators, including the following:
 - inadequate financial controls enabling the embezzlement or misdirection of funds and creating risks to liquidity;
 - lapses in system security that allow funds or customer data to be disclosed, misused or misappropriated; and
 - the use of payment technologies to bypass authorities' traditional controls on "hot money" and liquidity across different financial markets.
- The Procedures are clearly a response by PBOC to these and other related issues.
- Roy Zou, a partner in the Beijing office and Mark Parsons, a partner in Hong Kong, believe the Procedures are an important development towards the maturing of China's rapidly expanding and highly innovative market for non-bank payment services. Chinese consumers and businesses are clearly enthusiastic about taking up alternatives to the traditional banking system, but it is clear from eZubao and other recent examples, that enhancements are needed to the regulatory environment and the compliance culture to provide clients with a level of protection that approaches that of the traditional banking system.
- While users will likely find that the implementation of the Procedures makes some forms of online payments less user-friendly, this is a balancing act, with benefits for users of these services in the form of better security for money and data. Overall, having a more orderly market is clearly a positive.
- Bigger and better funded Payment Institutions will presumably be able to bring to bear the resources needed to implement the new Procedures whereas the smaller and financially less secure Payments Institutions may struggle. Perhaps that is why the Procedures were issued some seven months before the day they become effective, to give smaller players the time to adapt.
- Banks in China will probably see the Procedures in a positive light as they represent a partial

levelling of the playing field in terms of compliance obligations. They may even find that they are being solicited by Payment Institutions to cooperate with them as they have much more experience in the KYC area. The freewheeling days of 'regulation-lite' payments in China may be on the way out, but going forward consumers and businesses will reap the benefits in terms of better protection and a more orderly market.

Find out more information by contacting Roy Zou, in Beijing, at (roy.zou@hoganlovells.com).



Payment Market Developments

United Kingdom: UK government backs open banking API

- The UK government has backed a report for the development of an open banking standard that would facilitate the use of financial data, improve consumer choice and stimulate innovation.
- API is an abbreviation for an application programming interface and is a set of functions and procedures which allows for the creation of applications which access the features or data of an operating system.
- Open Bank API will remove the differences in banking systems to offer a uniform technical interface so the bank can offer a number of services (new and mobile apps for instance) without having to consider integration and costs.
- In November 2015, the UK government set up the Open Banking Working Group to give the coalition a target of exploring how an open API standard could be used to help people transact, save, borrow, lend and invest their money.
- The Open Banking Implementation Entity has responsibility for implementation with a launch of a "viable product" planned towards the end of the year.

Read the report on Open Banking API [here](#).

United Kingdom: Paym reports 89% increase in use

- 1.46 million payments were sent in the second half of 2015 compared to 774,628 in the first six months of last year demonstrating an increase of 89% in the use of the peer-to-peer mobile payments platform.

- Since the Paym service launched, more than £146m in payments have been sent and the service is now available to 40 million customers who represent over nine out of ten current accounts.

See more [here](#).

United Kingdom: WorldRemit raises US\$45m

- UK money transfer service WorldRemit has raised US\$45mn in financing.
- The financing was led by TriplePoint Venture Growth BDC Corp. and Silicon Valley Bank. WorldRemit's success has led it to being labelled as the UK's fastest growing technology company by Deloitte.
- The WorldRemit app lets people send money straight from their smartphone. Those receiving funds, primarily in developing countries, can collect the money through various media including mobile money, bank transfer, cash pick up or mobile airtime top-up.

Read more on the financing [here](#).

United Kingdom: 10 year anniversary for Chip and PIN

- Chip and PIN has been in the UK for a decade now and in that time four in every five pounds spent at British retailers is made through debit and credit cards.
- Around three quarters of UK businesses now accept Chip and PIN although figures from Barclaycard show that entering a four digit number at the point-of-sale is becoming less

common thanks to the rise of contactless payments.

See more statistics on the effects of Chip and PIN [here](#).

Europe: Pocopay launches in the Netherlands, Spain and Estonia

- Pocopay, a mobile banking service aiming to take on Europe's high street banks has launched in the Netherlands, Spain and Estonia.
- Pocopay is a payment institution rather than a fully licensed bank, so does not take deposits or offer loans but is promising to provide a host of mobile-based services.

See an article on Pocopay's launch [here](#).

Global: Visa makes you the gatekeeper

- On 9 February 2016, Visa announced a new service to help Visa issuers empower consumers to monitor and control how, where and when their Visa credit, debit and prepaid accounts can be used.
- The service, Visa Consumer Transaction Controls, will allow consumers to temporarily stop transaction approvals; manage specific transactions; set spending limits and manage multiple cards.
- Visa Consumer Transaction Controls is designed to complement Visa's other security tools which include predictive analysis, EMV chip technology, biometric authentication and mobile location information.

See the Visa press release [here](#).

Global: BBVA pumps US\$250m into new fintech venture fund

- Last month, BBVA closed their US\$100m in-house fund and launched a new independent managed outfit called Propel Venture Partners

to invest into fintech firms. BBVA will invest US\$250m as a limited partner in Propel which will use the money to invest in a US and European fund.

See a press article on the BBVA's new fund [here](#).

Global: Samsung to test vein authentication and to plan global expansion

- Samsung have filed a patent to the US Patent and Trademark Office to consider a smartwatch concept which scans the veins in a user's hand.
- Unlike other biometrics or wearables, the process targets an authentication region on the hand and records the structure of the veins.
- Samsung Pay is planned to arrive in China this month with Australia, Brazil, Singapore, Spain and the UK targeted for the rest of 2016.

Read more about this latest biometric development [here](#) and Samsung Pay's global expansion plans [here](#).

Global: MasterCard to turn the selfie into security

- After a successful trial in the Netherlands MasterCard plans to bring facial recognition payment services to the UK, US and Canada.
- MasterCard claim the move away from passwords, PINs and confirmation codes to fingerprint and facial recognition is due to consumer responses which highlight the convenience and security of biometric payments.

See more from MasterCard on the adoption of facial recognition technology [here](#).

Africa: PayAfrique launches EU-Africa remittance service

- PayAfrique, a UK money remitter, has launched an inter EU-Africa remittance service which uses mobile technology to transfer funds from the UK and Europe to West and East African nations.
- Registration is free and transactions authorised by 4pm on a week day will be delivered the same day. PayAfrique operates in Ghana, Sierra Leone, Kenya and several other African countries.

See the press report [here](#).

USA: FitPay closes US\$3.1m funding round

- Wearable payments provider FitPay closed, this month, a US\$3.1m seed funding round.
- FitPay's payment platform employs NFC technology on a range of wearable devices.

See more in a press release [here](#).

France: AXA Strategic Ventures invests in crypto-currencies

- AXA Strategic Ventures, the venture capital arm of French insurer AXA, announced on 4 February 2016 that it has invested in Blockstream, a leader in blockchain infrastructure.
- Blockstream is a US technology company which specialises in blockchain infrastructures enabling the management of transactions carried out by means of cryptocurrencies such as bitcoin.
- Blockstream's business is focused on "sidechains." These are bitcoin-like ledgers that operate independently of but are pegged to bitcoin. This validates data from other blockchains and enables bitcoins and other assets to be transferred between blockchains fostering a new platform for innovation.

- Blockstream, as part of their Series A funding, raised US\$55m in one of the largest funding rounds in the history of the virtual currency.

See the AXA press release [here](#).

Japan: SBI Investment backs Kraken

- SBI Investment – the Japanese venture capital firm – has led a multi-million dollar investment in Kraken.
- Kraken is a San-Francisco based bitcoin exchange which has recently boosted its North American operations by buying New York City's Coinsetter and Canada's bitcoin exchange Cavirtex.

See a report of the financing [here](#).

South Africa: PayGate partners with Trans Africa Solutions

- PayGate, a payment service provider, has partnered with the African secure payments solutions firm Trans Africa Solutions to enable barcoded invoices to be settled in cash at retailers and post offices throughout South Africa.
- This cash settlement is enabled through Trans Africa's patented Smart Code product, SCode.
- SCode's solution requires no additional development from the merchant and future plans include entering other African markets.

See the press report on the expansion of SCode [here](#).

Surveys and Reports

Europe: MasterCard contactless transactions in Europe pass 1 billion milestone

- The number of contactless transactions on MasterCard and Maestro cards in Europe passed the one billion mark for the first time in 2015; an increase of 150% on the previous year.
- MasterCard and Maestro spending on contactless transactions was up by 183% year on year and in Europe alone there are already over 10 countries with over 5 million contactless cards or devices in circulation for each of them.

See the article [here](#).

Africa: Mobile money leads the way

- Mobile payments are flourishing in Africa according to a recent report from the Financial Times.
- Monthly mobile money transactions in Africa have doubled since 2012 to just over US\$12bn. However, these transactions are not evenly spread across the continent with East Africa the main contributor to these figures, accounting for over 80% of the transactions.
- Tanzania, Kenya and Uganda have more mobile money accounts than the rest of the continent combined.
- The most notable success story is m-Pesa. Used by 22 million Kenyans or more than 70% of the adult population, the mobile money transfer system has met the aspirations of an increasingly middle-class and tech-savvy population.

- This month also saw TransferTo, a leading global mobile money hub partner with the Vodafone Group to enable real-time international money transfers with M-Pesa.
- Many of the African tech companies are extending their reach beyond the continent with JourneyApps, a South African company opening an office in the US and BitPesa, founded and run by a cosmopolitan group, having a number of UK and US connections. It seems more innovation and development is inevitable.

Read the FT article [here](#), via a subscription and see more on the M-Pesa partnership between TransferTo and Vodafone [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.

Primary Contacts

Global



Emily Reid
London
T +44 20 7296 5362
emily.reid@hoganlovells.com

Europe



Roger Tym
London
T +44 20 7296 2470
roger.tym@hoganlovells.com

Americas



Veronica McGregor
Silicon Valley
T +1 415 374 2308
veronica.mcgregor@hoganlovells.com

Asia



Andrew McGinty
Shanghai
T +8621 6122 3866
andrew.mcginty@hoganlovells.com

www.hoganlovells.com

Hogan Lovells has offices in:

Alicante	Dusseldorf	Los Angeles	New York	Shanghai
Amsterdam	Frankfurt	Luxembourg	Northern Virginia	Silicon Valley
Baltimore	Hamburg	Madrid	Paris	Singapore
Beijing	Hanoi	Mexico City	Perth	Sydney
Brussels	Ho Chi Minh City	Miami	Philadelphia	Tokyo
Budapest*	Hong Kong	Milan	Rio de Janeiro	Ulaanbaatar
Caracas	Houston	Minneapolis	Riyadh*	Warsaw
Colorado Springs	Jeddah*	Monterrey	Rome	Washington, D.C.
Denver	Johannesburg	Moscow	San Francisco	Zagreb*
Dubai	London	Munich	São Paulo	

"Hogan Lovells" or the "firm" is an international legal practice that includes Hogan Lovells International LLP, Hogan Lovells US LLP and their affiliated businesses. The word "partner" is used to describe a partner or member of Hogan Lovells International LLP, Hogan Lovells US LLP or any of their affiliated entities or any employee or consultant with equivalent standing. Certain individuals, who are designated as partners, but who are not members of Hogan Lovells International LLP, do not hold qualifications equivalent to members.

For more information about Hogan Lovells, the partners and their qualifications, see www.hoganlovells.com. Where case studies are included, results achieved do not guarantee similar outcomes for other clients. Attorney Advertising.

5010667Hogan Lovells 2016. All rights reserved.5010667

*Associated offices