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Trends in the Electronic Exchange of Value

Into the METAVERSE

Processors are hoping to tap commerce, and hence payments, in the world of virtual reality. But as the metaverse keeps evolving, what kind of payoff can they expect?

Volume Twenty, Number Three • DigitalTransactions.net • March 2023

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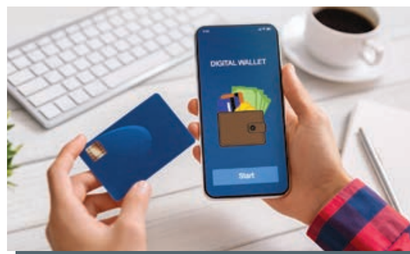

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the gimlet eye

A FAST RECKONING

WOW, THAT WAS FAST. Last month, we ran a cover story that reviewed the track record of the three huge processor mergers that all took place within weeks of each other in 2019. With the perspective of more than three years, we thought the time had come to size up the combinations that shook the industry that year—Fiserv and First Data, FIS and Worldpay, and Global Payments and TSYS. But we couldn't have predicted how soon our headline, "A Mixed Payoff for the Megamergers," would take on a double meaning.

Within days of that issue hitting the payments industry's mailboxes, FIS announced its plans to spin off Worldpay within 12 months, effectively undoing the combination it had laid out $43 billion to bring about seemingly yesterday. It was not only the most expensive of the trio of mergers, it was also arguably the most ambitious. It brought to FIS—until 2019 a company concentrating chiefly on services for banks and the credit markets—one of the country's biggest providers of processing platforms, transforming the Florida company overnight.

Now, it's over—and talk about a "mixed payoff." Worldpay will do well as an independent company and is likely in any case to be re-acquired, most likely by an entity that will know what to do with it. As for FIS, the problem—as laid out by the company in a hastily scheduled conference call—was one of capital allocation, the top brass said. The company just couldn't afford to help its merchant solutions unit grow through further acquisitions, explained chief executive Stephanie Ferris, herself a former Worldpay executive.

So what, many observers may ask, was the point of that enormous merger? Some combinations surely fail to work out as planned, but for one to dissolve as quickly at this one is, to put it mildly, disconcerting. It's true that, as the deal was structured back in 2019, only 10% of the purchase price for Worldpay was in cash, with the remainder paid in stock. But that still means FIS laid out $4.3 billion in cash, or 45% of the company's estimated 2022 revenue.

Still, a mixed verdict on this trio of big-time mergers isn't necessarily bound to yield a bad score overall. Fiserv seems to be thriving on its $22-billion acquisition of First Data, a deal very similar to the FIS-Worldpay combo, if somewhat smaller. Indeed, it's doing well enough that Fiserv in December rewarded its chairman and CEO, Frank Bisignano, with a five-year contract to continue in that role. Similarly, Global has digested TSYS quite well.

As we said—a mixed verdict. To companies looking to get in this game, think hard.

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FIS UNWINDS ITS $43-BILLION WORLDPAY DEAL

In the summer of 2019, the giant processor FIS Inc. massively expanded its merchant-acquiring business with its deal for Worldpay. The $43-billion acquisition was supposed to hand FIS a huge advantage in economies of scale and let it leapfrog rivals like Fiserv Inc., which itself had just completed a $22-billion merger with First Data Corp.

Last month, that whole rationale fell apart as FIS announced it will spin off Worldpay as an independent, publicly held company.

In a quarterly earnings call held on short notice, top management at FIS confirmed the Jacksonville, Fla. -based company plans to spin off its merchant solutions unit—which is composed mostly of Worldpay—within the next 12 months. The move follows a sweeping review at FIS that concluded the company could not invest adequately in the merchant unit to spark growth, top management said during the call.

The decision also follows by mere months the company's move to replace its long-time chief executive, Gary Norcross, with Stephanie Ferris, who had been a top official at Worldpay and had come to FIS as a result of the merger.

Wall Street reacted negatively to news of the spin-off. Its shares were trading just shy of $64 per share an hour after the call, down 15% from the closing price the previous business day. They were still priced in the high $60s later in the week.

The decision to divest the merchant unit follows a strategic review conducted after Ferris took over on Jan. 1 in the management reshuffling, which the company had announced in October. Before her promotion, Ferris had been serving as chief operating officer.

The reasons for the spinoff "really came down to capital allocation," Ferris told analysts on the call, in which company officials also reviewed fourth-quarter 2022 and full-year results. "The payments market needs a lot more [growth by acquisition] than capital markets and banking," Ferris said, referring to FIS's other two business units.

Once top management concluded it couldn't give the merchant unit the capital it needed for growth, she said, it determined to follow through with the divestiture. "We are confident the Worldpay business can return to growth as an independent business," she added.

FIS also announced Charles Drucker, a former CEO of Worldpay, will serve as an advisor during the process to divest the merchant solutions unit and will also return as CEO of the business after the process is completed. Drucker is a partner at New York City-based Artius Capital.

The spin-off represents a stunning reversal of what many observers at

FIS'S TOUGH YEAR

(Figures in millions)

	2022	2021
Revenue	$14,528	$13,877
Free Cash Flow	$2,919	$3,553
Operating Income	(16,119)*	$1,055

*Primarily the result of asset impairments

Source: FIS

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the time of the Worldpay deal had seen as an inevitable consolidation trend in processing. Besides the FIS/Worldpay and Fiserv/First Data deals, Global Payments acquired Total System Services around the same time in a $21.5-billion all-stock deal ("In the Wake of the Mega-Mergers, March 2020).

Still, the banking unit is FIS's largest division, generating $1.72 billion in revenue in the fourth quarter, or 46% of the company's total revenue of $3.71 billion. Capital markets accounted for $771 million in revenue for the quarter, with merchant solutions contributing $1.18 billion. Revenue for the company overall was up only slightly for the quarter compared to the same quarter in 2021.

Still, FIS isn't through with Worldpay, Ferris said. "We will be working out a commercial relationship and incentives on both sides to cross-sell each other's products," she told the analysts.

The decision to spin off the merchant solutions unit surprised observers who recall the massive investment FIS made in the acquiring business a few short years ago, as well as its rationale at the time.

"In 2019, FIS thought acquiring Worldpay was strategic, that there would be synergies with its other processing assets, that it would boost FIS's otherwise anemic organic growth, and that merchant acquiring and processing would be easier to expand abroad than its other processing and network businesses," notes Eric Grover, principal at Minden, Nev.-based consultancy Intrepid Ventures, in an email message. "The rationale made sense. Apparently however, it hasn't panned out."

But the move to let go of the Worldpay-led unit will benefit both FIS and the merchant solutions unit, Ferris argued, as FIS will be in a better position to execute strategic acquisitions. "Over the past few years, our inability to use M&A to put our best products forward" in merchant solutions was FIS's biggest problem, she said.

—John Stewart

MONTHLY MERCHANT METRIC

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

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

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

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

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

Account Attrition and Growth	
Beginning	100.0%
Account Attrition	-20.6%
New Accounts Added	16.5%
Ending	95.9%

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HOW MUSK MAY BE ENGINEERING A RETURN TO PAYMENTS VIA TWITTER

Elon Musk helped found what became PayPal back at the turn of the century, and now it appears he is moving on an ambition he outlined months ago to add a payments feature to Twitter, the social-media platform he bought for $44 billion in October.

The San Francisco-based company has begun working on software and applying for licenses across the United States to support the service, according to a story posted late in January by *The Financial Times*, which cited two sources familiar with the initiative. Twitter could not be reached for comment.

The new platform would process familiar fiat transactions but would also be capable of handling cryptocurrency, according to the FT story, which cited two sources. Esther Crawford, director of product management at Twitter, is heading up the initiative, according to reports.

Crawford came to the company in December 2020 when Twitter bought Squad, of which she was chief executive. Squad specialized in arranging screen sharing and group viewing of videos, according to Crawford's LinkedIn profile.

Twitter expects the payments service to generate significant revenue, though not immediately and despite competition with established payments apps such as Apple Pay that have been in the market for years.

While he was planning last spring to acquire the company, Musk pre-

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sented estimates to investors indicating that a payments service intertwined with a social-media platform could take in roughly $1.3 billion in revenue annually by 2028, according to earlier reporting by *The New York Times*, though it isn't clear what the fees would be and who would pay them.

Observers say it's not surprising Musk would push for a payments service, given his background and pressure to open more sources of revenue for Twitter. The open question is whether users will adopt payments via Twitter in preference to services they may already use, such as PayPal or card-on-file with a merchant, says Thad Peterson, strategic advisor at financial-services consultancy Aite-Novarica Group.

"Unless there is a significant difference in the purchase experience using this capability, be it lower friction, lower cost, or something else, it's hard to envision a situation where a consumer would choose a payment type that's only available on one social-media platform, especially when that platform isn't as commerce-focused as others, like Facebook and Instagram," says Peterson in an email message to *Digital Transactions*.

Twitter had 368 million users worldwide at the end of 2022, according to figures from online data source bankmycell.com, a number that grew almost 18% last year. The site, however, expects the user base to dwindle to 354 million by the end of this year. Monthly daily users came to 238 million as of last year's second quarter, the site says.

Musk envisions peer-to-peer payments, savings accounts, and debit cards as components of a so-called "everything app" for Twitter, according to the FT report.

He launched a payments service in 1999 called X.com, which merged with other players to form PayPal in 2001, though Musk left in 2000. EBay purchased the company for $1.5 billion in 2002, and in 2015 it went public. Musk acquired the X.com name from PayPal two years later.

Observers point out that the Twitter platform is no stranger to payments transactions, though that activity is typically initiated by users who want to pay others on the system. Indeed, entrepreneurs over the years have sometimes leveraged Twitter's reach to support payments startups, though without much success.

One notable example was Twitpay Inc., which started out in 2008 managing peer-to-peer transactions for users on Twitter but within two years branched into other payment types after failing to gain traction.

—John Stewart

PAYMENT FEES RISE, BUT SATISFACTION DROPS

Merchant satisfaction with payment processors has dwindled in the past year, as sellers cope with the impact of inflation on their processing costs as well as on their business in general, according to J.D. Power's 2023 U.S. Merchant Services Satisfaction Study.

The merchant satisfaction score for merchant-services providers totaled 853, down from 859 a year ago, according to J.D. Power, which surveyed 4,825 small-business customers of merchant-services providers from September through November 2022. The firm uses a 1,000-point scale to determine its scores.

Other factors that impacted this year's score include a preponderance of declined cards; issues with payments initiated via tap-and-pay, card dipping, or swiping the card through the terminal; and frozen POS terminal screens. Indeed, just 43% of transactions are completed without assistance when consumers use their credit or debit cards to pay, and just 47% of e-commerce transactions are completed without assistance, the Power study found.

"A lot of the dissatisfaction … has to do with the impact inflation is having on [merchants'] business and changes in the way people are paying the past year, which is in-person," says John Cabell, managing director of payments intelligence at J.D. Power. "When you factor in the other issues merchants are encountering, it leads to an increase in merchant frustration."

Restaurants and small businesses with annual revenues less than $1 million posted the biggest drop in satisfaction of any merchant category surveyed, a year-over-year 18-point decline. "These merchants don't generate enough revenue to always have an account manager

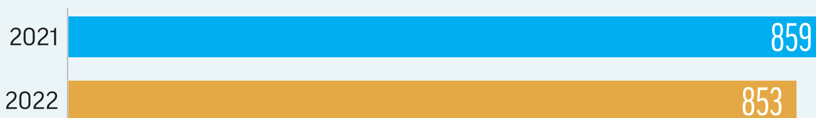
assigned by the payment provider, which leaves them on their own," Cabell says.

Restaurant and other food-industry businesses also say they receive less support from their merchant-service providers when it comes to understanding payment processing and fee structure, according to Cabell. Plus, they display lower satisfaction with the cost of service for in-person payment methods than they do with takeout/delivery e-commerce platforms.

When it comes to costs, 66% of small-business owners say inflation is having a severe or major impact on their businesses this year, and many say they are still fighting supply-chain issues and challenges related to the pandemic, Cabell adds.

CAN'T GET MORE SATISFACTION

(Overall merchant satisfaction score for merchant service providers)



Source: J.D. Power's 2023 U.S. Merchant Services Satisfaction Study

To offset inflationary pressures and issues arising at the point-of-sale, merchant-service providers should demonstrate value through service and support and provide high-quality technology that works every time, Cabell says.

One bright spot in the survey results is that the satisfaction score among businesses that contact merchant-services providers via mobile apps, video conferencing, and the MSPs' Web sites—rather than through email, phone calls to account representatives, or interactive voice response—is 21 points higher than last year. "These merchants report faster resolution [of service issues]," says Cabell.

When it comes to individual rankings of merchant-service providers, Bank of America Merchant Services topped the list with a score of 886, followed by Square at 873, and Pay-Safe Ltd. at 867 (chart).

–Peter Lucas

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A RENAISSANCE FOR PHYSICAL CASH

BY GIDEON SAMID
gideon@bitmint.com

IF YOU LOOK beyond the horizon, you'll see that physical money is gearing up for a roaring comeback. There are two reasons for this. The first reason is the stubborn requirement for the newly designed central bank digital currencies: the requirement of trading continuity.

A material coin does not vanish when communication is disrupted. But the coins and banknotes of today have a very low denomination ceiling. There are no $1000 coins and no $100,000 banknotes. This limitation is imposed by technology. High-denomination coins encourage criminals to invest in counterfeiting. For trade with physical money to flow, it is necessary for the payee to be able to authenticate the payment on the fly. Counterfeiting technology can fool enough people. So the only way to stop counterfeiting is to limit the value of a physical coin or banknote to less than the cost of counterfeiting.

Modern $100 bills feature several sophisticated security measures to maintain a tolerable balance with counterfeiting, but we don't yet have the technology to go higher, as 3D printing technology serves both the mint and the counterfeiter. But this balance is about to tilt.

Different materials have different electrical conductivity. A lump of matter built from a random selection of materials of varying conductivity will yield a random conductivity reading taken from two random points on the lump. Millions of conductivity measurements can be carried out over millions of groups of points on such a lump.

What we cannot do is to take millions of conductivity readings and build a lump of matter that would comply with these millions of measurements. A given randomized input can mint a physical coin with millions of randomized measurements, but given these millions of randomized measurements, it is impossible to build a coin to suit.

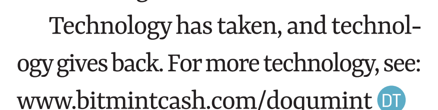
Now, borrowing the Bitcoin idea of a public ledger, a mint will mint a coin denominated for, say, $5,000, assign a serial number to this coin, and publish a distributed ledger listing, say, thousands of conductivity measurements of the particular coin. A payee who downloads this ledger when the Internet is up and running will be able to measure the claimed coin and compare these measurements to the listing on the downloaded public ledger. If the readings match, the coin is authentic.

Same for wallets. A payee could readily authenticate a claimed physical wallet and trust the digital money it releases to the payee.

Unlike the prevailing off-line trading solutions, this randomness-based idea offers instant settlement. The moment the payee takes possession of this $10,000 coin, the money moves. While it lacks the convenience of online trading, this solution is durable, and can sustain society with payment continuity even when the Internet remains disrupted for a long time.

And one more thing: When the Internet is on, the mint can remove a given coin from that ledger and call upon the current owner to come forth and identify himself or herself—and, if this is a million-dollar coin, also explain how he or she got it. This recall option is a new twist for physical cash and a knockout punch to the underground economy.

A whole genre of books, obituaries for physical cash, will have to be recalled. People are going to keep carrying coins in their pockets and pay with physical cash, even while the Internet is on. A physical coin transacts without government surveillance and with complete mutual anonymity, if so desired, between payor and payee. That's why privacy-driven physical cash is coming back with a vengeance.



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HOW TO REGULATE EARNED WAGE ACCESS

BY BEN JACKSON
bjackson@ipa.org

THE EARNED-WAGE access (EWA) industry is at an inflection point, and regulators and legislators will need to think holistically to avoid hurting working Americans.

EWA refers to products that enable workers to access a portion of their earnings independently of their pay cycle. So, rather than waiting for a paycheck at the end of two weeks or the end of a month, workers can get part of their pay when they need money.

I wrote in April last year about how EWA products could help solve problems caused by income volatility. Research published since then bolsters this argument. In July, the Financial Health Network published the results of a survey of 1,738 low-wage workers. It reported that 37% say they were "worried about our food running out before getting money to buy more." The phrasing seems to indicate a mismatch between when they earned the money and when they needed to buy food. EWA offers a way to meet that need.

Additionally, in gathering information from its EWA members, the IPA has collated research that shows that on average 63% of EWA users say that it allows them to reduce their use of payday loans, and 55% say they overdraft their bank accounts less often.

Despite these advantages, consumer advocates argue that EWA products are just payday loans by another name. They have encouraged legislators and regulators to ban them.

The industry is at an inflection point. Right now, legislation is moving in at least six states, including Kansas, New York, and Virginia. The bills vary in the approaches they take, but much of the debate seems to hinge on the two primary distribution models of EWA.

In the first model, the EWA provider works directly with employers' payroll systems to determine how much a customer earns and how much pay the user can access. The integration with the employer helps ensure that taxes, benefits, and garnishments are automatically factored into the calculation.

The second model is direct to consumer, where the worker provides information about income and work hours. Then the provider lets workers access part of their earnings without involving the employer.

Some draft legislation appears to favor one model over the other, while other bills seem to make it more difficult for EWA companies to operate at all. As all of this is happening, the Consumer Financial Protection Bureau is studying the industry.

As I've noted, EWA can provide tremendous benefits for low-income people by helping them smooth out the volatility of their income and allowing them to access money when they need it. This can save them costly borrowing and late fees.

So, any legislation or regulation should make sure that it allows EWA companies to continue operating profitably to deliver these benefits to consumers.

As a general principle, any controls placed on EWA should focus on consumer harm and benefit, rather than on the business model. It might be easy to take the view that employers shouldn't be sharing payroll data with outside companies. But that could choke off the employer-based model. Or, the direct-to-consumer model could come under fire for not working with the employer to get a fuller picture of things like benefits withholding.

Both models, however, offer advantages and should be allowed to exist. Employer-based models offer consumers an easier path to proving their income. Direct-to-consumer models offer benefits to workers whose employers don't offer earned-wage access.

Consumer protection is critical, but governments should avoid protecting their citizens so much from one threat that they end up in greater financial danger from another, namely, income volatility. DT

acquiring

DOING TRANSIT PAYMENTS RIGHT

These days, reaping the benefits of account based ticketing requires knowledge, vision, and planning.

BY **DAVE ROAT**

Dave Roat is strategy director at Cubic Transportation Systems.

ACCOUNT BASED TICKETING (ABT) is not a new technology in the transportation industry. In fact, smart ticketing—from card-based to account-based—has been around for decades, dating back to the 1980s. The obvious appeal to riders initially was the simplicity the technology brought, which improved the overall customer experience while enabling complex fare policies to help agencies collect and protect revenue.

Today, we are embarking on the evolution of the account-based ticketing system into one that not only simplifies life but also leverages innovation and technology to deliver a more seamless and equitable experience that meets the needs of all customers.

With burgeoning populations and more people turning to public transportation, the need for fully integrated ABT implementations, and the benefits they bring, continues to grow around the world.

The White House's Infrastructure Investment and Jobs Act, announced last year, includes $39 billion of new investment to modernize transit and improve accessibility for the elderly and people with disabilities. The Act embraces more than 24,000 buses, 5,000 rail cars, 200 stations, and thousands of miles of track. Now, ABT opens the door to equitable, multimodal access to public transportation for all journey types and all people.

MULTIPLE BENEFITS

ABT enables customers to travel using secure travel media. This includes anything that can be machine-read and securely authenticated, such as wearables, smart cards, barcodes, or contactless bank cards, also known as contactless EMV.

Each travel medium is associated with an account in the back-office system. When used at a validator or gate, the information is sent to this system to determine the fare charges that need to be made.

A true account-based system architecture is designed to keep pace with rapidly evolving technologies and the demand for multimodal integration.

Instead of storing information on the traveler's smart card, account-based systems move the intelligence formerly stored on fare devices in the field to the back office, along with fare policy, products, and pricing.

This makes it easier for agencies to manage changes and provides greater security and convenience for customers, who are able to manage their accounts online.

On the other hand, piecemeal procurements, where agencies around the globe purchase devices or parts of the back-office services separately, result in a completely fragmented user experience. This lack of integration can cause confusion, frustration, and distrust amongst passengers, which could ultimately lead to people avoiding public transit. In the end, the agency loses ridership and isn't able to accomplish the goals they set in place for ABT.

Simplifying front-office validation devices, ABT removes the need for complex reference data, such as fare tables and transfer configuration. Instead, the validation devices simply need to be able to read and authenticate a travel medium alongside storing a list of cards not permitted for travel. One thing to note is that some solutions do require that a minimal amount of data be written to the token to help manage payment risk.

ABT back offices are typically robust cloud-hosted systems that can offer customer functionality not viable with traditional smart card systems. By moving complex processing—such as trip and journey construction, fare determination, and best-value functionality—to the back office, ABT can offer multiple benefits to customers. These include complex capping calculations, capping over longer periods (for example, weekly or monthly), and customer-leniency processes, such as automatic trip correction.

Importantly, ABT can remove the need for customers to purchase a ticket in advance of travel. Capable of high-speed best-value calculations, ABT can quickly identify the cheapest possible combinations of fares, capping and assessing these for each customer using their account details, previous journeys, and any pre-purchase products they have to charge them an accurate fare (if any), without the customer ever needing to worry about having the right ticket.

Smart ticketing was designed to make customers' journeys easier, removing decisions and worries about incorrect tickets. Providing a consistent, integrated means of paying for these services has proven to increase ridership.

KNOW YOUR GOALS

Let's dispel the myth that ABT is expensive. The truth is that it can be costly if it's done incorrectly, for example, with a disjointed integration. Buying one component now, then purchasing add-on components down the road, will only cost more money in the long run. So it's important to know what your goals are first before diving into an ABT implementation.

Agencies are sometimes limited by budgetary constraints or are forced to take a piecemeal approach because they aren't allowed to sole-source with a single vendor. Some agencies just want more agility to introduce new capabilities as they are invented. However, this disjointed approach can lead to inefficiency and a loss on investments.

In fact, an ABT solution can typically work with travel media—including contactless smart cards, barcodes (printed on paper or displayed on a smart phone screen), contactless payment cards (EMV), and mobile devices—that can be authenticated and accepted by validation devices, enabling agencies to minimize the

Roat

Roat: "The first objective must be to consider all travelers and their needs—not just those with a smart phone or bank card."

dependencies between the ABT back office and the front-office validation devices.

This makes it easier to introduce and accept new forms of travel media in the future, such as biometrics, location awareness, and ultra wideband, without making significant changes to the back office.

New York City's public transportation system runs 24/7, accounting for one in every three users of mass transit in the United States. The New York subway system is one of the largest rapid-transit systems in the world, with 472 stations in operation. The New York Metropolitan Transportation Authority (MTA) serves 8.1 million customers per day.

However, New York's transit system and its fare-payment infrastructure have been aging rapidly. Until recently, some of the equipment dated back to the 1930s and lacked modern functionality such as the ability to pay for fares with modern payment options or check-ride history. New Yorkers faced multiple obstacles when transferring between modes and encountering different payment and ticketing systems.

As a result, the MTA upgraded the fare-payment system on the city's subways, buses, and trains with a modern system. The system now offers riders absolute freedom when it comes to paying for trips. New Yorkers can take advantage of the more traditional agency-issued smart cards, open payments, and digital wallets (with virtual bank cards within the smart phone wallet) at the bus and turnstile.

The project scope also includes a traveler app, expanded retail network solution, customer call center and mobile ticketing, as well

as replacement of existing MetroCard vending machines and rail-ticket vending machines with universal, configurable machines capable of handling different types of fare media.

New York City's ABT system supports future integration with other account-based fare-payment systems, offering cities, regions, and states a holistic, fully scalable solution for regional transit and surface-transport management. The solution also provides transit authorities the ability to influence traveler behavior across transit modes and support their public-equity and sustainability goals in a way that wasn't possible before.

In another example, Chicago is home to the second-largest public-transit system in the United States, covering the city and 35 neighboring communities. In addition to the Chicago Transit Authority, regional transit services are also provided by partner agencies Metra commuter rail and Pace suburban bus, both of which connect with CTA bus and rail in numerous locations throughout the area.

The CTA faced a dilemma with its 20-year-old fare-payment system. Not only did obsolescence issues make it difficult and costly to maintain, but the aging system also didn't have the technology to meet legislative requirements for unifying the region's three major agencies on a single system by 2015.

With ABT, all travelers now have a one-stop app to manage their trips, make payments, and receive real-time alerts across all public transit services in the Chicago region. These features allow the agency to meet its goals of modernizing the fare-payment system and maximizing convenience and account security for its customers.

FORESIGHT AND PLANNING

The various types of ABT, and the crowded market of vendors that claim to offer ABT, have created confusion across the public transportation industry. There are many misconceptions and myths tied to ABT and so-called variations of ABT. Despite the relative maturity of ABT and contactless EMV acceptance in transit, confusion still exists within the transit industry.

It's also important to note that not all account-based systems are created equal. The first objective must be to consider all travelers and their needs—not just those with a smart phone or bank card. Once these needs are defined, agencies have the potential to decommission legacy ticketing systems and minimize cost duplication, generating unrecognized value in the process.

The agencies that will reap the benefits of ABT are those that have a complete understanding of what it is and a strategic plan for a fully integrated implementation. This foresight and planning will help agencies prepare for future growth and create a better, more seamless riding experience for travelers everywhere. DT

strategies

WHAT'S IN YOUR WALLET?

Whatever it is, seven big banks hope consumers will prefer their new app instead—which has no name and about which there are few details.

BY KEVIN WOODWARD

THE SEVEN BIG banks that own Early Warning Services LLC—operator of the Zelle payments network—are hoping they can make inroads with a new digital wallet. It's a hotly competitive online arena that already features a number of powerhouse players that are feasting on a business forever lifted by the Covid 19 pandemic. Now, these banks, through Early Warning, want their piece of the action.

What's their proposal? Currently all that's known is what's been published on the Early Warning Web site and in a recent article in *The Wall Street Journal*. The wallet will be linked to credit and debit cards, but only those bearing Mastercard Inc. or Visa Inc. marks. Other card networks could be added later on. Consumers can then use these cards to pay online using the wallet, but they won't have to manually add the card details. A token will be provided.

The banks involved in the wallet are Wells Fargo & Co., Bank of America Corp., JPMorgan Chase & Co., Capital One Financial Corp., PNC Financial Services Group Inc., U.S. Bancorp, and Truist Financial Corp.

Early Warning has disclosed very little about the project, news of which emerged Jan. 23. The Scottsdale, Ariz.-based company did not respond to a *Digital Transactions* inquiry. On its Web site, Early Warning says the wallet will initially include approximately 150 million credit and debit cards from participating issuers.

The company also placed James Anderson—a former Mastercard executive who had worked on the brand's Digital Enablement Service (MDES), which provides tokenized card credentials to mobile devices—in charge of developing the new wallet.

Early Warning already has begun its outreach, inviting attendees at the Merchant Advisory Group's 2023 Mid-Year Conference to book a meeting to discuss the wallet.

'TOO LITTLE, TOO LATE?'

Assessing the potential for this new digital wallet, albeit with few details, yields a general sense of what it is the

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banks want to achieve and the role its uniqueness will have in potentially attracting consumers and merchants.

Some observers say the product could have strengths, but it's coming late to a crowded party. "Is this too little, too late by the big banks to keep up with Apple and Google?" asks Emmett Higdon, director of digital banking at Javelin Strategy & Research, a payments advisory firm and part of Livonia, Mich.-based Escalent Inc. "No. But it's a huge uphill climb for them. The biggest hurdle is simply getting acceptance."

That means merchant acceptance and consumer acceptance. The new wallet will have its challenges in building a user base. PayPal Holdings Inc.'s digital wallet has 435 million active users and Apple Inc.'s Apple Pay is projected to reach 48.7 million users in 2023, according to a forecast from research firm Insider Intelligence. Google Pay has an estimated 25 million users, according to a report on Business.com.

Though some may argue merchant acceptance will drive consumers to get the wallet, and consumer usage will spur merchant acceptance, acceptance by both will be essential.

Higdon suggests adoption will start with merchants, and for that to happen the new wallet will have to offer something unique. For a wallet backed by big banks, and by the issuers of the initial set of credit and debit cards enrolled in it, the distinction could be the product's economics, he says.

"What's the sales pitch to merchants? Is it carrying the same interchange rates?" Higdon asks. "Day one, if those economics are exactly or virtually the same [as typical card transactions] there is little incentive for merchants to go out of their way to support a new wallet."

The EWS wallet also will have to ensure the consumer experience is interesting and has a "cool" factor. The banks could play to their strengths of tighter integration and the ability to issue virtual cards with ease, Higdon theorizes.

The potential for payment directly from a consumer's checking account is there, too, he says. Whether the new EWS wallet will remain solely card based or delve into real-time payments is not known. Should the latter happen, it could present issues with the card networks and with how to manage the relationships between issuer and network, Higdon suggests.

If the EWS wallet can price transactions at less cost to merchants, it will have a unique advantage, especially if one day it might bypass interchange or reduce it. "Now they have a magic bullet for merchant acceptance," he says. "Lacking that on day one is an enormous uphill climb."

'A STEEP HILL'

Gaining consumer acceptance will be just as important, if not more so. Success, says David Schiff, a senior partner of financial services at West Monroe Partners LLC, "has to be driven by customer adoption first and merchant adoption second"—an argument that flips the one Higdon makes.

Citing the adoption model of Apple Pay, Schiff says many merchants initially resisted accepting it, but customers kept asking for it and Apple Pay acceptance eventually became a *de facto* choice for merchants.

The consumer onboarding process will have to be seamless. *The Journal* reported a likely scenario might involve asking consumers to type their email addresses on a merchant's checkout page. Early Warning would be pinged, using connections to banks, to identify which of the consumer's cards can be loaded into the wallet. The consumer would then select a card to use if he or she wanted to check out with the Early Warning wallet.

Veteran payments experts express skepticism about the latest wallet, even if backed by major banks

Cohen

Cohen: "Good luck to those taking on Apple and Google in attempting to dominate the market for digital wallets."

Poswolsky

> Poswolsky: The big problem for the banks is developing the wallet just to hold off nonbank apps.

and Early Warning. “Good luck to those taking on Apple and Google in attempting to dominate the market for digital wallets or winning the race for adoption of the [financial institutions’] current footprint,” says Greg Cohen, chairman and chief executive of Fortis, a Novi, Mich.-based payments provider. “I applaud the effort and in some way am rooting for the underdog and the greater competition, but it is a steep hill to climb.”

The big problem for the banks is developing the wallet just to hold off any disintermediation effects they may be experiencing or could face from nonbank apps, says Dan Poswolsky, head of product for Curve U.S., a fintech. Poswolsky also was part of Chase Pay, a payment service from JPMorgan Chase & Co. that sought to get Chase customers to make transactions using its own wallet.

When Chase Pay launched in 2015, part of what Poswolsky calls the “magical” experience was paying with a Chase credential and never exposing the card information. “The value for the merchant was better data and a decrease in acceptance costs,” he says.

Yet another recent wallet effort, he warns, could serve as an example for the Early Warning engineers to avoid. Based on publicly available information as of early February, he says, the new wallet could repeat the Softcard outcome. Softcard was a digital wallet operated by three wireless carriers that failed to gain traction. Google acquired most of its assets in 2015.

“They tried to do a similar thing,” Poswolsky says. “They didn’t want to be disintermediated.”

One of Softcard’s issues was that the user experience lacked a “magical” experience. “If anything, it made it harder for customers to pay,” he says.

So far, the Early Warning wallet experience appears to mimic that, he adds. “The experience they’ve announced is mundane and dead on arrival,” he says.

That’s a common viewpoint. “It’s hard to see, based on what little information has come out, what they view as the differentiated feature,” West Monroe’s Schiff says. “Right now, it feels like an early-stage, ‘We’re still relevant,’ play. They have to look to differentiate what will benefit the customer and consumer as well as the merchant.”

NO NEED?

It’s similar for Patricia Hewitt, head of PG Research & Advisory, a Savannah, Ga.-based consultancy. “There’s not a problem they’re trying to solve,” Hewitt says. “They’re not solving the problem of trust. They’re not solving the problem of being able to use your credentials online.”

The problem Early Warning is solving, in her estimation, is the problem of transaction activity outside of its ecosystem. “They definitely see PayPal as a main competitor,” she says. “There is no need for another trusted payment method.”

In the end, the new wallet’s fate will come down to a message about what makes it unique. A robust user experience will help. “Arguably, PayPal is the best experience in the online space today,” Javelin’s Higdon says. “Who stands to lose the most in this effort is probably PayPal.” That means a tighter integration into a consumer’s existing bank account and more digital banking connections could benefit the new wallet, he says.

For consumers, though, the new wallet will be confusing, Higdon predicts. “There will be a direct comparison to what’s already out there.”

For merchants, the question they’ll ask is how it will help grow their businesses or how it could improve the economics of payment acceptance, Higdon says. He adds that, while consumers can become interested in new technology, it will take actual merchant support for the new wallet to grow. DT

Into the METAVERSE

Processors are hoping to tap commerce, and hence payments, in the world of virtual reality. But as the metaverse keeps evolving, what kind of payoff can they expect?

BY PETER LUCAS

If you're aware of the metaverse but are not exactly sure what it is and how commerce in it will work, you're far from alone.

Is the metaverse a gaming platform that combines social media and virtual and augmented reality to enable users to engage digitally? Or is it the next iteration of the Internet, an immersive, virtual 3D world where consumers can create avatars of themselves that can shop, attend concerts, have access to banking services, and purchase virtual real estate, in addition to interacting with others?

In actuality, the metaverse is a combination of all those things. But above all it's a virtual alternative to the physical world where consumers, through a virtual "self" called an avatar, conduct commerce and other activities that mirror the physical world.

The combination of those attributes, and the virtual world's potential to become a disruptive technology platform that can impact the virtual and physical worlds, are what has drawn tech companies to invest in creating their own metaverses. And it's enticing retailers and financial institutions to set up shop in the metaverse.

Already, several prominent retailers such as Tommy Hilfiger, Louis Vuitton, Nike, and Gucci have opened metaverse stores to capitalize on the commerce taking place beyond the purchase of games or game tokens.

From a retail perspective, the most common goods being sold in the metaverse include digital fashion items for users' avatars, such as clothing or accessories, along with digital art, according to Dani Rutz, a senior research analyst at The Strawhecker Group, an Omaha, Neb.-based payments researcher and consultancy.

Other unique offerings that generate commerce include live events, such as fashion shows or concerts, and tickets to real-life events.

"The metaverse provides a more immersive shopping experience for consumers," says Rutz. "Within this context, large retailers are courting affluent demographics and can advertise a greater volume of products and make it easier for consumers to pay for them."

In addition to generating commerce, the metaverse offers merchants opportunities that aren't possible in the physical world. These include the abilith to engage consumers through new and immersive experiences that can create more commerce opportunities for their businesses.

Watch manufacturer Timex Group USA, for example, has partnered with the Bored Ape Yacht Club, an NFT collection, to create 500 limited-edition physical timepieces that have digital twins for a buyer's avatar to wear in the metaverse. NFTs are digital assets that can be bought and sold, but which have no tangible form of their own. The digital tokens can be thought of as certificates of ownership for virtual or physical assets.

The watches were reportedly selling for about 2 Ethereum, a cryptocurrency, or about $2,500. Timex says the partnership is a way to allow the Bored Ape Yacht Club NFTs to mirror a physical product that has real-world value. The initiative also pushes the boundaries of physical, virtual, and "phygital" products—the integration of physical and digital elements in a single shopping experience.

"Blending virtual and augmented reality enables businesses to promote their brands and engage their customers through new and immersive experiences, and ultimately to create more commerce opportunities for their businesses,"

says Girish Narasimha Raghavan, vice president of engineering for the big processor Fiserv Inc.

‘NEW MONETIZATION MODELS’

The potential economic impact of the metaverse is huge. McKinsey & Co. estimates this new world could generate up to $5 trillion in economic impact by 2030, which is equivalent to the size of Japan’s economy, the world’s third-largest.

More specifically, McKinsey estimates the metaverse has the potential to generate between $2 trillion and $2.6 trillion in e-commerce sales by 2030. the firm forecasts a $108 billion to $125 billion impact for the gaming market alone.

That’s a lot of potential new volume for processors and financial institutions. No wonder some major banks, such as J.P. Morgan Chase & Co., are aggressively establishing a presence in the virtual world.

The attraction of the metaverse for financial institutions lies in the vast possibilities it offers for new transactions in retail, gaming, and real estate. Yes, real estate can be purchased in the metaverse. One consumer reportedly has already paid $450,000 to purchase a plot of virtual land in The Sandbox, a metaverse platform, next to rapper Snoop Dogg’s virtual residence, according to McKinsey.

In February last year, J.P. Morgan launched the Onyx lounge in Decentraland, a metaverse platform that supports purchases and user engagement with brands and games. The Onyx lounge is a destination where user’s avatars can go to learn more about the Onyx organization, J.P. Morgan’s dedicated blockchain unit, and about opportunities for businesses to enter the metaverse.

In conjunction with the launch, the bank published a whitepaper describing opportunities businesses can explore in the metaverse. “The whitepaper is meant to be a conversation starter with J.P. Morgan Payments clients as we help them understand and navigate the metaverse and apply possible payments use cases,” says a J.P. Morgan spokesperson.

The bank’s strategy includes an investment of an undisclosed sum in Tilia, a payments provider specializing in the metaverse. Tilia’s platform, which is built for game, virtual-world, and mobile-application developers, handles payment processing, in-game transactions, and payouts to content creators. It converts in-games tokens to fiat currency, including dollars.

“As consumers spend a greater portion of their time in video games and seek ways to gain ownership of the in-world items, new monetization models are emerging and require the right solutions,” the spokesperson says. “Tilia has longstanding credibility in gaming and provides a market-leading solution. We see this investment as an important milestone in our strategy for this sector.”

DIGITAL CURRENCIES

Another payments opportunity springing up in the metaverse lies in digital currencies proprietary to the platform provider. Decentraland, a 3-D digital game built on an Ethereum-based metaverse, has created its own in-game currency called MANA.

The money can be purchased with cryptocurrency. Decentraland’s commerce strategy reportedly is built on providing users ways to monetize their content and applications, which gives them a sense of ownership.

In addition to supporting its own currency, Decentraland launched a virtual ATM on its platform that enables users to buy MANA or other cryptocurrencies using fiat currency.

Meanwhile, Roblox, an online-game platform and game-creation system, has also developed its own digital currency, called Robux, whicn can be used to buy new games, private servers, and other goods on the Roblox platform.

Robux can be purchased or earned by creating a game within the platform. In this instance, creators earn a portion of the Robux paid by users to play the game. Digital currencies such as MANA and Robux are platform-specific to their respective metaverses.

GOODBYE, ‘DUMB PIPE’?

When it comes to the economic potential of the metaverse, the big question facing processors is, who will control the merchant and app-developer relationships, the platform provider or the processor?

In the opinion of some payments-industry observers, metaverse-platform providers will be

the ones to control those relationships initially, just as Apple and Google do in their respective app stores.

Under the app-store model, the platform provider controls the relationship with the developer, which means it sets the fees developers pay on each sale generated and funnels all app purchases and subscription payments through the platform's in-house payments system.

Apple, for example, charges a commission of up to 30% on App Store purchases, including in-app purchases. Out of those revenues, Apple reportedly pays the processor that handles those transactions 2% to 3% of the transaction total out of the merchant fees it collects.

Because Apple controls the relationship with the developer, the processor essentially serves as a simple pipe unable to sell any value-added services, points out Aaron McPherson, principal at AFM Consulting Partners. McPherson argues the app model could serve as the blueprint for how metaverse platforms can earn revenue from payments and control merchant relationships.

"Apple and Google set the rules on their respective app-store platforms. If a platform does not open itself up, the processor is just a dumb pipe [to funnel transactions]," says Aaron McPherson, principal, AFM Consulting Partners. "Apple and Google won't let processors cut deals [directly with app developers selling on their app stores] and banks and merchants would like to see to see this monopoly busted."

McPherson argues that if processors and financial institutions work to change the app store model, they will lay the groundwork for doing much more business in the metaverse.

"There is an opportunity for processors to forge deals directly with developers to process transactions, as opposed to the platform, even though there are some developers that won't care about what they are charged by the platform," says McPherson. "If processors can break open the app market, it will be worth it, because that work can be applied to the metaverse."

A CLOSED-LOOP SYSTEM

Another way metaverse platforms can control the movement of money is by making transactions directly between a user's and a merchant's digital wallet. In this scenario, the money bypasses traditional processing channels and goes nowhere near the banking system, points out David Birch, a United Kingdom-based author, advisor, and commentator on digital financial services.

"Metaverse payments don't need the same infrastructure as payments in the physical world because users have the credentials to identify themselves, which helps prevent fraud," Birch says. "The question for the processors is, what will they do if money in the metaverse moves directly between wallets?"

The answer to that question so far is unclear. Many payments providers, fintechs, and processors have penned articles and blogs, or given interviews, about the potential opportunities

in the metaverse. But several of those companies contacted for this story declined comment, arguing the metaverse is still too new to discuss it in anything other than extremely broad terms.

One factor slowing progress for many processors is the lack of interoperability between the various platforms. As a result, a user's digital assets and avatar cannot cross freely from one virtual community to another.

That makes any metaverse platform a closed-loop system. In a closed loop system, payments and merchant and customer relationships are typically controlled by the platform provider, according to payment experts.

A 'CHAOTIC' WORLD

Despite the potential competition from proprietary currencies in the metaverse and the many unknowns regarding how commerce will develop, several financial technology providers remain optimistic about the opportunities the metaverse offers.

"Payment processors can facilitate the growth of commerce in the metaverse by enabling transactions with digital assets, promoting connected payment experiences, and ensuring secure transactions," says Fiserv's Raghavan. "With that said, the issues we face in the real world will continue to exist in virtual worlds. There will always be a need for an operating system that offers a credible, efficient, controlled, and secure means of conducting commerce."

Despite their general optimism, payments experts agree that commerce in the metaverse is still in the early stages and has a long way to go before payments are as seamless as in the physical world.

"Think of the Palm Pilot, Blackberry, and iPhone evolution," says Mike Storiale, vice president for innovation development at Synchrony Financial Services. "Palm Pilot users never thought they would want or need a device like the Blackberry, and Blackberry users thought the same about the iPhone initially. The metaverse is chaotic now, but that's not a bad thing as companies are exploring what they can do in it now, as well as big ideas for down the road."

For the payments-technology providers that are among the early adopters, arguably one of the best strategies they can follow is to test products and services early, then evaluate the results ahead of potential competitors to determine if there is strong enough business case to proceed. Notes McPherson: "Now is the time to define goals in the metaverse and test to see whether the metaverse is ready for primetime or not." DT

UNDERSTANDING THE 'CASUAL' FRAUDSTER

Fraud isn't always the work of hardened criminals. Online sellers must learn how to spot—and thwart—clever amateur thieves, as well.

BY DORIEL ABRAHAMS

Doriel Abrahams is the head of U.S. analytics at Forter

DID YOU TAKE up a new hobby during the pandemic? I finally picked up the guitar that had been lying there since high school. Many new hobbies have become cherished parts of people's routines, adding extra richness and variety to life.

Unfortunately, there was a group that chose to take up fraud as a diversion during the pandemic — and for many of them, it's become part of their post-pandemic lives, as well.

In the United States, government programs designed to provide stability and support for businesses during the pandemic were set up with speed rather than security, making them extremely attractive for fraud.

One estimate suggests that PPP fraud (money stolen by leveraging the Paycheck Protection Program) came to about $80 billion. Added to that, there was about $90 billion believed to have been stolen from the Covid unemployment relief program, and perhaps an additional $80 billion from a separate Covid disaster-relief program. It's easy to see why NBC News refers to this as the "biggest fraud in a generation."

The biggest fraud in a generation was perpetrated, in part, by professional fraudsters, as you would expect. These are the same bad actors I've seen for years through my work as a fraud analyst. The structure of the relief programs was an invitation fraudsters couldn't turn down.

With pre-pandemic habits returning and some semblance of normalcy reestablishing itself, fraudsters are now back to their regular fraudulent work—in some cases, having invested in and expanded their operations using stolen funds.

However, a lot of the money was taken by ordinary people, the type of people I would have labeled "good customers." During the pandemic,

these amateur fraudsters were introduced to just how easy and tempting it could be to steal money online.

Many people were experiencing economic uncertainty and stress, and defrauding the relief schemes was often as easy as filling in a form online, perhaps with a few faked documents to add perceived credibility.

The post-pandemic world also includes financial uncertainty for many people, and the ubiquity of online interactions hasn't lessened. In addition, many who entered fraud through the Covid relief door experienced no adverse consequences. It was almost inevitable that many of them would continue. And, especially in the U.S. market, many of them have.

That said, while we did see that trend coming, we didn't foresee the magnitude of it—a 35% increase in fraud committed by "non-professional" fraudsters from 2021 to 2022. And with that large an increase in amateur fraud, it's worth understanding more about the trend and what it might mean for digital commerce.

THE DARK PATH

Amateur fraudsters made the news due to their pandemic-relief pilfering items like Teslas, Lamborghinis, diamonds, gold coins, luxury watches, expensive furniture, and designer clothing. That makes for a good story, but it doesn't make for good theft. Those sorts of purchases make you very visible as a potential thief.

The amateurs you want to worry about are the ones who didn't get caught and didn't make an "amateur mistake." They're the ones who are targeting online stores now.

These amateur fraudsters' conservative behavior has continued. They often aim for valuable items. That makes them potentially painful because if they get through your protections, the cost of those items increases quickly.

We're seeing two main types of amateur fraudster: the "upgrade my lifestyle" kind, who steals things he or she obviously want for himself or herself, and the "making money on the side" kind, who are in it for profit. There's some overlap between these two types, but most fall more obviously into one of these two categories.

Who are the "upgrade my lifestyle" fraudsters? This kind of fraudster goes after things that you might want yourself or that you can easily imagine friends or family members wanting, such as:

- New electronic gadgets;
- Food delivery, especially for pricier takeout or groceries;
- Expensive jewelry, like watches;
- Name brand apparel and toys

The "money on the side" fraudster is a little more professional. Like professional fraudsters, this sort targets goods they know they can sell. Where professional fraudsters know resale markets well and often specialize in relatively niche but lucrative goods, amateurs go for things that it's clear a lot of people want and that can be resold in many places, items such as cell phones, hot fashion items, earbud headphones, and trendy sneakers.

It's important to emphasize that this isn't friendly fraud. These amateur fraudsters aren't buying and issuing a chargeback. They use stolen credit card numbers or other payment methods. This indicates that they've gone a little further down the dark path than was the case during the Covid relief days.

CREDIT CARDS COME TOP

(Payment methods ranked by number of fraud reports, with dollar volume of losses in millions, in 2021)

Credit cards	88,354	$181
Payment app or service	69,753	$130
Debit cards	68,937	$140
Gift or reload card	64,638	$233
Wire transfer	58,026	$482
Cryptocurrency	39,386	$750
Bank transfer or payment	38,711	$756
Cash	12,463	$188
Check	8,412	$153
Money order	3,841	$39

Source: Federal Trade Commission

They've also done some research and found places to purchase stolen payment data.

RELY ON THE DATA

Having said that, they're still amateurs. They may try simple tricks like creating new email addresses, perhaps even trying to match the name on the stolen card, but they're still using their own address. They also may use a proxy or a virtual private network. But more often than not, they simply visit a site using the same device they've been using for years and attempt fraud immediately, using a different card.

Interestingly, this amateurish behavior can sometimes make them difficult to spot. The fact that they're not attempting to hide makes it more challenging to determine whether or not they're attempting fraud or acting in an unusual but legitimate way.

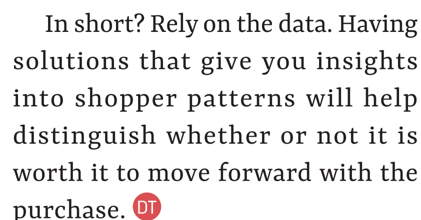
Complicating things further, amateur fraudsters don't usually drop their "good customer" persona when they start engaging in fraud. They continue buying things online, using their legitimate information and payment data, and, sometimes, they dip into fraud on the side.

In these cases, the ratio of good shopping to fraudulent attempts varies tremendously from person to person. Some amateur fraudsters are almost always good customers but turn to fraud on rare occasions when they want something that's priced more than they can afford or during expensive times like the holiday season. Their fraud attempts might be less than 5% of all their online-shopping sessions.

Others have embraced fraud as a part of their approach to online shopping. In these cases, as many as 60% of their online shopping sessions might be fraudulent.

This presents online merchants with a dilemma: How do you decide whether to let this particular person, known as an occasional fraudster, make this purchase?

In short? Rely on the data. Having solutions that give you insights into shopper patterns will help distinguish whether or not it is worth it to move forward with the purchase. DT



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IT'S NOT THE FOOD, IT'S THE PLATE

Banks are gearing up to launch their own common wallet for consumers. But what value, exactly, will the new product really add?

BY **PATRICIA HEWITT**

Patricia Hewitt is principal of PG Research & Advisory Services.

THIS COMES FROM an announcement on Early Warning Services' Web site:

"We hear from consumers that they want to utilize online payments from their trusted financial institutions," said [James] Anderson. "Early Warning is working closely with financial institutions to build a wallet that provides consumers a secure and easy way to pay. The wallet will also aim to deliver better business outcomes for merchants—including higher transaction approval rates and more completed sales."

The announcement clearly states that Early Warning's peer-to-peer payments service, Zelle, is not part of this rollout. Instead, the new wallet is designed to tokenize Visa and MasterCard debit and credit cards.

Yet, with FedNow on the horizon and The Clearing House's Real Time Payments (RTP) service pushing further into instant payments in the United States, leaving Zelle out of the equation points to the economic and cultural barriers banks have been struggling to break past.

Indeed, this announcement from bank-owned EWS tells us that banks are still locked in to their primary business model, which runs counter to where their customers' payment needs are heading and, therefore, represents this strategy's core headwind. That business model has two fundamental components: risk management and interchange.

THE FIRST MISTAKE

According to recently reported statistics, in 2021, Zelle moved twice as much money as PayPal, or about $490 billion worth of transactions at an average ticket of about $272. This tells us two things: first, banking customers find Zelle very useful, but second, it's utility consists of acting as a replacement for checks or cash used to pay various types of bills. It's a closed-loop in-banking app product and, as such, is a cost center—much like ATMs, with little or no monetization opportunity.

In fairness, some banks have pushed to open Zelle up to retail payments. But others have said no because that leaves them open to higher fraud risk. Risk is the first barrier for these banks, because they are risk managers and this attitude is

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"The APEX platform is the pinnacle of financial technology," said Dustin Siner, the AFS Chief Revenue Officer. "APEX completely integrates turnkey mobile, countertop terminal, point of sale, and ecommerce platforms with a full library of API's. Whether taking advantage of innovative, out-of-the-box solutions or integrating through API, APEX allows merchants and software developers alike to process transactions from anywhere their consumers look to buy through a fully integrated solution."

In addition to empowering innovative financial technology features for software developers, the APEXConnect API library brings that code to life through mobile, countertop, and full cash register solutions in APEXNow, and enables e-commerce and call center payments through the APEX Gateway.

APEXNow is the AFS solution for terminal, mobile app and MPOS solutions. Supported through Pax A and E series devices, merchants can leverage features that support restaurant quick service (including menus, kitchen printer support, pay at the table, and other elements), inventory management, profitability reporting, and more. The devices support credit, debit, gift, loyalty, and fully compliant cash discount functionality.

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APEXConnect is a feature-rich library of API's for payment facilitators, SAAS or software providers to be able to integrate feature-rich (and fully customizable?) financial technology. API features include instant merchant boarding, the ability to automatically split payments across multiple parties at the transaction level, process merchant settlement onto debit cards, inventory management, gift/loyalty and more.

"By leveraging the APEX platform, a business owner can take advantage of existing APEXNow products, integrate those products into a software developer's business management solution, operate ecommerce through the APEX Gateway, all while enjoying consolidated reporting in real time to manage their business," Dustin Siner said. "APEX allows businesses to meet consumers where they're ready to purchase products, all while maximizing business efficiencies."

Agile Financial Systems (AFS) is an innovative financial technology solution provider based in Southlake, TX with the goal to provide omni-channel services and financial payment solutions to a variety of business owners. To learn more about us, visit go-afs.com.

a key driver in the way they develop products—for good reason, since banks treasure their position of trust with customers.

Lose that trust, and you lose that customer. It's a pretty simple equation, and one recently validated when Zelle experienced a very public problem with customer fraud losses. Lesson learned. Additionally, how is trust a differentiator against competitors that are widely trusted by consumers?

But, back to the main point. I believe this reluctance to go to the point of sale is the EWS banks' first mistake. First to market for instant payments at the POS is going to be very important in this new payments environment, and leaving Zelle out immediately puts this new wallet at a disadvantage compared to PayPal or Apple. This is regardless of whether the EWS banks are able to pull off some kind of amazing frictionless or rewards-laden user experience that drives customers to choose them.

This narrow approach further constrains the usability of the wallet to network-branded cards, which remain extremely easy to use online. Yet, by basing the economics of the product on interchange (and in the case of ApplePay, keeping more interchange), the banks earn the income necessary to offer rewards (on credit cards) that motivate customers to spend more.

It's unlikely that, any time in the near future, these banks will open up the wallet to include other network-branded cards, like American Express, again putting them at a disadvantage against PayPal and Apple in the short term.

This is the same business model that's driving more and more merchants to add interchange fees onto customers' bills, something customers are well aware of. They will be looking for a better, cheaper alternative to these cards over time. By the way, that alternative is here (think BNPL) and coming (think faster payments).

BURST THE BUBBLE

As a consumer, how comfortable am I going to be using something like my email address as a credential

to make a payment from my main checking account with a service I've never used before, as has been suggested in this EWS announcement? If I'm a merchant asked to integrate this new wallet type, which probably has at least one or perhaps two or more additional steps in the check-out process, what's my motivation to enable something that increases the costs and effort associated with an old payment type, like a card?

EWS promises a better outcome for merchants, but how they back up those claims remains unclear.

If the banks are serious about offering a competitive product, why not build one? This is the time to break out of their business-model bubble and embrace the new reality of what next-generation payment products are all about—which is integrated financial services.

I just don't see much integration here, so, once again, banks are on defense. Apple and PayPal are already way ahead of them in this regard. And, with an implementation date of sometime this year, the banks can't be building much in the way of new technology.

But this is exactly the kind of risk banks should be taking to fend off the onslaughts on their customer base. Trouble is, they're moving food around the plate. Instead, they need to get a new plate. DT

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