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Volume Nineteen, Number One • DigitalTransactions.net • January 2022

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the gimlet eye

REGULATE NOW, PAY LATER

THE PANDEMIC HAS LENT MOMENTUM to a number of trends in digital payments, but one of the biggest is the buy now, pay later option. The installment plan isn't new, but providers have offered it as a way of giving merchants another payment channel as Covid-wary consumers crowded online.

With BNPL, you get to pay off your purchase with, typically, four interest-free installments over six weeks. You get to buy what you want while avoiding high-interest-rate credit cards, and merchants clinch a sale they might have otherwise lost. No muss, no fuss, right?

Except regulators are starting to make a fuss. Last month, the other shoe dropped with a letter sent to five leading BNPL firms from the Consumer Financial Protection Bureau requesting information on their services. The five—Affirm Inc., Afterpay Ltd., Klarna AB, PayPal Holdings Inc., and Zip Co.—have until March 1 to respond to the order. By that time, Afterpay will likely have become part of Block Inc. (formerly Square Inc.) in a $29-billion deal the parties clinched in August.

The bureau is demanding data related to several areas. The first concerns the potential for overspending by consumers who may rely too heavily on the readily accessible point-of-sale credit offered by the BNPL apps. "[P]eople can quickly become regular users of BNPL for everyday discretionary buying, especially if they download the easy-to-use apps or install the web browser plugins," the regulator's letter notes.

Other concerns include the potential for BNPL credit to fall outside of consumer-protection rules that apply to other lending products. That could mean lenders might collect and use data gathered from consumers' BNPL transactions in ways not allowed for credit card and other credit transactions, according to the CFPB.

Shortly before the order went out, six U.S. Senators sent a letter to Rohit Chopra, the CFPB's director, asking for a review of BNPL products with a view toward introducing consumer protections. All six Senators are Democratic members of the Committee on Banking, Housing, and Urban Affairs.

It shouldn't surprise anyone that BNPL has landed on regulators' radar screens. It has been around for years in various forms, but its recent popularity has made it what Eric Grover, principal at the Minden, Nev.-based payments consultancy Intrepid Ventures, calls "an irresistible target."

Indeed, Ben Jackson, our Payments 3.0 columnist (page 12) and chief operating officer at the Innovative Payments Association, cites the CFPB probe as a warning to fintechs that tougher oversight is coming, and fast.

But oversight, too, comes with a cost. The new BNPL rules, when final, may well introduce constraints that could make the programs less popular with merchants and less accessible to consumers.

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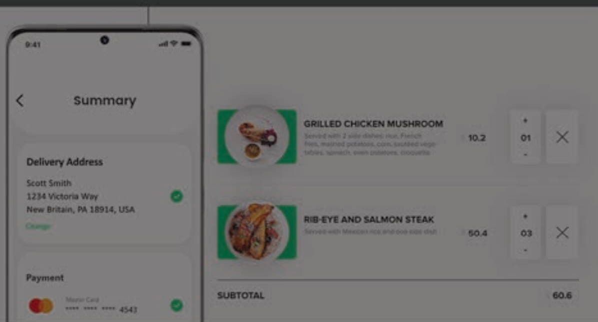

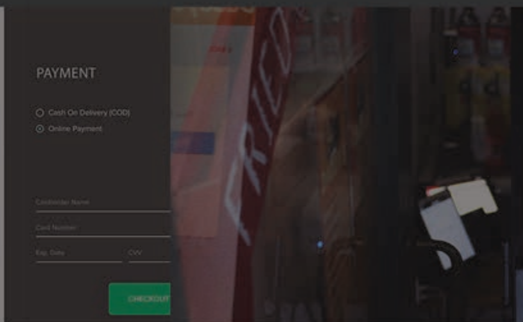

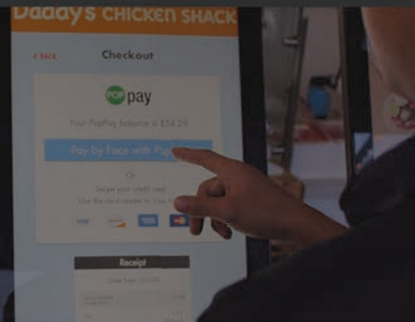

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FINTECH APPS' THIRST FOR DATA

Consumers have relied more heavily on payments apps and other fintech technologies since the onset of the pandemic, but few are aware of how much control these apps have over consumer data, according to a recent survey released by The Clearing House Payments Co.

In fact, consumer confidence in the security of their information has only increased in the wake of Covid. Some 73% of consumers expressed confidence in the privacy of the information they enter in apps, and 75% said the same about the security of their data, up from 70% in both instances in a similar survey in 2019.

Yet, 77% admitted in the 2021 survey that they had not read all the terms and conditions applicable to the apps they were using.

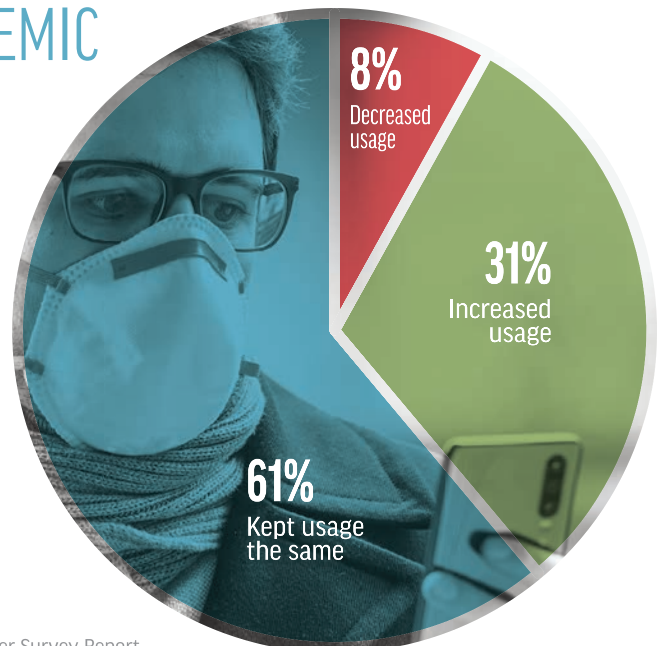
"More consumers are using financial apps, but they're still in the dark about how their data is used, accessed, and stored," said Ben Isaacson, senior vice president of product strategy at New York-based TCH, in a statement.

TCH, which has polled consumers about data privacy since 2018, queried 4,019 banking consumers in September. Some 2,013 were financial-app users and 2,006 were not. Questions in the poll had to do with consumers' perceptions of how financial apps access, use, store, and share data. Included in the poll were 11 well-known apps, including those of PayPal, Venmo, Square (Cash App), Zelle, and Coinbase.

The poll found that nearly one-third of consumers had increased their usage of fintech apps since 2019, while only 8% had decreased usage. The big winner among the 11 apps is Cash App, which registered a 17% rise in users. PayPal saw a 4% decline, but remains the most popular app among the 11, according to TCH's poll, which was conducted by the polling firm Hall & Partners.

THE PANDEMIC EFFECT

(Change in usage of fintech apps since the start of Covid)



Source: TCH 2021 Consumer Survey Report

While consumers remain blasé about the security of the data they enter, they are equally unaware of the ways that data is being accessed. Some 80% indicated they were not aware that apps use third parties, called data aggregators, to access the information in their accounts, while 24% didn't know that aggregators can sell personal data.

A trade organization called the Financial Data Exchange (FDX) has been working on a set of standards to govern this access and the resulting commerce in data.

The power and utility of the fintech apps is revealed in the survey's result showing that less than half of consumers who are informed about how the apps access their data—some 40%—said the knowledge would cause them to use the apps less. That's down from 53% in 2019.

Nonetheless, the survey indicates consumers want more control over their data within the apps. The most popular change—clear disclosure of the data third parties can access—attracted 59% of respondents. Some 56% support the idea of letting the consumer set controls over which account—and what kind of data—can be accessed by a third party. Just 5% indicated they are "indifferent" about how their data is accessed and used.

The Clearing House, which is owned by 24 major financial institutions, is part owner of Akoya LLC, an account-access protection network. The platform, which went live in 2019, uses an application programming interface based on FDX's standard. The other owners include FMR LLC, parent company of Fidelity Investments, and 11 of TCH's member banks.

—John Stewart

SQUARE'S BUILDING BLOCK

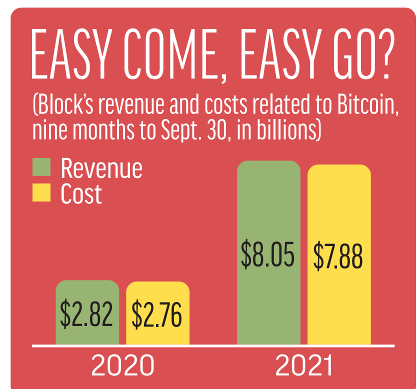
The word "block" may have a number of meanings, but for Square Inc. it could mean a stronger emphasis on blockchain. That's how some observers interpret the company's decision last month to change its name to Block Inc., a dozen years after its founding as Square.

Under chief executive and crypto enthusiast Jack Dorsey, Square has been a champion of digital currency, specifically Bitcoin, for years now, and the executive has been clear that he sees blockchain technology playing an increasingly big role in Square's future.

Already, at $1.82 billion in revenue, Bitcoin activity accounts for nearly half of the company's revenue, according to its third-quarter earnings report. Indeed, the ability to buy, sell, and spend Bitcoin has been a central feature of the company's Cash App wallet for years. Now, as part of the changes in nomenclature, the company's Bitcoin business has adopted the name "Spiral."

The overarching name change to Block, which comes with a thorough redesign of the company's Web site, "positions [the company] to be more expansive in that [blockchain] space," notes Thad Peterson, who follows digital wallets at Aite-Novarica Group, a Boston-based consultancy. "I don't see much of a downside to it," he adds, addressing the potential for confusion after more than a decade of identification as Square.

The name "Square" will be retained to identify the company's acquiring business, which includes the Square-designed hardware and software physical merchants use to process transactions. As an operating unit within the company, Square will thus join Cash App and Tidal, a video and music-streaming service in which Square has an interest.



Source: Square shareholder letter, third quarter 2021

While Square began with, and perhaps remains best known for, that merchant business, the change to Block could now help identify the company more broadly, some observers say. "Square now has a banking license, and they're creating a financial-services company, so they needed a brand that isn't so tightly associated with the point of sale," observes Patricia Hewitt, principal at PG Research and Advisory Services in Savannah, Ga.

The sudden unveiling of Block was nonetheless somewhat startling, coming just 48 hours after Dorsey's resignation as chief executive at Twitter Inc., which, like Block, is a company he helped found. Observers like Peterson see the events as connected. With a new identity for Square, he says, Dorsey may need to concentrate his energies on driving a new set of strategies. The change to Block "positions [the company] more strongly for the future," Peterson adds.

—John Stewart

PHISHING'S RECORD SUMMER

It's well-known by now that e-commerce activity is on a sharp upswing, but the underside of that trend is that fraud is rising fast, as well. Phishing attacks, for example, hit a record high in July, according to the Anti-Phishing Working Group. The APWG has been tracking this online crime since 2003.

Overall, the number of attacks has "more than doubled since early 2020," an APWG report says. Then, the group was seeing anywhere from 68.000 to 94,000 attacks each month. But the July volume reached 260,642, then moderated somewhat in August and September, with totals of 255,385 and 214,345, respectively.

The number of phishing email subjects and the number of brands targeted by these emails, however, both increased dramatically, with the former skyrocketing from 11,384 in July to 64,233 in September.

In phishing attacks, fraudsters build fake sites to copy popular consumer brands and then send out emails to consumers with subject lines aimed at luring the unwary into clicking on links back to the spurious sites, where visitors are gulled into entering card data.

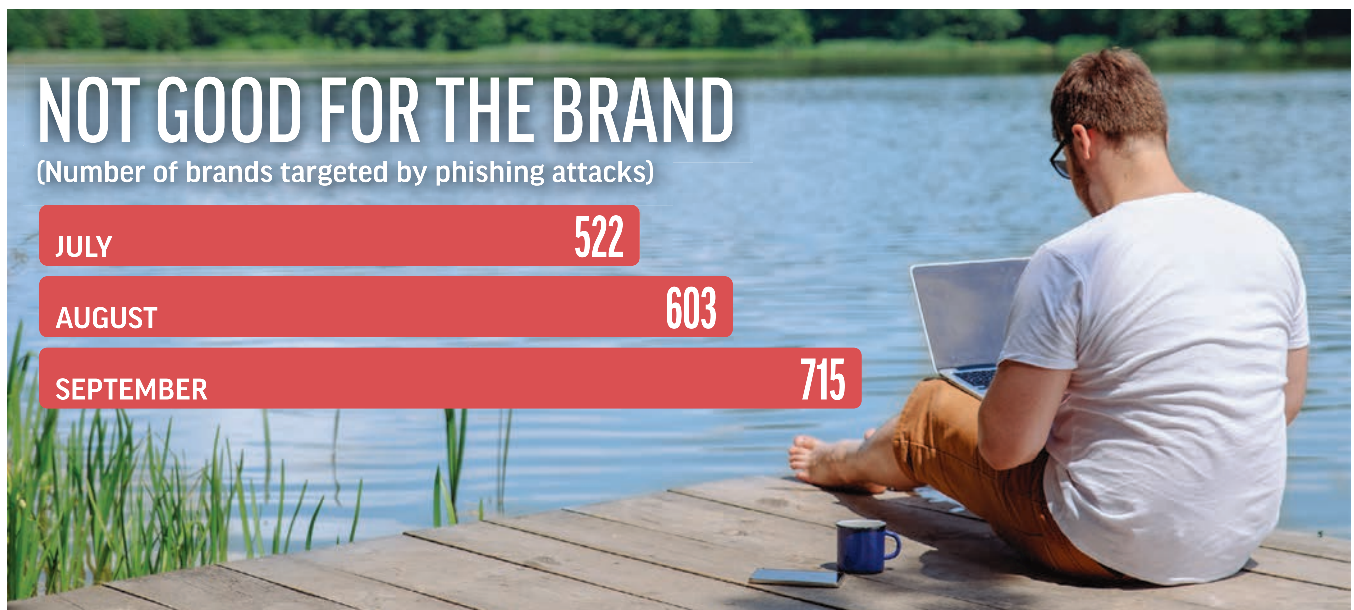
The number of legitimate brands targeted by these fraudsters increased from 522 in July to 715 in September. Such attacks can also mimic emails from other trusted sources, such as banks, app providers, and universities.

If nothing else, the latest report could be seen as an effort by the APWG to warn against complacency. "The number of phishing sites being reported to APWG is now 10 times what it was 10 years ago, back in late 2011," notes Greg Aaron, a senior research fellow at the Cambridge, Mass.-based organization, in a statement. "Phishing has not decreased as the online environment has evolved. It remains a dangerous, effective, and profitable activity for cybercriminals."

The business most targeted by phishers is software-as-a-service and webmail organizations, which accounted for just over 29% of attacks in the third quarter. Financial institutions came in second at nearly 18%, while payments firms accounted for 7.1%, ranking sixth. Interestingly, cryptocurrency firms are now firmly in phishers' sights, accounting for 5.6% of attacks, up from 2% in the first quarter.

The alarming rise of phishing attacks indicated in the latest report is part of a broader trend reflecting a general increase in this fraud over at least the past two years, though it may have taken on more momentum with the jump in e-commerce since the onset of the pandemic. The volume of phishing attacks in the fourth quarter of 2019, for example, was consistently under 100,000 per month, according to the APWG.

—John Stewart



Source: Anti-Phishing Working Group

ISOs SET OUT TO MINE THE BNPL POTENTIAL

The pandemic has lent momentum to a number of trends in digital payments, but one of the biggest is the buy now, pay later option. It shouldn't be surprising, then, that providers of the service are now looking to sell the service to merchants of all sizes through the acquiring entities that call on retail sellers all the time—independent sales organizations.

The latest such deal emerged last month with an announcement from QuickFee Group LLC that it has signed Los Angeles-based ISO Elite Merchant Solutions to market QuickFee's BNPL offering.

Elite says it was seeking a BNPL option for its merchants in response to the rapidly rising popularity of the service, which lets consumers pay for purchases online or at the cash register with, typically, four equal installments at no interest over a six-week period.

Consumers have flocked to BNPL in response to economic pressures brought on by the Covid-19 pandemic. QuickFee cites a July survey from the research firm McKinsey indicating 60% of of consumers are likely to use BNPL or other point-of-sale financing options in the course of the next six to 12 months.

"Businesses frequently tell us they're interested in BNPL due to customer demand, so after some consideration, we decided to go with QuickFee as the best option for meeting those needs," said Justin Milmeister, president of Elite, in a statement.

QuickFee, a 12-year old firm based in Australia and the United States, lets consumers choose transactions they want to split into installments, with the total payment pre-authorized on a credit card. The merchant is paid in full.

"BNPL boosts purchasing power and flexibility on the customer side at minimal cost to the business, which is why this option has seen dramatic adoption rates over the last few years," notes Aubrey Amatelli, chief revenue officer at QuickFee, in a statement.

While BNPL has established itself with chains and other larger merchants, ISOs could help bring BNPL to a much broader merchant base, including smaller sellers. These merchants typically rely on merchant-service providers to recommend payment services as well as hardware and software for payment acceptance.

One downside risk to lenders, however, is the threat of delinquencies on those installment payments. With an increasing array of firms offering the option, the typical BNPL user has deployed up to six different services, according to digital collection agency TrueAccord.

The upside to this aspect of the business is that outstanding balances tend to be lower than on credit cards, while the repayment rate on delinquent loans at 30 days past due is 30% compared to 10.5% for credit cards, TrueAccord reports.

And the volume potential for ISOs and tech providers alike could be quite alluring. Speaking in October at the Money 20/20 exposition in Las Vegas, Rick Cunningham, senior vice president for strategy and business development at Alliance Data Systems Corp., estimated the market potential at $100 billion, with just $4 billion to $6 billion having been lent so far. DT

MONTHLY MERCHANT METRIC

Total Gross Processing Revenue, in Percent

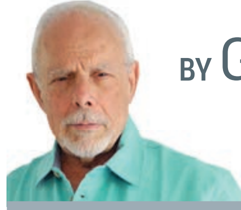
Sum of total discount, total transaction fee revenue, and total other fee revenue divided by total volume

Quarter	Percent
Q3 2020	2.366%
Q4 2020	2.399%
Q1 2021	2.376%
Q2 2021	2.405%
Q3 2021	2.438%

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.

Source: The Strawhecker Group © Copyright 2022. The Strawhecker Group. All Rights Reserved. All information as available.

STAYING A STEP AHEAD OF QUANTUM



BY GIDEON SAMID
gideon@bitmint.com

A TYPICAL TEXTBOOK enumerates the three main attributes of money: store of value, unit of account, and medium of exchange. Overlooked is one other attribute: a social lifeline, owing to two other, undermentioned attributes—money is universally desirable, and money creates a bond between two strangers. In this column, I focus on that bonding aspect.

I remember as a kid I would toss a coin into the peddler's basket and grab the daily newspaper from the pile. The peddler and I were, and remained, strangers to each other. But this tossed coin created a momentary bond. As we migrate further into cyberspace, this aspect of payment between strangers should be a prime factor to keep in mind.

No sooner did money's manifestation extend to non-cash instruments than this bond abated. Writing a check was not the same thing, and commerce became full of friction. Then came a brilliant innovation pioneered by Dee Hock, who solved the strangers' dilemma by establishing a strangeness-broker, the Visa credit card enterprise.

While payor and payee were, and remained, strangers to each other, they were no strangers to Visa, which facilitated the transaction. This simple notion of a strangeness-broker gave rise to a trillion-dollar industry. And it is still working. Alas, unlike cash, card payment is Internet-dependent. It robs its users of their sense of privacy and inconspicuousness.

About a decade ago, Hock's strangeness-brokerage idea was re-invented, not as a corporate entity but rather as a public ledger, with which all cryptocurrency traders are familiar. Visa's code and regulations were replaced with a complex algorithm. Human management was removed, as Bitcoin runs on autopilot. There you have it. Two strangers exercise a financial transaction, and no privacy is lost (so it is claimed).

Alas, time is running out on Bitcoin and its ilk. A big black bear is pounding its way through the financial jungle: quantum computing. It's a 40-year-old technology that violates the core notion of cryptocurrency, which says: computers are not fast enough to harm our protective algorithm.

But quantum computers are fast enough. So now what, are we going back to the Stone Age, reverse-migrating out of cyberspace? No. We re-invoke the quintessential human weapon: innovation.

BitMint*LeVeL, among other proposals, prepares today for the looming battle royal between quantum and crypto. This is the battle to preserve the achievement of digital currency: frictionless transactions, ease of storage, and the tethering of money to its intended purpose—all while safeguarding privacy and re-establishing the social bond between two strangers participating in a monetary exchange.

The inspiration for this new weapon in the crypto arsenal comes from a very unlikely source: Covid-19. It is amazing how this tiny virus wrestles with the full body of human science and technology. How? By invoking Darwinian evolution. Had Covid remained a stationary target, it would be dead by now. Alas, Covid outpaces its hunters. And so should crypto vis-a-vis quantum.

Bitcoin and most of its imitators rely on the mathematical strength of an algorithm known as ECDSA. ECDSA has been in the crosshair of cryptanalytic shops for a long time. Some might have already cracked it, and hide this fact. Quantum computers already crack it in theory, with practice to follow soon.

The Covid-inspired solution is to replace ECDSA with a mutation-powered, evolving algorithm, keeping a step ahead of the quantum juggernauts. The details are fascinating and will be presented in coming columns. The objective, though, is clear: to safeguard the many benefits of digital money, and in particular to re-establish the core aspect of money—a bond between strangers. DT

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Trends in the Electronic Exchange of Value

DIGITAL BANK CURRENCIES: ARE WE TRULY PREPARED?

BY BEN JACKSON
bjackson@ipa.org

THE BIRTH OF CRYPTOCURRENCIES and the digitization of payments have led central banks worldwide to consider launching their own digital dollars.

These central bank digital currencies (CBDC) could either supplement or replace government-issued cash as legal tender. Proponents say the tokens could offer benefits to citizens, governments, and businesses, while others have concerns about the effects they could have on privacy and the commercial banking and payments industry.

As of now, almost 50 countries have a central bank digital currency in some stage of development, and another 40 are researching the idea, according to the nonprofit Atlantic Council. The Web site CBDCtracker.org lists five countries that have canceled their CBDC currencies, including Finland, which launched a card-based program called Avant in 1992 to replace cash for small transactions.

A central bank digital currency would differ from cryptocurrencies and other digital currencies in that it would be a liability of the central bank and would have the same value as the national currency. In other words, the digital dollar would not be worth more or less than the paper dollar. So, it would not fluctuate like many cryptocurrencies do and it would not need backing, like stablecoins, which are cryptocurrencies pegged to a specific value.

In a document on CBDC, the Bank of France specifies that CBDCs should be able to be used in peer-to-peer transactions and be issued only if the social benefits outweigh the costs.

But if central banks around the world were to launch digital dollars that were liabilities on themselves, this could shake up the banking and payments industry. Banking is about taking in deposits and lending them out to make profits. If deposits, particularly those of consumers, were held by the central bank, commercial banks could face funding issues.

The Independent Community Bankers of America raised this and other concerns in a blog post that discusses the different models for CBDCs. It points out that banks risk disintermediation, depending on the model used for distributing CBDCs.

The current banking and payments systems should keep a close eye on the development of CBDCs and think about how they might adjust their businesses based on the different models that appear and as countries move through various stages of adoption. The early adopters should be seen as labs for a new payments environment.

Another hurdle for CBDCs is adoption. Many of the biggest fans of cryptocurrencies want to use them precisely because they are not issued by a central authority and are outside of government structures. Some crypto advocates see CBDCs as a conspiracy to kill off cryptocurrencies.

Citizens concerned about privacy might also want to avoid CBDCs, but if countries force adoption by eliminating other forms of cash, they may not have a choice.

Advocates say CBDCs could help tax collection, law enforcement, and financial inclusion, all while preserving privacy. Members of Congress have floated the idea of Fed accounts as bank accounts for people who have been shut out the banking system by fees or bad credit scores. However, this ignores FDIC research that shows the number-one reason unbanked people don't have an account is that they don't have enough money.

When it comes to financial services, particularly for disadvantaged populations, the government and the industry should avoid viewing technology as a kind of panacea. Digital currencies, regardless of the issuer, require additional infrastructure to operate. Given the digital divides that exist in this country and others, central banks should make sure they are not taking away their citizens' options as they explore those that come with CBDCs. DT

A WINNING HAND FOR PAYMENTS

The boom in iGaming—online poker and casino games—and sports betting is generating big potential for payments companies. Can they cash in?

BY KEVIN WOODWARD

PAYMENTS COMPANIES LOOKING FOR NEW MARKETS might wager on the online sports betting and casino games market. It could reap big dividends, especially as more states allow these forms of online gambling and consumers continue to play online, observers say.

Indeed, the excitement around online sports betting may one day be eclipsed by the interest in online gambling—think of casino games and poker—among many payments companies.

Why is that? In 2021, through October, online casino games and poker, known as iGaming and allowed in some form in only seven states, generated $2.98 billion in gross gaming revenue, according to data from the American Gaming Association.

Gross gaming revenue, or GGR, reflects the difference between the amount of money players wager and the amount they win, says CorporateFinanceInstitute.com. That is a 645% increase from January through October 2019 and up 143% for the same period in 2020.

Sports betting, which is legal in 30 states and the District of Columbia, generated $3.2 billion year-to-date in 2021, up 359.3% from the same period in 2019 and up 229.5% from 2020. As recently as 2018, just three states allowed sports betting (“The Sporting Chance,” July 2018).

‘A LOT OF HOOPS’

These numbers translate into excitement for payments companies that serve the online gaming industry. The potential for them is tremendous, says Jerry Rau, managing director of electronic money movement at Eilers & Krejcik Gaming LLC, an Irvine, Calif.-based gaming consultancy. “But there’s a lot of hoops, so it’s not easy,” Rau says. These hoops are the state-by-state regulations and broader ones that include know-your-customer mandates and similar requirements.

Still, some payment companies are not deterred. “The excitement around the size and potential around the opportunity [have] grown significantly since 2018,” says Greg Kirstein, vice president of business for North America at Paysafe Ltd., a London-based payments provider.

GROSS GAMING REVENUE

(January-October, 2021)

Source: American Gaming Association

Paysafe is live in 19 states that permit some form of online gambling or sports betting, he says. As of mid-December, New York appeared to be the next large state to allow sports betting. The potential is massive in New York, which has multiple professional sports teams.

The challenge for payments providers servicing online gambling, whether it's casino games and poker or sports betting, is that each state has its own rules. So the potential payoff depends on how the state regulates online gaming," Kirstein says, adding, "States that allow online sports and iGaming have the most opportunity."

But to tap that opportunity, payments companies must be licensed in each state they want to operate in, says Scott Talbott, senior vice president of government affairs at the Electronic Transactions Association, a Washington, D.C.-based trade group. "The payment industry must make sure the casino is licensed and complies with federal and state law," Talbott says.

For example, most states permit only debit and prepaid cards to be used to fund wallets that bets are made from. New Jersey, however, allows credit cards as a funding option, though such transactions count as cash advances. Payments companies must complete a risk-management process and underwrite the casino to ensure compliance protocols are adhered to.

There are other stipulations. "What makes things a bit more complicated is [payment providers] have to comply with state-by-state regulations," Kirstein says. "Every state has a different approach." For example, states cannot commingle funds with another state

Many states also want to ensure that users are gambling within their jurisdiction, so geofencing technology must be used to verify the user's location. That is not much of a hurdle, but it must be accounted for, Talbott says. Some payments companies can help with that, he says, but it's the casino's responsibility to comply. Age verification is another compliance matter. Most states require online gamblers be at least 21 years old.

THE MORAL ASPECT

What interests Rau, however, is that not many payments companies appear to be pursuing the online gambling industry, despite involvement by some big-name companies. "I went to Money 2020 looking for payments providers serving the industry; I found a couple," he says.

One reason some processors may shy away from online gambling is the time and cost required by regulation and compliance demands. "It's difficult because they have to get jurisdictional compliance. It can be complex," says Rau.

In Louisiana, for example, Rau says that though gambling is governed by statewide regulations, each parish (a county in other states), can opt in or not. The American Gaming Association lists 11 payment and transaction systems members, including Paysafe, Fiserv Inc., FIS Inc.'s Worldpay, Nuvei Technologies Inc., and Shift4 Payments Inc.

The moral aspect of gambling also is a concern. "From a moral standpoint, the biggest concern now is responsible gaming," Rau says. "There's been a lot of good efforts to allow for customers to have alternatives." For example, gamers in New Jersey can opt themselves out of online gambling. When they do that for one operator, the exclusion is shared with other New Jersey operators so the individual is excluded from them all, Rau says.

"There will always be moral questions around gaming," Kirstein says. "It just comes with the territory."

The National Football League, which supports sports betting, limits the number of online gambling ads shown during game broadcasts, he says. The NFL in October launched a $6.2-million responsible-betting campaign. The online gambling industry, including operators, payments providers, and responsible gaming advocate organizations, have taken steps to ensure responsible gaming is adhered to, Kirstein says.

REAL-TIME PAYOUTS

Still, even with the state-by-state issues, the opportunity in online gaming is vast for payments companies, suggests Paysafe's Kirstein. "The bigger the state, the more activity they permit, the more opportunity as a whole," he says.

New York, some reports suggest, may enable online betting in February. Nine sportsbook apps are readying for that, reports PlayNY.com, a site about online betting in the Knickerbocker state. Meanwhile, iGaming in New York hasn't advanced very far, with no state bills authorizing online casinos in process.

Online gaming, whether sports betting or casino games, has benefited from the seemingly unfettered adoption of mobile devices. The American Gaming Association says 86% of all sports bet are placed online, and. of the $41.3 billion wagered legally through October, $36.3 billion was done via a mobile device.

Rau says mobile sports betting might be in the 90% range for some locations, excluding Nevada, that have both mobile and retail (on-site) wagering. A Paysafe report from January 2021 found that 70% of players placed their sports bets online.

Rau also sees an opportunity for real-time payments in online gambling. "This sector is ripe for real-time payments," he says. A couple of payments providers have implemented real-time payments for cashing out. The same Paysafe report, which surveyed 2,022 gamblers in eight sports-betting states—Nevada, New Jersey, Pennsylvania, Colorado, West Virginia, Indiana, Iowa, and Illinois—found that 32% wanted instant payouts, while 34% said they wanted their money within 24 hours and 24% said within one to 3 days, with decreasing percentages for longer periods.

Even without further adaptations, like real-time payments for payouts or even loading funds into wallets, the potential for payments providers looms large. Some smaller payments providers may not have the resources to fully jump into the market, while larger ones might be reluctant to do so because of the disclosures they might have to make, Rau says. "There is a sweet spot where having gaming would be a tremendous potential to their portfolios," he says.

And there are even more markets beyond the 30 states and the District of Columbia. "Everyone has their eyes on California and Ohio and traditionally big sports states," says Kirstein. "The modernization of this space, and [the fact] that all the leagues are participating, only furthers the credibility necessary. Traditional online gaming has come with its own stigmas, but these stigmas are being alleviated." DT

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THE CARD CRUNCH

The chip shortage plaguing POS terminal makers is starting to inflict pain on payment card manufacturers. The forecast for 2022 is that the worst is yet to come.

BY **PETER LUCAS**

IT WAS ONLY A MATTER OF TIME before the semiconductor shortage plaguing manufacturers such as auto and computer makers trickled down to payment card manufacturers.

Nearly two years into the pandemic that triggered the chip crunch, payment card manufacturers are seeing lead times on orders stretch farther and further out.

The reason for the disruption in payment card production is the same as it is for point-of-sale terminal makers ("Out of the Chips," September 2021): shortages of the raw materials needed make the tiny squares of silicon. Even if the chips can be manufactured and placed on a cargo ship, those ships can sit idle for days, even weeks, while waiting to be unloaded once they arrive in port.

Plus, there is no guarantee that, when finished product makes it onto the docks, a trucker will be available to haul it to its final destination.

And the shortfall in chip card production is only likely to get worse. Predictions are that chip availability will spiral downward this year and could potentially prevent the issuance of as many as 740 million payment cards globally, according to ABI Research. That's more than double the 347 million cards that were at risk of not being issued in 2021, according to ABI.

What helped mask the card-production problems last year was that chip inventories were large enough for card makers to squeak by. But those stockpiles have dwindled substantially and are not being replenished as needed, according to payment-industry experts.

The combination of low inventory and constrained production capacity has raised concerns that chip manufacturers will be forced to tighten the allocation of chips to their clients even further. This scenario is a mounting concern for the payments industry, as the fluidity of the chip shortage makes it difficult for chipmakers to forecast just how many chips they can allot to their customers.

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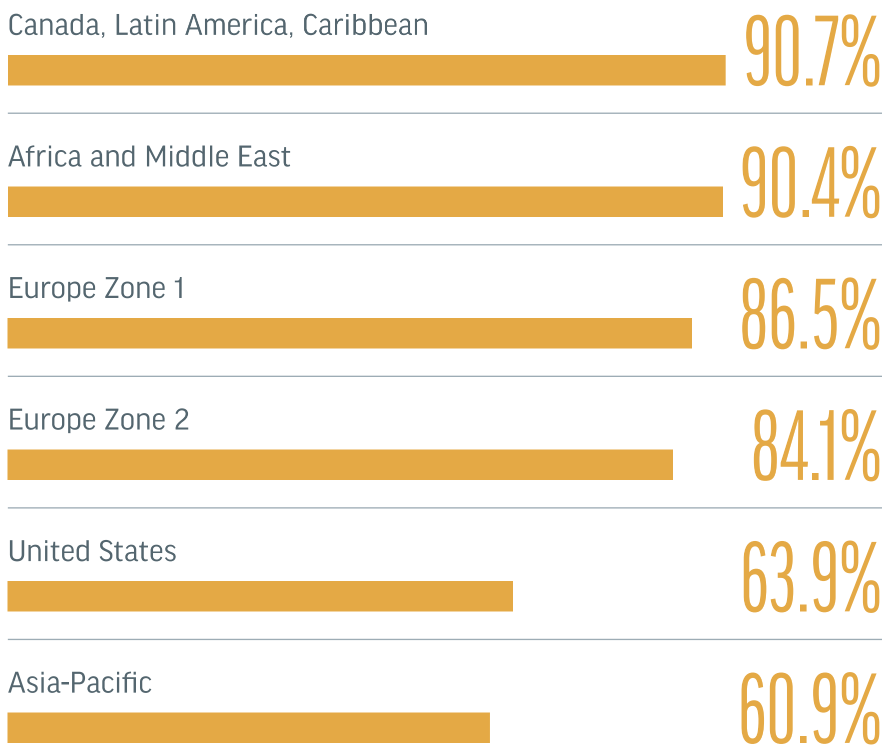
Also of concern to payment card makers is that chip manufacturers may opt to provide the biggest allotments to their biggest customers, such as mobile-phone companies and automakers.

"We're seeing a lot of constraints in industries that use chips, such as the automotive industry, and that is not only raising concerns about chip allocation, its raising government awareness about chip allocation," says Jason Bohrer, director of the U.S. Payments Forum and the Secure Technology Alliance. "How questions around allocation will impact the payments industry remains to be seen."



PRODUCTION GAPS

To help ensure payment card manufacturers get their fair allotment of chips, the American Bankers Association in November published a letter written to the Bureau of Industry and Security of the Department of Commerce regarding the adverse effect of the chip shortage across myriad industries, including payment cards.

In the letter, the ABA argues that, without adequate supplies of chips, payment card manufacturers could face production gaps that will make it difficult for financial institutions to issue replacement cards to existing cardholders, let alone cards to new accountholders.

"Given the importance of semiconductors to the payment card industry and broader economy, ABA believes that a whole-of-government approach is crucial both to weather short-term shocks to the supply chain and to formulate and implement a successful strategy over the longer term," the ABA states in its letter, which was sent in response to the BIS's request for public comment on the chip shortage.

The ABA went on to suggest the Commerce Department adopt an approach that treats all industries equitably, rather than give certain industries priority access to chip manufacturers and distributors in the United States and abroad.

"All American industries must be able to freely source needed supplies, including from foreign manufacturers, without obstacles that compound the underlying supply chain problem," the ABA says in the letter. "In the near term, we hope that Congress will provide the Department with sufficient authority and resources necessary to aid U.S. industry. In the longer term, Congress should find a permanent, flexible solution to secure America's domestic semiconductor production capability."

While Commerce mulls what action, if any, to take to help alleviate the shortage, card manufacturers have begun altering their business model in response to the worsening shortage. Increasingly, they are favoring customers that commit to orders upfront with signed contracts. This contrasts with the pre-shortage custom of verbally placing an order, expecting it to be filled, then signing a contract later.

"Card manufacturers are now saying an order is not valid unless it's accompanied by a signed contract," says Adam Wahler, creative director for A2A Studio, a Stamford, Conn.-based graphic-production firm that includes payment card design in its portfolio. "It's true supply-side economics."

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'MONEY TALKS'

Card manufacturers' need to obtain firm, upfront commitments from buyers is being driven largely by lengthening lead time for orders. Pre-shortage, orders of about 1 million cards took 10 to 12 weeks, on average, according to payments-industry experts. Larger orders could take a few weeks longer. Today, cardmakers are quoting lead times of at least six months.

The delays have gotten so bad that manufacturers have taken to quoting those long delivery times in weeks, as opposed to months, because "24 weeks sounds better than six months," Wahler says.

A2A is no stranger to navigating card production delays in the midst of a chip shortage. The company designed the Venmo card, which launched in October 2020, just as the chip card shortage was gaining momentum and spreading to myriad industries.

As part of its design work, A2A interacts with card manufacturers and chipmakers. In the case of the Venmo card, the studio worked with a chipmaker to create a custom chip with a "V" imprinted in the middle that did not interfere with the security features of the chip itself.

By working directly with a chipmaker to create a custom chip, which costs substantially more than a standard chip, order lead times were negotiated directly with the manufacturer. It also meant the order was a special order, separate from standard chip production.

"By ordering our own chip, we were able to get around some of the lead-time issues [for general chip production]," Wahler says. "When it comes to a custom card, longer lead times can be more palatable as long as the client knows they will get what they want in the end. In today's environment, money talks."

SHORTAGES ARE WILD

The roots of the chip shortage can be traced back to the economic fallout from the Covid-19 pandemic. As countries around the world began to close their borders in 2020 to travel and trade, delivery of the raw materials needed to produce semiconductor chips became almost non-existent.

'One of card issuers' biggest fears is running out of inventory'

—**DAVID SHIPPER**, STRATEGIC ADVISOR, AITE-NOVARICA GROUP

At the same time, many chip manufacturers temporarily reduced the size of their workforce or shuttered plants to safeguard their employees from the Coronavirus.

As factories began to reopen several months into the pandemic, supply-chain problems continued to delay delivery of raw materials and finished products.

"It's not just the shortage of raw materials needed to make the chip that continues to hinder production, it's also the shortage of other raw materials, such as plastics, needed to make cards," says David Shipper, a strategic advisor for Aite-Novarica Group, a Boston-based payments consultancy. "There is a shortage of a lot of things right now. I'm even hearing of a paper shortage that could impact the availability of envelopes needed to mail out cards."

Now that the calendar has flipped to 2022, cardmakers are bracing for a further tightening of chip supplies. Infineon Technologies AG, which manufactures chips for cards, says that the component continues to be in short supply, and that demand continues to outstrip supply by far.

"Many products are in allocation and inventories along the value chains are low," an Infineon spokesperson says. "We do not expect the situation to normalize any time before well into 2022."

To help weather the storm, Infineon says it has been working closely with its customers for about a year to optimize production to meet customer's needs. The Neubiberg, Germany-based manufacturer adds it is also making investments to increase future production capacity.

"We have started production at our new 300-millimeter [plant] in Villach, Austria, and are increasing capacities at our [facility] in Dresden, Germany," the Infineon spokesperson says. "This will enable us to meet the growing demand for semiconductors."

While bringing more production capacity online can help resolve long-term supply issues, it can take years to build and bring a new manufacturing plant online, says the U.S. Payment Forum's Bohrer. So any increase in future production capacity has to be weighed against how to manage current inventories and demand, he adds.

"We're seeing a lot of constraints up and down the supply chain from raw materials to finished products, and

there is only a finite number of chip foundries certified to manufacture chips for payment cards," Boher says.

A VIRTUAL SOLUTION

Not surprisingly, the constraints chipmakers have faced throughout the shortage is increasing the cost of chips, as manufacturers can no longer absorb the increased production costs caused by the shortage.

"We have experienced tremendous increases in our own costs for raw materials and foundries, for example, since the beginning of the pandemic, and we had to pass on these additional costs to our customers after a certain timeframe," the Infineon spokesperson says. "Our highest priority is to be a fair partner to our customers and suppliers."

One potentially major issue looming over card issuers as the new year begins is whether card manufacturers will have enough inventory to replace expiring cards for the next 12 months. About 25% of all cards issued in the U.S. are replaced annually, according to Boher.

"One of card issuers' biggest fears is running out of inventory," says Shipper. "Besides annual reissuance, there are always circumstances that are not planned for, such as a massive reissuance due to a data breach."

Two options card issuers have for keeping cards in the hands of consumers as inventories dwindle are to issue virtual cards or to encourage cardholders to embrace mobile wallets.

Virtual cards and mobile wallets are a way for card issuers, especially fintechs, to capture consumer spending even if they can't get a physical card in the hands of a new cardholder right way. They are also popular with Millennials and Gen Zers.

The downside to these products is they are a temporary solution for consumers who prefer to pay with plastic, card industry experts say.

"Virtual cards and mobile wallets are a way to capture spend and retain customers while they wait for a physical card, but not all customers will be keen on using them, and many of those consumers will likely default to another card while waiting for their actual card to arrive, which means the issuer can lose business," says Wahler. "Physical cards are not going away."

And neither, any time soon, is the shortage of chips needed to produce them. DT

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THE AGE OF THE SUPER APP

BY JOHN STEWART

You don't have to look up in the sky to spot a super app. They're starting to pop up in consumers' phones everywhere. Here's why—and why that's so important.

MOST CONSUMERS DON'T GO TO BED AT NIGHT pining away for a new mobile app. They don't likely request an investment app for Christmas or a shiny new payments app for their birthday. But more and more payments companies are betting that people will want—and spend plenty of time on—an app that combines these and lots of other useful features.

The idea of the super app may have started in China and parts of Southeast Asia, but it's showing up now globally as fintechs and Internet companies look for ways to attract, keep, grow, and monetize a mobile user base. The developers' goal is to weave together so many essential capabilities that "you manage your life in the app," says Patricia Hewitt, principal at PG Research & Advisory Services, a Savannah, Ga.-based consultancy.

Right now, the most prominent examples of this kind of mobile app can be found in China, where a near-absence of wireline connectivity forced developers early on to focus on apps for consumers' nearly ubiquitous handsets. That gave rise to super apps like Alipay and WeChat Pay, which combined commerce and social media.

Now, the concept has been so refined that a Pinduoduo, for example, can generate constant user attention by offering deep discounts on a wide array of everyday products. The offers become available when users recruit more buyers through the app's social network. Users cash in on the specials and then look to expand their network of buyers for the next set of offers.

The U.S. market's long-developed wireline connectivity meant app developers could create specialized apps, such as payments or banking, with less regard for the urge to share the needs or purposes behind the transactions.

And the social aspect here has also been less prominent owing to consumers' conflicted attitudes toward their money. "Money can be incredibly social at one end of the spectrum and incredibly private at the other end," notes Josh Woodward, senior director of product management for Google Pay.

Monetizing Eyeballs

Now, that narrow focus may be starting to change as developers begin combining payments with other financial functions. Block Inc.'s Cash App, for example, has in recent years introduced equity investing and Bitcoin trading (Block last month became the new name for Square). And PayPal's new app, explicitly called a super app, one-ups all others with such features as a savings account and cash-back on spending (box, page 24).

So what's the point of a super app? What business purpose does it fulfill? In the view of some experts, narrowly focused payments apps are taking on other features—and are likely to continue doing so—because of one, all-important measurement: the monetizable daily active user.

MDAU, these days, is the holy grail of super-app development, say some experts. Its value lies in the fact that it represents irrefutable evidence of consumer engagement as well as revenue potential.

"What you're looking for as the secret sauce for these brands is engagement," says Sunil Sachdev,

Inside PayPal's Super App

PayPal Holdings Inc. launched a new version of its mobile app in September, with a panoply of new shopping and financial features aimed at broadening the product's appeal with consumers who are increasingly turning to online commerce.

The event may have marked the first time a U.S. company explicitly used the super-app label that has become so common in Southeast Asia.

The big refresh, the first PayPal has executed on its digital wallet for at least seven years, includes features such as a high-yield savings account via long-time PayPal partner Synchrony Bank, cash back or PayPal shopping credit on spending, consolidated bill payment, direct deposit for early access to wages, and a utility to buy, hold, and sell cryptocurrency.

"It's a shot across the bow for wallet and payment players like Apple Pay and Google Pay, [and] also traditional financial institutions and neo-banks," says Thad Peterson, a senior analyst who follows mobile wallets for Boston-based Aite-Novarica Group.

PayPal chief executive Dan Schulman promoted the app at its launch by billing it as a way for consumers to simplify their lives by consolidating a range of key functions behind one access point.

"Our new app offers customers a simplified, secure, and personalized experience that builds on our platform of trust and security and removes the complexity of having to manage multiple financial or shopping apps, remember different passwords, and track loyalty rewards," Schulman said in a statement.

The new app comes as consumers, who have been increasingly turning to digital wallets, demand apps that are streamlined and easy to use, PayPal says. The company cites statistics from Juniper Research showing that some 4.4 billion consumers will be using digital wallets by 2025, twice the number using them now. Of current users, almost half say simplicity is their number-one reason for using the app.

The new app also arrived as other payments-technology firms are launching new wallets or upgrading existing ones. Square Inc., for example, last fall introduced a payments feature called Cash App Pay for its highly popular Cash App wallet. The app lets users pay merchants by scanning a QR code or by swiping a button on their screens. Square says 70 million active users have adopted Cash App.

PayPal will add over the coming months investment features and yet more payment options for in-store and online shopping, the company said. The latter will include a capability for QR codes, a technology PayPal began deploying in 2020 with chains such as CVS Pharmacy to ease contactless payments.

PayPal's big and fast-growing account base is an advantage for the company's new push into digital wallets, experts say. The active account base grew to 416 million by the end of September, a 15% jump compared to the end of the third quarter in 2020. That number includes some 33 million merchants.

But the adoption rate will be key, Peterson cautions. "PayPal has a massive user base and an equally huge merchant base. This could be a game-changer in commerce, payments, and banking, but only if their users adopt it," he says. "That's the test and we'll find out in the next year or so if they passed."

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head of fintech at the big payments-technology firm Fiserv Inc. "That's all they're trying to do, to monetize those eyeballs."

And nothing monetizes—and measures—engagement like payments. "Nothing is more quantifiable or measurable than an actual payment or peer-to-peer transfer," notes Richard Crone, principal at Crone Consulting, a San Carlos, Calif.-based consultancy.

With a plethora of apps in the market, the super app has emerged to win this battle for consumer commitment, Crone and other observers say. The winning formula is to harness e-commerce with fulfillment, a social network, and a payment platform, advises Crone, much as apps like Pinduoduo have done. "Everybody's leaving money on the table if they don't have a social capability or a team purchase capability," he says.

In this regard, one upcoming development to watch may well be Amazon.com's acceptance of PayPal's Venmo payment app, which is slated to start this year. The deal is significant in any case because of the sheer size of Amazon's massive marketplace. But less well-noticed is that the deal incorporates Crone's three key elements of a super app: commerce, payments, and, because Venmo is also a social network, the social aspect.

'The point of the super app is to create the super user.'

—**PATRICIA HEWITT**, PRINCIPAL, PG RESEARCH & ADVISORY SERVICES

'When is a super app super? Right now, there are no standards or agreed-upon features.'

—**SARAH GROTTA**, MERCATOR ADVISORY GROUP

"It's the natural progression of every app to be super," notes Crone. "If you're not growing, you're dying. And the only way to [grow] is to add more utility, and that's the definition of a super app."

Simply Commerce

But while some payments apps with roots in the U.S. market may be tending toward super apps, that doesn't mean they'll wind up with the business model followed by the massive Chinese and Southeast Asian apps, some observers say.

The core requirement for an American super app, they say, is simply commerce. "I have a hard time envisioning an app like Pinduoduo or WeChat succeeding in a market that has the connectivity [the United States] has," says Thad Peterson, a senior analyst at Aite-Novarica, a Boston-based consultancy.

Some observers are also less than overwhelmed by PayPal's claim of the super app designation for its revamped wallet.

"What makes the PayPal app super?" asks Sarah Grotta, who follows payments at Mercator Advisory Group, a Marlborough, Mass.-based consultancy. "It has a lot of payment features but very few features you can't already get with a solid mobile-banking app, perhaps with the exception of the tie-in to shopping tools."

For Grotta, the super app status is far too fluid. "When is a super app super?" she asks. "Right now, there are no standards or agreed-upon features."

The ‘Super User’

At Google, there isn’t much fussing about the proper definition of a super app, says Woodward. Instead, he says, Google Pay is more concerned with easing everyday financial tasks for its users. “We’ve tried to think about where’s the friction for everyday consumers, and how can we remove the friction,” he adds.

That means that, for Google, it’s more important for the app to let users know whether they’ve hit their savings target for the week, for example, than for users to have spent a predetermined length of time in the app. Last fall, Google abandoned a more ambitious banking app called Plex that had been earmarked for inclusion in Google Pay.

Instead, says Woodward, the app is trying to solve everyday problems—what he calls “grumpiness”—for it users. That can mean functions like tracking savings, income, and spending. “The big problem is how to help people stay on top of their money,” he says.

That kind of focus reflects Woodward’s perception that the boundaries between payments and commerce applications are becoming less sharp. “There’s a blurring of the lines that used to be distinct,” he says. “You may see a blurring of payments and personal financial management, or [between] payments and deals and offers.”

But if opinions differ regarding which features an app must offer—how ambitious an app must be—to be seen as “super,” some expert observers have no doubt where the focus should be when the industry looks at apps and users.

“One thing we’ve been squishy about over here [in the United States] is what is a user?” says Hewitt. “Is it someone who opens the app once a year?” If the answer is “no,” it’s because, she says, “the point of a super app is to create the super user.” DT

security

IS AML WORTH THE INVESTMENT?

Technology can help prevent losses as well as fines from regulators.

BY **MARTIN CHEEK**

Martin Cheek is vice president of SmartSearch, Lehi, Utah.

AS ANY BUSINESS THAT IS REQUIRED to implement anti-money laundering (AML) and Know Your Customer (KYC) initiatives knows, those processes can be complicated, lengthy, and expensive. They suck up a large proportion of resources without necessarily providing full protection from government fines.

These challenges have been exacerbated by the pandemic and the demands of remote work.

Yet, it is important to remember that AML checks, in addition to being required in many circumstances by law, help protect businesses, not just from fraud but also from being unwittingly complicit in illegal activity.

But if there is no question that it is worth it for businesses to invest in robust AML tools and practices, which tools are capable of providing the most accurate, comprehensive checks?

For some, there is still no more reliable method than checking someone's documents in person. It has, however, become almost distressingly easy to obtain everything from falsified bank statements and pay stubs to bogus driver's licenses and tax returns.

As the Federal Trade Commission itself notes, there's "no fool-proof way for prospective employers, retailers, landlords, etc., to spot fraudulent financial forms." This is why it is foolish to think that relying on manual checks alone is reliable enough to prevent fraud and identify potential money laundering.

The pandemic has also highlighted the inefficiencies involved in these manual checks. Once compliance departments for financial institutions were forced to operate remotely, they began experiencing significant difficulties when attempting to conduct many key activities.

For example, some 91% of these departments said that there had been a negative impact on customer risk profiling as a result of Covid-19, while 78% reported a negative impact on their KYC protocols when onboarding new accounts. At the same time, while compliance costs went up, 68% of those increased expenses were spent on technological resources.

THE LAW'S DEMANDS

It is clear, then, that the future of AML lies in technology. In particular, automation offers many benefits to institutions, both large and small, that are struggling to cope with the demands that the law places on them.

For one thing, as money launderers become more adept at using technology to hide their tracks, compliance departments that rely on manual checks have to implement additional processes and hire more personnel to respond adequately to these new challenges.

In the long term, this is not sustainable for any organization, no matter the size. This is why it is necessary to implement automation wherever possible, both to reduce the stress on existing staff and to keep costs down.

Automated checks can be done in a matter of minutes, making them much more cost-effective when compared to manual checks. It's not hard to see why. For manual checks to be carried out effectively, employees must cross-check information among more than a thousand different sanctions lists.

Moreover, they must constantly monitor clients' records in case of any changes in sanctions. For small businesses, the amount of labor required to do this—even for a single customer—is practically prohibitive, and leaves companies vulnerable.

For smaller organizations that lack the budget to hire employees dedicated to AML and KYC activities, adopting automated AML tools allows them to remain compliant and avoid heavy fines.

Additionally, given that automated checks can return results in a matter of seconds, businesses can reduce friction and onboard new clients more quickly.

Cheek

Once compliance departments were forced to operate remotely, they began experiencing significant difficulties.

This enables them to continue their work with minimal disruption—and focus on providing services instead of filling out paperwork.

AN EASY TARGET

So, is AML worth the investment? Some might say that it would be worth it no matter what, given the penalties at stake for non-compliance. But there are, frankly, plenty of companies out there that engage in minimal or no AML practices, either because they feel it's not worth the cost or because they believe it's not necessary for their business.

Unfortunately, regardless of what industry you're in, there will always be fraudsters looking to take advantage of an easy target. Having an automated system that can conduct background checks, verify a client's identity and perform ongoing sanctions screenings gives companies peace of mind while doing the difficult work for them.

Additionally, the Anti-Money Laundering Act passed in 2020 has the potential to significantly change compliance-related processes for businesses as well.

And, on Jan. 1, 2021, Congress passed the National Defense Authorization Act (NDAA) for fiscal year 2021. NDAA includes the most substantial and sweeping legislative reforms to U.S. anti-money laundering (AML) and counter-terrorism financing (CFT) laws since the USA Patriot Act of 2001.

The NDAA introduces AML/CFT amendments and enhancements under the Anti-Money Laundering Act of 2020 (AMLA). U.S. regulators will be focused on prevention, detection, and prosecution of violations, which will require financial institutions to be more prepared to collect, verify, and defend their processes.

Not only will the new AMLA legislation make it more beneficial to automate wherever possible, part of the act will focus on "encouraging and supporting" innovation and "reducing obstacles" to technological innovation. This is sure to increase technology advancements for the entire industry.

THE TECH IMPERATIVE

Now is the time to move forward from outdated processes and create efficiency where you can to be prepared for the guaranteed change the AMLA will bring over the long term.

AML compliance is not something that most companies get excited about, but that doesn't mean it isn't important. As technology advances, money launderers and fraudsters develop ever more sophisticated methods of moving their assets around—outpacing, sadly, the technological advances in tracking such movements.

This is why it is imperative that businesses take every measure they can to stop this from happening. In the end, it will greatly benefit every aspect of the business, from onboarding to customer service to compliance. DT

It's the hottest trend in online credit.

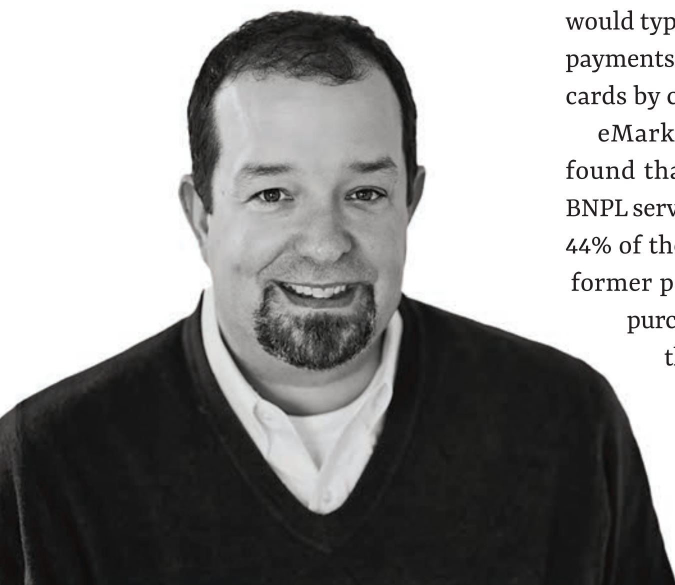
endpoint

WHAT BNPL MEANS FOR RETAIL PAYMENTS

The rewards outweigh the risks for most consumers and merchants.

BY JED DANBURY

Jed Danbury is a vice president at Computop, Bamberg, Germany



BUY NOW PAY LATER (BNPL) is a payment option that allows customers to make purchases at stores and online without paying the complete amount upfront. Similar to the layaway programs of the past, BNPL enables consumers who may not have a credit card or the funds to pay for a desired item(s) at the moment of purchase to spread out their payments.

While already popular overseas, BNPL received a boost in the United States during Covid-19, as it provided cash-strapped consumers the ability to make partial payments upfront and then over a short time span. BNPL has also grown in popularity particularly with Gen Z and Millennials who may not have credit cards. It also is more popular with larger-ticket items that would typically be financed through payments made on traditional credit cards by carrying the balance.

eMarketer Insider Intelligence found that many U.S. adults favor BNPL services over credit cards, with 44% of those who recently used the former preferring it when making purchases. The study also found that this figure varies across income brackets. Preference for BNPL solutions is strongest among respondents earning $50,000 to $99,999 annually, and drops significantly among those making $100,000 or more.

What does this all mean for payments providers, retailers, and consumers? Let's take a look at each segment in turn.

PAYMENTS PROVIDERS

The rapid escalation in BNPL use has driven a surge in the market overall, including Square's agreement to acquire Afterpay for $29 billion and PayPal picking up Paidy for $2.7 billion. And BNPL options like Klarna, Affirm, and others are quickly growing as well.

Unlike the case with credit card companies, much of BNPL businesses' revenue comes from merchants. They charge retailers a small fee on all transactions processed through their platforms.

As BNPL becomes more popular in the United States, we expect to see a continued shift away from card payments for transactions. To combat this market erosion, card companies are entering the fray. Mastercard, for example, recently launched a BNPL service, its Mastercard Installments program.

With this new service, Mastercard said that banks, lenders, fintech

WHAT'S HIDING IN YOUR CUSTOMER LISTS?

By GIACT (a Refinitiv company)

One of the greatest challenges is accurately verifying that current customer or vendor information is up-to-date and not being utilized for fraud.

Customer lists can be full of outdated and incorrect information, fraudulent profiles and abandoned accounts. Not addressing these profiles can lead to compliance, KYC issues and fraudulent activity.

Instead of waiting around for a fraudster to 'breakout' or maintain a foothold, businesses, financial institutions and fintechs can take action now and get ahead of the risk.

With the end of the year upon us, it's as good a time as any to clean your customer list.

GIACT offers a simple and easy solution for your end-of-year and/or beginning-of-year cleanup of your customer or vendor information. With GIACT, organizations can take a preemptive measure to mitigate potential fraudulent activity by cleaning existing customer, vendor, or supplier data in the form of a batch file.

Below are some examples of data files run by other GIACT customers:

- **Routing & Account Number.** Verify that an account is open and still in good standing.
- **Bank Account Ownership.** Validate the owner or signers on an account in real time.
- **Know Your Customer.** Confirm that customer PII is correct to mitigate account takeover fraud, as well as to reduce the potential for returned mail.
- **Consumer Alerts.** Screen for identity theft indicators that could point to future malicious attacks.
- Verify customer emails for contact purposes or if they're being used by other people.
- **Death Records – Master Death File.** Update and verify if a person has been reported as deceased.

To learn more, schedule a demo with GIACT today: Giact.com/demo/

firms, and wallets will have the ability to offer BNPL solutions. Mastercard also said that customers will be able to access such offers digitally, pre-approved through the lender's mobile-banking app or through instant approval during checkout. This program will initially launch in partnership with five U.S. banks and other participating companies.

Visa is piloting a card-based BNPL offering in the U.S. market, while Citizens Bank offers a Citizens Pay option.

Also, after announcing in December 2020 that it would no longer allow cardholders to settle third-party BNPL debts with its credit cards, Capital One shifted gears. Its chief executive told analysts that the company would be beta testing a version of its own BNPL product.

RETAILER APPEAL

So, what does this rapid growth and consumer interest mean for retailers? They are clearly recognizing the appeal and benefits.

Ahead of the busy holiday-shopping season, Target was the latest retail giant to jump on the BNPL bandwagon, joining others like Amazon and Walmart in offering this payment option for consumers. Target is teaming up with Affirm and Sezzle to offer BNPL.

Afterpay recently announced it has expanded its offering to retailers including Nordstrom and Nordstrom Rack, J.Crew, Madewell, American Eagle, Aerie, Tilly's, Morphe, Alo Yoga, Parachute Home, and Le Creuset Signature Boutiques and Outlet Stores. This enables customers of those retailers to pay for their purchases in four interest-free installments. Klarna has a similar partnership with Simon Property Group.

Beyond the consumer interest, a key benefit to retailers is that BNPL payments are easy to manage. Also, research has demonstrated BNPL options lead to bigger baskets and stronger customer loyalty. RBC Capital Markets estimates a BNPL option increases retail conversion rates 20% to 30% and lifts the average ticket size between 30% and 50%.

CONSUMER RISKS

Merchants often see their sales volumes increase from the use of BNPL, but this has led to concerns that these options are encouraging consumers to live beyond their means.

While BNPL is appealing to consumers, it's not without financial risks. It's a loan, and the payments are only interest-free when paid on time. Consumers will incur late fees if they don't make a payment on time or miss a payment. And this will ultimately impact their credit. In fact, Credit Karma recently found 34% of U.S. consumers who used BNPL services have fallen behind on one or more payments, and, of these, 72% said their credit score declined.

Shoppers also can't benefit from perks like cash back or rewards points like they can with credit card payments.

Despite the risks, BNPL has a proven track record of working for all parties involved. In Germany, where Computop is headquartered internationally, BNPL has been operating for decades without any ill effects on consumers, starting with the early mail-order companies. Like all forms of payment—including credit cards—it just requires smart usage on the customers' side.

There's no doubt that BNPL is becoming increasingly more enticing to consumers, making it harder and harder to dismiss this kind of installment payment option as a fad. And with companies like Klarna and Affirm now introducing their own debit cards, which will allow users to make interest-free payments across four installments, BNPL players don't appear to be going anywhere soon.

With BNPL businesses and consumer appeal growing, not only in the United States but also in other regions like the United Kingdom, we will likely see more retailers, credit card providers, and financial institutions jumping into the pool. DT

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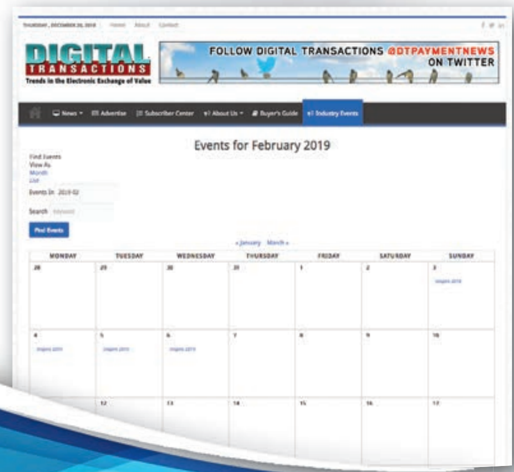

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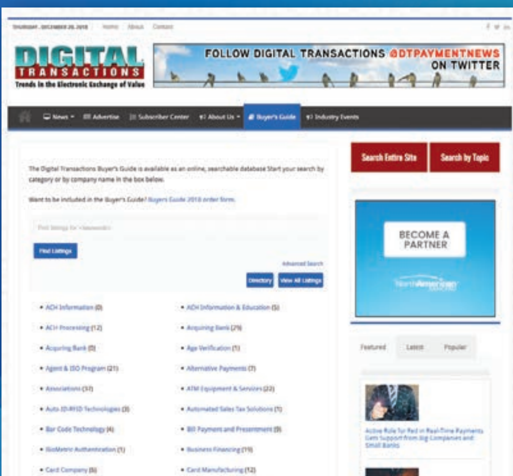

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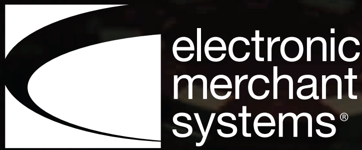

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