# DIGITAL TRANSACTIONS®

Trends in the Electronic Exchange of Value

# IS COVID-19 IN THE REARVIEW MIRROR?

It may well be, but its effects are very much with us—and are lasting.

Volume Nineteen, Number Four • DigitalTransactions.net • April 2022

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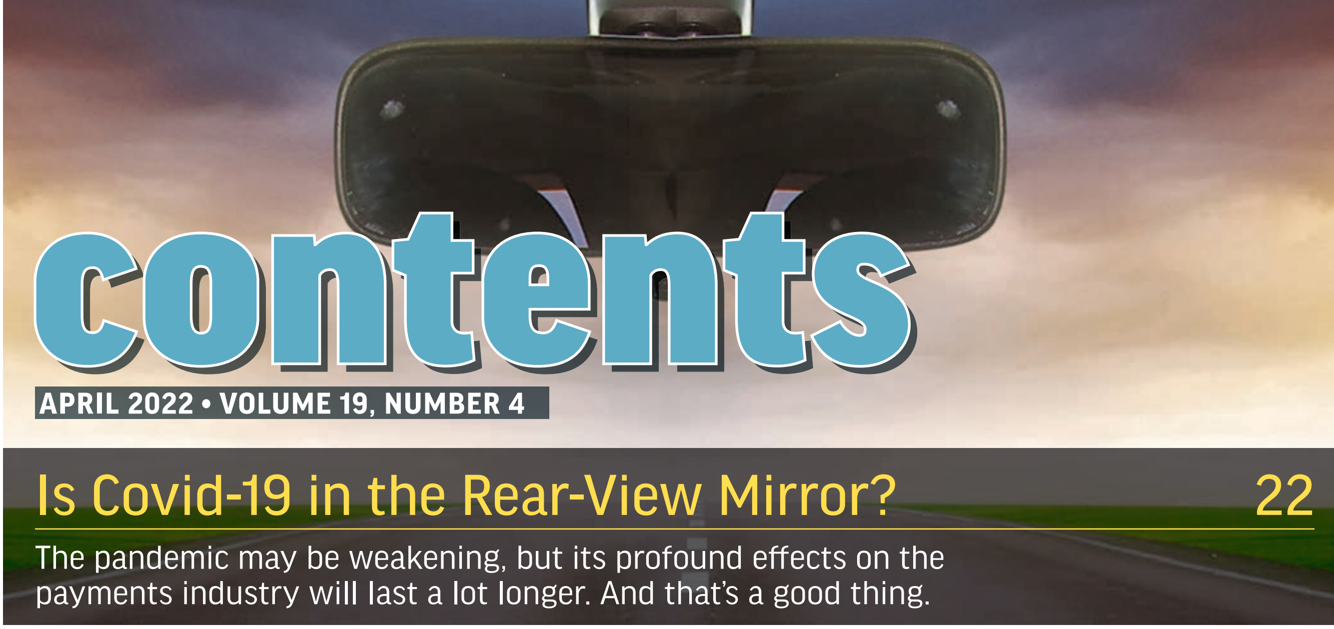
Why Block Bought Afterpay

Cashing in on Cash

The Interchange War, Again

Real Disruption--At Last!



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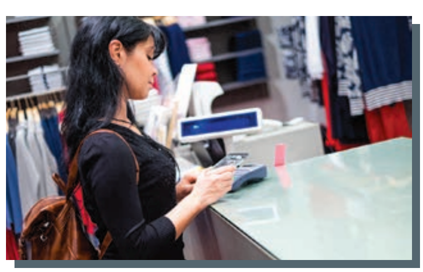

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# the gimlet eye

## RESPONDING TO THE RUSSIAN BEAR

**IT WAS HARD LAST MONTH** to view the events in Ukraine with an attitude of studied detachment—the attitude, after all, that we business journalists practice when examining industry news. We are so bound up in that tradition of objectivity, in fact, that it surprises us when a momentous event shakes us out of it, if only briefly.

But Russia's unprovoked invasion on Feb. 24, its military's wanton and indiscriminate attacks on civilian targets—the sheer brutality of the thing—was exceptional. So we couldn't help cheering when the payments industry reacted with language one would hope a modern state would understand, whether it's a democracy or autocracy. And Russia's leader has left little doubt over the years which camp his country falls into.

The reaction at first was rather tepid, with Visa and Mastercard, for example, disconnecting Russian banks that had been sanctioned following the attack on Ukraine. But they soon followed up with harder stuff. At the end of the first week of March, all three major networks, now including American Express, said they were shutting down transactions for their branded cards issued by Russian banks and for cards used inside the country but issued by banks outside of it. That left open only transactions, such as they are, handled locally, without recourse to the networks.

The language accompanying the March actions was hard stuff, a refreshing departure from the usual, carefully crafted corporate speak we're accustomed to. Visa's chief executive, Al Kelly, for example, used phrases like "unprovoked invasion" and "unacceptable events" and "the ongoing threat to peace and stability." Mastercard's CEO, Michael Miebach, characterized the exceptional tactic as suited to exceptional times: "We don't take this decision lightly."

Now, these actions, as momentous as they are, are not likely to deter the Russian autocrat who started the whole thing. Nor are sanctions of any sort likely to make him reconsider his revanchism, regardless of the suffering it may impose.

At this moment, in the middle of March, Ukraine is holding out against an onslaught the like of which hasn't been seen in Europe since World War II. The gallantry of the Ukrainians in standing up to the Russian invasion has inspired the admiration of the world, and long may that resistance continue, until the Russian bear decides it's had enough and retreats to lick its wounds.

But regardless of the ultimate outcome, it's gratifying to find the giants in the payments industry willing to take a stand and to back it up with concrete action. That action, combined with a similar move by the SWIFT cross-border payments network, has marked out an honorable path in a threatening time.

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Trends in the Electronic Exchange of Value

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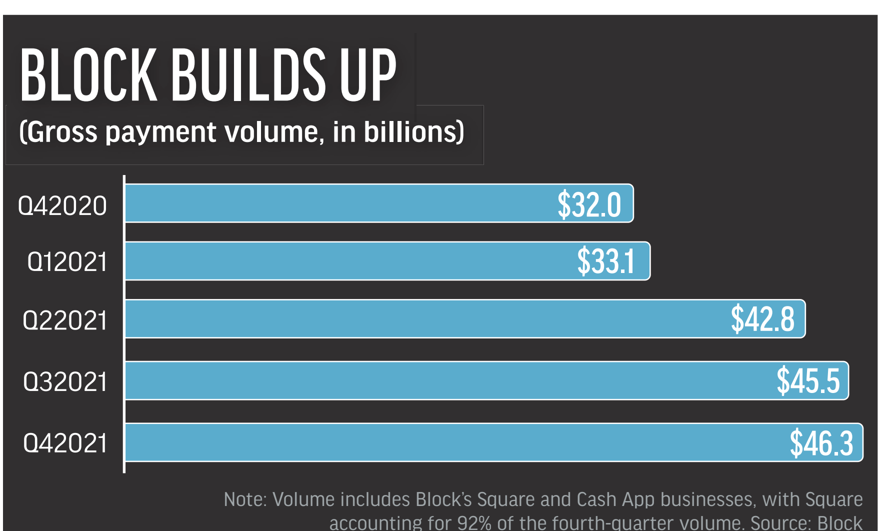
# trends & tactics

## THE STRATEGY BEHIND BLOCK'S AFTERPAY DEAL

As banks pull ATMs from underperforming off-premise locations, it is creativisits," Rowan Berridge, an RBR associate, says by email. "This means that they can operate at a lower threshold than banks in terms of the usage levels needed to make the machines economically viable."

With the close of Block Inc.'s $29-billion acquisition of buy now, pay later platform Afterpay Ltd. at the end of January, the payments company installed a key component in a plan to more tightly integrate its seller and consumer businesses, Square and Cash App, according to Block's top executives.

Indeed, the San Francisco-based company now has a "tremendous opportunity" to connect the two businesses by offering installment-payment services to both merchants using Square and their customers using Cash App and the app's new wallet Cash App Pay, chief financial officer Amrita Ahuja told equity analysts in a conference call late in February.




With the new nomenclature introduced in November, Block is the name of the overarching company, while Square refers to the company's merchant-processing business. Cash App houses Block's payments, savings, and cryptocurrency services for consumers.

This flywheel effect between Block's two critical businesses comes as the company has seen Cash App generate a 22% annual growth rate to 44 million monthly active users, according to Ahuja. She and chief executive Jack Dorsey spoke on the call, held to discuss Block's fourth-quarter 2021 results.

Now, with the ability to offer installment payments via Afterpay, "we have a strong potential to deepen engagement with younger consumers," Ahuja said. "There's tremendous opportunity" to connect Square and Cash App via BNPL, she added.

This is because the Afterpay acquisition will allow Block, on the one hand, to offer BNPL services to sellers that use Square Online for e-commerce transactions in the United States and Australia, On the other, the company can offer Cash App users the ability to find Afterpay merchants and manage their installment loans directly in the app. Afterpay serves 19 million consumers , 65% of them outside the United States, according to numbers Ahuja mentioned during the call.

"This is a huge integration of our ecosystem, Square and Afterpay," Dorsey said. "For Cash App, there's a long roadmap ahead. We're really excited about what ]Afterpay] brings to our Cash App customers."

BNPL isn't the only new feature for Cash App. Block is also adding Cash App Taxes, a digital facility for consumers to file tax returns and receive any refunds early, Dorsey said. "We still see a lot of complications in filing taxes" that Cash App can solve, he added.

On the seller side, Block continued its long march toward larger merchants. Of the $42.6 billion in payment volume processed in the fourth quarter, $15.7 billion, or 37%, came from sellers with $500,000 or more in annual volume. That's up from 30% a year earlier and 28% in the last quarter of 2019. Overall volume grew fully 45% from the last quarter of 2020 to that of 2021.

For the quarter, Block recorded $17.7 billion in revenue, nearly double the revenue taken in in the last quarter of 2020. Cash App's Bitcoin trading activity exploded in that year, generating $10 billion in revenue in the December quarter, up from $4.6 billion in 2020's fourth quarter.

*—John Stewart*

# AN ACQUISITIVE SHIFT4 BUYS INTO BLOCKCHAIN AND CROSS-BORDER PROCESSING

Shift4 Payments Inc. last month said it has concluded agreements to acquire international e-commerce acquirer Finaro and cryptocurrency-based donation platform Giving Block in deals valued at $875 million in cash and stock, including future earnout provisions. The latter deal has already closed, while Allentown, Pa.-based Shift4 expects to close the much larger Finaro acquisition later this year.

The acquisitions will propel Shift4 into the growing field of cryptocurrency transactions and expand its services into international processing. The Giving Block deal, in particular, "will bring crypto capability across the [Shift4] organization," chief executive Jared Isaacman said during an earnings call last month.

Finaro, meanwhile, will be key in supporting major new Shift4 initiatives, including its agreement to process for SpaceX's Starlink satellite business, Isaacman added. Isaacman led an all-civilian space trip last year on a SpaceX vehicle and plans to fund three additional spaceflights with the program.

Finaro, which processes transactions in the United Kingdom, Europe, Hong Kong, and Japan, supports more than 170 alternative payment methods, vastly expanding Shift4's currency capabilities in addition to extending the company into overseas markets in a major thrust for the first time.

The deal involves a $525-million upfront payment configured as 62% equity and 38% cash, as well as a

MONTHLY MERCHANT METRIC

## Total Gross Processing Revenue %

This is sourced from The Strawhecker Group's merchant datawarehouse of over 3M merchants in the U.S. market. The ability to understand this data is important as SMB merchants and the payments providers that serve them are key drivers of the economy.

All data is for SMB merchants defined as merchants with *less than $5M in annual card volume.*

**Metric Definitions:** (Only use definitions related to an individual month's release)

**Total Gross Processing Revenue % -** Sum of total discount, total transaction fee revenue and total other fee revenue divided by total volume.

| | |
|---|---|
| Q4 2020 | 2.391% |
| Q1 2021 | 2.368% |
| Q2 2021 | 2.398% |
| Q3 2021 | 2.432% |
| Q4 2021 | 2.448% |

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$50-million earnout provision, to be paid in stock. For Giving Block, Shift4 has agreed to pay $54 million in cash plus stock and cash valued at $246 million in an earnout.

While Giving Block is the smaller acquisition, Isaacman said it has the potential to bring more nonprofits into Shift4's fold. "Nonprofits don't know a lot about crypto, they just know they want to take it," he said.

He predicted his company's business in the charitable-giving market could become bigger, indeed, than its stake in gaming, where in February the company signed one of its largest clients, BetMGM. It now maintains betting licenses in 10 states.

Finaro, meanwhile, is expected to contribute some $15 billion in end-to-end payment volume next year, Shift4 said. The company pays particularly close attention to end-to-end processing, in which it handles all transaction services for merchants, because it is more lucrative than its gateway business, where it passes transactions off to other processors. "We need to capture the majority of the payment economics," Isaacman said.

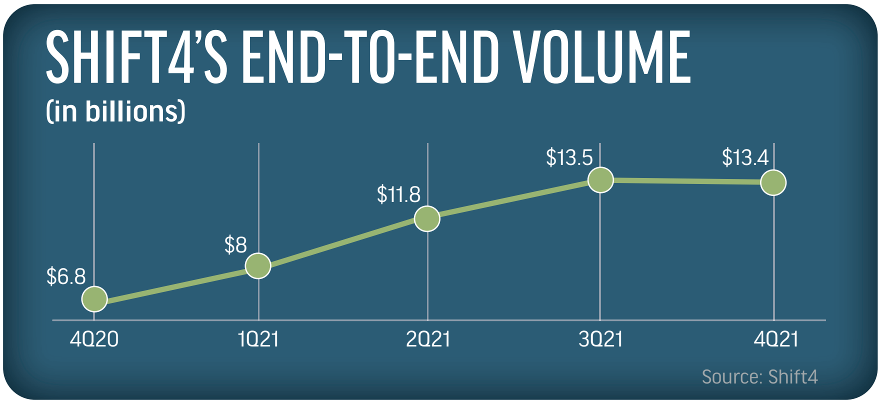
Shift4 reported $13.4 billion in end-to-end payment volume in the fourth quarter, down slightly from the previous period but more than double the volume a year earlier. Some volume decline was blamed on the Omicron variant of Covid-19, which affected Shift4's hefty stake in the hotel and restaurant sector. Hotels in particular accounted for 20% of the company's end-to-end volume before the pandemic struck.

The variant's effects continued to be felt into the new year. "January was particularly depressed," said Taylor Lauber, president and chief strategy officer, during the call. But he characterized the impact as "quite short-lived," as volumes began rebounding last month.

The company is also looking forward to the emergence from a beta-testing phase of its new SkyTab point-of-sale technology. Some 3,000 restaurants are using the devices in the beta, Isaacman said, adding, "we expect all our restaurants to convert over multiple years."

For the quarter, Shift4 recorded $146.9 million in revenue, up 65% year-over-year but down slightly from $148.3 million in the third quarter. End-to-end volume overall recovered in late February from a "trough" in January that management blamed on Omicron. Volume in the week ending Feb. 26, in fact, recorded the highest level for one week in the company's history.

*—John Stewart*




# PAYNEARME SCORES WALGREENS FOR ITS MERCHANT NETWORK

Bill-payment platform provider PayNearMe Inc. will dramatically expand its merchant network with the addition of Walgreens Co. in an agreement announced last month. The pharmacy chain adds nearly 9,000 Walgreens and Duane Reade locations to PayNearMe's merchant network, bringing the company's total to more than 40,000 retail locations.

PayNearMe's platform lets unbanked consumers pay bills at merchant locations ideally situated near their homes. About 78% of the population in the United States lives within five miles of a Walgreens or Duane Reade store, according to PayNearMe.

To initiate a bill payment through PayNearMe, a consumer receives a barcode through PayNearMe via email or text message, or can scan a PayNearMe barcode on her bill, if applicable. Next, the consumer takes the barcode to a participating merchant, scans it at the point-of-sale, gives the money to the cashier, and receives a receipt confirming the payment.

"Walgreens is a premium brand and has a great footprint, especially in New York City with Duane Reade," says Michael Kaplan, chief revenue officer and general manager for PayNearMe, who adds PayNearMe has increased its retailer network nearly 50% in the 12 past months. "Our clients can now offer their cash-preferred customers even more convenience by allowing them to pay their bills in the same location where they shop."

The deal with Walgreens builds on PayNearMe's recent addition of PayPal and Venmo to its payment options. Besides cash payments, PayNearMe also supports bill payment via credit and debit cards and bank accounts.

For merchants, Santa Clara, Calif.-based PayNearMe says a big advantage of joining its network is that PayNearMe clients can increase foot traffic in store, which increases the potential for incremental sales. "We create door swings, which increases the likelihood the size of the shopping cart will increase," says Kaplan.

Looking ahead, Kaplan says his company plans to keep expanding its merchant network, targeting especially convenience and dollar stores, grocers, and pharmacies. These merchant categories offer the biggest growth opportunities, according to PayNearMe. The company already has a footprint in these merchants through deals with convenience-store chain Casey's Retail Co., as well as Family Dollar Stores Inc., Wal-Mart Inc., and CVS Pharmacy Inc., for example.

"These merchant categories are well set-up for what we do," says Kaplan, who adds the company is working on a cash-disbursement product that allows consumers to withdraw funds from their PayNearMe account via a cashless ATM transaction.


Its Walgreen's deal brings nearly 9.000 stores into PayNearMe's network, nearly one-quarter of the total.

*—Peter Lucas*

# PAYSAFE'S TURNAROUND PLAN FOR ITS DIGITAL WALLETS RELIES ON CRYPTO AND GAMING

Paysafe Ltd. early last month reported progress in reviving its beleaguered digital-wallet business, noting a crucial deal with the world's largest cryptocurrency exchange and progress in its key iGaming market.

As part of an effort to reinvigorate its wallets, "We're starting to work with crypto exchanges" more actively, Philip McHugh, Paysafe's chief executive, told equity analysts in a call to discuss the London-based company's fourth-quarter and full-year 2021 results.

That effort so far includes a deal with Binance, by far the world's biggest exchange, to support crypto trading via Paysafe wallets in the United States and the United Kingdom. Binance supported $18.7 billion in 24-hour volume as of early in the morning of the conference call, according to Coinmarketcap.

McHugh expects such deals will be replicated with other exchanges as well. "We see virtual currency as a megatrend. It will change the way e-commerce works," he said, adding, "Paysafe is uniquely positioned for this."

For Binance, Paysafe has white-labeled its wallet, allowing Binance users to buy crypto on the exchange and store it via a single application programming interface. "We're seeing interest in a white-labeled wallet in other industries as well," McHugh said.

The big move into crypto follows a third quarter last year in which Paysafe's digital-wallet business, chiefly its Skrill and Neteller products, saw its volume come to just shy of $4 billion, down 15% from the second quarter and off 17% from the same period in 2020. The wallets, which are also deployed for iGaming clients, account for about 13% of the company's revenue.

A big part of the problem consisted of new regulations in the company's German and Dutch markets that impacted users' ability to deploy their wallets for iGaming. Paysafe has 3.1 million active users for its wallets.

On the other hand, Paysafe reported progress in North American iGaming, where the company is now live in 21 states and volumes tripled in the fourth quarter compared to the third. Online gambling and sports betting are generally known as iGaming.

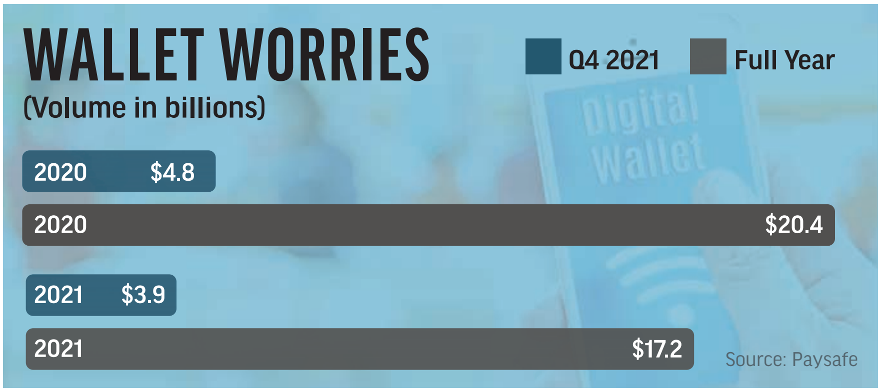
For all of 2021, volume in the wallet segment dropped 16% compared to 2020, to $17.2 billion. Volume in the quarter fell 19% year-over-year, to $3.9 billion. Acknowledging "digital-wallet headwinds," McHugh said the business "had become too complex over time." Now, he said, the Paysafe is "making strong progress" with a turnaround effort. "The results are starting to show," he added, particularly in the crucial sports-betting market and with a "revamp" of the Skrill wallet.

Paysafe's acquiring business in the U.S. market, however, is showing strong growth, with $78 billion in volume last year, up 35%. This reflects a mix of one-third card-not-present volume and two-thirds card-present, the company said.

For the quarter, Paysafe recorded $31.5 billion in volume, up 20% year-over-year, as its processing business offset its decline in wallet volume. Revenue came to $371.7 million, flat with the same period in 2020. For all of 2021, volume was up 22% over 2020, totaling $122.4 billion. Revenue was $1.49 billion, up 4%, despite an 8% drop in digital-wallet revenue.

Paysafe also announced William Foley, who has served as chairman of Paysafe since the company's move to go public last year via a merger with a special purpose acquisition company, had stepped down from that role. His replacement is Dan Henson, a former General Electric executive.

*—John Stewart*



# THE DIGITAL DOLLAR AND PERSONAL LIBERTY

BY GIDEON SAMID
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**ON MARCH 9,** President Biden unleashed the federal government to reform the U.S. dollar into a digital entity—an historic milestone. A big transformation is looming. Done well, the digital dollar will cement U.S. leadership in global finance. Ill-done, America will become second tier.

The digital dollar has the power to effect financial inclusion, boost general prosperity, and enhance social accountability (see my book, *Tethered Money*). If ill-handled, however, the digital dollar will choke innovation, place Americans under tight surveillance, and shift power away from the people and onto their government.

Can we trust the government to do it right? No. And not because government planners are ill-spirited. It is because, like every government, ours deems itself good, and socially meritorious. Smart, too— so it deserves to be given the power to guide society for society's own good, and make sure that the new form of money will become a tool used by the government to serve the people the way government thinkers see fit.

Thus, one would expect a government-shaped digital dollar to increase government visibility into every financial movement of every citizen, 24/7, that is, to create a state of constant surveillance. Coming in the wake of privacy lost in nonfinancial matters, this prospect is extremely alarming.

## WHAT CAN BE DONE?

Let's unite behind the singular notion of payment privacy. The digital-money community is diverse, with no unity of opinions on anything. I hope, though, that a critical mass can unite around the fundamental notion of securing cash-like payment, that is, a payor and a payee able to execute a payment such that none besides these two is in the know.

Moreover, the payor and the payee may be privy to very little about each other. Payment privacy is the core of personal freedom in cyberspace, so hallowed that, arguably, it deserves a Constitutional amendment: "*The right of payor and payee to exchange value privately shall not be abridged.*"

In China, as a case in point, the digitization of the national currency is carried out top-down. A commission decides what is best, and mints accordingly. We have a better idea. It's called capitalism and competition.

Suppose the government, say the Federal Reserve, in consultation with the U.S. Treasury, prepares a regulatory framework for commercial mints to offer the public a digital claim check against the U.S. dollar. This claim check is given to a purchaser against a nominal amount of dollars, and when this claim check is submitted for redemption, it fetches the same nominal sum of dollars (minus a small service charge). This is what is known as a stablecoin. Any bank, or any entity commanding public trust, can declare itself a mint, submit itself to the issued regulatory guidelines, and compete for public attention. Each mint will be free to put out its own protocol, spell out its own terms, charge its own fees. Each will have its own wallet, its own service, its own security.

The key regulatory requirements will be: (i) payor-to-payee payment privacy shall be upheld; and (ii) the various mints (stablecoins) will honor each other's products. They will form an InterMint that operates like banks in the automated clearing house network.

This call for banks and nonbanks to compete against each other will unleash the wisdom of crowds that has served us so well throughout history. The winners will become the dominant stablecoins. All the benefits associated with digital currency could be offered by these winning stablecoins—so much so that, possibly, there would be no need for the Federal Reserve to create a digital dollar. DT


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# HOW EWA AND BNPL COULD HELP END POVERTY

BY BEN JACKSON
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**BUY NOW, PAY LATER** and earned-wage access services could be powerful tools to end poverty, if they are not regulated out of existence.

Both of these products directly address one of the main factors causing poverty: income volatility.

In "The Financial Diaries: How American Families Cope in a World of Uncertainty," authors Jonathan Morduch and Rachel Schneider write that one of the biggest problems facing families that can't make ends meet is that their income fluctuates. This can lead to damaged credit scores and expensive borrowing when income and expenses do not line up.

"Most poor households in our data were not, in fact, poor during the entire study year," they write. Instead, households, including a third of those with middle-class incomes, spent at least one month below the poverty line during the year of their study.

Families traditionally cope with unstable incomes through both formal and informal loans and by tapping savings. Members of the Innovative Payments Association that offer savings accounts in conjunction with prepaid programs tell me that cardholders build up and draw down savings in cycles. This is to pay for emergencies like a car repair but also for planned expenses like summer camp for their children.

Now, the emergence of buy now, pay later and earned-wage access products offer new tools for households struggling with income volatility.

Buy now, pay later is a modern version of what was traditionally known as layaway. People can buy a product and spread the cost over time. The fundamental difference is that, with layaway, the product traditionally stayed with the store until it was paid off. With BNPL, shoppers can get immediate access to an item. This can make a huge difference in the life of someone who needs a new tire to get to work but does not have a traditional credit card. This can also help smooth out income volatility by providing access to necessities without large drawdowns of savings or expensive borrowing.

The second tool helping solve this issue is earned wage access products. These programs allow workers to access a percentage of their wages before the end of a pay cycle, based on hours worked. EWA programs do not allow workers to take all of their pay to ensure that there is money left for benefits, garnishments, and taxes. They also ensure that the worker will have some money on payday.

The programs let hourly workers, and even some who are salaried, choose to get real-time access to money they have earned. This is much like gig workers receive money when they have completed a job or tipped workers walk out of a restaurant with part of their pay at the end of the night.

Both BNPL and EWA carry risks. Probably the greatest one is that they could lead to impulsive purchases. But for households that are watching their money, spreading out payments and getting real-time access to funds could increase savings and asset building.

The risk to these products comes from regulators and nonprofits equating them with existing products such as payday loans. If these tools get regulated out of existence, then average Americans will lose the opportunity to smooth out their income at times when they need to minimize volatility the most.

Before imposing heavy constraints, regulators should do a thorough examination of how the majority of consumers use these products and how that benefits their lives.

Well-meaning consumer groups and regulators—people who have steady incomes—risk trapping consumers in a permanent economic underclass if they do not allow people to access products that address the needs created by fluctuating incomes. DT

# HOW BRINK'S IS CASHING IN ON CASH

## Bills and coins have long been off limits to processors because cash transactions are not digital. No longer.

BY **PETER LUCAS**

**FOR YEARS, PAYMENT** processors have expanded their technology stack beyond its core authorization and settlement capabilities to include an array of features to transform themselves into one-stop business-technology shops. Yet, the one part of the payments business that has eluded them is the handling of cash transactions.

That's because cash transactions can't be digitized and flowed into the merchant's bank account—until now.

The Brink's Co., which has been securely transporting cash for businesses since 1859, in December announced BLUbeem, a secure device into which merchants can deposit their daily cash proceeds onsite, have the deposit electronically recorded by Brink's, and then receive credit for the deposit in their bank account. The cash is picked up by Brink's at a later date.

The rollout of BLUbeem, which began in January, is being marketed to processors and point-of-sale solution providers. The technology is part of a larger strategy at Richmond, Va.-based Brink's to evolve from being a route-based armored-car and security service to a player in the payments industry focused on digital cash payment solutions.

"Most retailers already have a digital solution to accept cards and other payments, but they don't have a digital solution to manage cash payments, which account for a significant portion of their transactions," Brink's chief executive Doug Pertz said at the time of the rollout. "We have that solution, and we believe it will change the way customers and investors look at Brink's."

Brink's wasted no time lining up processors to market BLUbeem. The first two are Alpharetta, Ga.-based Priority Technology Holdings Inc. and goEBt, a Marietta, Ga.-based processor operated by CDE Services Inc., which is a registered independent sales organization of Wells Fargo Bank.

Brinks's says that, by partnering on BLUbeem, processors can not only open the door to payment volume that was previously off limits to them, they can also get a clearer picture of a client's overall business and financial health.

"Being able to see a merchant's cash transactions provides a more holistic view of the business, which will help processors better manage a merchant's risk levels," says Don Apgar, director of the Merchant Services Practice for Mercator Advisory Group. "Processors can also bundle BLUbeem with their other services and sell it as a total cash-management solution."

While similar services are available from other cash-transport companies, they are typically restricted to deposits at a specific bank, not necessarily the merchant's bank, according to Josh Allen, vice president of digital payments at Brink's. "They're not bank-agnostic" like BLUbeem, he says.

## THE VALUE PROPOSITION

The idea of electronic cash deposits is expected to be enticing to merchants. A substantial portion of transactions are still made in cash, payments experts say, despite consumers' steady migration to contactless payments, especially during the pandemic.

In 2020, cash's share of all payments was 19%, down from 26% in 2019 and 2018, according to the Federal Reserve Bank of San Francisco. While cash's share of transactions varies among individual merchants, 20% to 25% of the payments taken in by merchants in Priority Technology's portfolio are cash, the company says.

One market segment seen as particularly ripe for BLUbeem is employers in the gig economy, according to Tom Priore, chief executive and chairman of Priority Technology Holdings.

"In the gig economy, for example, money needs to get collected and distributed to multiple parties in the value chain," Priore says. "Digitizing cash by turning it into a bank credit increases the velocity of cash [through a company's business], which is the value proposition."

Other potential markets for BLUbeem include quick-service restaurants, hospitality merchants, and small retailers that sell low-ticket items, which are typically purchased in cash, Priore adds.

Priore says that partnering with Brink's will allow Priority, which services more than 250,000 merchants, to bundle BLUbeem with its card-acceptance platform to create an end-to-end payment solution. He expects that will help improve client retention and drive growth into new channels.

Processors can also position BLUbeem as a standalone service to get their foot in the door with merchants that are happy with their current processor when it comes card processing, but that lack a solution similar to BLUbeem, Brink's' Allen says.

Another benefit for processors is that a service like BLUbeem can simply make for a better payment-processing experience for merchants, say outside observers. "Processors have the opportunity to help create experiences [that add] amazing value for their merchants and collect a small piece of a transaction they would [otherwise] never see, which is cash," says Greg Cohen, chief executive of Novi, Mich.-based Fortis Payment Systems LLC.

Brink's estimates that about 1.6 million retail locations in the United States do not have an effective solution for handling cash payments. Partnering with processors and digital payments providers will enable Brink's to reach these merchants, the company says.

In addition, Brink's estimates there are about 2.2. million card-accepting merchants that generate $5,000 a month, on average, in cash sales. Of those merchants, one-third are

## FOLDING MONEY HASN'T FOLDED

(Cash's share of total payments vs. other payment options)

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Cash | 19% | 26% | 26% |
| Credit | 27% | 24% | 23% |
| Debit | 28% | 30% | 28% |
| ACH | 12% | 11% | 11% |
| Other | 14% | 9% | 11% |

Source: The Federal Reserve Bank of San Francisco serviced by Brink's, which makes BLUbeem a natural add-on service for them, Allen says.

"Even with increased consumer adoption of digital payments during Covid, cash is still a prominent form of payment for many merchants, and still a pain for them when it comes to handling it," Allen says. "BLUbeem is about simplifying the handling and reconciliation of cash for merchants of all sizes."

## 'NOT A LINE ITEM'

Indeed, reducing the cost of handling cash is expected to be the key selling point for BLUbeem, payments experts say. In addition to the cost of paying an employee to handle cash, prepare it for deposit to the bank, and then transport if to the bank for deposit, there's shrinkage, a euphemism for employee theft of cash in small denominations.

"Rarely do merchants perceive the true cost of accepting cash, and in some cases, it can cost more to accept cash than [to accept] cards," says Ginger Schmeltzer, a strategic advisor for Aite-Novarica's Retail Banking and Payments practice. "But merchants don't necessarily see that cost because the cost of cash acceptance is not a line item on their balance sheet like cards."

For processors, the key to selling BLUbeem will come down to educating merchants about the cost of handling cash, experts say. "There will need to be a lot of merchant education about how BLUbeem is a more cost-efficient solution for handling cash," Schmeltzer adds.

Priority declines to reveal what it plans to charge merchants for BLUbeem, though Priore says the service will be competitively priced. Payment-industry experts estimate

**A substantial portion of transactions are still made in cash.**

the going rate will be between 1% and 3% of the transaction value. That's low enough to make it competitive with card acceptance, but the high side of the range could be too high to get merchants to bite, payments experts warn. Merchants will also pay a modest upfront monthly fee to lease the safe-like cash-storage device, according to Allen.

"Some merchants already charge a cash discount to encourage consumers to pay with cash, so if BLUbeem is closer in price to accepting cards, merchants are bound to question whether it is worth the cost," says Apgar.

## PAYMENTS AND BANKING

Payment experts are not surprised Brink's developed the service. The company has long serviced independent ATM operators through its affiliation with PAI Inc., the largest privately held U.S. provider of ATM services. Brink's began its relationship with PAI through an agreement to load cash into ATMs. The relationship grew to include Brink's servicing the machines, according to Apgar, and culminated in 2021 when Brink's acquired PAI for $213 million.

"BLUbeem is an extension of what Brink's did for PAI before acquiring it," says Apgar.

Brink's acquisition of PAI, and the rollout of BLUbeem for that matter, are part of the company's overarching plan to reposition itself as a provider of digital cash payment solutions, Brink's says. The plan, which Brink's has dubbed Strategy 2.0, is receiving positive reviews. In a research note published in February, George Tong, a senior research analyst for Goldman Sachs, wrote that Brink's "is advancing its digital cash management strategy, or Strategy 2.0, which we believe will lead to stickier, higher growth and higher margin revenue streams."

Tong goes on to say that "[w]e estimate 85% of the 3mn+ retail and merchant locations in the U.S. do not use an outsourced cash management service, creating an attractive digital cash management market opportunity for [Brink's]."

When it comes to the revenues Strategy 2.0 can generate for Brink's, "Management is targeting Strategy 2.0 revenue to double to 5% of total revenue in 2022, and reach 10% of total revenue by 2024," Tong writes.

With that background, it is not hard to envision the company adding remote deposit capture to BLUbeem, payment experts say. But Schmeltzer is quick to point out that many merchants already subscribe to a bank-operated RDC service. "Banks are competitive when it comes to RDC, but adding it to BLUbeem is a possibility," she adds.

If nothing else, Brink's' foray into processing cash transactions gives it a temporary leg up in a world where banking, payments, and commerce are converging.

"Our mission is to drive the convergence of payments and banking," says Priore, "and partnering with Brink's brings us a component that makes that possible with cash." DT

# THE NEVER-ENDING WAR

With rate increases expected this month, it's time for the annual confrontation over interchange. Can this issuer-retailer argument ever be resolved?

BY JOHN STEWART

**IN THE PAYMENTS BUSINESS,** nothing gets the attention of the entire industry as effectively as the topic of fees. And no fee wins that attention as much as the interchange fee—the cost acquiring entities pay issuers each time a cardholder taps (slides, waves) his card.

"Tens of billions of dollars are at stake. Lots of parties have an interest in this," says Eric Grover, principal at the payments consulting firm Intrepid Ventures.

That means the industry's eyes are typically riveted on the month of April, when the card giants Visa Inc. and Mastercard Inc. implement their latest interchange regimes. This month, U.S. acquirers and their client merchants are watching more closely than ever as hundreds of millions of dollars in increases go into effect after a two-year respite during which the networks largely held off on rate changes.

The immediate prospect of bigger fees paid by merchants for card acceptance has already caught the attention of regulators, with the Consumer Financial Protection Bureau's director, Rohit Chopra, charging the card networks with feeding an already raging inflation problem.

"It seems like adding insult to injury to a lot of businesses out there," he told interviewers last month on CNBCs "Closing Bell" program. Since taking over the CFPB last year, Chopra has proven to be an active regulator, launching probes into such popular programs as buy now, pay later services.

## 'QUITE SUBSTANTIAL'

As of mid-March, Mastercard and Visa were preparing revisions to their interchange schedules that at least one research firm says will cost U.S. merchants an estimated $475 million in additional transaction fees. Though the networks have historically revised their rate schedules each April and October, "this April is particularly significant," says Callum Godwin, the Atlanta-based chief economist for CMSPI, a global research firm.

The firm's estimates indicate the changes in Visa's rate adjustments will add up to a net $145 million in additional cost to acquirers. For Mastercard, the impact will net out to $330 million. While the networks have historically set interchange rates, they do not collect any share of the fees. Merchant processors pay interchange on each transaction to the issuer of the card and then pass the cost along to their client merchants, often with a markup.

In general, e-commerce merchants will feel the heftiest impact, according to the CMSPI estimates, which Godwin says are based on new rate schedules circulating among processors. Meanwhile, Mastercard's new rates for small grocers will see increases that "are quite substantial," according to the firm's review.


Grover

"Tens of billions of dollars are at stake. Lots of parties have an interest in this."

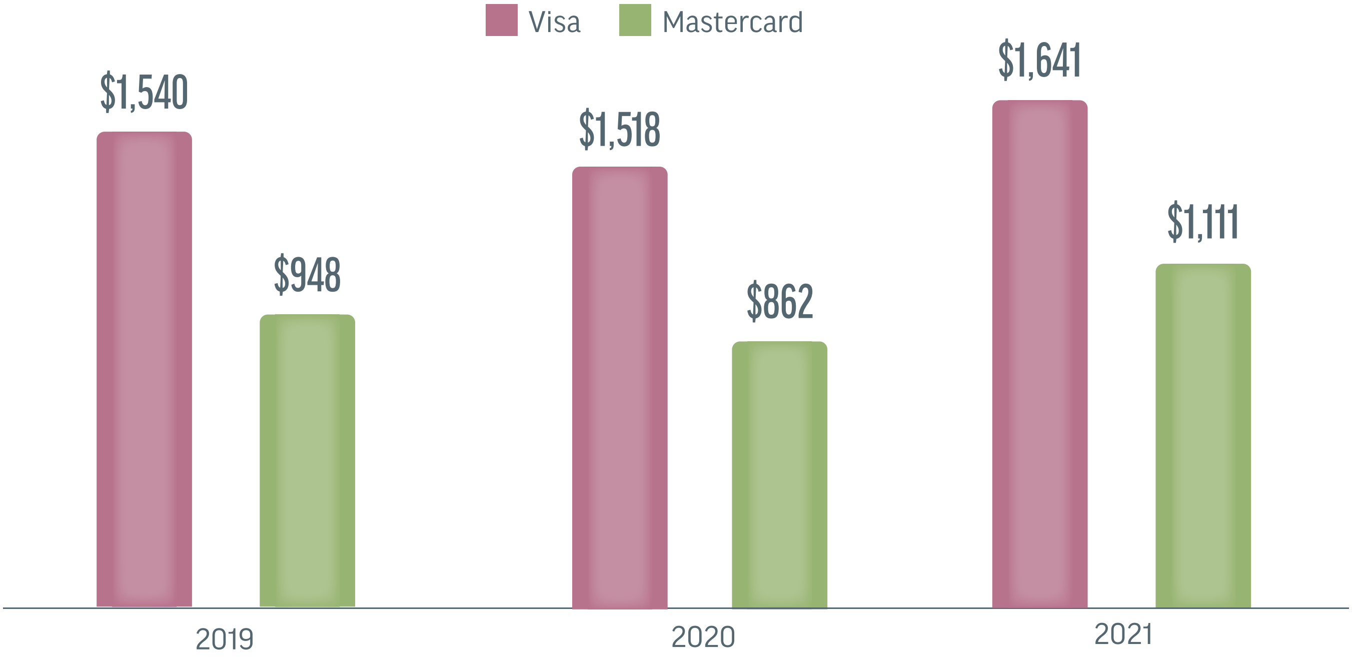
On the other hand, Mastercard is lowering rates for passenger transport, travel and entertainment, and day care. And Visa is reducing rates for small businesses. "Individual merchants have a fairly challenging task to figure out how [fee changes] impact them," Godwin says.

On the whole, after two years in which consumers flocked to e-commerce to avoid in-person shopping, "online retailers are going to be impacted worse than face-to-face" sellers, Godwin says. Still, Godwin avoids theorizing about the business reasons behind any of the new rates. "It's very difficult to speculate about interchange changes," he notes.

The new rates represent the first significant set of changes to the interchange schedules since 2019, as the global networks largely left their rates alone in 2020 and 2021 in view of the impact of the Covid-19 pandemic on businesses. The latest round of changes also represents a softer net impact than the one CMSPI estimated for rates the networks originally intended to introduce a year ago.

## CREDIT CARD ACTIVITY

(U.S. consumer credit payments volume, in billions)




Note: Visa numbers are for the 12 months ended June 30.
Source: The companies

## 'MORE THAN FRUSTRATING'

"Electronic payments have proven even more valuable since the start of the pandemic, and that's why we're seeing merchants encouraging their customers to use electronic forms of payment," says a Mastercard spokesman. He adds Mastercard is reducing rates for hotels, rental-car companies, and casual-dining establishments "to encourage recovery in the merchant categories that were hardest hit by the pandemic."

For its part, Visa is "lowering key in-store and online consumer credit interchange rates by 10% for more than 90% of American businesses," according to a spokesman.

As for rate increases, he adds, these are "largely avoidable and apply to transactions that are sent to Visa with insufficient data, are coded incorrectly, carry increased risk, or are processed without using a Visa EMV payment token." Network tokens mask key data that accompany transaction messages to aid processing.

Merchant advocates and critics of the longstanding interchange system have historically denounced interchange, and some at least are quick to decry the latest round of changes. "What I'm hearing from many merchants is that this game has gone on long enough, and, coming on the heels of two years of Covid, is beyond offensive," says Steve Mott, principal at BetterBuyDesign, a payments-advisory firm.

The networks respond that the interchange regime supports critical infrastructure at a time when payment risk is rising. "These rates are designed to maintain high data quality and integrity across our network to prevent fraud," says the Visa spokesman.

But Mott and others argue the latest round of rate changes are at best disingenuous efforts by the card networks to dress up unpalatable costs. Indeed, the actual rate tables "are the tip of the iceberg," says Doug Kantor, general counsel for the National Association of Convenience Stores. "Banks issue more and more rewards cards and shift transactions to these more expensive cards."

And with rising inflation, merchants are paying more still, Kantor maintains, since interchange is computed as a percentage of the sale. "Fees have been inflated with every cent of inflation," he says.

All told, card-transaction fees for c-stores soared 30% in 2021 alone, according to Kantor, who calls the rise "a pretty dramatic number." That increase, combined with the new rate schedules from Visa and Mastercard, "is more than frustrating," he adds.

Mott

"This game has gone on long enough, and, coming on the heels of two years of Covid, is beyond offensive."

## 'ANALOG RULES'

Card-industry advocates argue merchants too often confuse higher dollar outlays with higher fees. The basic set of percentage-based interchange fees have actually changed only in small ways over the past 10 years, they say. What has changed, they add, is the total payout, which has risen along with higher sales volumes.

And many rate increases can be minimized with security upgrades that mask transaction data and protect user identities, such as tokenization, says Jeff Tassey executive director of the Electronic Payments Coalition, an advocacy group for the payments industry. Other anti-fraud technologies, such as Secure Remote Commerce and 3-D Secure, offer a shift of fraud liability from the merchant to the issuer, Tassey adds.

Some observers agree many core interchange rates have remained more or less stable over the past decade, but they argue the rate schedules fail to accommodate new technology.

As an example, Don Apgar, director of the merchant services advisory service at Mercator Advisory Group, a Marlborough, Mass.-based financial-service consulting firm, points to mobile wallets such as Apple Pay or Google Pay. These transactions incur a higher, card-not-present fee because the physical card is absent, he says.

"If authenticating through a wallet, that [transaction] should not incur a [higher] fee" since the physical card has been tokenized, Apgar says, adding, ruefully, "we're living in a digital world with analog interchange rules." DT

# IS COVID-19 IN THE REARVIEW MIRROR?

**It may well be, but its effects are very much with us—and are lasting.**

By Kevin Woodward

**TWO YEARS AFTER IT FIRST STRUCK,** as the Covid-19 pandemic seemingly winds down, the payments industry is adapting to changes Covid coaxed into place that will stick around a lot longer than the virus that caused them.

As a case in point, contactless payments have surged in the past two years. They were introduced in the United States in the mid-2000s, only to experience mediocre adoption. Consumers didn't see the point of tapping when swiping was quicker and a process they were used to. Then the Covid-19 coronavirus turned into a pandemic and made consumers hesitant to touch shared public devices, such as point-of-sale terminals.

As more businesses eventually reopened, consumers found their credit and debit cards and their mobile wallet-equipped smart phones could be tapped against payment terminal to complete a transaction. Finally, issuers, merchants, and acquirers were in sync.

The years-long work of refitting merchants with EMV-compatible terminals that also had near-field communication wireless technology began paying off. All the payment cards now came issued with not only an EMV chip, but also contactless payment technology.

And, most important, in 2020 and 2021, consumers were ready to try a new way to use their cards and smart phones. How dramatic was this change? Take a look at just one week selected more or less at random. In the week ending July 18, 2021, contactless payments ballooned 597.7% from the baseline period in March 2020, prior to the containment actions taken to stifle the virus, according to payments provider CardFlight Inc.

Broadened use of contactless payments by consumers is one lasting change from the past two years.

The pandemic's impact extends beyond consumers. The payments industry adapted to new technology, new ways of conducting business, and new markets. It's as profound a change for the payments industry as any seen at any other time.

"While the world is beginning to return to a sense of normalcy, it's clear that consumers will continue to demand more from merchants when it comes to providing seamless digital experiences," Brian Dammeir, president of North America for Adyen NV, the Netherlands-based payment processor. "Many of the effects of Covid on how consumers pay and transact are going to be permanent."

## Gaining 'Massively'

Permanent change in payments isn't affecting just consumers. Payments companies, too, have adapted, and some expect to continue on with wholly new business practices. For some, such as Usio Inc., a San Antonio, Texas-based payments provider, the impact of Covid opened a new market in government payments, says Louis Hoch, Usio's chief executive. "The biggest benefit of Covid is, we launched into government payments," Hoch says. Usio went from processing transactions for no cities to more than 200, and that number will only increase, he says.

These experiences are not uncommon among payments practitioners, and extend even to how they conduct business internally.

"From the perspective of our day-to-day activities, [Covid] temporarily put a stop to in-person meetings, which meant we moved to virtual meetings," says Eric Christensen, chief payments officer at Digital River Inc., a Minnetonka, Minn.-based online payments provider. "We've learned that we can still do business without flying executives and salespeople to meetings that can be done virtually. In-person meetings still have their place, but we are being mindful of when that makes sense and when it does not."

Consumers also adapted, especially when it came to in-person payments. "Electronic payments usage has gained massively in popularity in the past two years, especially payment methods that are contactless or allow people to minimize interaction with others," says Sheridan Trent, senior analyst at Omaha, Neb.-based The Strawhecker Group, a payments research firm.

In February, e-commerce spending was up 85.9% compared to February 2019, according to Mastercard Inc.'s SpendingPulse report. When it comes to contactless payments, 74% of cardholders who used the payment method intend to keep using it, a joint survey from The Strawhecker Group and the Electronic Transactions Association revealed in November.

This all points to an even greater shift to cashless payments, says Justin Passalaqua, chief market officer for Worldline S.A.'s North America operations. "More and more people are now forced to get out of their habit of using cash or writing checks," he says. "The mentality of the end user is going away from that."

Payments companies are experiencing their own version of this transformation, he says. There's now more importance placed on the value of integration, he says. Indeed, Bezons, France-based Worldline, which is selling its terminal business that includes Ingenico, could soon have additional resources, following the sale, to concentrate on software-as-a-service and other digital businesses connected to point-of-sale services, *Digital Transactions News* reported in February.

## A Permanent Change

It's among consumers, however, that the most profound changes have occurred during the pandemic.

"As the last couple of years have evolved, the most pronounced permanent change is the consumer preference for digital-first experiences, even after lockdowns and restrictions have been lifted," Dammeir says. "Especially in the hospitality, food and beverage, retail, and travel industries, guests are now accustomed to seamless digital experiences, making it hard to imagine a world where we go back to the way things used to be."

Specifically, he says, routine use of NFC contactless-enabled cards and phones is here to stay. "With the pandemic and sanitation concerns, large numbers of consumers were educated on how to use 'tap-to-pay' cards, which is not only safer but results in much quicker transactions than dipping a card," Dammeir says.

**"AS OUR CLIENTS GROW GLOBALLY, WE GROW AS WELL, AND I EXPECT THAT TO CONTINUE."**

— **ERIC** CHRISTENSEN, CHIEF PAYMENTS OFFICER AT DIGITAL RIVER INC.

Contactless wasn't the sole contactless technology to find favor amid the pandemic. "The pandemic saw a huge increase in the use of QR codes and Web and app-flows across the board, because they enable consumers to use their own phones," Dammeir says. "Everything from restaurant menus to paying to checking in to a hotel is now being done with QR codes and apps."

Strawhecker's Trent has the same impression. "Whereas before the pandemic there was less knowledge of how QR codes work, most consumers are now comfortable seeing, and using, QR codes to pay their bills, to pay for things in situations where cash and credit cards might not be accepted, such as for small merchants like at farmer markets," she says.

Contactless adoption is just one of the lasting changes Trent sees. "Current trends show that digital-wallet usage, buy now, pay later usage, e-commerce, and things like buy online, pick up in store are becoming more widespread," she says. "And now that people have gotten used to these types of payment methods and have learned more about how they work and how to set them up, I don't believe we'll see a backslide. I would [consider] consumer usage of digital payments to be a permanent change."

"MORE AND MORE PEOPLE ARE NOW FORCED TO GET OUT OF THEIR HABIT OF USING CASH OR WRITING CHECKS."

— **JUSTIN** PASSALAQUA, CHIEF MARKET OFFICER, WORLDLINE S.A.'S NORTH AMERICA OPERATIONS

That change is reflected on the business side, too. Usio's foray into government disbursements started during the pandemic. That included government-backed incentive programs to get a Covid vaccination. That helped move Usio's municipality business from zero clients to more than 200, he says. This fit in with Usio's other major business lines, which include automated clearing house transaction processing, prepaid card issuing and processing, and its payment facilitator business.

"We actually issue more virtual than plastic cards," Hoch says of Usio's prepaid business. Usio's diversification, which left it with not too many retail accounts, such as restaurants and retailers, meant the negative impact of the pandemic was diluted.

The pandemic did have an impact on some internal processes at Usio. Like most businesses, it had to adapt to social distancing and masking protocols, as well as limitations on travel and face-to-face meetings. "We traveled less when Covid was bad," Hoch says. Usio staff learned to use video-conferencing tools, a skill that continues in use today and will remain a part of the company's selling process.

At Worldline, which has operations across the globe, the pandemic put even more emphasis on compliance with local legislation, Passalaqua says. The importance of flexibility gained ground.

## The Perfect Storm

But what about the pandemic's impact on metrics such as the cost of acquisitions, revenue, and profits? While surely the pandemic's impact was more severe on some than on others, for EVO Payments Inc., 2021 ended as a year of recovery. Revenue for all of 2021 totaled $496.6 million, up 13% from 2020, EVO reported earlier this year.

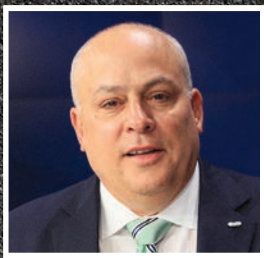
And issuer and acquirer American Express Co. said its discount revenue, it's largest source of income, totaled $7.48 billion in the 2021 fourth quarter, up 35% from the same period a year prior.

For small merchants, those with less than $5 million in annual credit and debit card volume, the cost of acceptance didn't change materially from 2019 to 2021, going from 2.81% to 2.79%, says Josh Istas, senior director of analytics, at The Strawhecker Group. "What did change is the increase in credit and debit [card] volume compared to cash as consumers increasingly used electronic payment methods throughout the pandemic," Istas says.

Cash displacement, a persistent objective among electronic payments advocates, seems to have prospered during the pandemic. Data from the Federal Reserve released in December showed that ACH transactions increased in 2020 by number of transactions, while the share of payments claimed by cards held steady.

The Fed backs up the testimony of contactless payments growth. The number of contactless card payments soared fully 172% in 2020 over 2019, reaching 3.7 billion, *Digital Transactions* reported then. This performance followed an already impressive rise of 121% in 2019 over 2018. The big increase in 2020 left contactless at 4.63% of all in-person card payments, according to the study, up from 1.7% in 2019 and 0.77% in 2018.

It's not just in-person payments that changed during the pandemic. Remote or online payments also soared. In 2021, U.S. e-commerce sales accounted for 13% of all retail sales, says FIS Inc. in a report released in March. That is expected to grow at a compound annual rate of 10% from 2021 to 2025.



**"IN 2020, WE TOOK MAYBE A $1-MILLION HIT FROM COVID…THEN THINGS ACCELERATED IN THE PAST YEAR."**

— **LOUIS** HOCH, CHIEF EXECUTIVE, USIO INC.

Online channels such as buy now, pay later have ballooned in use in the past couple of years and show no sign of weakening. FIS forecasts that global BNPL volume will increase to 5.3% of all e-commerce transaction value by 2025, up from 2.9% in 2021.

Digital BNPL options tend to be easy to use, with a short application process and a low barrier to entry, Trent says, "and for many consumers, they offered a way to enhance buying power and extend their budgets."

The growth in BNPL, indeed, had a major impact at Digital River. "I think it was the perfect storm of a new consumer-friendly payment option hitting the market and an increase in new online shoppers," Christensen says. "BNPL companies were the benefactor here and now have built a loyal consumer base going forward."

Another change that appears to be sticking around is the use of digital wallets. FIS says they accounted for 48.6% of all global e-commerce transaction value in 2021. At Adyen, Dammeir says mobile wallets like Apple Pay and Google Pay are experiencing greater adoption, perhaps leveraging the similar tap-and-go payment experience of contactless credit and debit cards.

Payments companies have learned many lasting lessons from the pandemic. For Usio, it was that diversification, a strategy it had in place prior to 2020, works well for it. "In 2020, we took maybe a $1-million hit from Covid," Hoch says, "but increased $3 million in new sales. Then things accelerated in the past year."

## Play for the Future

Is the pandemic finally over? Hard to say, here in the early months of 2022. But the payments business is clearly acting as if it is. And expectations are the the growth of digital payments is here to stay.

"We believe e-commerce will continue to grow at a pace that is more than organic, and not pushed by the need we saw at the beginning of the pandemic," Christensen says. "We know that companies are investing in their digital strategies and their cross-border capability as they play for the future. As our clients grow globally, we grow as well, and I expect that to continue."

Perhaps one of the most significant and lasting effects of the pandemic on the payments industry is the push it created among consumers. "Probably one of the biggest effects on payments is how it's pushed people into trying new things," Trent says. "They almost need a reason to do so. For most people, they have to have a reason."

Actions to contain the pandemic did that. Now, the results are blooming with the Spring. DT

# HAS REAL DISRUPTION FINALLY ARRIVED?

Creative, norm-breaking advances in payments can happen in the strangest places. Just ask BIM Networks, Discover—and the ACH.

BY STEVE MOTT

Steve Mott is the principal at payments consultancy BetterBuyDesign.

**ANOTHER $13 BILLION** poured into the top 250 fintech startups last year as investors doubled down on the business potential of disrupting staid financial-services providers and the moribund card-payments infrastructure. But where's the actual disruption? To date, very little has actually changed in either the economics for users (particularly merchants) or in the infrastructure (and relationships) governing participation.

All that might finally be starting to change.

From the standpoint of financial-account issuers (namely banks), a decade of first-generation fintech "head fakes" feigning disruption of card issuers appears to be eclipsing with the serious consideration of buy now, pay later (BNPL) lending alternatives. At least some of the BNPL providers appear to be offering effective alternative lending solutions for getting new customers at better deals for both consumers and merchants.

This benevolence stands in stark contrast to the practices of would-be innovators like PayPal, Apple, Marqeta, Square, and Stripe. They offer slicker products with better customer service for consumers than conventional credit cards, but provide no real break on costs for either consumers or merchants.

The head fakes on debit cards are increasingly conspicuous, as a number of these first-generation fintechs skirt the spirit, if not the substance, of Durbin Amendment efforts at fairness in debit cards. They manage this by seeking smaller, exempt banks to process their debit card payments.

At an exempt bank—especially when PIN or PINless can be discouraged or diverted—a 45-cent average interchange fee can be garnered (and shared among the participants), instead of the 24-cent PIN (or PIN-less) rate for exempts (though even that is better than the 21 cents for all debit cards from the bigger non-exempt banks). This is just another reason many merchants are taking the plunge to guaranteed ACH (GACH) to get better rates than can be had on debit cards.

From the perspective of merchant processors and acquirers, though, you'd be even harder pressed to figure out what the $73.8 billion invested in the top 250 fintechs over the past five years has produced in terms of real product innovation and operating choices.

## ANY PAYMENT TYPE

That question might finally begin to be answered with the announcement in February that BIM Networks would be working with Discover to liberate merchants seeking alternative payments—beginning with GACH—without the traditional technology lift that typically prevented previous initiatives from ever getting off the ground.

Better still, BIM white-labels GACH for the merchant's branding use, affording an opportunity to build payment trust while engaging up to four times the consumer use compared to cards-on-file and, in the case of gasoline, a typical 10-to-25-cent-per-gallon discount for the user.

So exactly who is BIM? BIM stands for Buy It Mobility, a payment "distributor" started by ex-Wall Street investment analyst Adam Frisch, originally as a mobile-wallet play delivering GACH payments. BIM first gained notoriety in the mid-2010s as an open-payment option, mobile wallet/platform.


Mott

**Real, structural change in payments economics and choice might finally be at hand.**

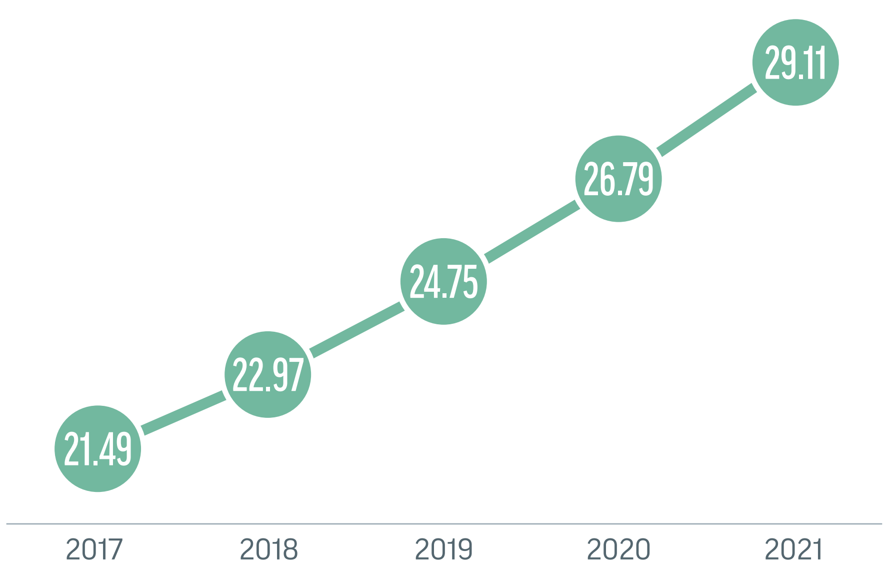
That platform was selected by the Merchant Customer Exchange (MCX), the ultimate attempt at card-payments disruption launched by dozens of the nation's largest merchants. MCX got as far as a substantive pilot test of its wallet (CurrentC) in 2015 before succumbing to slow consumer adoption of mobile wallets.

So BIM moved on, building an estimated 45% share of the fuel/c-store market for GACH acceptance. New customers in the quick-service restaurant and grocery verticals are rumored to be on the way. February's announcement—at a conference held by the Merchant Advisory Group—depicted a solution that can be implemented by a merchant simply by placing a URL into their apps and websites. BIM and Discover handle the rest, including consumer identity verification, bank connectivity, processing and settling the transactions.

With this deal, BIM Networks offers a fully-formed GACH capability to virtually any merchant—*independent of acquirers or gateways*. The merchant's customers only see their brand, while their infrastructure (POS, acquiring, and back-end settlement) sees these transactions like a Discover transaction, albeit with the ACH benefits one would expect.

## THE ACH GROWTH CURVE

(Number of network credits and debits, in billions)




Source: Nacha

When the consumer clicks on this payment choice (or presents the QR code), the payment authorization and checkout data simply pass into the ether to BIM's Buy Pass platform for processing via the Discover network and virtual cards—which more than 99% of merchants in this country can accept.

## UNIVERSAL ACCEPTANCE?

This low-profile infrastructure could, in theory, also support credit, debit, or other unconventional payment types in the future via this independent rail choice (for example, Discover for credit and debit, Pulse for PIN and PINless debit, and so on).

And it could eventually route emerging new payment types like account-to-account (for example, AppBrilliance) or peer-to-peer and business-to-business (for example, Real Time Payments or FedNow) through its independent interconnections as well. No acquirer needed.

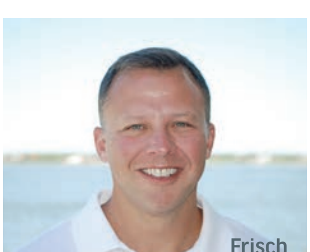
These independent but interconnected rails offer theoretically universal merchant-acceptance possibilities for all effective payment options, addressing the latest innovations in payment alternatives without merchants needing to coax their acquirers to participate. Favorable trends include:

- Burgeoning adoption of BNPL services, where merchants can pick "friendly" offerings while avoiding a typical 5%- to-8% transaction cost on other rival services;
- Expanding interest in A2A and P2P payment alternatives using bank accounts both online and at POS and following in the footsteps of rapidly growing GACH, where some studies estimate 86% of consumers have employed some account-linking facility;
- Proliferating use of QR codes, *a la* AliPay and WeChat Pay but also PayPal, with order-ahead and pay-at-the-table functionality being adopted by thousands of restaurants and bars;
- Opening gambits by big banks (for example, Citi and Chase) to offer The Clearing House's RTP system for small business;
- And new and planned forays for Venmo (and, eventually Zelle) to enter the purchase-payments space.

The bet is that many consumers (especially those under 40 who eschew conventional credit and debit cards) and small businesses (eager to finally liberate themselves from writing checks or using expensive cards) will be first to show up for innovations like the BIM/Discover payment rail, where any merchant can participate.

What makes this innovation even more interesting is that the good old Discover Network happens to be an active participant in—and beneficiary of—both BNPL and BIM initiatives. Discover invested $30 million in BNPL fintech Sezzle in November (Sezzle was purchased four months later for $337 million by Australian fintech Zip).

And, don't forget, Discover is a legacy card issuer itself, with 57 million credit cardholders plus Pulse debit card interconnections throughout the country. Plus, all those Sezzle/Zip consumers could logically be steered to BIM/Discover-accepting merchants.



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## A NEW SHERIFF

Discover is also an investor in BIM Networks, enabling BIM's transactions to traverse the world through the network's myriad connections in the card payment system. Over the years, the likes of PayPal, Google, and Apple have tried to figure out how to leverage the Discover network for their own independent access to payment-processing alternatives.

But now, what's to stop any merchant from boldly going where no merchant has gone before? And, with independence from acquirers, who's to deny that real, structural change in payments economics and choice might finally be possible?

BIM Networks is no bouncy, breathless, chest-thumping fintech, and its payments acumen is proven. Discover has the indisputable value of a global network, but with the new cachet of making real innovations happen in a bigger way. The reported waves of merchant, partner, and acquisition inquiries to this pair over the past month suggests that a new sheriff is in town, and it's called BIM Networks. BIM who? Ask no more. DT

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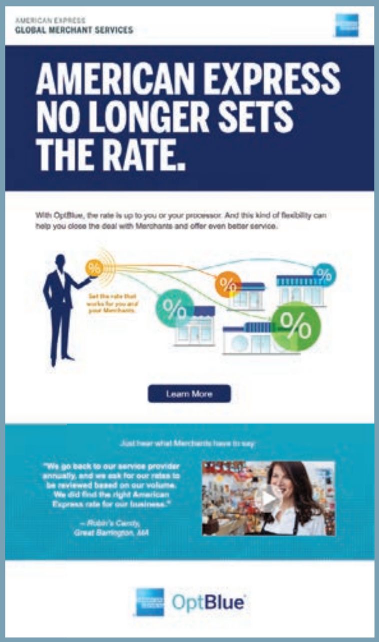






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# LEVELING UP PAYMENTS EDUCATION

Payments is a complex business. Best to start by mastering the basics of pricing and security.

BY **NIKKI ESTES**

Nikki Estes is digital marketing manager at iCheckGateway.com, Fort Myers, Fla.

**SCRATCHING THEIR HEADS,** your business leaders may ask, "Why do fees change for credit card processing? What's this Level 1? 2? 3?" Then, they hit you with questions related to cybersecurity: "Wait, did you call my PCI Level 1? 2? 3? 4? What does that mean? Does that affect my merchant rate fees?"

Let's stop right there.

I had a great conversation with some intellectual beasts when it comes to credit card processing solutions and cybersecurity technology: Jason Estes, president and chief executive of iCheckGateway.com, and Christopher Bulin, founder of Proven PCI Inc. Let's discuss the differences. There were two separate conversations. Smile and nod until it's clear to you as it eventually became for me.

## FIRST: PROCESSING FEES

The "Levels" here get quantified by the amount of data passed through during the credit card transaction. It varies based on the requirements needed for verification and authorization. Level 1 means the fees will rate higher while Level 3 means the fee will rate at its lowest.

Part of what defines the fee rates will be the type of customers or clients your business serves. So, consider the savings when setting up the payment portal. The more data fields required, the lower the processing rates. Also, part of what defines this is the type of customers your businesses serve. Any transaction submitted with Level 2 and Level 3 card data qualifies for lower Visa and MasterCard Interchange rates. That means lower merchant fees.

With Level 1 credit card processing for consumer-to-business transactions, consumers use their personal credit cards to make purchases both large and small. These transactions require the most basic data to go through, namely, merchant name, transaction amount, and date.

With Level 2 processing, business-to-business solutions help B2B merchants build strong relationships with their clients. With this level,

## Teach every budding and seasoned entrepreneur, inquisitive financial student, and eager-to-learn sales-relationship manager about payments.

they increase large-ticket transactions with corporations and government agencies. Collectively, the data to qualify at a lower merchant fee rate includes merchant name, transaction amount, date, tax amount, customer code, merchant postal code, tax identification, merchant minority code, and merchant state code.

Then there's Level 3 processing. Government or corporate purchasing cards usually fall into this category, gathering the most detailed data for enhanced reporting and more control over employee purchases.

The data fields required for Level 3 processing include those from Level 2 transactions plus several others, such as: item product codes, item descriptions, quantities, item tax rate, ship from postal code, freight amount, duty amount, destination postal code, destination country code, and more.

## SECOND: PCI SECURITY

The Payment Card Industry Security Standards Council (PCI SSC) was created in 2006. The main supporters include American Express, Discover, JCB, Mastercard, and Visa. They added software and hardware developers, point-of-sale terminal makers, banks, and retailers. Together, while not directly responsible for carrying out cybersecurity measures, they closely monitor transaction processes.

So, the PCI SSC's data-security standard (DSS) put together 12 requirements for businesses processing credit cards to be in compliance. They give six objectives as well. The council set the goals as a global entity to help improve security for every aspect of the financial transaction process. As a part of that, it designed the DSS, often shortened to PCI. The council determines the "levels" of scrutiny needed by the number of credit card transactions the business handles each year:

*Level 1:* Merchants that process over 6 million credit card transactions annually.

*Level 2:* Merchants that process 1 to 6 million credit card transactions annually.

*Level 3:* Merchants that process 20,000 to 1 million credit card transactions annually.

*Level 4:* Merchants that process fewer than 20,000 credit card transactions annually.

What does this mean when choosing a payments provider? Level 1 organizations hire an external audit to dig deep into processes. The audit is performed by a QSA (Qualified Security Assessor) or an ISA (Internal Security Assessor). These audits require documentation from year-round internal and external evaluations and a discussion annually to validate, review, support, and evaluate measures set by PCI.

For Levels 2 through 4, cybersecurity remains critical, but organizations can perform a self assessment without the need to pay for an external audit.

Credit card processors impose a PCI Compliance fee. This will typically vary from provider to provider depending on the support provided. While PCI does offer training and support, the PCI DSS imposes non-compliance fees. These fees discourage business owners from having timid management tolerating customer- and business-data vulnerabilities. Instead, owners at all levels will fortify their defenses, hiring a third-party entity to ensure their PCI compliance.

## EDUCATION

So, passing on the data to businesses gives them confidence they earn the best pricing per credit card transaction and the most secure processing of the sensitive payment details their customers entrust to them to use for purchases.

Whether online in a hosted payment portal or iFrame, over the phone with a representative or through Interactive Voice Recognition (IVR) software, through a mobile tablet or POS device, or within an invoicing platform using email or SMS texts, the payments revolution is here.

Teach every budding and seasoned entrepreneur, inquisitive financial student, and eager-to-learn sales-relationship manager about payments. Let them offer transparency and build trust for future collaboration. DT

Chucking checks, embracing efficiency.

# endpoint

# SIX UNFOLDING B2B PAYMENT TRENDS

## Here's what to look for as businesses respond to the advantages of digital payments.

BY **RICK FLETCHER**

Rick Fletcher is group president of Corpay Payables.

**CHIEF FINANCIAL OFFICERS** face a daunting list of challenges in 2022: managing cash flow and controlling overhead; getting access to capital; protecting the organization against fraud; supply-chain chaos; the Great Resignation and the talent shortage; digital transformation.

How a business makes its payments touches on all of them.

The new imperatives of work-from-home drove more change in the long-overlooked area of business-to-business payments than we've seen in decades. But there's more room for improvement. This is a huge market—$22 trillion domestically—where banks still have 90% market share. The bank-to-fintech share-shift movie we've seen in consumer payments over the past decade is really just beginning to play out in B2B. Here are some of the things I think we'll see unfold in the year ahead:

**1. Check use declines**

Just a few years ago, more than 50% of U.S. B2B payments were made by check. Now we're down closer to 40%. That's still a lot of checks, but the percentage will keep dropping. In Europe and Latin America, they don't use checks, period. They have to transmit data to the government to report and remit value-added tax (VAT). They also have to be able to transmit data across borders and banking systems. Imagine trying to do all that using paper.

Checks have persisted in U.S. businesses because they are the only payment method that enjoys near universal acceptance. But as the whole world becomes more digital, maintaining manual check processes will become an increasingly unacceptable burden.

**2. Greater focus on efficient processes**

According to the 2022 Payments Cost Benchmark Survey from the Association for Financial Professionals, efficiency—rather than cost savings—is now the top reason for moving to electronic payments. But just shifting to electronic payment types doesn't create efficiency.

What does payment-process efficiency look like? Any definition would include: technology that gives you a single workflow for any type of payment; centralization of digitized information in the cloud; support services, such as error resolution; and outsourced vendor enrollment and data management.

**3. Fintechs gain market share**

There are a lot of companies in the check-elimination business, but not all approaches are equally effective. Banks mainly offer check replacements, such as cards or the automated clearing house. They're not offering the combination of technology and

SPONSORED CONTENT

# PRESERVING CONTACT IN A CONTACTLESS ENVIRONMENT

By John Newton, Vice President, Strategic Partnerships, First American by Deluxe

**We are wired to connect. That's according to** social neuroscientist Matthew Lieberman, who says there are three networks within the human brain that bolster connection: one that involves our ability to feel pleasure or pain; one that allows us to read other's emotions and predict their behavior; and one that helps us to absorb cultural beliefs and values.

## FUELING CONNECTION

First American leads the charge to deliver integrated products and services that meet both the wants and needs of businesses of all types and sizes. We strive to find the optimal balance between identifying the best solutions and communicating their value to our partners. To do this effectively, we get to know our customers, who they are, what business problems they face, and what goals they hope to achieve. Then, we deliver the products and go-to-market strategies to best meet their needs. Does your current payment processor apply similar effort to help your ISO?

## ANTICIPATING BUSINESS NEEDS

Looking ahead, we call your attention to new solutions coming your way. From "Buy Now Pay Later" programs for both retail and e-commerce to a flat-fee surcharge program and integrated EMV capabilities to a dedicated chargeback portal to help merchants reduce the frequency of disputes and the associated revenue losses, First American is solidifying its reputation for efficiency and driving customer loyalty.

These solutions are over and above the extensive payment technologies we've added through Deluxe, including Payroll/HR services, website design/hosting, and online reputation management programs, each designed to help you grow your ISO. These products, in addition to our distinguished portfolio of payment solutions, are transforming the way businesses do business.

## SHARING YOUR VALUES

Equally as important to providing the right solutions is delivering on one's service promise. First American puts itself in the shoes of our customers to ensure that we're providing solutions that solve real problems. We don't force fit your merchants into a single solution. We listen, we learn, and we create solutions that meet the needs and preferences of the industries you serve. Through innovative technology, an unparalleled user experience, superior customer service and a commitment to serve the needs of our customers before our bottom line, First American works to earn your business every day.

Consumers and merchants are embracing new technologies. And while quality products are needed for customer loyalty, the convenience and cost-effectiveness of options like contactless payments do not surpass the need for service and support. First American knows it's not just what we do that equates to success, it's how we do it that makes all the difference.

We have helped hundreds of ISOs grow their business. Are you ready to make a connection?

FIRST AMERICAN by deluxe

First American Payment Systems (First American by Deluxe®) is a leading payment technology company that provides powerful in-store, online and mobile payment solutions paired with the latest in payment security and backed by superior customer service. https://www.first-american.net services that companies need to become fully digital.

For example, enrolling vendors for electronic payments and managing and securing their data has historically been a big obstacle to digitization. It can be cost-prohibitive to do in-house. Fintech providers use both technology and services to offer a complete solution.

**4. Cards see wider adoption**

The percentage of card payments will rise because credit cards simply offer too many benefits to ignore.

On the customer side, you get an electronic process that reduces costs and makes expense tracking and reconciliation easier. Also, cards free up working capital and generate rebates. They fight fraud because it's easier to cancel payment and to control spend through limits and category blocks.

On the vendor side, payments are received and cleared faster, and they don't bounce, all of which means improved cash flow. You get better remittance data than you do with an ACH or even with a check. Perhaps more subtly, it enhances the image of your business when you're big enough to accept credit cards.

**5. Fighting fraud at scale**

Criminals always follow the money. When money moved by stagecoach, they robbed stagecoaches. When it moved by train, we had train robbers. As money moves digitally and more people become computer-literate, hackers are the new robbers.

Unfortunately, today's robbers enjoy all the same advantages of scale that legitimate businesses do. As it gets harder and harder for individual companies to keep up with fraud at scale, they'll turn to payment service providers that take on the risk for them.

**6. Blockchain yes, crypto not yet**

Cryptocurrencies and nonfungible tokens (NFTs) made headlines in 2021. But it's still too early to fully understand how cryptocurrencies and blockchain/distributed ledgers will impact business payments.

Blockchain has made banks a tad bit uncomfortable with promises of offering close to real-time transactions while reducing operational costs. In fact, Fleetcor already partners with RippleNet in our global payments business. RippleNet's distributed-ledger technology lets our clients pay their beneficiaries in hours instead of the days it would take using the SWIFT settlement network. For customers that are on RippleNet, all the KYC (Know Your Customer) and AML (Anti Money Laundering) information is vetted, and there are bank accounts—not crypto accounts—on either side.

Cryptocurrencies still don't have all required regulatory frameworks in place. Their untraceable nature, volatility, and lack of widespread acceptance are big challenges that must be overcome before we see mainstream business adoption.

## IN A NUTSHELL

The digitization of B2B payments is happening. It will take a lot longer than it has with consumer payments because change happens slower with B2B and the market is so big. There's also more complexity. It's not enough just to move the money electronically. You have to make all the surrounding processes electronic, too.

In 2022, we'll continue to see companies replace checks with electronic payments. But we'll also see a growing realization that this isn't true digital transformation.

Even if you're making 100% of your payments via ACH and credit card, you still have people doing manual work that could be done much more efficiently through a full-service payments provider. That reduces your costs, frees up people and capital, generates rebates, and makes your vendors happier because it's more efficient for them, too.

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