DIGITAL TRANSACTIONS®

Trends in the Electronic Exchange of Value

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Volume Eighteen, Number Three • DigitalTransactions.net • March 2021

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the gimlet eye

SO WHERE'S THE DEPRESSION?

A YEAR AGO THIS MONTH, the onset of the coronavirus pandemic in the United States had overrun hospitals with Covid-19 cases, closed businesses and public places, and sent the Dow Jones Industrial average plummeting about 9,000 points to a level it hadn't seen since the fall of 2016.

The economic disaster of business closings coupled with the human toll in death and sickness, led many viewers-with-alarm to predict another Great Depression as consumers who hadn't caught the virus confined themselves at home and more restaurants, hotels, and stores struggled to stay solvent day by day.

So now, looking back over the past 12 months, we can get a true picture of what really happened and where we are now. Let's take the second point first. The virus is still very much with us but vaccination efforts, though lumbering and clumsy ("botched" is the word headline writers seem to prefer), are ongoing, freeing more and more consumers and businesses to interact safely. The optimism stemming from this state of affairs has infected investors and fueled the stock market to new heights, with routine daily closings above 30,000.

So, no Great Depression II so far, though this verdict is not to underestimate the very real misery many Covid patients, families, and businesses have had to endure because of this fell disease.

What really happened? In this issue, we carry two stories that help put this matter in perspective for the payments industry. First, our cover story (page 22) outlines how intrepid payments-technology providers and processors have weathered the pandemic by pivoting to new business models that better served clients struggling with drastically reduced business.

Sometimes, mere awareness was what these payments providers had to deal with. As Frank Pagano, co-founder and executive sales director at VizyPay told our reporter Peter Lucas: "A lot of merchants did not know payment technology was available that could make them more relevant and profitable." In other cases, it was a matter of crafting strategies for niche applications. OLB, for example, devised an app that lets people who can't work at home—such as hospital workers—order ahead at the cafeteria and pick up their meals without standing in line.

In our other story, "How Payments Is Embracing Blank Checks," starting on page 27, we outline how a buoyant stock market has helped some prominent payments companies cash in by going public via so-called blank-check firms, also known as special purpose acquisition companies. These SPACs have already done the IPO.

The key thing is that this SPAC trend—and hence this slick new way of tapping the public markets—wouldn't exist without market optimism, and lots of it.

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THE CARD GIANTS GO ALL IN FOR CRYPTO

The two big card networks have made no bones about their interest in supporting cryptocurrency transactions, and last month both made major moves in that direction. The actions came as the value of the leading virtual currency, Bitcoin. has soared to record highs in recent months (chart) .

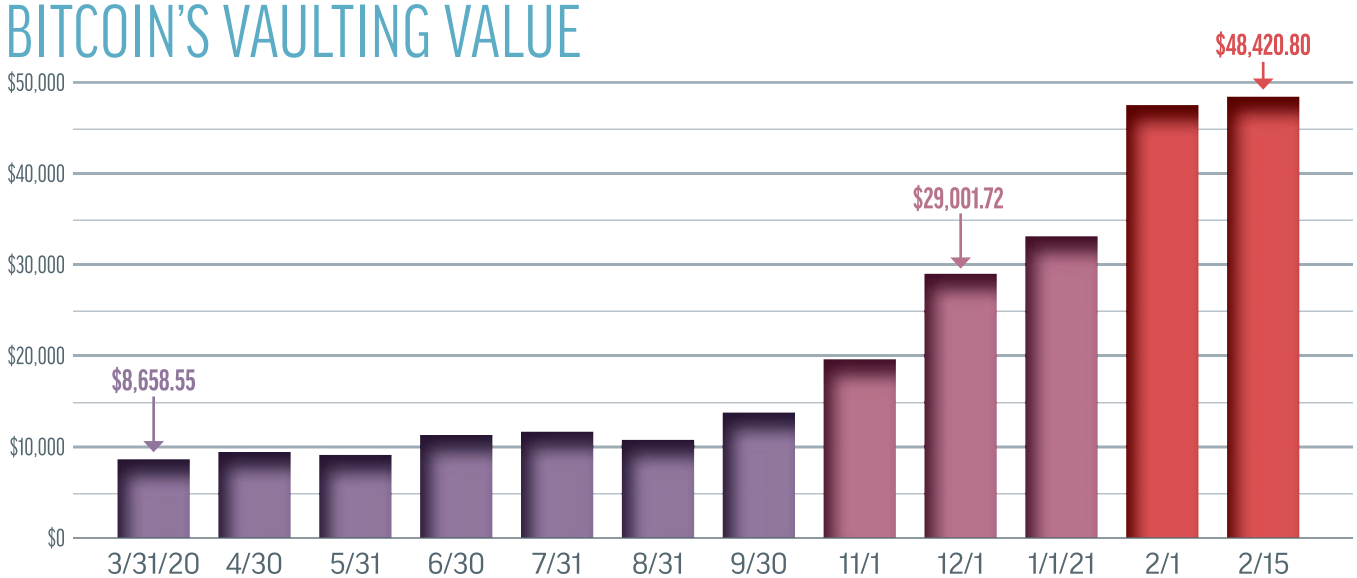
The bigger move came from Mastercard Inc., which announced its intention to launch later this year the ability to send and receive crypto transactions natively on the company's network.

Then, Visa Inc. made a more modest announcement welcoming a blockchain startup called GreenBox POS into its Fintech Fast Track program. The move gives San Diego-based GreenBox access to the massive VisaNet backbone network for a cobranded Visa card for push-to-card payments.

Mastercard's decision means it will process digital-currency transactions directly on its network, a major departure from current practice where it has processed fiat transactions for operators that have already converted their crypto assets. The new system will require "a lot of work" to build, says Raj Dhamodharan, executive vice president for digital asset and blockchain products and partnerships, in a blog post.

"Our change to supporting digital assets directly will allow many more merchants to accept crypto—an ability that's currently limited by proprietary methods unique to each digital asset," says in the post. "This change will also cut out inefficiencies, letting

BITCOIN'S VAULTING VALUE



Source: Yahoo! Finance

both consumers and merchants avoid having to convert back and forth between crypto and traditional to make purchases."

The technical work on the new rail has already started, a Mastercard spokesman tells *Digital Transactions*. When ready, it will move "a Mastercard transaction, like a card transaction, it would just be a cryptocurrency," he adds. The work at Mastercard comes as Bitcoin, the leading crypto, has soared in value in recent months (chart, page 6).

But just as some digital currencies are riskier and more volatile than others, the new platform will not support all cryptocurrencies. "Not all crypto will automatically come on board," the spokesman says, adding he can't at the moment "project" which ones will be supported at the start.

Many digital currencies are hobbled by spotty or non-existent observance of know-your-customer and anti-money-laundering laws, which would rule them out. "[M]any of the hundreds of digital assets in circulation still need to tighten their compliance measures, so they won't meet our requirements," says Dhamodharan's post.

Since Mastercard's announcement, observers have speculated that so-called stablecoins and central bank digital currencies might be a logical starting point. Both can be linked to a national fiat currency to avoid the wild swings in value that characterize Bitcoin and many other cryptocurrencies.

But Diem, a stablecoin backed by Facebook Inc. and other companies, has struggled to overcome skepticism from national governments. Originally called Libra, the project launched in 2019 with support from Mastercard, Visa Inc., and other major payments players, but these and many other backers pulled out within months after the project drew withering criticism from central bank authorities in the United States and Europe.

It might be different this time. Mastercard has been working with central banks around the world, Dhamodharan's post says, and last year created a test bed for them to experiment with their currencies. "Using our deep experience in payments technologies, we look forward to continuing these partnerships with governments and helping them explore the best ways to develop these new currencies," the post says.

—John Stewart

MERCHANT GRIPES: FEES AND ONBOARDING

Against the backdrop of an overall decline in small businesses' satisfaction with payment processors, Square Inc. ranks highest with a score of 857 out of 1,000, according to the J.D. Power 2021 U.S. Merchant Services Satisfaction Study.

PayPal Holdings Inc. comes in second with a score of 852, with Bank of America Merchant Services and PNC Merchant Services tied for third with a score of 849. Overall, the industry average satisfaction score for merchant services providers is 836.

Of the seven merchant-services providers that ranked above the industry average, only Elavon saw its overall satisfaction score rise year over year. The Atlanta-based processor saw its satisfaction score increase 38 points.

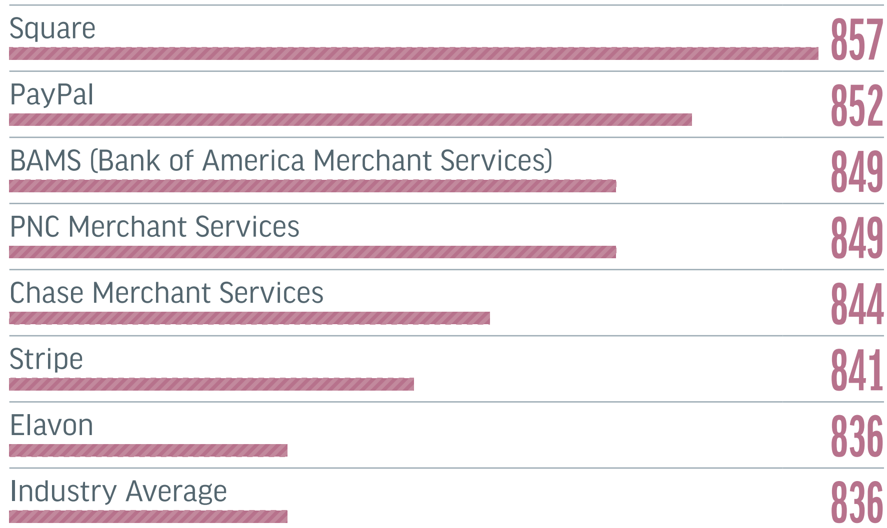
The overall decline in merchant satisfaction was driven largely by small and micro merchants that came under immense financial stress from sales declines sparked by the Covid-19 pandemic.

That pressure made them more likely to contact their payment processor for service requests and to resolve problems, says Paul McAdam, senior director of banking and payments intelligence at J.D. Power, who adds these interactions can be moments of truth.

"More than half [51% in the study] of small businesses reported significant revenue declines in 2020, and that led to more servicing requests and requests for accommodations, such as waiving fees," McAdam says. "The industry responded to some of these needs, but it was the micro merchants that felt the most financial stress and had the lowest satisfaction levels. It was that segment that contributed the most to pushing down satisfaction scores. It's a trend we have seen in other [payments industry] studies."

SQUARELY ON TOP

(Satisfaction scores at or above average)



Source: J.D. Power

Many of the needs that small businesses have, as well as the servicing patterns observed in 2020, will remain relevant well into 2021, the study says.

The study, which has now been conducted for three consecutive years, is based on responses from September through November 2020 from 3,253 small-business customers of merchant-services providers.

Merchants ranked Square highest in satisfaction for cost of service largely due to its clarity in pricing and fees and for helping small businesses understand their payment-processing fee structure. "When merchants understand the fee structure, there is a higher level of satisfaction because there are no surprises," says McAdam.

Square rated best in the reasonableness of total costs and in the availability of options to manage and/or control costs. Merchants also gave Square high marks for ease of use and reliability of technology and customer service.

While payment processors have done a good job of introducing new technologies that make it easier for small businesses to accept cards and digital wallets, McAdam says they should anticipate that many of the challenges and financial pressures small businesses faced in 2020 will continue into the foreseeable future. As a result, they should tailor customer-facing strategies to address those needs.

"The technology is working, it's consistent, it's reliable," McAdam says. "The variations in rankings comes down to cost of service and ease of onboarding new accounts. That's what separates the high performers from the low performers."

—Peter Lucas

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HOW BANKS STREAMLINE LINKS TO FINTECH APPS

The firms that make payments apps work behind the scenes are facing a growing problem. As more and more consumers use the apps, more and more banks get involved, casting an ever-widening net of unique requirements on the data networks that connect the apps to users' bank accounts.

That places constraints on an increasingly popular trend known as open banking. "If this is a problem with a handful of banks, how is anyone going to handle hundreds or thousands of banks?" asks Ben Isaacson, a senior vice president at The Clearing House Payments Co. LLC, which in January launched a service to simplify the process.

TCH, owned by 24 of the nation's biggest banks, has piloted the solution, which it calls the "Streamlined Data Sharing Risk Assessment," with seven major banks and two data aggregators, Plaid Inc. and Finicity Corp., which is now part of Mastercard Inc.

The key to the new approach is a common questionnaire that all participating banks agree to accept from each data network or financial-app developer. That approach replaces the current process, in which each bank requires that its own unique form be completed. As financial apps proliferate and grow in popularity, that method is creating a problem for aggregators and developers alike.

Aggregators, which specialize in connecting developers with financial institutions, "are not huge companies," says Isaacson. "They don't have a ton of resources." Yet they must meet the unique due diligence and risk-management requirements of a rapidly growing roster of financial institutions. "That was really putting a strain on the data aggregators' business," Isaacson says. "It's not like they have thousands of risk folks."

Financial institutions had started to recognize the problem, too, as more financial apps emerged and more requests came in to establish connections to users' accounts. "Risk is never the place where a bank first invests in resources, so from the banks' side this was becoming a problem," Isaacson says.

Companies like Square Inc. and PayPal Holdings Inc. have introduced popular apps that allow users to transfer funds, pay merchants, and, for some, to buy cryptocurrency. In almost all cases, such features require connections to users' bank accounts. The growing popularity of such apps has made the simplified vetting process "a critical issue for the industry to scale," Isaacson says.

Especially so, he adds, as more and more technology firms approach their customers' banks directly, adding to the requests coming in from the data aggregators.

TCH hopes to solve that scalability issue. But the process hasn't been easy. Getting the common form accepted across the spectrum of financial institutions was "the hardest part, frankly," Isaacson says, in part because of due-diligence and other regulatory requirements banks must meet. But, Isaacson says, with the new approach "banks aren't outsourcing risk management, they're outsourcing the collection of data."

To make that point, TCH has recruited TruSight and KY3P by IHS Markit, assessors that pore over questionnaires to verify the information aggregators have filled in and that also conduct onsite visits. TruSight also participated in the pilot.

—John Stewart

MONTHLY MERCHANT METRIC

Total Gross Processing Revenue, in Percent

Sum of total discount, total transaction fee revenue, and total other fee revenue divided by total volume

Note: This is sourced from The Strawhecker Group's merchant data warehouse of over 3 million merchants in the U.S. market. The ability to understand this data is important as small and medium-size businesses (SMBs) and the payments providers that serve them are key drivers of the economy. All data are for SMB merchants defined as merchants with less than $5 million in annual card volume.

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IS PAYPAL ONLY GETTING STARTED?

Covid-19 rocked PayPal Holdings Inc. last year as it did most payments companies, but PayPal rebounded with what turned out to be a record year for growth and now looks to roll out a flurry of new services.

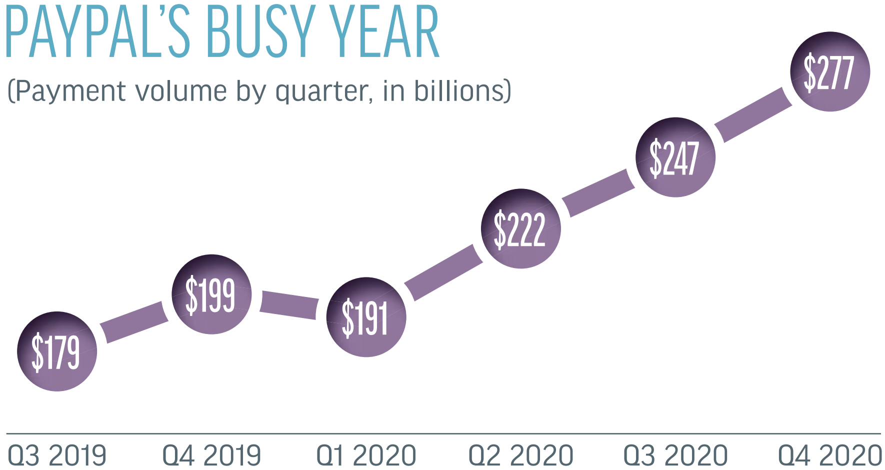
"We released more products and services in 2020 than in any previous year, and we will step up that pace in 2021," Dan Schulman, PayPal's chief executive, told equity analysts early last month on a call to discuss the company's fourth-quarter and full-year 2020 results.

Having added cryptocurrency, QR codes, a point-of-sale installment credit service called Pay in 4, and its Venmo payment platform to the PayPal wallet last year, PayPal now plans to inject a range of budgeting and savings tools, bill-payment options, and shopping incentives from Honey, a company it acquired a year ago, Schulman said.

That promise of excelling 2020's results, with some products at least, may be hard to keep. The new buy now, pay later service alone registered "the fastest start to any product we've ever launched," piling up $750 million in payment volume in its first full quarter, Schulman said, despite competition from a wide range of companies with similar POS credit platforms.

PAYPAL'S BUSY YEAR

(Payment volume by quarter, in billions)



Note: Venmo's volume in the fourth quarter totaled $47 billion, up 60% year-over-year. Source: The company

Acceptance of PayPal's QR codes, likewise, is rising fast ("The Sudden Ascent of QR Codes," October). Having started last year with big chains like CVS, the barcodes are now triggering payments at more than 600,000 locations, including those of Foot Locker, Nike, Macy's, and Uniglo.

PayPal users that have adopted the barcodes are spending on average 19% more than formerly, Schulman said. "Early in-store results are encouraging," Schulman told the analysts. "Consumers no longer want to handle cash."

Overseas, Schulman is eyeing the opportunity in China, particularly with Beijing set to host the Winter Olympic Games in 2022. There, PayPal's big investment is GoPay, a payment service it acquired late in 2019, leaving it as the only non-domestic company operating a domestic payments service in China.

The record product releases added up to a record year in 2020. PayPal added nearly 73 million net new active accounts, reaching 377 million by year's end, up 24% over 2019. That figure includes some 29 million merchant accounts. Payment volume came to $936 billion, up 31%, the highest growth rate for this metric in PayPal's history.

For the fourth quarter, active accounts rose 72% year-over-year to 16 million, including 1.4 million merchant accounts. Payment volume totaled $277 billion, up 39%. The fast-growing peer-to-peer payments service Venmo accounted for approximately $47 billion of that volume, up fully 60%. That figure is likely to grow even faster as PayPal starts implementing Pay with Venmo for merchants online within the next three months.

Still, PayPal's transaction take rate—the percentage it makes on each transaction—dipped to 2.05% from 2.27% a year earlier. Growth in services like Venmo and other peer-to-peer payments, which historically haven't produced high margins, contributed to the drop, PayPal said. DT

—John Stewart

CORRECTION

In "Parking Apps Look to Upshift," February, the number of PayByPhone app users was misstated. The correct number is 35 million. *Digital Transactions* regrets the error.

POST-COVID PAYMENT SECURITY HANGS ON GETTING IDENTITY RIGHT

BY GIDEON SAMID
gideon@bitmint.com

THE HORRIBLE GLOBAL PANDEMIC HAS CREATED a massive shift towards e-commerce, and the fraudsters could not be happier. Online, the only difference between a legitimate transaction and a fraudulent one is the possession of a small piece of data which the bona fide trader holds, and the fraudster presumably does not.

All that the fraudster has to do, then, is to get hold of this tiny piece of data and—bingo!

Most shoppers are gratified when a site announces it is protected by "secure mode." Indeed, this indicates a strong measure of security. Yet, a technique called "man in the middle" defeats it, and so will the coming quantum computers. Besides, this so-called Diffie Hellman solution only guarantees that the two parties who started an online conversation are the ones who continue it. It does not, per se, identify one party to the other.

Such identification is relegated to a shared secret. Hackers hunt this shared secret, and owners hide it the best way they can. A merchant or a bank keeps a repository of these shared secrets for all their customers, so this repository is a prime target for cyber pirates.

A recent technique (U.S. Patent No. 10,395,053) defeats this attack by maintaining a subtle difference between the version of the secret on the customer's phone and the version kept at the merchant's database. If the latter is hacked and the spoils are used to steal identities, then the merchant will quickly see that the credentials submitted are the ones on its database. They will lack that expected, subtle difference. This finding will implicate the hack.

A very basic defense of identity credentials is to make these credentials short-lived. Thereby, the hacker soon enough will hold a useless piece of data. Historically, this strategy was very expensive. It involved lots of moving parts, so such data was longer-lived than it should be. But recent technologies now offer silent replacement of identity credentials, so they have a very short lifespan. Neither the shopper nor the store is aware of it. Computers do the talking.

We now envision more and more payment activity because of the Internet of Things. But here technology is ready for the hackers with powerful tools based on quantum randomness.

And growing in popularity is a third approach: behavior. An elaborate privacy-invading database tracks consumers' behavior, and if a consumer appears to shop from an unusual location, or buys something unlike what she usually buys, a flag is raised. Vendors love it because it is not a "buy-once" tool, but rather a "pay-forever" service. Alas, with this solution merchants suffer from positive and negative errors, rejecting bona fide customers and admitting fraudsters.

The ultimate solution is on its way: identity-circumventing payment. Remember the old days when you tossed cash on the counter, collected your change and your merchandise, and walked off? Nobody knew who you were. This scenario has all but disappeared. Even Bitcoin is identity-based. The identity is encrypted but it's there—and breakable.

Banks in China built the solution: digital money, BitMint style. You pay with verifiable digital money, with or without disclosing the identity of the payer, and with or without the Internet. If the merchant gets his money's worth for his merchandise, then he is good, so far as money liability is concerned. Of course, for large payments, identity must be disclosed.

Another weapon in this battle for the good guys is taking shape as a new field emerges: "cyber chemistry"—tying cyber clouds to material reality. We are on it! (U.S. Patent No. 10,754,326). DT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A HOT POTATO FOR THE FED

BY BEN JACKSON
bjackson@ipa.org

PEOPLE WHO COVER FINANCIAL SERVICES got all excited when JPMorgan Chase chairman and chief executive Jamie Dimon said a bad word (which the transcript politely says is "indiscernible") in describing his feelings, during the company's fourth-quarter earnings call, about technology companies getting into banking. But in the midst of the pearl clutching, an important part of the call went unnoticed.

Dimon laid out why he thinks some newer entrants into the financial-services business have an unfair competitive advantage because of how regulations are written. "There are examples of unfair competition, which we will do something about eventually. People who make a lot more on debit because they operate under certain things," Dimon said on the Jan. 15 call.

Later in the call, he addresses the notion of third-party bank issuers. "If a fintech company uses a white-label bank to process their business, they're basically a bank. And what the regulators do with that I don't know," Dimon said.

Dimon's thinking seems to be shared by the leaders of other large institutions, and they have ideas about how the regulators could level the playing field.

A December letter from The Clearing House, a trade association and payments company owned by some of the largest banks in the United States, asks the Federal Reserve to issue a new FAQ "and revisions to the official commentary to Regulation II that close gaps in the availability of the small issuer exemption between fintech companies and financial institutions."

TCH's letter argues that fintechs are linking with small issuers "to inappropriately utilize the small issuer exemption to avoid the interchange fee limitations under EFTA and Regulation II." It says that if an issuer does not hold all the funds accessible by a debit or prepaid card, the card is decoupled debit and not eligible for the small-issuer exemption. It adds that the board should not let the exemption apply to programs where the combined assets of the bank and third party are greater than or equal to $10 billion.

This is all very technical, but it could have big effects in the payments industry, particularly for neobanks and prepaid card programs. A blog by Sarah Grotta, the director of debit and alternative products at Mercator Advisory Group, says that TCH's proposal, if adopted, could decimate both prepaid and banking-as-a-service (BaaS) programs by cutting their interchange income by about 60%.

"Revenue will drop for nearly all non-government prepaid programs and BaaS relationships regardless of type as most issuers have a least one large client, or a combination of several clients with significant assets that would put them over the $10 billion mark and in the regulated interchange category," Grotta writes.

As of mid-February, the Fed had not given any indication that it plans to do anything in regard to TCH's letter. However, the remedy the letter is asking for—namely, an FAQ and guidance—does not require the Fed to seek public comment or go through any formal process. It could simply issue an FAQ and change the business model of prepaid card programs and fintechs overnight.

There could be unintended consequences from the recommendations in the letter. For example, many prepaid card program managers who use multiple banks to diversify risk—as opposed to evading regulations—might run into problems in providing services to financially vulnerable Americans. Large payroll providers who offer payroll cards as a service might also have challenges serving unbanked people under the suggested asset considerations.

If the Fed does feel the need to act, then it should make sure to seek input from other stakeholders who could be affected. DT

NO TIME LIKE NOW

The EMV liability shift for fuel pumps arrives next month. After two deadline extensions, is the petroleum industry finally ready?

BY KEVIN WOODWARD

THE DATE SET FOR THE EMV LIABILITY SHIFT for U.S. gas pumps is finally upon merchants and the payments industry. There's no expectation in the industry that the April 16 deadline—for all card brands but Visa Inc., which has set April 17—will be extended a third time. So where does the retail petroleum industry stand in its quest to add EMV technology to pumps, or automated fuel dispensers in industry parlance?

It's been almost 10 years since the card brands outlined their plans to bring EMV chip cards to the U.S. electronic payment industry. The original deadline for compliance was October 2017, though gas pumps received an extension to October 2020. Then, a second extension followed last year in view of Covid complications. Now, no more extensions are expected.

Under the liability shifts, fuel retailers, not card issuers, will be financially responsible for counterfeit fraud if their automated fuel dispensers can't read a credit or debit card's EMV chip and has to resort to reading the card's magnetic stripe. Magstripes are far more vulnerable to counterfeiting, and researchers say fraudsters have been hitting gas stations hard now that most other retailers have installed EMV point-of-sale terminals.

But will gas stations be ready next month?

"We're very pleased with the progress of EMV at automated fuel dispensers," says Julie Creevy Scharff, vice president of consumer products at Visa. "We don't see the date changing." Scharff says nearly 50% of transactions taking place at fuel pumps at the end of January were chip-on-chip. That compares to 10% in February 2020. "Consumers are getting used to seeing it," Scharff says.

Data communications provider Transaction Network Services Inc. estimates the EMV-compliant total for its customers is more than 50%, says Dan Lyman, vice president of product management. Overall, in the broader market, he estimates the total may be around 50%.

Not all within that industry, however, are wholly satisfied with the effort so far, though progress is being made.

"It's clear the industry is making progress," says Linda Toth, managing director of Conexxus Inc., an Alexandria, Va.-based petroleum-industry standards and technology organization. Toth says that opinion is based on three Conexxus surveys starting in 2019 and continuing through autumn 2020.

While adoption is not as fast as some would like, there was a significant shift from those with no sites deployed to those that have some sites deployed with EMV technology, Toth says. "The good majority of people are getting started with it," Toth says. "If at 100% by April, that remains to be seen."

Scharff: "We want to get fraud out of the ecosystem. That's a good thing for everyone."

'VERY OLD TECHNOLOGY'

Some of the persistent issues—such as the limited pool of certified installers who can work on pumps and the complex nature of pumps and networking—remain potent matters, and have been complicated in recent months by pandemic precautions.

Last year, when more restrictive work-from-home measures were in place, technicians came out only when a pump was down, Toth says. "That delayed any rollout that was scheduled," she says. Work-from-home measures also affected software developers, who in some cases needed to interact with dispensers to write the code, but were unable to do so.

Testing staff in quality-assurance labs also were affected, she says. The six-month extension from last October was helpful in this regard, she adds, but the pandemic has endured longer than anyone thought it would.

Though installer availability is also an issue, "it's probably not as big a problem as we thought it would be," says TNS's Lyman.

The pumps themselves may continue to prove a challenge, especially older ones. "We are going to have some providers that have very old technology," says Ruston Miles, founder and advisor at Bluefin Payment Systems LLC, an Atlanta-based payment-services and security provider that offers a point-to-point encryption service for the petroleum industry.

While Miles estimates there may be 20,000 installers who can touch a pump, in some cases they may encounter simple wiring, which might not transit EMV and contactless payment data, he says.

The nature of petroleum marketing also can cause fragmented adoption. Most U.S. gas stations—estimates peg the total at approximately 111,000—are not owned by the big brands, but by franchises or even individuals in some instances. "As you go down market, you have these markets that might be using a brand we all recognize, but are getting it from a marketer of that brand," Miles says.

Though the brand may have guidelines for EMV adoption and programs to help defray costs, not all marketers are migrating in unison, Miles says. "Those individual groups within the petroleum industry are each going to go at their own pace," he adds.

Like Miles, TNS's Lyman suggests the larger organizations that have significant brands are likely farther along in their EMV conversion, having already made the move or gotten the process going. But there are a lot of smaller organizations that haven't made the move yet, he says. Anecdotally, though, he is noticing more and more gas stations and convenience stores outfitted with EMV in the forecourt.

SHIFTING FRAUD

The EMV conversion at the pump is estimated to cost $7 billion industrywide, Conexxus's Toth says. But most fuel retailers understand the reason for the conversion, she says. "Just because someone doesn't have fraud today doesn't mean they won't have it tomorrow."

Reducing fraud is the primary factor behind the conversion. "The fuel ecosystem is the last remaining place where mag-stripe transactions take place in the numbers they do," says Visa's Scharff. "We strongly recommend EMV adoption because it reduces the liability for fraudulent transactions at their stores."

She adds that it's not too late for a fuel retailer to make a plan and start the adoption process. "They can get there," she says. "So, the sooner they get there, the better."

Even though fuel retailers understand the risk with fraudulent card transactions, they still have to weigh the benefits and costs of adopting EMV at the pump.

"We know there is fraud in the ecosystem that will not go away, it will shift," Toth says. "There are also cases, mixed bags, when you have people who say they don't have fraud. It's hard to justify spending money when they don't see any return on their investment."

Reducing or eliminating fraud is the goal, Visa's Scharff says. "The underscoring reminder is that Visa wants to flatten the fraud curve," she says. "We want to get fraud out of the ecosystem. That's a good thing for everyone. That's the whole reason for the migration."

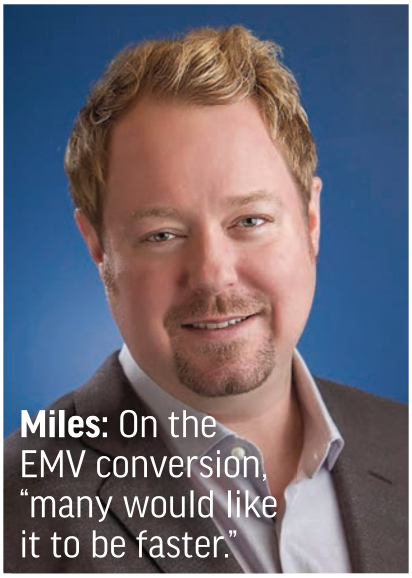
The Covid-19 pandemic's impact on the EMV migration had some positive impacts. As with many retailers, contactless payment became more of an option at convenience stores and fuel retailers, and many added that capability to the pump. Some developed out-of-band payment methods, such as apps that connect wirelessly to authorize a pump and to complete the transaction using a payment card or mobile-payment service.

Miles says lower sales during 2020—with volume down from personal- and business-travel reductions—likely also made it easier for retailers to consider their options and make strategic changes. For example, it may have been easier for managers to think about how improving payment security could reduce the costs associated with fraudulent transactions, he says.


Lyman: Offset EMV costs by looking for ways to drive incremental revenue.

The lower volume, however, meant less revenue, and many retailers had to think hard about where to make investments, Miles says. Related to Covid-19, many consumers have become accustomed to contactless payments, and some fuel retailers that have already installed EMV technology in the forecourt may have to go back and install NFC-equipped readers, he says.

Toth says that, prior to Covid-19, as many as 40% of respondents in one survey were undecided about adding contactless to the pump. After the pandemic's onset, that dropped, she says.


Miles: On the EMV conversion, "many would like it to be faster."

'POCKETS OF TRIALS'

To help clients offset some of the EMV-adoption costs, Lyman says TNS suggests looking for opportunities to drive sales and additional revenue. One retailer is experimenting with offering the opportunity to buy items on the fuel dispenser's screen. An employee delivers the items to consumers while they pump gas.

"We see these pockets of trials where they're actively trying to understand the impact," Lyman says.

As the April deadline looms, fuel retailers and the payments industry possess something early EMV adopters did not: a history of the obstacles and of how consumers reacted.

"You don't have to have a crystal ball to know what happened with upgrades to payments and security," Miles says. "We can look back. Now, we will see that same thing happen in the petroleum space. The question is how fast. Many would like it to be faster." DT

PAYMENTS GUYS ACTING BADLY—AND STRANGELY

There has now been a year of pandemic, but also of regulation, litigation, and malfeasance in the payments business. What's going on, and has anything really changed?

BY **STEVE MOTT**

Steve Mott is principal at BetterBuyDesign, Stamford, Conn.

LIKE EVERYONE ELSE in the "Time of Covid," the people of payments woke up just about every day last year wondering what new surprise was in store for that day. Commerce was in chaos, streets were deserted, everything had moved online.

Somehow, most of the industry seemed to make it through 2020 largely unscathed—even newly resilient in spots (such as the buy now, pay later boomlet).

But that's when an otherwise unremarkable news item came through the ether at the outset of this year: Federal investigators from three agencies were probing business card sales practices by American Express Co. Why that, why now, amidst so many other concerns?

That's when, thinking back over the previous year, it became clear that an eclectic but steadily accumulating assortment of regulatory actions scrutinizing the payments industry appeared to be under way—a trend that now looms large for the year ahead. In the throes of a pandemic, has the payments industry suddenly become a target for concerted regulatory accountability?

PERSISTENT IMPEDIMENTS

Probably the most telling (and surprising) manifestation of this trend was the Department of Justice's antitrust suit filed in November against Visa's proposed acquisition of premier account aggregator Plaid. The acquisition, the DoJ said, would forestall competition in payments with bank accounts rather than cards.

Never mind that investment analysts were skeptical about Visa's commitment to the $5.3 billion acquisition bid, which was about double Plaid's already frothy valuation of $2.7 billion, especially when the deal

provided for an unusually long period before closing.

Why pay so much for what was basically a standard account aggregator, when big Visa-issuing banks like TD and PNC were contesting the way Plaid acquired and interacted with their accounts, and better technologies (such as AppBrilliance) had emerged since the merger announcement?

That was for the DoJ to explain in its complaint, which stated: "On January 13, 2020, Visa agreed to acquire Plaid in part to eliminate this existential risk and protect its monopoly in online debit." Visa offered approximately $5.3 billion for Plaid, "an unprecedented revenue multiple of over 50x" and the second-largest acquisition in Visa's history.

Recognizing that the deal "does not hunt on financial grounds," Visa's chief executive justified the extraordinary purchase price for Plaid as a "strategic, not financial" move because "[o]ur US debit business i[s] critical and we must always do what it takes to protect this business." Still, said the DoJ in its complaint, monopolists cannot have "free reign to squash nascent, albeit unproven, competitors at will."

Visa feared that Plaid's innovative potential—on its own or in partnership with another company—would threaten Visa's debit business, the complaint alleged: "...Visa's proposed acquisition of Plaid would forestall this competition, allowing Visa to maintain its monopoly position and supra-competitive prices for online debit. Visa's proposed acquisition of Plaid also would eliminate a disruptive and innovative competitor."

Visa viewed Plaid as a "threat ... across multiple vectors of our business, including ... as a potential payment network," the complaint continued

The law-enforcement agency noted that a Visa executive compared Plaid to a "volcano" whose capabilities were just "the tip showing above the water", and what lay beneath was a massive opportunity, but a threat to Visa.

But the DoJ had no qualms, apparently, about Mastercard buying Finicity—a similar company to Plaid. Could it be that the DoJ, which merchants continually sought out over the years to help address their grievances over monopolistic pricing and rules in the existing card market, had decided to prevent that very thing from happening in the all-important emerging market for bank-account payments?

Or could it be that regulators were still thinking about debit card market competition? Could they have been reasoning in the context of the Federal Trade Commission's launch in January 2020 of a formal inquiry into complaints from merchants about persistent impediments by the card networks to Durbin-mandated choice in debit card routing?

Merchants testified to more than a dozen ways card-network policies, programs, and practices inhibited merchants from using the only real competitive option in debit card payments they had—PIN and PINless debit. Debit card use has surged in the year of Covid.

Or perhaps regulators were chastened by the clumsy, inefficient, and fraud-prone way Covid-relief payments and loans were handled in the spring—effectively diminishing the rare concurrence of Congress in doing something in the interests of the country.

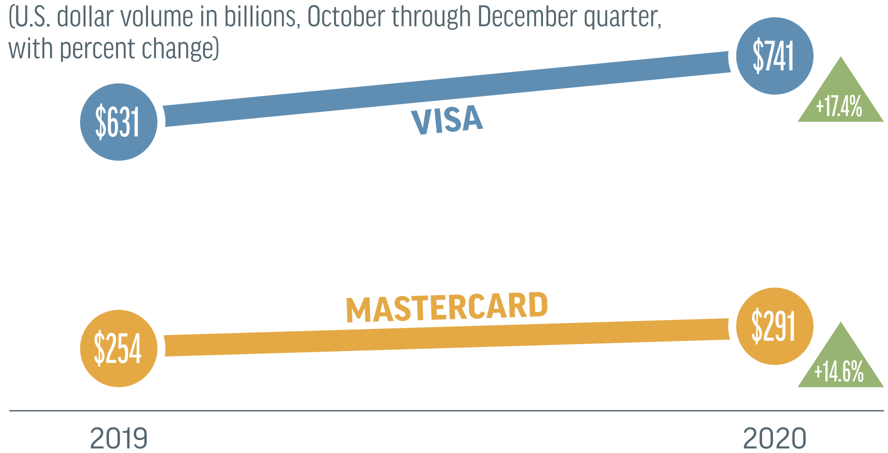
Can it really take months for the government to figure out how to pay its citizens? Isn't that something the banks should conceivably be in business to do? Or how to administer emergency relief loans to devastated small businesses, where banks had virtually no liability? Still, a large preponderance of the loans went to the bigger, established lending customers of the banks.

SHADY RECESSES

Whatever explains the current card payment environment, even stranger still, just two months after the DoJ complaint, Visa punted on the Plaid

DEBIT'S CLIMB

(U.S. dollar volume in billions, October through December quarter, with percent change)



Source: The companies

acquisition, citing the cost and hassle of fighting the DoJ while disavowing the antitrust claims.

Something very different is clearly going on, suggesting things will not be business-as-usual for the industry when the Covid pig finally works its way through the belly of the economy.

Maybe all this scrutiny was triggered by the blowup with Wirecard's accounting scandal (which cascaded into early 2020). Wirecard had quickly built a global payment-processing business, mastering the vagaries of doing business in dozens of countries and managing the higher risk of many new businesses operating at the margins of the payment marketplace.

By so doing, the company became the darling of German regulatory agency BaFin as a home-grown fintech success and rival to U.S. payments high-fliers.

The accounting scandals at Wirecard underscored the ever-loose nature of the back-end of acquiring relationships—though at a scale rarely seen before. Obscure partnerships overseas, poorly audited transaction volumes, flows, and financial results, and head-in-sand scrutiny by BaFin all contributed to a "lost" $2 billion in funds and rippling bankruptcies.

When the facts came out about the fraud (which took some time, given defenses by the German authorities), Visa and Mastercard acted surprised, and promised to "rethink" their relationships with the company. (The networks continued to work with the remnants of the business, in order to minimize "disruption;" Adyen acquired a lot of the conventional business).

Perhaps the card networks figured the shady recesses of global acquiring of high-risk online transactions had finally been put under control three or four years ago when Visa and Mastercard tightened the reins on responsibility for fraud, chargebacks, and bad marketing practices by moving to the Payment Facilitator model.

PayFacs (otherwise known as Payment Service Providers, or PSPs, ISOs, ISVs, and others) bear full responsibility for all merchant-related issues, and are directly accountable to acquirers; that simplified acquirers' vetting tasks and reduced their scope of scrutiny from millions of rapidly changing merchants to a couple of thousand PayFacs.

But after several years under the PayFac model, there's been no appreciable change in online fraud or chargebacks (other than the increase that migrated from the point of sale in the wake of EMV adoption). Still, the move seems to have kept the lid on the online fraud and chargeback problem—for now.

PROFOUND IMPLICATIONS

This historic standoff between harvesting ever-more transaction volumes vs. succumbing to effective regulation of what legally can be purchased with cards was exposed once again at the end of 2020 when the Montreal adult-content conglomerate that owns PornHub.com was revealed to have used credit cards to profit in sex trafficking and other abuses.

Visa and Mastercard did their "deer-in-the-headlights/who, me?" routine again (and PayPal resigned handling PornHub distributions of pay to participants)—as if no one knew there might be problems here.

Once again, the networks grudgingly relinquished a business stream that they had done for decades (as had happened with online gambling, questionable pharmaceuticals, and other sketchy direct-marketing and product-purchase venues).

Business-as-usual, you might say … but with regulators appearing to lean in to support fintech developments in 2020 (for example, Square offering virtual-currency conversion and becoming an industrial bank), this is no time for legacy payment players to sit on their hands.

The one surprise that might loom most heavily in 2021—a hoped-for year of recovery (if not restoration to pre-Covid normal)—is the accumulated spate of various law-enforcement actions rippling through the payments ecosystem now.

If regulators are prepared to get proactive—from mundane digging down into sales practices for commercial cards to eye-popping setting of the terms for future competition in the next, digital generation of payment—the ramifications of this trend figure to be profound. DT


Mott

The one surprise that might loom most heavily in 2021 is the accumulated spate of various law-enforcement actions rippling through the payments ecosystem now.

HOW COVID CHANGED PAYMENT PROCESSING

By Peter Lucas

Thirteen months ago, processors were on cruise control when it came to servicing merchants. Then, the pandemic struck and upended their business model. How have they adapted to the new normal?

FOR PAYMENT PROCESSORS, the past 12 months have given a whole new meaning to the phrase "dynamic industry." The Covid-19 pandemic didn't just cause consumer purchases to fall off a cliff, it wreaked havoc on supply chains and delivery services, creating problems merchants didn't anticipate.

Those unforeseen problems created a ripple effect through the economy that would end up ensnaring payment processors. Processors had to pivot, and quick, if they wanted to keep their merchant clients afloat.

It was hard to overestimate the impact on merchants. Last spring, many were hemorrhaging transaction volume due to public-health lockdowns that drastically curtailed consumers' purchases in the physical locations they were used to patronizing.

Merchants had to find innovative ways to enable purchases in accordance with consumers' newfound preference for buying in a contactless environment. That meant selling tap-and-go payments was not enough. Instead, processors had to offer contactless payments tailored

to a merchant's clientele, and, if need be, offer a merchant financial assistance when and where they could.

It was a strategy that also required increased customer handholding. But, as many processors quickly learned, failure to brush up on these advisory skills could cause their business to dry up, too.

Processors most at risk from the pandemic's economic impact were those heavily invested in merchant segments where customer traffic dried up almost overnight—either from lockdowns or consumers' fear of infection. Those industries included restaurants, hotels, and small and medium retailers that lacked an e-commerce Web site.

Other complications for processors included coming up with better ways to address the chargebacks that flowed from delays in the supply chain and sellers failing before an order could be fulfilled. These failures were an especially nettlesome problem for merchant acquirers because in those instances they were left holding the bag for resolving the chargeback.

'We Did Grow'

In the face of such pressures, the most likely place for merchants to turn for help was their payment processor.

According to J.D. Power's 2021 U.S. Merchant Services Satisfaction Study, the 51% of small and micro merchants that reported significant revenue declines in 2020 generated more servicing requests for accommodations such as fee waivers than the 49% of those merchants that didn't report significant revenue declines.

Merchants' increased service needs prompted many processors to let their customers know they were available to educate them about available payment technology that could help them recover transaction volume lost to the pandemic.

For example, VizyPay LLC, a West Des Moines, Iowa-based independent sales organization, saw its clients struggling and worked out approaches that could help them.

"We realized we needed to reach out to merchants to let them know there were ways we could help their business through the pandemic," says Frank Pagano, co-founder and executive sales director at VizyPay. "A lot of merchants did not know payment technology was available that could make them more relevant and profitable."

Like many processors, VizyPay added new applications to its platform that reduced personal contact at the point-of-sale. These included buy-online-pickup in-store (BOPIS), a virtual terminal to enable card-not-present transactions, and discounts for cash payments. The latter is a way for merchants to save on processing fees by encouraging consumers to pay in cash in return for a discounted price.

While many of these offerings were in the planning stages prior to the pandemic, the rapid spread of Covid-19 accelerated their deployment. "When Covid hit, no business knew what to expect," says Pagano. "But, as the weeks went by, it was clear that Covid was not going away and that adjustments needed to be made in how business was conducted."

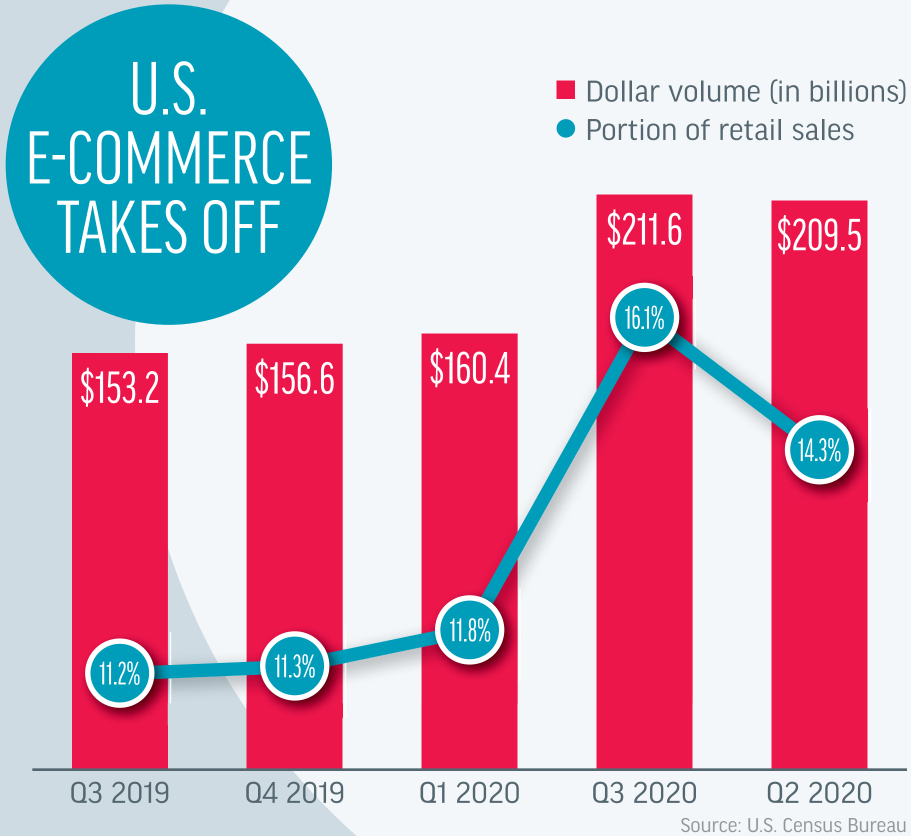
That realization by merchants led to a substantial increase in inbound calls, especially about card-not-present acceptance, a topic that accounted for about 80% of merchant inquiries, Pagano adds.

In addition to letting its merchants know about the new services coming onstream, VizyPay also notified merchants they could put their account on pause, which would temporarily suspend payment of monthly fees and their help improve cash flow.

One of the biggest adjustments VizyPay made to its business model, however, was reassigning technical-support staff to customer-service roles, as the need for tech support dropped precipitously in some segments of its portfolio. Doing this prevented layoffs and enabled VizyPay to build out its customer-service capabilities, which proved critical to maintaining merchants' satisfaction levels.

"By keeping our staff, we had continuity in servicing our merchants and we avoided layoffs that could have impacted our business down the road as the pandemic eased," says Pagano. "A lot of businesses that laid off workers had trouble bringing them back as the economy began to recover, because those employees were making too much on unemployment."

The result of all these moves? Despite the hit many of its merchants took in 2020, VizyPay was able to grow its business. "It wasn't the year we wanted, but we did grow," Pagano says.



Source: U.S. Census Bureau

Watch Those Chargebacks

The severity of the impact on processors depended largely on the merchant segments they service. For example, Fortispay, a Novi, Mich.-based processor, saw a drop in volume for merchants in the lodging industry, while outdoor and sporting-goods merchants saw a big increase.

The bump in sporting goods sales was due largely to consumers' flocking to purchase equipment such as bikes and hunting and camping gear and apparel via BOPIS and online in an effort to stay fit as health clubs closed.

"How big a hit processors took depended on the merchant segments they served," says Greg Cohen, executive chairman of FortisPay. "The deeper your penetration in a segment, the bigger the loss."

One merchant segment able to recover from the loss of transaction volume due to the pandemic is health care. "Our volume in that segment dropped for two months, rebounded, and has stayed steady since," says Cohen.

Like VizyPay, Fortispay invested in improving its customer service to bolster merchant retention, especially hotels and restaurants. One step the processor took to help hotel operators was to develop in-house an application to improve management of chargebacks. The application took about five months to develop.

"What the hotel industry was going through really shined the light on the need for better chargeback management," says Cohen. "We also added some fraud-detection tools for card-not-present transactions."

'How big a hit processors took depended on the merchant segments they served.'

—**GREG COHEN**, EXECUTIVE CHAIRMAN, FORTISPAY

As the pandemic progressed, card-not-present (CNP) volume not only grew for many processors, but came to represent the bulk of their volume.

'A Pretty Easy Fix'

Two processors that saw CNP volume grow to become the majority of the business are Calgary-based Helcim, which has sales offices in Seattle, and New York City-based OLB Group. Helcim has seen CNP volume grow to 70% of its volume, compared to 55% pre-pandemic. E-commerce volume represents 65% of OLB's business, up from 50% before the pandemic.

With more consumers looking to purchase in a contactless environment, Helcim added online ordering for restaurants to enable them to accept orders for curbside pick-up or delivery using their own staff.

Redeploying existing staff proved to be key for restaurants, which operate on thin margins to begin with, because third-party delivery services charge anywhere from 15% to 30% of the ticket on every order.

Helcim also made it a point to educate merchants about many of the applications available on their platform that could help their business, but which had not been switched on, such as online invoicing and payments by email.

"Making merchants aware of this was a pretty easy fix, as all it required was an email marketing campaign," says Helcim chief executive and founder Nicolas Beique. "Merchants can get laser-focused on just accepting cards in-store or utilizing one or two applications within a platform, which is why ongoing merchant education is something we plan to continue post-Covid."

The processor took steps to streamline merchant onboarding, too, an area where many small merchants felt processors fell down the past year, according J.D. Power. Helcim now allows merchants to digitally set up an account, make changes to their account, and order equipment.

"From a technology standpoint, merchant-satisfaction levels are good. Where there has been a falloff in merchant satisfaction is where personal-service interactions take place, such as account onboarding, which can be a moment of truth of interaction," says Paul McAdam, senior director of banking and payments intelligence at J.D. Power.

"Merchants rate self-service technologies higher than human interaction, and during Covid we saw more processors shift to self-service technologies such as online chat and automated phone systems," he continues.

E-commerce is another area where processors have seen increased demand from merchants during the pandemic. This is a turnaround. Before Covid, e-commerce was not necessarily an easy sell to merchants with physical storefronts.

"But once stores started shutting down or saw business drop because of the pandemic, the ones without an e-commerce site realized they needed a new sales channel," says Ronny Yakov, chief executive for OLB Group, which works with e-commerce platform provider Shopify Inc. to help merchants develop sites.

Besides e-commerce, OLB saw an opportunity to adapt an online-ordering application in development for the food-service industry. OLB realized that entities such as hospitals employ frontline workers who could not work remotely and so had to patronize the cafeteria safely. Providing the ability to order ahead and pick the meal up, rather than stand in line, was just the ticket for this market, Yakov says.

In addition to online ordering, the app simplifies reordering by storing past orders. The app also connects to the kitchen display system for order fulfillment and facilitates payment using stored account information. OLB, which is seeing about 95% of its pre-Covid transaction volume, says its food-service and cafeteria clients generate about 12 million transactions annually.

'Inclined to Zoom'

While contactless payment options are what consumers have expected most from merchants the past 12 months, contactless has meant more than tap-and-go or scanning QR codes. Merchants are looking for other options, such as pay-by-text and virtual gift cards.

That's why Fattmerchant Inc., an Orlando, Fla.-based processor, teamed last year with Gift Up, a United Kingdom-based application provider that enables the sale of virtual gift cards.

"This agreement allowed our merchants to sell virtual gift cards to customers when in-person transactions weren't an option," says Suneera Madhani, chief executive and founder of Fattmerchant. "Our clients could add the virtual gift card feature for no additional cost and Gift Up waived its fees for the first $5,000 in gift card sales."

'Merchants can get laser-focused on just accepting cards in-store or utilizing one or two applications within a platform.'

– NICOLAS BEIQUE, CHIEF EXECUTIVE AND FOUNDER, HELCIM

While virtual gift cards have been a hit with merchants during the pandemic, so too are consumer-loyalty programs. Fivestars, a San Francisco-based provider of loyalty and rewards applications, grew it business by 50% in 2020 despite the lockdowns that crippled many businesses.

Like it or not, merchants will continue to face a fragmented market when it comes to consumers' purchasing habits. As a result, payment technology will need to be tailored more to the merchant's brand and the clientele the merchant attracts than to whether the purchase takes places at the counter, online, or via mobile app.

"Payment solutions need to be fitted to the type of shopping experience the merchant wants to present across all its shopping channels," says Brian Dammeir, president, North America, for payment processor Adyen N.V.

As an example, Dammeir points out that, while BOPIS has been a big hit with many merchants, it doesn't necessarily work well with high-end merchants. "High-end merchants are more inclined to do Zoom sales [rather than BOPIS] because they can show consumers around the store and highlight merchandise," Dammeir says. "We've worked with [high-end merchants] to build payments around those customer experiences."

'High-end merchants are more inclined to do Zoom sales because they can show consumers around the store and highlight merchandise.'

–BRIAN DAMMEIR, PRESIDENT, NORTH AMERICA, ADYEN N.V.

'A More Dynamic Approach'

So what lessons has the pandemic taught the payments industry? If nothing else, it has shown processors how quickly their business can turn on a dime when confronting an existential emergency. It has also shown merchants that consumer purchasing habits will be forever altered once the pandemic subsides.

That means contactless payments, e-commerce, online ordering, virtual gift cards, and refreshed rewards programs will be table stakes for processors. "If nothing else, the Covid pandemic has shown processors they need a more dynamic approach to payments," says Adyen's Dammeir.

Chalk it up to the pandemic giving a whole meaning to the phrase "dynamic industry." DT

HOW PAYMENTS IS EMBRACING BLANK CHECKS

Increasingly, payments providers are discovering that the familiar IPO isn't the only way to cash in on the public markets.

BY JOHN STEWART

HE WAS "DEAD SET AGAINST" IT, until he was for it, Flint Lane says. The "it" was the way Lane's company, Billtrust, traded two decades of private ownership to go public in January at a $1.3-billion valuation.

Instead of relying on the familiar, tried-and-true initial public offering, the Lawrenceville, N.J.-based invoicing and payment technology firm did the deed by merging with a so-called special purpose acquisition company, or SPAC, called South Mountain Merger Corp.

"I thought, that's the way bad companies go public," Lane recalls. But as he learned more about the process, the Billtrust chief executive soon changed his mind. Compared to a conventional IPO, the SPAC offered pricing certainty, a speedier route to a public listing, and, in Lanes' opinion, more available funding. Simply put, "the SPAC is more elegant," he says.

He's not alone. Mergers with SPACs—sometimes called "blank-check companies" because their sole business is to use the funds they raise via an IPO to acquire a private firm—are an increasingly popular route to public ownership for payments companies. Including the Billtrust deal, eight payments-related companies have gone public via a SPAC since 2016 (chart, page 29), with five of them announced or closed since the fall.

Across all industries, some 248 blank-check deals took place last year, quadrupling the count in 2019 and 25 times the mere 10 that took place in 2013, according to Spacresearch.com (chart, page 28). And the deals are getting richer, with average valuations more than doubling in the past eight years.

More SPAC deals are inevitable, particularly in the payments industry, observers say. "There's a feeling out there among investors where they don't want to miss out on this boat," says Jared Drieling, senior director of consulting and market intelligence at The Strawhecker Group, an Omaha-based payments consultancy.

'BRAIN DAMAGE'

The reasons for the trend are varied, but now the onset of the coronavirus pandemic has put a premium on the perceived speed and certainty that a SPAC offers growing companies ready to access public markets.

"The process of going public is disconnected from the company going public," says Todd Ablowitz, chief executive of Infinicept, a Denver-based advisor for payment facilitators. "All these steps you go through with the [Securities & Exchange Commission] and the stock exchange to list, that's all done by the blank-check investors. They go through all that brain damage."

For fintechs and payments-technology firms, the virus has laid bare a huge public appetite for e-commerce and mobile wallets, making payments companies attractive targets.

"If you've got focus on digital payments, you've probably got discussions going on about a SPAC," says Drieling. Developers that offer programming for shopping carts and that can embed payments capability in everyday business software "are all entities that are ripe for this process," he adds.

Tim Murphy agrees, calling the payments industry a "target-rich environment" for SPAC deals. The chief financial officer at Repay Holdings Corp. helped guide the Atlanta-based payments processor through a SPAC merger in 2019 with Thunder Bridge Acquisition Ltd.

Overall, Murphy and other observers argue, blank-check companies are targeting higher-quality companies, which has helped burnish the reputation of the SPAC alternative. Typically, target companies are acquired at a fixed $10-per-share price and then float once the public listing occurs. The proof of the quality then emerges as the market prices the shares each day, Murphy says.

"Payments is one of those industries that are growing and have tailwinds for growth," he adds. The market appears

THE SPAC ATTACK

Year	Raised (billions)	Number of IPOs	Average Size (millions)
2021	$47.4	151	$314.1
2020	$83.4	248	$336.4
2019	$13.6	59	$230.5
2018	$10.8	46	$233.7
2017	$10.0	34	$295.5
2016	$3.5	13	$269.2
2015	$3.9	20	$195.1
2014	$1.8	12	$145.8
2013	$1.4	10	$144.7

Source: spacresearch.com (as of 2/17/21)

HOW THE SPAC PROCESS COMPARES TO A TRADITIONAL IPO

	SPAC MERGER	TRADITIONAL IPO
TIMING	3-4 months[1]	6-9 months[2]
PROCESS	Limited interruption to management, owner, and employees Due diligence required but executed by a small,dedicated team SEC review process can be deferred until after the closing	Comprehensive preparation involving whole organization Dealing early with analyst/market participants Full SEC review process
PRICING	Certainty on price early in the process Limited risk from fluctuating market conditions	Price determined at time of the IPO Full market risk
COSTS	Lower direct expenses and indirect costs Typicial underwriter fees: 5.5%	Full range of direct expenses and indirect costs Typical underwriter fees: 6%
OTHER	Dedicated, experienced, and proven senior management Proven stamp of approval and potential supplement of management	Potential lack of capital market experience, international and well-known management Risk of IPO being rescheduled due to underwriter queue

1. From LOI to closing 2. From initial prospectus drafting to close of IPO Source: Bridge Point Capital

SPACs IN THE PAYMENT INDUSTRY

	SPAC	VALUATION	CLOSING DATE
Payoneer	FTAC Olympus Acquisition Corp.	$3.3 billion	NA
Billtrust	South Mountain Merger Corp.	$1.3 billion	1/12/21
Social Finance[1]	Social Capital Hedosophia Holdings Corp. V	$8.65 billion	NA
Paysafe	Foley Trasimene Acquisition Corp.	$9 billion	First half of 2021
Paya	FinTech Acquisition Corp, III	$1.63 billion	10/16/20
Repay Holdings	Thunder Bridge Acquisition Ltd.	$2.17 billion	7/11/19
International Money Express	Intermex Holdings II	$575 million	7/26/18
CardConnect[2]	FinTech Acquisition Corp,	$350 million	8/1/16

1. Parent company of Galileo Processing 2. Acquired in 2017 by First Data for $750 million Source: Spactrak.net, Digital Transactions

to bear him out. At mid-February, Repay closed at $24.49 per share. On the same day, Paya Holdings Inc., a processor whose SPAC merger closed in October, stood at $12.69. Paya would not comment for this story.

Some observers argue SPACs appeal to companies that have already established themselves as private entities and don't need a splashy IPO to advertise their arrival. "The IPO can give a lesser-known company an opportunity to boost its brand. On the flipside, a company that already has a strong customer base and significant brand equity ... gets benefits from the increased control that a SPAC transaction offers," says Scott Galit, chief executive of Payoneer Inc., a New York City-based payments processor for online marketplaces that last month announced its merger with FTAC Olympus Acquisition Corp. Galit responded to email queries from *Digital Transactions.*

A 'BUBBLE'?

For all that it adds speed to market while subtracting complexity, the SPAC alternative has its downsides. The blank-check companies generally have two years to do a deal or dissolve, leaving investors without the expected returns.

The structure of a SPAC deal, too, leaves some observers cold. They point to the warrants often issued to help fund the acquisitions. When redeemed later, these instruments can dilute the shareholders' holdings.

That last point, though, is a matter of debate. "It's generally immaterial," says Billtrust's Lane. "Anybody's who's surprised about the warrants hasn't done his homework."

Observers also point out that companies that want to leverage the SPAC trend could end up waiting for an event that may never arrive. A SPAC merger, they say, is a matter of don't call us, we'll call you. "SPACs are out there targeting you," says Repay's Murphy. "If a SPAC hasn't called on you, you probably wouldn't do one." These, he says, are the companies that end up using a conventional IPO.

Still, with blank-check companies chasing more and more prospective companies, some observers see a bubble forming, fed by low interest rates and relatively easy availability of money.

"I can't help but think SPACs are designed to avoid IPO scrutiny of the company they ultimately take public, and they're a bubble, which is not to suggest some good individual companies like Payoneer won't take advantage of them," notes Eric Grover, principal at Minden, Nev.-based payments consultancy Intrepid Ventures.

'HERE TO STAY'

In the end, executives who have been through the SPAC mill say it's best to leave the route to public ownership up to individual companies, just as the decision to go public in the first place is good for some firms but not others of equal vintage.

Many of the firms that have leveraged SPACs have been in existence for years, if not decades, hinting that experience is a key determinant for success when the process is complete.

"The IPO can give a lesser-known company an opportunity to boost its brand. On the flipside, a company that already has a strong customer base and significant brand equity ... gets benefits from the increased control that a SPAC transaction offers," says Payoneer's Galit.

Whatever the experts say, the numbers clearly show the SPAC alternative isn't going away any time soon. "I don't know anybody who wouldn't consider it," says Ablowitz. "It's here to stay." DT

One more benefit of mobile wallets.

endpoint

COVID'S UNEXPECTED UPSIDE

By shifting stores and consumers to contactless payment, the pandemic made it easier to stop fraud.

BY **ANDRÉ FERRAZ**

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ONE YEAR INTO A GLOBAL PANDEMIC, and our lives will never be the same. The way we work, shop, travel, and entertain ourselves have all seen major changes during a year of living surrounded by Covid-19. With good news on the vaccination front, there is a sense that the world may finally begin returning to normal—but it will be a new normal.

For consumers, the transformation of digital transactions and payments brought on by the pandemic represents one of the few positive outcomes of this global health crisis.

The constraints of social distancing, periodic lockdowns, and remote working accelerated changes that were already in process for how we handle payments, order online, and use mobile apps. New words, such as BOPIS (buy online, pick up in store), have become part of our vocabulary and blur the line between Web and mobile channels, accelerating the move towards omnichannel marketing for retail.

Store closures during lockdowns created a reluctance among consumers to venture back into brick-and-mortar shopping once stay-at-home orders lifted. Because of the pandemic, consumers want to minimize contact with people. They keep their distance from other shoppers, restrict the time spent in enclosed spaces, and minimize contact with store personnel at checkout.

AN APTITUDE FOR APPS

Against that backdrop, contactless payments as a new option for checkout gave consumers more confidence that they could safely enter stores again by removing the exchange of cash and credit cards and associated contact at checkout.

Contactless payments are not new, but the effects of the pandemic have caused the market landscape for, and acceptance of, this method of payment to change considerably in the United States over the past year.

At the end of 2019, before the global pandemic was confirmed, Apple reported strong growth for Apple Pay, with revenue and transactions more than doubling year-over-year. Fast forward to Apple's earnings report last September, and while Tim Cook said Apple Pay is doing exceptionally well, he also acknowledged "contactless payment has taken on a different level of adoption."

The big winner for contactless payment during the pandemic has to be the resurgence of the QR code. With the 2020 introduction of QR code payment support by PayPal, vendors had an easy way to support contactless payments for any mobile user.

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EMPOWERING CONSUMERS BY PROVIDING OPTIONS

SME: Norman Marraccini, SVP, Head of Retail and Commercial Digital Payments

Providing consumers options when they purchase and pay is how organizations can provide the best customer experience. COVID-19 has brought this idea to the forefront, with more and more consumers choosing to use technology such as mobile wallets, person to person payment apps, and contactless payments.

In fact, according to a recent Aite report, "Thirty-two percent of respondents use a digital wallet (Apple Pay, Google Pay) for payments or transfers, 50% use an electronic payment provider (e.g., Venmo, Square Cash) at least twice a month for in-store or online purchases, and 20% send or receive money via Zelle each month." This is why it is so critical for financial institutions to provide choices on how to pay in order to customize the customer experience and to meet the customer on their terms.

Fully utilizing the data that you have on hand can help your organization develop that individual experience. Diving into the data, specifically into the demographics of your cardholders, will allow you to better serve them in the long run. Take person to person payments for example. Typically, older consumers who have started to use person to person payment options such as Zelle or Venmo do not need to instantly transfer the funds that they have in the app and can avoid any processing fees. This can be much different for younger consumers who are starting their careers and may be living paycheck to paycheck. The reason why there are two options to transfer this money, instant and 1-3 business days, is because there are two different demographics that are in different points of their financial lives.

Merchants are also adapting to new trends, with the aforementioned report stating that "Merchants have encouraged the use of order-ahead (and pay-by-phone before pickup), Buy Online Pickup in Store (BOPIS), and delivery services. About 20% of merchants in the U.S. and 60% of merchants in the U.K. have even effectively stopped accepting cash altogether during the pandemic." Not only has this affected how consumers pick up their items, but how they pay for those items. There has been a large increase in private label cards that allow retailers and other merchants the ability to build a loyal customer base. These cards can then be paired with a best in class loyalty and rewards program for cardholders which can then be customized even further to provide the most personalized experience for customers.

Defining the perfect customer experience, whether it is shopping, paying bills, or paying one another is tricky because this cannot be corralled into one path. Instead, the financial institutions and merchants that provide options for their customers to pick what is best for them can set their brand apart as one that provides a unique experience that puts the consumer first. Providing this individualized experience will only enhance the relationship that you have with your recurring customers.

FIS

Scanning a QR code to make a payment was already a well-established payment method in China, however, in the United States it did not really take off until the pandemic. When Apple introduced Apple Pay, it chose to use NFC technology, rather than QR codes, for its contactless payments. When PayPal announced its QR-code payment support for merchants in May, this provided a much needed innovation to get consumers back into stores.

During the course of 2020, as Walgreens, CVS, and other major retailers added support for QR-code payments, the popularity of this payment method spread quickly. Shell and ExxonMobil added this capability to gas stations, and UberEats announced QR-code support for food delivery.

But it has not just been major companies that have adopted this approach. One of the strengths of QR-code payment is its flexibility. The implementation can be as simple as printing the merchant QR code and pasting it at checkout or presenting it on a point-of-sale device. Or, increasingly, retailers are seeing the advantage of integrating the payment method into their own mobile app.

> Once the world returns to whatever the new normal turns out to be, the changes in payments brought on by the pandemic are expected to last.

PINPOINTING USERS

The merchant's mobile app has now taken on a bigger role. In addition to contactless payments, retailers and merchants now also have the ability to provide mobile-wallet capabilities from within their app. Consumers can earn loyalty points, receive offers, make payments, store and use credits—all from within a merchant's app, creating more stickiness for the retailer.

With this new payment method also comes new vectors for fraud, as fraudsters follow the money and look for ways to exploit any opportunity. In the case of contactless payments, retailers and fintechs providing mobile wallets are looking to new fraud-detection techniques that use the mobile device and associated user behavior to differentiate trusted users from fraudsters.

For contactless payments, device and location information is a strong trust signal that can be used to stay one step ahead of the fraudsters. Given that users keep their phones with them at all times—in their pocket, in their purse, on their desk, or by their bed—device location can be used for fraud detection, particularly given that fraudsters always obscure their real location.

At checkout, real-time device location can be used to confirm that the consumer is actually in the store. For log-ins from a new device, checking whether the real-time location matches with the user's location behavior pattern can be used to flag high-risk transactions.

User behavior has been used extensively on the Web to detect anomalies that indicate fraud. In the case of contactless payments, the mobile device and its associated location behavior provide frictionless protection for mobile users. No action is required by the user other than to use the app and to have location enabled for fraud protection.

Once the world returns to whatever the new normal turns out to be, the changes in payments brought on by the pandemic are expected to last. Given the ease of contactless payments and consumers' growing familiarity with merchants' apps, many will question the need to return to paying with a credit card or cash at all. DT