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# Payments Solutions

Helping you to deliver your strategy

March 2020



# Helping you deliver your strategy in Payments

The Payments sector is at the leading edge of FinTech developments and is witnessing an exciting period of broad opportunities through the development and exploitation of new technology-led solutions, in the context of evolving customer and business expectations and an ever-changing regulatory environment.

Payments solutions are increasingly becoming an integral part of the modern, digitalised fabric of wider society and cross-border business and commerce, with contactless payments in a growing cashless society and real-time immediate international transfers just two examples of the way in which Payments solutions are shaping modern life and standing at the forefront of societal change.

Particular thoughts on some of the hot topics in the Payments sector are set out on pages 4–6.

This Payments ecosystem presents challenges and opportunities for Payments business. Digitalisation is leading to a huge increase in middle payment platforms and payment platforms ‘as a service’ models, both domestic and cross-border. We are also seeing significant activity in respect of investment into and investment by Payments businesses, M&A and market consolidation, as well as collaboration between Payments industry players and Joint Ventures. This is, of course, to a large extent being influenced by the dynamism of the tech-led sector and the quality and quantity of emerging FinTechs offering new solutions.

CMS is a genuine FinTech heavyweight, having broad and deep regulatory, technology, data protection compliance and transaction execution experience, understanding the issues that are likely to arise on deals in the Payments sector.

We would be very interested to have the opportunity to meet with you to discuss your business concerns and objectives, your future strategies in the context of this environment and how we might be able to help you on your strategic goals and deals, as well as other BAU legal requirements.



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# Payments – Hot Topics

The UK is at the forefront of FinTech development worldwide. Powered by the development of new technologies and new uses for existing ones, increased availability and richness of data, as well as an encouraging regulatory environment, FinTech, and the Payments sector in particular, is changing the way customers engage with financial services providers. The traditional financial services landscape is being disrupted by the appearance of new products and services that drive business efficiency and increase financial inclusion.

We have set out some thoughts in respect of the key hot topics in the Payments industry:



## An open and collaborative ecosystem

There is an increasingly open and collaborative ecosystem between traditional payments processing banks and intermediaries and emerging FinTech players, driven by a combination of regulatory and industry developments, new payments-enabling technologies and ever-growing customer expectation for personalised and value-added services.

Along with regulatory initiatives, such as PSD2 and Open Banking, banks are opening their infrastructure to leverage technology enablers such as open APIs, cloud infrastructure, instant payments, machine learning, blockchain and mobile wallets.



## Digitalisation and Immediate payments systems

The digitalisation of all aspects of life and ways of doing business is driving fundamental change in customers' and business' expectations for their payment needs, with ever increasing demands for immediate payment systems and real time, agile and personalised capabilities.

Customers and business have come to expect the below as standard in their digital communication – which they now expect from their (particularly international) payments systems:

- immediate response and execution functionality
- full transparency of information
- digital services for free
- streamlined, intuitive and easy user experiences in onboarding and transacting
- fully digitalised and automated value chains

Traditional payments systems have failed to meet these expectations, with the capability-expectation gap increasingly serviced by the emergence of a plethora of new FinTech competitors offering modern, digital, cost-effective, user-friendly payments solutions.



## Alternate payment channels

With the ubiquity of smartphones, mobile banking and payments applications have become an integral part of the modern digital way of life. Contactless payments are now a fundamental part of the payments ecosystem, with the increasing customer demand for a faster, easy to use, integrated payments experience continuing to drive tech-led enhanced offerings and alternate payment channels.

Customer confidence in the security of contactless payments is also increasing as it becomes the new norm, along with improved device security features such as biometrics, voice authentication and cryptography.

This trend for convenience and speed, coupled with technological developments including greater processing power, smaller devices and availability of high-speed internet, has seen the increasing adoption of contactless payments through smartphones and wearables. As wearable technology continues to integrate the digitalisation of everyday life, this will continue to grow.

Other solutions seeing rapid adoption and growth include mobile wallets, easy peer-to-peer transfers and real-time payments.



## International payments

International payment systems have traditionally been characterised by inefficiencies, lack of transparency, slow speed and high costs. Along with digitalisation, the ever-globalised economy, is driving businesses and customers to increasingly demand a transformative overhaul of cross-border international payments.

This has become an area of particular focus and growth, driven by emerging technologies such as distributed ledger technology (DLT) and blockchain providing opportunities to develop better payments and settlement infrastructure, with FinTechs in particular playing a leading role in these solutions and engendering an industry-wide impetus to leverage technology, as well as to partner and collaborate.

The increasing adoption of the emerging standard ISO20022 will also accelerate improvements, and the development of new services, in this area.



## Cyber Security

Payments businesses hold huge amounts of highly sensitive customer and personal information, which makes cyber security a fundamental priority.

As the payments industry sees increasing digitalisation and technological developments, coupled with open banking collaboration, there is an increasing potential vulnerability to cyber-attacks and data breaches.

Regulators across the globe are continuing to focus on introducing and ensuring compliance with cybersecurity and data privacy laws, regulations and standards, including imposing significant fines, sanctions, injunctions and audits, as well as criminal liability. Payments businesses will need to prepare broader, adaptive and robust cyber-defence models, and incur significant compliance costs, to address these risks, including utilising new technologies such as voice biometric authentication, machine learning and AI security and behavioural analytics.

Whilst there is a definite global vigour in focussing on cybersecurity, there is currently a lack of harmonisation in cybersecurity laws in different jurisdictions, which poses a challenge, as well as a cost, to payments businesses operating across the globe and transacting cross-border payments.



## M&A and market consolidation

Along with an open and collaborative ecosystem, the UK's Payments industry, in common with that in the US and Europe, is one of the most active areas of the financial services sector for M&A and market consolidation. This is being driven by a number of factors, including:

- the increasing rationalisation of the payments infrastructure, with payments companies looking to expand their reach, increase their value proposition to meet changing customer expectations and create customised solution
- deflationary pressures on margins in the payments industry as a result of intense market competition
- consolidation allowing companies to minimise costs and capitalise on economies of scale
- the need to acquire new technology, talent or access to customers



## Fraud detection and prevention

As non-cash, digital transactions become the norm, there is an increasing risk of fraud losses through the payments system. As such, it is imperative for payments businesses to invest that they implement appropriate fraud detection and prevention solutions.

Given the demand for real-time immediate payments systems, there will be a corresponding necessity for real-time fraud detection capability. As such, this is increasingly being addressed through technology solutions, such as Robotic Process Automation (RPA) and machine learning, which use algorithms that mine data from transaction histories, geo-location data and patterns of likely frauds to identify, analyse and prevent fraud attacks. Payments businesses are increasingly looking to adopt these more efficient, secure, reliable and cost effective technology-led solutions.



## Advanced authentication technologies

Traditional authentication solutions, such as passwords, PINs and OTPs, are increasingly not sufficient protection against digital hackers and cyber-attacks. There is a greater move towards multi-factor authentication solutions and advanced authentication methods, including:

- Biometrics and digital identity
- Secure element and tokenisation
- Geo-location based authentication
- Inter-operable cryptographic keys

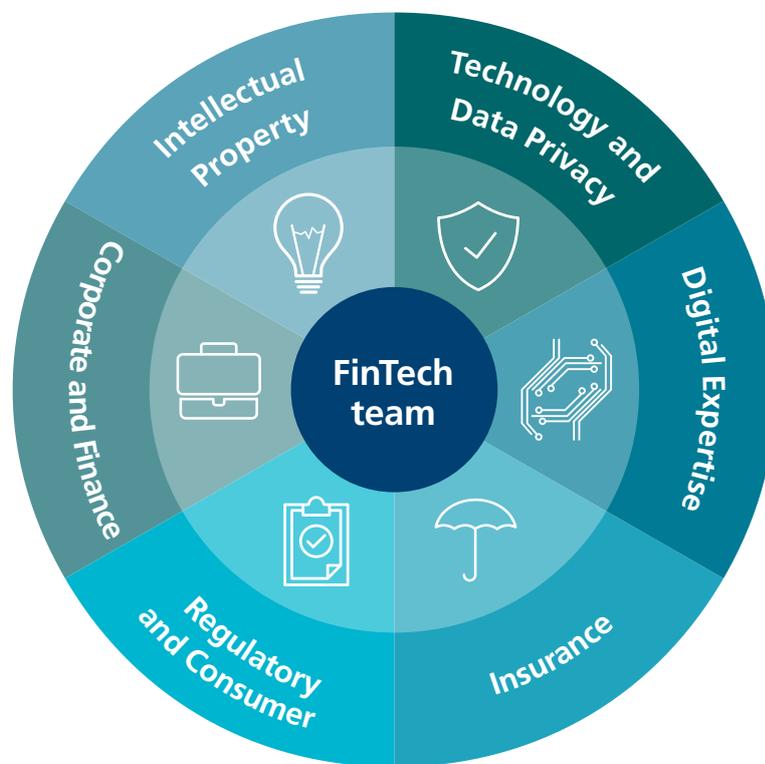
There is also growth in the importance of behavioural analytics, providing continuous monitoring in the background without impacting on the customer transaction experience.

The development and interoperability of advanced authentication technologies is another area where there will be collaboration in the payments ecosystem and change driven by emerging FinTech players.



# CMS: A leading FinTech team

CMS' FinTech team brings together the strengths of leading **technology, intellectual property** and **data privacy** teams, **digital** expertise, substantial **banking** and **insurance** groups, and a considerable **regulatory** practice to create a powerhouse FinTech team, not to mention the hundred-partner-strong corporate team the firm now boasts, with the skills to deliver successful transactions from the largest institution to the smallest start-up.



At CMS we know how important it is that our clients are fully aware of changes in the Payments landscape, so the team is immersed in the sector, working closely with the regulators and others to help shape the industry. For example, we are members of the **Financial Markets Law Committee Fintech Forum**, **Digital Leadership Forum**, the **Prepaid International Forum**, the **UK Crowdfunding Association** and have been asked to participate in the **All-Party Parliamentary Group on Artificial Intelligence**.

We also work with **techUK** and other industry bodies, publish regularly on FinTech matters, and help to shape the FinTech landscape through participation in regulatory consultations.

All of this industry knowledge is fed back to our clients through our work and through services such as **LawNow™**, **Data Monitor** and **RegZone**, free legal update subscription services which deliver legal updates and insights straight to you and are accessible at [cms-lawnow.com](https://cms-lawnow.com), and [cms-lawnow.com/regzone](https://cms-lawnow.com/regzone).

At CMS, we run a dedicated programme, called **equiP**, that supports tech start-ups scale up and maximise their full potential – operating like a curated incubator, investing through industry introductions, exclusive training, discounted legal services, and an active peer network. equiP is incredibly successful, recently winning “Best Legal Team for Early Stage Deals” at the 2019 UKBAA Awards.

# Our FinTech expertise



## Regulatory support

It's nothing new to say that the financial services sector is heavily regulated, but the rapid pace of change and the consequences of bad practice mean that FinTech is an area that is under particular scrutiny.



## Intellectual property

Most FinTech businesses understand that IP is one of their most valuable assets. We understand how to help protect it, how to monetise it, and we know how to help investors to value it.



## Innovative technologies

Whether it's AI, DLT, robotics or one of the countless other technologies that are in the pipeline, we can help you establish it, deploy it and benefit from it, whilst maintaining regulatory compliance.



## M&A and transactions

In a market as dynamic as Payments, there is inevitably considerable M&A activity – it's important to be supported by a firm that really understands the intricacies of tech-driven deals in the financial services sector.



## Data protection

Data protection issues in a highly regulated industry are often complex, particularly with regards to those that might arise from a Payments acquisition, third party outsourcing, use of a white labelled platform, or use of legacy systems.



## Cryptocurrencies

This emerging technology has already had such a disruptive effect that it is being compared to the rise of the internet in the nineties. Whether that is the case or not, it's important to understand the legal framework around it.



## Financing

Tech-heavy transactions need to be structured so as to reflect certain characteristics, in terms of valuing risk and potential growth. In addition, expansion can be rapid, provoking further lending, restructuring and occasionally enforcement.



## Crowdfunding

Crowdfunding has been hailed as a democratising force in finance. Crowdfunding and peer-to-peer lending platforms are disrupting finance at a phenomenal pace and stretching the boundaries of existing regulation.

# Our Payments experience – some highlights

## ClearScore

Advised the financial technology business that gives customers free access to their credit score from inception in 2015. Advised on matters from its target operating model and regulatory and data protection compliance to new product launches.

## Alliance Trust Savings

Advised the challenger international payments network on a range of matters, including on a \$22.5m Series D fundraise, regulatory capital matters, payment matters, corporate structure advice and commercial contract matters.

## A number of high street banks

Advised on their investment in, and JV arrangement with, Unisys, in relation to Intelligent Processing Solutions Ltd, and the procurement of image-based cheque clearing services.

## Clydesdale Bank plc

Advised (and continue to advise) on all aspects of "B", Clydesdale Bank's app-centric banking product and a key part of the Bank's digitalisation strategy.

## Tramlink

Advised on its mobile ticketing App including the payment platform arrangements with Braintree (Paypal).

## Leading Money Transfer Business

Advised on the establishment of a new mobile App and the compliance and commercialisation of their payments technology platform on an 'as a service' basis.

## Apple Pay

We have advised numerous clients on their participation agreements in Apple Pay and on the payment system's implications for the banks' regulatory obligations and the protection of personal data.

## Automotive finance business

Advised on the launch of a new app to enable it to take direct payments from customers and distribute them to various third parties engaged in supporting the car manufacturer customer relationship.

## GoCardLess

Acted on a Series E investment into GoCardless led by Google Ventures and Salesforce.

## Currencies Direct

Advised on the financing and insurance aspects of the acquisition of Currencies Direct and Currency UK.

## Tuxedo Money Solutions

Advised the selling shareholders on the sale of e-money provider Tuxedo Money Solutions.

## Endava

Advised on the sale of its captive Fintech software development business to WorldPay.

## Blenheim Chalcot

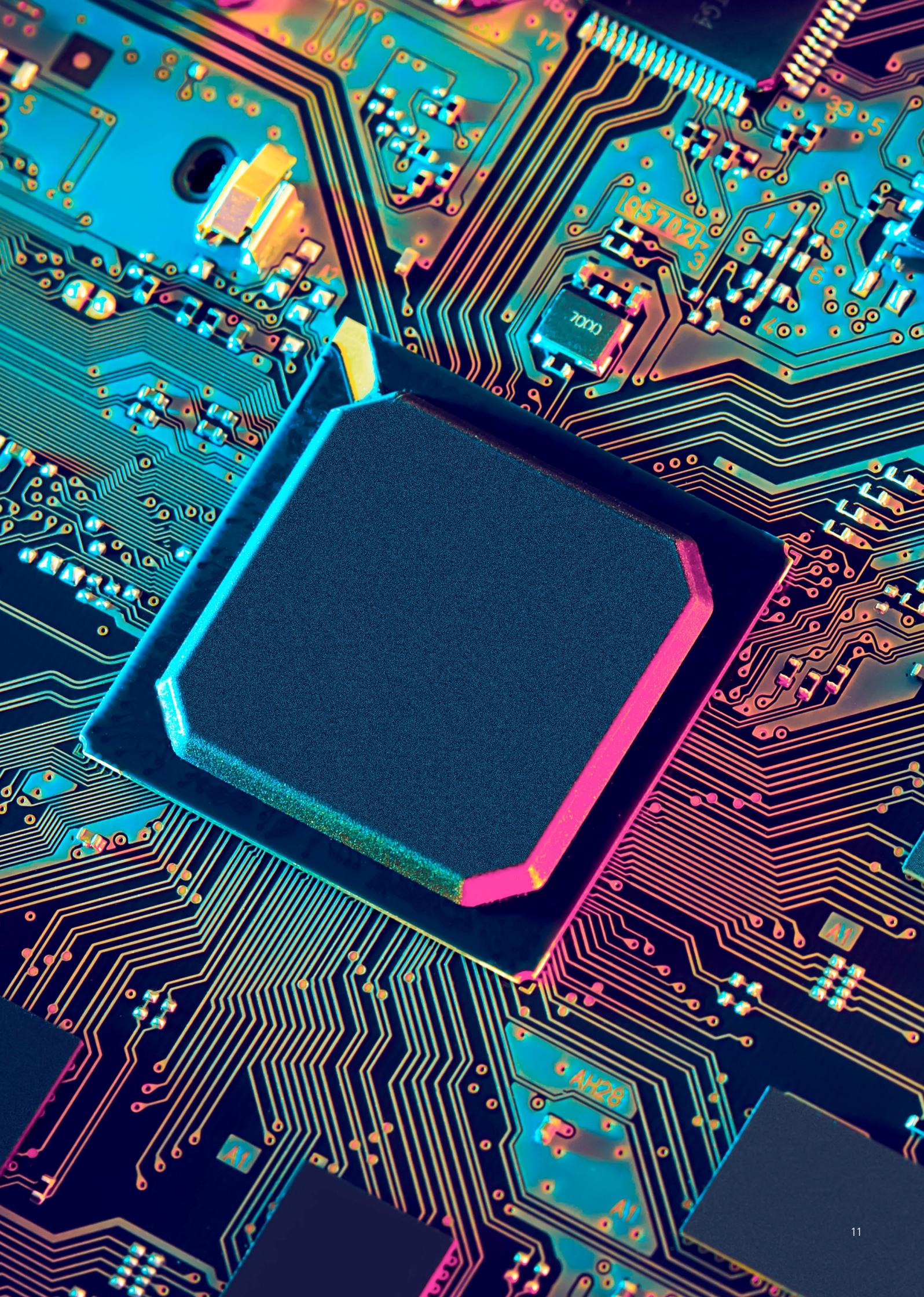
Advised on the sale of Corporate Pay (a pre-paid card provider) to Wrights Express.

## International Currency Exchange

Advised the selling shareholder on the sale of FX business International Currency Exchange.

## Octopus

Advised on its launch of Octopus Cash, a new, innovative cash deposits management service.





# How we can help you



**M&A Experience** – We are **number one** for M&A in the UK and Europe by deal count (Thomson Reuters and Bloomberg). We advise on small, mid-cap and large transactions.

As the UK's leading M&A practice, we have the experience and knowledge to manage complex transactions as efficiently as possible. You will benefit from using a team recognised as a leading M&A player across the UK and Europe.



Regulatory and technology FinTech experts. Our team have an extensive track record of supporting FinTech start-ups and scale up businesses.



**Bespoke / tailored service** –

One size doesn't fit all. We tailor our service delivery to meet your specific requirements.



**One-stop solution** – Because we are a full-service corporate law firm, we can fulfil all your legal requirements on complex transactions. Not only is this convenient, it also means that against the backdrop of our lawyers' sector knowledge and expertise, we can really understand your business and manage the risks faced in order to achieve your desired results.

We are business advisers, not just lawyers. We work in partnership with all our clients in order to support them.



**First class service** – We are the UK's top ranked TMC firm (Legal 500). Our firm has achieved rankings in Bands 1 or 2 in the majority of the 114 areas we are ranked across the UK. These rankings show the depth and breadth of our full-service offering in the markets that matter to you.

We were awarded **"Law Firm of the Year"** in 2018 by Legal 500.



RANKED NO. 1 BY M&A DEAL COUNT IN UK AT H1 2019



RANKED NO. 1 BY M&A DEAL COUNT IN THE UK FOR 2018



THOMSON REUTERS

RANKED NO. 1 BY M&A DEAL COUNT IN THE UK FOR 2018

# About CMS

## Your World First – the CMS approach to delivering value

We have a phrase to sum up our promise to our clients: 'Your World First'. This phrase reflects our priorities of being client-centric, providing world vision and being performance driven.

### Client-centric

You, the client, are at the heart of our business – whether you are a large or small organisation. Our emphasis is not just on being great technical lawyers, but really understanding your business and your key objectives. One way we do this is by organising CMS into sector groups that operate locally and internationally. CMS's international sector specialists take pride in understanding your industry and engaging with your company-specific issues.

We deliver added value services based on real client needs, such as Law-Now which provides easy-to-access, practical and timely knowledge that matters to your business. CMS expands to meet client needs, moving into countries where we can make a difference to your business. Recent examples include our new offices in Dubai and Mexico, which we set up to support our energy clients operating there.

### Performance-driven

We work with you to define what success means for you and your organisation and we focus on making it happen. CMS takes pride in first-class execution and project management – we deliver results, not just opinions. We will actively ask for your feedback to help us assess and improve our performance.

## Delivering Client Service

We take the same approach to service delivery everywhere, based on a common training programme and a shared understanding of what our clients value most.

We provide you with management information to help you manage your account with us, covering areas such as invoicing, matter progress, fees, work in progress (WIP) along with bespoke reports on other factors specific to your business and your needs.

Your satisfaction with our performance drives our efforts to continuously improve our service. Through regular exchange of information and independent feedback we identify opportunities to reach higher levels of efficiency and effectiveness in service delivery and act upon them.

### World vision

Our sector insight means we immerse ourselves in the world of your business and we make sure we understand the global business issues you are facing. We have deep local expertise in your most significant jurisdictions as well as all the major global centres and we have established CMS in emerging markets in line with client needs. CMS professionals act as trusted partners, managing your global projects and transactions wherever you need us.



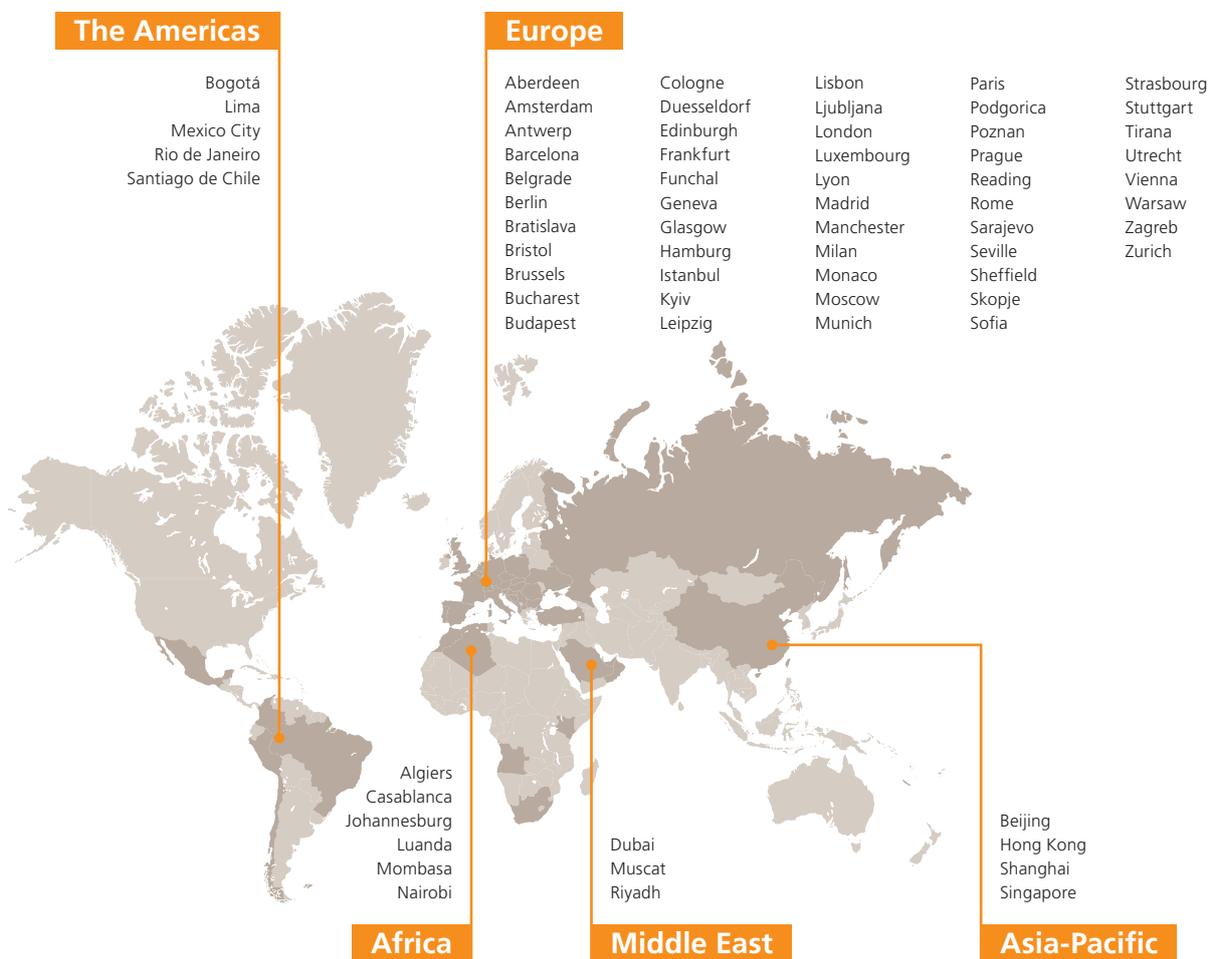
# Our geographic network

CMS currently operates in 43 countries from 75 offices worldwide – and we are continuing to expand.

Globally 4,800 lawyers offer business-focused advice tailored to our clients’ needs across multiple jurisdictions.

Our approach to service delivery is the same in all our offices, based on a common training program and a shared understanding of what our clients’ value.

We are the **6th largest law firm in the world**, with global footprint larger than any other UK firm and so are excellently placed to support any cross-border transactions, issues and advice.





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