

Payment and Related Innovation Update
6 February 2013



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1. REGULATORY DEVELOPMENTS

1.1 Europe: Draft new anti-money laundering ("AML") legislation published

- The European Commission has published two proposals to strengthen the European Union's ("EU's") existing AML rules. They include a new Money Laundering Directive, and a Regulation on information accompanying transfers of funds to secure "due traceability" of these transfers.
- The proposals would mean changes to the existing Money Laundering Directive in a number of areas, including:
 - reinforcing the emphasis on EU States and providers having to take a risk-based approach to complying with the AML regime, such that the Directive is in some respects less prescriptive than before;
 - giving individual EU States discretion as to when simplified due diligence is permitted (and some discretion as to when enhanced due diligence is required), so long as they take into account:
 - risk factors (e.g. based on product or customer type, channel, or geographic location) set out in annexes to the Directive; and
 - guidelines from the European Supervisory Authorities (e.g. the European Banking Authority);
 - bringing domestic persons within the scope of the "politically exposed person" regime;
 - requiring trustees to provide information as to beneficial owners in order to facilitate providers' due diligence on the beneficial owners;
 - being more specific as to the sanctions that must be available to national authorities, including fines of up to 10% of annual turnover for corporates or EUR 5m for individuals; and
 - extending the AML regime to traders in high value goods taking cash payments exceeding EUR 7,500 and to providers of gambling services with transactions exceeding EUR 2,000.

- A particular issue facing providers established in one EU State and delivering services into another EU State has been uncertainty as to whether the host State's AML rules apply, and having to comply with differing AML regimes in different EU States. Although the draft Directive does, to an extent, address these problems through requiring greater cooperation and guidance at an EU level, it is perhaps disappointing that the Directive will not, it seems, be "maximum harmonisation" or specify when a host State's AML regime would apply for cross border business. (A "maximum harmonisation" Directive is one which cannot be supplemented by additional national rules in the areas covered by the Directive.)
- Also concerning is the greater uncertainty as to whether and when simplified due diligence (exempting providers from having to identify customer identity) will be available at a national level, and less consistency of approach across the EU.

See the proposed Directive [here](#) and the proposed Regulation [here](#)

1.2 **United States:** Financial services regulators publish draft guidance on social media

- The Federal Financial Institutions Examination Council ("**FFIEC**"), representing a number of US financial services regulators, has published its draft "Social Media: Consumer Compliance Risk Management Guidance". It is inviting comments by 25 March 2013.
- The proposed guidance identifies risks posed to financial institutions from the use of social media, and requires them to put in place appropriate risk management programmes to address those risks.
- The guidance reminds financial institutions that their use of social media is subject to a range of existing financial services, consumer protection and privacy laws and regulations. The FFIEC acknowledges that complying with those laws is a challenge in such a fast evolving environment, and invites comments as to whether some tailoring may be required.
- Although the guidance is aimed at US financial institutions, it covers many universal themes that will be equally relevant to regulators and providers in other markets and other jurisdictions.

See the proposed guidance [here](#) and our report [here](#)

1.3 **United States:** Voluntary guidelines on quick response ("**QR**") codes

- The Electronic Payment Association's Council for Electronic Billing and Payments has issued final voluntary guidelines for the use of QR codes in consumer bill payments.
- The guidelines cover the use of QR codes in a number of areas such as viewing bills, making bill payments and setting up payees in online banking. They also contain recommendations on the size of QR codes, the data to be included and the format.
- The guidelines seek to establish a single QR code format to provide greater certainty for billers and a consistent experience for consumers, which should help encourage consumers to move from paper cheques to electronic billing.

See a report [here](#)

1.4 **France:** Second Electronic Money Directive ("**2EMD**") implemented in France

- The French Parliament has passed law no. 2013-100 to implement 2EMD (2009/110/EC), a maximum harmonisation directive which repealed the first E-Money Directive to encourage the development of electronic money.
- The law amends the Monetary and Financial Code (Code monétaire et financier) and will require a number of decrees and orders to be enacted for the law to be successfully implemented.
- The deadline for implementing 2EMD was April 2011.

See our newsflash [here](#)

2. **PAYMENTS MARKET DEVELOPMENTS**

2.1 **Worldwide:** mPowa to offer white label solution to telcos

- Further to its white label deal with South Africa's First National Bank last year, mPowa, the mobile point-of-sale ("**MPOS**") service provider, is reportedly in talks to make its services available on a white label basis to a number of international telecommunications companies, banks and retailers.
- mPowa's mobile payments service allows merchants to accept card payments through a mobile device, which is connected to a PIN-pad and card-reader via a bluetooth connection. The customer inserts their card into the reader and enters their PIN, and the merchant manages the transaction on their mobile device.
- The deals would allow new players to enter the already competitive MPOS market while using mPowa's proven technology. This approach will provide mPowa with a stronger foothold in the market and, importantly for telcos, could help drive the uptake and use of smartphones.

See a report [here](#)

2.2 **United States:** Retailers can now introduce credit card surcharges

- Retailers in 40 US states are now able to charge customers using Visa and MasterCard credit cards (but not debit cards) to cover their interchange costs up to 4% of the transaction value. The move was announced last year as part of the Visa and MasterCard schemes' proposed settlement of anti-trust litigation with retailers.
- The aim is to make interchange costs more transparent to consumers and drive competition. Merchants who want to surcharge need to notify the relevant card scheme and have notices to customers at the store's entrance and point of sale. Ten states (including California, Colorado, Florida, New York and Texas) have banned surcharging, which overrides the changes to the schemes' rules.
- The bans, together with the fact that the court has not yet finalised the settlement, means that it is thought unlikely that many retailers will start surcharging credit card purchases, at least in the short term.

See a report [here](#)

2.3 **United States:** Sequent opens up multi-wallet possibility

- Sequent, a mobile near field communications ("**NFC**") security specialist, has announced a mobile wallet management platform which will allow any authorised app to use a card stored in an Android NFC-enabled phone's secure element.
- This means a card stored on the secure element in a phone could be used in a number of authorised wallets while, importantly, retaining the issuer's branding consistently across these. This could help overcome some of the sensitivities for issuers in allowing other wallet providers to have access to their card.
- Sequent has also said that merchants will be able to add secure payment functionality to existing apps and make it simpler for developers to build secure apps in the future.

See a report [here](#)

2.4 **Czech Republic:** Telefónica Czech Republic and partners launch contactless payments

- Telefónica Czech Republic, together with GE Money Bank and MasterCard, has announced the launch of its NFC contactless mobile payment service.
- Telefónica customers will be able to link their NFC-enabled phone to a GE Money Bank credit or debit card and use it to make contactless payments at MasterCard PayPass-enabled terminals. Customers will not be required to enter a PIN for purchases of up to CZK 500 (US\$26.40).
- GE Money also offers customers NFC contactless stickers, which are attached to the customer's payment card to facilitate contactless payments.

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

2.5 **Germany:** Telefónica Deutschland to launch mobile wallet and mobile money transfer service

- Telefónica Deutschland has announced that it is launching a mobile wallet and a peer-to-peer ("**P2P**") money transfer service called mpass, which will allow users to transfer money between mpass accounts using just a mobile number. The transfer will be free and will be the first such service to be offered by a wireless carrier in Germany.
- Telefónica Deutschland will also be offering the O2 wallet, which was launched in the UK in early 2012. Users can load their credit or debit card details onto the O2 wallet, and can then use it to make contactless payments at appropriately enabled terminals using MasterCard's PayPass technology.
- Telefónica Deutschland said that the NFC SIM card, which is required to make a contactless payment with a mobile, will be sent to Telefónica Deutschland users free of charge.

See a report [here](#)

2.6 **India:** Citibank India to make first foray into mobile payments

- Citibank India has announced that it will launch Citibank's first fully integrated mobile payments project. The service will be available to 320 million Citibank card customers in India.
- Specific details concerning the service are currently sketchy, although it will use a small device (developed by Ezetap Mobile Solutions) which will plug into a mobile device. According to Citibank, the service will allow customers to handle and make payments as well as have continued access to Citibank's loyalty scheme.
- Citibank has said that it already has partnerships in place with several leading brands to use the product and believes that this product will significantly increase the penetration of card terminals in India, which has been slow to date.

See a report [here](#)

2.7 **Spain:** Banco Santander begins issuing contactless cards in Cantabria

- Banco Santander has announced that it will renew over 50,000 credit and debit cards with cards with contactless functionality to allow customers to start making contactless payments in the Cantabrian region of Spain.
- More than 1,000 shops have now installed contactless point-of-sale terminals where the payment cards can be used. In addition, the new contactless cards will also have transport-specific functionality that will give customers access to public transport across the region.

See a report [here](#) (Spanish only)

3. **SURVEYS AND REPORTS**

3.1 **Worldwide:** MasterCard's PayPass driving contactless payments

- MasterCard announced strong growth for its PayPass contactless payments technology, citing 28% year-on-year growth in merchant locations across the Asia/Pacific, Middle East and Africa regions.
- At the end of 2012, PayPass had close to 700,000 merchants in 51 countries worldwide, with Vietnam, whose government wishes to reduce cash payments to below 11% of total transactions, notably accepting contactless payments for the first time.
- MasterCard's PayPass service, which works through an embedded computer chip and radio frequency antennae, allows users to tap their PayPass payment card or other PayPass object (e.g. a key or fob) against any contactless-enabled terminal to complete payment.

See the press release [here](#)

3.2 **China:** Alipay reports growth in number of consumers using mobiles to buy online

- Alipay.com, an online payment subsidiary of Alibaba, published a report which claimed year-on-year trading growth of 546% for its mobile payment service in China, with the number of people using the service showing a 223% year-on-year increase. The report also stated that, in 2012, 4.3 million people in China spent more money on their mobile than on their PC.
- This is an interesting area to watch going forward as, if China's uptake of mobile payment technology continues to grow at these levels, it could have a significant impact on the growth and acceptance of mobile payments technology worldwide.

See a report [here](#)

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