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Trends in the Electronic Exchange of Value

16th annual

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the gimlet eye

THE VACATION FROM REALITY IS OVER

REAL-WORLD LIVING can be a hard, grinding affair, but sometimes some folks are granted what we might call a "holiday" from reality—a chance to escape from the cares of everyday living, brought on, perhaps, by a big raise, a winning lottery ticket, or a substantial inheritance from dearly departed Aunt Martha. Still, reality can and does re-assert itself eventually, even in these lucky cases.

Such is the case right now with the state of affairs in payments M&A. Just as our fortunes are ruled by real-world developments, dealmaking in payments has begun to yield to the requirements of business—including, dare we say, the requirement to make money.

That imperative has put the clamps lately on acquisition activity. Total deals in 2023 came to 72, representing a 37% tumble from the 114 recorded in 2022. And that number, in turn, was down 14% from 132 in 2021. All these numbers are courtesy of TSG, the Omaha-based payments researcher and consultancy, which tracks deal announcements in payments.

Nor, apparently, is the pace showing signs of quickening. There were 18 proposed combinations announced in the first quarter, nearly flat with the 19 seen in the first period of last year, according to TSG, which looks at announcements regarding independent sales organizations, independent software vendors, gateways, and "other" players, a category that includes proposed combos like the $35.3-billion offer in February by Capital One to buy Discover Financial (for more on that, see "What's in Capital One's Wallet?" our cover story last month).

So how is 2024 likely to shape up in the world of deal activity among payments companies? The experts aren't looking for a faster pace any time soon. "When considering primary trends within payments M&A, my guess is that the number will be much closer to last year than the heights of 2021," said Sam Wares, director of client success at TSG, in an analysis posted by the firm last month.

What accounts for the slowdown in payments M&A? Wares's analysis leads him to the thesis that, when all is said and done, payments deals have now come to be driven by profit-seeking on the part of would-be buyers, not growth potential and certainly not the "cash burning" that at one time dazzled payments and other industries.

Nor is this a short-term trend, warns Wares. "Buyers remain focused on profitability in acquisition targets as opposed to growth potential," he writes. "I view this as the main factor that has suppressed deal count and will continue to do so."

So, in other words, profitability rules. Startups, too, will need to show "a clear path to profitability," Wares says. Who'd have thought?

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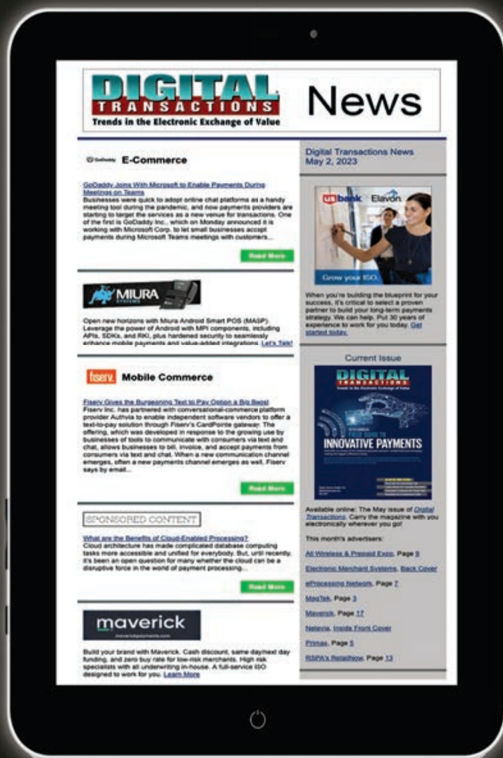

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BEHIND A CARD INDUSTRY GROUP'S STRATEGY TO STOP THE CCCA

A trade group representing card networks and issuers is taking aim at restaurant surcharges and price increases by large grocers as part of its efforts to defeat the Credit Card Competition Act.

The Electronic Payments Coalition earlier this spring fired its first salvo in its new campaign against the CCCA. In a press release, the EPC highlighted restaurant surcharges, including a 5% dine-in fee, a 4% hospitality charge, and a 4% employee-benefits fee. The EPC argues the surcharges, which it terms "sneaky restaurant fees," run counter to restaurants' claims that they need relief from credit card swipe fees.

Instead of focusing on credit card mandates, Congress should pass a "Truth in Dining Act" to let "Americans on a budget know exactly what they are going to pay before the bill shows up," the EPC said in a press release.

But dining establishments aren't the EPC's only target. The lobbying group called out large grocery stores for raising prices as consumers grapple with inflation. It cited a recent report from the Federal Trade Commission questioning whether price increases were necessary "and if the continued higher prices were all about increasing profits."

The group charged that large grocers "and their lobbyists are trying to blame credit card companies for these higher prices as an excuse to push new mandates on American's credit cards."

The credit card bill would require financial institutions with $100 billion or more in assets to enable at least one network other than Visa or Mastercard for transaction processing. Proponents see the bill as a bid to reduce merchants' card-acceptances costs by increasing network competition.

The EPC's latest tactic, the group says, is intended to educate lawmakers that credit card swipe fees are not hindering merchants' profits, while price increases and surcharges are padding merchants' bottom lines.

"Part of EPC's role is to highlight the immense value credit card payments offer both consumers and businesses, in addition to our work educating lawmakers on the negative impact of the Durbin-Marshall mandates," an EPC spokesperson says by email. "Durbin-Marshall" is a reference to Richard Durbin, D-Ill., and Roger Marshall, R-Kan., the two Senators who introduced the CCCA in 2022.

"Corporate mega-stores and their lobbyists are trying to blame credit card companies for these higher prices as an excuse to push new mandates on American's credit cards," the spokesperson adds.

Merchant trade groups counter that the EPC's new line of attack is a tacit acknowledgment that its previous efforts to derail legislative support for the CCCA haven't worked.

"It's hard not to chuckle when banks say restaurants make too much

Kantor

Kantor: "The EPC can cast aspersions all it wants on merchants, but all it shows is desperation on their part."

money, when restaurants are one of the lowest-margin businesses," says Sean Kennedy, executive vice president for public affairs at the National Restaurant Association. "Restaurants compete on price, and every restaurant I talk to says swipe fees are one of their biggest costs and show no signs of slowing down."

Small restaurants typically run on a 3%-to-5% pre-tax margin. More recently, however, their margin is closer to 1% due to rising costs, the NRA says.

Kennedy says it is "disingenuous" for large banks to claim restaurants won't pass along any CCCA cost savings to consumers. They will need to do so to remain price-competitive, he argues.

Kennedy adds he does not see restaurant surcharging as a long-term trend, since the tactic would only drive consumers who don't like the practice into competing restaurants that don't surcharge. As that happens, restaurants that surcharge will have to reevaluate levying the fee, he says.

FMI-The Food Industry Association (formerly The Food Marketing Institute), which represents large grocers, says its members also need relief from swipe fees as they operate on margins between 1% and 3%. "When you account for swipe fees on credit card transactions averaging 2-4% per transaction, it quickly becomes clear these fees have a significant and negative impact on grocers' bottom lines, as we chase pennies while the largest banks and credit cards pocket billions each year in swipe fees," Jennifer Hatcher, the FMI's chief public policy officer and senior vice president, government and member relations, says by email.

Adds Doug Kantor, an MPC executive committee member and general counsel for the National Association of Convenience Stores: "The EPC can cast aspersions all it wants on merchants, but all it shows is desperation on their part."

—Peter Lucas

WILL BUYING GROUPS GIVE MERCHANTS MORE POWER WITH THE CARD NETWORKS?

Card-acceptance costs and network rules weren't the only subjects covered by the sweeping settlement revealed this spring involving Visa Inc., Mastercard Inc. and lawyers for the merchants that sued them.

The pending agreement, which needs approval from a federal judge, allows for the creation of so-called merchant buying groups that would argue on behalf of card-accepting businesses for favorable terms from the card networks.

"To the extent necessary, Visa and Mastercard will modify their rules to permit merchants to form Merchant Buying Groups," a document detailing the settlement says. "Merchants that form buying groups that meet certain criteria may make proposals to Visa and Mastercard, on behalf of the group's members, concerning interchange rates and rate categories..."

The settlement continues: "Visa or Mastercard is obliged to, in good faith: consider the Merchant Buying Group's proposals; determine if the proposal sets forth commercially reasonable benefits to merchants, consumers, the network, and all other stakeholders; and, conduct reasonable, bona fide negotiations with the Merchant Buying Group concerning the proposal."

But just how the buying groups would work and who would be in them isn't specified. A source close to the negotiations for the settlement who asked not to be identified says the intent is to increase the negotiating power of smaller merchants regarding card-acceptance costs and rules.

In addition to price caps and a small reduction in interchange, the settlement requires Visa and Mastercard to change or simplify rules governing credit card surcharges, discounts for cash, and which cards merchants must accept.

"Today, only a handful of large merchants are able to negotiate credit card interchange rates substantially lower than the posted rates," the source told *Digital Transactions* by e-mail. "This settlement increases small merchants' ability to negotiate lower interchange fees from Visa and Mastercard by forming merchant buying groups and using the expanded power to surcharge and discount."

More information about the MBGs will be forthcoming in the $15-million merchant-education program to be created under the terms of the settlement, according to the source. The source says that while MBGs "aren't currently prohibited, in practice, merchants did not form or use any buying groups.

The merchant-education program will inform merchants of the importance and value of forming buying groups to negotiate interchange rates from Visa and Mastercard and will assist merchants in forming buying groups."

Spokespersons for Visa and Mastercard did not respond to requests for comment.

Some merchant trade groups already are questioning some terms of the settlement, including the MBGs. "Merchants can form buying groups, they've always been able to form buying groups," says Doug Kantor, general counsel of Alexandria, Va.-based NACS, better known as the National Association of Convenience Stores. "The settlement doesn't change that. Giving someone permission to do what they already can do doesn't change the outcome."

NACS and some other merchant groups regard the Credit Card Competition Act, pending in Congress, as the better alternative. That bill, sponsored by U.S. Sen. Richard Durbin, D-Ill., and Roger Marshall, R-Kan., would force Visa and Mastercard to enable network choice in credit card transactions, with the intent to promote price competition benefitting merchants.

"That at least requires the credit card companies to compete with each other," says Kantor. "Somewhere you've got to have a competitive market dynamic. The settlement doesn't do that. The legislation would."

The Merchants Payments Coalition, a group representing retailers, supermarkets, convenience stores, gas stations, online merchants, and others in card-related matters, issued a statement saying the proposed settlement would provide "very small relief" and "does not end the need for Congress to pass legislation."

But the Electronic Payments Coalition, a lobbying group of networks and financial institutions, supports the settlement. The EPC has been a fierce opponent of the CCCA. "The agreement helps small businesses more than a haphazard, experimental piece of legislation that only benefits the largest corporate mega-stores ever would," the EPC said in a statement. "Congress should put an end to the ill-advised Durbin-Marshall mandates and let the agreement merchants reached stand on its own."

The settlement's rules changes would make it easier for merchants to surcharge transactions, discount cards by issuer, and effectively eliminate the networks' honor-all-cards rules applying to digital wallets, notes Steve Mott, principal of payments consultancy BetterBuyDesign. "All these concessions are wins for merchants," Mott says by e-mail. "The devil may be in the details … But this looks like constructive progress on essential merchant needs."

The settlement now goes to the U.S. District Court for the Eastern District of New York in Brooklyn for approval. A separate but related settlement providing approximately $5.5 billion in damages to card-accepting merchants that chose to remain in a consolidated class action already had gained court approval.

—Jim Daly

MONTHLY MERCHANT METRIC

Chargebacks Transactions %

This is sourced from The Strawhecker Group's merchant datawarehouse of over 4M 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 Households defined as households with **less than $5M in annual card volume.**

Metric Definitions: (Only use definitions related to an individual month's release)
Chargebacks Transactions % of Transactions - Chargeback number divided by bankcard + OptBlue transactions period of the prior year

Period	Value
Q1'23	0.085%
Q2'23	0.066%
Q3'23	0.070%
Q4'23	0.065%
Feb'24 (T3M)	0.059%
Q3'23	0.34%
Nov'23 T3M	-0.05%

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PAY BY BANK EMERGES AS A FISERV PRIORITY

Pay by bank is not a new electronic-payments concept—consumers have been paying utility bills with their bank accounts for years—but the promise of lower fees and reduced merchant headaches is energizing the service, and work is at hand developing new use cases.

Witness Radial Inc., an e-commerce platform adopting Link Money's pay-by-bank tech, and J.P. Morgan Payments' 2023 launch of a pay-by-bank service. Now, Fiserv Inc., the big Milwaukee-based processor, is touting the benefits of pay by bank. Notably, this effort is positioned as a companion to other digital payment methods, such as credit and debit cards.

Pay by bank is a combination of old payment technology and new technology to create a new customer experience, says Chris Rennie, director of product management at Carat from Fiserv. "The ability to do account-to-account payments has been around a long time," he says. Pay by bank is the ability to expose that experience in a prominent way digitally, pair it with more modern user interface schemes, take advantage of modern card-on-file tech, and create a new experience, he says.

The benefits of pay by bank lie in its lower processing costs, reduced risk, and better experiences for consumers, Fiserv says.

Current pay-by-bank incarnations use the automated clearing house system, which, according to open-banking specialist Plaid Inc., may have a fee ranging from pennies for smaller transactions up to 1% to 1.5%, often with a $5 cap. That compares to a credit card processing fee typically ranging from 1.5% to 3.5%. Fiserv says pay by bank can be up to 50% less in fees.

"It's really about enabling merchants to accept this tender and get the lower cost and opportunity to consumers," Rennie says. Indeed, merchants have been complaining about credit and debit card acceptance costs for years, with a 19-year-old interchange lawsuit reaching a settlement recently (see previous story), though official acceptance is pending.

The task for pay-by-bank advocates will feature educating merchants and consumers, Rennie says, as many Fiserv surveys indicate consumers are just not aware of it. Merchants could help by extending a promotion if a consumer uses pay by bank at their stores or e-commerce sites.

Some use cases are already deployed. Gasoline retailers offer a discount if a consumer enrolls in an ACH-based payment method. Cumberland Farms, a Northeastern convenience-store chain, offers Smart Pay, and truck-stop chain Love's offers a 10-cent discount per gallon when paying for fuel with its app.

"It is the merchant tender and they are able to leverage the consumer to drive that behavior," Rennie says.

Pay by bank, at least through Fiserv, could reduce merchants' risk of chargebacks. Fiserv guarantees all ACH transactions on its platform. There could be issues with services or goods not provided, but merchants and consumers have mechanisms, such as reaching out to the merchant or the bank, to help resolve them, Rennie says.

Fiserv is not alone in pursuing pay-by-bank options. Chief competitor FIS Inc. earlier this year said it is working with open-banking provider Banked to develop new pay-by-bank services. Fiserv has been working with MX Technologies Inc. and its data-aggregation service since 2022.

The card brands, too, are courting the possibilities of pay by bank, though that might appear counterintuitive. Indeed, Mastercard Inc. and Visa Inc. have made open banking a key component of their strategies.

—Kevin Woodward

Rennie

Rennie: Pay by bank is a combination of old payment technology and new technology to create a new customer experience.

AI, PRIVACY, AND THE END OF CREDIT CARDS—AGAIN

BY GIDEON SAMID
gideon@bitmint.com

THE INITIAL PENETRATION was slow. The original Diner's Club credit card of 1949 was too different to quickly catch on. But it had a compelling message, as the historic burden of trusting the customer was shifted away from the merchant, a service for which the merchant was willing to pay.

Merchants reluctant to adopt the new cards were bypassed by consumers, and in due time virtually no business sustained itself without accepting credit cards. Over recent decades, many organizations have challenged the credit card solution and offered to help merchants by offering cheaper fees. Still, merchants were not persuaded. Nobody could compete with the gravitas of the ubiquitous cards, which, until very recently, looked invincible.

Only now a new technology has emerged offering consumers a robust answer to a rising concern: privacy. It's a concern the credit card cannot address, while the concern itself becomes more serious by the day.

When we unleash artificial intelligence, or AI, on the full canvas of people's payment history, we get a frightfully accurate reading of every one of us We are stripped naked, psychologically speaking.

It turns out that we all expose ourselves with respect to status, ambitions, pleasures, professions, hobbies, secrets, weaknesses, proclivities—everything about who we are. All this through the mundane list of what we choose to pay for. AI analytics compares the expenditure pattern of each of us to the patterns of all of us. Genetic algorithms build brain-like inference networks that draw clear conclusions from messy payment and expenditure data.

Imagine Visa and Mastercard getting to read the file your psychologist or therapist developed about you, and further, sharing this file with government, marketing companies, and hiring outfits. Suddenly, people will get turned down for loans and jobs that had appeared to be a sure bet. Racism and other forms of discrimination zip back in, just because your psychological profile is so revealing.

But what is really troubling is that, unlike the credit scores of today where errors can be complained about and rectified, the AI data-to-conclusion process is not understood by humans and cannot be appealed by the victims.

The credit card paradigm cannot provide privacy. Its very premise is knowledge of the customer. Digital money, on the other hand, fits the bill. Various banks operating a digital-money solution, such as BitMint, would mint privacy-protecting digital money and would sell it as a product for markup of 0.5%. The anonymous buyer could then walk into a store and buy what he secretly likes, paying with BitMint. The merchant would instantly redeem the digital money against nominal dollars (at a 0.5% fee) and hand over the merchandise.

Neither the merchant nor the bank would have any clue as to who bought this merchandise. The same is true for books that might expose embarrassing interests, or medical devices that imply private illnesses. Identity-masking services will sprout, allowing people to shop online and receive merchandise anonymously.

Merchants resist new payment solutions, but, on top of the much lower acceptance cost, the public will demand it. Travelers to faraway places are reluctant to surrender their credit card information to a small vendor in a foreign land—no such worries with digital money.

The battle over privacy and dignity in cyberspace is the battle royal in the payments world for this century. Our very sense of well-being is tied to our ability to pull a veil around our most intimate transactions. If our expenditures remain exposed, there is little that is left hidden—protected from judgment, exploitation, and unfixable errors. DT

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A JUDGE'S COMMON SENSE VS. REGULATORY OVERREACH

BY BEN JACKSON
bjackson@pa.org

THE SAGA OF PayPal versus the Consumer Financial Protection Bureau entered a new chapter early this spring when PayPal won a favorable ruling from the U.S. District Court for the District of Columbia.

On March 29, Judge Richard Leon ordered that the Bureau not require PayPal to provide the short-form disclosure required under the prepaid accounts rule to customers using the PayPal digital wallet. Judge Leon agreed with PayPal's arguments that digital wallets are different from general-purpose reloadable prepaid cards—especially cards bought in a retail setting—and so should not need the same kind of disclosures. He also wrote that the CFPB's cost analysis was not sufficiently detailed.

While the Bureau will likely appeal, regulators should take the time to consider the ruling beyond just formulating legal strategies, because it provides a guide to how they should write, and evaluate comments on, their proposed rules. The decision as a whole is worth reading, but a few highlights are in order.

First, Judge Leon took issue with the CFPB's assertion that it should regulate digital wallets with the same rule as prepaid cards because, even though wallets do not charge fees today, they might some time in the future. "The CFPB dreams up a problem in search of a solution by making 'unsupported assumptions'...about fees that 'may' be charged by digital wallet providers at some unspecified time 'in the future'... That kind of conjecture cannot masquerade as a predicate for rational agency action," Leon wrote.

His decision also took issue with the idea that there is a regulatory gap for digital wallets, noting that Regulation E already applies. This is an important point. As new products are brought to market, they don't always require a new regulatory regime. Regulators need to develop a process for evaluating new products thoroughly and figuring out where existing rules should apply—such as Reg E for mobile wallets—and where they should not—such as Regulation Z for employer-based earned-wage access programs.

In his cost-benefit analysis, Leon pushes back on the rulemaking by noting that the CFPB never tested its disclosures in an electronic setting. Consumers could be confused by disclosures of fees at $0 when they are never charged, he argues, especially when no qualifications are allowed.

Perhaps the most important point Leon makes is that the Bureau did not analyze industry comments fully. "The CFPB's first citation...points only to a recitation of industry comments," he notes, "not to any independent analysis by the agency and certainly not to a thoughtful quantitative and qualitative weighing of the Rule's costs and benefits with respect to digital wallets."

Leon is calling on regulators to do rigorous analysis on proposed rules that recognizes as more than a formality the input of potentially regulated entities. The prepaid rule started as a short rule about disclosures for open-loop prepaid cards and grew into a sprawling web that tries to solve problems with all kinds of financial products.

Perhaps it's time to revisit the prepaid-accounts rule with renewed rigor—especially considering the rule never actually defines the product it regulates. In many cases, whether an account falls under a rule seems to come down to how it is marketed.

This case has been to the Supreme Court and back, and may end up there again. Regardless of the outcome of appeals, we can hope that regulators will study Leon's decision with an eye to improving their own rulemaking and that it will prompt them to read comment letters to improve their analysis instead of reading them to create a veneer of fairness. DT

NEXT, PLEASE

Long enchanted with retail and restaurants, acquirers are ready for the next point-of-sale markets.

BY KEVIN WOODWARD

THE INDEPENDENT SALES agent and acquirer model is successful because of its ability to competitively sell merchant services. The saturation of point-of-sale and online payment services within the retail and restaurant industries is a prime example of this prowess.

Now, however, that ceaseless sales engine needs new markets to sell to.

In today's payments arena, especially in new markets with limited or no electronic payments history, that can mean selling much more than a countertop POS terminal. ISOs and acquirers know this. That's why, when they identify new-market potential, the approach is sophisticated, cognizant of the merchant's needs and its customers.

Stadiums and entertainment venues have captured a lot of acquirer attention as numerous providers line them up for new POS equipment and software. Fiserv Inc., Shift4 Payments Inc., and Cantaloupe Inc., with its recent Cheq acquisition, are some of the bigger players in stadiums. Others include Block Inc.'s Square presence at SoFi Stadium in Los Angeles and Picklejar Entertainment Group's event-management services.

Whether it's stadiums seating thousands or a mobile pet-grooming service, the opportunity to introduce new and updated merchant services can be profitable.

"A merchant segment is prime for disruption by a POS provider if its transactional volume is steady and supported by sustained customer behavior and has new payment needs that are not covered by traditional providers," says Shahin Jahromi, chief product officer at Aurora Payments. Aurora is a Tempe, Ariz.-based merchant-services company.

Don't underestimate the importance of that word "sustained." Consider how cryptocurrency acceptance garnered a lot of attention a few years ago and now isn't nearly as coveted. "Building a payment platform that accepted

White: "For years and years, there had been two players in that [casino] space, Agilsys and Oracle. That technology is old."

cryptocurrencies may seem to have been a great idea two years ago, but has well since diminished in market size and value," Jahromi says.

"On the contrary," he continues, "delivery services, health and beauty services, and e-commerce tools for small businesses have enjoyed significant growth in total volume supported by changes in consumer behavior in the past few years. Within these segments, the most profitable ones are those that have small yet specific needs that are not met by the larger players in the market.

"A child-care and pet-care merchant may have a wide range of shared services," Jahromi adds, "but each has its own specific regulatory and business-model nuances, which may be too complex or costly to cater to. Understanding such nuances is often the key element in assessing the potential of a merchant segment."

'MOBILE, MOBILE, MOBILE'

Similarly, transaction volume and ticket size are two key factors to determine the adoption of new POS, says Nilesh Vaidya, global industry head for retail banking and wealth management at Capgemini, a Paris-based advisory firm.

"We have seen high transaction volume and small ticket size spark high adoption due to the convenience factor," Vaidya says. "The ease of use amongst the POS devices and … other factors also come into consideration. While the form factor of the POS devices certainly influences usage, it is less important than the other variables."

At Signature Systems Inc., which markets the PDQ POS service, one element of those "other variables" involves evaluating existing POS technology and services within current customers.

"Our biggest vertical is casinos," says John White, executive vice president and chief technology officer at Warminster, Pa.-based Signature Systems. "Our focus is on the restaurants inside of them." Tribal casinos are major Signature customers, he says. Ten percent of Oklahoma's tribal-gaming market uses Signature's PDQ POS, he says.

"For years and years, there had been two players in that space, Agilsys and Oracle. That technology is old," White says. Part of the reason for that is the casinos have been slower to adopt the latest technologies and typically can be up to 10 years behind from a technology perspective, White says. That is starting to change, especially as more states allow gambling.

Mobile is at the top of casinos' wish lists. "What are they looking for?" White asks. "Mobile, mobile, mobile. They don't have any of that now."

Two major mobile use cases are for loyalty-program management and order-ahead. The ability to order drinks to a gaming station or room is essential for guests. Signature, which develops its own software to operate on Touch Dynamic devices, offers pay-at-table and mobile ordering in addition to traditional POS technology.

Another trend in these new markets, and as part of an overall shift, is the shift in customer payment preferences, says Jean-Marc Thienpont, managing director of omnichannel & biometric solutions at J.P. Morgan Payments.

"As payment technology continues to evolve, merchants across all sectors are witnessing shifts in client payment preferences. Industries such as sports, entertainment, health care, and automotive services are among those embracing digital payment solutions in addition to retail and hospitality merchants," Thienpont says.

He adds: "At J.P. Morgan Payments, we're seeing an increased interest from our clients in these sectors as they are looking to streamline the checkout experience across in-store, online, and mobile channels."

The broader adoption of cashless payments also can aid efforts to enter new markets. "With more consumers opting for cashless transactions, merchants need to anticipate and adapt to evolving preferences," he says. "There's a growing expectation for payment solutions to become nearly invisible by allowing consumers to pay with their palm, face, phone, or smart watch.

"Additionally," says Thienpont, "merchants are recognizing the seamlessness of digital payments, and are seeking a one-stop shop that can enable this experience for their customers."

CASH? WHAT'S THAT?

Some key questions to ask merchants in potential new markets include inquiries about their current POS systems and whether they need upgrading, says Jean Boling, director, ISV business development, at Xplor Technologies, a Creve Coeur, Mo.-based payments provider with more than 106,000 customers.

"Do they have a problem that needs to be solved?" Boling continues. "Do they need to offer faster checkout, pay online, pay by phone, or order-ahead options to their customers? What is their average volume of sales they do per day, along with number of transactions processed per day. What vertical are they in? Another factor to consider is cost. You will be surprised what merchants are willing to spend money on to improve their overall customer experience."

Another factor when evaluating potential new merchant segments is the changing consumer and her partiality to electronic payments.

"More younger consumers purchasing will aid it," Boling says. "We will come to a time where everyone will be using cashless payments. Younger demographics will not know what checks are and cash will be something they only keep in the bank. Merchants will lose customers if they cannot give them a way to pay without using cash."

Payments providers may lose merchants if they can't provide an inclusive POS system that handles more than payments.

"The latest and strongest [competitive] force in the payment market has been the software providers that embed payment acceptance into POS software solutions that integrate payments into resource and inventory management, payroll, or other business flows," says Jahromi.

"Merchants in this day and age often find themselves buying POS solutions that solve not only payment acceptance but also how their payables are covering their expenses, such as vendor invoices, staff payroll, or procurement services," he adds.

The right technology, along with customer service, helps, too, says Boling. "If you can deliver an effective method of taking cashless payments without friction, along with solid customer service and positive consumer experiences, then merchants will see the value," she says.

"Pricing will play a part," she continues, "but it will not be the ultimate goal. Merchants want their customers to have a great experience and know that payment transactions can leave a lasting impression on their brand." DT

Jahromi

Jahromi: "A merchant segment is prime for disruption by a POS provider if its transactional volume is steady and supported by sustained customer behavior and has new payment needs that are not covered by traditional providers."

IS GENERATIVE AI MORE FRIEND THAN FOE?

GenAI carries risks, some not yet well-known. But its potential to transform payments is too compelling to ignore.

BY **PETER LUCAS**

GENERATIVE AI HAS been described as a Gold Rush for businesses looking to cash in on the better user experiences and operating efficiencies it is said to create. It has also been described as a minefield because of how rapidly the technology is evolving and the security risks associated with the vast amounts of data it accesses.

Despite its pros and cons, GenAI remains one of the hottest topics in payments because of the potential for this form of artificial intelligence to transform the business. Top use cases include customer service, merchant underwriting, personalization and targeted marketing, and fraud detection.

At its core, GenAI consists of deep-learning, artificial intelligence-based models that generate high-quality text, images, videos, or other data in response to prompts. While generative models have been used for decades to analyze numerical data, the addition of deep-learning capabilities makes it possible to extend GenAI models to images, speech, and other complex data.

Through deep learning, these models learn the patterns and structure of the inputted data, then generate new data that has similar characteristics to the data the model was trained on. As a result, the models can write engaging text or create photorealistic images with just a few prompts.

When it comes to payments, GenAI is generally viewed as a transformative technology that will propel innovation in payment processes and the user experience.

"[GenAI] lays the groundwork for enabling the creation of more secure, efficient, and bespoke payment solutions, which will ultimately prove pivotal in both accelerating innovation and creating a more competitive landscape for the

payments industry," says Netanel Kabala, chief data and analytics officer for Montreal-based processor Nuvei Corp.

Because of GenAI's ability to make humans more productive— and to generate personalized recommendations and answers to questions—the technology is being widely adopted in customer- service centers. The technology can be used, for example, to help representatives sift through reams of data in an instant to find the correct answer to a customer's question or create chatbots that can be as conversational as a human.

Gray

Gray: "It's not so much about how to implement GenAI, but how to implement it correctly."

DISCOVERING AI

In April, Discover Financial Services, which recently agreed to be acquired by Capital One Financial Corp. for $35.3 billion, announced the rollout of Google's Vertex AI app across its call center. The rollout will provide Discover's nearly 10,000 customer-service agents with access to intelligent document summarization and real-time natural-language search assistance during live interactions, Discover says.

Google's Vertex AI app analyzes and summarizes complex policies and procedures to provide customer-service representatives with information to answer customers' questions.

The impetus for adding GenAI to its call center grew out of Discover's need to provide agents with tools to quickly and correctly respond to more complex queries, the card company says.

One advantage of GenAI for customer-service reps is that it can read hundreds of thousands of words per minute to find the right answer, payment experts say. By comparison, humans can read a maximum of 200 to 300 words per minute.

"Our customer agents' jobs have become significantly more complex in the last five to 10 years," says Szabolcs Paldy, senior vice president of operations for Discover. "With the emergence of digital apps, customers can get responses to easy questions, like checking their balance, from the app. Because of this, our customer-service agents are faced with more difficult questions and [are] having to sort through lengthy procedure documents to find the right answers."

Deploying Vertex AI will help Discover's service agents by distilling complicated answers into simple paragraphs they can share with customers quickly, versus putting them on hold for long periods while searching for an answer, says Paldy.

Since Discover began testing the technology in January, its service agents have reduced call-handling times, and improved policy and procedure search times, by as much as 70%. Plans are also in the works to use the technology to help with phone-call transcription, categorization of incoming requests by topic, and customer-sentiment analysis.

"We also use this technology to better understand customer sentiment in general and about our different products and features," Paldy says. "We believe GenAI can help our agents in ways that previously weren't possible."

'SCAMS AND DEEP FAKES'

While GenAI can significantly improve call-center productivity as well as the customer-service experience, it is being put to use in other customer-facing situations.

For example, Colleen AI, a Daytona Beach, Fla.-based software developer has added AI-based voice technology to its payment-collections app for multifamily property-management companies. The addition of AI-based voice technology will enable property-management companies to leverage GenAI to initiate personalized outreach to renters across all communication channels, such as a text, phone, and email.

In the case of a phone call, Colleen AI's voice application answers customer questions and can accept rent payments. The app replaces chatbots, which Colleen AI chief executive Itamar Roth describes as "limited in scope by transactional, robotic responses that are not personalized," while freeing service reps from backlogs of one-off calls.

For marketing and personalization, GenAI can be used to identify the

characteristics of individuals who respond to specific marketing messages, whether it be a merchant pitching a consumer or a merchant getting pitched by a payment-technology provider, says Darryl Cumming, director of product management at payments-technology provider NMI LLC.

"GenAI can also be used in marketing to determine what pitches generate the most leads and have the highest conversion rates," says Cumming. "That information can be used to refine our sales pitches and tailor them to the persona of the recipient."

In addition to credit card companies and payment-technology providers, processors are making use of GenAI. Swipesum Inc., a St. Louis-based processor and merchant-consulting firm, has created a GenAI-based app called Staitments, which analyzes merchants' monthly processing statements to determine if they are paying too much in interchange, what additional discounts may be available, and guage what they are charged in fees compared to other processors.

"There is a lot of detailed information in processor statements that merchants can use to save money on their payment-acceptance costs, but it is not always easy to identify or understand, and can be spread out across multiple pages," says Michael Seaman, founder and chief executive at Swipesum. "With Staiments, merchants can do in minutes what used to take hours or weeks to do manually."

Because of its ability to spot trends over reams of data, GenAI is also making its mark as a fraud-detection tool. Criminals are co-opting GenAI to develop sophisticated phishing scams, as well as so-called deep fakes that deceive humans or fraud-detection systems by using the technology to mimic legitimate user behavior, including biometric characteristics, which makes fraudulent activities harder to detect.

GenAI can combat this threat by loading known examples of phishing campaigns and deep fakes into the model and asking it to spot trends within the data.

"When data around scams and deep fakes are pushed through a GenAI model, it can lead to information that helps build models that identify these scams," says Rajesh Iyler, global head, machine learning and generative AI, for financial services at technology consultancy Capgemini. "By spotting trends, rules can be put into place to … correct vulnerabilities within fraud-detection models."

Some processors are using GenAI to underwrite a prospective new merchant. NMI, for example, uses the technology to determine when it needs to scrutinize a prospective merchant and when it is OK to auto-approve a merchant, Cumming says.

Key to using GenAI to detect fraud scams created with AI models is constantly updating the model on techniques criminals are using. "Continuously updating the models with fresh data and adjusting them in response to evolving attacker techniques is crucial for maintaining their effectiveness over time," says Cynthia Printer, director, financial crime compliance and payments, at LexisNexis Risk Solutions.

'HALLUCINATIONS'

While early adopters of GenAI in the payments business are seeing promising results, experts note the industry is just starting to realize the technology's potential.

That can be a double-edged sword, payments experts warn. While technology can open the door to innovation in payments, users need to be mindful the technology is only

as a good as the data it is trained on.

"Generative AI can predict what information should be provided and mimic human functions based on training, but the technology can hallucinate," says Siva Narendra, cofounder and chief executive at Tyfone Inc., a Portland, Ore.-based provider of digital-banking solutions.

A "hallucination" is an incorrect or misleading result generated by GenAI model. Hallucinations can be caused by insufficient training data, incorrect assumptions made by the model, or biases in the data used to train the model.

When hallucinations occur, consumers or businesses interacting with GenAI models can get led down the wrong path. "That's worse than saying, 'I don't know the answer,'" says Cliff Gray, principal at Chicago-based Gray Consulting Ventures LLC. "It's not so much about how to implement GenAI, but how to implement it correctly."

GenAI users also need to keep in mind that because its models connect to critical back-end databases, such as customer relationship management and enterprise resources planning apps, those connections must be secure to prevent opening a back door that makes the data vulnerable to criminal exploitation.

"While AI brings numerous benefits to the payments industry, it also comes with risks. Among these are the potential for algorithmic bias, a lack of transparency, data-privacy concerns, and the ability to impersonate others, which can facilitate scams," says Brenton Harder, head of enterprise automation at Fiserv Inc.

Lastly, GenAI users are advised to keep in mind that advances in the technology are occurring at breakneck speed, which means today's trends can be obsolete tomorrow.

"We've gone through three generations of GenAI in two years, which makes staying on top of the technology tough," Narendra says.

That said, he adds, the technology is "too good to ignore." DT

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16th 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 payments 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 16th edition. A few years ago, we dropped the "alternative payments" rubric 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 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. We mention pricing for the merchant and consumer when it is relevant and publicly available. 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.

ACCELERATED CHECKOUT

FIELD NOTES: Friction is the sticky part of the online checkout, and merchants are keen to eliminate as much of it as possible. To that end, the concept of the accelerated checkout has, well, accelerated. Accelerated checkout saves customers' payments and shipping information so returning customers can more quickly complete payment for their orders, says Shopify Inc. Think Apple Pay, Google Pay, or PayPal, where not only is the payment information stored, but shipping details, too. One new entrant is Paze, the upcoming digital wallet from Early Warning Services LLC. That service, scheduled for broad availability later this year, will see up to 150 million credit cards issued by seven large U.S. banks in the digital wallet. Accelerated checkout is not a new endeavor, but is getting more attention as competitors offer more services and accept more online transactions, especially mobile ones, and as faster checkout becomes more popular with consumers. The checkout of today and those coming tomorrow are striving toward eliminating surprises and giving consumers choice of payment methods.

ACCOUNT TO ACCOUNT PAYMENTS

FIELD NOTES: Account-to-account payments are undergoing a potentially giant increase in use and primacy among consumers and payments companies. Long a staple of electronic bill payments, the payment method's future could be impacted by more use cases, especially those involving consumers and the rapidity of real-time payments. The Clearing House Payments Co. LLC's RTP network, a major exemplar of A2A networking, was joined last year by FedNow, the real-time payments service from the Federal Reserve. The potential in A2A lies in new uses cases that could be attractive to consumers, payments companies, and businesses. One such use case could center on request for payment. With RFP, financial institutions can enable one party, such as a business, to request a payment from another, like a consumer. When the customer pays the request, the money is transferred instantly, a Fed Web site explains. TCH also offers an RFP capability. The potential lies in such cases as the real-time payment of a nearly overdue bill or, perhaps, a payment at the point of sale. A2A could be a precursor to real-time POS payments, though the use case would need to be refined. Consumers would have to educated about the protocols and security measures. Merchants would have to adopt a new payment scheme, and payments companies would have to hone their sales pitches to make them more enticing.

AMAZON PAY (INCLUDES AMAZON ONE)

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

FIELD NOTES: The big news with Amazon Pay is that its Just Walk Out payment technology will no longer be used in Amazon Fresh grocery stores. The tech, according to a report from *The Verge*, is being removed from the Fresh stores in favor of Amazon's Dash Cart, a shopping cart with a camera to scan items placed in the basket, and built-in point-of-sale technology. Just Walk Out will remain in use in some smaller corner stores, the report said. Meanwhile, Amazon continues to make the tech available to others. Shift4 Payments Inc. adopted it last fall with an eye to deploying it at stadiums and other venues. Also, food-delivery provider Grubhub implemented Just Walk Out at a Loyola University Maryland campus store. Transact Campus Inc., an on-campus payments provider, adopted it, too, as has Six Flags Great Adventure, a New Jersey theme park. Amazon also added Citi Flex Pay, the card issuer's installment-loan program, to the Amazon Pay digital wallet. Amazon also released a smart phone that consumers can use to self-enroll in Amazon One, its palm-based identity service, by taking a photo of their palm.

APPLE PAY

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

FIELD NOTES: Apple Pay has notched notable achievements in the past year, but one lawsuit looms large. In March, the U.S. Department of Justice filed suit against the tech giant over allegations it monopolizes smart-phone markets. Among the claims, in addition to suppressing mobile cloud streaming services and others, Justice said Apple prevents third-party apps from offering tap-to-pay functionality and inhibits the creation of cross-platform third-party digital wallets. Apple said it will defend itself against the suit. Despite this action, Apple Pay continues to solidify its position as a top digital wallet. PayPal Holdings Inc. is finally enabling its PayPal- and Venmo-branded credit cards to be available in Apple Wallet. Home-improvement chain Lowe's, a one-time backer of a failed merchant-led wallet called CurrentC, enabled has Apple Pay acceptance in its stores.

BLOCKCHAIN

FOUNDED: 2010

FIELD NOTES: The distributed ledger undergirding most cryptocurrencies continues to find strategic adoption in payments. One big mover is Visa Inc. The card network announced late last year it would expand its cryptocurrency services into merchant acquiring, largely for cross-border transactions. The move, which Visa calls a pilot project, involves the major merchant processors Worldpay and Nuvei for settlement to sellers in fiat currencies. Visa's scheme is pegged to Circle Internet Financial's USD stablecoin. Not to be left out, Mastercard Inc. announced its Multi Token Network, a set of capabilities to make transactions within digital-asset and blockchain ecosystems more secure, scalable, and interoperable, it said in a blog post. It includes the Mastercard Crypto Credential, which offers a set of common verification standards and infrastructure, and demonstrations of how central bank digital currencies can be used to purchase assets on the public blockchain.

BNPL

FIELD NOTES: With a surge in use during the pandemic, the buy now, pay later payment option is an integral part of the payments arena. As it matures, however, new uses and issues surface. BNPL provider Klarna AB hoped to counter some criticism of the installment-payment method by launching Wikipink, a Web page that provides details about its BNPL business, such as repayment rates, late-fee rates, and consumer demographics. Yet, a Bankrate survey earlier this year found that overspending and missing a payment or two remain common issues for BNPL users. While noting that BNPL can be useful, it's how consumers use it that can impair the experience. "Consumers can trick themselves into overspending with BNPL because they are spreading out the payments," said Ted Rossman, a senior industry analyst at Bankrate. BNPL continues to expand. Galileo Financial Technologies grew its BNPL platform to enable banks and fintechs to offer new installment plans post-purchase through a consumer's existing credit or debit card. The U.S. BNPL market is projected to grow to $132.7 billion by 2027, up 14% from $116.3 billion in 2023, according to Research and Markets.

CASH APP

PARENT: Block Inc. **HEADQUARTERS:** San Francisco, CA **FOUNDED:** 2013 **WEB:** Cash.app

FIELD NOTES: Cash App, the peer-to-peer payments app from Block Inc., is out to transform itself by adding banking services. With 3 million active users, the app has the customer base to justify new use cases. In a shareholder letter, Block said it intends for Cash App "to become one of the top providers of banking services to households in the United States which earn up to $150,000 per year…." As of December 2023, 2 million active users deposited their paychecks into Cash App each month. Block's strategy is to target this base, moving upmarket to households with annual incomes up to $150,000. "Strengthening our P2P network with families in the U.S.—including with higher-household-income parents and their dependents—is one lever that we believe will contribute meaningfully to our ability to move up market over the medium term," the letter continues. The third piece is to drive the social aspect of Cash App, such as by enabling Square sellers to customize profiles in the app. In a related move, Marqeta Inc. said in 2023 it will continue to process transactions for Cash App's card product for another four years.

CLOVER

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

FIELD NOTES: Clover, the point-of-sale technology platform Fiserv acquired in 2019 when it bought First Data Corp., continues to make market-share gains. Clover revenue in 2023's fourth quarter jumped 30% year-over-year. Much of this growth, he added, is coming through relationships with independent software vendors, the parties that weave payments capability into overarching business software. "We continue to grow pretty meaningfully in the ISV channel. We see growth there for Clover," Bob Hau, Fiserv chief financial officer, said earlier this year. Executives noted that restaurants continue to be a strong customer base for Clover. That comes as Fiserv lands more stadium and venue installations for Clover. Some notable ones include the Cleveland Browns Stadium, a deal that included nearly 500 devices, and the Prudential Center, home of the NHL New Jersey Devils, which had more than 300 Clover devices installed. Clover is more than devices. Eligible Clover merchants also can take cash advances against future credit card receivables. At the end of 2023, Clover Capital receivables stood at $281 million, a 71.3% increase from $164 million at the end of 2022.

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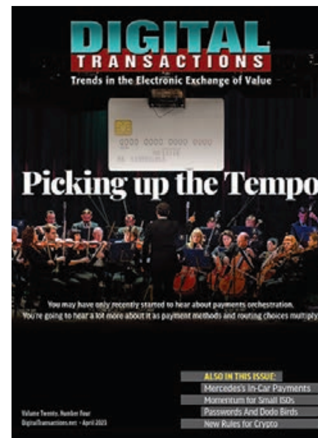

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JP MORGAN UNIFIED COMMERCE

PARENT: JPMorgan Chase & Co. **HEADQUARTERS:** New York, New York **FOUNDED:** 2014 **WEB:** JPMorgan.com/payments

FIELD NOTES: Today's consumers expect to move seamlessly between digital and physical channels when purchasing. They are also less tolerant of technical glitches that degrade the quality of the buying experience. To meet that need, J.P. Morgan Payments has launched a unified commerce platform that offers in-store, online, and mobile checkout capabilities. The platform provides merchants a single access point to view their consumer-transaction and marketing data. Unlike omnichannel commerce, which connects multiple channels through multiple pieces of software, unified commerce enables merchants to sync their online store and in-person sales. That makes it easier for merchants to keep track of what's happening across all sales channels in real-time. Consumers benefit from the technology by having the ability to engage across multiple channels while shopping, powered by a single platform and while enjoying a consistent shopping experience regardless of channel. With unified commerce, merchants can simplify payment-related business processes and offer consumers the option to use their preferred payment method. As a result, merchants can conduct business while allowing consumers to transact however they please, J.P. Morgan says.

GOOGLE WALLET

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

FIELD NOTES: Google Wallet is so popular it prevented sibling Google Pay from gaining meaningful market share in the United States, which ultimately led to Google Pay's demise. Parent Alphabet Inc. plans to discontinue Google Pay in the U.S. market in June. Google Wallet's advantage, in part, is that it has more functionality, such as allowing consumers to hold a wallet balance, enabling send and receive to and from friends in the United States, and permitting use of a credit or debit card in stores and online. By comparison, Google Pay allows users to tap and pay in store and to redeem loyalty rewards, gift cards, and offers in store. Alphabet's decision to discontinue Google Pay stems from its strategy to simplify its digital-wallet offerings, especially from the perspective of marketing and branding. The move also eliminates any potential confusion among consumers regarding the two wallets, payments experts say. Alphabet has also beefed up the wallet's functionality by adding the ability to store a digital image of a state-issued ID card or driver's license. The challenge facing Google Wallet going forward, payments experts say, is making sure it continues to meet consumer's and merchant's expectations.

MAGICCUBE

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

FIELD NOTES: MagicCube's iAccept SoftPOS app got a big shot in the arm in the United States earlier this year when it partnered with the major processor Shift4 Payments Inc. The deal extends MagicCube's merchant reach, especially in markets such as restaurants, a segment in which Shift4 specializes. Given Shift4's merchant reach and technical capabilities, the deal not only boosts MagicCube's business, it also puts sofPOS in general on the radar screen. SoftPOS allows contactless payment cards and digital wallets to be tapped or waved on or at a smart phone to pay for purchases. In this way, the technology lets merchants bring the point of sale to the point of interaction with the customer within the store. Example: pay at the table in a restaurant. The technology is also well-suited to mobile merchants. Once merchants are introduced to the technology, they quickly embrace it, payments experts say. The number of merchants using softPOS is expected to explode in the coming years to more than 34.5 million worldwide by 2027, up from 6 million in 2022, according to Juniper Research.

MARQETA

PARENT: Marqeta, Inc. **HEADQUARTERS:** Oakland, CA **FOUNDED:** 2010 **WEB:** Marqeta.com

FIELD NOTES: This card-issuing platform and payments provider has continued to build on the momentum it gained last year. In April, Marqeta partnered with Rain Technologies Inc., a provider of earned-wage access solutions. Marqeta will provide a Rain-branded debit card onto which employers can load employee wages. Marqeta's platform also allows Rain to offer secured and unsecured credit cards and employee rewards. The deal is significant because it reflects the demand for employee paycheck flexibility and faster wage payment, Marqeta says. Faster wage payment can reduce employee turnover, the company adds. Marqeta has also renewed its agreement to process transactions for Block Inc.'s Cash App Card through June 2027. And now Marqeta has begun expanding outside the United States, striking a deal with Fitbank, a Latin America-based banking-as-a-service platform, to enter Brazil. Marqeta announced in February its platform for the first time had processed more than $1 billion in volume in a single day. Marqeta chief executive Simon Khalaf attributes the company's growth to strong execution, enhanced product offerings, and more partnerships.

OPEN BANKING

FIELD NOTES: Helped by a ruling from the Consumer Financial Protection Bureau, open banking has become table stakes in the United States. The CFPB rule, issued in October, is helping speed the transition to open banking as it gives consumers more control over their financial information and offers additional safeguards against firms abusing that data. Open-banking econsumer accounts to verify ownership and funds availability for funds transfers. Fintechs, the primary drivers behind open banking, continue to push the technology. Dwolla Inc., for example, has launched an open-banking service for mid- and enterprise-size businesses. The service streamlines businesses' ability to embed open banking in existing applications through a single API, as opposed to relying on connections to multiple vendors. By enabling mid-size and large businesses to consolidate account-to-account payment functionality under one roof, Dwolla expects to simplify payments for businesses by enabling faster time-to-market and improved operational efficiency. Late last year, Dwolla integrated its Dwolla Connect platform for account-to-account payments in open finance to enable clients to transfer open-finance data to the Dwolla platform.

PAYMENTS ORCHESTRATION

FIELD NOTES: A relatively new technology, payments orchestration is quickly gaining favor with merchants. The reason: the technology makes it easier for merchants to offer a variety of payment methods while accessing data that provides insights into those new methods. In a nutshell, payment orchestration brings together payment-service providers, acquirers, and banks in a single, unified app that manages the payment process from beginning to end. With this single integration point, merchants can add new and alternative payment methods without complicating their operational processes. It also simplifies data security, as merchants don't have to manage each payment method or gateway separately. In addition, security features such as tokenization and encryption are often standard. Such features ensure that payment data is protected throughout the entire payment process, advocates say. Payment orchestration technology also helps merchants by providing insights into consumers' payment preferences. And the technology enables merchants to route transactions to processors based on such factors as cost, availability, and performance. Depending on how all that works and how much it costs, payment-orchestration technology can be music to merchants' ears.

PAY BY BANK

FIELD NOTES: It's not a new concept, but consumers and merchants are rapidly migrating toward pay by bank technology. There are multiple drivers behind the technology's burgeoning popularity. Consumers like the technology because it enables them to use their bank account to quickly to make a purchase, as opposed to a credit or debit card or other alternative payment method. Merchants like the technology for several reasons. First, most pay by bank offerings use the automated clearing house system to route transactions, which is a lower-cost alternative to the credit card networks. The technology can save merchants up to 50% in network fees, says pay by bank evangelist Fiserv Inc. And transactions made using pay by bank technology carry a funds guarantee, which reduces the risk of a chargeback. Fiserv is actively touting the benefits of pay by bank such as convenience, low cost, security, and simplicity. It's also positioning the technology as a companion to other digital payment methods, including credit and debit cards.

PAYPAL

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

FIELD NOTES: It's been a busy year so far for PayPal. During the fintech's fourth-quarter 2023 earnings call, new chief executive Alex Chriss stated the company will aggressively promote its branded checkout service, calling it a critical part of PayPal's value proposition. Branded checkout is when a merchant offers PayPal as a payment option on its site rather than having PayPal process transactions in the background. A few weeks later, PayPal scored a victory over the Consumer Financial Protection Bureau when a U.S. District judge overruled the CFPB's efforts to require PayPal to disclose fees associated with its digital wallets. The judge ruled that wallets are not prepaid cards and therefore not subject to fee-disclosure rules. Last month, PayPal announced its PayPal and Venmo wallets have been enabled in the United States for Visa+, which allows consumers to send and receive money using a number of person-to-person payment apps. Next, PayPal announced its Xoom cross-border payments service will enable users in the United States to send money funded by the stablecoin USD, which is denominated in U.S. dollars. The new service will enable PayPal users to convert PayPal's own stablecoin version, PYUSD, to USD and then use the USD to fund the transfer.

PAZE

PARENT: Early Warning Services **HEADQUARTERS:** Scottsdale, AZ **FOUNDED:** 2023 **WEB:** paze.com

FIELD NOTES: Does the world need yet another digital wallet? Last year, Early Warning, whose services include the Zelle peer-to-peer payments network (see the Zelle entry below), decided the answer is "Yes." Early Warning thought it saw a big opportunity in the world of mobile wallets. The opportunity lay in an app that would offer cards issued by the big banks that own Early Warning, plus more over time, and would work smoothly and exclusively in e-commerce transactions. So it launched Paze, with the backing of the big banks—Bank of America, Capital One, JPMorgan Chase, PNC Bank, Truist, U.S. Bank and Wells Fargo—that own Early Warning. The wallet, which launched in select states early this year, has addressed the "smoothly" part head-on, with cards pre-loaded, the ability to add different shipping addresses, and a card updater capability. It's all aimed at one big problem in the world of cards: friction in online checkouts. A report early this year from Paze found that 71% of some 1,000 consumers surveyed had abandoned a transaction at checkout, largely because of a complicated process and worries about security. With at least 150 million cards possible from the seven bank owners, an effective solution to cart abandonment would give Paze a huge lift.

REAL-TIME PAYMENTS/FEDNOW/THE CLEARINGHOUSE

FIELD NOTES: Many payments observers hailed last July, when the Federal Reserve officially launched FedNow, as the start of the age of real-time payments. It was a momentous event to be sure, but backers of a private-sector alternative, The Clearing House Payments Co.'s Real Time Payments network, would beg to differ. RTP, after all, has been transferring funds in real-time since 2017. Now the market is getting a chance to compare the two instant-payment systems. FedNow, which had been in development for years before it launched, claimed at least 470 participating institutions by February. But it appears there's plenty of interest in both systems as banks, merchants, and businesses seek out networks that can switch payments faster. TCH's RTP network saw its transaction volume climb to about 77 million in the first quarter, from a bit more than 50 million only a year earlier, according to figures from TCH. Promising services like request for payment, coupled with developing interest in account-to-account transfers, are combining with lightning-fast money-movement capability to draw interest in real-time payments. Indeed, there's probably enough of that interest to sustain both FedNow and its private-sector alternatives.

SECURE REMOTE COMMERCE

PARENT: American Express, Discover, Mastercard, Visa **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. The object is to allow consumers to use a preferred payment card online with the same confidence he or she feels when wielding the same card in a physical store. With e-commerce booming, the simplified checkout is getting a workout. Total U.S. online sales in the fourth quarter came to $285.2 billion, up 7.5% over the same period in 2022, according to the U.S. Census Bureau. Some of that momentum is left over from the pandemic, but few would doubt the common buy button concept has played a role.

STRIPE

PARENT: Stripe, Inc. **HEADQUARTERS:** San Francisco, CA & Dublin, Ireland **FOUNDED:** 2010 **WEB:** stripe.com

FIELD NOTES: In the payments business, there are processors, and then there are full-service processors. In the latter category, the company to beat, the experts say, is Stripe. The company's focus on developers—the third-party software mavens that weave payments capability into the programs they're creating for other businesses—and on technology for payments facilitation—enabling firms to offer their merchant accounts to other companies for payments acceptance—has paid off big time, observers say. Stripe is privately held, so it can and does keep its financials close to the vest. Still, a couple of available numbers indicate the magnitude of its growth. Its global payment volume doubled between 2020 and 2022, to $817 billion, according to the company and estimates from CBInsights. It supports payments for more than 1.3 million Web sites, a number exceeded only by Google Pay and Amazon Payment, according to figures from BuiltWith.com (though if you add up PayPal Express Checkout and other PayPal sub-entities, Stripe drops to fourth).

TAP TO PAY (iPhone and Android)

FIELD NOTES: The ability to complete a card transaction with a mere tap of the card (with the proper chip for near-field communication) on a smart phone (with tap-to-pay software) has now established itself with both iPhone and Android devices. Merchants are able to unlock contactless payment acceptance through a supporting iOS app on an iPhone XS or later device. At checkout, the merchant prompts the Apple-wielding customer to hold his/her iPhone or Apple Watch to pay with Apple Pay, a contactless credit or debit card, or other digital wallet near the merchant's iPhone, and the payment will be completed using NFC technology. Apple said all Tap to Pay on iPhone transactions will be encrypted and processed using the Secure Element in iPhone. But it wasn't long before developers began creating Android-based services.

VENMO

PARENT: PayPal Holdings, Inc. **HEADQUARTERS:** San Francisco, CA **FOUNDED:** 2009 **WEB:** venmo.com

FIELD NOTES: Venmo has been around long enough to be the grandpappy of peer-to-peer payment apps, Long enough, in fact, to have become a verb, as in "I'll Venmo you what I owe you tomorrow." PayPal reported the service's payment dollar volume rose 9% last year, an improvement on 2022's 7% rate, while accounting for 18% of total PayPal volume both years. Only branded PayPal volume and unbranded card processing activity outranked the P2P service. Several developments helped propel that activity. PayPal added tap-to-pay capability in June, while in August Hallmark Cards began printing a QR code in its products that allows recipients to trigger a Venmo payment from the card's sender. But bad news struck in December with Amazon.com's decision to drop Venmo after only a year of accepting the payment method. It was a blow for PayPal, which had gone through long months of negotiation to get Venmo accepted by the e-commerce giant.

VISA+

PARENT: Visa Inc. **HEADQUARTERS:** San Francisco, CA **FOUNDED:** 2023 **WEB:** usa.visa.com/products/visa-plus.html

FIELD NOTES: Peer-to-peer payments capability lets people send or receive funds in a flash—but only to or from people who are using the same service. A Venmo user can't send money to a Zelle zealot. The answer, says Visa, is network interoperability, and to that end the big card network a year ago announced Visa+, a network-of-networks concept that at its inception boasted participation from PayPal, Venmo, DailyPay, i2c, TabaPay, and Western Union. By early April, Astra, Brightwell, Cross River Bank, and Fiserv had agreed to support Visa+ APIs. The service lets users select a so-called payname (though users are not required to have a Visa card), which is linked to the user's payment app but enables receipt of funds from users of the participating networks. But one key network—Zelle—is not participating, creating a gaping hole in Visa+'s network of networks. Zelle is a hard network to ignore. It finished 2023 with 120 million consumer and business accounts and $806 billion in volume on 2.9 billion transactions (see next entry for more on Zelle).

ZELLE

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

FIELD NOTES: Zelle had a bang-up year in 2023 (see the previous entry), but for all its success in ratcheting up its user count and dollar volume, it found itself spending much of the year fending off probes from a group of U.S. Senators intent on what they view as the network's inattention to stopping fraud. Led by Sen. Elizabeth Warren, the lawmakers charged Zelle with a failure to address scams—cases in which users are tricked into sending money to fraudsters. For its part, Zelle produced statistics showing that less than 0.1% of its transactions are fraudulent. "Most of the Zelle fraud losses are related to scams, which is a growing form of fraud in the U.S.," David Mattei, a strategic advisor in the fraud and AML practice at Datos Insights, told *Digital Transactions News* in November. "And scam fraud is hitting many payment types, not just Zelle. However, Zelle is being called out." The scam controversy made for an uncomfortable year for Early Warning Services, Zelle's operator, and the seven big banks that own Early Warning— Bank of America, Capital One, JPMorgan Chase, PNC Bank, Truist, U.S. Bank, and Wells Fargo. But with P2P volumes on an upswing, the discomfort is likely to be transitory.

SUPER APPS, EMBEDDED FINANCE, AND THE FUTURE OF PAYMENTS

For Payfacs and ISVs, the all-in-one platform is becoming essential for survival.

BY NAMRATA GANATRA
Namrata Ganatra is chief product officer and chief technology officer at Pipe.

YOU DON'T NEED me to tell you the world is changing rapidly. The expectations held by consumers and businesses are skyrocketing, and the race to meet those expectations will bring us to a whole new level of service across multiple industries.

Super apps are a great example of this, and they're starting to cross the divide from consumers to business.

On the consumer side of things, we see the super-app concept growing in popularity in the U.S. market. Whether it's Meta adding features like marketplace and peer-to-peer payments to its platforms, Uber expanding into food delivery and courier services, or Google and Amazon integrating everything you need in one place, there's clearly an appetite for the convenience of these tools.

Business-to-business platforms have a clear next step in the evolution toward becoming super apps: making payments and access to capital seamless through embedded financial services.

Payment companies hold the keys to innovation through their rich first-party data. The data, a direct line to consumer behaviors and preferences, lets them revolutionize their offerings beyond traditional processing. For small and medium-size businesses (SMBs) burdened by the complexities of financial management, the allure of a super app is undeniable—a single platform that not only processes payments but also seamlessly integrates financial services.

Yet, the transition from a traditional payment processor to a super app requires more than just technological innovation. It demands a deep understanding of customers' business ecosystems and a commitment to solving their unique challenges.

As we delve deeper into the role of modern fintech and the strategic use of first-party data, it becomes clear that the path to becoming a super

app is within reach for payments companies willing to embrace change and drive innovation. As payments companies venture into this space, they're redefining their role—moving from background processors to front-and-center solutions providers.

BLURRING LINES

SMBs seek efficiency amid the complexity of juggling multiple vendors and solutions. Vertical software introduces simplicity and integration, embedding financial services to streamline operations, payments, capital access, and financial management.

The integration of embedded finance into vertical software is not just a value-add. It's becoming a necessity. This evolution toward integrated solutions paves the way for payments companies to become more than service providers—they become strategic partners in the growth of SMBs.

Payments companies, leveraging industry-specific needs and first-party data, can customize their services, enhancing vertical software functionality and strengthening their relationships with SMB customers.

Modern fintech has made it possible for payments processors to analyze and use first-party data in real time, crafting personalized experiences that resonate with the needs of SMBs. From tailored financial advice to customized payment options, the potential to enhance the customer journey is immense.

Moreover, this shift toward data-driven, embedded payment offerings challenges the traditional role of financial institutions, positioning payments companies as direct competitors in the financial-services space. By bypassing the need for external financial services, payments processors can keep SMBs within their ecosystem, fostering loyalty and driving revenue growth.

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The strategic use of first-party data not only differentiates payments processors in a crowded market, it also signals a new era of financial services, one where the lines between technology and banking blur, creating a seamless, integrated experience for businesses

TRANSFORMING BUSINESS SOFTWARE

One significant difference between consumer and business super apps is specificity. The advantage of verticalized payment facilitators (payfacs) and independent software vendors (ISVs) lies in their ability to understand and anticipate the needs of their specific market segments. By focusing on a certain business vertical, these software providers are able to stay much more in tune with the needs of their customers.

Furthermore, the predictive power of their first-party data enables these companies to build sophisticated recommendation engines. These engines can push real-time, personalized product recommendations—from additional software tools to financial services—directly to users. The potential market for such recommendation engines is vast, with projections reaching $54 billion by 2030.

By embedding financial services into their offerings, verticalized payfacs and ISVs are not just simplifying transactions. They're transforming the very nature of business software. This evolution positions them not merely as service providers but as indispensable partners in their clients' success, paving the way for a future where every software platform could potentially become a super app in its niche.

Embedding financial products into super apps simplifies their development by offering a direct route through pre-built application programming interfaces (APIs) and managed services. This approach allows developers to concentrate on user experience and core features rather than navigating the complexities of financial processing and regulatory compliance. Here are some examples:

- **API Integration Made Simple:** Financial-service providers supply ready-to-use APIs for integrating diverse financial services, such as payments, insurance, and capital, with minimal coding required. This abstraction not only eases integration but also ensures secure, efficient app-to-service communication.
- **Delegated Security And Compliance:** Adopting existing financial services means their inherent security and compliance measures—aligned with standards like PCI DSS—become the provider's responsibility. This significantly lowers the security and regulatory compliance burden for developers.
- **Enhancing Core Offerings:** By leveraging existing financial services, developers can accelerate their super apps' time-to-market and focus on perfecting the user experience. This strategic focus on the app's primary value propositions ensures seamless integration of financial services, enhancing the overall app utility without the need for in-depth financial or regulatory expertise and ensuring that the financial services are seamlessly woven into the app's broader offerings.

Ganatra

Ganatra: "The future of payments is intrinsically linked to embedded finance."

THE FUTURE OF EMBEDDED FINANCE

The shift towards super apps marks a transformation for payments companies, driven by the confluence of first-party data and fintech innovation. This evolution is not just reshaping how SMBs manage finances, it's redefining the essence of business software—integrating comprehensive financial services seamlessly into platforms.

Looking ahead, the future of payments is intrinsically linked to embedded finance, promising a landscape where operational and financial management converge. For payments companies, embracing this shift towards integrated, user-centric solutions is essential for sustained relevance and growth in the digital economy. DT

PAYTECH WOMEN 20 YEARS LATER

The PTW community helps women break through barriers to achieve career goals in the payments industry.

BY REBECCA WALDEN
Rebecca Walden is chief marketing officer at Corvia

TINY IDEAS THAT are against the norm can take on a life of their own, leading to systemic change.

Just ask Holli Targan, Diane Faro, Mary Gerdts, and Linda Perry, four women who came together to talk about starting an organization for women in the payments industry. Their vision? A community to provide education and professional growth opportunities, offer a mentoring platform, and create a national network of peers and friends.

That vision has morphed into a professional payments-association powerhouse with more than 5,500 members across 250-plus companies.

PayTech Women began as the Women's Network in Electronic Transactions (Wnet). It emerged as a platform for women to connect in a payments world dominated by men. As its networking and leadership-development offerings grew, so did the association. Today, PTW serves a diverse community of women, and the men who advocate for them, from across the financial-services ecosystem.

When this association needed buy-in and public support to succeed, several senior executives stepped up, including Paul Garcia, Ed Labry, Bob Carr, and Pamela Joseph. "Although women have held key positions and made significant contributions in the payments industry, 20 years ago there wasn't a formal support network," says Garcia. "So, when Diane, Linda, Holli, and Mary created Wnet, we were proud to be early supporters. The organization today is going strong!"

Labry commented, "Years ago, a small group of talented, successful women had a goal to teach and inspire other women in the payments space. I have seen firsthand how it shaped my daughter into a successful leader. Thank you for letting me be a small part of it."

Corporate entities like Visa, Jaffe Raitt Law (now Taft Law), Post Integrations, and First Data (now part of Fiserv) also provided critical support.

WHY IT MAKES A DIFFERENCE

PayTech Women, a 501(c)(3) nonprofit, serves professional women in the payments industry. This distinguishing factor makes it accessible for women to join and benefit, no matter where they are in their careers—and with or without corporate sponsorship.

Its goal is simple. It is to actively support and champion women's professional growth and advance diversity, equity, and inclusion. Instead of simply talking, PTW serves as a catalyst for change, offering a supportive network of global

female role models, mentorship opportunities, and ongoing career-development resources.

PTW's tagline, "Rise, Thrive, and Connect," permeates everything the group offers, including the annual Leadership Summit, the Executive Academy, local chapters, webinars, and the new ConneX Cohorts program, offering consistent engagement and intensive skill-building opportunities.

With volunteer leaders from across the industry, PTW also helps businesses empower female employees through an encouraging network of peers and mentors. This comprehensive system encompasses hands-on learning opportunities, preparing women at all career levels for increased responsibilities and leadership positions.

WHO WE ARE TODAY

The growing, diverse PTW community currently comprises 5,500 members, hailing from startups to Fortune 100s, with 41% being senior leaders (15+ years of experience), 12% mid-level professionals (10 to14 years), and an ever-growing number of up-and-comers. Our membership is expanding to students and retirees, providing even more support for women on the fringes of payments.

This growth is stimulated by challenging the status quo, fostering an inclusive environment, and supporting corporate partners in training and retaining valuable employees. "PayTech Women elevates your brand, supports women's advancement, and strengthens the payments network overall," said PTW president Polly Van Duser, senior professional in human resources and vice president, talent acquisition, at One Inc.

"Joining prominent PTW corporate partners, like FIS, Fiserv, Global Payments, JPMorgan, Discover, Bank of America, Visa, and Mastercard, aligns your company with an organization at the forefront of fostering diversity and inclusivity," remarked PTW past president Kelly Beatty, chief performance officer and head of global solutions at FIS.

PTW chief executive Wendy Holliday, M.Ed. and a certified association executive, believes PayTech Women is more than an organization. It's a confidence amplifier, a supportive family propelling its members into fulfilling careers. Partnering with PTW, she adds, is an investment in tangible, positive change for employees, shaping the industry's future and fostering a boundary-breaking community.

WHAT OUR MEMBERS ARE SAYING

To truly understand PTW's essence, turn to its members and their experiences.

From the pioneering founders to longstanding members and rising stars, each individual contributes to the energy and community that define PayTech Women.

PTW Board member Dr. Gail Burgos, chief executive and founder, BCG Inc., notes that "as a proud member of PayTech Women for over a decade, I've experienced firsthand the empowering impact of [its] educational programs, networking opportunities, mentorship and events, which have played a crucial role in advancing women in the fintech industry."

Adds PTW board director Laura Gibson-Lamothe, executive director at the Georgia FinTech Academy: "In my five years with PayTech Women, I've connected with peers from other companies, which allowed me to gain valuable perspectives and experiences to move my career forward in a short time. PTW has become my lifecycle companion, supporting me throughout my professional journey and helping me empower the next generation of fintech professionals."

As PayTech Women gets ready to celebrate 20 years of empowerment, it stands as an ever-evolving force in the financial sector. Investing in the future, alongside PayTech Women, fills me with anticipation and purpose, knowing that, together, we are shaping a more inclusive, vibrant, and educated payments world for generations to come." DT

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