DIGITAL TRANSACTIONS®

Trends in the Electronic Exchange of Value

14TH ANNUAL

FIELD GUIDE TO INNOVATIVE *Payments*

Herewith our review of the nonbank payment services—established and emerging—making the biggest difference today.

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- Mastercard, Visa, Or–Zelle?
- An Update on Restaurant POS
- The Negative of False Positives
- All Together for Transit Pay

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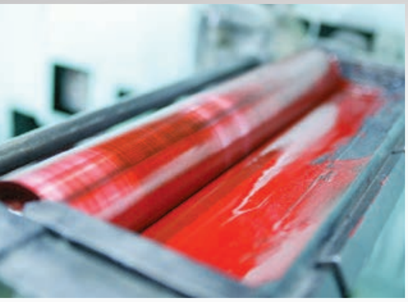

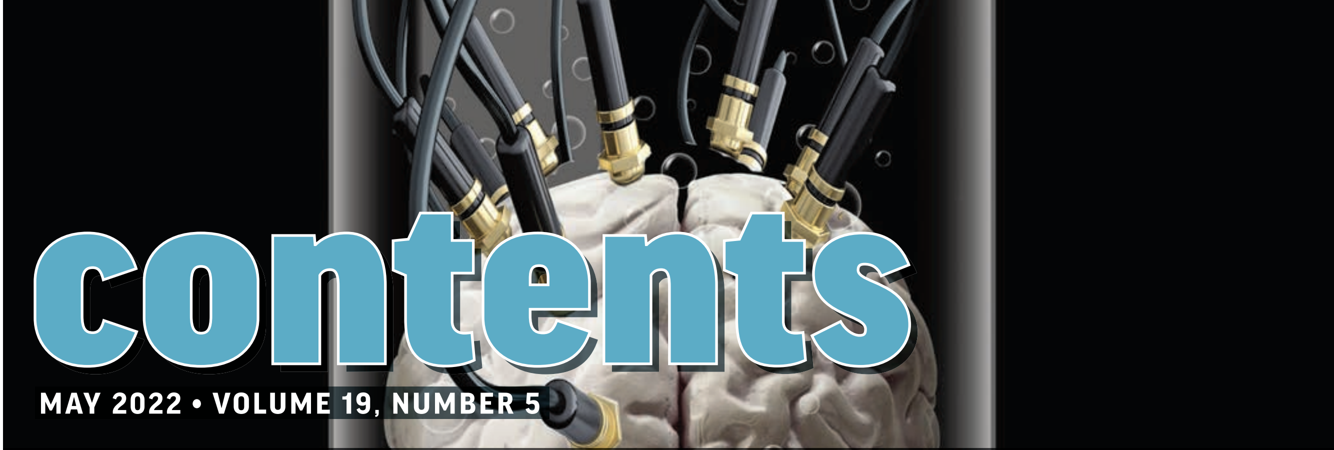

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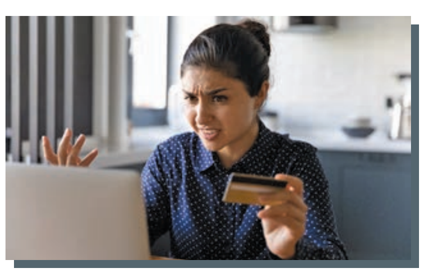

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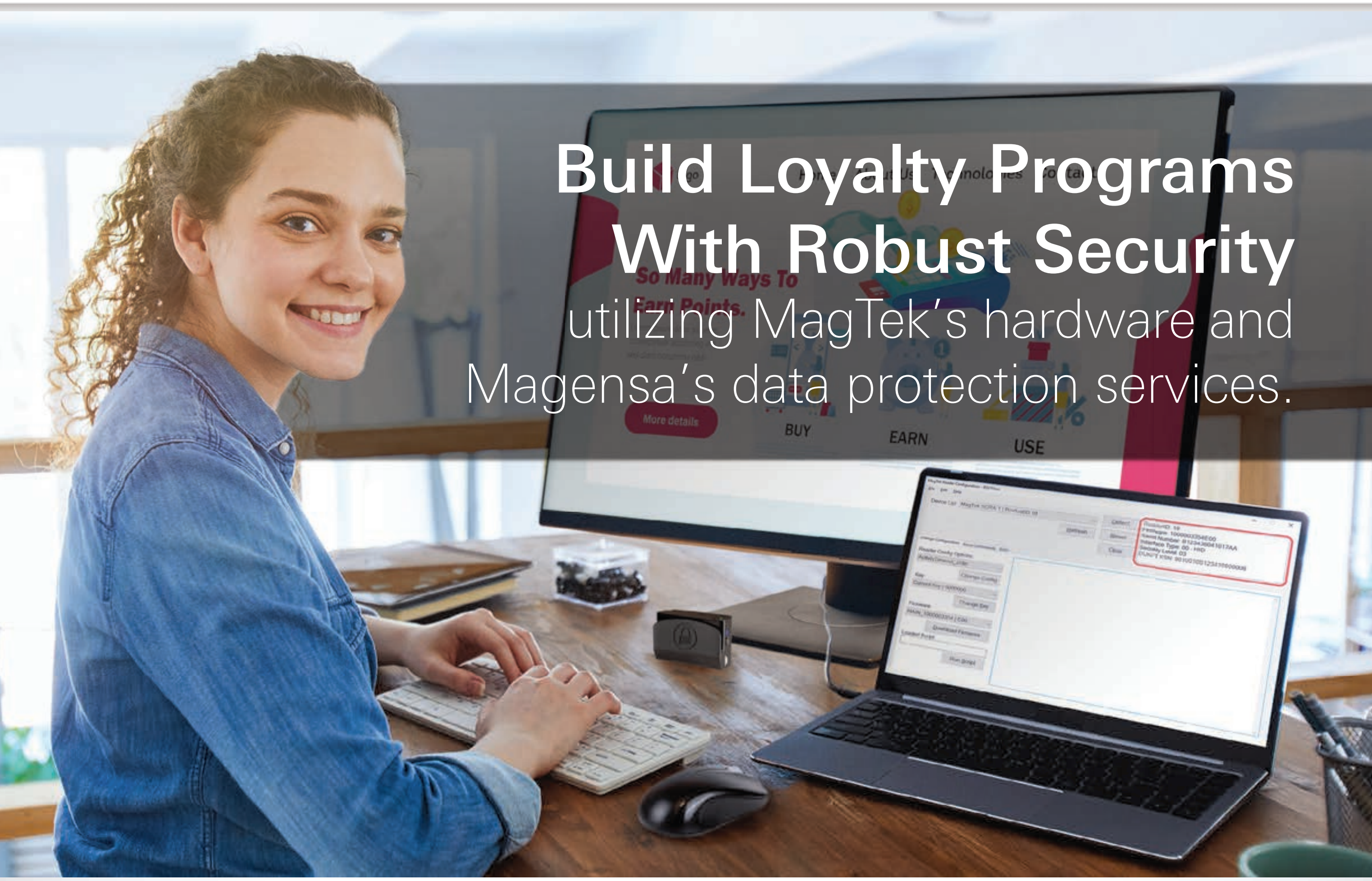

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'WE CAN'T LET OUR GUARD DOWN'

BE CAREFUL WHAT YOU WISH FOR. For years, payments processors have contended that state and local lawmakers and regulators would enact better regulations if they were better-informed about how payments work. The good news is that's now happening. The bad news is that state lawmakers' understanding of the payments business remains fragmentary.

That's what Kim Ford, senior vice president of government relations at Fiserv Inc., told attendees last month at the annual meeting of the Electronic Transactions Association in Las Vegas.

We agree, though we would add the need for outreach is even more urgent at the federal level. More on that shortly.

"Legislatures know payments are important, and are a little bit smarter. It means we [still] have a responsibility to educate them about how payments work," Ford said. The job is especially difficult with state and local governing bodies, where lawmakers can change every few years. "We're always starting from scratch," the lobbyist said.

The onset of the pandemic didn't help. Ford pointed to an executive order in Georgia in 2020 to "suspend the use of PIN pads" in that state, ostensibly to help control the spread of the Covid-19 virus. "The governor didn't know that with [electronic benefit transfer] cards, you have to enter a PIN," Ford told the audience. Unwittingly, the governor "was cutting off access" to a crucial benefit at the very time the pandemic was underscoring its need, she added.

More recently, California legislators proposed rules to hold payments processors liable for products sold by online marketplaces and found to be "faulty." Industry lobbying succeeded in stopping the proposal, but its emergence in the first place was "scary," Ford said.

"Lawmakers know payments are important, and are a little bit smarter about" payments," Ford said. But it remains for the payments industry to be vigilant about proposed legislation affecting payments, she added. "It means we have a responsibility to educate them." Still, even with better-educated legislatures, "sometimes strong voices from processors get lost in the shuffle," Ford lamented.

But the payments industry can't afford just now to let its voice "get lost in the shuffle" at the federal level, where the stakes are about to get much higher. Activist directors installed by the Biden administration at several agencies—including the Consumer Financial Protection Bureau and the Federal Trade Commission—are demanding answers from the industry on matters ranging from the buy now, pay later craze to how complaints and consumer data are handled. There's even a possible resuscitation of Operation Choke Point, an Obama administration practice that held processors accountable for the misdeeds of their clients.

Lobby hard, payments pros.

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THE NEXT BIG VISA-MASTERCARD RIVAL IS...ZELLE?

Is the Zelle peer-to-peer payments network soon going to the point of sale? That's the big question raised by payments-industry experts after *The Wall Street Journal* reported in April that Bank of America Corp. and Wells Fargo & Co.—two of the seven big financial institutions that own Early Warning Services LLC, operator of the Zelle network—are lobbying to expand the service to retail payments.

At issue is whether the financial institutions can leverage the expansion of Zelle to retail payments to avoid restrictions on debit card fees imposed on big banks by the 11-year-old Durbin Amendment, payments industry experts speculate.

In theory, banks offering Zelle for retail payments could set pricing to merchants higher than the Durbin cap, which is 0.05% plus 21 cents per transaction. At the same time, payments experts argue that expanding Zelle to retail payments also could benefit New York City-based The Clearing House Payments Co. LLC, in which both BofA and Wells Fargo also have an ownership stake, by increasing volume through the network.

An increase in volume means lower operating costs and more fees for the network, which benefits its owners.

Early Warning says it uses The Clearing House, as well as the nationwide automated clearing house network, to settle transactions on the back end. About 10,000 financial institutions offer Zelle to their customers. In 2021, consumers and businesses sent 1.8 billion payments totaling $490 billion through the Zelle network.

A commercial extension of the 5-year-old Zelle service to retail payments would not be a stretch, some payment obsevers say, as Early Warning began in 2020 allowing consumers to use the service pay small businesses, such as landscapers, tradesmen, and physical therapists. And PayPal Holdings Inc. has already

ZELLE'S CONSISTENT GROWTH

(Transactions in millions, dollars in billions)

	TRANSACTIONS	GROWTH	DOLLAR VOLUME	GROWTH
2021	1,800	49%	$420	59%
2020	1,200	58%	$307	62%
2019	743	72%	$187	57%
2018	433	75%	$119	59%

Source: Zelle

extended its Venmo P2P payment network to the point of sale. In November 2021, for example, Venmo struck a deal with Amazon.com.

While Scottsdale, Ariz.-based Early Warning would not comment specifically on The Wall Street Journal report, it said in a statement via email:

"Since our launch five years ago, we have added several features and functionalities within Zelle, including adapting the service for businesses. We announced Zelle for Small Business in 2020, after a pilot in 2019. In 2021, we saw a 162% year-over-year increase in payments received by small businesses....We are working with financial institutions to explore more opportunities to streamline consumers' and businesses' financial lives by leveraging Zelle."

Bank of America declined comment and Wells Fargo did not respond to requests for comment.

While a business case may be made for setting up Zelle to compete for retail payments, the chief argument against the move is that it could cannibalize retail credit card purchases, on which there are no interchange caps, says Eric Grover, principal at Intrepid Ventures, a Minden, Nev.-based payments consultancy.

"Card issuance is an enormously profitable business for financial institutions, and Early Warning's owners are large card issuers," Grover says. "Offering Zelle as a retail payment option won't necessarily attract new customers and will likely displace card payments. Charging consumers a fee [to make up for lost interchange revenue] is a non-starter."

The other hurdle facing a move by Zelle into retail payments is that consumers would lose the protections and rewards they receive when making a purchase with a credit or debit card.

"There would be no way for a consumer to dispute a transaction with a card issuer when making a purchase using Zelle and there would be no rewards earned on the transaction," says Grover. "Merchants may like that, but consumers will not be better off making purchases using Zelle as opposed to a card."

Grover also points out that financial institutions have floated the idea in the past of forming their own payment network to compete with Visa Inc. and Mastercard Inc. In the early 2000s, the financial institutions that owned Visa and Mastercard decided to end their co-operative business model and turn the networks into for-profit public companies, largely to escape the threat of antitrust lawsuits.

"That concept was more a shot across the bow of Visa and Mastercard and a way of saying I want a better deal," says Grover. "To create a successful alternative retail payment network, the new network has to be far more compelling than the incumbent systems, not 10% or 20% better."

—Peter Lucas

NEW SHERIFFS, STIFFER SCRUTINY, A LOBBYIST WARNS

Payments companies have sensed increasing regulatory pressure since the Biden Administration's inauguration last year, and now experts who follow developments in Washington, D.C., are confirming it.

After a relatively "light touch" during the Trump Administration, "the [regulatory] pendulum has come back this way" toward a harder look at payments practices, Scott Talbott, senior vice president at the Washington, D.C.-based Electronic Transactions Association, warned last month.

Among the most active federal agencies now looking into payments are the Consumer Financial Protection Bureau and the Federal Trade Commission, Talbott told attendees at the Northeast Acquirers Conference in Philadelphia. The CFPB, he cautioned, is poised to enlarge its authority to attack what it may view as unfair discrimination in consumer finance.

The bureau released a statement last month that it will look more closely at financial firms' decision-making to attack what it views as unfair practices in credit, payments, and other areas.

"Watch out for this," Talbott said. "It's going to be very problematic. You'll be asked to prove a negative, that you did not discriminate." Challenging the bureau on its decisions in this matter will also be difficult, he warned, because it has not published a rule. Instead, he said, "it put out a memo."

Under its activist director, Rohit Chopra, the CFPB has reached out to firms to gather more information about how they handle complaints and disputes. This was the aim of a recent request the bureau sent to Block Inc.,

Chopra: Worrying about a BNPL bubble.

for example, regarding its popular CashApp wallet. Attorneys general from a number of states joined in that request.

These actions follow moves by the CFPB to investigate how big technology companies handle consumer-payments data and other information and how leading payments firms are treating users of buy now, pay later programs.

With the increasingly popular BNPL products, the regulator is concerned chiefly with the extent of debt accumulation, how consumer data is being handled, and the potential for regulatory arbitrage, or possible efforts by BNPL firms to avoid disclosure rules by limiting the number of required installments.

"If the CFPB finds someone did something illegal, it will issue an enforcement, but we could still see a rule-making if they find something they don't like," warned Talbott.

Meanwhile, the FTC is following a practice of holding processors responsible if it finds consumer abuses on the part of merchants. In such cases, it will force processors to "take corrective action." This, Talbott added, is a practice left over from Operation Choke Point, a controversial policy pursued during the Obama Administration to hold processors responsible for the misdeeds of consumer-facing businesses. The practice went dormant after the inauguration of the Trump Administration.

Lina Khan in June took over as chairman of the FTC after having been nominated for the post by President Joe Biden. Khan previously served as a legal advisor to Chopra in his role as an FTC commissioner, a post he held until taking over the CFPB in October.

Talbott said the ETA also is concerned about efforts among some states to pass privacy laws that could complicate efforts by payments firms to combat criminal activity. "We want to maintain the right to use data to fight fraud," he said.

—John Stewart

MASTERCARD'S NEW OPEN BANKING TOOLS

Mastercard Inc. in March said it will launch two new payments tools that rely on the card network's rapidly growing stake in open banking and account-to-account transactions.

The new digital tools, which Mastercard says will not be available until later this year, are expected to address risk and uncertainty in automated clearing house payments by assessing the availability of funds and setting speed of payment.

One of the new tools, Payment Success Indicator, will let the payment originator check on the user's account balance as well as his or her historical payments behavior. The "indicator" is a score summing up these properties. The payment originator could be a bank but also a digital wallet or payment service provider, Mastercard says.

The other tool, Payment Routing Optimizer, uses the score to generate a recommended speed of payment via the ACH—for example, the same-day or next-day service. The Optimizer could also recommend a debit card payment, according to Mastercard.

The new service will rely on the open-banking technology Mastercard acquired when at the end of 2020 it bought Finicity Corp. for $825 million. Open-banking networks allow fintechs to verify account ownership and balances to move money for users of online services and apps.

"When payment originators use Payment Success Indicator and Payment Routing Optimizer, consumers provide informed authorization to allow their bank account data to be shared with the payment originator to enable transactions," Mastercard said in a news release.

The network also cites a study it released earlier this year indicating 74% of U.S. consumers are willing to link their bank accounts to financial apps to enable such functions as payments. Among Generation Z and Millennial consumers, some 90% have already done so, according to the survey.

Faster payments on the ACH network are on the rise, and are expected to increase at an even quicker pace now that Nacha, the network's governing body, has raised the daily limit on same-day payments from $100,000 to $1 million. Same-day credits and debits totaled $944 billion in value in 2021, double the volume in 2020, according to Nacha figures. Transactions totaled 604 million, up 74%.

Mastercard last year added to its portfolio of open banking capabilities with its deal to acquire Aiia, a European firm with connections to 2,700 banks and an account-to account payment volume of more than 1 million transactions monthly.

That deal followed similar moves by rival Visa Inc. to acquire open-banking assets. Visa recently closed on its $2.15-billion deal to acquire Tink AB, another European open-banking provider. That transaction followed Visa's agreement to buy the U.S. firm Plaid Inc., a deal Visa ultimately abandoned in the face of opposition from the U.S. Justice Department on antitrust grounds.

—John Stewart

CONSUMERS' LOVE AFFAIR WITH GIFT CARDS

Despite rampant inflation and supply-chain shortages that have made certain products hard to come by, gift cards, whether they are physical or digital, remain popular with consumers.

Indeed, 58% of consumers plan to purchase more gift cards as an alternative to tangible products due to inventory shortages in 2022, according to Fiserv Inc.'s Q1 2022 Gift Card Gauge. At the same time, 46% of consumers view gift cards as their "go-to" alternative to tangible gifts.

The big processor Fiserv, which conducts the study quarterly, surveyed more than 1,000 U.S. consumers age 18 and older.

Consumers purchase gift cards in connection with what they consider milestone events, such as anniversaries. In the survey, birthdays ranked as the most popular such event for gift card giving, with 57% of respondents saying they plan to purchase a gift card as a birthday present in 2022. Graduations were next, with 37% of respondents saying they intended to give a gift card as a graduation present.

At the same time, 37% of respondents said they intended to give a gift card as a way of saying thank you to someone. Giving a gift card during the holiday season remains popular, with 33% of respondents saying they are likely to purchase a gift card during that time. Overall, 72% of respondents say that gift cards are an appropriate gift for milestone events.

When it comes to the form gift cards take, physical gift cards remain popular, with 65% of respondents saying they feel physical gift cards are not likely to be fraudulent. Overall, 19% of respondents say they plan on buying more physical gift cards than in previous years. By comparison, 16% of respondents plan on buying more digital gift cards than in previous years.

Physical gift cards are also viewed as appropriate items to mark a milestone event, with 51% of respondents agreeing with that idea.

—Peter Lucas

MONTHLY MERCHANT METRIC

Feb'22 (Trailing-3 Months) Account Attrition and Growth

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.*

Beginning	100.0%
Account Attrition	-20.5%
New Accounts Added	16.8%
Ending	96.3%

Metric Definitions: (Only use definitions related to an individual month's release)
Account Attrition - Total attrited accounts in given period divided by total portfolio active accounts from same period of the prior year
New Accounts Added - Total new accounts in given period divided by total portfolio accounts from same period of the prior year

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Source: The Strawhecker Group All information as available.

HOW CRYPTO COULD HELP UKRAINIANS

BY
GIDEON SAMID
gideon@bitmint.com

IT IS INCUMBENT on all of us, witnessing in our living room the horrors of Ukraine, to ask ourselves: *is there something we can do?* For the digital-payment community, the answer is *yes*.

Bitcoin and its many variants are technologies that have been serving the purposes of investors, speculators, criminals, and people who don't trust their government. Plain old payment has been a secondary concern. Let's turn things around and make easy, secure payment primary. What millions of Ukrainian (and other) refugees need is money in their phones to buy bread, eggs, and other essentials, using the host country's currency.

What is the bare minimum needed to put up a simple payment regimen for daily use?

For a payee to accept a string of bits as money, three things must come into being: (i) the payee must be assured that this string of bits—this digital coin—is redeemable at a local financial institution for its nominal value; (ii) the payor must have the right to offer this string as payment; and (iii) the community, once the string is accepted, must recognize the payee as the new owner of the digital coin. Plain and simple.

Once these three elements are in place, the local community will be able to pay one another phone-to-phone. This cash-like payment is a practical advantage over Bitcoin and over non-financial donations that would not be a medium of daily payment for hard-pressed refugees.

The flow of monetary donations from around the world would be funneled to recipients' phones as a weekly installment. Struggling Ukrainians would be able to purchase groceries, offer and buy services, and establish a semblance of normalcy.

> A U.S. bank would push the money to phone numbers compiled by the Ukrainian government.

We borrow from Bitcoin the brilliant idea of a public ledger. The payee would consult this ledger to verify that the payor is listed as the owner of the bit string offered as a digital coin. Upon receipt of the bit string, the payee would update the public ledger to indicate that now the payee is the owner of that digital coin, and has the right to use it as payment.

With redemption, confidence builds with practice. The first time a recipient gets digital money pushed to his phone, he may rush to the bank to redeem it. He will do so again the next two or three times. Then, he will relax and treat these bit strings as redeemable—and transactable. A payment regimen is born!

The cryptography is all "under the hood." There are no private keys to manually handle, no complicated protocols. The downloaded phone app shields the user from security risks. The payor indicates a sum to pay and selects a recipient (phone number) and a mode for bit transfer, be it messaging, WhatsApp, email, or, in case of physical proximity, NFC, Bluetooth, or QR code. The focus on payment, as opposed to speculative storage, keeps the sums low, the risk minimal.

A U.S. bank would collect the donations and push the money to a list of local phone numbers put together by the Ukrainian government. A local bank would redeem these coins from the trading public and would be paid by the U.S. bank.

Relatives and friends of dispossessed Ukrainians would be able to purchase digital coins in the U.S. and pass them on to needy Ukrainians, connecting to their phone numbers. More than 1 million Ukrainians are hosted in Polish homes. Wouldn't it be nice if they could help their hosts with their daily expenses with the donated digital coins?

There are several technological solutions (e.g., BitMint), but the challenge is entrepreneurial. DT

OPEN BANKING IS HERE. HERE'S WHAT IT MEANS

BY BEN JACKSON
bjackson@ipa.org

OVER THE PAST few months, *Digital Transactions* has reported on how companies across the payments value chain have entered into partnerships to offer a greater range of open-banking services to their customers.

Easy data access will become the norm in banking. While open banking will change how individuals manage their money and accounts, it will also force the financial-services industry to change how it manages customers and their accounts. It will also change compliance, as U.S. regulators have begun to take an interest.

In prepared remarks in December about overdraft, Consumer Financial Protection Bureau director Rohit Chopra described open banking as the cure for an imaginary ill where bank customers are trapped.

"Unfortunately, switching bank accounts isn't easy … If America can shift to an open-banking infrastructure, it will be harder for banks to trap customers into an account for the purpose of fee harvesting," Chopra said.

Moving banks can be a hassle, but the notion of "trapping" customers seems extreme. Nonetheless, in July 2021, the Biden Administration tasked the CFPB with writing regulations "to facilitate the portability of consumer financial transaction data so consumers can more easily switch financial institutions and use new, innovative financial products…." So, when regulations come, expect an emphasis on giving customers the ability to move their accounts.

People are creatures of habit. There will not be a wave of bank hopping by customers. However, banks will become aggressive about luring customers away from one another. Marketing and incentives strategies likely will change to focus on how easy it is to move accounts.

People may even maintain fewer accounts. In 2019, Mercator Advisory Group reported that, on average, consumers own 5.3 accounts across all types of financial institutions. That may be due to people wanting a particular service but finding it difficult to move their entire financial life. Now, they might be willing to move all their business for the right set of features and functions.

Account mobility will change the way customers define their primary bank, and thus who they will look to first when they need additional financial services. The ability to share data might make a clearinghouse strategy easier to implement if customers can be convinced to share their data throughout a network of partners.

But companies need to be mindful of how far they intrude on customers' privacy. Getting too comfortable with data sharing could easily draw the ire of customers and regulators.

Another likely big change will be a new definition of financial data. Atomic Financial helps companies and employees manage direct-deposit information. Lindsay Davis, its head of markets, said human-resources data, like salaries, might soon become part of the open-banking ecosystem as people look for easy ways to get information like proof of income to lenders. She also said the pandemic will drive the adoption of open banking as more workers have gone remote and can't simply walk over to their HR rep's office.

With workers staying remote and people looking for digital ways to handle everything, the need to share financial and supplementary data will likely grow as people look for ways to borrow money, make large purchases, and buy things like insurance online.

Financial-service companies need to plan for a world where data, and thus accounts, can move more easily. The temptation is going to be to take a top-down strategic view of open banking. But to succeed, it will be necessary to adopt a customer's-eye view of what account mobility means for how they handle their money, where they keep accounts, and even how they might be tricked into fraud. DT

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NEXT ON THE POS MENU

Cash use is down and digital payments are up for restaurants. How has this changed the payments landscape for this merchant segment?

BY **KEVIN WOODWARD**

CASH USE IS DOWN. Customers want and demand new ways to order. Staffing is more challenging and costs are going up. For restaurants, this litany of operational issues is the new norm, but not one they can't adapt to. For payment providers servicing this large merchant community, the new norm means they, too, must adapt. And in both instances, each appears to be embracing the new restaurant POS mindset.

"Prior to the pandemic, it was an uphill battle to sell new ideas to restaurants," says Ben Vergidis, chief visionary officer at Point of Sale Cloud LLC. "That challenge has been turned around and we now find customers coming to the table with their own unique out-of-the-box ideas that they want to implement."

SpotOn's technology in action: As more restaurants go full digital, operators must contend with chargebacks, too, something that wasn't associated with cash transactions.

That statement is similar to what you'll hear from many payments specialists who serve the restaurant industry. Many restaurant operators have broadened their expectations of acceptable point-of-sale channels.

"Customer experience expectations are now set by the best experience they have any anywhere—not just with competitors or in the restaurant industry," says Jennifer Shambroom, chief marketing officer at Clickatell, a chat-commerce provider with U.S. headquarters in Redwood City, Calif.

That's not the only change since the pandemic, and now, expectations are higher even as it appears to weaken. "When customer experiences get better somewhere, anywhere, that elevates the bar for the brand and every brand," Shambroom says.

"Additionally, restaurants' digital and physical integrations expanded," she adds. "Customers' picking up food at restaurants increased the need for restaurants to deliver accurate and easy-to-understand ordering information and clear directions and communications around pick up processes, as well as what to do if there's a problem."

'A FUNDAMENTAL SHIFT'

At the core of changes in payments itself is cash use. "The biggest

change was in cash payments," Vergidis says. "All of a sudden, literally nobody wanted to handle cash, and of course with most sales happening online, that caused digital payments to become essential to restaurant owners." By September 2020, early in the pandemic, debit card use was already up 10.8% at fast-food restaurants, found a report from PSCU, a credit union service organization.

"That was a fundamental shift in the industry," Vergidis says. "Things like contactless payments have been around for years in the United States but there was never a catalyst to push their adoption—the pandemic was that catalyst."

Prior to the pandemic, cash still represented about 35% of all payments at restaurants, says Ben Pryor, head of innovation at SpotOn Transact LLC, a San Francisco-based hospitality POS specialist. "Now, in 2022, it's down to about 11% to 12%. Digital payments are the wave of the future, but the cost of that is something each business will have to figure out," says Pryor.

Though the surviving restaurants, overall, continue to recover, they have felt the pressure on their profits. Earlier this year, cloud-based point-of-sale system provider TouchBistro Inc. said in its annual "State of Full Service Restaurants Report," that 74% of full-service restaurants managed to maintain or increase their sales in the past two years.

Their profit margins, however, decreased from 12% in 2019 to 10% in 2021. Total restaurant and foodservice sales are projected to reach $898 billion in 2022, according to the National Restaurant Association, up from $799 billion in 2021, and higher than the $864 billion in sales in pre-pandemic 2019.

This, in turn, emphasizes the need for efficient processes and for adopting technology that supports them. "In general, the business model for restaurants is something every small businesses should be looking at now," Pryor says. "Where is the most margin coming from?"

REAL-TIME TIPS

Pryor says restaurants, along with other merchant segments, benefited from postponement of interchange increases planned by the major card brands. Now that these increases are back in play, merchants will need the correct payment tools to ensure they get the lowest possible rate for card present and card-not-present transactions, he says. SpotOn's mobile Bluetooth reader, for example, can accept EMV and contactless payments whether card-based or made with Apple Pay or Google Pay.

Now, as more restaurants go full digital, operators must contend with chargebacks, too, something that wasn't associated with cash transactions. "We partner with our customers to mitigate as much of the risk as possible," Pryor says. Hence, the handheld card reader, he says. SpotOn also offers a 50-state compliant cash-discounting program, he says. Most issues are around chargebacks, not card costs, he says.

There have been surprises for restaurants and the payments companies servicing them. "Pre-pandemic restaurants focused on pricing. All of a sudden, they learned that customers are willing to pay for convenience and omnichannel ordering," Vergidis says.

"That caught many by surprise," he adds. "We would get clients of ours that would say 'There is a new type of customer out there who is not sensitive to price, and this is someone we have not come across before.' It reminds me of what is typical for tech businesses—people not only pay for the solution but also for the convenience, and now restaurants have found that this is also true for their business."

There may even be an opportunity to jump to the forefront of payments and adopt technologies like real-time payments, suggests Erika Baumann, director of commercial banking and payments at Boston-based Aite-Novarica Group.

"It is generally known at this point that the pandemic caused a dramatic shift away from cash," Baumann says. "While card is still predominant, as things are returning to normal, cash has eased its way back into the process."

"What I think is more significant is to discuss outgoing payments," she continues. "Restaurants have an opportunity to keep cash out of the process and to make payments more efficient. Real-time payments, like

Pryor: "Digital payments are the wave of the future, but the cost of that is something each business will have to figure out."

RTP, have become a critical part of the payments landscape and restaurants have a real opportunity to capitalize on this.

"For example, when employees are cashing out tips at the end of the night, pushing a real-time payment directly to a bank account over the RTP network instead of handing out cash is safer and a win-win for the business and the employee," she says.

Vergidis: "Prior to the pandemic, it was an uphill battle to sell new ideas to restaurants."

COMPETITIVE EDGE

Technology is vitally importance to restaurants—a National Restaurant Association report says 80% of operators say using technology provides them a competitive edge—and point-of-sale tech is a critical component of that. It decreases the possible gulf between what a payment company can provide and what a restaurant operator considers essential POS services.

One example is the adoption of QR codes, a barcode scanning technology that is not new but saw strong interest given its ability to provide a contactless-purchasing or menu-viewing experience.

"It is a more collaborative experience and it changes the sales dynamic—we are now collaborating with our clients to build the future together," Vergidis says. "We see the future as being restaurants wanting to in-source technology and use it as a form of competitive advantage, and they are looking for the innovative solutions we specialize in to … increase their profitability."

For Pryor, the future of providing POS technology and services to restaurant operators will belong to the providers that can keep up. "Digital ordering as a whole online and being able to interact with a personal mobile device to order and pay for food is only going to accelerate," he says. DT

BEWARE THE FALSE POSITIVE

Rejections that should have been approvals are on the rise. Are merchants willing to adjust their risk thresholds for a higher approval rate?

BY **PETER LUCAS**

FALSE POSITIVES—legitimate transactions that are declined because they look suspicious at first glance—are a touchy subject for merchants. Not only do they cost a sale, some customers become so angered by the experience they do less business with the merchant. Even worse, false positives can erode a customer's loyalty to the point she takes her business elsewhere and never returns.

All three of those scenarios are costly for merchants. False positives (which are also known as false declines) alone cost U.S. merchants an estimated $50 billion in sales in 2021, according to Atlanta-based payments consultancy CMSPI.

Lost revenue due to consumers cutting back purchases after experiencing a false positive can be just as costly. ClearSale, a fraud-management and chargeback-protection services company, says the average order value for card-not-present transactions across its network is $361. For cardholders that experience a false positive, however, the average order value drops to $159.

In addition, consumers experiencing a false positive order from that merchant less frequently, with the number of annual orders dropping from 22 to 14.7.

Determining how many consumers have incurred a false positive when making a purchase is a lot trickier, as most false positives go unreported by customers to a merchant's customer-service department. Instead, these consumers will either use another card or place the order with another merchant.

"False positives cost merchants money and erode the lifetime value of the customer by about 68%," says David Fletcher, a senior vice president for ClearSale, a chargeback- and fraud-protection company with U.S. offices in Miami. He adds: "False positives are a growing problem."

'MONEY ON THE TABLE'

Myriad factors are fueling the growth of false positives, such as the explosion in e-commerce since the onset of the Covid-19 pandemic, merchants' increasing reliance on automated

fraud-detection systems, and the subsequent decrease in manual reviews of suspect transactions. There's also a desire among some merchants to achieve zero fraud, which leads to ever-tightening fraud-prevention rules, payments experts say.

"As an industry, many [of us] are getting too caught up in fraud prevention, which has created a belief that in some cases it is better to deny 10 good transactions than let one bad through," says Ron Hynes, chief executive for Vesta Corp., a Lake Oswego, Ore.-based provider of fraud-detection systems. "When approval rates fall to the 70% to 90% range, merchants are leaving a lot of money on the table."

How much money? Fletcher says that, on average, merchants lose the equivalent of between 3% and 5% of their revenues to false positives.

To illustrate how much false positives can cost a merchant, Riskified, a provider of fraud-prevention and chargeback solutions, provides an example. Using a baseline that 66% of all declined orders are false positives—a baseline that Riskified believes to be true—a fashion retailer with annual sales of $100 million that is declining 2.5% of the order value coming into its e-commerce site would realize $1.65 million in incremental topline sales by approving those false positives, says Ephraim Rinsky, product marketing manager, for Riskified.

"Even single [percentage-point] rates of false declines can mean hundreds of thousands, even millions, of dollars of lost revenue," Rinsky says. "We safely approve 40% to 80% of declined orders that merchants send to us for a re-review.

The large spread in the difference in approval rates for previously denied transactions that are reviewed reflects differences between merchants and industries, Rinsky adds.

Indeed, payment experts point out that certain merchant categories will naturally attract more attempted fraud because the products they sell can be quickly resold for cash. As a result, false positives may represent a lower portion of denied transitions for those merchants. "An electronics retailer is going to have a higher rate of attempted fraud than a merchant selling baby clothes," Fletcher says.

FALSE POSITIVES BY THE NUMBERS

$50 billion Sales U.S. merchants **lose annually** from false positives

66% The **percentage of declined orders** that are false positives

$361 The **average order** for a card-not-present transaction

$159 The **average order value** for consumers who experience a false positive

68% The **erosion in lifetime value** for customers that experience a false positive

22 The **average annual number** of orders for customers who don't experience a false positive

14.7 The **average annual number** of orders for customers who do experience a false positive

Sources: CMSPI, Rectified, Clear Sale

THE MYTH OF ZERO FRAUD

Reviewing denied transactions can help merchants understand whether their fraud-prevention strategies are too draconian. It should also be a best practice, says John Buzzard, lead fraud and security analyst for Javelin Strategy and Research.

"Transactions denied because a fraud-decisioning engine flags them as suspicious should be reviewed because that's how false positives are identified" if the customer does not complain to the merchant, Buzzard says. "In some cases, there are decision makers that want zero fraud, which means a lot of good transactions fall into the denied bucket."

One aspect of manual reviews that merchants tend to overlook is that they don't necessarily have to be conducted at checkout. Instead, they can occur post-purchase, before the item has been shipped, which gives the merchant ample time to review the transaction without the risk of adding friction to the checkout process.

Money can be found in orders that look suspicious, but merchants must be willing to review a questionable transaction, Fletcher says.

To illustrate his point, Fletcher uses the example of a parent with two children in college. Each child needed furniture entering the new school year. Both children want the exact same piece of furniture, which for the parent makes shopping easy. The parent logs on to a furniture store that he knows carries the desired pieces of furniture, quickly clicks to the product page, and orders two of the same item.

At checkout, the parent splits the order by entering different shipping addresses for each item—both of which also differ from his billing address—clicks the buy button, and receives a message the transaction has been denied.

"In this instance, the merchant is looking at the velocity of transactions," Fletcher says.

A review of the transaction, Fletcher adds, would have allowed the merchant to drill down and scrutinize the traits of the transaction that made it looked suspicious. If the merchant did so, the result would most likely have been an approval. Instead, the purchase was automatically declined based on the rules of the merchant's fraud-screening application.

"Merchants need to be willing to review questionable transactions," Fletcher says. "We had a merchant that started reviewing auto-declined transactions that found $1.6 million in additional revenue. Merchants can't automatically say no to every transaction that looks suspicious."

FEAR OF FRICTION

One of the biggest objections merchants have to reviewing transactions is that, if the review occurs at checkout, it will add friction to the purchase process. Alternatively, merchants can review suspect transactions after the initial approval, but before the order ships. This method allows the merchant a chance to follow up with the customer.

For example, after the order is placed, the merchant can send the customer a thank-you email stating that the order has been received and asking to confirm the shipping address or some other piece of information about the order. In the meantime, the merchant can be reviewing the order to determine whether the risk parameters around the transaction are legitimate or were a false positive.

Some merchants may fear that asking follow-up questions of a customer after an order has been placed may cause the customer to cancel the purchase, but Vesta's Hynes argues this is the perfect time to review and confirm the order is legitimate. Actual criminals, he says, typically won't go through the extra steps.

"Fraudsters will drop a purchase when friction is introduced [at any point] during the purchase process and move on," says Hynes. "Most merchants are afraid of adding friction to the purchase process, but we will introduce it and put the knowledge gained from it back into our [fraud-detection] models."

When it comes to best practices for reducing false positives, one area where U.S. merchants can improve lies in the implementation of 3-D Secure, which is an additional step of cardholder authentication for online purchases.

While 3-D Secure adds a layer of friction, it goes a long way to authenticating consumers making online purchases, payment industry experts say. Nevertheless, it is not widely implemented in the United States because there is no mandate to do so, payments experts say.

When it comes to detecting false positives, there is no single, all-encompassing solution, just due diligence and a balancing of risk versus reward, payments experts say. The bottom line, they warn, is that merchants that reject all transactions that initially look suspicious leave a lot of money on the table. DT

14TH ANNUAL

FIELD GUIDE TO INNOVATIVE *Payments*

It's May, and that means it's time for our annual exercise to seek out and describe the nonbank players, apart from the big networks, that are rewriting the rules for the digital exchange of value.

By John Stewart, Kevin Woodward, and Peter Lucas

Since 2004, *Digital Transactions* has traced the course of payments innovation through its nimblest practitioners—the startups, the fintechs, the smaller networks, the nonbank arrivistes—and their services and products, their strategies and tactics, their successes and pratfalls. In 2009, we distilled what we were learning about these innovators into a handy guide inside the May issue, and called it a "field guide" to what were then known, somewhat cheekily, as alternative payments. Well, the guide worked out so well we decided to update it every May. And so you now hold in your hands the 14th edition. We dropped the "alternative payments" rubric two years ago and renamed our effort as a guide to innovative payments. We think the new adjective better fits our purpose in sorting out the varied new pathways the nonbanks, and yes, banks and major networks, are forging for the payments business.

The guide is as much about strategies and tactics as it is about emerging technology and new markets. We invite you to read this guide much as you have since 2009, with an eye to how it might inform your decisions, sharpen your competitive instincts, and bring to light, perhaps, some developments you had not encountered before—as well as spotlight some potential partners.

Digital Transactions generally defines an innovative payment system as any network, concept, or consumer interface (a mobile app, for example) that enables payments in a way that relies on or stands apart from a major network and/or stands between that network and the consumer in an important way. We emphasize consumer-facing payment systems, but of course many, if not most, of the systems profiled here market themselves to merchants to maximize acceptance of their products.

Information for the listings comes from news reports over the past year, company Web sites and spokespersons, and financial filings in a few cases. The "Year Founded" line refers to the year the particular service was founded, not the parent company, except in those cases where the two coincide.

ALIPAY

PARENT: Ant Financial Services Group **HEADQUARTERS:** Pudong, Shanghai, China **FOUNDED:** 2004 **WEB:** global.alipay.com/index.htm

FIELD NOTES: In September, J.P. Morgan Merchant Services, the biggest U.S. processor of card transactions, announced it had started processing credit card payments in the U.S. for the massive Alibaba.com online marketplace. As part of the arrangement, Chase said it is working with the mobile and online payments provider Alipay to manage transactions on the massive business-to-business platform. China-based Alibaba Group Holding Ltd., which operates Alibaba.com, holds a 33% stake in Alipay. Chase Merchant Services pointed to a potentially massive opportunity in processing card transactions between businesses operating on the Alibaba marketplace. The deal is also expected to help Alibaba.com increase its share of payments by U.S. firms. The collaboration is expected to help small businesses, in particular, in managing a variety of payment methods. It is also expected to help Alibaba.com in increasing its business in the U.S. market. Founded in 2004, Alipay has grown into what is said to be one of the largest mobile-payments services globally. It has also made prior moves to penetrate the U.S. payments market, including a deal with the Guess? Inc. chain in 2018. Before that, it had concluded a deal to collaborate with the big U.S. processor First Data Corp., now part of Fiserv Inc., to process mobile payments for U.S. sellers that attract significant numbers of Chinese tourists.

AMAZON PAY

PARENT: Amazon.com Inc. **HEADQUARTERS:** Seattle, WA **FOUNDED:** 2007 (including predecessor services) **WEB:** pay.amazon.com

FIELD NOTES: Amazon has been remarkably quiet in recent years about its digital wallet, Amazon Pay, while at the same time forging ties with other prominent payment players, including Affirm and Venmo, and scuffling with Visa over acceptance costs. But the online checkout has become crucial territory contested by countless payment providers, so Amazon can't be complacent. It is pouring resources into making sure Amazon Pay stays relevant to consumers. The wallet, which allows users to store credit and debit cards, includes the ability to pay by voice via Amazon's Alexa technology. Alexa can also alert users when a delivery is made or when a bill comes due. Amazon Pay Deals, meanshile, presents offers meant to be exclusive to users.

APPLE PAY

PARENT: Apple Inc. **HEADQUARTERS:** Cuperino, CA **FOUNDED:** 2014 **WEB:** apple.com/apple-pay

FIELD NOTES: The battle of the mobile wallets remains a battle for users, and in this contest, Apple Pay appears to be winning. Some 97% of retailers said they accepted Apple Pay, according to the 2021 Omnichannel Retail Index, released in September by the consultancy FitForCommerce and the National Retail Federation. By comparison, Google Pay's coverage was 64% and Samsung Pay's was 59%. Other good news for Apple—and for its big rivals Google and Samsung—is that 84% of merchants in the survey said they accept mobile payments, up dramatically from 56% in 2020. The pandemic had a lot to do with that. But Apple continues to face challenges over its walled-garden approach. In one case, an Australian Parliament committee last summer held a hearing looking into Apple's policies on accessing the secure element for payments services on its phones. Apple argues its hardware-based interface is more secure than one based on software, but similar inquiries have cropped up in Europe.

BITPAY

PARENT: BitPay Inc. **HEADQUARTERS:** Atlanta, GA **FOUNDED:** 2011 **WEB:** bitpay.com

FIELD NOTES: BitPay is riding the rising wave of interest in cryptocurrency. It scored a major coup at the point of sale in September when it announced a collaboration with Verifone to allow U.S. merchants using Verifone devices to accept as many as 11 cryptocurrencies, including stablecoins, in-store and online. BitPay's wallet lets merchants accept Bitcoin and other digital currencies, but converts the crypto into fiat currency when crediting the merchant. The deal could have broad potential, as Verifone's installed base of terminals includes 35 million devices in 150 countries. In February, BitPay signed a deal that allows streaming service Sling TV to accept seven digital currencies and five stablecoins from subscribers.

BLOCKCHAIN

FIELD NOTES: After more than a decade of skepticism, 2021 was the year that major payments companies began preparing to process cryptocurrency on a commercial basis. Both Visa and Mastercard built blockchain capabilities and forged alliances with exchanges and crypto-focused banks to build the foundation for payments via their networks. At the same time, the concept of stablecoins started to take hold, with the Federal Reserve laying out preliminary thoughts on how a U.S. digital currency—with or without blockchain as its basis—would function and the advantages and drawbacks it would offer consumers, businesses, and government entities. Privately issued stablecoins, meanwhile, encountered considerable skepticism as regulators and critics feared the coins were insufficiently backed by actual assets.

BNPL

FIELD NOTES: The buy now, pay later product is credit for people who don't want—or can't get—credit cards. Its key appeal is to younger consumers who can't qualify for credit cards or who don't want to get enmeshed in complicated repayment terms. BNPL, which functions online and in stores, has been around in various forms for decades but took off at the onset of the pandemic with a simple proposition: Take the product and pay us back in three equal installments over a six-week period, at no interest. The easy credit and straightforward proposition carries huge appeal, but has also drawn the attention of regulators. The Consumer Financial Protection Bureau demanded information from major providers Affirm, Afterpay, Klarna, PayPal, and Zip. Under its new, activist director, Rohit Chopra, the bureau is concerned that those easy terms could draw consumers into levels of debt and other costs they may not be able to handle.

C-STORE WALLETS (Cumberland Farms Inc., Exxon/Mobil Speedpass, Gulf Pay)

FIELD NOTES: Finding perks that drive loyalty and making it easy to earn and redeem points are key for convenience store operators offering mobile wallets. Exxon/Mobil SpeedPass, for example, allows wallets users to earn points on fill ups, convenience store purchases, and car washes at participating stations. Cumberland Farms SmartPay Check-Link payment program enables users to pay for gas and in-store purchases, and in most cases automatically save 10 cents on every gallon of gas. Gulf Pay allows users to find the nearest Gulf gas station, pay for fuel at the pump, and purchase products inside the convenience store.

CASH APP

PARENT: Block Inc. **HEADQUARTERS:** San Francisco, CA **FOUNDED:** 2012 **WEB:** Cash.app

FIELD NOTES: Originally known as Square Cash, Cash App is a mobile-payment service that allows users to transfer money to one another using a mobile-phone app. Cash App users can also or buy stocks and Bitcoin directly from their phone. The service is available in the United States and the United Kingdom. Block chief financial officer Amrita Ahuja told equity analysts in an earnings call in February that Cash App is generating a 22% annual growth rate and has 44 million monthly active users. The CFPB, as well as attorneys general from multiple states, have requested information from Block related to how the company handles complaints and disputes from customers using its Cash App wallet.

CLOVER

PARENT: Fiserv Inc. **HEADQUARTERS:** Sunnvale, CA **FOUNDED:** 2012 **WEB:** Clover.com

FIELD NOTES: Clover, Fiserv's point-of-sale technology for all businesses, accounted for $1.3 billion in revenue last year, representing a 27% compound annual growth rate from $800 million in 2019. Hardware sales are decreasing in importance, accounting for 16% of that revenue last year, down from 19% two years earlier. Payments services and software delivered the remaining revenue share. The merchant base for Clover now stands at 560,000, with the fastest growth coming among restaurants. Crucially for Fiserv, almost 90% of the Clover clients are new to the processor. Now Fiserv is focused on integrating BentoBox, a recent acquisition, into Clover. BentoBox specializes in restaurant technology, serving some 14,000 locations. To help meet an ambitious growth goal, Fiserv is relying on independent software vendors and a planned launch in India, Brazil, and Australia.

GOOGLE PAY

PARENT: Alphabet Inc. **HEADQUARTERS:** Mountain View, CA **FOUNDED:** Android Pay, 2015; Google Wallet, 2011 **WEB:** pay.Google.comGoogle Pay

FIELD NOTES: Expanding the utility of the Google Pay wallet remains a primary focus for Alphabet Inc. A deal with Marqeta Inc., provider of an open-API platform that enables companies to create, issue, and deploy virtual and physical payment cards, paved the way for Marqeta to issue a tokenized virtual Google Pay card to entice consumers to use Google Pay more often for day-to-day purchases online and in-store. Similarly, a partnership with digital-asset marketplace Bakkt allows consumers to load their Bakkt Visa debit card into Google Pay and use the crypto-backed cards for online and in-store payments where Google Pay is accepted.

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MAGICCUBE

PARENT: MagicCube Inc. **HEADQUARTERS:** Santa Clara, CA **FOUNDED:** 2014 **WEB:** MagicCube.co

FIELD NOTES: Magic Cube's vision of turning mobile devices into tap-and-go POS terminals got a big boost from its deal with i-Accept Cloud, an open, cloud-based softPOS acceptance platform. The deal will simplify creation of new merchant payment-acceptance and digital-commerce solutions by connecting acquiring banks, payments-system providers, and merchants—which are siloed within the payment-acceptance chain—into a software-based cloud model not tied to legacy hardware or bound by a specific device maker, its operational system, or payment card network. Investors remain bullish on Magic Cube's prospects, as evidenced by a $15 million funding round led by Mosaik Partners.

MERCHANT WALLETS (Dunkin/DD Perks, Kohl's Pay, Kroger Pay, Starbucks Rewards, Target, Walmart Pay)

FIELD NOTES: Mobile wallets offer merchants a perfect mix of technology and innovation to stay ahead of the curve in the rapidly evolving world of digital payments. For example, many, if not all, of the merchants in this category enable their wallet users to pay online or in-store using a one-time quick-response code that securely transmits payment and loyalty information at checkout. In terms of the number of wallet users, Starbucks remains a force. During the first quarter of fiscal year 2022, ended Jan. 2, Starbucks reported 26.4 million active rewards members in the United States, up 21% year-over-year.

OPEN BANKING (MX Technologies Inc., Finicity, Plaid Inc.)

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PARKMOBILE

PARENT: EasyPark Group **HEADQUARTERS:** Atlanta, GA **FOUNDED:** 2008 **WEB:** ParkMobile.io

FIELD NOTES: Since being acquired by EasyPark Group in 2021, ParkMobile LLC has continued its expansion throughout North America. Through the first four months of 2022, the provider of smart-parking and mobility solutions has deployed in several new cities, including Cedar Rapids, Iowa; Forth Worth, Texas; and San Luis Obispo, California. The company has also expanded existing agreements with several clients. In April, for example, ParkMobile grew its partnership with Diamond Parking, a multi-national manager and operator of parking facilities in the Western United States and Canada. Through the expanded partnership, ParkMobile is available at more than 800 Diamond Parking locations.

PAYPAL

PARENT: PayPal Holdings Inc. **HEADQUARTERS:** San Jose, CA **FOUNDED:** 1998 **WEB:** PayPal.com

FIELD NOTES: With a new focus on consumer engagement, PayPal is looking to get more revenue out of its most active users. PayPal says most of its volume comes from one-third of its customers. The emphasis on consumer engagement means PayPal won't be throwing marketing dollars at low-value customers, says CEO Dan Shulman. PayPal reported 426 million active accounts in 2021, up 13% year-over-year. PayPal's active user base performed 45.4 transactions per account in the fourth quarter of 2021, up 11% from a year earlier. PayPal's super app, which launched in 2021, is generating twice the company's average revenue per active account.

SAMSUNG PAY

PARENT: Samsung Electronics Co. Ltd. **HEADQUARTERS:** Seoul, South Korea **FOUNDED:** 2015 **WEB:** Samsung.com/us/samsung-pay/

FIELD NOTES: Samsung Pay allows consumers to make purchases using compatible phones and other Samsung devices. The mobile wallet supports contactless payments using near-field communication and magnetic stripe–only payment terminals by incorporating magnetic secure transmission. Samsung Pay supports cards from more than 1,000 banks and credit unions. Among the mobile payments providers, Samsung Pay is unique in that users can tap to pay even if the point-of-sale device does not have a near-field communication chip. Samsung Pay offers Vaccine Pass for consumers to tote their health records with them. Now in its second year, Samsung Money by SoFi offers users a debit card backed by a cash-management account.

SECURE REMOTE COMMERCE (a.k.a. Click to Pay)

PARENT: American Express, Discover, Mastercard, Visa **HEADQUARTERS:** N/A **FOUNDED:** 2019 **WEB:** EMVCo.com

FIELD NOTES: Secure Remote Commerce is not so much a brand as a behind-the-scenes digital-payment mechanism developed by EMVCo, the standards body controlled by the global payment card networks. Referred to as "click to pay" by the networks, SRC's purpose is to replace the clutter of payment brands on e-commerce checkout pages with a common buy button that offers a unified and simple purchase process. With e-commerce booming, the simplified checkout is getting a workout. GoTab, a restaurant commerce platform, recently announced it would add Click to Pay capability to its service to make checkout easier for hospitality consumers.

REVOLUT

PARENT: Revolut Ltd. **HEADQUARTERS:** London, UK **FOUNDED:** 2015 **WEB:** Revolut.com

FIELD NOTES: Building on its core money-transfer capabilities, Revolut earlier this year began enabling customers in the United States to transfer money to bank accounts in Mexico, fee-free, within 30 minutes. U.S. customers can make 10 international transfers per month to any bank account in Mexico. The potential volume that Revolut can unlock by enabling cross-border remittances between the U.S. and Mexico is substantial. In 2021, more than $45 billion was sent from U.S. consumers to recipients south of the border. Since its launch, Revolut has attracted 18 million customers globally, who generate more than 150 million transactions a month.

TAPPIT

PARENT: Tappit **HEADQUARTERS:** Leeds, England **FOUNDED:** 2017 **WEB:** Tappit.com

FIELD NOTES: Tappit has been a roll, striking several deals with professional sports teams to implement its contactless mobile payment application. It landed a major contract supplying payments and incentives services through the introduction of a SoFo Stadium wallet to the stadium's app. By scanning a QR code while in the SoFi Stadium Wallet, users can easily pay for their food, drinks, and merchandise quickly and efficiently - without the need for cards. The data and insights around that behavior and consumption that can only be delivered through Tappit's real-time data suite will give SoFi Stadium operators opportunities to understand their venue and their visitors, Tappit said earlier this year.

TOUCHBISTRO

PARENT: TouchBistro Inc. **HEADQUARTERS:** Toronto, Canada **FOUNDED:** 2010 **WEB:** TouchBistro.com

FIELD NOTES: TouchBistro, like many of its cloud-based point-of-sale system provider competitors, has continually offered services in addition to central payment processing. In early 2022, TouchBistro launched TouchBistro Marketing, a service to help restaurants create and manage custom marketing campaigns. Also, the company released its third annual State of Full Service Restaurants report that found that 74% of full-service restaurants managed to maintain or increase their sales during the pandemic. The report also found more than two-thirds (67%) of restaurants changed their point-of-sale systems in the past year, and nearly all full-service restaurants implemented some form of contactless payment.

VENMO

PARENT: PayPal **HEADQUARTERS:** San Jose, CA **FOUNDED:** 2009 **WEB:** Venmo.com

FIELD NOTES: As one of the many available peer-to-peer payment services, Venmo is more social focused than its competitors. In the fourth quarter of 2021, Venmo volume increased 29% to $61 billion and for fiscal 2021 its volume grew 44% to $230 billion. That volume could increase as other companies add Venmo as a payment, like PayNearMe did earlier this year. Notably, Venmo was added to Amazon.com as a payment option in the past year, too. For the past fourth-quarter holiday season, Venmo added a gift-wrap feature that enables sender to select an image to accompany the payment.

VISA TAP TO PHONE

PARENT: Visa **HEADQUARTERS:** San Francisco, CA **FOUNDED:** 2015 **WEB:** usa.visa.com/visa-everywhere/innovation/connected-commerce/tap-to-phone.html

FIELD NOTES: Introduced in 2021, Tap to Phone is a point-of-sale payment-acceptance application that enables users of Android smart phones to accept contactless payments without requiring special hardware. Using a smart phone from ZmBizi LLC loaded with the POS app, 50 small businesses in Washington, D.C., will be able to accept payments without having to use a dedicated point-of-sale terminal. U.S.-based ZmBizi sells the devices for $296 or in four installments of $74. The Android smart phones operate on the AT&T and T-Mobile networks in the United States. ZmBizi developed the POS app for the devices, Visa says. The ZmBizi phones also can be used for voice calls, texting, and with other apps.

WECHAT PAY

PARENT: Tencent **HEADQUARTERS:** Shenzhen, China **FOUNDED:** 2011 **WEB:** pay.Weixin.qq.com/index.php/public/wechatpay_en

FIELD NOTES: WeChat Pay's North America presence is all about enabling acceptance for users, especially those hailing from China who vacation in the United States and Canada. To that end, WeChat Pay has struck several deals, such as one with 7-Eleven Inc. in Canada. Citcon USA LLC provides a service for merchants that enables WeChat Pay and other China-based wallets to be used at North American merchants. In early 2022, news emerged that Tencent was exploring whether regulators would require it to create a financial holding company for its fintech business, CNBC reported.

ZELLE

PARENT: Early Warning Services LLC **HEADQUARTERS:** Scottsdale, AZ **FOUNDED:** 2011 (as ClearXchange) **WEB:** ZellePay.com

FIELD NOTES: Peer-to-peer payment service Zelle has matured into a consumer favorite. In 2021, consumers and businesses sent 1.8 billion payments through Zelle during 2021, up 49% from a year earlier. Those payments totaled $490 billion, up 59%, from the previous year. In the fourth quarter alone, consumers and businesses initiated 502 million transactions totaling $137 billion. In 2021, payments received by small businesses increased 162% over the previous year. Merchants are helping to build consumer awareness for using Zelle beyond P2P payments by promoting its acceptance at the point of sale. There has been some bank interest is adopting Zelle for retail payments, but nothing certain is in development.

strategies

IN TRANSIT PAYMENTS, COLLABORATION IS KEY

Agencies that work with vendors on innovation and service will get more of both.

BY **ANDY TAYLOR**

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WORD ON THE STREET is that some transit agencies are choosing to opt for more modular approaches when it comes to their transit-payment systems, picking and choosing different vendors for different parts of their systems.

Agencies following a modular, open-architecture approach believe they will be able to roll out the new technology more quickly and at a lower cost, while avoiding being locked into single-source suppliers and their technology. However, there are risks that come with this approach.

When looking at the state of the industry, a 2020 Mercator Advisory Group survey found that 25% of riders have purchased prepaid transit fares. The same study found 20% of the nation's transit systems are now capable of accepting open-loop payments.

Clearly, there is no one-size-fits-all approach when it comes to transit-fare payment systems. What works for some agencies may not work for others. As with any major decision, it is important to look at the big picture and weigh both the pros and the cons.

Let's take a ride on the modular vs. single-supplier superhighway.

PAYING THE TOLL

When you look at the sticker price of a more modular approach, it could look cheaper—just like the base model of a new car. For example, if you simply need validators on your buses and you want them to be both contactless and EMV-compliant only, then some of the smaller hardware manufacturers could sell you these devices for a one-off price.

However, you also need to consider the physical installation and integration into the back office, certification, validation, training, service, and maintenance. If the price you are being quoted covers all of that, then that's not an issue. Further, if you go into the modular approach fully understanding what the true cost of acquisition and integration will be, then this is a perfectly viable route.

It is said that modular vendors like using application programming interfaces, standards, and pre-integration with other module vendors, such as validator makers. Some claim this would obviate the need for any system integrator (SI).

Meanwhile, it is said that single-supplier SIs lock in their customers and inflate prices—and that big SIs will not engage with an agency in a city of less than 2 million people for open-loop projects.

From our perspective at Cubic, single suppliers typically try to use standard APIs wherever they are available, but the issue we find here is that transit-agency solutions are very rarely "productized" and are more project-based. We foresee more off-the-shelf solutions being procured in the future, which will drive down the cost of acquisitions. This will benefit the customer, as it may choose a single-supplier back office with third-party validators or a mobile app.

PATCHWORK SPEED BUMPS

If you choose to go down the modular route, know that this is a patchwork approach. This can lead to overlap in capability, or, in the worst case, gaps. While 99% of the population is okay with coping with "minding the gap" between solutions, some users may not be.

For example, there's been a massive emphasis on mobile ticketing recently, which is fantastic. A recent analysis shows the global mobile-ticketing market size is estimated to grow at a compound annual growth rate of almost 11% during the forecast period of 2021 to 2024. This technology represents a simple approach to delivering capabilities through a device that most people regularly use.


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That said, there's a group of people who don't have phones, have old phones, are unbanked, or have disabilities that prevent them from using a phone. The deployed solutions can often deliver useful applications, but they do not encompass all who use public transportation.

In addition, some of the current mobile-ticketing vendors cannot offer solutions compliant with the Americans with Disabilities Act, or the equivalent in Europe, which excludes part of the demographic.

So the patchwork approach can work, but agencies need to be cognizant of what they are adding to the mix.

Many agencies take on the evolution of their fare-collection systems, which can be a great thing. The agency knows its customer and knows what that customer in that city truly needs. If the agency is prepared to take on the role of system integrator, along with the issues and costs, that's certainly one approach.

But the agency also needs to know that the cost of building and evolving its system over time can often be far higher than procuring a solution from a vendor directly.

As budgets get trimmed, there tends to be a desire at agencies to improve services by looking at incremental changes to what they already have. These incremental costs will likely be higher than what a single procured standard solution could be. It is then up to the agency to decide what is fiscally and operationally beneficial for them and their customers.

On the downside, being an SI is not easy. Many are looking into the financial certification of readers to common payment gateways for major schemes. The complexity of this is mind-blowing, and the effort required to certify individual schemes for a common back office is overwhelming.

THE ROAD AHEAD

So an agency needs to be mindful that expertise will be needed. It also needs to be cognizant of the process, standards, certifications, and regulations, and it needs to know it is responsible for delivering on time and within budget to its users. Some agencies can do this themselves.

Agencies have solid intel they can bring to the development and evolution of products. We encourage those agencies to talk to the industry about models where we can co-develop specific modules that could then be licensed for re-sale to other agencies. More people will benefit, and the original agency will also get a share of the license fee.

The road ahead can be paved with collaboration and innovation if we work together in unity. DT

MR. CHOPRA'S ALTERNATIVE UNIVERSE

The CFPB director should stop imposing politics on payments and stick to his remit.

BY **ERIC GROVER**

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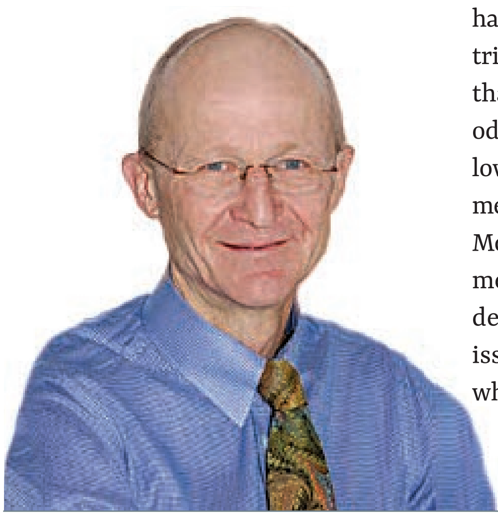

ROHIT CHOPRA, DIRECTOR of the Consumer Financial Protection Bureau, in March shared his conjured alternative-payments universe with politically simpatico CNBC. Relishing his celebrity, Chopra held forth on inflation, payment-system competition and fees, and cryptocurrency risk.

The network's assumed framework for the interview was an uncompetitive payments industry chockful of villains, with consumers as victims and the Bureau as an enlightened and beneficent regulatory knight. It nicely captured our current financial regulators' anti-private-sector zeitgeist.

CNBC pressed Chopra on what his office was doing to help beleaguered consumers with payment fees in a time of "very high inflation," and suggested that increases by both Mastercard and Visa in their interchange fees would be a problem. Chopra ran with that idea, declaring a hike would be adding "insult to injury."

To be sure, U.S. interchange rates have been high relative to many countries for more than half a century, but that has been true both during periods of raging inflation and periods of low inflation. The leading retail-payment networks aren't driving inflation. Moreover, when interchange rises for merchants, cardholder fees typically decline and benefits increase. And issuer innovation flourishes—all of which is deflationary.

With two-sided payment systems, holistic value is what matters. Pricing set by competing payment networks, processors, and financial institutions—informed by the choices of millions of consumers and merchants, not by the preferences of regulatory poohbahs—is the best way to maximize total value.

Remember, inflation is caused by too much money chasing too few goods. The present administration may be blaming Big Oil, Big Food, and Russian despot Vladimir Putin, but it's massive deficit spending, binge money-printing, negative real interest rates, a tight labor market, and production-suppressing regulation that make up the cocktail fueling our current raging inflation.

And by the way, it's the Federal Reserve, not the CFPB, that's charged by Congress with maintaining "stable prices." If there were a competition problem, the Department of Justice and the Federal Trade Commission are tasked with enforcing antitrust laws.

AN 'ORWELLIAN' VIEW

The CFPB director, nevertheless, eagerly declared that the United States doesn't have "a competitive payment system" and that "we're far behind many other countries."

Chopra's characterization was Orwellian. The U.S. payments industry is far more competitive and innovative than that of virtually all other countries.

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Look at the retail-payment networks Visa, Mastercard, PayPal, American Express, Discover, Star, NYCE. Or at BNPL systems like Affirm and Afterpay, and at proprietary cards provided by Synchrony, Citi, and Bread (formerly Alliance Data Systems). These all compete fiercely, delivering ever-increasing value. That's because the most ruthless and unforgiving regulator on the planet—the market—polices them.

Indeed, merchant acquiring and processing and credit-card issuance are all ferociously competitive. As a result, merchants and consumers enjoy enormous choice from a trove of constantly improving services and products.

For example, person-to-person payment systems, many of which are fee-free, include Zelle, Venmo, Square Cash, Apple Cash, Google Pay, Western Union, MoneyGram, and Wise. They offer consumers a surfeit of options to pay anyone, anywhere, any time.

Then there are systems provided by FIS, Fiserv, ACI Worldwide, Paymentus, and Mastercard, all of which make paying bills convenient—and, for consumers, generally free.

In the realm of interbank payments, the ACH systems from the bank association The Clearing House and from the Fed provide low-cost and reliable credits and debits. Increasingly, they're same-day, though not instant, which is more than adequate for tens of billions of payroll and bill payments.

To be sure, policymakers worldwide tout the benefits of real-time interbank payments. Keen to be on the bandwagon, Chopra declared "We [the U.S.] need a fast, real-time payment system that is frictionless and low-cost," alluding to the Fed's FedNow service, slated to launch in 2023. In ChopraWorld, private-sector solutions clearly don't count. Yet, the U.S. today has multiple competing low-friction, low-cost, private-sector real-time payment systems including not only TCH's RTP, launched in 2017, but also Visa Direct, Mastercard Send, Zelle, FIS's RealNet, Fiserv's PopMoney, and Discover's Deliver.

On the edge of the mainstream payments world, there's creative ferment going on with cryptocurrencies and stablecoins. Perhaps some will find paths to payment-network critical mass and relevancy.

'FEVERED IMAGINATION'

Chopra enthusiastically disparaged "junk fees," such as late, overdraft, and NSF fees, as "nickel and diming" consumers. Nobody likes to pay these fees, but consumers have agency. Fees for borrowers not honoring their obligations are entirely reasonable, and encourage better behavior.

Punishing creditors by curbing fees when borrowers don't honor their commitments is unjust, and will reduce the supply of credit. Paying late and bouncing checks should be stigmatized, not incentivized.

The CFPB director worries about new payment technologies leveraging tech platforms to scale. For a moment, with Diem and social-media colossus Facebook, that seemed a real possibility. While existing payment systems are well-established and work well, a challenger at scale—say, stablecoins supported by digital wallets from Facebook, Google, Apple, Amazon, and PayPal—would be a good problem for policymakers to contemplate.

Further, Chopra noted consumers using cryptocurrencies often don't enjoy the protections baked into card payments. Fair enough. Law and enforcement are evolving based on real-world experience. But legislators, not regulators, should take the lead in establishing the regulatory framework.

Only in Chopra's fevered imagination is the U.S. payment system uncompetitive. The Bureau's director should take pains to be apolitical while narrowly enforcing existing consumer-finance law. It is not regulators' prerogative to make policy—or to impose their political preferences on the payments industry. DT


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