

Payments Innovation News Update
2 May 2012



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1. REGULATORY DEVELOPMENTS

1.1 **Europe:** European Central Bank draft recommendations for the security of internet payments

- The draft contains 14 recommendations developed by the European Forum on the Security of Retail Payments (SecuRe Pay) and details best practice applicable to Payment Service Providers ("**PSPs**") aimed at combatting online fraud and enhancing customer confidence in online payments.
- Most significantly, the report considers whether the adoption of dual-factor authentication of customers prior to authorising payments might result in future changes in the liability model for PSPs. Further aims of the report include ensuring that PSPs implement sophisticated processes for monitoring unusual transactions in order to detect fraud, and that PSPs engage customers in education and awareness programmes as to security when transacting online.
- Implementation will be overseen by supervisory authorities on a national, voluntary and co-operative basis and based on the existing national legal framework. The UK members of the ECB sub-committee likely to enforce these recommendations are the Bank of England and the FSA.
- The deadline for commenting on the draft proposals is 20 June 2012.

See an article [here](#) and access the ECB website to view and respond to the report [here](#)

1.2 **Europe:** European Commission warns five EU countries on overdue implementation of the second E-Money Directive ("**2EMD**")

- The Commission has asked Belgium, Cyprus, France, Poland, Portugal and Spain to notify it of their progress towards implementing 2EMD into national law, the deadline for which was 30 April 2011.
- The Commission has given the six member states two months in which to respond or face a referral to the European Court of Justice, which could potentially result in each country receiving a daily fine until the Directive is adequately implemented.
- 2EMD updates the electronic money conduct of business rules, and brings the prudential and systems requirements of e-money issuers into alignment with the Payment Services Directive.

See the Commission's press release [here](#)

1.3 **Europe:** European Payments Council response to the European Commission's Green Paper 'Towards an integrated European market for card, internet and mobile payments'

- The EPC believes that the Green Paper pays insufficient regard to the cost of cash and the benefit of facilitating migration to electronic payments.
- The EPC is keen that any regulation of payments should create a level playing-field and facilitate the interoperability of payment systems within the Single Euro Payments Area ("**SEPA**"). It is wary that too much regulation may stifle innovation, however, and advises the Commission that any regulatory developments should be technology neutral.
- The Commission is holding an open hearing on the Green Paper in Brussels on 4 May.

Read the EPC's published response [here](#)

2. **MARKET DEVELOPMENTS**

2.1 **UK:** UK mobile network operator, O2, releases a mobile wallet app

- Available to all UK mobile users to download, users can send up to £500 by text message, accessing the desired payee via the numbers in their phone's address book, and make payments to over 100 retailers, including Debenhams and Tesco Direct. The app is compatible with most smartphones and the iPad.
- O2 intends to start charging for the service after an initial free trial, with a 15p transaction cost for text message transfers. Other features of the app include a money tracking service and the ability to load money onto their mobile wallet from their debit card.
- Users can also effectively 'digitise' their credit and debit cards, enabling the faster payment of online merchants. O2's future plans for the app include allowing users to pay for train tickets and the future integration of contactless payments through near field communication ("**NFC**") technology.
- The security aspects of the system have apparently undergone significant testing, and all security information such as personal identification numbers ("**PINs**") and passwords are held on central servers rather than on the phone itself.
- O2's proposed joint venture with rival mobile network operator Vodafone and Everything Everywhere to develop a national mobile wallet service is currently held up due to an in-depth competition law review by the European Commission (see previous update).

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

2.2 **UK:** Barclaycard release PayTag, a stick-on credit card that can turn any phone into a NFC payment device

- A third the size of an ordinary credit card, PayTag can attach to the back of a wallet, phone or key ring to enable tap-and-go payments. The PayTag sticker is linked to the customer's Barclaycard account.

- Payments are limited to transactions of £15 or under; however, this limit is set to rise to £20 in June. A PayTag will be sent to a select group of Barclaycard customers in May, after which it will be sent to other customers free of charge. Payments will not require the entry of a PIN (though some reports suggest one may be required if it is used in quick succession), and Barclaycard has outlined similar protection against fraudulent activity for lost/stolen PayTags as it provides in respect of its other contactless cards.
- PayTag is significant in that it can turn any phone into a contactless payment device without the need for an upgrade. Contactless payment technology is already widely used in Japan, where Sony's FeliCa chip is embedded in many smartphones.

See a report [here](#)

2.3 **USA:** Fundtech releases an innovations platform for payment system designers and small and medium sized enterprises ("**SMEs**")

- The portal, christened TotalTransact, provides payment processing and aggregation services and aims to educate SMEs on the potential benefits of improved payment systems to their businesses.
- TotalTransact is in competition with other platforms such as bill.com that attract the custom of start-ups and small enterprises that have not yet developed bespoke payment systems.

See a report [here](#)

2.4 **USA:** Square now credits merchants' accounts within 24 hours

- Payments made before 5 p.m. through Square's card reader are now paid to merchants' accounts the following day, helping SMEs struggling with cashflow problems linked to the longer clearance times associated with traditional payment systems.
- Square has refused to reveal how it manages to process payments so much faster than rival payment systems.
- Square claims that it now processes transactions at an annualised rate of US\$5 billion, up from US\$4 billion in the previous month.

See a report [here](#)

2.5 **USA:** Google releases cloud computing storage service

- Google Drive offers 5GB of free storage for documents and multimedia held on the cloud. The product is compatible with Mac, PCs and smartphones using Android operating systems. The release of an app for iOS use on iPhones and iPads is expected in the next few weeks.
- Different security settings can be applied to different data, enabling the easy access and sharing of information within closed groups, such as researchers or international project workers in remote locations.
- All content, including scans, will be fully text searchable using Google's search technology. Upgrades on the account can be purchased to allow for additional storage space, up to a maximum of 16TB (terabytes) for US\$ 800 per month.

See a report [here](#)

2.6 **Germany:** German Banking Industry Committee trials Girogo contactless payments in Hanover, Braunschweig and Wolfsburg

- 1.3 million customers are being issued with multifunctional cards that can be used as traditional Chip-and-PIN as well as contactless NFC cards.
- No signature or PIN is required for contactless payments up to €20.
- The cards feature a chip designed by Infineon Technologies that satisfies the security requirements imposed by the German Banking Committee, regarded as some of the most stringent in the world.

Read a report [here](#)

2.7 **Austria:** A1 Telekom Austria pilots contactless payment system

- The Austrian telecommunications operator, A1 Telekom Austria, will pilot an NFC payment platform, using its fully-licensed banking subsidiary Paybox Bank.
- NFC-enabled mobile phones and NFC stickers will enable customers to make payments up to a transaction value of €25. Merchants use a small Paybox NFC unit to handle mobile payments, rather than an EMV point-of-sale terminal. McDonalds and supermarket Merkur will participate in the initial pilot.

See a report [here](#)

2.8 **UAE:** National ID cards to be implanted in mobile phones in an agreement with MNO Etisalat.

- The NFC chip will include details of the citizen's name, date of birth and ID number. The information will be accessible using a reader even when the phone is turned off or the battery is dead.
- The Emirates Identity Authority has highlighted the convenience aspect of the initiative for the end-user and suggested that further, creative services that support the UAE's e-governance initiative and transformation to a "digital economy" would follow.

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

3. SECURITY

3.1 Voice recognition software set to improve mobile banking interface and security

- In line with recent improvements in voice recognition and voice activation software (as seen in Apple's Siri speech recognition software), E-trade Financial has added voice activation into its share dealing iPhone app.
- In theory, the technology could also supplement functionality in mobile banking apps. Furthermore, voice recognition could also be used as a form of quasi-biometric authentication to enhance mobile banking security.

See a report [here](#)

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