

Payment and Related Innovation Update
23 January 2013



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1. REGULATORY DEVELOPMENTS

1.1 **Europe:** Anti-money laundering changes on the way

- The European Commission has flagged that it will soon be publishing proposals to update the Third Anti-Money Laundering Directive (2005/60/EC) and the Funds Transfer Regulation (1781/2006).
- The Directive and the Regulation aim to prevent use of the financial system for money laundering and terrorist financing, and they will need to be updated and strengthened to reflect changes made by the Financial Action Task Force last year to its international standards.

See the press release [here](#)

1.2 **United Kingdom:** Financial Services Authority ("FSA") consults on changes to e-money "approach document"

- The FSA has proposed amendments to its "approach document" on e-money, which sets out its position on regulation under the Electronic Money Regulations 2011.
- There are also a number of changes to the "passporting" chapter, which will be of interest to e-money institutions ("**EMIs**") doing cross-border business. In particular, the FSA now unambiguously states that where an EMI acts through an agent or distributor located abroad, that agent or distributor is an "establishment" of the EMI. This means that the EMI has to passport under the "freedom of establishment" in order to use the agent or distributor.
- The FSA has also proposed a number of other changes, including to reflect the end of the transitional periods under the Regulations, and that the Financial Conduct Authority will succeed the FSA as the e-money regulator from 1 April.
- The FSA are asking for comments by 4 February, with the changes to take effect from April.

See the marked-up "approach document" [here](#)

1.3 **United States:** Federal Deposit Insurance Corporation ("**FDIC**") publishes supervisory insight into mobile payments

- The FDIC has published an article giving a regulator's perspective on key developments and risks (such as security breaches) in the mobile payments marketplace.
- The article observes that, as there are currently no federal laws or regulations that apply specifically to mobile payments, the challenge is for participants to fit new models to existing regulatory requirements. The FDIC emphasises the importance of this point, particularly where banks are operating in conjunction with non-banks who lack familiarity with financial services regulation.
- Looking into the future, the FDIC backs predictions that mobile payments will gain popular acceptance in the next three to five years, and that only a limited number of mobile payments models will succeed. The FDIC also warns of a real possibility of banks being displaced (or "disintermediated") by non-banks in the mobile payments ecosystem.

See a report [here](#)

2. PAYMENTS MARKET DEVELOPMENTS

2.1 **Worldwide:** Visa approves new Blackberry mobile payments system

- Visa has approved Research In Motion's ("**RIM**") mobile payments functionality for its new Blackberry 10 operating system, which launches at the end of this month. The new payments system is named the Secure Element Manager, and will enable contactless payments on any device supporting near-field communication ("**NFC**") technology.
- NFC technology has been the subject of much recent debate, with the market seemingly split over whether the technology will become the industry-standard method for making mobile contactless payments. RIM will be hoping that, with its reputation for security, customers will see it as a safe pair of hands for mobile payments, and that its launch will help spur wider uptake of NFC technology amongst merchants and consumers.

See a report [here](#)

2.2 **United Kingdom:** Inter-bank mobile payments service to launch in spring 2014

- The Payments Council has announced a new mobile payments service to launch in spring 2014. It has the potential to link every bank account in the UK with a mobile phone number. Eight financial institutions have signed up to the scheme (Barclays, Cumberland Building Society, Danske Bank, HSBC, Lloyds Banking Group, Metro Bank, Royal Bank of Scotland and Santander), which will make the service available to over 90% of UK current accounts. Negotiations are in progress with further potential participants.
- This announcement follows the completion of a central database in December 2012, allowing secure storage of customers' mobile phone numbers and linkage of them to their bank account details.
- When launched, the service will allow customers who register to transfer money (through the UK's existing Faster Payments service or LINK network) from their selected bank account to any other bank account linked with a mobile number.

Customers will do this by sending to the recipient's mobile number, rather than having to input their sort code and account number as is currently required.

- To ensure the system is secure, the Payments Council has said that a passcode is likely to be required, as well as limits on the amount that can be transferred, and that there will be the capability to disable an account remotely in cases of suspected misuse.

See the press release [here](#) and a report [here](#)

2.3 **United States:** Groupon adds Groupon Payments to its Merchants app on Android

- Groupon Payments is a mobile point-of-sale ("**MPOS**") service similar to Square and PayPal Here, allowing a merchant to take card payments using a dongle attached to their phone.
- Groupon has extended Groupon Payments to its Merchants app for Android. This will give merchants a combined offering allowing them to take payments, redeem deals and update their spend analytics.
- Groupon Payments is challenging the competition with:
 - seemingly lower transaction charges for merchants (1.8% plus 15 cents where the payment card is swiped through the dongle, and 2.3% plus 15 cents where card details are keyed into the mobile device); and
 - faster settlement with merchants (overnight instead of e.g. 2-3 days).

See a report [here](#)

2.4 **United States:** PayPal continues to expand offline payments

- PayPal and NCR, the point-of-sale ("**POS**") provider, have agreed to incorporate PayPal's payment services within NCR's mobile app and merchant services.
 - The partnership allows PayPal to take advantage of NCR's established wide reach - it services 38 of the top 100 restaurant chains and 50% of the top retail chains in the US, and has over 100,000 self-check-out kiosks across the US.
 - Initially, PayPal will be available as a payment option within NCR's Mobile Pay app, which allows restaurant customers to place orders, call waiters, and settle bills from their smartphones. PayPal is also intended to integrate with other NCR mobile apps, including Convenience-Go used at petrol stations and convenience stores, allowing the purchase of items directly from the app.
- As a separate development, PayPal has announced that 23 bricks-and-mortar retailers (with 18,000 outlets) now accept its POS payment option in their stores, leveraging off existing payment infrastructures through PayPal's relationships with firms such as POS provider Ingenico and card issuer Discover.
- PayPal has traditionally been an online payments provider. Its expansion into offline/in-store payments appears part of a strategy to build customer loyalty and increase mass adoption of PayPal across all channels.

See reports [here](#), [here](#) and [here](#)

2.5 **Africa:** MasterCard PayPass to be rolled out in Africa

- MasterCard and Equity Bank of Kenya have signed a deal which will see five million MasterCard-branded debit and prepaid payment cards issued to African consumers.
- The cards will be issued first to the Kenyan market, and then to Uganda, Tanzania, Rwanda, and South Sudan. It will be the largest roll-out of EMV (chip) cards in sub-Saharan Africa thus far.
- The payment cards will allow users to make contactless payments with MasterCard PayPass. Merchants will also be able to receive payments on their mobile devices through products providing MPOS technology.

See the press release [here](#)

2.6 **Brazil:** mPowa looks to bring mobile payments to Brazil

- mPowa, the European MPOS provider, is reported to be set to offer its mobile payment services to Brazilian consumers as it tries to establish a lead over its competitors in the global mobile payments market.
- mPowa's main differentiation factor in the global market is that it has the functionality to accept chip and PIN payments (through a PIN pad linked via bluetooth to a mobile device). This contrasts with US-originated competitors (such as PayPal Here and Square) who currently only accept payments through the payment card's magnetic stripe.

See a report [here](#)

2.7 **India:** Visa alleges that it is being frozen out of Unstructured Supplementary Service Data ("USSD") access

- Visa has claimed that Indian telecom providers are preventing it from accessing USSD technology, which is vital to its planned mobile payments offering in India.
- USSD technology is a menu based system that enables customers to interact with content-based services. It is more secure than SMS and does not require an Internet or GPRS connection.
- Visa has said it plans to use USSD to allow users to securely send money to each other, but that it is currently being barred from employing the technology by India's telecom providers.
- The telecom providers have refuted these accusations, suggesting that they do not offer USSD on a commercial basis. However, the problems could be indicative of the conflict which telecom providers face in trying to establish themselves in the mobile payments arena, while also offering functionality to their competitors.

See a report [here](#)

3. OTHER MARKET DEVELOPMENTS

3.1 **United States:** Disney seeks to unlock the power of contactless

- Disney theme parks will give customers a taste of what a future with widespread contactless technology might be like, by rolling out a new "MyMagic+" service at their parks.
- The service involves customers visiting certain parks being issued with bracelets embedded with radio-frequency identification ("**RFID**") technology, linked to a new Disney Experience website and app.
- Customers will be able to use the bracelets as a room key, ticket, FastPass, and payment instrument. They can also be encoded with personal details of the customer, allowing Disney characters (both human and mechanical) to interact with the customer at the park on a more personal basis, for example, by addressing them by name, or by wishing them a happy birthday.
- Once live, Disney's proposition should provide a glimpse into the potential of contactless technology beyond payments.

See a report [here](#)

3.2 **United States:** Google unveils Zavers

- Google has unveiled Zavers, a service which promotes the use of digital vouchers and offers by retailers, and allows customers to store and redeem them with retailers at a later date.
- Customers save details of their loyalty cards with participating retailers to their Zavers account and then use Zavers to search online for offers and vouchers with those same retailers. Once found, an offer can be saved to their Zavers account, and then redeemed at the retailer's checkout by the customer scanning their loyalty card or providing their mobile phone number.
- Zavers is being promoted as giving retailers the ability to target offers and vouchers at consumers using real-time data, and so reinforce customer loyalty.

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

3.3 **United States:** Silicon Valley designed virtual bank launched

- Greendot, the pre-paid card provider, has announced the limited launch of GoBank, a mobile bank account accessed through a smartphone. The account provides traditional services including depositing money, paying bills, a Visa debit card and access to a network of 40,000 fee free automated teller machines. Deposits are protected by the FDIC.
- The account also offers some innovative services such as depositing cheques using a mobile app and the customer's smartphone camera and the "Fortune Teller" budgeting tool. The account has limited fees, but does allow customers to make a voluntary payment of up to \$9 a month to make the system accessible to other users.

- A wider release is planned for later this year. It appears to be targeted at younger (under 40) and "digital native" customers who are engaged with smartphone technology and are becoming disenchanted with traditional bank offerings.

See a report [here](#)

4. SURVEYS AND REPORTS

4.1 **United Kingdom:** ICM report suggests mobile wallets unlikely to take off in 2013

- ICM Research has published a report which claims that 2013 will not be the tipping point for mobile wallet payments. The report suggests that there are a number of physical and psychological barriers slowing the uptake of mobile wallets.
- For example, the report argues that there are not enough contactless in-store terminals or enabled devices to encourage uptake. Also, while there has been high smart phone penetration, many consumers are not technologically comfortable using their mobile device to make payments and have security concerns with doing so.
- Jamie Belnikoff, Associate Director at ICM Research, who led the research, concluded that market participants needed to work harder at combining incentives to use mobile payment options with additional security, and to better communicate the options available to consumers in the future.

See a report [here](#)

4.2 **China:** Analysys International report predicts huge growth in mobile payments

- The research firm Analysys International has predicted that mobile payments in China will be worth over CNY712.3 billion (USD\$114 billion) by 2015.
- 2012 saw the introduction of:
 - licence arrangements in the Chinese mobile payments market, enabling a greater presence by third-party payment providers; and
 - the establishment of mobile payment standards, which enabled a number of financial institutions to enter the marketplace and lend their weight to mobile payments development.

See a report [here](#)

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