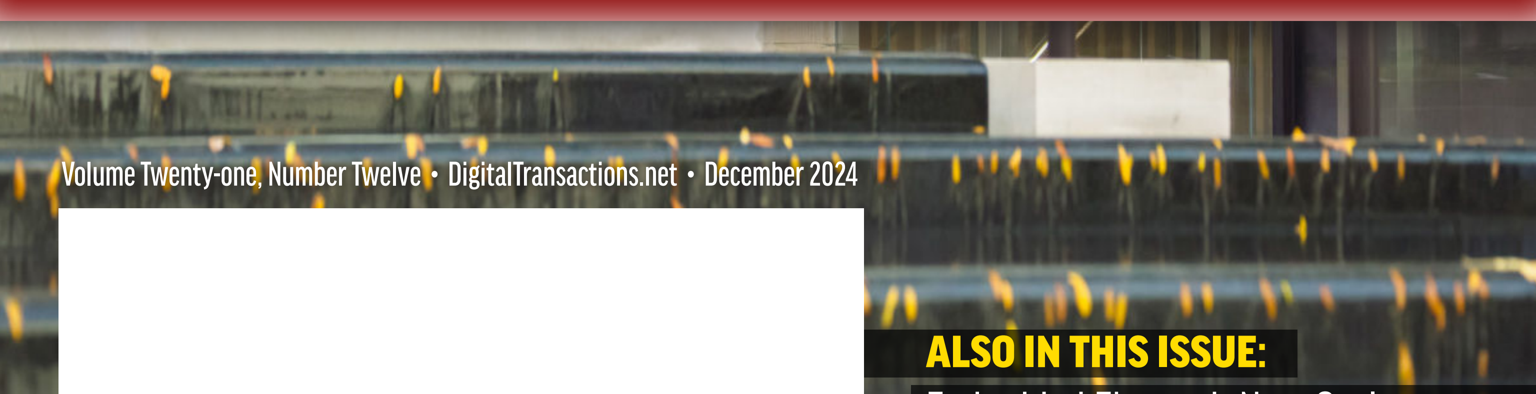
DIGITAL TRANSACTIONS

Trends in the Electronic Exchange of Value

WHAT THE CFPB'S RULES MEAN FOR OPEN BANKING

The CFPB's personal financial data-rights rule provides a legal framework to dramatically expand open banking in the United States and spur a host of innovative products. But first, the rule must survive a legal challenge.



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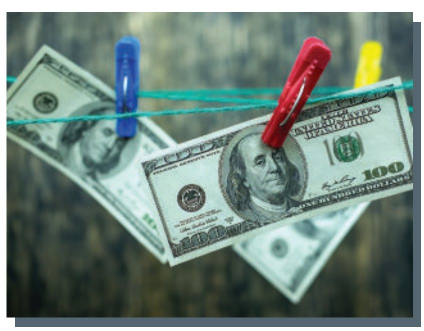

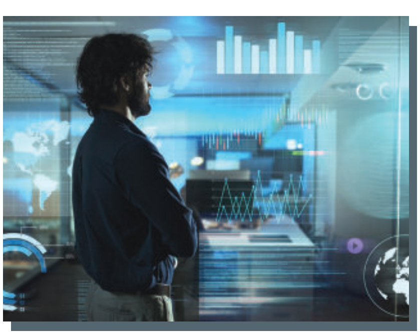

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the gimlet eye

WHAT'S GOING ON WITH BITCOIN?

AFTER SOME MONTHS of quietude, digital currencies are back in the headlines—or at any rate Bitcoin is. In case you haven't noticed, that's because the leading cryptocurrency as of the third week of November was pushing toward $95,000—not only an all-time high but also, not so long ago, thought to be an inconceivable price. After all, the token started the year at $44,000, less than half its lofty value going into December, according to Coinmarketcap.

Bitcoin has been hitting "all-time highs" for most of 2024. And in some ways the current boom is far from unprecedented. In the fall of 2021, it climbed into the heady reaches of the low $60Ks after starting the year in the low $30Ks. Face it: Bitcoin, though a promising digital currency, is volatile, to say the least. Congratulations to the folks who bought the coin at some low point and are now reveling in the approach to $100K.

But it might be worth a look at the forces propelling the current boom, and also at what this all means for digital payments. Bitcoin, along with competing digital currencies—including stablecoins—were and are not now intended to be investments. Rather, they are meant to be that great white whale of digital commerce—an electronic currency offering convenience, value, and lightning-quick transactions.

But investments they certainly can be. A number of factors account for at least some of the current run-up (assuming no crash between the time of writing and when you read this). Donald Trump's massive win in November, assuring him another term as President, has been a factor, as he promised on the hustings he would turn the U.S. into a "hub" for digital assets and build out a "national reserve" for Bitcoin. Whatever all that might mean, Trump's campaigning had as much to do with Bitcoin's current boom as it did with propelling him into the White House.

While on the subject, Trump's candidacy also raised speculation that he might replace Gary Gensler, the head of the Securities and Exchange Commission, who had been promising closer scrutiny of Bitcoin. No news on that front yet, but the new Administration has barely got started. Still, the speculation about bumping Gensler is thought to have added some rocket fuel to Bitcoin's boom, as well.

Other factors include the entry of institutional investors in crypto trading and U.S. approval earlier this year of Bitcoin ETFs. Also, the Fed's recent 25% rate cut may have pushed a few investors into the digital-currency pool, helping to drive up prices.

Left unanswered in all this: When can we routinely go about our shopping with digital currencies?

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Trends in the Electronic Exchange of Value

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BPA WORLDWIDE

HOW EMBEDDED FINANCE IS FINDING NEW OUTLETS

Talk of embedded finance—the marrying of financial services with unrelated applications for businesses—is in the air, and most recently was a dominant theme at the big Money 20/20 conference in October in Las Vegas. The discussion comes as fintechs and financial institutions devise initiatives that extend beyond simple credit and debit card acceptance.

Among the latest examples of trend is Shopify Finance, a new service from Shopify Inc., the e-commerce and point-of-sale platform. Shopify Finance is a unified tool for various financial services, such as its credit card, working-capital funding, bill payments, and tax assistance. It's accessed via the administrative section of the Shopify portal. Shopify announced the service separately from Money 20/20.

"Unfortunately, a lot of our merchants are stuck with conventional banks and their complex processes to manage their money," says Vikram Anreddy, Shopify head of product for financial services. Anreddy says the consolidated access in Shopify Finance makes it easier for merchants to use financial products, calling traditional methods "fragmented. We think the entrepreneur deserves better."

One piece of Shopify Finance enables eligible merchants to receive as much 4.43% in annual percentage yield on funds held in Shopify Balance and next-business-payouts.

"We want to help stretch their cash flows," Anreddy says, "and help with access to the money they need to grow their businesses."

In a related development, the big processor Fiserv Inc. announced last month it would build financial services into a digital platform for drivers affiliated with DoorDash, the delivery service. Dubbed the DoorDash Crimson Program, it offers drivers access to a debit card and rewards program. Bismarck, N.D.-based Starion Bank is the sponsor bank for the DoorDash Crimson accounts.

This program gives DoorDash drivers access to a formal banking product, says Sunil Sachdev, Fiserv head of embedded finance. "Historically they've only had access to prepaid cards," Sachdev says.

In the program, users have the ability to move money in and out of their accounts, Sachdev says. "We've taken a bank that's on the Fiserv platform and taken a gig-economy platform and brought them together. It's something we hope we can accelerate for other institutions [and] that works for us as well."

Embedded finance is top-of-mind even for large payments companies affiliated with banks. "When I think about payments, it's about how do I get it as fast as I can," says Ron Karpovich, J.P. Morgan Payments managing director, head of client solutioning for embedded finance and solutions. "To me, embedded finance is how do I get them a stored value that is valuable to [merchants]."

Merchants need a reason to want to use an embedded-finance service, Karpovich says. "That reason may be I can help with the sales tax or discount on a purchase. The stored value is useless if there isn't a reason to use it."

—Kevin Woodward

BLOCK: LOANS, AFTERPAY, AND CASH APP WILL POWER OUR GROWTH

The big payments platform Block Inc. will remain focused on its Afterpay buy now, pay later offering, on its Cash App digital wallet, and on increasing access to Square Loans, said chief executive Jack Dorsey last month during the company's third-quarter earnings call.

Dorsey stressed the key importance of lending to Block's current strategy. Merchants that borrow money through Square Loans, formerly Square Capital, grow their business 6% faster, on average, than sellers that do not take out a loan, Dorsey said in his quarterly letter to shareholders. Loss rates on Square Loans are at 4% or less.

Offering merchants capital through Square Loans also provides them with "an easy option to grow" their business and sales, Dorsey told equity analysts on the call. "We want to lead with technology, which means having a deep understanding of our sellers and consumers," he said.

Lending options for Square merchants can increase cross-selling opportunities for other Square-branded products, Dorsey argued. Square is Block's acquiring arm.

Sellers that have taken out a loan use 3.7 Square products on average, compared to 1.5 products used by sellers that haven't borrowed, Dorsey said in his quarterly investor letter. In addition, sales of software-as-a-service-based applications among merchants that have taken out a loan are 10 percentage points higher than they are with sellers that have not taken out a loan.

On a related note, one of the biggest initiatives in the works is the planned addition of Afterpay as a payment option for the Cash App card, Block's Visa-branded debit card that accesses funds from the cardholder's account. Afterpay is Block's buy now, pay later service. Block plans to add Afterpay to 24 million Cash App cards to "transform" the cards into "a better alternative to credit cards," Dorsey said.

A pilot for the service has been encouraging so far, and Block plans to begin rolling out the conversion on a broad scale, he added.

One expected benefit of adding Afterpay to the Cash App card is increased transactions. Consumers using Afterpay for more than five years transact more than 31 times per year on average, compared to 4 times a year for cardholders that don't use Afterpay, according to Block.

Adding Afterpay to the Cash App card would also create new opportunities to funnel more traffic to Block merchants, the company says. As of the third quarter, Afterpay has driven 460 million customer leads to merchants, according to Block.

Monthly Cash App card transactions averaged 57 million for the third quarter, up from 55 million for the same period a year ago, an 11% increase. Overall, the 24 million active Cash App cardholders represent 43% of all Cash App cardholders. That's up from 22 million active cardholders representing 40% of the cardholder base for the same period a year ago.

Since Block acquired Afterpay in 2022, consumers have spent more than $72 billion through the platform and saved an estimated $1 billion in interest charges and late fees, Block says. The company's loss rates on BNPL loans is about 1%, Dorsey said in his shareholder letter.

CASH APP'S STEADY INFLOWS

(By quarter, in billions)

Source: Block Inc.

On the consumer-lending side of its business, Block is finding that consumers who have taken out a Cash App Borrow loan are using the funds to manage daily expenses. A recent survey revealed that 43% of Cash App Borrow actives used the loans to pay bills, while 38% said the loans helped smooth cash flow between paychecks, Block says. Default rates on Cash App Borrow are less than 3%, the company says.

Highlights for Block's latest quarter include the introduction of new products such as a preauthorization application for Square sellers and a pilot for an enhanced version of the company's restaurant point-of-sale management system. The pilot is expected to begin rolling out next year, Amrita Ahuja, Block's chief operating and chief financial officer, said during the call.

—Peter Lucas

BLACKHAWK NETWORK LAUNCHES DIGITAL CARDS

The Blackhawk Network has entered the digital card space with the launch of Visa- and Mastercard-branded e-gift cards that can be used in-store and online.

The launch builds on consumers' growing preferences for QR-code and tap-to-pay technology, the prepaid card company says, as both technologies help streamline the payment process and help reduce the risk of fraud by encrypting card numbers. The cards are being issued through Pathward N.A., a Sioux Falls, South Dakota-based bank.

To help ensure security, packaging for the cards does not contain a physical card, but rather a QR code that when scanned at the point of sale activates the card. Upon scanning the code with a mobile device, consumers can load the funds directly to their digital wallet for immediate use online or in-store using tap-to-pay terminals.

The Blackhawk network is making the cards available at more than 15,000 locations nationwide. Retailers carrying the card include The Kroger Co., Wegmans Food Markets Inc., and Weis Markets.

Research by Blackhawk Network reveals that consumers prefer to pay with digital methods that do not require carrying a physical card.

"Many customers want the convenience of adding gift card funds directly to a mobile wallet, a key factor that informed the product's design," a Blackhawk spokesperson says by email. "By prioritizing secure, mobile-first solutions, we're addressing growing consumer demand for products that integrate seamlessly into everyday digital interactions."

Blackhawk says it designed the cards to minimize the risk of fraud by encrypting the card's numbers for each transaction.

"Since there is no readable card number for potential theft, the product inherently offers more security against tampering and fraud," the Blackhawk spokesperson says. "This innovation is part of our broader BHN Protect program, which enhances the security of both digital and physical gift cards."

The tamper-evident packaging housing the cards was developed as part of the BHN Protect program, the company adds.

—Peter Lucas

MONTHLY MERCHANT METRIC

Account Attrition

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 providersthat serve them are key drivers of the economy.

	Account Attrition %	Volume Gross Attrition %	Net Revenue Gross Attrition %
Q3'24	-21.9%	-13.5%	-18.1%

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

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

Volume Gross Attrition % - Total volume of attrited accounts from given period of prior year divided by total portfolio volume from same period of the prior year

Net Revenue Gross Attrition % - Total net revenue of attrited accounts from given period of prior year divided by total portfolio net revenue from same period of the prior year

Note: Previous metric included all active merchants, those with positive revenue, whereas the new metric shown only includes merchants with postive revenue and volume.

FOR FISERV, NEW TECH AND NEW INITIATIVES START TO KICK IN

Fiserv Inc., one of the nation's biggest processors, put up some notable growth numbers in its September quarter, despite its size. How long it can maintain that momentum may depend on its ability to release new services and build on recent initiatives such as its SMB Bundle and Cashflow Central, services aimed at key client markets—small and mid-size merchants and financial institutions.

Cash Flow Central, which the Milwaukee-based processor announced in November last year, offers the company's bank clients a package of digital-payments and merchant-acquiring capabilities. Now, after nearly a year in operation, the service has signed 10 clients, including three in the quarter, Fiserv's top management said.

On the other side of the payments loop, the SMB Bundle, a payments-services offering the company says will be marketed to small businesses through its widely distributed channels for the Clover point-of-sale technology, is seen as ramping up fast. "We expect the Bundle to contribute to earnings next year," Frank Bisignano, Fiserv's chief executive, told equity analysts on a conference call in late October to discuss the company's quarterly results.

But, with respect to these and other new initiatives, Bisignano cautioned against too much optimism. "Of course, it's early stages," he noted. Still, the company has demonstrated its appeal to sizable retailers, with Costco signing on to develop a digital wallet, he added.

Now, Fiserv is showing signs of widening its reach in merchant services. The company's application in Georgia for a merchant-acquiring charter was approved during the quarter, Bisignano told analysts on the call. The new financial-services entity is expected to go live next year, but, as Bisignano cautioned, "we are not becoming a bank."

Overall, he told the analysts, the foundation has been laid for expansion into new services for new and existing clients. "We are moving to the next generation of solutions. This is not a vision. It is here today," he noted, though, as he added, "of course it's in the early stages."

What's not in the early stages is the company's popular Clover point-of-sale technology, which processed transactions totaling $311 billion annualized in the quarter, up 15% year-over-year, Fiserv said. Clover revenue, meanwhile, grew 28%. Here, with a popular POS product, Fiserv isn't standing still. The product set early this year added a kitchen-display unit for the red-hot restaurant sector, management said.

"We continue to see good revenue and volume growth out of Clover," noted Bob Hau, Fiserv's chief financial officer. Good enough, he added, for the company to set a goal of $4.5 billion in revenue for next year, though a slowdown in consumer spending has led management to ease up on expectations, he said.

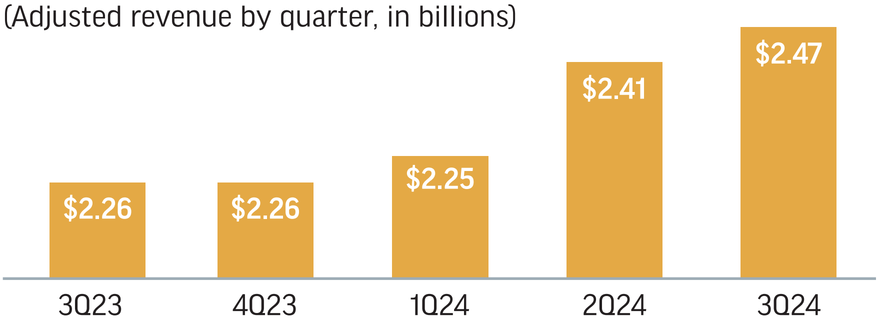
Fiserv's third quarter saw adjusted revenue grow 7% year-over-year to $4.9 billion, with organic growth—growth apart from acquisitions—registering at 15%. Revenue in the merchant solutions unit alone grew 9%, to $2.47 billion, with small businesses leading the way at $1.63 billion, up 9%.

The financial-solutions segment, which includes products such as banking, card-issuing, ATM services, and support for the Zelle peer-to-peer payments network, posted $2.41 billion in revenue, up 4.3%. Here, digital payments led the way with revenue of $987 million, a 5% growth rate.

—John Stewart

ACQUIRING RAMPS UP FOR FISERV

(Adjusted revenue by quarter, in billions)



Source: the company

AN OPEN LETTER TO PRESIDENT ELECT TRUMP

BY
GIDEON SAMID
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DIGITAL MONEY MAY turn out to be the biggest global story of the first half of the 21st century. The phenomenon was launched by Bitcoin, and its promise only begins to unfold.

Payments, loans, credit, growth, innovation, charity, and efficiency are already showing the welcome impact of the new form of money. Cross-border payments, device-autonomous payments, money tethered to its declared purpose, micro lending, digital collaterals, smart contracts—none of this was possible before. You are right, Mr. President Elect, to pay attention to this unfolding blessing.

Bitcoin, which started it all, and whose value exploded the morning after the election, would seem to be the coin to run with. My aim with this open letter is to argue that it is not.

Stock prices rise and fall on crowd psychology. When Pfizer delivered its Covid vaccine, the crowd rushed to buy the stock. And you may recall that, back in 2001, crowd psychology sent Enron's stock into a dive. The assets in both cases had a reality to them, and the crowd acted on its expectation of that reality.

Which is exactly what Bitcoin is missing. No gas fields and no medical labs are there. No portfolio of patents that may become a basis for recovery. Indeed, Bitcoin is 100% carried by crowd psychology. When in 1929 crowd psychology crashed the market, the factories, the stores, the collapsing services did not vanish. They became the launching pad for the turnaround. Alas, once crowd psychology goes south for Bitcoin, there will be a deafening, hissing nothingness coast to coast.

If I were an enemy of the United States, I would push the U.S. to pour more and more of its treasure into Bitcoin, and then take a series of steps to bring it down. The simplest step is to rapidly dump many Bitcoins on the market and start a price drop. I'd combined this with social influencers' calls to sell "before it is too late," and thereby start a wave that would turn crowd psychology into mass panic.

If I were part of a large enough government, I could blackball certain accounts and make it a criminal act for my citizens to accept any Bitcoin with a trading history linked to the blackballed accounts. This would shut down those accounts.

I could also insinuate myself into the back rooms where the code is being tweaked, and taint its fairness. I could unleash a Bitcoin duplicate, with an alluringly low price, expecting to match the original.

There are numerous deception protocols with a non-negligible chance of success. Underlying all these is the math attack. Bitcoin's silent premise is that its designers are better mathematicians than its attackers. If this proves to be hubris—goodbye Bitcoin!

The promise of Bitcoin should be delivered by clean digital currency that does all that Bitcoin promises but is protected against Bitcoin attack scenarios. There are several options, equally digital, more secure, and much more reliable in every way. Mostly, there are digital currency options that robustly preserve payment privacy while empowering the government to go after financial criminality and terrorist money flows.

Among these, I have a favorite. But I will not cite it here because it is important that this letter not be seen as a slick promo trick. This is not a message about your best choice for digital money. It is a message about Bitcoin in particular being a ticking bomb.

Mr. President, you are charting a broad, optimistic vision for our country. To make it work you need robust, frictionless, stable, and resilient digital money. Choose well! DT

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THE CFPB AND THE FUTURE OF OPEN BANKING

BY BEN JACKSON

bjackson@pa.org

BEYOND OPPOSING A sweeping new rule on data sharing, the financial industry will have to cope with the new digital reality that led to the rule.

In October, the Consumer Financial Protection Bureau issued its final rule on "Personal Financial Data Rights." To oversimplify, it requires that companies share their customers' information, at the customers' request, with third parties. The data must include costs, charges, and use data.

Additionally, banks cannot charge customers or third parties a fee to cover the costs of providing the data. They must, however, build out the infrastructure to supply information to third parties and to make sure they verify that the customer, the consent, and the third party are all legitimate.

The Bureau is required to issue this rule under section 1033 of the Consumer Financial Protection Act of 2010. But the law did not require banks to pay for the data sharing, nor did it prohibit charging fees for access to the data.

The industry is not simply accepting the new rule. The same week it was finalized, the Bank Policy Institute and the Kentucky Bankers Association filed a lawsuit in the U.S. District Court in Lexington, Ky., arguing the Bureau overstepped its statutory authority and put consumer financial data at risk.

Another path of opposition opened after the election. Congress could overturn the rule through the Congressional Review Act. Congress has 60 legislative days from the delivery of the final rule to the House to vote to take the rule off the books. (The Bureau is required to deliver the rule to Congress at least 60 days before the effective date.)

It is easy to forgive the industry for being cynical about this rule. In June 2023, the Bureau issued a consumer advisory recommending that individuals move their money from payment apps to accounts with deposit insurance. Then, a little more than a year later, it issued a rule requiring banks and credit unions to give customer data to these presumably unsafe companies and to pay for the infrastructure to do so.

Whether the rule stands or is overturned, the industry must face the reality that customers will need to share financial information from one provider to another. While they might not call it open banking, customers will demand access to their information for things like applying for credit and using personal financial-management apps or programs.

This new reality will force companies to develop new strategies to adapt. The Bureau's rule paints a picture of banks and credit unions as data providers and fintechs as the recipients. But there is nothing in the law or the rule that says banks cannot request information for their customers from third parties.

For example, a bank could offer a single dashboard for its customers that would consolidate all the balances, payments, and other services provided by third-party apps in a trusted environment shielded from hackers and marketers. The bank could then more efficiently offer money-management help, streamline services like loan applications, and enable pay-by-bank options.

In an interview on the Innovative Payments Association's podcast, Kate Lybarger, the director and head of payments innovation at Discover Global Network, suggested that financial institutions need to reframe their thinking on open banking. Banks and credit unions should think about how they can use the ability to request information from third parties to get a better understanding of customers' finances.

"You're kind of getting back to that ability to give the right advice at the right time with a much fuller picture," she said. 'It feels like it might come full circle with open banking." DT

PAYING ATTENTION TO RETENTION

Keeping merchants is equally as important as adding new ones. But what to do when existing ones are ready to grow and look elsewhere?

BY KEVIN WOODWARD

MERCHANT ATTRITION IS one of the constants in acquiring; so too are efforts to retain merchants. The effort put into retention is vital, especially for merchants that are growing and need new services to handle their payments evolution. The challenge is identifying merchants considering a switch and lining up the products and services that can convince them to stay.

Some acquirers take a preemptive approach. A key market for Aurora Payments, a Las Vegas-based payments company, is nail and beauty salons, says chief executive Brian Goudie.

"A significant portion of the salons in the U.S. are operated by Vietnamese-speaking business professionals," Goudie says. "Therefore, we decided to train dedicated support staff based in Vietnam who can help our merchants in their native language. This way, as these Vietnamese-American businesses grow, they never have to worry about understanding our technology support."

Taking that step may be an easily recognized way to help these merchants. But acquirers make data, along with qualitative measurements, a central component of monitoring merchants for growth—and for any volume changes—to ferret out indicators of attrition.

As Goudie explains, Aurora Payments tracks many data points in its portfolio to identify growth merchants. "The obvious data point is monthly processed volume, which identifies growing merchants," he says. "We also track month-over-month yield and the number of products and solutions being used per merchant, and based on a combination of those factors, we have a 'Premier Merchant' notation in our [customer relationship management software]."

Data is also a primary tool at Swipesum, a St. Louis-based payments provider. "We use a data-driven approach through an in-house analytics platform that tracks trends and growth patterns among our merchants," says Michael Seaman, Swipesum chief executive and founder.

"Coupled with dedicated account managers for our key clients, we identify which merchants are growing, and preach proactive engagement to our team," Seaman continues. "We don't sit back and wait for signs of churn because, by that time, it's too late. Instead, we actively engage and strategize with growing merchants to ensure they're continually supported with the right tools and services."

MONITORING GROWTH

Key indicators of potential churn include a jump in transaction volume, expansion notifications into new markets, and a growing need for additional services, says Kyle Hall, chief executive at PayKings, a St. Petersburg, Fla.-based payments provider.

"Regular check-ins help us catch these changes early, so we can offer the right solutions as they grow," Hall says. "A proper system with alerts to monitor merchants' growth is crucial as a portfolio scales."

Smaller independent sales organizations, too, can take steps to monitor churn, says Perry Tatooles, director of payments strategy at TSG, an Omaha, Neb.-based payments consultancy. Sound support and communication measures are essential, he says. "Often, smaller ISOs are so busy generating new merchants they can start to feel the attrition," Tatooles tells *Digital Transactions*, "especially if they don't have a very differentiated product."

Payments giant J.P. Morgan Payments makes attrition a priority, too. "In our small-business segment, where attrition can occur frequently, we look more closely at same-store sales as an indicator of the health of our portfolio," says Mike Lozanoff, the processor's global head of merchant services. "Given the breadth of JPMorganChase, our relationship-management coverage across regions also allows us to check in with our clients on the opportunities and challenges they are facing."

Having differentiated products and services can be one tool to help retain growing merchants. That is important because many merchants, especially smaller ones, are looking for more do-it-all applications, he says.

Most small businesses are leaving one technology for another that has a better-suited point-of-sale management service. The result is that the payments component can be deprecated in terms of perceived value. "The line between payments and technology is completely diminished," Tatooles says.

As that line blurs, payments providers must constantly evaluate their product inventory. "We continuously evolve our product strategy to stay aligned with our merchants' needs," Rob Gatto, chief revenue officer at Paysafe Ltd. "Through regular discussions, we carefully listen to merchants' strategies to identify potential gaps and track industry trends, ensuring our offerings are at the forefront of emerging demands."

Gatto says Paysafe's approach is centered on strategic cross selling within its merchant base. This effort can include helping merchants expand into new geographies or new states, as gambling operators might desire. "Growing merchants prioritize providing consumers with the full spectrum of preferred payment methods," he says.

'SURGICAL' OFFERINGS

What sort of payments and related tools help? Aurora Payments' use of support staff who can speak Vietnamese for part of its customer

Goudie

Goudie: "The obvious data point is monthly processed volume, which identifies growing merchants."

base is one example. Another is access to working capital. Another, as Goudie suggests, is to have fraud and risk reduction services that cater to card-not-present merchants.

"Simply put, what an e-commerce client needs versus what a hair salon needs is different, and the more surgical one can be with the offering, the more successful you will be with attachment and bringing value to that client," Goudie says.

For PayKings, potential attrition was halted when a yacht charter company was expanding globally and needed multicurrency support, Hall says.

"Their current payment partner couldn't provide the functionality they needed, leaving them at risk of losing international business," he says. "To address this, we quickly arranged a gateway integration over the weekend, building a custom solution that connected another processor directly into their booking software. This seamless setup allowed them to accept payments in various currencies without interruption, keeping them competitive and fully supported as they scaled."

At Clearent by Xplor, a St. Louis-based payments provider that specializes in working with software-as-a-service platforms, retention can get a boost from reviewing a client's

merchant statement. That's what happened with one 200-location client, says Mark Passifone, Clearent by Xplor senior vice president of integrated payments.

"The service provider was receiving downgrades on their monthly statements and paying large fees because certain HSA cards were not processing properly," Passifone says. "We made immediate adjustments to the tech stack that allowed the service provider to process those cards in a way that eliminated over $8,000 worth of expense each month in processing fees and retaining the merchant."

Sometimes, loading up a merchant with a variety of payments services may not yield the desired outcome. Lozanoff recalls a J.P. Morgan Payments client that looked for more service.

"Recently, we had a merchant that was exploring additional providers to optimize their processing and value-added services stack. After multiple discussions, the merchant found it was a better outcome for them to simplify their operations, remove the complexity of multiple providers, and consolidate more of their payments stack with J.P. Morgan Payments," Lozanoff says.

Tatooles

Tatooles: "The line between payments and technology is completely diminished."

AN OPEN DIALOG

Payments companies also may help cut their churn rates from the get-go by ensuring their merchants are well-suited to their payments services, suggests Seaman. “One major driver of churn in this industry is bringing on merchants who aren’t ideally suited for a solution in the first place, often due to short-sighted sales tactics,” he says.

“While the salesperson might hit a quote and these merchants boost revenue in the short term, they tend to result in increased churn,” he continues. ”We stay focused on working with clients who genuinely benefit from our services, which transforms churn from a metric to worry about into one we can celebrate.”


Gatto

Gatto: “We carefully listen to merchants’ strategies to identify potential gaps.”

Tatooles says retention is best aided by knowing the merchant and being diligent about reviewing its payments and operational activities. “The hardest part of retaining a merchant is getting them to talk to you,” he says. “If you never have people talk to them, you never have an opportunity to retain them.”

Merchants who call to disclose they are switching signal to the provider an opportunity to convince them to stay. “It’s having that dialog and that open, honest conversation,” Tatooles says. DT security

AN INTEGRATED APPROACH TO FRAUD

As criminals gain in sophistication, banks are at risk of complacency. A new approach employs a smarter combination of AI and allied technologies.

BY **JUSTIN NEWELL**

Justin Newell is chief executive of INFORM North America.

WITH DIGITAL TRANSACTIONS becoming the daily norm, so is financial crime. Criminals are becoming even savvier in how they target banks, payment providers. and financial institutions. To combat the evolving threats from financial crime, FRAML (FR for fraud combined with AML for Anti-Money Laundering) has emerged to align internal fraud detection and anti-money laundering compliance. But how prepared are we?

Criminals have been quite successful in their money-laundering schemes, costing in the neighborhood of 2% to 5% of global GDP. Between $800 billion and $2 trillion is laundered worldwide annually, of which $300 billion is laundered in the U.S. market alone.

This means that the United States is responsible for roughly 15% to 38% of all the money laundering happening annually. According to the Federal Trade Commission, bank fraud rose by 25% from 2021 to 2022, and it's projected this growth will continue if the proper anti-fraud safeguards aren't put in place.

FRAML is expected to deliver a synergized front against modern-day financial crimes, as it provides seamless integration between fraud detection and anti-money laundering mechanisms and overall case management. But is it all that it's cracked up to be?

FRAUD AND COMPLIANCE

Historically, fraud detection and AML compliance operated separately from one another. Each had its own protocols, data systems, regulatory-compliance procedures and individual teams. There wasn't a lot of communication between the teams and each operated in its own silo of automation and detection.

Criminals could benefit from this lack of communication because it could cause vulnerabilities. This lack of communication could also give way to various inefficiencies. Even though the goal of both of these departments was to combat financial crimes, no one ever sought to integrate operations and their findings because they were fighting crimes from different commercial behaviors and, often, even different central cultures.

For example, AML does not focus on benefiting an organization financially. And banks are too often at the mercy of fast-evolving regulations, which they are required to implement and report on. Implementing siloed approaches for both departments not only leads to vulnerabilities, such as overlooked threats, but often can also lead to redundant investigations and case management in completely different solutions.

For instance, one Asian bank cited success by analyzing cross-channel data, where it could ultimately detect organized-crime rings. It was able to identify the variety in the crime ring's fraud attempts and structuring behaviors. In their own little silo of operations, a crime ring's behavior would not necessarily have been detected.

It was only through a more holistic view of the crime ring—which included integrated fraud prevention and AML—that the bank could see its exposure in potential chargeoffs, which turned out to be a half-million-dollar risk. This discovery warranted the head of the bank's group security to quickly deploy a new investigation model dedicated to organized crime rings, irrespective of fraud or AML bias.

Operating in silos has long been scrutinized. As more and more financial institutions are seeing strong results from use cases that prove a more integrated approach can greatly reduce the quantity of financial crimes, FRAML is gaining traction.

Now, regulatory bodies are starting to emphasize innovative technologies that strengthen the effectiveness of anti-fraud and financial-crime risk management. In the U.S., for instance, the Anti-Money Laundering Act of 2020 stresses the necessity for financial institutions to implement risk-based programs and solutions to help prevent money laundering and terrorist financing.

AI'S ROLE

Artificial intelligence within a FRAML approach aids in bringing about more accurate results. AI technology can help in more seamlessly automating data sharing and in providing more insights between various departments like AML compliance, fraud, and security.

The increasingly hyper-digitization of fraud over the last decade has been identified as a substantial prerequisite for a strong offense against money laundering. And it ultimately supported the development of the FRAML compliance framework. This framework further enhances real-time detection and analysis of criminal activities and brings predictive modeling to the forefront, thus significantly reducing false positives.

FRAML is well-suited to mitigate the risk of money-mule and social-engineering scenarios, and it adheres to Customer Due Diligence (CDD) requirements.

But there is one fraudulent risk that we have recognized that mostly impacts mobile-money applications and their telecommunication service providers.

In many scenarios, consumers will use their phones as a "bank account" for conducting financial operations, including registrations, logins, financial transactions, or loan requests. The risk of fraud with mobile devices can be mitigated with fraud protection that uses AI and supports FRAML by integrating fraud prevention, AML compliance, and credit management throughout the consumer's journey.

For instance, when a new customer signs up to register for an account, AI technology would start performing customer segmentation and risk scoring based on a myriad of input data, while automatically scanning watchlists and sanction lists regarding current customers.

The AI technology continues working behind the scenes in making


Newell

Newell: "Adopting a more integrated approach will not only combat sophisticated financial threats, but also deliver operational efficiencies."

comparisons of fraud-related and compliance-related evaluations throughout the entire customer lifecycle. The processing occurs in real time and is dynamically triggered by customers whenever they begin a new action or operation.

A POTENTIAL INDUSTRY STANDARD

While FRAML offers lots of advantages for financial institutions and their customers, it does come with some regulatory hurdles. Indeed, it can be difficult to navigate the maze of compliance requirements, which at times can inadvertently impede an integrated approach. Hence, end-to-end FRAML processes have been long in the making and are only now being evaluated and implemented as a universal standard in banking.

So far, it seems there are various degrees of FRAML integration, ranging from semi-siloed operations to fully integrated applications. Bigger, more established financial institutions tend to have larger but fully separated teams. These institutions are typically slower to become more fully integrated. On the flip side, smaller or younger financial institutions tend to be more agile. They tend to see the value of integrating fraud and AML teams and operations. Overall, the degree of integration depends largely on a financial institution's situation (resources, capabilities, requirements).

As with all system silos, the major challenge in achieving full integration usually boils down to data connectivity seen as the orchestration of data between a labyrinth of disparate systems. Legacy systems have been running for years, and it can be quite difficult to replace or reconfigure these outdated solutions to accommodate FRAML operations. However, as financial loss and risk continue to grow, larger institutions will integrate their operations more and more with each passing year.

EMERGING TECHNOLOGY AND ADOPTION

Even AI is evolving, as today there is hybrid AI. This combines the decision-making process of classical knowledge-driven AI techniques (for example, cognitive intelligence, or dynamic profiling) with the adaptive learning capabilities of data-driven techniques (for example, machine learning).

In the framework of FRAML, this translates to systems being not just rule-followers but also rule makers. Hybrid AI can analyze vast datasets, learn from them, and identify hidden patterns of fraudulent activity and money laundering that would escape human analysts or conventional intelligent rules-based systems.

In detecting complex financial crimes, hybrid AI systems can flag unusual transaction behaviors while considering contextual information to reduce false positives, without compromising detection rates. These systems adapt to emerging fraud tactics and the latest money-laundering schemes.

Financial institutions appreciate how hybrid AI systems foster adaptability and evolve with emerging fraud patterns, but keep humans in the loop. Financial institutions can further modify the dynamically adapting rules, simulate new rules and, above all, immediately take them into live operation, even if the system has not yet learned the rule in question on its own.

Classic machine learning is dependent on the maturity of the ML models they use. These must be intensively trained before they can be used for the first time with a reasonable detection rate. But the time required is not available to financial institutions in the age of instant payments. If a bank's fraud-prevention team, for example, relied only on ML algorithms to learn fraud patterns, the criminals would have plenty of time to cause a lot of damage.

Current systems that maintain dynamic profiles for different entities (for example, a bank account) can detect "potentially fraudulent" transactions in real time through advanced rule sets. Through dynamic rule systems based on cognitive intelligence, situationally adaptive rules can also be created to help avoid the risk of a particular event. Thus, through the ability to handle independent rules for different data within the same transaction, it is then possible to create "fingerprints" for customers and identify unknown patterns.

In some isolated cases, these patterns could remain under the radar of a model based entirely on machine learning. As an example, imagine a transaction where the amount is 30% higher than the average amount drawn by that customer in recent months. There are also several new accounts for the customer, with amounts that are close to the maximum daily amount allowed. There are also unknown IP addresses, and the countries of the transaction are different from the customer's.

Each of these transaction anomalies alone may be strange and suspicious, but not enough to raise the proper alarms. With the hybrid AI model, advanced techniques and machine learning work hand-in-hand, making software incorporated with this technology a more effective alternative for anticipating these types of problems.

If anything seems fishy, you can simulate a rule and immediately test it on a live data set. If there is a problem, you will block it at once.

A critical factor here is the immediacy with which these models can react. Few tools have the ability to work in real time with in-memory capabilities to provide a "millisecond" response to identify and prevent fraud before it occurs. Models combining all available technologies and techniques have a substantial comparative advantage over models focusing on only a few technologies. This allows organizations to achieve significant savings and have a healthier and more satisfied and protected customer base.

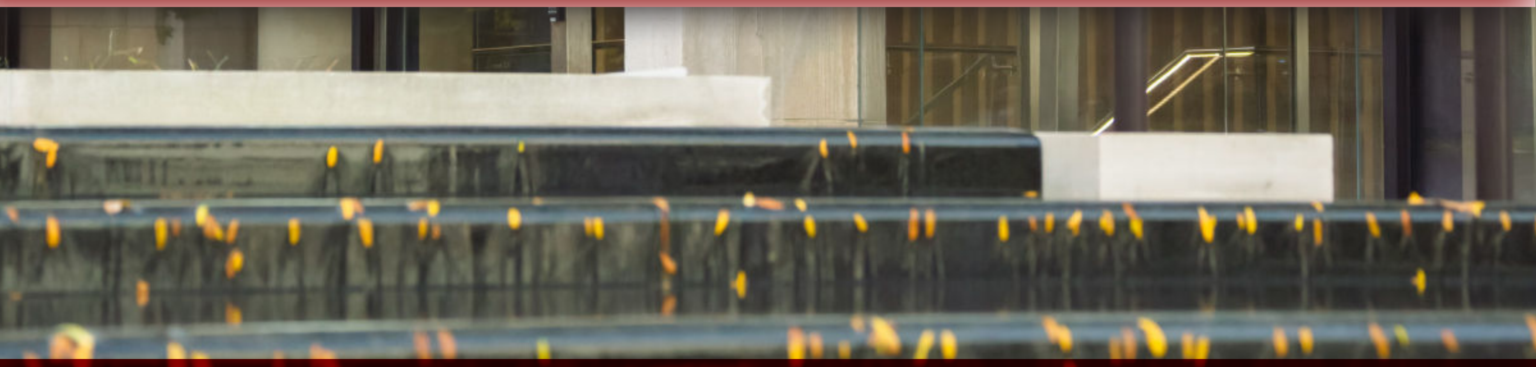
THE FUTURE OF FRAML

FRAML brings many benefits. But, most important, it supports the operational alignment of fraud management teams and anti-money laundering teams, in addition to complying with data-sharing regulations.

When AI technology is added to financial fraud systems to support the FRAML framework—coupled with the fraud and financial-crime expertise humans can provide—fraud and AML teams alike can realize huge benefits.

They are effectively combining their human resources with efficient technology resources. No matter how you look at it, adopting a more integrated approach will not only combat sophisticated financial threats, but also deliver operational efficiencies. DT

WHAT THE CFPB'S RULES MEAN FOR OPEN BANKING



The CFPB's personal financial data-rights rule provides a legal framework to dramatically expand open banking in the United States and spur a host of innovative products. But first, the rule must survive a legal challenge.

BY PETER LUCAS

Photo: eurobanks - stock.adobe.com

Open banking has long been viewed as the next big innovation in payments in the United States. The technology, well-established outside the country, enables consumers to securely share personal financial data across accounts with third parties, such as fintechs and banks. Third parties can then use the data to offer personalized products that are meant to be more relevant to consumers and that generate new revenue streams.

The technology's promise is intriguing, but until recently there were no formalized rules in the United States governing the gathering of consumer data through open banking, how to secure that data, and how the data can be used. That changed in October when the Consumer Financial Protection Bureau unveiled its personal financial data-rights rule. Now enshrined as Section 1033 of the Consumer Financial Protection Act of 2010, the rule governs the sharing of consumer data through open banking.

The new rule requires financial institutions, credit card issuers, and other financial providers to share data—with a consumer's consent—through an application programming interface with third parties offering competing products.

The process allows consumers, through a single click within an app, to authorize third-party access to such data as transaction information, account balances, information needed to initiate payments, upcoming bill payments, and basic account-verification data. Financial-service providers are not allowed to charge consumers for sharing their financial data with third parties.

The advantage of enabling access to consumer data through an API is that it reduces the need to write new programming code to enable the task, says Booshan Rengachari, chief executive and founder of Finzly, a fintech specializing in payment apps.

The CFPB's rule also gives consumers control over what data can be shared, with whom it can be shared, and for what purpose that data can be used. In addition, the rule gives consumers control over data retention by third parties. Once the intended use of the data has been fulfilled, consumers can stipulate it be deleted by the third party.

In essence, what the CFPB's rule does is transfer control over a consumer's financial data to the consumer from the financial institution that holds the data. By empowering consumers to grant permission to share their financial data with a third party, the CFPB is betting consumers can more easily compare and switch to financial-services providers offering better rates, products, and services.

"Prior to the CFPB's rule, consumer data in the banking ecosystem existed inside a walled garden within the financial institution that held it," says Skyler Nesheim, chief technology officer for Dwolla Inc., a fintech specializing in account-to-account payments. "Open banking is about giving consumers more control over their data. The CFPB rule does that and gives consumers choice over with whom they share that data, which frees up use cases for the data that might otherwise have been shut down."

Compliance with the rule will be implemented in phases, with the largest financial institutions subject to comply by April 1, 2026, while the smallest financial institutions have until April 1, 2030. Financial institutions with assets of $850 million or less are exempt from the rule.

According to payments experts, use cases the data-privacy rule can help facilitate include pay-by-bank payments, improved product recommendations, and personalized product offers. In the case of offers, a third-party or bank, for example, can send a promotion to a consumer to bundle their depository accounts with them in exchange for a low interest rate on a loan or credit card or a higher rate on a savings account.

"The CFPB rule will allow consumer data to be used to develop and offer consumers more targeted products that can attract new customers or expand existing relationships," because the third party can make more informed decisions based on a consumer's data, says Dinesh Krishnan, co-founder and chief executive of banking-software provider Zafin. "This will be a game changer."

PAY BY BANK

One of the most promising benefits of the CFPB's rule is that it will help clear a path for pay-by-bank transactions and provide merchants a lower-cost alternative payment option to credit and debit cards.

Pay by bank is likely to be a lower-cost alternative to credit and debit cards, as it eliminates swipe fees, which are typically 2% to 4% of the transaction, merchant advocates say. In comparison, fees for pay-by-bank transactions, if they are charged, can be substantially lower.

"Pay-by-bank is free from fees unless banks decide to charge for app use, or an app charges a fee, either on a subscription or on a per-transaction basis," says Stephanie A. Martz, chief administrative officer and general counsel for the National Retail Federation. "Retailers need to pay close attention to developments with open banking and the potential it offers as an alternative to the costly way payments are currently processed."

OPEN BANKING'S COST IMPACT

(Transaction cost for a $100 payment by method)

Credit Cards	$4.88-$6.65
Debit Cards	$3.35-$3.90
Checks	$2.50-$6.50
Digital Wallets	$3.20-$3.98
Cash	$1.10-$2.50
Pay by Bank	$1.25

Source: Aeropay

The CFPB's data-privacy rule is an important step toward making pay by bank more common at checkout, Martz adds.

Currently, the odds favor banks levying a merchant fee for pay-by-bank transactions that is lower than card-swipe fees because pay by bank represents a new revenue stream for them, says Finzly's Rengachari.

"Pay by bank is a moneymaking opportunity for banks that may cut into Visa and Mastercard volume," Rengachari says. "Some merchants surcharge [consumers] on card-based transactions, and banks can price pay-by-bank transactions to be a lower cost payment option for which merchants don't surcharge [which benefits the customer]."

While pay by bank poses a potential threat to the transaction volumes at Visa Inc. and Mastercard Inc., the networks are mounting their own open-banking strategies.

In October, Mastercard introduced Connect Plus, a portal that gives consumers control over where, how, and with whom their financial data is shared. Using a secure Web application, consumers can search for and link their bank accounts, view which third parties have consent to access their data, and grant and revoke consent in real time. Consumers are also notified when a third party's permission to access account data is expiring or needs additional attention. Mastercard plans to begin rolling out Connect Plus next year.

One trend fueling Mastercard's push into open banking is that consumers are already linking their financial accounts. A recent Mastercard survey revealed that 76% of respondents globally connect their accounts. Of those respondents, 93% agreed that having control over how their financial data is used is of "paramount" importance, Mastercard says.

"Transparency is the key ingredient to instilling trust in the digital economy," Jess Turner, executive vice president and global head of open banking and API for Mastercard, said in a statement at the time. "When individuals and small businesses have agency over their financial data—who has it, where it's going, and how it's being used—they can make informed decisions, access better opportunities, and have more confidence that their financial data is just that—theirs."

Photo: The Consumer Financial Protection Bureau by Tony Webster, CC BY 2.0

In essence, what the CFPB's rule does is transfer control over a consumer's financial data to the consumer from the financial institution that holds the data

IMPACTING CARDS

One of the engines behind Mastercard's open-banking strategy is Finicity Corp., which the card company paid $825 million to acquire in 2020. At the time, the deal was seen as a way for Mastercard to bring its European-based open-banking initiatives to the U.S.

The deal was also viewed as a counterweight to Visa Inc.'s proposed acquisition of data aggregator Plaid Inc. earlier that year. That deal was scrubbed when the U.S. Department of Justice expressed concerns Visa could use Plaid's banking links to establish control over the U.S. debit business, an allegation Visa disputed.

Five months later, Visa paid $2.15 billion to acquire Tink AB, a Stockholm-based company whose network connects to 3,400 financial institutions throughout Europe. The deal opened the door for Visa to begin participating in open-banking ventures in Europe. In the European Union, banks are required by law to allow customers to provide registered third-party financial service providers aceess to their financial data.

Now that the CFPB has unveiled its data-privacy rule, open banking is very much on Visa's radar in the United States. When asked about the potential impact of the CFPB's rule on Visa's business during the company's fiscal 2024 earnings call in October, Visa chief executive Ryan McInerney said the company expects pay-by-bank payments to proliferate as a result, and that there is a lot of "value" Visa can add to those transactions. McInerney did not elaborate.

While many payments experts agree that open banking will help spread pay by bank to the point of sale, they caution the trend won't immediately take hold. "Pay by bank will impact card transactions, but it will have to evolve over time before it does so," says Dennis Irwin, chief compliance officer for Alkami Technology Inc., a provider of digital-banking solutions.

Nevertheless, Visa and Mastercard are well-positioned to play in open banking, as the access to consumer data the technology provides will enhance cardholder data the networks already gather and use for product development, Irwin adds.

Aside from paving the way for pay by bank to grow in the U.S., the other key element of the CFPB's data privacy rule is that it steers third parties and data aggregators away from screen scraping to gather consumer financial data.

Screen scraping is a technique in which third parties seek to verify accounts by copying data displayed on a screen after gaining account access. The CFPB characterizes the practice as "risky," as it typically involves consumers providing account passwords to third parties, which then use them to access data through online banking portals.

Not having to request a consumer's user name and password to access data not only greatly enhances data security, it ensures the gathering of the most up-to-date data, says Oz Olivio, vice president of product management for Inrupt Inc., a provider of applications that enhance users' control over their data.

"With screen scraping, you can get a lot of outdated information," Olivio says.

'A LOT OF TRIAGE'

No sooner had the CFPB released its data-privacy standard than it came under legal attack by the banking industry. The lawsuit, brought by the Bank Policy Institute and the Kentucky Bankers Association, alleges the CFPB overstepped its bounds by issuing a rule that fails to properly safeguard consumer accounts and financial data accessed by third parties, such as fintech and data aggregators, and puts at risk the infrastructure banks have built to support open banking.

The plaintiffs remain mum about the lawsuit, and expectations are that, while it will muddy the waters for open banking in the U.S. somewhat, it will not derail the open-banking train. Indeed, when the European Union launched its open-banking initiative, lawsuits were filed challenging it, says Inrupt's Olivio. Objections were eventually overcome through negotiations with dissenting parties and a fine-tuning of the law, he adds.

"There is always a lot of triage and negotiations that result when a law like the CFPB's rule passes, so it not surprising a lawsuit has been filed," Olivio says. "But the benefit of the CFPB's rule is that it gives consumers the right to control their data and creates a one-stop shop for them to manage their data."

Even with a lawsuit hanging over the future of the CFPB's rule, fintechs and banks should begin preparing for compliance, some observers advise. "There is still plenty of work to be done when it comes to compliance, even with the uncertainty over the CFPB's rule created by the lawsuit," says Fiserv's Ford. "You don't want to be kicking the can down the road." DT

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GEN Z'S UNIQUE PAYMENT PREFERENCES

When it comes time to collect loan payments, lenders have some thinking to do.

BY ANNE HAY

Anne Hay is an executive vice president and chief marketing Officer at PayNearMe.

APPROXIMATELY 69 MILLION Americans fall into Generation Z, born between 1997 and 2013. With many of them now in their 20s, they represent a sizable portion of consumers repaying auto, home and personal loans. That's more than a fun fact. It's a mission-critical component of lenders' business decisions and strategies.

Here's why.

As the first "digital natives," Gen Z has never known a time without the Internet on their desks or in their pockets. They have honed the skills of shopping online for services, reading customer reviews, and sharing their opinions with others.

That means lenders must pay attention to the unique payment preferences of their Gen Z borrowers and deliver an easy, digital, self-service payment experience.

What does Gen Z want from a payment process?

Our recent consumer payments survey reveals this generation's preferred payment types and current frustrations with the loan-repayment experience. And it exposes four ways lenders can win Gen Z's satisfaction and loyalty. The online survey, fielded in March, queried 1,574 consumers who were at least 18 years old.

Gen Z respondents have trouble keeping track of the details needed to complete their loan payments, according to the survey:

- 48% struggle to remember payment due dates
- 36% have difficulty keeping track of passwords and account numbers

Additionally, almost a third (31%) have trouble navigating biller Web sites to get to a payment screen.

All of this makes sense, given that Gen Z consumers are accustomed to a streamlined, tap-and-pay experience when they engage with services online, such as Uber or DoorDash.

When a lender's payment process requires the user to search for and input information, sometimes multiple times, these payers can grow frustrated.

They may drop out of the funnel, which can lead to late payment, force them to call customer service to complete payment—which contributes to higher labor costs for the lender—or not pay at all.

ALTERNATIVE PAYMENTS

Gen Zers want the option of using digital payments to repay their loans:

- 52% cite PayPal as important
- 48% rate Apple Pay as important
- 37% value Venmo
- 61% are likely to use digital wallets for loan payments

It's not that Gen Z borrowers don't use common payment types such as the automated clearing house network and debit. But they appreciate the flexibility to pay a bill with the same payment types and channels they use elsewhere.

Digital payments are also easy to navigate when making a payment on-the-go, whether from their smart phone or in the checkout line of a store. That aligns with this generation's value of not being tied to their desks. They take life and work on the road with them, and their bill-payment experience should come along for the ride.

Lenders don't have to reinvent the wheel to accommodate their Gen Z borrowers. All the necessary tools are already available through a modern payments platform. Here are four ways payment providers can help lenders address this generation's pain points and preferences:

1. Implement text/email reminders with direct links to payment.

The payments provider could offer borrowers reminder texts, emails, or push notifications when payment is due, even let them choose their preferred method of communication. This relieves borrowers of having to keep track of due dates. In the consumer survey, 51% of Gen Z borrowers said reminders would help them pay on time.

At the next level, the payments provider can include personalized links in the reminder messages. This experience takes borrowers directly to their payment screen without having to remember account numbers and passwords. The payer simply enters payment information and clicks or taps to pay. If users are paying with a digital wallet such as Apple Pay, they don't have to enter any information at all, offering an even more seamless experience.

Every time lenders reduce the number of steps and amount of information necessary for payment, they make it easy for borrowers and improve the likelihood they can pay independently and on-time.

2. Offer a wide range of digital payment options.

Gen Z has grown up with a vast number of options in every area of life, from the media they stream to the e-commerce sites they shop.

When it comes to payment types, they appreciate choice as well, especially when those options make payment more convenient and efficient. Remember, these young adults are likely juggling a lot—work, school, parenting, and more. They want digital-friendly ways to cross things off their list, including paying their loans.

Currently, most lenders limit digital payment choices to ACH and debit, but it's easy to expand that menu to include Apple Pay and Google Pay, as well as payment apps including PayPal, Venmo, and Cash App Pay.

Lenders can also enable digital cash payment at retail locations, which lets borrowers repay their loans with cash at the same time they are doing their shopping. They simply present a personalized bar

Hay: "In today's competitive loan market, lenders simply can't afford to deliver a sub-par payment experience."

code to the cashier along with the cash for payment. It's both a multi-tasking convenience and an accommodation for those who want to pay bills with cash.

3. Enable payments with stored digital wallet balances.

Nearly half of Gen Z survey respondents (47%) would appreciate being able to repay their loans using a stored balance on a digital wallet or mobile app, such as PayPal, Cash App Pay, and Venmo, according to the consumer survey.

For example, a NerdWallet study found that two-thirds of mobile-payment app users (68%) maintain a balance on their account, and 46% keep $100 or more. A modern payments platform can make it possible for consumers to apply that money toward their payment and then use a secondary payment method to cover the balance. Allowing customers to tap into any and all available funds meets customer preferences, while increasing the likelihood of on-time payments. In today's inflationary economy, that flexibility may make all the difference in a month when finances are tight.

Further, 20% of all new checking accounts opened last year were with PayPal and Chime. That means a portion of the customer base may use a digital wallet or mobile payment app as their primary checking account. Arming customers with the ability to pay any way they prefer can help lenders win their satisfaction and loyalty.

4. Create personalized experiences that resonate with young borrowers.

Loan repayment is a process, but it's also an experience. When you consider the number of times borrowers will have that experience—month after month for several years, perhaps—you can see why it's important to make sure those interactions are pleasant.

The best way to do that is through personalization. Lenders can offer personalized links, as we already discussed. But what if, when borrowers get to their payments page, they find it dynamically populated with all the information relevant to them? They see their payment amount and date already in place, as well as easy access to their most-used payment type. All they have to do is click or tap to approve the transaction.

Using customer data and artificial intelligence, a payments provider can also present borrowers with personalized recommendations that apply to their particular situation, such as loan refinance or consolidation offers, or special incentives for consistent, on-time payment.

In the consumer survey, 58% of Gen X respondents said they would like this level of personalization. It's a way to make them feel known and appreciated.

When lenders understand their borrowers better, whether it's Gen Z or any other demographic group, they can provide what those borrowers need to be successful at repaying their loans. That has a significant and lasting impact on both borrowers' financial well-being and the lender's own bottom line.

To offer just one example, when Automotive Partners Funding started using automated SMS payment reminders, their late payments dropped by more than half. They not only got paid on time more often, they cut their mailed late notices by more than half, which provided significant savings in postage.

Borrowers who have a satisfying, personalized payment experience also become loyal borrowers. In the consumer survey, 62% of Gen Z respondents said a positive payment experience would influence their decision to work with the same lender in the future, and 62% said having a personalized payment experience would make them likely to recommend the lender to friends and family members.

In today's competitive loan market, lenders simply can't afford to deliver a sub-par payment experience, especially when it comes to winning and retaining Gen Z clientele. By offering a wide array of payment options and a personalized payment experience, lenders can establish their organizations as a leader in the industry and develop lifelong borrowers. DT

WITH REGULATION, LESS IS MORE

Open banking has great potential, but regulators should keep their thumbs off the scale.

BY **ERIC GROVER**

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IN OCTOBER, ROHIT Chopra's Consumer Financial Protection Bureau published its long-awaited Personal Financial Data Rights rule, implementing section 1033 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The CFPB's open-banking rule mandates that banks, issuers, and data providers, like digital wallets, provide up to two years of consumers' account and transaction data on request to consumers and to permissioned third-party providers, at no cost.

Open banking's promise is more innovation and competition in financial services and payments, and, therefore, greater value for consumers. Reduced barriers to entry to financial services and payments should be good for consumers—if like activities are subject to like regulation and legal liability.

Data sharing, on top of enabling new and nontraditional competitors, enables banks on their own and with partners to more actively compete with each other for share of customers.

The lightly regulated U.S. market has led the world in open banking. Data aggregators like Intuit, CashEdge, VerticalOne, and Yodlee pioneered retrieving consumers' financial data to help financial institutions personalize services. At the dawn of open banking, they relied primarily on screen-scaping. Laissez-faire regulation gave them space to develop a new market.

Now, open banking is global. The European Union's prescriptive Payment Services Directive 2 mandated that banks enable retrieval by permissioned licensed third parties, through APIs, of payments and payment data—at no cost. After leaving the EU, the United Kingdom retained PSD2.

The CFPB's open-banking rule has prominent fans and critics. Alexandre Gonthier, founder and chief executive of alternative payment system Trustly, says, "With CFPB's new open-banking regulation governing consumer-permissioned data access, merchants and billers can now deliver offerings like pay by bank and real-time payments, allowing for faster, more cost-efficient transactions that bypass legacy card networks."

The Bank Policy Institute, Kentucky Bankers Association, and Forcht Bank have a different take. They're suing the CFPB, alleging that the rule violates the Administrative Procedure Act, that the CFPB exceeded its authority, and that the rule increases data security risk, along with other harms.

In comments on the suit at Money 20/20, CFPB Director Chopra's animus toward large financial institutions was on full display. "It's not a big surprise that some of the largest players are the ones who want to slow and stop it," he said, adding he didn't think that they'd read the rule.

Jamie Dimon, chief executive of America's largest bank, called Chopra "a very smart guy" who uses his brains to justify what he already thinks. Come Jan. 20, Chopra will be out of a job. If consumers are lucky, his replacement won't think that hostility to large banks and payment systems is synonymous with being pro-consumer.

'RIPE FOR CHALLENGE'

Banks are being forced to deploy capital to enable and subsidize firms that compete with them and that may cannibalize credit and debit interchange revenue, credit, and other financial products.

Dodd-Frank requires that banks make consumers' financial data available to them on request—but not at no cost. It's Congress's prerogative, not that of the regulator charged with implementing the law, to make policy. Whether to permit fees is policy, not a regulatory detail.

Chevron deference—the doctrine that if a law's text is not crystal clear, regulators have broad discretion to impose their policy preferences—was overturned by the Supreme Court in June. The CFPB's data-sharing price controls, consequently, are ripe for challenge.

But pricing isn't the only area where the CFPB's policy preferences intrude.

In George Orwell's epic novel *Animal Farm*, the pig Squealer observes, "All animals are equal, but some animals are more equal than others." As of June, there were 4,533 and 4,539 federally insured credit unions and banks, respectively. In a nakedly political move, the CFPB exempted the overwhelming majority of banks and credit unions, those with under $850 million in assets, from its open-banking rule. The statute, however, doesn't exempt small banks.

While open-banking payments offer merchants lower acceptance cost, there are tradeoffs. They will cost consumers benefits they now take for granted, and financial institutions will lose interchange revenue and revolving credit opportunities.

Current retail, person-to-person, and bill-payment systems deliver enormous value for consumers, merchants, and banks. They provide consumers with the ability to securely and conveniently make and accept payments any time anywhere, along with robust protections, grace periods for credit cards, rewards and benefits, and record keeping. They will be difficult to supplant even with the regulators' help.

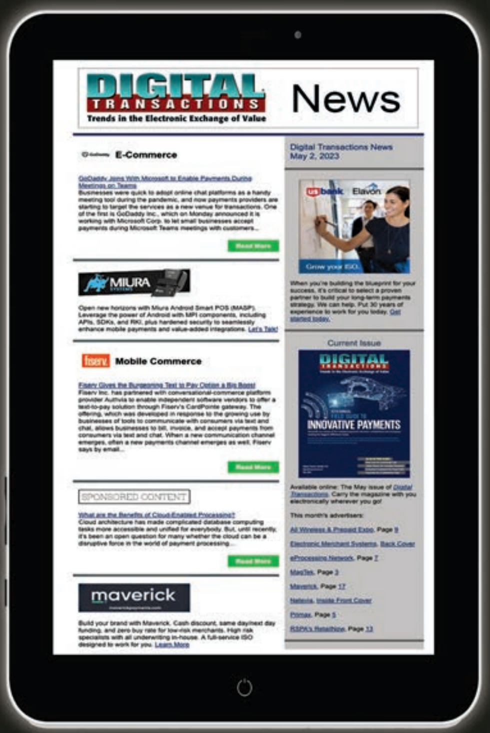
A LEVEL FIELD

Nevertheless, there are sectors where open-banking payment is likely to get traction.

At the Philadelphia Fed's October fintech conference, Plaid chief executive Zach Perret suggested that "surchargey" payment sectors would be particularly ripe for open-banking payments. For example, families may be motivated to use open-banking payment systems to pay tuition for their children rather than incur surcharges on credit card payments. They might happily use open banking to pay for a new car.

There's space for open-banking payments. Gonthier reports Trustly will process almost $100 billion in payment volume worldwide in 2024. However, for most in-person and online retail payments, traditional payment cards remain a superior value proposition.

Some fear, and some hope, that open banking will relegate banks to backend utilities. Open banking will enable new competitors and force banks and traditional payment systems to up their game. Neither policymakers nor regulators, however, should try to tilt the playing field. DT



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