DIGITAL TRANSACTIONS®

Trends in the Electronic Exchange of Value

UNBLOCKING THE BLOCKCHAIN

Are cryptocurrencies on the cusp of a payments breakthrough?

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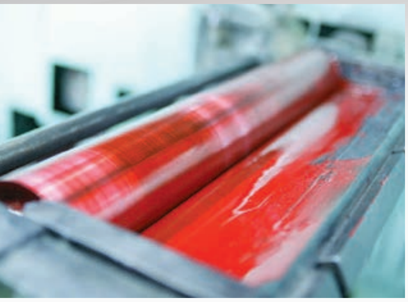

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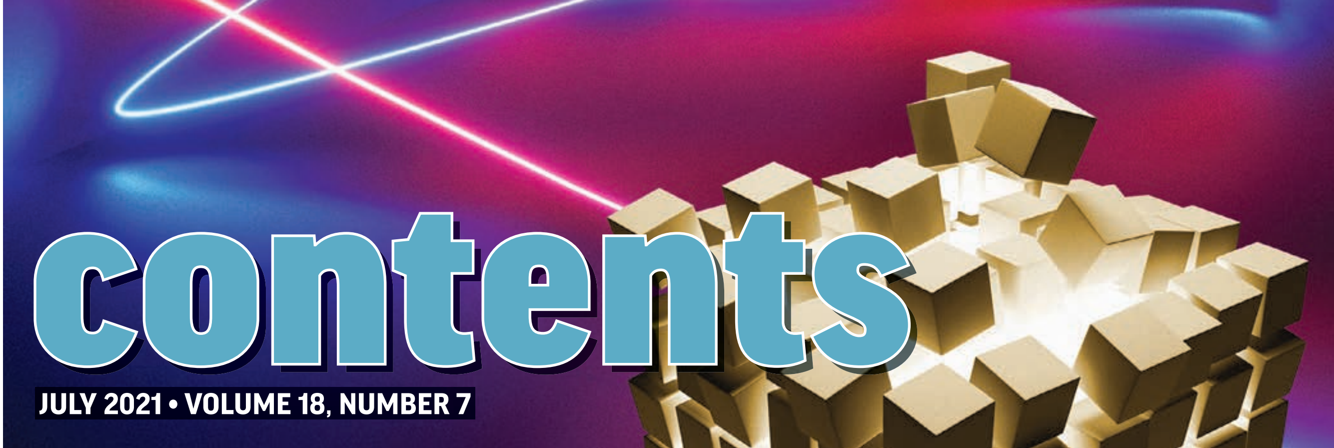

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the gimlet eye

ASSET OR MONEY?

IT HAS BEEN FASHIONABLE IN THE PAYMENTS INDUSTRY to dismiss cryptocurrencies as exotic flora and fauna that can't begin to compete with the sturdiness of, shall we say, real money. And indeed, the oldest crypto coins have been in operation now for more than a decade with little to show for themselves as a medium of exchange.

Consumers not versed in the arcana of crypto wallets avoid digital currencies as matter of course, while merchants fear the wild swings in value that some of them have displayed, particularly the number-one currency, Bitcoin, and so they shun them. Instead, when a customer opens his mobile wallet online or at a store and spends his crypto, a processor like BitPay or PayPal stands in and converts the proceeds immediately to fiat.

Critics complain this operation can't be credited as actual "acceptance" by the merchant of the customer's crypto. This is true enough, but the option does at least provide a wide expansion of opportunity for the user to spend holdings that would otherwise sit in that wallet as nothing more than investment assets.

So what will prompt merchants, en masse, to begin taking crypto as crypto? As our cover story this month points out, there are some developments in this regard that may hold promise. Visa is building a platform that will link to crypto exchanges and banks to enable the exchanges to settle stablecoins directly with Visa. The network is testing the concept with Crypto.com, an exchange, and Anchorage Hold LLC, a settlement bank. Crypto.com is just the start. Visa is looking to add more crypto wallets (that is, issuers) to this venture later in the year.

Rival Mastercard is also building a platform to handle cryptocurrency in an effort that shares Visa's aim to make acceptance easier and more widespread. As our story points out, the ultimate aim is for the network to move a crypto transaction as it would an ordinary card transaction.

One other promising development is the onset of so-called stablecoins, or cryptocurrencies whose value is linked to that of a national fiat currency, such as the dollar. These are the currencies both the Visa and Mastercard projects envision working with. They heighten the chances of merchant acceptance because, by definition, their values don't swing up or down in a matter of hours or days. This means merchants aren't forced to hedge against the potential that the money they've accepted will end up with a value well below the price of the goods the money bought.

In any case, if crypto is ever going to evolve from asset to actual currency, these or efforts like them will have to succeed.

John Stewart, Editor | john@digitaltransactions.net

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Trends in the Electronic Exchange of Value

PUBLISHER Robert A. Jenisch

EDITOR-IN-CHIEF John Stewart

SENIOR EDITOR, DIGITAL
Kevin Woodward

CORRESPONDENTS
Jim Daly, Peter Lucas

ART DIRECTOR/PRODUCTION EDITOR
Jason Smith

DIRECTOR OF ADVERTISING
Robert A. Jenisch, 877-658-0418
bob@digitaltransactions.net

ADVERTISING SALES REPRESENTATIVES
Robert Mitchell, 877-658-0418, x7
bmitchell@digitaltransactions.net
Rob Akert, 877-658-0418, x6
rakert@digitaltransactions.net

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John Stewart, Managing Director
Robert A. Jenisch, Managing Director

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SHOPIFY'S U.S. SELLERS GET AFFIRM

With e-commerce sales booming, payments players are looking for combinations that can keep online customers engaged and add even more buyers to their ranks.

An example emerged in June as Shopify Inc. and Affirm Inc. announced Affirm's buy now, pay later service became available to "hundreds of thousands" of U.S. merchants through Shopify's Shop Pay app. A more specific number was not available. The service allows buyers to pay merchants over time in four installments at no interest and with no fees.

San Francisco-based Affirm said in May adoption by Shopify's merchant base has gained momentum in recent months, with the number of sellers signing on having climbed to 12,500 in a matter of weeks. Affirm and Shopify agreed a year ago to offer buy now, pay later through the app's Shop Pay Installments feature.

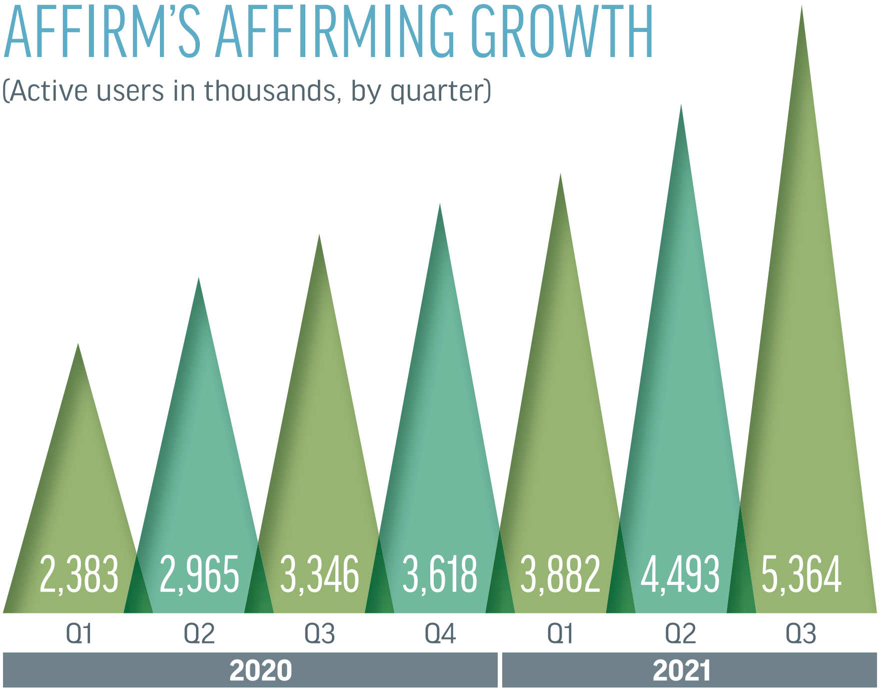
The Shop Pay wallet is part of Ottawa-based Shopify's overarching shopping assistant, called Shop, which has approximately 19 million monthly active users, according to information Shopify released in April. At the time, the company said Shop Pay had accounted for nearly $20 billion in total sales since its debut in 2017.

Shopify is betting Shop Pay Installments will boost online sales even more and help retain customers who are already shopping online. The company said checkouts with the service are four times faster than non-BNPL checkouts and "convert at almost double the rate of regular checkouts on mobile." In a notice Affirm posted last month, chief executive Max Levchin said one in four merchants using Shop Pay Installments in the early going achieved a 50% higher average order volume when compared to "other payment methods."

Speaking to equity analysts in May, Levchin expressed optimism adoption of Shop Pay Installments

AFFIRM'S AFFIRMING GROWTH

(Active users in thousands, by quarter)



Source: Affirm

would spread quickly. He also set ubiquity among Shopify merchants as a goal. The service, he said, "only makes sense if it's a pervasive solution across the Shopify merchant base."

Affirm has enjoyed rapid growth in recent months despite what has emerged as a crowded field of BNPL providers. The company logged $2.26 billion in gross merchandise volume in the March quarter, an 83% increase year-over-year. Active users totaled 5.36 million, up 60%.

Shopify, too, has grown fast, in part due to consumers' turn to e-commerce as they shifted part of their shopping away from physical stores. The company's transaction volume came to $37.3 billion in the March quarter, more than double the year-earlier total.

—John Stewart

BEHIND LIGHTSPEED'S ACQUISITIVE STREAK

As part of its strategy to create an all-encompassing platform for merchants and their suppliers, Lightspeed POS Inc. last month announced the acquisition of two companies—Ecwid Inc., a consumer e-commerce platform, and NuOrder Inc., an e-commerce platform for suppliers—for a combined $925 million in cash and equity in Lightspeed.

The acquisitions are the latest in a series of deals the Canadian processor has consummated over the past year to grow its business. Lightspeed's latest deal before this one took place in March, when it acquired Vend Ltd., a New Zealand-based provider of cloud-based retail-management software.

Montreal-based Lightspeed expects the acquisitions to accelerate the company's push to provide over the next five years an omnichannel commerce platform—including online and in-store transactions—for merchants and suppliers.

The acquisition of Ecwid will allow merchants to transact and communicate with consumers across digital and physical channels, including social media and marketplaces. NuOrder will open the door for Lightspeed to develop a commerce platform for suppliers that simplifies merchant orders, provides insights into how products move through the merchant channel, and offers embedded payments.

"Commerce today is omnichannel. You don't just sell via multiple channels, but engage with consumers across multiple channels," Lightspeed president JP Chauvet said during a morning conference call announcing the acquisitions. "But our aim is to not just focus on the merchant as the customer, but [on] all in the ecosystem, including suppliers and consumers."

Much of the value Lightspeed expects to provide will come through the ability to offer so-called headless e-commerce, which allows front-end and back-end e-commerce applications to operate independently. As a result, changes made to consumer-facing applications on the front end will not require reciprocal changes to back-office applications, and vice versa.

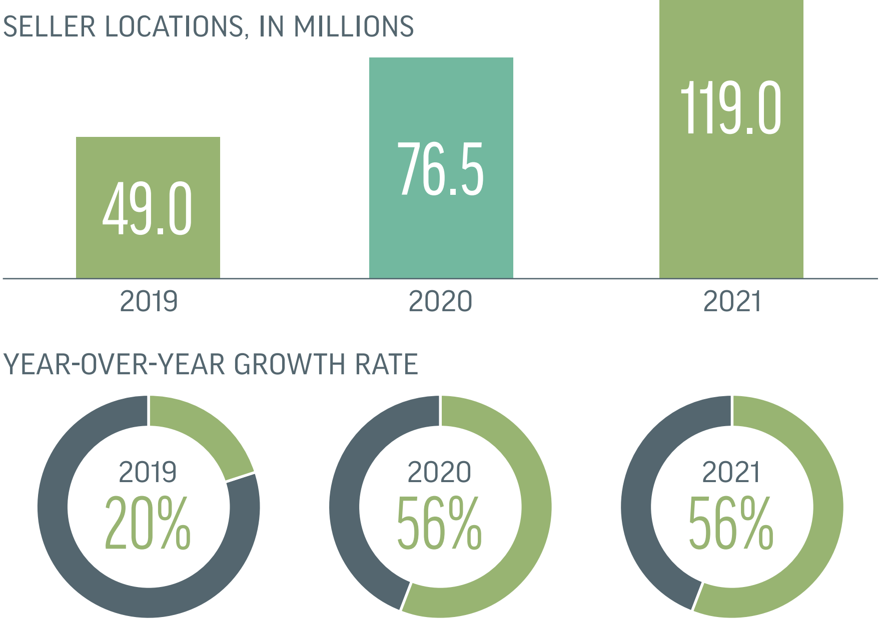
That is expected to speed the implementation of any changes made to the e-commerce platform. Front-end and back-end applications communicate using application programming interfaces.

As a result, merchants can create and deploy custom storefronts and turn any device into a point-of-sale terminal faster and more efficiently. In addition, merchants will have access to more consumer data to create custom communications and adjust those communications across each point of interaction with the consumer, as needed. Lightspeed payments will be integrated with the Ecwid platform.

"E-commerce has evolved into headless commerce," Chauvet said. "[These acquisitions] allow us to drive new solutions for merchants."

Acquiring NuOrder will complement the Lightspeed Supplier Network

LIGHTSPEED'S LIFT



Source: Lightspeed POS

and accelerate the growth of Lightspeed's financial-services offerings, including Lightspeed Payments and Lightspeed Capital, while establishing the company as a global distribution network for leading brands, such as Canada Goose, Converse, and Arc'teryx, the company says. Launched in January, the Lightspeed Supplier Network has more than 200 active brands.

As part of its plans in B2B e-commerce, Lightspeed intends to provide data to suppliers that identifies what products are selling, which merchants are generating the most sales, and the volume generated through each sales channel. This will allow them to adjust production accordingly, Chauvet says.

"There's a lot of supplier demand for this kind of functionality, but we lacked it and would have had to build it from scratch," Chauvet says. "The acquisition of NuOrder accelerates our strategy in this area by three to five years."

Lightspeed will initially focus on a variety of segments: apparel and footwear, pet stores, gift and bicycle shops, sporting and outdoor retailers, golf shops, home and garden, toy and hobby stores, vape and smoke shops, health and beauty, and jewelry retailers.

"These are verticals where we have a large concentration and can create a network effect among merchants and suppliers," Chauvet says.

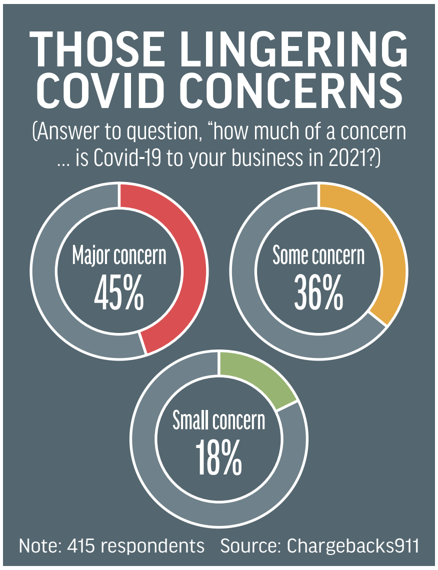
Lightspeed is acquiring Ecwid for $500 million, $175 million of which will be paid in cash, with the balance coming through the issuance of subordinate voting shares in the capital of Lightspeed valued at $325 million.

Lightspeed is acquiring NuOrder for $425 million, $212.5 million of which will be paid in cash with the remaining $212.5 million coming in Lightspeed voting stock.

The deal is expected to close during the quarter ended Sept. 30, after the receipt of applicable regulatory approval.

—Peter Lucas

HOW THE PANDEMIC SPARKED CHARGEBACKS



JUST AS THE COVID-19 PANDEMIC SPURRED many consumers to turn to online shopping, merchants have experienced a corresponding increase in their chargeback rates ("Many Unhappy Returns," April).

Indeed, sixty-eight percent of merchants said the pandemic affected their chargeback rates, found the second annual Chargeback Field Report from Chargebacks911, a chargeback-management platform. Clearwater, Fla.-based Chargebacks911 also operates Fi911, which caters to financial institutions.

Of these merchants—415 were surveyed overall—the average response indicated an increase of 25%, the report says. "More consumers relying on card-not-present channels has heightened the threat posed by chargebacks," adds the report.

"In addition, many cardholders came to view chargebacks as a convenient way to recoup funds from canceled events and delayed travel plans," the report continues. "These factors combined led to an increase in the number of disputes with which merchants had to contend." The survey included U.S. and United Kingdom merchants.

And so-called friendly fraud, when a customer tries to gain money back from a legitimate transaction by filing a chargeback, remains a pervasive issue for merchants, with 94% saying it was at least somewhat of a concern for their businesses.

"Additionally, merchants in the U.S. were almost twice as likely as those in the U.K. to identify friendly fraud as causing most of their chargebacks," the report says. "This could be because the concept is more widely known in the U.S. market than in the U.K. Compared to the U.K. and Europe, the U.S. market saw more rapid adoption of [e-commerce] as a purchasing channel. Consumers in the U.S. became accustomed to [e-commerce] practice sooner and as a result, were earlier adopters of friendly fraud as a practice."

Many merchants have taken at least some measures to address their chargeback issues, with 32% dedicating more internal resources to chargeback management and 24% moving some or all of their fraud management to a third party. Another 24% allocated more internal resources to overall fraud management and 21% moved some or all of their chargeback management to a third-party provider.

Though expectations are that these are declining days for the pandemic, Covid remains a top concern for merchants, with 33% citing their response to it as a primary focus in 2021. Other concerns at the top of the list are acquiring new customers, 32%, bolstering their business strength and durability, 28%, and servicing existing customers, 27%.

—*Kevin Woodward*

BILL-PAY FEES? DOXO LOOKS TO DUCK THEM

Building on what it says is a strategy to make electronic bill payment simpler and more accessible to consumers, doxo Inc. is offering a bill-payment service that avoids fees.

The Seattle-based provider of digital billing and payment services says it is bypassing the transaction fees some billers, such as utilities, levy on consumers for paying online by enabling consumers to connect their bank account to their doxo account for bill payment.

More than 11,000 banks and credit unions are connected to doxo through data aggregator Plaid Inc., a conduit that also allows consumers to see how much money is in their account when they pay their bill.

Utilities typically pass through transaction fees for credit and debit card payments and for checking account/automated clearing house payments, says doxo chief executive and co-founder Steve Shivers. In some cases, consumer transaction fees for online bill payment can be as high as $3 to $4 per transaction, doxo says.

Separately, a survey by the American Public Power Association revealed 37% of utility companies require customer transaction fees.

"Utilities can't absorb the transaction fees, so they pass those fees along to the consumer," says Shivers. "By linking consumers' bank accounts direct to the biller, we can eliminate pass-through fees."

By enabling consumers to pay recurring and one-time bills through its application, doxo also provides consumers with a single platform to manage payments. More than 90% of billers in the United States are not part of a bill-payment network, Shivers says. As a result, consumers either have to set up a bill-pay account directly with the biller or through their bank. The former requires consumers to remember a password and username for each individual biller for account access.

"The majority of bill payment is done outside the online channel," Shivers says. "The average biller receives less than 50% of bill payments through their Web site, and bank bill payment use is dwindling. Plus, many local and regional billers are underserved when it comes to electronic bill pay. Our focus is to reach these billers and make electronic bill payment as efficient as possible by allowing consumers to pay bills by logging into a single account."

In addition to enabling consumers to pay direct from their bank accounts using a mobile device or computer, doxo allows them to pay using credit or debit card or via Apple Pay. More than 60% of bills paid through the doxo network originate from mobile devices.

To ensure data security, doxo says it does not transmit personal data to the biller. "We securely store all consumer and account data," Shivers adds.

Doxo offers consumers doxoPlus, a subscription-based bill-payment service. Consumers pay $4.99 a month for a variety of benefits, including $1 million of loss-protection insurance for identity theft and identity-restoration services, credit-score monitoring, and overdraft and late-fee protection. If doxo users miss a payment due date, they will be reimbursed the resulting late fee.

While doxo does not reveal the number of doxoPlus users, the company says that, to date, more than 5 million users across 90% of U.S. Zip Codes have paid bills through its payment network in more than 45 different service categories. DT

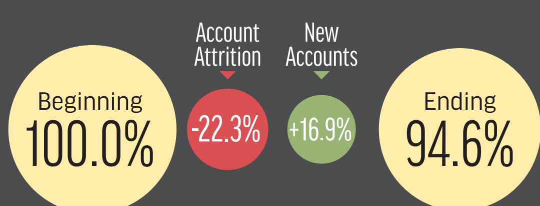
—Peter Lucas

MONTHLY MERCHANT METRIC

Q1 2021 Account Attrition And Growth

Account Attrition: Total attrited accounts in given period divided by total portfolio active accounts from same period of the prior year.

New Accounts Added: Total new accounts in given period divided by total portfolio accounts from same period of the prior year.



Note: This is sourced from The Strawhecker Group's merchant data warehouse of over 3 million merchants in the U.S. market. The ability to understand this data is important as small and medium-size businesses (SMBs) and the payments providers that serve them are key drivers of the economy. All data are for SMB merchants defined as merchants with less than $5 million in annual card volume.

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Source: The Strawhecker Group All information as available.

PREPARE FOR QUANTUM RANDOMNESS

BY GIDEON SAMID
gideon@bitmint.com

UNTIL THE EARLY YEARS of the 20th century the world was modeled as a Rube Goldberg contraption, where a series of levers, handles, belts, and wheels create a long sequence of well-anticipated actions.

Quantum trashed this model and replaced it with cosmic dice. The claim of quantum physics is that the dice that determine reality are perfect. It happens like a recurrent burst of creation, following no rule or law. What's more, the unpredictable dice show coordinated choice across vast distances. Baffled physicists resign themselves to mathematically describing this phenomenon, called "entanglement," and just use it.

It turns out that, by stringing together microcosmic dice and applying measurements to such strings, it's possible to replace the old Turing machine, which is, in fact, a Rube Goldberg contraption. It's also the basis of all the computing devices that run digital transactions today. While this replacement still has some engineering work to be done, quantum randomness per se is already in use.

Digital transactions flow on public information highways, protected with keys that are a sequence of binary bits. If a hacker somehow guesses the key, he is exposed to the transaction data. To prevent such guessing, the industry uses algorithms that generate keys that look perfectly random to the naked eye. However, as the father of computers, Von Neumann, said: "If you use algorithms to generate randomness, you understand neither algorithms nor randomness.

Imperfect keys are a persistent window of vulnerability for all network-dependent digital transactions. Quantum randomness lends perfection to ordinary keys to ensure that they are guess-resistant.

In 1917, a Bell Labs engineer, Gilbert S. Vernam, filed an encryption patent that was eventually found to enjoy mathematical perfection. We have not used this unbreakable cipher in digital transactions because it requires large quantities of quantum-grade randomness.

But while there was no technology then to manufacture the required randomness, today we have plenty of ways to generate such randomness, and as a result this Vernam cipher and a series of more modern Trans-Vernam ciphers offer the assurance of safe transport of digital-transaction data over the Internet—except, as always, when the implementation is sloppy.

More recently, quantum randomness was built into a new financial language. Computers today express monetary value as a number written in coded bits. Hackers flip these bits and cause chaos. Quantum randomness is used as a means to express financial instruments in a way where their value and their identity are bonded and fused. This is similar to the bond between a dollar bill and the serial number marked on it.

This fusion of value and identity creates an option to link a financial instrument to particular terms. A digital mint can specify that a particular $100 digital coin belongs to Jerry, so if Ben steals it, he can't use it. The payer of such digital money may also limit its use: good for groceries, not good in a casino.

The value, the identity, and the terms are encrypted together with quantum-grade ciphers and, thereby, create a landscape of digital transactions way beyond what is happening today. The book "Tethered Money" elaborates how the full measure of payment, and its disposition as described in detailed business contracts, may be inscribed in a digital coin constructed with quantum randomness. This means limitation of use is enforced through technology rather than through swarms of accountants and lawyers.

Quantum randomness powers the universe, while its mystery defies our imagination. We'd better be clear about this, and humbly admit it while we get busy using this mystery in practice. It is rising to become the foundational pillar of all digital transactions. DT

THE CFPB IS GEARING UP

BY BEN JACKSON

bjackson@ipa.org

SIGNS OF THE COVID-19 PANDEMIC FADING AWAY include things like open restaurants, fully packed stadiums, and a return to travel. But for the financial-services industry, the real end of the pandemic may be signaled when regulators knock at the door.

During the pandemic, the Consumer Financial Protection Bureau extended certain flexibilities to the companies it supervises. Those came to an end on April 1, and the Bureau released a new rule-making agenda on June 11.

The Bureau had granted flexibility on March 26, 2020, for quarterly reporting under the Home Mortgage Disclosure Act, information collection for credit card and prepaid account issuers, billing error resolution timeframes, electronic credit card disclosures, and several other matters. In a March 29, 2021, Federal Register filing, the agency said it was trying to accommodate "staffing and related resource challenges" caused by the pandemic.

But now "the Bureau believes that companies should have had sufficient time to adapt to the pandemic and should now be able adequately to comply with the law and respond to enforcement actions or supervisory activities without the flexibility afforded under the statement."

Still, it is not as though a switch was flipped and we can all go back to the way things were. While it is true health orders are ending and offices can open again, these changes bring their own challenges. As companies and employees figure out their new post-pandemic normal, challenges may still arise as they manage differing vaccination statuses of employees, the return to offices that have been closed for nearly a year, and workers who might want to remain at home. We can only hope the Bureau extends flexibility on a case-by-case basis and not insist that it is 2019 again.

Looking ahead, one topic on the Bureau's near-term agenda is consumers' access to their own financial data and how that data is shared among organizations. An advance notice of proposed rulemaking has been completed, and companies should be on the lookout for a proposed rule.

In its long-term plans, the Bureau says one of the things it intends to look at is artificial intelligence and machine learning and the data used by these tools. "The Bureau recognizes the importance of continuing to monitor the use of AI and is evaluating whether rulemaking, a policy statement, or other Bureau action may become appropriate," it said in its long-term agenda.

These and other items on the Bureau's agenda all revolve around data. Companies should review their own policies on data collection, retention, and use, and be prepared for new rules.

Meanwhile, the Bureau is in a legal fight with PayPal over the prepaid rule. PayPal won the first round with a decision that vacated the parts of the rule requiring the short-form disclosure and the 30-day credit-linking restriction. The Bureau has filed an appeal. The Bureau must file its initial brief by Aug. 2, and PayPal must file its initial response by Sept. 29. Additional documents will be due in November, with final briefs due on Nov. 24.

Because the appeals are ongoing, the Innovative Payments Association recommends companies continue providing the short form and delay offering credit until a final ruling. If the Bureau prevails, those restrictions will come back into place, and companies could see customers whipsawed between having access to credit and not.

If the Bureau loses, it may respond by adding a new digital-wallet or prepaid rule to its list. This could lead to a new government-relations agenda for the entire industry.

As the pandemic begins to subside, a new regulatory agenda may force as many changes as the crisis did. DT

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DIGITAL TRANSACTIONS
Trends in the Electronic Exchange of Value

HAS KING CASH FINALLY BEEN DEPOSED?

The combination of restrictions on in-store visits and concerns about the safety of cash has been a boon for digital payments. But not all agree cash's reign is over.

BY **KEVIN WOODWARD**

CASH IS RESILIENT. So are electronic payments.

Cash been around for millennia and exists as paper currency and coins. It also became less used in 2020 as many stores closed to curtail the spread of the Covid-19 virus. And some consumers avoided using cash even in essential stores that remained open.

The result? An increased use of electronic payments both online and in-store. The Covid pandemic has been the spur to get U.S. consumers to readily adopt contactless payments, while more consumers shopped online.

During the worst of the pandemic, cash use declined. Prior to the pandemic, 44% of consumers made less than 25% of their in-person payments with cash and 9% used cash not at all, found the May 2021 Lost in Transactions report from Paysafe Group. During the pandemic, these figures increased to 58% and 14%, respectively.

Now, as the pandemic appears to be waning, only 10% anticipate going completely cashless and 50% will make at least 25% of their transactions using cash.

Here's what else the pandemic revealed about cash use. In February, 14% of all merchants in a Square Inc. report were cashless, up from 6.3% a year earlier. Square said that, of all the transactions it processed in February, cash accounted for 30.5%, down from 37.4% a year earlier.

A separate report from FIS Inc. found that cash transactions represented 20.5% of global point-of-sale volume in 2020, down from 30.2% in 2019. In North America, cash transactions totaled 11.4% of transactions at the point of sale in 2020, down from 14.6% in 2019. The decline in the use of cash is expected to continue. By 2024, cash transactions at the point-of-sale in North America are expected to total just 8.7%, according to the report.

The big beneficiaries in the drop in cash use have been mobile wallets and prepaid cards, the FIS report said. Mobile-wallet use increased to 9.6% of POS transactions in 2020 from 6% the year before. Prepaid card use accounted for 3.9% of transactions in 2020, a jump from 1.9% in 2019.

"Consumers are more aware of the hygiene concerns with cash due to Covid," says Melissa Jankowski, FIS senior vice president and division executive for financial institution card and money movement.

'SELFISH THINKING'

Still, the forecasts for cash do not predict anything like zero use.

"In the current financial systems, cash provides an anchor to stability, which is why people make withdrawals," Jankowski says. "In low-income areas, there are those that feel that cash gives them greater control, and for those living in rural areas oftentimes the infrastructure doesn't exist to rely on digital payments."

"In my lifetime, I don't think [cash] can disappear," says Austin Mac Nab, chief executive and cofounder of VizyPay LLC, a West Des Moines, Iowa-based independent sales organization that provides a cash-discount program for merchants. "Cash will be around for many years to come."

Indeed, 19 other nations scored higher than the United States regarding degree of cashless economy, according to a Money.co.uk report released in May. Canada was named the most likely to banish the banknote in exchange for electronic payments, the report says.

In fact, Mac Nab's company is banking on some consumers choosing to use cash. VizyPay's cash-discount program lets consumers at participating merchants pay less for merchandise than those choosing a payment card.

"Obviously, I want as many people as possible using electronic payments," Mac Nab says, "but that would be selfish thinking on my part because business owners should be able to accept any payment." The merchant and the consumer should have choice in their payments, he adds.

Shopping online—which accounts for 13.6% of all U.S. retail sales, according to the Census Bureau—typically has been challenging for cash users. But some companies, like PayNearMe and London-based Paysafe Group, have developed services to accommodate these consumers. They typically enable consumers to shop online but pay for the purchases in a store where they use cash and receive a code to indicate on the retailer's Web site that they paid.

Paysafecash launched in the United States in December. Consumers can use one of 60,000 locations to make their cash payment for an online transaction. "Electronic payments are everywhere and growing," says Jan Marc Kuelper, Paysafe vice president of strategic development. Kuelper oversees Paysafe's U.S. electronic cash operations. "Especially in Covid, e-commerce has boomed."

But electronic payments need a credit or debit card, something the unbanked or underbanked likely don't possess. In 2019, an FDIC survey found that 5.4% of all U.S. households were unbanked.

These are consumers who cannot participate in the electronic-payments economy, Kuelper says. Electronic cash, such as Paysafecash, however, can offer a channel for these consumers, he says. "Electronic cash is not subsidizing electronic payments," he says. "It's something like an addition." Offering e-cash services may help grow the target audience for electronic payments overall.

MORE CASH, NOT LESS

Still, not all merchants are onboard with the idea of continuing cash acceptance. "With the pandemic, many merchants pushed their customers to cards instead of cash for sanitary reasons, and some refused to accept cash," says Thad Peterson, senior analyst at Aite Group, a Boston-based research firm.

"That trend away from cash acceptance will continue," Peterson adds.

'Not all consumers can manage, track, and allocate their spend when placed on an electronic payments solution.'

—MELISSA JANKOWSKI, SENIOR VICE PRESIDENT AND DIVISION EXECUTIVE FOR FINANCIAL INSTITUTION CARD AND MONEY MOVEMENT, FIS

> ‘Electronic payments are everywhere and growing. Especially in Covid, e-commerce has boomed.’
>
> **—JAN MARC KUELPER**, VICE PRESIDENT OF STRATEGIC DEVELOPMENT, PAYSAFE

“Cash is costly and dirty, and the pandemic gives merchants permission to reduce or eliminate acceptance. The un- and under-banked will be hit disproportionally harder by the shrinkage of cash-acceptance points.”

Others aren’t so sure about that. Cash has a long road ahead, suggests David Tente, executive director of the ATM Industry Association for the United States, Canada, and the Americas. “Some openly talk about the ‘war on cash,’” Tente says in an email message. “But cash may never go away completely.”

While Tente says many have pointed to the pandemic as evidence that electronic payments are taking over, that reasoning “conveniently ignore[s] the fact that consumers in a lockdown are forced to use electronic payments, regardless of their real preference.” There was almost $2.2 trillion in currency in circulation as of June 9, according to the Federal Reserve. That’s up from $2 trillion in June 2020.

“There is more cash in circulation than ever before,” Tente says. “Although the number of ATM withdrawals has been declining recently, the cash dispensed per withdrawal is increasing at an even higher rate, meaning that the value of the cash being withdrawn annually is increasing.”

As to if or when electronic payments might achieve ubiquity of use, like cash, Tente says it already has. “It’s safe to say that electronic payments have achieved ubiquity, in the normal sense of the word, but not to the extent of cash—and [they] never well,” he says. “At least not in the foreseeable future. Use of cash does not require that you have any sort of account with any institution. It doesn’t require equipment, power, or payment rails to work. Cash itself is also a store of value.”

MAKE IT SIMPLE

Jankowski suggests the question about electronic payments isn’t so much about achieving ubiquity, but about answering concerns consumers tend to have when spending with a digital payments device. One such concern is about anonymity, which is related to a worry that their every move is being tracked. Cash grants some immunity from that.

Another concern consumers have about digital payments has to do with the ability to manage their personal finances. “Not all consumers can manage, track, and allocate their spend when placed on an electronic payments solution,” Jankowski says. “The challenges are learning at the end of the month that they have overspent.”

One thing is clear for electronic payment advocates: simpler is better. “Payment acceptors need to make the transaction as simple, fast, and safe as possible to ensure that the new users of digital wallets and payments continue to use the technology post-pandemic,” Peterson says. DT

> ‘In my lifetime, I don’t think [cash] can disappear. Cash will be around for many years to come.’
>
> **—AUSTIN MAC NAB**, CHIEF EXECUTIVE AND COFOUNDER, VIZYPAY LLC

FINTECHS TAKE AIM AT B2B PAYMENTS

Financial-technology service providers are out to disrupt business-to-business payments. But rather than displacing banks, fintechs are looking to make them their partners.

BY **PETER LUCAS**

FROM VIRTUAL CARDS to digital invoices with embedded payment links, financial-services technology providers are aggressively targeting business-to-business payments.

Fintechs are pushing into the B2B space—which has long been dominated by banks because of their account relationship with businesses—to satisfy firms' growing desire to automate what has traditionally been a manual, paper-based payment process.

Indeed, 42% of B2B payments are still made by paper checks in the United States, and 97% of companies use checks to pay at least some of their suppliers, according to the Association for Financial Professionals.

Now, in addition to digitizing payments, businesses want to link digital-payment technology—and the information around a transaction—not just to their accounts-receivable and payable systems, but also to their enterprise resource planning systems, which collect and organize key business information.

While the transition to digital B2B payment solutions has been gradually under way for years—B2B sellers and buyers are notoriously slow when it comes to embracing new technology—the Covid-19 pandemic heightened the need for businesses to adopt faster, more efficient ways to pay sellers and receive payments from their own customers.

'A NIGHTMARE'

One major drawback to manual payment processes is the time spent managing invoices. On average, fully 11 working hours are spent managing a single invoice, and as many as 15 people can be involved in the process, according to payments provider BlueSnap Inc.

"Manual reconciliation [of invoices and payments] can be a nightmare," says BlueSnap chief executive Ralph Dangelmaier. "The only way for companies to improve forecasting accuracy, track invoices, and reconcile payments efficiently is to digitize and automate as much of the process as possible. Yet, many companies don't have an automation strategy and most banks don't have the technology to deal with digital invoicing."

Reliance on manual accounts-receivable processes remains high, with 99% of businesses acknowledging manual invoicing and payment, according to a BlueSnap survey. Among the manual processes cited, 40% of respondents say they still mail invoices and 32% still fax them. In addition, 13% say they accept cash payments and 11% take checks.

'Many companies don't have an automation strategy and most banks don't have the technology to deal with digital invoicing.'

—RALPH DANGELMAIER, CHIEF EXECUTIVE, BLUESNAP

The inadequacies of such manual processes were magnified during the pandemic as many employees, working from home, were not equipped to manage such fragmented and manual tasks outside the office. Indeed, some payment experts estimate the pandemic accelerated the adoption of digital B2B payment solutions by five to 10 years.

"A lot of the problems businesses face when it comes to B2B payments occur in the back office, where a lot of the systems are old, opaque data silos," says Rajiv Ramachandran, vice president of Coupa Pay for Coupa Software Inc., a provider of spend management applications. "Businesses are looking for ways to integrate data about what was bought, how the purchase was paid for, and how and when it shipped through a single platform."

'BETTER MOUSETRAPS'

Now, several fintechs that disrupted consumer payments with innovative technologies have set their sights on B2B payments. These include Adyen NV, Stripe Inc., and BlueSnap. To the these fintechs, B2B represents a vast pool of new business that some payments experts estimate is twice as large as the consumer-payments market.

"B2B payments are a space that has been broken for some time, which is why there has been a lot of innovation in it the past couple of years," says Steve Murphy, director, commercial and enterprise payments advisory service for Mercator Advisory Group. "Fintechs see an opportunity to make B2B payments faster and easier."

Capitalizing on the growth opportunity in B2B does not necessarily mean displacing the banks that provide treasury-management services to businesses. Rather, it means partnering with them, observers say.

Indeed, while fintechs have an edge when it comes to tying digital invoicing and payments applications together with ERP systems, they don't have the relationships with businesses that comes from serving their banking needs. As a result, many fintechs are seeking to work with banks, and the even the card networks, to gain an entrée into the world of B2B payments.

Stripe, for example, has forged a relationship with Visa Inc. to enable buyers using the Visa Payables Automation platform to pay suppliers that are unable to accept digital payments through a virtual Visa card. And Coupa has struck a deal with American Express Co. to issue a virtual credit card for B2B transactions.

'Typically, there are a lot of better mousetraps out there than what banks can offer, so they look to partner with technology companies.'

—JAKE MOORE, EXECUTIVE VICE PRESIDENT, CORPORATE DEVELOPMENT AND STRATEGY, REPAY HOLDINGS CORP.

It has also set up partnerships with Bank of America and Chase to let them leverage its platform.

"Banks are valuable distribution partners for fintechs because they control the customer relationship, but they are not great at developing new technology," says Jake Moore, executive vice president, corporate development and strategy at payment-solutions provider Repay Holdings Corp. "Typically, there are a lot of better mousetraps out there than what banks can offer, so they look to partner with technology companies."

In April, Repay joined the CDK Global Partner Program, which provides auto, construction-equipment, marine, and RV dealerships with access to third-party applications aimed at increasing productivity and streamlining operations. The arrangement enables dealerships in the CDK network to use Repay's platform to automate accounts-payable payments based on specific invoice data within the CDK system. The CDK network has 17,000 dealerships throughout North America.

'CASH-FLOW BENEFIT'

One payment application gaining a lot of traction now is virtual credit cards, which are digital versions of plastic credit cards. Virtual cards are typically generated for a specific use, such as paying a purchase order or supplier invoice. They can be created instantly through a pre-approved process and have a credit limit authorized to be spent only with the designated supplier for the amount of the invoice or purchase order.

That information, along with remittance detail, is securely emailed to the buyer, which then activates the card to pay for the purchase. Once the payment is processed, the transaction is automatically reconciled for buyer and seller with the corresponding invoice or purchase order.

By comparison, traditional corporate cards aren't pre-approved and must be manually coded and reconciled by the accounting department. Corporate controls typically require approval for each transaction.

The annual value of virtual cards used by businesses is projected to total more than $1 trillion by 2022, up from an estimated $568 million in 2019, according to Juniper Research. Eventually, spending on virtual B2B credit cards is projected to surpass spending on traditional purchasing cards and checks.

Last October, Coupa expanded its virtual American Express B2B card program to the United States. Previously, Coupa offered virtual cards in the United Kingdom and Australia.

Once a business's eligible AmEx account is tied to Coupa Pay, virtual cards can be automatically sent to authorized suppliers for payment. Each card is generated with a unique AmEx account number specific to purchase.

In addition to providing buyers greater visibility into the data around the payment, virtual cards help buyers better manage their working capital, as they typically have 30 days to pay the balance on the card, just as they would have when paying an invoice. At the same time, sellers benefit by receiving payment faster than the typical 30-day payment window for invoices.

While virtual cards can expedite payment and improve tracking, they are typically linked to digital invoicing systems. Stripe, for example, has built a suite of applications around digital billing and invoicing and card issuance.

Stripe Billing allows sellers to instantly collect one-time or recurring payments via card, automated clearing house, and other payment methods, and sync billing and payments data with existing workflows. The application can support any billing model, Stripe says. The hosted invoice page detects which payments require strong consumer authentication and requests 3D Secure authentication as part of the payment process.

Stripe Invoicing enables B2B sellers to send a Stripe-hosted invoice in minutes and includes an API and advanced features to automate payment collection and reconciliation.

'Fintechs see an opportunity to make B2B payments faster and easier.'

—STEVE MURPHY, DIRECTOR, COMMERCIAL AND ENTERPRISE PAYMENTS ADVISORY SERVICE, MERCATOR ADVISORY GROUP

"The main cash-flow benefit from digital payments is their speed of reconciliation," James Dyett, Stripe's head of global product sales and payments optimizations, says by email. "Products like Stripe Billing and Invoicing make it much easier and quicker for B2B payments to be facilitated. A majority of Stripe invoices are paid within three days, for example."

Stripe Issuing allows businesses to instantly create virtual or physical cards for payments. Businesses creating cards with Stripe Issuing can set spending limits and specify the types of businesses where the cards be used, while virtual cards can be designated for one-time or multiple use.

'LOTS OF RUNWAY'

In addition to its virtual card strategy, Stripe is leveraging Visa's Payables Automation software to help automate accounting and payments by extracting information from invoices, verifying it against purchase orders, and automatically approving and making payments. The aim is to lower costs while increasing spending controls.

The primary reason Visa partnered with Stripe was to facilitate a network connection to sellers not set up to accept a virtual credit card so they could still accept digital payments.

"Since the connection of buyers and sellers is ultimately a network problem, it made sense for Visa to turn to Stripe's existing infrastructure for multi-sided marketplaces, [which is] Stripe Connect," Dyett says. "All a seller on Stripe Connect has to do to receive funds is sign up and provide a bank account number. This allows suppliers to seamlessly onboard with card networks and reduce their reliance on trade credit terms."

Stripe Connect is a set of application programming interfaces that allow businesses to facilitate payments on their software platform, build a marketplace, and pay sellers or service providers globally, while shifting payments compliance to Stripe.

As the economy begins to reopen and manufacturers return to pre-pandemic production levels, the opportunities for fintechs to expand their foothold in B2B payments are expected to grow substantially. Given the low penetration of digital payment and invoicing solutions, payment experts expect there will be plenty of room for existing and new players as competition heats up.

"About 30% of the B2B market has been penetrated with digital payment solutions on the accounts-receivable side and full penetration may never be achieved on the accounts-payable side," says Moore. "There's still lots of runway left." DT

UNBLOCKING THE BLOCKCHAIN

Digital currencies like Bitcoin have been beset for years by a limited user base and merchant indifference. As mainline players like Visa and PayPal create new services, is that about to change?

BY JOHN STEWART

DUST OFF ANY TEXTBOOK ON ECONOMICS and you'll find, buried somewhere in the early pages of the tome, a tripartite definition of money. The test is that the candidate token must be a store of value, a unit of account, and a medium of exchange. Bitcoin and most other digital currencies meet the first two criteria, more or less, but fail miserably on the third.

More than a decade after Bitcoin's emergence touched off a blockchain revolution, the ranks of sellers taking cryptocurrency, online or in person, is pitifully small. For cryptocurrency enthusiasts, indeed, "acceptance remains the hurdle," notes Tim Sloane, vice president for payment innovation at Mercator Advisory Group, a Marlborough, Mass.-based consultancy.

Other problems also afflict this market. They aren't insurmountable but they are big enough to intimidate both consumers and businesses. They include what can be wild swings in value, sometimes painfully slow processing times, and even tax liabilities in cases where the crypto is considered an asset rather than a currency.

In fact, crypto transactions can slow down markedly when the blockchain is busy, as it often is. "It's not instant. It can take a while to do a transaction," says Ronny Yakov, chief executive of The OLB Group Inc., a New York City-based technology provider for online sellers (box, page 30). "If it takes a minute or a couple of minutes to get a cup of coffee, people lose patience." As a result, he adds, "it's much more suitable at the moment in e-commerce."

But perhaps the biggest hurdle just now is volatility. If a currency risks seeing thousands of dollars shaved off its value in a matter of days, as has happened this year with Bitcoin, merchants are reluctant to accept it for fear of seeing its value melt before they can convert it to fiat money.

"You can't have the risk of a 10% loss in one day," says Aaron McPherson, founder of Payments-101.com and a longtime payments researcher.

Bitcoin, which remains number-one in market cap (chart), has had a rocky year. In mid-April, it boasted a price exceeding $63,000, only to

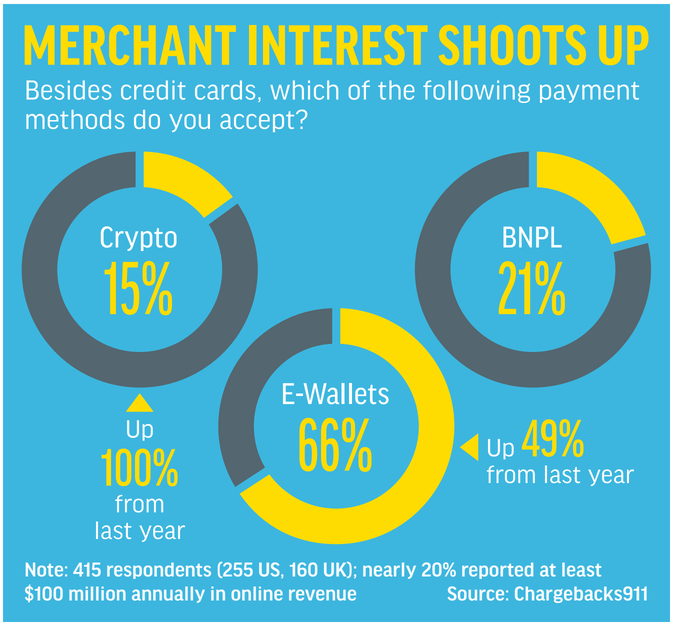
THE TOP 10

(The largest cryptopcurrencies by market capitalization)

	PRICE	MARKET CAP (BILLIONS)
Bitcoin	$40,158	$753.02
Ethereum	$2,565	$298.33
Tether	$1.00	$62.61
Binance Coin	$368	$56.43
Cardano	$1.56	$49.93
Dogecoin	$0.32	$42.32
XRP	$0.89	$41.18
Polkadot	$25.16	$24.01
USD Coin	$1.00	$23.64
Uniswap	$23.85	$13.71

Note: All data as of late afternoon, June 14, 2021

Source: Coinmarketcap.com



lose 22% of its value over the next 10 days. By June 9, the coin had shed nearly half of that mid-April price. Indeed, for McPherson, all other issues pale beside the problem of these big value fluctuations. "Making it easy to spend at the point of sale is not the problem," he says, "Volatility is the problem."

GOING NATIVE

Still, major payments players like Mastercard Inc., PayPal Holdings Inc., and Visa Inc. are steaming full speed ahead into cryptocurrency commerce. The trick is to find ways to draw in merchants without letting volatile values scare them away. The answer is twofold: convert the crypto instantly into fiat money—that is, dollars in the case of U.S. merchants—or deal in stablecoins, which are blockchain currencies tied to fiat.

Visa is following the latter approach. Its big move came late in March when it said its integration with San Francisco-based Anchorage Hold LLC, the first federally chartered digital-asset bank, allowed the network to process its first transaction involving direct settlement with a stablecoin, in this case, USD Coin, a currency linked to the dollar. The processor in the transaction was Crypto.com, a digital-currency trading platform.

The significance of the transaction lay in the fact that, historically, banks have had to settle through the Visa network in dollars or other national currencies. That has forced fintechs or digital-asset exchanges to first convert settlement assets to fiat, a step that adds costs, particularly as volumes grow.

Now, Visa says, more such transactions may be coming, at least for cryptocurrencies that mirror national currencies. Some 80% of central banks around the world are working on so-called CBDCs—central bank digital currencies—according to Visa.

"We're seeing more interest from consumers in [cryptocurrency] wallets," says Cuy Sheffield, Visa's head of crypto. "We want to ensure Visa is the preferred partner for crypto wallets on [crypto] exchanges."

Taking a similar tack, Mastercard announced in February it will later this year start processing cryptocurrency "natively"—that is, directly—on its network. Another way of looking at it, according to a spokesman, is that the network will move a cryptocurrency transaction as it would any card transaction.

This is a significant departure from Mastercard's current practice, in which it has processed fiat transactions for operators that have already converted their crypto assets.

Mastercard made no bones about the work it will have to do to re-engineer its network for this effort, but the company projected the new capability "will allow many more merchants to accept crypto," according to a blog post by Raj Dhamodharan, the executive in charge of the project.

As with Visa, Mastercard's starting point could lie in stablecoins. Mastercard has been working with central banks around the world, Dhamodharan's post says, and last year created a test bed for them to experiment with their currencies.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Trends in the Electronic Exchange of Value

CONSUMERS SPEND THEIR WAY WHILE ONLINE SELLERS GET BITCOIN

Most payments processors that deal in digital currencies let consumers pay with Bitcoin or other cryptocurrencies and then may translate that money into dollars or other fiat money for the merchant. This spring, a company called Paxful Inc. announced a service that does the opposite: it lets users pay with any of nearly 400 methods and then pays the merchant with Bitcoin.

Schaback: There is a clear need to offer local options for Bitcoin

New York City-based Paxful says Paxful Pay is now available for online merchants to add to their checkouts. Though the 6-year-old company only launched the service commercially early last month, it says it already has more than 100 sellers on the platform. It will add "select" merchants in the weeks to come, it says, and "expand more generally" thereafter. Information about pricing and transaction volumes was not available.

Paxful's service, which is aimed at a global audience, also lets merchants track transactions on an online dashboard and convert their Bitcoin holdings into a local currency. Later on, it says, the platform will add more cryptocurrencies and enable merchants to automatically convert their holdings inside a bank account.

On the user side, consumers who choose Paxful Pay are prompted to log in to the service. If not a current user, they must create a profile. A Paxful spokesperson says the user count is "limited" for the time being as the service rolls out, but the number added is expected to be "in the thousands" per month.

In recent years, some payment services have looked to tap into the consumer market for cryptocurrency by allowing users to pay both online and physical merchants with Bitcoin or other digital coins. But in most of these cases, the cryptocurrencies are converted to dollars or other fiat money by the service enabling the feature for the merchant.

"There is a clear need to offer local options for Bitcoin, and this product is a culmination of our efforts to deliver on that demand," said Artur Schaback, chief operating officer and co-founder of Paxful, in a statement issued with the June announcement.

"By offering users the ability to complete purchases using almost 400 payment methods, they will now have an even stronger financial solution at their fingertips," Schaback continued. "We cannot wait to expand this offering to encompass as many merchants as possible."

"Using our deep experience in payments technologies, we look forward to continuing these partnerships with governments and helping them explore the best ways to develop these new currencies," the post says.

'INTEREST IS INCREASING'

PayPal's approach is more immediate—and more widely followed by other players, such as veteran cryptocurrency specialist BitPay Inc. PayPal last year began letting its wallet holders spend their crypto assets at PayPal merchants—but with immediate conversion to local fiat.

While some observers scoff that this approach, which has been followed by a number of processors in recent years, isn't really "acceptance" of crypto at stores, it does open a vast array of retailers to crypto holders. PayPal is accepted at 31 million merchants and serves about 360 million consumers.

PayPal has also proved willing to invest heavily in building out a cryptocurrency capability, including security assets. In April, it closed on its acquisition of Curv Inc., a crypto security firm based in Tel Aviv. PayPal has not disclosed a purchase price, but estimates have ranged from under $200 million up to $300 million.

Other companies have been at this far longer—a decade in the case of Atlanta-based BitPay. The company processes wallet-based transactions but also offers a Mastercard backed by the holder's crypto assets.

Of the roughly 6,000 merchants on BitPay's platform, some 80% have elected to have the customer's assets converted to fiat upon acceptance, according to chief marketing officer

Bill Zielke. "The CEO doesn't want that volatility on his balance sheet," he adds.

Building up merchant acceptance is critical for companies like BitPay. "Ninety-three percent of folks who have crypto want the ability to spend it," he says, citing company research. And, with the publicity surrounding valuations like that of Bitcoin, merchants are starting to be more welcoming.

"We're in discussions with a lot of merchants in the Internet Retailer 500," Zielke says. "Interest is increasing." Indeed, a recent survey by chargeback-management firm Chargebacks911 found 15% of a sample of small and mid-size merchants were accepting crypto, a cohort that had doubled from the previous year (chart, page 28).

Now, some sellers who tried and dropped crypto are looking at taking it up again. Jackpocket Inc., a processor for lotteries in 11 states, accepted Bitcoin for tickets at one time but discontinued it in 2017, put off by the digital currency's volatility. Now, chief executive and founder Pete Sullivan says he is looking at resuming acceptance.

More consumers are holding crypto these days, and lottery regulators are more comfortable with the currency, Sullivan says. And volatility is a less pressing issue now that the company is processing $30 bundles rather than $2 or $4 individual tickets, he adds.

40 MILLION

Other developments in the works could also help boost crypto payments in coming years. Fiserv Inc.'s AllData unit, a data aggregator that verifies financial accounts, is partnering with financial-accounting firm Verady Inc. to extend its reach to crypto assets. The idea of the new service is to serve wealth advisors, lenders, and fintech apps that enable investment.

And the need stems from the sheer number of consumers sitting on digital currency. "What we have seen is that consumers have assets in newer places" like crypto, notes Paul Diegelman, vice president of aggregation and verification at Brookfield, Wis.-based Fiserv.

Apparently, a lot of consumers do. "We verified 40 million people in the United States have assets in crypto," Diegelman says. "There could be more than 40 million." DT

WHEN P2P GETS COMPLICATED

The explosive popularity of peer-to-peer payments has led to increasing complexity in dispute resolution. Here are some suggested improvements.

BY **JACK BALDWIN**

Jack Baldwin is chairman of BHMI

FOR THE BETTER PART OF 40 YEARS, payment types and the industry's main players have remained relatively consistent. However, today's payments landscape is experiencing significant change due to the rapid adoption of digital and peer-to-peer payments.

Although this is an exciting time for the industry, payments-processing companies are facing new challenges because, though new digital platforms are providing slick and fast interfaces for users, certain back-office processes are lagging.

For example, how do consumers dispute a P2P transaction once it has occurred? This has become a significant challenge because disputing transactions in the P2P landscape is very different from disputing traditional card-based transactions.

Despite this challenge, there is no denying the growing popularity of P2P payments. Usage has been continuously rising and shows no signs of slowing.

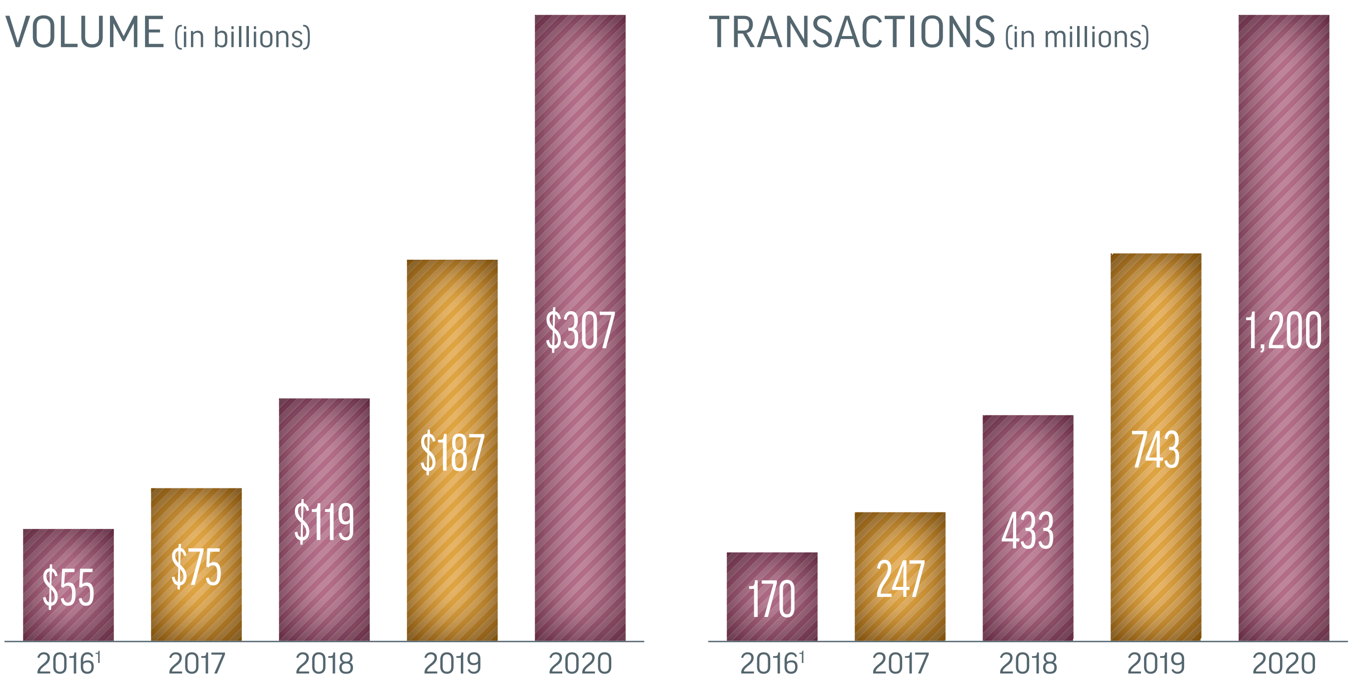
Zelle, the bank-owned P2P network operated by Early Warning Services, reported processing 1.2 billion transactions in 2020, a 58% increase over the prior year (chart, page 34). Venmo, the P2P mobile-phone app owned by PayPal, processed $159 billion in total payment volume for 2020, a 59% year-on-year increase.

Other players include Dwolla and Cash App, as well as new applications designed to run across The Clearing House's RTP payment rails. Based on current activity in the industry, it is anticipated that the number of P2P solutions and the level of usage will continue to grow at a rapid pace.

In addition, the functions and uses of P2P will continue to expand well beyond their initial use cases. Although commonly referred to as "person-to-person" or "peer-to-peer," these solutions are being increasingly used to pay businesses and are a popular method of transferring funds between an individual's own accounts.

Unsurprisingly, this has further exacerbated the issue of managing P2P disputes. More usage means more disputes.

ZELLE'S ZOOMING POPULARITY



1. Processed by Zelle banks. Network launched in 2017. Source: Zelle

A SERIOUS RISK

Today's numerous P2P services tend to take differing approaches to resolve P2P transactions that have been disputed. These can range from "doing nothing" (recommending the payer/payee resolve the matter directly) to performing various levels of payments research and forensics.

While terms and conditions may technically absolve P2P service providers of any responsibility, many still choose to get involved. This is often driven by a desire to maintain strong customer relationships—and to avoid any headline risk or social-media blowback. This is particularly true for the financial institution supporting the underlying account because the threat of a reputational hit can be very real.

While the consumer-facing P2P experience has made important strides forward, many supporting back-office processes have yet to keep pace. In turn, dispute-resolution routines typically follow the same timelines established for legacy payment methods.

The underlying ground rules and protections most consumers have come to expect with their debit/credit cards can also differ when it comes to P2P payments. For example, many of the checking-account terms and conditions users view as standard, like fraud protections, may not exist at all with P2P payments.

This can open the door to customer dissatisfaction, which can often be directed towards the customer's financial institution (even when the bank or credit union is not the provider of the P2P app).

Regardless of the details, disputes are a customer-service imperative and should have the same diligence and responsiveness applied as any other issue. For banks and credit unions, P2P disputes could be a serious risk to their reputation.

A COMPLICATING FACTOR

It is an inconvenient reality that payment-processing errors can—and do—occur. These may include posting to the wrong payee account, posting of an incorrect amount, duplicate payments, or the failure of a payment to post.

Note the importance of "posting" in that list, which highlights another complicating factor. All that really matters to most payees is that the transaction is reflected in their account and the funds are made available to them. Few users of these services realize that the actual funds settlement can occur behind the scenes as much as one to two days later via the automated clearing house network.


Baldwin

‘One surprising aspect about the management of P2P disputes is that the total time required to research and return disputed P2P funds is similar to that of traditional payment channels.’

Although there is little reason for most users to grasp such nuances (after all, the point of these products is to simplify life), they nonetheless increase the likelihood of back-end complications. For most P2P transactions, payer funds are drawn from bank accounts, although they may also be settled using balances kept on account in wallet-based systems like Venmo, Dwolla, and PayPal.

The dispute-resolution fine print for these wallets largely pushes responsibility for discrepancies onto the payer, absolving the networks for user error. Interestingly, only the bank-owned Zelle makes explicit reference to Regulation E in its terms and conditions, which typically governs transaction account and payment card disputes involving financial institutions.

One surprising aspect about the management of P2P disputes is that the total time required to research and return disputed P2P funds is similar to that of traditional payment channels. Even though a funds-transfer operation may occur in near real time, obtaining a reimbursement for an errored funds transfer can take weeks or months to complete.

SOME SUGGESTED CHANGES

As mentioned, this out-of-sync quality between payment processing and dispute processing is one area in need of significant improvement. Some changes that could facilitate this improvement include:

Procedures to shorten dispute-research time

One way to shorten overall dispute-resolution time is the adoption of procedures to decrease research time. This might include decreasing the amount of paperwork or reducing the number of steps to resolve dispute issues.

Increased use of computerized workflows to process disputes

Any formal set of procedures, like dispute processing, requires training. Depending on the complexity of procedures, training can be extensive. Training and resulting processing can be shortened by use of customized “intelligent” workflows that automatically walk disputes personnel through the correct processes. This might include screens that are automatically populated with data that is appropriate for the specific task at hand. In addition, data-entry fields can be automatically presented to only solicit and collect required information for the processing step under consideration.

Automated warnings and alerts

Because dispute procedures typically include assorted time windows for participants to complete their work, a computerized dispute system could automatically route warnings to supervisors noting that a processing time limit is about to be breached. Similarly, alerts can be issued when time windows have been reached. This can ensure that disputes are not forgotten or abandoned, improving quality and maintaining target times for completing dispute research.

Reduced manual processing

Increasing automated processing of disputes reduces the amount of manual processing that must be completed. This improves processing consistency, facilitates compliance with dispute procedures, and shortens dispute resolution. Used in combination with refocused dispute procedures, it may be possible to eliminate manual processing of certain dispute steps.

Increase integration with supporting systems

Supporting systems for dispute processing might include document generation, email distribution, fax transmissions, and gateways to other networks. Incorporating these additional supporting systems as inherent components of automated dispute processing further reduces the need for additional manual intervention and also reduces processing time.

These steps will shorten processing time from weeks or months to days, which would be a major advance in P2P dispute processing. DT

It's coming sooner than you think.

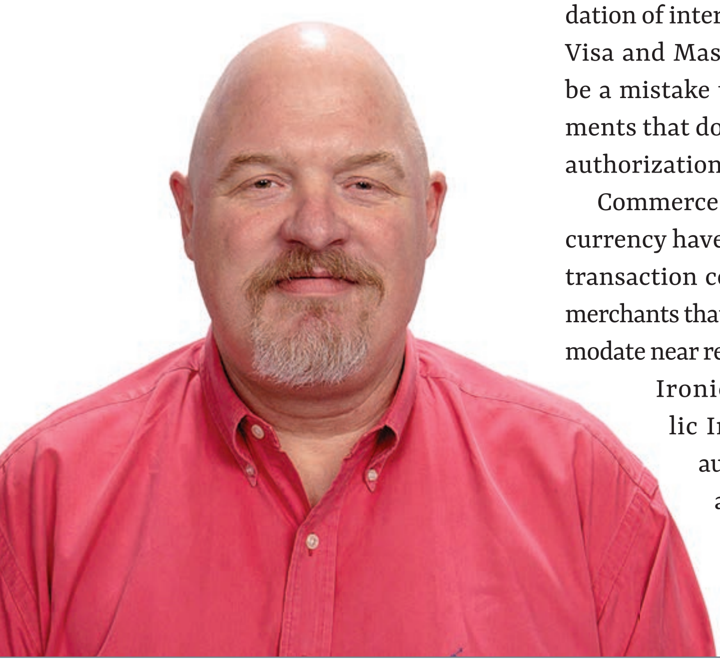
endpoint

WHY CRYPTO IS THE FUTURE

The case against it is mostly fallacious. The one for it is unavoidable.

BY **CLIFF GRAY**

Cliff Gray is a senior associate at The Strawhecker Group, Omaha, Neb.



BY THE LATE 1980S, MasterCard was removing humans from the authorization cycle, replacing them with modems. By the 1990s, the Internet was connecting the last mile to merchants, replacing modems with instant authorization. Will the 2020s be the decade when the payment ecosystems remove issuing banks from the process?

Many have long questioned the viability of cryptocurrency as a transaction medium and dismissed it as a volatile investment. For the moment, let's cast aside discussion of crypto as an investment. This article is about buying things with crypto instead of with cards.

There is no disputing that blockchain technologies have a long way to go before they can compete with sub-second authorizations, the foundation of international networks like Visa and MasterCard. But it would be a mistake to ignore market segments that do not require real-time authorization.

Commerce models using cryptocurrency have the potential to slash transaction costs and liabilities for merchants that can logistically accommodate near real-time authorizations.

Ironically, the same public Internet that reduced authorization times from a few seconds to what is effectively instantaneous also created vast new markets that don't require real-time authorization.

Consider e-commerce. So many of the things you used to buy in person you now just order from Amazon. Unless you are purchasing digital goods, Jeff Bezos is fine getting an approval long after you've logged off, just as long as it's before the next shipping cycle. Indeed, the hard-goods e-commerce market has very few use cases that require instant authorization.

Yes, when you're at the register at Kroger, the store needs to authorize your card right now. But when you order the same food on Amazon Fresh, the situation is different. Amazon can wait the minutes—or hours—it takes the blockchain to authenticate, reducing interchange and eliminating chargebacks.

As the consumer, you might get your confirmation email later than you would if you had used a credit card. But you would not care, if you even noticed. Your food will still be delivered the next morning.

LIKELY MARKETS

Indeed, plenty of market-segment behaviors don't require real-time authorization. Certainly, recurring transactions fit the bill, since the scheduled nature of the transaction inherently provides plenty of time to pre-validate the payment.

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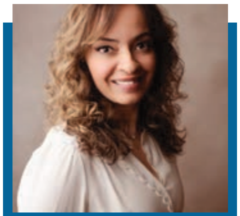
CONTACTLESS IS KING

If you're not offering contactless solutions or online ordering to your current book of business, what's holding you back?



By Angela Carranza,
Manager, Strategic Partnerships,
First American Payment Systems

As recently as 2018, contactless payment technology was in its infancy in the United States, with just 0.18%[1] of POS transactions being contactless. While safety fears surrounding the coronavirus quickly boosted the need for contactless solutions, it is convenience that continues to drive business and further demand for the technology.

Today, an estimated 38% of consumers believe a contactless payment function is a necessity for their payment cards. And major card issuers agree, as all have adopted contactless technology across their portfolio of products, allowing consumers to use their chip to tap and go.

BECOMING TECH SAVVY

These shifts in mindset and functionality are sending a clear message to business owners everywhere – consumer demand for e-commerce and contactless payment convenience has never been greater. Consider these findings from the Visa Back to Business Study: 2021 Outlook reports that 82% of SMBs have changed how they run their business, with 43% proactively selling products and services online, and more than 56% of consumers using contactless payments whenever possible in the first three months of 2021.

Is your payment partner keeping up?

First American offers numerous contactless payment solutions and has expanded its technology stack to include multiple ecommerce solutions. The ISOs that have embraced this technology are profiting.

DELIVERING VALUE THROUGH CONVENIENCE

The good news for merchants is that these solutions are affordable. Conversion is easy; most POS terminals can process contactless payments and building an online store with hosted payment forms is easy—no coding skills needed. Contactless transactions are quick, as much as 10 times faster than other payment methods. It's also a win for business owners, as they can serve customers wherever patrons are buying goods and services, and they can do so with less operating expense.

Now is the time for your ISO to get in front of business owners who have yet to adopt e-commerce and contactless payments. To do that well, and to keep the merchant with your ISO for years to come, takes much more than a one-call close. It requires a payment technology partner who delivers solutions that save money, save time, and make it as easy as possible for merchants to safely—and securely—sell goods and services.

First American is that partner. Let's talk

1. 2018 study by A.T. Kearney

Medical-cannabis dispensaries already heavily leverage pre-order staging. Accepting cryptocurrencies would not impact those flows, and would provide a realistic alternative to cash, arguably to a user base especially likely to be comfortable with spending crypto.

Foreign exchange, too, is shaping up as an intriguing use case. Unlike fiat currencies, cryptocurrencies have always been borderless, so, in and of themselves, they have no cost to exchange. The root cost of forex using cryptocurrency lies in converting it (back) to the fiat currency of choice, which is typically far cheaper than trading one fiat currency directly for another.

International merchants benefit from this decentralized finance model, as they don't have to worry about bank, network, or processor exchange fees between native currencies of the merchant and the buyer.

Now consider business-to-business commerce. Small average tickets, retail pricing, and exchanges mimicking interchange models are hindering crypto adoption in the small-merchant space so far, but B2B transactions offer a far more compelling play.

Enterprise stakeholders transact massive-dollar transactions and enjoy wholesale pricing, often as per-transaction only, no interchange applied. Modern standards like ISO 20022 are further simplifying B2B payments, finally merging payment-industry and electronic data interchange standards. Along the way, this trend accommodates cryptocurrency.

International business drivers are incorporating currencies like Cardano (ADA), Ripple (XRP), and Stellar Lumens (XLM) to better manage their forex processes. When Ford buys a million tires from Michelin, paying 5 basis points instead of 50 moves the needle all the way across the dial.

CRYPTO MYTHS

The volatility of cryptocurrencies is certainly a concern, but merchants have options to mitigate this risk. Stablecoins like Tether (USDT), Reserve (RSD), and USD Coin (USDC) anchor their value to a durable, unfluctuating asset like the U.S. dollar or gold, providing safe repositories for their settlement accounts.

Forward-thinking merchant strategies are blending stablecoins and accounts payable/accounts receivable procedures that reduce the need to convert to fiat currencies at all. National governments will also become significant drivers in this arena. Scotcoin (SCOT) represents itself as a nation-based currency meant to support social and moral good, leveraging the benefits of crypto to maximize contributions. Recently, El Salvador announced it will adopt Bitcoin as legal tender.

Some myths about cryptocurrency remain a major hurdle to commercial standardization. Detractors speak to the anonymity of cryptocurrency, its association with criminal operations like Silk Road, and its use in ransomware attacks. These facts have exacerbated the perception of cryptocurrency as being designed for nefarious purposes.

It's a fair point. Crypto can make things easy for the bad guys. The good news is that the blockchain and strict know-your-customer procedures render most of these arguments moot. As a public register that can be queried in real time for transaction detail, the blockchain makes it technically simple to set policies and controls. If the cryptocurrency presented for a transaction doesn't have a pristine past and a verifiable person attached, it would be declined.

Imagine the ability to query Visa's authorization logs in real time. For the life of a card. For free.

Decentralized finance models and commerce-tuned blockchains will help to accelerate acceptance as cryptocurrencies gain credibility as purchasing methods. But even now, there is no shortage of use cases that legitimize cryptocurrency commerce models, if not make them preferable. DT

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