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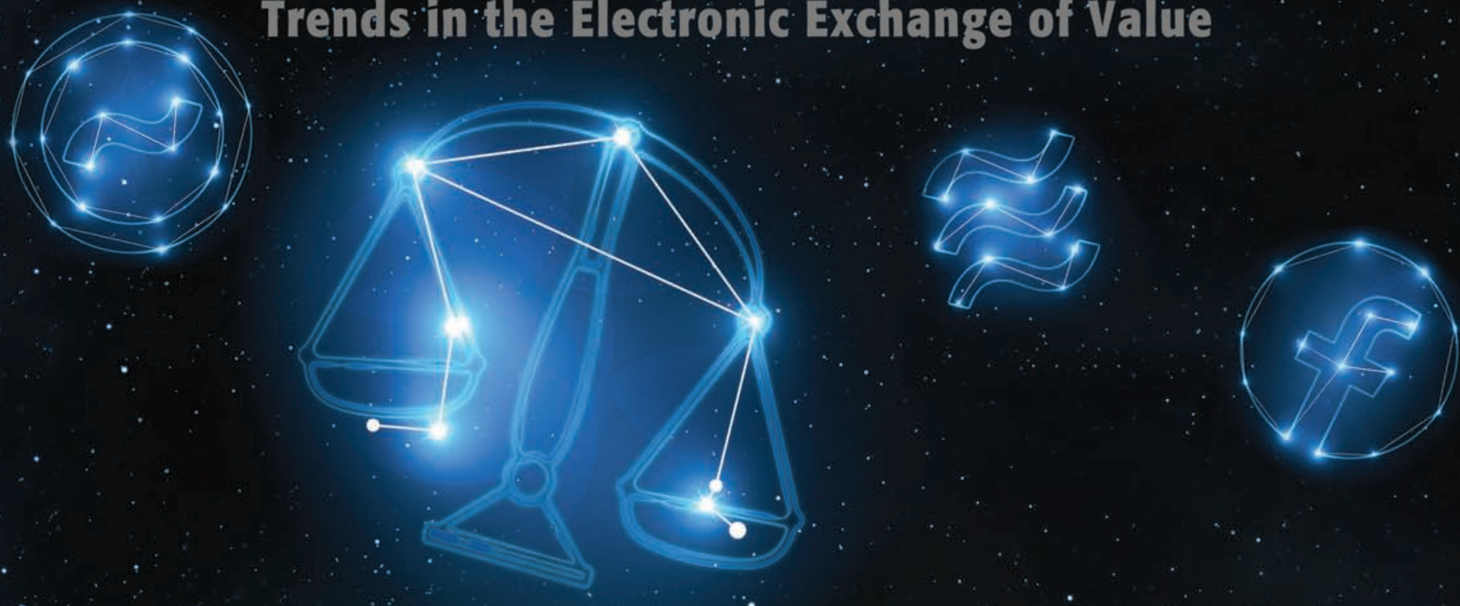
Trends in the Electronic Exchange of Value



UNDER THE SIGN OF LIBRA

How will Facebook's cryptocurrency change payments and finance—if given a chance?

Volume Sixteen, Number Ten • DigitalTransactions.net • October 2019

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the gimlet eye

BIG BAD LIBRA

NO SOONER DID FACEBOOK INC. PULL THE COVERS OFF its Libra cryptocurrency project this past June than the social-media giant ran into a buzzsaw of criticism—from Congress, central bankers, the press, and seemingly right-thinkers everywhere on the planet. Seldom has a payments announcement—let alone one that has to do with digital money—drawn so much worldwide attention, let alone blowback.

By September, Facebook was hauling itself off to Europe to face an inquisition from central bankers and company officials were making soothing assurances that Libra would not go forward until everyone was satisfied.

To be sure, Facebook hasn't done itself any favors with its privacy lapses and other dubious business practices. And, to be sure, no outsider can know the inside dope on what Libra will do for Facebook, for the other 27 companies backing it, and for money and payments generally (for much of the background on this, see our story on page 24).

But let's look at a few facts and see if we can get an idea of just how big this bogeyman really is. Libra, when it finally gets traded, will be an open-source cryptocoin that will ultimately operate on a so-called permissionless blockchain. That means, first, that any entity whatever can build applications on top of the Libra codebase. Second, within five years, any entity—not just those with "permission"—will be able to run nodes on the network. The stifling hand of all-powerful Facebook certainly looks menacing in that.

Further, Libra will offer a currency anyone in the world can send to anyone else in the world at costs that should be considerably less than what they pay now for remittances. Competition—if the viewers-with-alarm allow it to happen—is likely to ensure that. Companies will be able to put digital wallets into the hands of these folks and of anyone else who want to trade in Libra. Facebook itself is working on just such an app called Calibra.

And, speaking of so-called faster payments, these transfers are likely to zip along in seconds if the underlying blockchain can avoid the kind of congestion that has plagued Bitcoin.

So there remain a couple of other concerns: what nefarious purpose Facebook really has here; and what injury Libra will do to the world's monetary system. There's not enough space to do justice to the second item, except to say, can Libra do worse than national currencies, which governments may inflate at will?

As to the first concern—neither Facebook nor any other company operates contrary to the interests of its shareholders. If those interests happen to align with those of Joe Everyday, what regulator can object?

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POYNT

THE NETWORK CRACKDOWN ON NEGATIVE-OPTION BILLERS

Ever signed up for a free trial subscription and then forgotten about it, only to find out you've roped yourself into receiving an unwanted service or publication on an ongoing basis? Both bank card networks have now implemented or plan to implement stricter rules on so-called negative-option billing and subscriptions with free trials.

Visa Inc. is set to impose updated policies April 18, a year after Mastercard Inc. tightened its rules on negative-option billers. These are billers who, after getting a consumer to sign up for a trial subscription for a product, automatically charge the customer's card on file after the trial ends or until the consumer cancels.

Mastercard's rule change requires merchants to gain cardholder approval at the end of the trial before they start billing. Merchants also must send the cardholder, either by email or text message, the transaction amount, payment date, and merchant name, along with clear instructions on how to cancel.

Mark Standfield, president of Midigator LLC, an American Fork, Utah-based firm that works with merchants and merchant acquirers to prevent and mitigate chargebacks, says Visa's upcoming changes are largely similar to Mastercard's, though there are some differences. Visa's rule will cover physical and digital goods sold through subscriptions, whereas Mastercard's covers only physical goods, he says.

"The biggest difference that we saw is that Visa included digital merchants, not just physical merchants," Standfield says.

Visa, which declined to comment for this story, posted a notice about its planned changes on a Web site it maintains for merchants. The post notes Visa has had rules to regulate negative-option billing and subscription merchants since 2011. The notice identifies several "pain points" in promotions and introductory offers, including cardholder complaints and confusion when customers forgot or did not understand they had signed up for a subscription, the lack of a mechanism to distinguish transactions involving promotional or trial offers from any other subscription, and a lack of card-issuer clarity on available dispute rights.

Despite a network crackdown on subscription billers about a decade

MASTERCARD UPDATED NEGATIVE-OPTION BILLING POLICIES IN 2019, AND VISA PLANS TO IN 2020

'The biggest difference that we saw is that Visa included digital merchants, not just physical merchants.'

—**MARK STANDFIELD**, PRESIDENT, MIDIGATOR LLC ago, problems have persisted and led to enforcement actions by the Federal Trade Commission and state attorneys general. That's put more pressure on merchant acquirers and the networks for further action, according to Standfield. "When events like that occur it triggers an escalated response by the brands," he says.

Alpharetta, Ga.-based acquirer Priority Technology Holdings Inc. earlier this year said it had closed 1,200 merchant accounts in order to comply with the new Mastercard rule. The processor's problems came to light mainly because Priority is a publicly traded company. Standfield says other acquirers have encountered similar issues.

"Due to their private status, they largely stay off the radar," he says.

—Jim Daly

FOR FEDNOW, A LOT MORE QUESTIONS THAN ANSWERS

It's still at least three years off, but it's none too soon for bankers and payments executives to be wondering exactly how the Federal Reserve's planned FedNow real-time payments service will shape up. What will be the pricing, what about disputed transactions, and just what exactly is a real-time payment, anyway?

Two Fed officials fielded questions about those topics and more during a 90-minute Fed-sponsored webinar last month. Much of what was discussed wasn't new, but some new factoids emerged as well as identification of issues that will be getting much more attention as the service develops ("The New Reality in Real-Time Payments," September).

For example, one inquirer asked about FedNow's cost. The answer is that pricing hasn't been set. But Kirstin Wells, principal economist in payment studies at the Fed, said a price structure could take its cues from pricing for existing Fed services, such as for automated clearing house transactions, that have participation and transaction fees.

"We are not going to be announcing any kind of fee or fee structure until closer to implementation because we're going to be looking at what the market conventions are at the time of implementation and try to correspond closely to those," Wells said. She added that the Fed is obliged under the 39-year-old Monetary Control Act to recover its costs.

Wells also noted that what the Fed will deem a "real-time" payment hasn't been determined in terms of settlement time. "It would be within seconds, whether it's one second, five seconds, 15 seconds, I can't say, we just don't know that yet," she said. "But we're designing it to be as close to real time as possible."

Also to be determined is what will happen if something goes wrong in a FedNow payment, which is billed as an irrevocable credit transaction. Receiving banks won't have the option of automatically returning a payment. The emphasis will be on preventing misdirected payments and other errors before hitting the send button.

"What we envision is that there will be a message sent to the receiving bank to verify that the incoming payment is going to a valid account holder at that bank," said Wells. "So that kind of gives a check that the receiving bank can perform before the payment even comes in, and if they say no, we don't have this account, then the payment wouldn't be sent to them."

One thing FedNow won't be doing is settling payments in digital currencies, at least at the get-go. "FedNow transactions will settle to Federal Reserve master accounts in U.S. dollars," said the other speaker, Connie Theien, a senior vice president at the Federal Reserve Bank of Chicago and the Federal Reserve System's director of payments industry relations. "At this time there isn't a contemplation of using other types of currencies."

The Fed has said FedNow won't be live until 2023 or 2024. The central bank is taking comments on its proposal through several channels, including formal comments to the Federal Register until Nov. 7.

—Jim Daly

NO PLACE LIKE HOME FOR MASTERCARD

Its home country is widely considered a mature payments market, but Mastercard Inc. believes the United States still contains many untapped opportunities.

The U.S. remains Mastercard's largest market, accounting for 33% of revenues in 2018—down from 39% in 2012—and 30% of gross domestic volume. But U.S. volume grew 10%, twice the growth rate of personal consumption expenditures, according to data from Purchase, N.Y.-based Mastercard.

"The runway for growth here is significant," Linda Kirkpatrick, executive vice president of merchants and acceptance, said last month during a Mastercard investor event.

For example, merchant acquirers are still finding many new businesses to accept cards. Mastercard's traditional card-accepting merchant base of 8 million locations in 2014 had grown by 3 million locations by the end of last year. "We're growing the acceptance pie even in mature markets like the U.S., where we have 11 million acceptance locations," said Kirkpatrick.

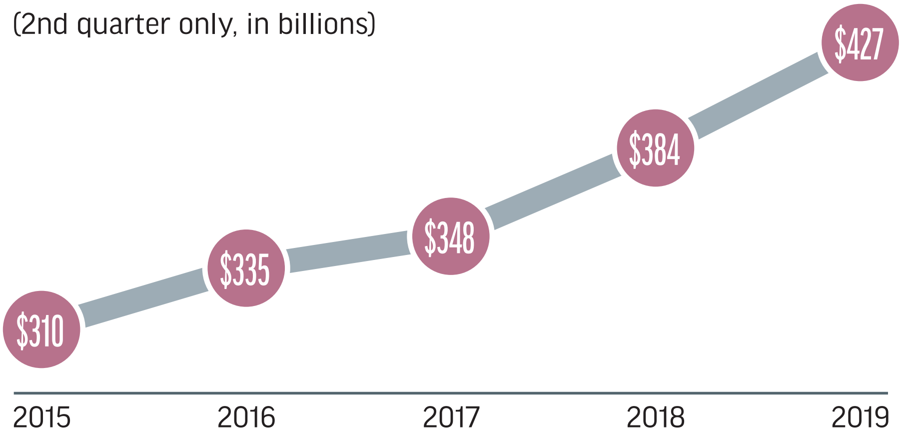
Also gaining traction are contactless payments, which at the end of 2018 accounted for 22% of Mastercard's worldwide point-of-sale transactions. The U.S. is still a minor force in contactless, but that's about to change.

"On the issuing front, we have commitments from issuers representing three quarters of our volume to reissue their products as contactless cards over the next 12 to 24 months," Kirkpatrick said.

Mastercard's archival Visa Inc. also is going big in contactless. Chief executive Alfred Kelly has said he expects 100 million Visa cards to be issued in the U.S. by year's end and 300 million by the end of 2020.

MASTERCARD'S U.S. PURCHASE VOLUME

(2nd quarter only, in billions)



Source: Mastercard Inc.

Mastercard has its eye on the estimated $16 trillion in annual U.S. payments still made with cash and checks as well as $27 trillion in automated clearing house volume. The company is now a major provider of ACH and real-time payments through its 2017 acquisition of London-based Vocalink Holdings Ltd. and, more recently, the real-time and business-to-business payments unit of Denmark-based Nets Group ("The Networks' Shopping Spree," September).

"We are well positioned to deliver value to our consumers, merchants, businesses, and governments as the only global multirail payment network," chief financial officer Sachin Mehra said at the event.

Mastercard is branching into non-card payments through a variety of new services and partnerships with numerous companies. Its pending Bill Pay Exchange service will enable consumers to pay bills through bank or card accounts and is aimed at generating more bill payments through bank channels, which lag in popularity behind biller-direct Web sites. "Only half of our bills are paid electronically," said Ron Shultz, executive vice president of new payments flows.

U.S. business-to-business payments, including government-to-business payments, are another massive market—$20 trillion in cash, checks, and ACH and $1 trillion on cards in 2018—on which Mastercard is setting its sights. In September, the company announced Mastercard Track, a B2B service that offers a single connection to multiple payment types, including ACH, account-to-account, and card-based payments.

—Jim Daly

EMV'S STEADY U.S. MARCH

More than half a million U.S. merchant locations became activated for EMV chip card acceptance in 2019's first six months, and Visa Inc.'s issuers cranked out an additional 10 million EMV payment cards.

In its latest update on the U.S. conversion from magnetic-stripe payment cards to the EMV chip card standard, Visa reported last month that 3.7 million U.S. locations in June accepted EMV cards compared with 3.5 million in March, and up by 600,000 from 3.1 million last December. Some 80% of storefronts now accept chip cards, up from 75% and 68% in March and December, respectively, according to Visa.

EMV'S PROGRESS

	SEPTEMBER 2015	JUNE 2019
Volume	$4.8 billion	$84 billion
Transactions	0.08 billion	2.05 billion
Debit cards	67 million	309.1 million
Credit cards	93 million	212.6 million
Acceptance locations	0.39 million	3.7 million

Source: Visa Inc.

Meanwhile, 72% of Visa's active U.S. cards had a chip as of June. The June EMV card count totaled 521.7 million—212.6 credit cards and 309.1 million debit cards—compared with 511.1 million at the end of 2018.

Visa reported $84 billion in EMV payment volume for June, up by $3 billion from March but down from $88.9 billion in December, a seasonally heavy-spending month for the holidays. Consistent with its most recent preceding EMV reports, Visa said 99% of overall U.S. payment volume in June occurred on EMV cards.

For merchants that had completed their EMV point-of-sale terminal upgrades, dollars lost to counterfeit fraud had dropped by 87% as of March compared with September 2015, according to Visa. Over the same period, Visa says counterfeit fraud dollars lost by all U.S. merchants fell 62%, and its overall card-present fraud rate declined by 40%.

The payment card networks' EMV liability shifts took effect in October 2015 and transferred responsibility for counterfeit fraud to the merchant if a POS terminal couldn't read an EMV card's chip. But with EMV proving effective against POS fraud, criminals are turning their attention to online commerce and identity theft in order to gain access to consumer card accounts.

—Jim Daly

APPLE PAY TAKES OFF ON SOUTHWEST AIRLINES

Southwest Airlines is joining the roster of merchants that accept Apple Inc.'s Apple Pay mobile-payments service.

The September announcement by UATP, the airline-owned payment network, and CellPoint Digital, a travel-industry payments specialist, came as Apple Pay was about to turn 5 years old ("Is Apple Pay Finally Ready To Bloom?" page 22). The two companies said Dallas-based Southwest will make Apple Pay available across all channels to buy tickets and services.

UATP and CellPoint Digital formed a partnership in 2018 to offer UATP's member airlines payment services. Southwest is the first airline to come onboard via the UATP and CellPoint Digital partnership, the companies said.

Southwest signed a multiyear agreement. Apple Pay is available in the Southwest iOS app, with other channels to follow. Delta Air Lines in 2015 said it was the first U.S.-based airline to accept Apple Pay.

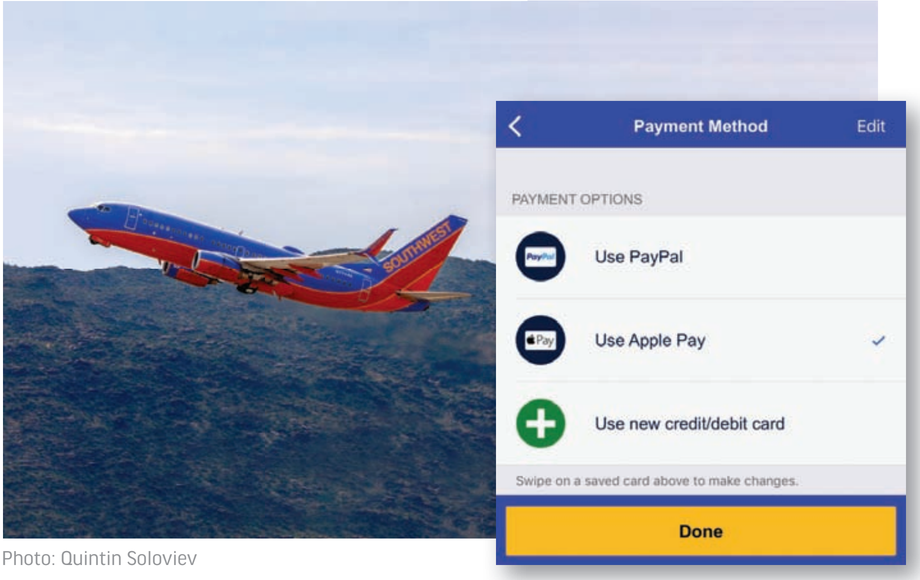


Photo: Quintin Soloviev

Apple has said it expects its mobile-payments service to score 10 billion transactions this year.

"The launch of Apple Pay enhances our ability to sell flights as well as ancillary products using one of the most widely used digital wallets in North America," Christopher Priebe, Southwest director of treasury, payments, and risk, said in a news release.

Approximately 80% of Southwest's passengers book travel on its Web site and on SWAbiz.com, its business-dedicated site. The airline operates more than 4,000 daily flights during peak travel seasons.

UATP and CellPoint Digital said their joint product offers access to more than 350 payment options, including Visa Checkout, WeChat Pay, bank transfers, installment payments, and cash-based methods.

—Kevin Woodward

CHASE AND WEPAY TEAM ON FASTER MERCHANT FUNDING

Speedier funding of merchant accounts has become a key part of the faster-payments trend as sellers seek ways to gain a competitive edge, and last month JPMorgan Chase & Co. entered the fray with a same-day deposit service for sellers that bank with Chase.

The new service, which is being offered free of charge, relies on technology from WePay Inc., an 11-year-old payment-facilitator and software company the big bank acquired in 2017. It is clearly aimed at small merchants that use online platforms like BigCommerce and the accounting software Xero to connect with shoppers and buyers. Chase's announcement put the number of such sellers at "tens of thousands."

Simultaneously, Chase and Redwood City, Calif.-based WePay rolled out several other services aimed at the same audience. Link allows platforms to offer payment acceptance to sellers through a Chase integrated-payments merchant account. Xero and BigCommerce have already adopted Link, the bank says.

Clear is a white-labeled integrated-payments service software companies can brand and offer to clients, with WePay processing back-office functions. And Core enables software companies to become payment facilitators themselves, with a direct link to Chase wholesale-payments services. A payment facilitator is a company that lets other firms sell payment services on its merchant account.

While the new same-day funding service is free, it is not instant, and is subject to Chase's daily cut-off times. Some payments companies have been offering fee-based instant account transfers to merchants for several years. Square Inc., for example, introduced its Instant Deposit product in 2015, charging a 1% fee.

At the same time, The Clearing House Payments Co. Inc., whose big-bank owners include Chase, has introduced a real-time payments service and the Federal Reserve announced in August it plans to launch a similar service called FedNow by 2024.

But WePay and Chase see their new faster-funding offering as carrying a key advantage for merchants eager to lay hands on their proceeds.

"Same-Day Deposits allows software platforms to help small businesses improve cash flow," said Bill Clerico, chief executive and a co-founder of WePay who is now head of small business products at Chase Merchant Services, the bank's huge merchant-acquiring operation. Clerico made his remarks in a statement.

"While other payment providers charge as much as 1% for faster funding, we can offer faster funding to Chase banking customers at no additional cost," Clerico continued.

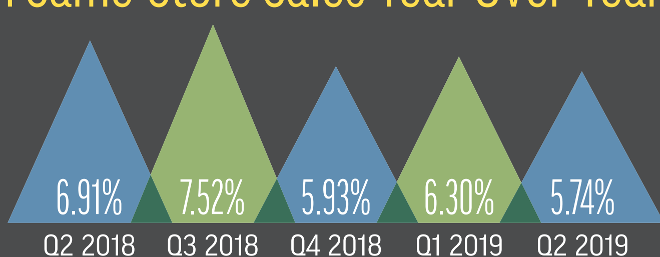
He also hinted that more products are likely to come soon from WePay's integration with Chase. "Starting [now]," Clerico noted, "we're announcing the first step in bringing the results of that investment to the market." DT

—John Stewart

MONTHLY MERCHANT METRIC

Growth in Same-Store Sales Year Over Year

Annual volume change/growth of retained (non-attrited) accounts for given period divided by total portfolio volume 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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FOUR RISKS OF DIGITAL MONEY

BY GIDEON SAMID
gideon@bitmint.com

CHINA HAS COMMITTED ITSELF to digital money. The world, looking upon China as the second-biggest market on the planet, is watching—and following suit. The step is colossal and risky, as it can catapult national economies in a spectacular way. The announcement in June of Facebook Inc.'s Libra project spurred this effort, and now most countries are looking into rushing into digital money with their fiat currency. The Federal Reserve is not far behind.

Having lived in this space for some time now, I sense a race motivated by prestige and unhindered by caution. So I choose to dedicate this month's column to a description of what I see as the four main risk factors that must be negotiated before the dollar can become a digital entity per se.

Risk #1: Mathematical Collapse. A cryptocurrency lives by math and dies by math. Its developers, brilliant as they are, see no pathway for a mathematical breach of the integrity of their currency. But that conclusion is not a mathematical proof. Rather, it is a statement of confidence. It is subject to surprises sprung by a more-developed insight that could occur to a single mind anywhere in the world and at any time.

A mathematical breach of a cryptocurrency is catastrophic. The entire wealth of the nation, if captured in the breached currency, would come to naught at once. And this would happen without warning. It could happen to Bitcoin, Ethereum, and all other cryptocurrencies, where the valuation of the digital coin hinges on a mathematical riddle deemed too difficult to solve in a timely manner.

Risk #2: Quantum Computing. Turing machines are considered too slow and ineffective to breach the leading cryptocurrencies on the market today. Common computers (Turing machines) are based on Maxwell classic electrodynamics. They take no advantage of the immense computing capacity of the microcosm where a selection among competing possibilities can be carried out in a guided parallel mode, replacing the classic case-after-case (slow) resolution.

So it is amply clear that quantum computers are many orders of magnitude faster than today's classic machines. What is not yet clear is what problems these computers will solve right away, which ones a bit later, and which perhaps they will never solve.

The research into quantum computing started in the open but today is shrouded in secrecy. This casts an unacceptable shadow of doubt on any cryptocurrency that hinges on the assumption that standard computers are too slow to void it.

Risk #3: An Ill-Performing Internet. The Internet is so omnipresent globally that we are tempted to assume it's as permanent as gravity or the seasons. In fact, the Internet is vulnerable to natural disasters and to man-made assaults.

If the existence and performance of a national digital currency hinges totally on the expectation of uninterrupted connectivity across the full expanse of trade, then we are inviting payment paralysis and trade interferences of unacceptable proportions.

Risk #4: Massive Identity Theft. Digital money is held and transacted by traders who represent themselves by means of a small digital signature. These digital identities are kept en masse in banks and other financial institutions that are vulnerable to sweeping attacks that could void the financial well-being of tens or even hundreds of millions of traders overnight.

How to deal with these risks? We propose the honored cyber tradition of public exposure. AES, RSA, and ECC are highly credited ciphers because they are completely in the public domain. They can be analyzed and evaluated by any interested party. There's no better way to flush out hidden flaws.

The same principal should apply to the finalists in the national digital-money context. The stakes are high. A nation cannot survive a collapse of its currency. DT

WILL THAT BE CREDIT, DEBIT…OR ACH?

Historically, ACH processing hasn't been a big item on most merchants' wish lists. That could change soon as efforts to make it more merchant-friendly intensify.

BY **KEVIN WOODWARD**

WITH ALL THE DISCUSSION OF faster payments and real-time payments, often synonymous but not always, one payments network continues to attract merchants. The automated clearing house has been around since the 1970s, but lately its transaction volume has consistently grown at high rates ("Behind the ACH's Sizzling Growth," April). And recently, the ACH has added same-day processing.

ACH transactions also may have lower costs for merchants—paid as a flat fee ranging from typically 20 cents to $1.50 or a percentage ranging from 0.5% to 1.5%, according to Merchant Maverick, an online comparison site for merchant services—than comparable credit card transactions, which may range from 1.7% to 3.5%.

Now consider that same-day ACH processing and real-time, or faster, payments are commercially available, and the prospects for selling ACH processing services are many.

While there are potent alternatives to ACH transactions—think credit and debit cards—the potential is vast. "It has plenty of potential for replacing bills that consumers have traditionally paid by paper checks, such as utilities, rent, insurance payments, and similar," says Amad Ebrahimi, founder and chief executive of Orange, Calif.-based Merchant Maverick.

The lower cost of ACH acceptance, the increasingly faster funding time, and the finality of the payment—it can be more difficult to dispute transactions—can make ACH acceptance more attractive to merchants, Ebrahimi says. "Here, education is the key," he says. "Merchants must first know about the advantages of ACH payments so that they can, in turn, educate their customers on the convenience of ACH payments and encourage them to use ACH more often."

Generally, there are two types of ACH payments many merchants might use. ACH credits enable merchants to send and receive payments. A credit is commonly called a push payment because the payor initiates the payment process and pushes the money out, Ebrahimi says.

"ACH credit payments tend to be one-time payments or payments where the payor wants to control the timing, the recipient, and the amount," he says. It might be a payment for supplies from a vendor or a direct-deposit payroll transaction.

By contrast, merchants use ACH debits more often to receive payments. It is usually thought of as a pull payment because the payor gives the account permission to pay and the merchant pulls the payment on an appointed date, Ebrahimi says.

"ACH debit is especially suited for recurring payment, such as utility payments, rent, insurance payments, and similar," he says. "The payor usually sets up the payment schedule and gives the authorization through a Web site under the merchant's control. It's a one-time process, so once the payor sets the permissions, they only need to make sure there are sufficient funds in the account on the date of the payment."

To receive ACH credit payments, the merchant must provide the payor its bank routing number, account number, and the name on the account. To accept an ACH debit transaction, the merchant must have an account with a bank or payment processor that can process these transactions.

"Typically, this involves using a software setup called a payment gateway where the payor can enter the bank routing number, account number, account name, payment date, and give their authorization," Ebrahimi says. A preauthorization is sent to the payor's bank and the various account-identifying indicators are securely stored by the merchant and sent to the processor or bank when payment is due.

Many providers' Web sites explain what ACH payments are, their costs, and how they differ from card payments. Still, merchants often have questions about the transaction type, how it works, and when they get their funds.

Common questions that Fattmerchant Inc. hears center on security, funds availability, costs, and disputes, says Suneera Madhani, chief executive and founder of the Orlando, Fla.-based independent sales organization.

Ibrahim: "Education is the key" to selling ACH.

Fattmerchant sales reps explain that the ISO encrypts ACH transactions just as it does for card-based payments. They also explain that the cost of an ACH transaction may be 25 cents instead of 2.5% for a credit-card transaction.

And the settlement timeframe gets its own explanation. "ACH transactions settle in four business days and fund on the fifth," Madhani says. Same-day ACH transactions, however, settle on the same day if they make it under the settlement window.

"We help [merchants] understand how ACH clearing works," Jeff Thorness, president of Allen, Texas-based Forte Payment Systems, which started in 1998 as an ACH-services provider. Clearing is particularly important for merchants who are unfamiliar with how returns work for ACH transactions, he says.

Ebrahimi says other common questions are about configuration for acceptance and settlement times.

Other than these, "… we typically see a lot of technical-support questions," he says. "Usually, there's a glitch somewhere in the payment process, and the merchant gets charged a somewhat mysterious fee. Often, merchants are pretty angry because either they could not reach a live person for help or the help wasn't helpful."

That's why Merchant Maverick considers customer complaint and customer support when it makes recommendations, he says.

SELLING IT

There are various approaches to selling ACH services. At Forte, the bulk of sales are through its independent software vendor or ISO channels. And, many times, the agent is not selling solely ACH processing, but also associated products, he says.

"One of the pain points with ACH is you don't really have the real-time intelligence on account information," Thorness says. "With card payments, you can get real-time authorization to get approval. With ACH, you really don't have that type of interaction with the account issuer for those bank accounts."

That can make it challenging to verify funds are in the account and that the account is open and valid, he says.

Forte sells products that can help solve these issues, he says. One such service can verify that the account is open and valid and not currently returning because of nonsufficient funds, he says. That service covers approximately 95% of the accounts nationwide.

Another can verify if the bank account belongs to the individual or company presenting the payments. Forte has data on approximately 45% of bank accounts for this service. Each is priced on a per-transaction basis.

Fattmerchant sells ACH processing as a value-add service, Madhani says. "ACH allows our customers to reliably receive recurring payments for their customers at a fraction of the cost," she says. "Because the payments are linked to the customer's bank account, merchants don't have to worry about credit cards expiring and it's more convenient for their customers."

It's not just ISOs that want more merchants to accept ACH payments. Nacha, the rule-making body for ACH transactions, developed the same-day ACH rules with an eye to expanding the volume of transactions. The Federal Reserve operates another ACH switch, FedACH.

Though same-day ACH transaction are relatively new—the idea was suggested in 2009 and implemented in 2016—refinements continue to emerge. In March, the dollar limit of same-day ACH payments will increase to $100,000 from $25,000. And same-day ACH windows will be extended beginning in 2021, with three same-day ACH processing windows in a day.

"The availability of same-day ACH enables merchants to collect funds faster, reduces the likelihood of NSFs, and shortens the time period in which payments could be returned," says Michael Herd, Nacha senior vice president of ACH network administration.

Madhani: Common merchant questions concern security, funds availability, costs, and disputes.

'MINOR' INTEREST

Thorness, like many, is paying attention to same-day ACH and related faster payments products. He has yet, however, to see much merchant interest, despite the various advantages. "It's relatively minor," he notes.

The issue, he says, is that it may take three to four days for the merchant to know for sure that the ACH payment is valid.

"Same-day ACH doesn't solve that problem because the return windows are still the same timeframe," Thorness says. Same-day ACH transactions only knock one day off the return timeframe, he says.

"Send it on Monday, it hits on Monday and the merchant will know by Wednesday or Thursday if the transaction is good or not," he says. "For same-day ACH to take off, the return window needs to narrow."

"By accelerating the payment collection by a day, the return deadline also shortens by a day," Herd says by email. "For example, a same-day ACH payment initiated on a Monday has a return deadline of the opening of business on Wednesday, instead of Thursday as with a next-day ACH payment. We are encouraging all banks and credit unions to use the same-day ACH capabilities when returning payments to shorten the return timeframe even further."

This issue is always important for merchants, says Ebrahimi. "Getting paid faster is always a good thing," he says. "Just a few years ago, ACH payments were batched and settled once every 24 hours on business days. Now, there are two settlement times in a 24-hour period."

Nacha's plan to add a third settlement window will allow event faster settlements, he says. "After the banks or processors settle the payments, they may hold it for an additional period before releasing funds to the merchant. It can take a day or two for the funds to be released."

Merchants are very much aware of the benefits of ACH transactions, Herd says, adding that Nacha received more merchant feedback on the two sets of rules for same-day ACH than any other Nacha rules proposals.

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FOLDING THE WALLET

JPMorgan Chase plans to discontinue its Chase Pay mobile wallet. Other banks are shuttering their wallet apps, too. Is there no longer—or was there ever—a place for bank-sponsored wallets for mobile payments?

BY **JIM DALY**

APPLE PAY, GOOGLE PAY, AND SAMSUNG PAY, collectively "the Pays," seem to get all the attention when the topic of mobile wallets comes up. But there is another cohort of mobile wallets out there, a group sponsored by banks. And they're folding.

JPMorgan Chase & Co. made headlines in late August when it disclosed it would discontinue its Chase Pay app early in 2020, not long after the wallet's third anniversary. The coming demise of Chase's wallet was notable in part because of its public nature. Three other payments wallets sponsored by some of the nation's biggest banks already have died quiet deaths.

The deceased include Citigroup Inc.'s Citi Pay, the Wells Fargo Wallet from Wells Fargo & Co., and Capital One Financial Corp.'s Capital One Wallet. Since 2018, those banks have pulled their wallets from the market with little fanfare, Citi most recently by shuttering Citi Pay on Aug. 31.

"The days of bank-branded wallets are coming to an end," Jordan McKee, research director for payments at New York City-based 451 Research, told this magazine's sister publication, *Digital Transactions News*, when the Chase Pay news broke.

To be sure, it's been tough sledding for all mobile wallets since the earliest iteration of today's Google Pay from Alphabet Inc.'s Google subsidiary launched in 2006. Even Apple Inc.'s Apple Pay app, launched five years ago, has struggled to meet expectations (for more on Apple Pay, see page 22).

It's taken years of marketing and technical effort, and hard work with payment card issuers and merchants, to generate transaction volume, and the Pays still account for somewhere around 2%, at best, of U.S. payment card volume.

Apple chief executive Tim Cook, however, in April said Apple Pay was on track to hit 10 billion transactions in 2019 and that the service should be live in 40 countries by year's end.

The bank-backed mobile wallets haven't gained the popularity Apple and Google now imply for their services after years in the market. It should be noted, though, that the Pays don't disclose key details about consumer and merchant adoption.

"That's probably the crux of the problem, the fact that people weren't using them," McKee says of the bank wallets. He also cites "concerns over security, lack of a compelling value prop, the usual stuff."

Another barrier to adoption was that the banks' mobile-payment services were standalone apps separate from their regular mobile-banking apps. "You had to download an app, whereas Apple Pay is embedded in the operating system," says McKee.

'OUR BIGGEST OPPORTUNITY'

Chase Pay probably was the highest-profile mobile-payment service from a bank given that its sponsor is the nation's largest credit card issuer and a massive merchant acquirer. New York-based Chase said that although the mobile app will be going away soon, the payment service of which it is part will continue online and in some merchant apps.

"The strategy for Chase Pay has not changed," Eric Connolly, head of Chase Pay, said in an emailed statement. "Our goal is to provide value to consumers and our merchant clients through the combination of our retail, card, and merchant-services businesses. The change we are announcing is one that is intended to focus our efforts where we see consumer behavior trending and merchants investing."

"We see our biggest opportunity in working with merchants to provide easy payment solutions for customers through the Chase Pay button online and directly in merchant apps, which has seen double-digit growth for the last three years," Connolly continued.

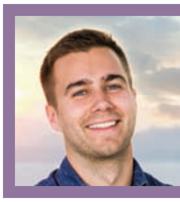
Chase Pay will continue as a payment option on merchant Web sites that display the Chase Pay logo and through merchant apps, as well as through PayPal. Merchants offering the service in their mobile apps include Shell, Phillips 66, Conoco, 76, and Gulf gasoline retailers. Some Chase Pay features already are available in the Chase banking app, and others may either move to that app or reside within merchant apps, Chase said.

The bank declined to disclose Chase Pay's transaction volume or how many customers had downloaded the app. But "less than one in 10 Chase cardholders had used Chase Pay online or in-store in the past 90 days," says McKee of 451 Research, citing his firm's first-quarter Voice of the Connected User Landscape survey.

When it debuted, however, Chase Pay looked like it could be a formidable challenger to the Pays. Chase had 94 million Visa cardholders at the time, and early merchant acceptors included Starbucks and Best Buy, with more added later. The app uses Quick Response codes for point-of-sale payments in contrast to the near-field communication technology used by the general-purpose Apple Pay, Google Pay and Samsung Pay.

McKee wasn't surprised by Chase's announcement.

"Operating-system-based wallets like Apple Pay and Google Pay have an inherent advantage from a user experience and customer onboarding standpoint," he says. "This makes it challenging for bank-branded wallets like Chase Pay to compete given they must encourage cardholders to hunt down and download yet another app to their smart phones. Chase Pay's utilization of QR codes to enable transactions was another factor limiting adoption given the integration required for merchants."



'The days of bank-branded wallets are coming to an end.'

—**JORDAN MCKEE**, RESEARCH DIRECTOR FOR PAYMENTS, 451 RESEARCH

Chase Pay could not access the NFC chip on Apple's popular iPhone and thus "was forced to use a QR-code interface, which requires merchant support, and apparently they were not successful in getting enough of that," says Aaron McPherson, vice president for research operations at Marlborough, Mass.-based Mercator Advisory Group Inc.

It would have been "difficult at best" for Chase Pay to succeed against the Pays, adds Thad Peterson, senior analyst at Boston-based Aite Group LLC.

"The concept of a bank-side wallet presents a limited value proposition at best, and it forces the bank into a channel where their knowledge is limited," Peterson says.

IS APPLE PAY FINALLY READY TO BLOOM?

Apple Inc. launched its Apple Pay mobile-payment service with much fanfare five years ago this month, and now some observers say the service, with an estimated 43% of Apple's iPhone owners using it, may be poised for a breakout.

If so, Apple might achieve a goal it has sought since 2014, a goal its tech cohorts Google and Samsung want to achieve for their own mobile-payments services. Despite massive hype and huge amounts of work by providers, mobile payments still account for a mere 2% or less of U.S. general-purpose card payments.

To be sure, awareness of Apple Pay far outpaces actual usage thanks to the power of the Apple brand, according to Jordan McKee, research director for customer experience and commerce at New York City-based 451 Research LLC. "It has served as a much-needed booster for the industry," he says.

Others share that view. "The significance of Apple Pay is that it was, and still is, a catalyst to digitize payments in a secure manner," says Krista Tedder, director of payments at Pleasanton, Calif.-based Javelin Strategy & Research. "Moving from the magnetic stripe to tokenized digital transactions moved the industry past the status quo."

While Apple wasn't the first to offer a mobile-payment service, its scale and brand recognition meant it was able to pull together a strong launch, Tedder says. Strong in 2014 meant 220,000 out of approximately 8 million U.S. merchant locations accepted contactless payments.

Today, Visa Inc.'s latest data show 3.7 million U.S. merchant locations are now enabled for EMV chip card acceptance. Most EMV point-of-sale terminals installed in the last few years also have the capability to accept contactless transactions through near-field communication, the technology used by Apple Pay and its main rivals, though not all merchants have activated it.

Meanwhile, Apple's efforts to expand the number of card issuers supporting Apple Pay have had an impact. From just five issuing banks and American Express Co. in 2014, Apple Pay's roster of supporting banks and credit unions has grown to more than 3,200 in the U.S., according to Apple's list published online Sept. 3.

Completing a POS transaction with an iPhone, and later the Apple Watch, was a unique experience at first, according to Gene Munster, managing partner at Minneapolis-based investor Loup Ventures. "It's been a late bloomer," says Munster. "For the first three years it was largely a novelty and in the last two years, for many reasons, the flywheel has just gained momentum."

The latest example of that is the introduction of Apple Card. This Mastercard credit card, issued by Goldman Sachs Group Inc., is designed first for use with an Apple Pay-activated iPhone. The physical card lacks an expiration date, card verification code, and account number. Users must get that information in the app.

Despite the gains, Apple Pay still has lots of work ahead of it, Munster says, given that less than half of iPhone users have adopted the service. "The challenge is always getting a greater percentage of people to use it," he says. And a first-quarter study by 451 Research says just 8% of consumers had tried Apple Pay over the preceding 90 days.

In addition, merchants have little apparent incentive to promote mobile payments.

"The greatest challenge is the revenue model of accepting mobile payments as a merchant," says Javelin's Tedder. "With the possibility of greater security for the bank, generally a merchant would expect to see a savings in acceptance [costs] due to the banks' lower loss rates. However, accepting mobile payments is more costly, which deters many smaller merchants from accepting contactless and mobile payments. The price complexity of interchange is not limited to Apple Pay, but to all contactless NFC payments in the United States."

And as all other mobile-payment services have learned, moving consumer habits away from cards is tough. "Significant growth will occur in mobile payments when the pain of using plastic is more painful than mobile," Tedder says. "Interchange models, fraud losses, and consumer acceptance all need to improve for growth to occur."

—Kevin Woodward

'DUMB PIPES'

The Citi, Wells, and Cap One payment apps differed from Chase's in that they relied on NFC technology rather than QR codes. Citi built its app on Mastercard Inc.'s Masterpass online and mobile-payment technology. But the bank notified customers earlier this year that Citi Pay would be ending in late summer.

A spokesperson for New York City-based Citi declined comment.

McKee notes Masterpass and a similar service from Visa Inc., Visa Checkout, were built by the networks partly with the intent of boosting the role of credit and debit card issuers—their core customers—in mobile and online commerce. But Masterpass and Visa Checkout are expected to be superseded by a new standard called Secure Remote Commerce developed by the multi-network-owned standards body EMVCo. ("The SRC Express," January).

While SRC is expected to make the checkout process smoother for consumers, exactly where it will leave issuers in regard to mobile payments is unclear. "Issuers are really trying to figure what the path forward is going to be," McKee says. "I think they're feeling like they're increasingly relegated to dumb pipes in those wallets."

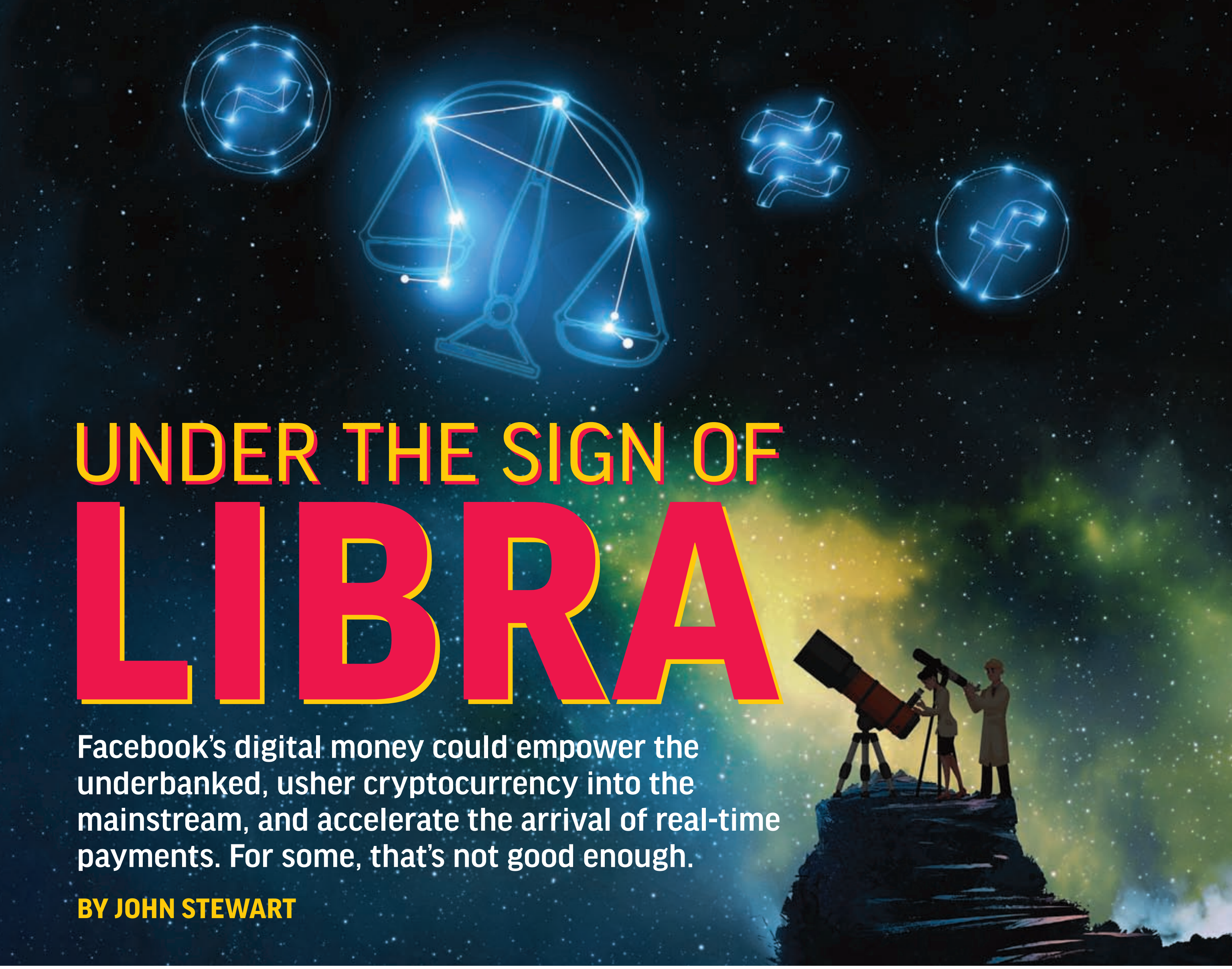
Meanwhile, the Cap One and Wells wallets failed to catch on in part because they worked only on Google's Android operating system, forgoing millions of iPhone users, McKee adds. Spokespersons for San Francisco-based Wells and McClean, Va.-based Capital One did not respond to inquiries from *Digital Transactions.*

Aite's Peterson argues banks do have a role in mobile wallets, but not as direct providers.

"There's a lot that could be done working with the Pays to create additional value," he says. "Linkage to rewards programs and other vendor offerings could create a unique value proposition for an issuer in the wallet."

That said, Peterson notes the new Apple Mastercard credit card issued by a Goldman Sachs subsidiary "is a very differentiable offering native to [Apple's iOS mobile operating system], and it will be challenging for other issuers to create competitive offerings."

It's clear mobile payments have been challenging for all players from the get-go, and they'll definitely remain that way for issuers. DT



UNDER THE SIGN OF LIBRA

Facebook's digital money could empower the underbanked, usher cryptocurrency into the mainstream, and accelerate the arrival of real-time payments. For some, that's not good enough.

BY JOHN STEWART

IN ROMAN TIMES, the libra was a unit of weight roughly equivalent to 12 ounces. Ancient Rome also attached the name to a constellation that traces the outlines of a balance against the night sky. This summer, a very weighty player upset the balance of digital money and payments in a move that could reverberate for years to come.

Unlike just about all new forms of digital money, the Libra cryptocurrency arrived in the headlines because it is the blockchain brainchild of Facebook Inc. While all the contours of the social-media giant's strategy for Libra may take months—or years—to unfold, one thing is certain: Facebook's backing has cast not just Libra, but a whole slew of related concepts, as well as Facebook itself, into the glare of public scrutiny in ways that no other cryptocurrency startup could approach.

The issues Libra addresses range from empowerment of the underbanked to faster and less costly payments, not just within national boundaries but worldwide. But the potential benefits come shackled to big questions, including the role of the Libra Association, Facebook's spotty record on privacy and data security, and the commitment the 27 other companies behind Libra are really prepared to make.

'A RISKY STEP'

What's clear is that Facebook, whose unveiling of Libra in June almost instantly encountered withering blowback from politicians and central bankers in the United States and abroad, has much at stake.

Just last month, both France and Germany promised to block Libra from operating in Europe. Earlier, U.S. lawmakers expressed alarm at a currency controlled by private companies and demanded a halt to Libra until all questions could be addressed (box, page 28).

For Facebook, Libra is "a risky step. It could blow up in their face," notes Stephen Pair, chief executive of BitPay, an Atlanta-based company that enables consumers to spend Bitcoin and other cryptocurrencies and merchants to accept them.

But Facebook is hardly in this alone. While it spearheaded the development of Libra, it went public with the backing of a consortium of 27 other companies from the worlds of payments and technology, each of which is expected to put up at least $10 million to buy in. These companies make up the Libra Association, a legal entity domiciled in Geneva, Switzerland.

Mastercard Inc. and Visa Inc. are members, as are PayPal Holdings Inc., PayU, and Stripe Inc. Their interest in Libra isn't hard to see. It boils down to the promise of high-speed, low-cost transactions in corridors with rising demand. For example, "it's a way of doing cross-border payments with low fraud rates," points out Krista Tedder, head of payments at Javelin Strategy & Research, Pleasanton, Calif.

That application carries other benefits. "Foreign-exchange costs are significant. If the consumer loads the funds into Calibra, you don't have to deal with foreign exchange because it's already handled at the consumer level," adds Tedder. Calibra is Facebook's new wallet, the first of what is expected to be a range of competing apps to load and spend Libra.

Mastercard and Visa said they had nothing to add regarding Libra since the public announcement in June. PayPal and Stripe did not respond to requests for comment. Spokespeople for Facebook and PayU were initially responsive but did not reply to inquiries in time for this article.

'IT'S JUST BIZARRE'

Missing from the roster of association partners are financial institutions. Banks are inherently conservative creatures, and many may be put off by the harsh reaction from regulators here and abroad. But Libra could present banks with an all-too-rare opportunity, argue some observers.

"It's just bizarre that they're not participating," says Richard Crone, principal at Crone Consulting LLC, a payments advisory in San Carlos Calif. "The $10 million is like throwaway money."

But, in a way, banks will be involved whether they intend to be or not. Libra will be a so-called stablecoin, a form of digital money backed by a basket of bank deposits and short-term government securities. That's designed to prevent the kind of wild swings in value that have kept older cryptocurrencies like Bitcoin from entering mainstream payments.

Beyond that, Libra is designed to be open-source, which means any entity can build applications on top of its code. To begin with, the currency will run on what's called a permissioned blockchain. Only authorized entities will be able run nodes on the Libra network. Within five years, however, the developers expect the network to go permissionless.

Observers like Crone see vast possibilities in that for banks. They could go small, with, say, person-to-person payments not controlled by larger competitors, or go big, catering to that huge market of unbanked people.

Many people who don't have checking accounts nonetheless have accounts with Facebook or its properties, like WhatsApp and Messenger. "This is the single greatest new green-field account-opening opportunity," Crone says.

WhatsApp and Messenger are a key part of Facebook's Libra strategy. The company expects users to adopt the Calibra wallet and use it like a bank account. That wallet would then come with

'It's just bizarre that [banks aren't] participating. The $10 million is like throwaway money.'

—RICHARD CRONE, PRINCIPAL, CRONE CONSULTING LLC protection by what Crone calls a "hard token"—the mobile phone—and a "soft token," the user name and password.

In his testimony to a Senate committee in July, Calibra head David Marcus said Facebook expects to profit not from these transactions but rather from the incremental advertising all the new activity will attract. Marcus is an old salt on the seas of payments. He came to Facebook in 2014 after a stint as PayPal's president, and before PayPal was a successful mobile-payments entrepreneur.

That may be what's in it for Facebook. Crone doesn't think financial institutions will sit much longer on the sidelines. "It's foolhardy to think some financial institution of substance won't participate in this, and once it does a feeding frenzy will occur" among banks in general, he predicts.

BitPay's Pair, too, expects banks will ultimately adopt Libra, but maybe not with the urgency Crone advises. "Are they missing out? Maybe. Banks tend to be slow to adopt new technology, but if you wait too long, it could be too late," Pair says. As for BitPay, Pair says the company plans to add the new coin "so our customers can accept Libra."

A GEYSER OF DATA

But not all observers see Libra as a fountain of cash waiting to be tapped by banks. For one thing, some of the country's megabanks are looking at crypto coins of their own. JPMorgan Chase & Co., for example, in February announced it is testing JPM Coin, a stablecoin tethered to the U.S. dollar. For the time being, the coin is confined to wholesale payments between institutional clients.

"I disagree banks are missing out," says Javelin's Tedder. Instead, she sees opportunity for those merchants BitPay will be taking Libra to.

What Libra may well do, she says, is put stress on card interchange costs, a development that is likely to appeal to large enterprise retailers but work contrary to the interests of banks. "This is a product that fits a unique need—how to reduce foreign-exchange costs, how to reduce interchange," she says, though she adds she has not seen an interchange model for Libra.

Libra is likely also to generate a geyser of purchase data that could prove quite valuable to those advertisers Facebook hopes to attract. And this is where the social-media kingpin must be careful.

Marcus, for example, took pains during his testimony to assure that his company would protect the confidentiality of such information. But there's no data like payment data, and Libra has the potential to generate a lot of it.

The reason starts with just how many people use Facebook and its properties regularly. "If they get 2.5 billion people using [Libra], that gives them an enormous amount of data, plus transaction fees for processing off-platform," observes Eric Grover, principal at Intrepid Ventures, a Minden, Nev.-based financial-services advisory.

'THOUGHT CHANGE'

But some observers set aside questions about transaction fees, data privacy, and the relative lack of involvement from banks. What the crypto world sees in Libra is a huge opportunity to inject digital money into the mainstream now that huge U.S. corporations are signed up.

"It's sort of increased the urgency to address thought change on cryptocurrency," notes Pair. "All of a sudden, this could happen very quickly."

FACEBOOK FAST FACTS

Number of small and medium-size businesses transacting	Number of monthly active WhatsApp Users	Number of monthly active Messenger Users
90 million	1.5 billion (68 million in the United States)	1.6 billion (an estimated 126 million in the United States)

Source: Facebook

Pair says BitPay and other crypto players have been following the development of Libra "for probably over a year." While Facebook's project was officially kept under wraps until June, the tight-knit cryptocurrency world had some inkling of what was coming.

"People talk in the industry, and [Facebook] is employing people we know," Pair says. "We suspected they were working on something." The only big surprise when Libra debuted, he says, was not that the money is a stablecoin, but that it isn't tied to the dollar.

Now the cryptocurrency business, which has been growing globally since Bitcoin debuted in 2009, has been joined by backers with the wherewithal to make Libra a leading tender just about anywhere in the world.

A critical ingredient will be launching the Calibra app on time in 2020. Libra may populate other wallets over time, but Facebook's wallet is the product in the spotlight today. "If they don't have a wallet when they launch [Libra], nobody will be able to use Libra," Pair says.

'A BIG DEAL'

The timing of Libra's introduction, though, is complicated by the regulatory roadblocks it's already running into. The association has said Libra will not launch until everyone is satisfied, but skepticism runs deep among central bankers that a transnational currency should be operated by a consortium of private companies.

Last month, regulators from around the world met in Basel to question Libra representatives about the potential for the new currency to disrupt Europe's financial stability.

The previous week, the association filed a request with the Swiss Financial Market Supervisory Authority (FINMA) seeking a clear statement of the status of the association and that of the Libra coin. In conjunction with that request, the association also announced it is seeking a license from FINMA to operate as a payment system.

"We are engaging in constructive dialogue with FINMA and we see a feasible pathway for an open-source blockchain network to become a regulated, low-friction, high-security payment system," Dante Disparte, the association's head of policy and communications, said at the time in a press release.

That development followed news in August that at least three of the association members were having second thoughts about the venture in the face of the hostile reception on Capitol Hill (box). As of mid-September, nobody had pulled out.

If the association can hang tough through this gauntlet, the world may yet find out just how threatening Libra is to the world's financial system—and just how much it can do to put electronic money for the first time in the hands of people who never saw a bank.

And the financial-services business may yet have a chance not only to greet a potent new crypto coin, but also a player whose outsized assets may just match its ambitions in payments. Observes Intrepid Ventures' Grover: "There's never been a challenger come in with 2.5 billion users. That's a big deal." DT

FACEBOOK'S CALIBRA RUNS THE GAUNTLET ON CAPITOL HILL

Facebook Inc. hasn't set a specific date for introducing its Calibra wallet, and the frosty reception its top executive for the initiative received this summer on Capitol Hill may be a big reason why. But at least that confrontation cast some light on the business case behind Calibra.

In July, David Marcus, head of Calibra, said in prepared remarks that the new wallet will lead to more transactions on Facebook properties and ultimately more advertising revenue for Facebook. Calibra is an arms-length Facebook unit intended to allow consumers and businesses to trade in the Libra cryptocurrency.

"We expect that the Calibra wallet will be immediately beneficial to Facebook more broadly because it will allow many of the 90 million small- and medium-sized businesses that use the Facebook platform to transact more directly with Facebook's many users, which we hope will result in consumers and businesses using Facebook more. That increased usage is likely to yield greater advertising revenue for Facebook," Marcus told the U.S. Senate Committee on Banking, Housing, and Urban Affairs.

But under questioning from committee member Mark Warner, D-Va., Marcus assured the panel Facebook will not bar competing wallets. The app, intended to be used for commerce with the Facebook-developed Libra digital currency, will be "one of many wallets" operating within the Libra network, Marcus said.

Almost as soon as Facebook introduced Libra and the Libra Association in June, the company faced negative feedback from regulators, lawmakers, and consumer groups concerned about what they see as the social network's questionable record on such matters as privacy, data security, and competition.

The association is made up of Facebook and 27 other companies, including major payments networks like Mastercard Inc., PayPal Holdings Inc., Stripe Inc., and Visa Inc. The association will take over management of the blockchain-based Libra currency from the social network.

Facebook has repeatedly said the currency won't launch until it has satisfied regulators, a point Marcus repeated in his Senate testimony. "We are determined to meet the regulatory bar before we proceed," he said.

He added Facebook is working to comply with rules from a slew of agencies, including the U.S. Treasury Department's Financial Crimes Enforcement Network and Office of Foreign Assets Control, as well as the Federal Trade Commission.

Despite his assurances, Marcus encountered considerable skepticism from Democrats on the committee regarding not only regulatory concerns but also Facebook's professed willingness to let Libra remain open to wallet apps that could compete with Calibra.

"We will have to compete with a number of other wallets that will operate on top of Libra," Marcus said in response. "We will have to have the highest standards when it comes to privacy. No data will be shared with Facebook."

But the session wasn't entirely hostile. Sen. Pat Toomey, R-Pa., pointed to benefits the Libra currency and Calibra wallet could introduce and cautioned against acting prematurely to stymie the project. "To strangle this baby in the crib seems wildly premature," he noted.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HOW LIBRA IS A SPARK FOR BLOCKCHAIN TECHNOLOGY

It faces formidable challenges, but Facebook's cryptocurrency initiative has the potential to rewire the underpinnings of the entire payments system.

BY MARWAN FORZLEY AND PAUL VERADITTAKIT

Marwan Forzley is chief executive of Veem Inc., San Francisco. Paul Veradittakit is a partner at Pantera Capital, Menlo Park, Calif.

LIBRA, A NEW STABLECOIN POWERED BY BLOCKCHAIN technology from Facebook, is a bold, forward-thinking concept and a potential game-changer for blockchain and the payments realm.

While it remains to be seen whether Facebook can create a system that achieves mainstream adoption, Libra will at least succeed in accelerating discussions and development of both digital currencies and the technology that drives them: blockchain. Leveraging the popularity of Facebook, Libra opens the door to new payment solutions for ecommerce that align with consumer and business needs in the digital world.

Libra isn't a one-stop solution. However, Facebook has contributed to the discussion around what could be called "multirail technology," which is fundamentally about fitting the payment rails to the needs of the user, not the other way around.

The payment space is large, and tailoring to different use cases (B2B, B2C, C2C, C2B, G2B, G2C, etc.). It is also tailored to different settings (Web, POS, mobile, devices) and different amounts, including micro transactions (those under $5) all the way to large-value payments (multi-million-dollar transactions). The more various the settings the industry needs, the more rails are needed and the more requirements there are to have the rails fit to the actual use case.

There are many details about Libra that have yet to be provided, but the very announcement of Facebook's ambitions for a new cryptocurrency using blockchain technology is a foundational event for the payments space. This development has profound implications for the financial-technology industry, its investors, and consumers around the world.

Companies in the fintech sector have different focuses and clientele, but they share one central goal: moving money efficiently.

Each business and use case is different, so why would every user pay in the same way? To foster their own development and to create better relationships with their customers and business partners, it's crucial that users around the world have more choice when it comes to payments to meet their needs and those of their partners and clients.

Libra, and blockchain technology generally, are offering users new and innovative payments systems that break down borders—both geographical and institutional. The openness of the environment leads to innovation in new services that results in optimization of speed and cost.

Not only will Libra introduce new infrastructure for the multi-rail payments model and a globalization effort in the payments space, but it will also serve as further evidence of the necessity for more payment options across all platforms and industries.

Introducing more choices and ways to pay could have far-reaching implications that extend well beyond the fintech sector. According to the Libra Association, $3.7 trillion in gross domestic product could be added to the economies of developing countries by 2025 through the widespread adoption of digital financial services.

INVESTMENT PERSPECTIVE

Libra will enable the potential for more companies and applications to build on top of what Libra ends up creating, similar to what was experienced when Ethereum was created. For investors, that means more opportunities in infrastructure or in companies using decentralization and blockchain technology.

Enterprises around the world will look to do something similar to Libra and will consider this project as a model for decentralization. This will cause a snowball effect in terms of investment and innovation, which will further revolutionize the fintech sector.

Where Facebook is really owed credit with this endeavor is how it has worked to get companies such as Uber, Mastercard, eBay, Visa, and more involved through the Libra Association. Facebook already has tremendous reach, but getting other major firms involved is what gives this project more weight.

BARRIERS AND CONSIDERATIONS

Building the infrastructure necessary for this project will require strategic partnerships that will aid in the system's development and adoption. Libra will certainly also face trust issues stemming from Facebook's various security breaches. But the real hurdle for Facebook and Libra lies in the regulatory response.

The House Financial Services Committee has formally requested that Facebook pause development of Libra, including the Calibra digital wallet, until U.S. regulators and Congress have the chance to investigate whether the project

Marwan Forzley

Paul Veradittakit

'Enterprises around the world will look to do something similar to Libra.'

poses any risks to the global financial system. Also, the G7 countries have formed a task force to examine regulatory concerns surrounding Libra.

The only way for Libra to succeed is for Facebook to work with governments and develop arrangements that suit the interests of all parties. The regulatory debate, which is about to kick into high gear publicly, will be pivotal not only for Facebook and Libra, but for the entire ecosystem.

WHAT'S NEXT?

Facebook's announcement will undoubtedly lead to numerous companies around the world taking a look at how they can leverage blockchain's anonymity, trust, and automation. That's because when one of the biggest companies in the world shows an interest in something, it's worth taking note of what they're onto.

Libra may also pave the way for more openness in financial platforms. That could open the floodgates to developers trying to make their mark for more creative innovative services. Open financial platforms powered by blockchain technology, in turn, will spur more entrepreneurial growth and development to make transacting easier for users.

Banks, card networks, and central clearing systems are all designed to be closed networks, blocking the best and brightest engineers from developing on these platforms. The next step for this blockchain technology is to provide a space for these innovators to thrive and give rise to the next phase of global finance.

Make no mistake. Facebook may be the first big company to jump on the blockchain and cryptocurrency bandwagon, but it certainly won't be the last. DT

THE DIGITAL REVOLUTION COMES TO REMITTANCES

Western Union, MoneyGram, and Ria have ruled the money-transfer landscape for decades. Now they are challenged by a slew of digital-first upstarts. Does the old guard have what it takes to stay ahead of the competition?

BY **PETER LUCAS**

FROM MOBILE WALLETS and person-to-person payments to cryptocurrencies and blockchain ledgers, digital disrupters are everywhere in payments. Money transfers are no exception.

In recent years, fintech companies—some of them backed by powerful parents—have emerged to challenge the legacy players of the money-transfer industry: The Western Union Co., MoneyGram International Inc., and Ria Money Transfer.

The newcomers, which include such players as Remitly Inc., TransferWise Inc. and PayPal Inc.-owned Xoom Corp., are carving their own niche in the $689-billion global remittance market. This new breed of players specialize in end-to-end digital transactions rather than rely on the agent networks Western Union and MoneyGram built the backbone of their businesses on. And they are steadily eating into the legacy providers' market share, as measured by transactions processed.

In 2018, Western Union saw its share drop to 12.7% from 13.7% three years earlier, according to Boston-based Aite Group. During the same period, MoneyGram's share declined to 5.3% from 6.4%. Ria, a subsidiary of Euronet Worldwide, Inc., was the only one of the big three to boost its share, claiming 6.4% of the market 2018, from up 4.4.% in 2015, Aite says.

TransferWise enjoyed the largest gain among the digital-first upstarts, notching a 6.8% share in 2018, up from 1% in 2015. While newcomers such as Remitly and WorldRemit Corp. have enjoyed explosive transaction growth, they still command less than a 1% share.

In addition to gaining share, the newcomers are expanding the infrastructure for real-time digital cross-border remittances. That makes it easier and faster to move money to unbanked consumers with mobile wallets than is possible through an agent-based network, payments experts say.

The impact on the money-transfer landscape has not gone unnoticed by venture capitalists. Earlier this year, Remitly received a $220 million cash infusion on top of the $115 million in funding it took in in 2017. The latest investment was co-led by PayU, an Amsterdam-based financial-services provider that supports cross-border payments. In both cases, funding was earmarked for development of new services to attract more customers and expand existing customer relationships.

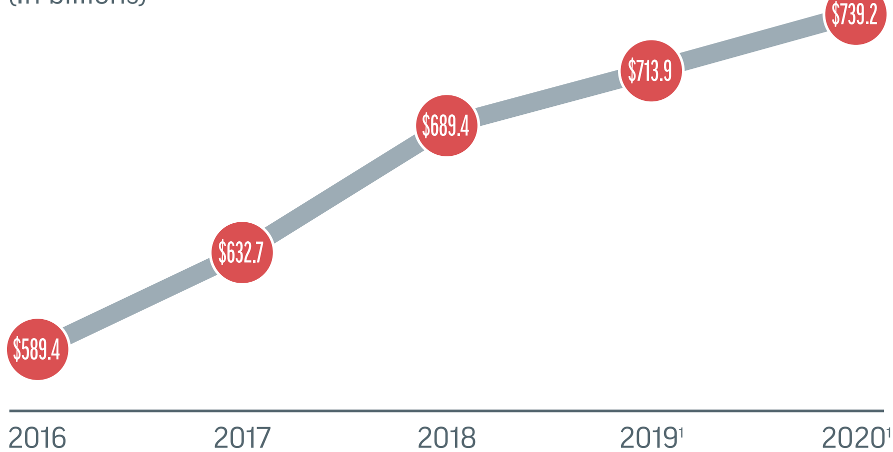
Other digital-first companies enjoying the largesse of investors include WorldRemit, which received $175 million earlier this year. In 2018, Azimo and Flywire received $120 million and $110 million, respectively, and TransferWise landed $280 million in capital in 2017.

"Competition in the remittance industry is very stiff thanks to the entry of digital-first players, and that has led to some massive investment in them the last few years," says Talie Baker, a senior analyst for Aite Group. "The growth and expansion of these companies is eroding market share for the legacy players."

One reason for the increased competition in money transfer lies in the continued overall growth of the market. In 2018, remittances grew 8.8% from $633 billion in 2017, according to the Washington D.C.-based World Bank. Digital remittances are estimated to be 10% to 15% of total remittances, up from a 7% share in 2016, Baker says. Overall, Aite projects cross-border remittances will reach $739.2 billion by 2020.

A RELENTLESS UPSWING FOR GLOBAL REMITTANCES

(In billions)



1. Estimate. Source: Aite Group

A key driver of the growth lies in remittances to low- and middle-income countries, which are expected to reach $550 billion in 2019, up from $529 billion in 2018. Remittances to these countries are fueled by immigrants working in wealthy countries that send money back home to their families, the World Bank says.

NIMBLENESS NEEDED

With digital remittances growing fast, the big question facing Western Union, MoneyGram, and Ria is: Are they nimble enough to keep the fintechs from eating their lunch?

Payments experts say yes, but caution that fending off the upstarts won't be easy.

"The old guard is undergoing a transformation in their business right now," says Nick Maynard, lead analyst for Juniper Research, a United Kingdom-based technology consultancy. "While they have all launched pretty good mobile apps, that's not necessarily going to be enough to offset the appeal of the fintechs to consumers."

The additional firepower the big three need to fend off the competition, Maynard argues, will come from partnerships and interoperability agreements with digital money-services providers that can make money transfers faster, less expensive, and more convenient. "That can help them stay ahead of the curve," Maynard says.

MoneyGram and Ria took steps in that direction earlier this year by partnering with blockchain specialist Ripple Inc. In August, Dallas-based MoneyGram announced it was using Ripple's xRapid cross-border payment platform. MoneyGram chairman and chief executive Alex Holmes says partnering with Ripple will make cross-border payments faster, more efficient, and more secure.

"Moving money across borders is complicated," Holmes says by email. "Our partners are collecting and paying money on our behalf to our customers and we have to settle with them every night—that can be a cumbersome process. We do it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well, but there are some inefficiencies. Our joint partnership vision with Ripple is to help money move across borders as easily as information moves today."

In addition to its partnership with MoneyGram, Ripple has taken a $30 million equity stake in the company. Ripple also holds an option to infuse another $20 million in equity in MoneyGram.

With Ripple as a stakeholder, MoneyGram sees an opportunity to expand Ripple's technology platform and grow its digital network by jointly developing markets for Ripple's technology over the next two years, says Holmes.

MoneyGram also launched a partnership with Visa Inc. this summer that it expects will further build out its digital-remittance business. "Strategic partnerships will be key to growing our digital side," says Holmes.

STICKING POINT

In May, Ria joined Ripple's payments network, known as RippleNet, to speed cross-border payments. The integration of RippleNet will enable Ria users to track the status and delivery of money and have more fee transparency. RippleNet's network comprises more than 200 financial institutions worldwide.

As with its partnership with MoneyGram, Ripple's deal with Ria will expand its payment platform by allowing RippleNet customers access to Ria's network to send and receive cross-border payments, Ripple said in a blog post when the deal was announced.

Despite piloting Ripple's cryptocurrency, Western Union has not been as quick to partner with Ripple. The sticking point, according to Western Union, is that cryptocurrency transactions are not as cost-efficient as conventional transfers. Denver-based Western Union, however, says it will partner with Ripple if the economics make sense.

"As the regulatory nature of cryptocurrencies comes into focus, Western Union will explore their benefits to consumers and consider offering digital currencies as a payment option where there is a demonstrated value," says Patrick Ramsey, vice president and global head of partnerships for Western Union.

Western Union's wait-and-see attitude toward Ripple has not prevented the company from striking partnerships with other digital-payments players. In May, it partnered with Thunes, a cross-border network that delivers payments for emerging economies, to allow customers to send funds to mobile wallets. Western Union is also looking at blockchain applications for transaction processing and settlement and improving identity confirmation and regulatory compliance for cross-border transactions.

"Blockchain and other distributed-ledger technologies may provide developing markets that lack centralized resources opportunities to broaden financial inclusion," Ramsey says. "We're open to technologies that have the potential to drive connected globalization."

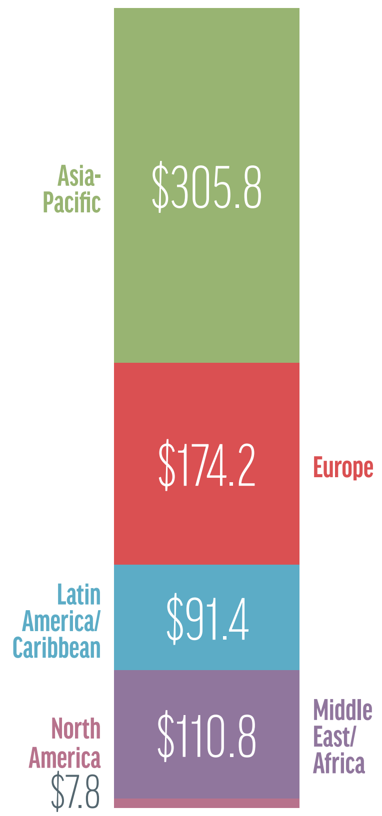
PRICING PUZZLES

While partnerships with the likes of Ripple and mobile wallet providers may help Western Union, MoneyGram, and Ria expand their digital footprint, they still have to be price-competitive. "In many cases, the cost of a money transfer through Western Union or MoneyGram is higher than for the digital startups," Maynard says. "Conducting a money transfer at a lower cost, and faster, is a differentiator."

To attract new users to its digital platform, MoneyGram has rolled out introductory pricing for online-only transactions and lowered its prices for other transfers in legacy markets. Outbound pricing for all online transactions originating in the United States is now $4.99. Consumers can also go to the MoneyGram Web site to see the cost of a nondigital cross-border transfer.

INBOUND REMITTANCES BY REGION

(Estimates for 2018 in billions)



Source: Aite Group

So far, MoneyGram's introductory pricing has been successful in attracting and retaining new customers. "Customers aren't switching to us for the low price and then leaving," Holmes says. "In Europe, for example, we recently shifted our pricing, and our volume was not negatively impacted. Our data shows customers who try the new MoneyGram app consistently return to use it."

Western Union says its pricing varies among the 20,000 markets it serves. Factors influencing price include compliance costs, the destination country's technological infrastructure, and the level of service the customer chooses. Overall, the company says remittance costs generally have been decreasing for more than a decade due to such trends as improved scalability, introduction of new product and service options, expanded channels, and increased competition.

Ria declined interview requests for this story.

One advantage the legacy players have over their digital-first counterparts in attracting new customers is their cash-pickup networks. Western Union is bullish that many consumers sending money cross-border to recipients that lack bank accounts will actively embrace a hybrid of digital remittances, such as sending money via its app and having the recipient pick up the funds in cash at one of its agent locations.

"There are consumers that will leverage only a part of our digital services, because that is what's relative to them," says Ramsey. "Although we are looking to drive digital innovation, its use still comes down to whether it is a relevant solution for serving customer needs in a particular market, such as in developing countries where the digital infrastructure is not as far along.".

Offering a menu of digital and non-digital services that consumers can mix and match could prove to be substantial advantage not just for Western Union, but also for MoneyGram and Ria.

"While digital send capabilities are a priority for all money-transfer companies, cash pickup is still the primary way people receive remittances," says Baker. "The challenge for digital-first firms then is going to be showing a profit going forward, not just potential, because I think digital is going to take a little longer to dominate on the receiving side." DT

Unified token payments enable data to be leveraged.

HOW TO HELP SMBs COMPETE AND THRIVE

Unified token payments offer benefits that include but go well beyond enhanced security. That's why they're just what merchants need in today's hypercompetitive marketplace.

BY NICK STARAI

Nick Starai is chief strategy officer at NMI, Roselle, Ill.

RETAIL TODAY IS UNDERGOING significant transformation. Businesses must quickly adapt to shifting consumer demographics, preferences, and technology to remain competitive or face the harsh realities of being left behind.

Large merchants are heavily investing in technology that gives consumers consistent, seamless omnichannel experiences, whether they choose to shop and purchase online, in-store, from mobile or unattended devices and more. Small and midsize businesses (SMBs) want the same kind of experiences for their customers, but lack the financial and technical wherewithal to stay competitive.

That's where unified token payments come into play. They empower SMBs with technology that delivers value well beyond payment acceptance while giving consumers streamlined shopping experiences that remove friction across all channels.

WHAT ARE THEY?

Payment-tokenization technology replaces actual payment card numbers, known as primary account number (PAN) information, with randomly generated tokens. Merchants don't store card numbers; they use tokens to associate customers with their account information, removing sensitive information from the transaction process.

With tokenized payments, a token vault stores card-on-file information, enabling merchants to recognize a customer at any point of engagement, whether online or at a physical, mobile, or unattended point-of-sale location. Customer profiles are instantly created with speedy click-box opt-in permission to collect data.

For merchants, virtual, mobile, and countertop terminals are all integrated under one merchant identification number.

How do unified token payments help SMBs? To begin with, they enhance data security. No matter where or how consumers pay, data must be protected. With tokenized payments, credit card numbers are transmitted from the point of transaction origination to a token vault and are never part of the SMB's system.

If hackers gain access to the merchant's payment system, all they find are tokens of no value as cardholder information is rendered essentially useless. Besides minimizing value to hackers, tokenized payments protect data from various individuals connected with SMB organizations, including employees, vendors, and suppliers.

Tokens also simplify PCI compliance. With many day-to-day operational responsibilities, SMBs are frequently unaware or confused about their Payment Card Industry Data Security Standard (PCI DSS) compliance responsibilities. Since no sensitive data is stored on SMB payment or computer equipment, tokenized payments take the compliance monkey off SMB's backs.

This significantly reduces the burden of PCI DSS requirements and audits, saving SMBs valuable time and money while enabling them to focus on running their businesses.

In addition, unified token payments enable data to be leveraged. SMBs gain a powerful single view of their business across all channels, offering greater visibility into their customer base and a higher understanding of individual behaviors to create new revenue streams.

For example, merchants can use data from a tokenized payment solution to feed loyalty and rewards programs that show when customers are most likely to purchase. Anomalies, such as a regular customer who hasn't purchased in a while, can also be revealed.

More data gives SMBs the insight they need to target customers, as well as drives personalized communications and special offers to entice customers to return and spend more.

Unified token payments enable e-commerce businesses to offer one-click payments that significantly increase checkout conversion, and even permits them to accept payments and recognize customers at pop-up locations.

Health-care providers with online payment portals can also accept in-office or mobile payments and associate them all with a patient account using unified token payments. And fitness centers can easily establish recurring billing while allowing their members to put vending purchases like snacks and water bottles on their accounts.

Tokenized payments also improve the customer experience. In other words, this is so much more than just secure technology. Tokenized payments help create seamless, fast, and easy payment experiences that result in satisfied customers.

Ride-share services have made paying and tipping as simple and painless as possible. Big-box retailers have made "shop online, return in-store" an in-demand consumer preference. That's the power of unified token payments, and SMBs now can harness these capabilities.

SEAMLESS COMMERCE

Offering point-of-sale and payment solutions suited to SMBs based on a lack of complexity and budget-friendly price points may have been a good strategy in the past. But to compete in today's connected marketplace, merchants of all sizes need the ability to provide frictionless, convenient, and personalized customer experiences.

Leveraging unified token payments can be a creative solution to give SMBs capabilities that rival those of large merchants. They will be able to better compete, while making seamless commerce a safe reality everywhere it takes place. DT

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