POSitivity magazine

THE OFFICIAL MAGAZINE OF MERCHANT PAYMENTS ECOSYSTEM • ISSUE 92 / OCTOBER 2021

MPE 2022 IS
THE ULTIMATE PAYMENTS CONFERENCE

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MERCHANT PAYMENTS ECOSYSTEM

EDITORIAL

The Merchant Payments community gets excited about the chance to re-connect with 1000+ of their old friends and meet new connections at MPE2022 to discuss and better understand their priorities for 2022.

The MPE team believes that maintaining a sense of community is very important, even before meeting in person at the 15th MPE conference in Berlin on February 22-24, 2022.

We live in an ever-increasingly faster-changing world of payments. It is critical for payment providers to understand New Needs and Challenges merchants face now, adjust their solutions and services, and help merchants overcome them.

MPE team interviewed BIG MERCHANTS for this Issue of POSitvity magazine and is bringing you the perspectives of Merchants attending the MPE2022 conference on the most significant payments challenges for their business.

We are just four months before our annual MPE conference in Berlin, February 22-24, and we are very excited to share some conference news with you. The feedback from merchants is fantastic this year; ALREADY 160 GLOBAL MERCHANTS CONFIRMED PARTICIPATION, brands like REWE, Shell, Daimler, Boozt, H&M, Sixt, Stokke, HalloFresh, S-Group, Fortuna, etc. are coming to Berlin.

The MPE2022 conference preparation works are in full swing. The first version of the conference program, prepared by our Advisory Board, was released. The call for speakers is open, and we are also happy to welcome the first sponsors: CMPSi, MyPOS & Earthchain, onboard!

Want to learn more and connect with over 1000 Senior Level payment professionals and 250 Global Merchants and Brands attending MPE 2022? REGISTER NOW WITH autumn RATES 20% OFF ENDING November 30.

This Issue of MPE POSitivity magazine brings you fresh Industry news and trends, covering recent M & M&A activities, emerging BNPL opportunities, update on Cryptocurrency and payment acceptance, and selection of industry news announced during the previous 3 Quarter 2021.

If you have not had a chance to join one of the webinars (Fraud Fighters: Measuring the True Impact of Your Fraud Ops Team), MPE organized during previous months, you can find the list of prior webinars or register for the upcoming webinars.

Enjoy the reading

Your MPE team (the publisher of the POStivity magazine)

PS: If you would like to become an active contributor to POSitivity magazine let us know at mpe@merchantpaymentsecosystem.com

WHAT IS THE KEY TO SUCCESS IN MERCHANT PAYMENTS?

Let's discuss it together @ MPE 2022!

THE EUROPEAN MERCHANT PAYMENTS EVENT

FACE-TO-FACE IN BERLIN,

FEBRUARY 22-24, 2022

CALL FOR SPEAKERS IS OPEN NOW!

SHARE YOUR

X-FACTOR FOR SUCCESS

AND POSITION YOURSELF

AS A MERCHANT PAYMENT LEADER!

SEE THE AGENDA TOPICS &

SUBMIT YOUR SPEAKING PROPOSAL

WHY JOIN MPE 2022 IN BERLIN?

Meet the most remarkable people in the world of European merchant payments &
Discover what you need to thrive in the times of digital transformation

REGISTER **SPEAK** **SPONSOR**

MEET THE MPE 2022 ADVISORY BOARD!

These individuals have decades of experience and have all made significant contributions to the development of the industry as we know it today:

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MERCHANT PAYMENTS ECOSYSTEM

BERLIN | 22-24 Feb 2022

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2022

IT'S THE TIME TO DRIVE NEW BUSINESS!

NEW SPONSORSHIP & EXHIBITION OPPORTUNITIES

CONNECTING YOU WITH 1000+ SENIOR MERCHANT PAYMENTS PROFESSIONALS IN 2022

WHY SPONSOR MPE 2022?

- MEET THE MOST REMARKABLE PEOPLE IN THE WORLD OF EUROPEAN MERCHANT PAYMENTS
- MOVE TOWARDS YOUR BIGGEST GOALS

"MPE is a truly exceptional event. There's something amazing about having such an incredible group of people, from diverse countries, companies and fields, coming together to discuss and delve into the most interesting issues of the day. MPE has a great atmosphere, with attendees who are really open to learning from another and hearing about new ideas or approaches. We had so many fantastic, open conversations, and we could feel that the drive towards collaboration, to make the industry stronger for everyone, was very present and very powerful. We look forward to gathering in person again, to feel that wonderful buzz!"

"On MPE 2019 we met for the first time a company not known to us before, that is specialized in FIDO Authentication technologies: NokNok. On MPE Netcetera and NokNok started discussions, how FIDO can be used to improve the conversion in e-Commerce payments with a focus to Delegated Authentication. Resulting from these meetings we started the cooperation with NokNok on these topics and today are offering successful solutions to the acquiring and issuing markets, using FIDO technology to improve the conversion rates."

"Dejamobile hasn't had the chance yet to exhibit at MPE conference physically. However we have experienced digital exhibition with virtual booth. We are looking forward to being able to be present at MPE in Berlin which is a great place to show the demos of our software POS solution and share some feedback with various actors from the payment acceptance industry."

REQUEST THE MPE 2022 SPONSORSHIP BROCHURE

Join 250+ Global Merchants in „MERCHANT HOSTED PROGRAM“

Participate in high-level networking at MPE 2022

Connect and network with payment professionals from top global merchants

Dedicated program sessions and peer-to-peer discussions

Benchmark and learn from other merchants from various verticals in workshops and topical tables. Get involved in group chats / Q&A sessions with industry experts and get answers to your burning questions.

With „Merchant Hosted Program“ you can get your merchant pass FOR FREE.

GET TICKET

When registering use DISCOUNT CODE: **merchant-100-percent**

Please note that your registration is a subject to an approval on our side.

All you need to do is to claim your ticket... but hurry! Free passes are limited and get snapped up quickly.

Interviews - The Voice of merchants attending MPE 2022

Kai Lindström
Vice President, Payments at SOK

Your Response to COVID-19: How you, the company & the community you represent coped with and responded to the challenges of Covid-19

Our grocery & supermarket business did exceptionally well, while at the same time, hotel & restaurant businesses hit rock bottom.

We responded by moving our employees from the badly affected business areas to those that needed more people to answer the increased demand.

We sort of got caught on eCom demand with "our pants down," so now there's a huge push to renew the webshops and improve their UX and capabilities.

What are your current priorities & trends to watch?

Growth of online and how to improve our online & omnichannel capabilities; growth of mobile wallet usage and how to enable loyalty via mobile wallets

Would you please provide your input in the following areas
Uncertainty (in terms of forecasting the future, changing customer behavior, planning investment into new technologies. Uncertainty as to whether the shift in customer preferences reflects a permanent change or whether they will revert to "normal" once the pandemic is over).

Regulation

3DS2 is still a headache as many issuer banks fail to provide working authentication solutions and especially don't support any exemptions.

Fraud

Almost non-existent at the moment but will need to put more effort into fraud management as the eCom channel gains more share in sales

Other (please specify)

Consolidation/globalization of service providers à less choice; global platform means fewer possibilities to implement merchant-specific features

In case you attended in the past, please provide your testimonial; note that the best quotes will appear on the MPE website during the upcoming months:
What's so special for merchants about joining the MPE Merchant Hosted program & attending the MPE conference?

It's an excellent opportunity to attend the best payments conference in the world and to find out about new solutions, trends and even find a cure to an issue that the merchant might be tackling.

How would you describe MPE in 3 words?

Ultimate payments conference

Networking at MPE: Why is it Important for merchants to join and network at MPE?

It's an excellent opportunity to discuss with peers and different service providers; to find out about possibilities and services that potentially were unknown before.

Ivailo Fichev

Global Card Payment Manager at Shell

Your Response to COVID-19: How you, the company & the community you represent coped with and responded to the challenges of Covid-19. What are your current priorities & trends to watch

Trying to minimize the impact on the low volumes and keep the safety for the customers

2021/2022 – Payment challenges for Merchants: Could you please help us outline the most significant challenges you see for the merchant payments and your business now in the upcoming 12 months?

Scheme and Interchange fee increases (specifically for UK Commercial cards)

The increasing proportion of the Commercial vs. Consumer products (adding to the MSF cost)

Complicated Scheme fee structure

Never-ending mandates, which generate a lot of additional and unplanned costs

Would you please provide your input in the following areas
Uncertainty (in terms of forecasting the future, changing customer behavior, planning investment into new technologies. Uncertainty as to whether the shift in customer preferences reflects a permanent change or whether they will revert to "normal' once the pandemic is over)

It is interesting to keep an eye on the Customer's preferences, but I shouldn't call it "uncertainty."

Regulation

EU regulators need to take a deeper look into the Scheme fees, as they've become much higher and very complex.

Nils Plohmann
Head of Payment bei Whow Games GmbH

Your Response to COVID-19: How you, the company & the community you represent coped with and responded to the challenges of Covid-19. What are your current priorities & trends to watch?

We had a good time in gaming last year. People have had the time to play at home. We've noticed that inactivity and revenues. It's essential to have a stable platform for this.

Unfortunately, the SCA part of the PSD2 took action, so our customers and we have had some challenges to solve. Priority is still to optimize that card flow.

2021/2022 – Payment challenges for Merchants: Could you please help us outline the most significant challenges you see for the merchant payments and your business now in the upcoming 12 months?

We are very alert about IAP (in-app purchases) at Apple and Google. Because we sell digital goods, we are forced to use their payment platform (30% fees) and hope we'll be allowed to use also our payment platform in our apps that we also use for our browser customers.

Would you please provide your input in the following areas (1- 2 paragraphs)

Uncertainty (in terms of forecasting the future, changing customer behavior, planning investment into new technologies. Uncertainty as to whether the shift in customer preferences reflects a permanent change, or whether they will revert to "normal" once the pandemic is over)

Regulation

Our focus is more on gambling regulation. Our product is unregulated, but we still have to watch what is going on and how the payment providers position themselves here.

Fraud

I am curious to see how high the fraud rates will be in the coming months. I was looking forward to SCA from a fraud perspective, but it's probably not 100% secure.

What's so special for merchants about joining the MPE Merchant Hosted program & attending the MPE conference? How would you describe MPE?

I like to meet other merchants and to talk about their points of view and current issues. These are very open and honest discussions.

I'd say "cold outside (winter!), warm and heart-warming inside (good talks, panel discussions and chats, professional people)" ;-)

Partnership, Mergers & Acquisitions

Intuit to Acquire Mailchimp

Intuit (Nasdaq: INTU), the global technology platform that makes TurboTax, QuickBooks,Mint, and Credit Karma, today announced that it has agreed to acquire Mailchimp, a world-class, global customer engagement and marketing platform for growing small and mid-market businesses. The planned acquisition of Mailchimp for approximately $12 billion in cash and stock advances Intuit's mission of powering prosperity around the world, and its strategy to become an AI-driven expert platform. With the acquisition of Mailchimp, Intuit will accelerate two of its previously-shared strategic Big Bets: to become the center of small business growth; and to disrupt the small business mid-market.

Together, Intuit and Mailchimp will work to deliver on the vision of an innovative, end-to-end customer growth platform for small and mid-market businesses, allowing them to get their business online, market their business, manage customer relationships, benefit from insights and analytics, get paid, access capital, pay employees, optimize cash flow, be organized and stay compliant, with experts at their fingertips. Delivering on the promise to be the single source of truth, small and mid-market businesses will have the power to combine their customer data from Mailchimp and QuickBooks' purchase data to get the actionable insights they need to grow and run their businesses with confidence.

Source: Business Wire

SumUp has acquired Fivestars

SumUp, the London-based global payments service provider with over 2,800 employees across three continents, today announces its acquisition of Fivestars, America's largest two-sided local commerce network that combines a marketing platform with integrated payments, for $317 million in a mix of cash and stock. The acquisition will enable both companies to offer essential payments and marketing automation services to small business owners across the U.S. and globally.

Source: SumUp

Mastercard acquires CipherTrace to enhance crypto capabilities

Security and fraud detection provide additional transparency and support for digital assets ecosystem latest investment helps company accelerate and expand crypto-related strategy

Mastercard (NYSE: MA) will extend its capabilities deep into the field of digital assets with an agreement to acquire CipherTrace, a leading cryptocurrency intelligence company with insight into more than 900 cryptocurrencies.

As digital assets, including cryptocurrencies and non-fungible tokens (NFTs), become more intertwined with everyday activities — from the way people pay and get paid to how they invest — trust and security will be critical enablers to ensure broad adoption and scale. These new technologies will require new solutions and more powerful intelligence to ensure that the crypto economy is instilled with the same trust and peace of mind that consumers currently experience with more traditional payment methods.

The integrated offering will build on CipherTrace's suite of digital assets and Mastercard's cyber security solutions to provide businesses with greater transparency to help identify and understand their risks and to help manage their digital asset regulatory and compliance obligations. "Digital assets have the potential to reimagine commerce, from everyday acts like paying and getting paid to transforming economies, making them more inclusive and efficient," said Ajay Bhalla, president, Cyber & Intelligence at Mastercard. "With the rapid growth of the digital asset ecosystem comes the need to ensure it is trusted and safe. Our aim is to build upon the complementary capabilities of Mastercard and CipherTrace to do just this."

Source: Mastercard

FortisPay Acquires OmniFund, Enhancing Commerce Technology

Fortis Payment Systems, LLC (FortisPay), a payment technology leader for businesses, independent software vendors (ISVs) and developers, announced it has acquired OmniFund, whose cloud-based Payments-as-a-Platform solution is leveraged by software and enterprise resource planning ERP solutions across the country. Founded in 2005, Omni is dedicated on delivering superior commerce solutions for their software partners and business clients. The acquisition will enable FortisPay to expand its platform of offerings and capabilities while pursuing new accounts receivable and ERP initiatives. Financial terms of the acquisition were not disclosed.

Source: PR News Wire

Stripe will acquire Recko to help internet businesses automate payments reconciliation

Stripe, a global technology company that builds economic infrastructure for the internet, today announced it has entered into an agreement to acquire Recko, a leading provider of payments reconciliation software for internet businesses.

Payments reconciliation is an accounting process that compares two or more sets of records—for example, a company's internal sales log and their external bank statement—to confirm accuracy. Finance teams perform reconciliation to uncover discrepancies, avoid incorrect accounting, and understand a company's financial health at a point in time. A retailer that has sold a $100 jacket would reconcile that purchase by matching the recorded sale on its website with the $100 payment reported by its payment processor and the $99 deposit (less a $1 processing fee) it receives to its bank account.

Source: Stripe

J.P. Morgan to Take Majority Ownership of Volkswagen Payments Business

– J.P. Morgan announces today that it has entered into a strategic deal with Volkswagen Financial Services, with plans to acquire a controlling interest of close to 75% in the car manufacturer's payments platform, operated by Volkswagen Payments S.A., subject to regulatory approvals.

The deal will expand the bank's digital payment capabilities and see the platform extended and accessible to the broader auto industry for the first time. Over time, the alliance between the two firms will seek to develop the platform for new markets and industries outside of the automotive sector where mobility-focused payments will become central. Volkswagen Financial Services will remain a shareholder and the platform will continue to facilitate payments across the Volkswagen network in support of all Volkswagen Group brands globally.

Founded in 2017 in Luxembourg, Volkswagen Payments S.A. operates a leading payments platform designed for the auto industry. Operating in 32 markets around the world, the business offers a range of digital payments services across the auto ecosystem including: initial purchase and leasing, in-vehicle payments, fuelling and electric vehicle charging, parking and subscription-based services such as insurance and in-vehicle entertainment. It focuses on digitally connecting the auto ecosystem and improving the payments experience for consumers, distributors and suppliers alike.

The platform is a natural fit for J.P. Morgan's Wholesale Payments business – which combines corporate treasury services, trade finance, card and merchant services capabilities – and delivers an integrated payments experience to end users across the economy. Volkswagen Payments S.A. will continue to be based in Luxembourg, also one of J.P. Morgan's key European locations and where it has a proud history of supporting clients for more than 45 years.

Source: JP Morgan

Deutsche Bank acquires Berlin-based payment service provider Better Payment

Deutsche Bank is acquiring payment service provider Better Payment Germany GmbH, based in Berlin. Through the acquisition, Deutsche Bank will expand its market share in payment processing and acceptance. Over the next 12 months, Deutsche Bank will integrate Better Payment's technical solutions into its existing product range.

“Better Payment gives us broader market access in payment processing. Thanks to the know-how of their employees, their existing dealer relationships and technical solutions, we can accelerate our growth in the German market, which is key to us,” said Kilian Thalhammer, Head of Merchant Solutions at Deutsche Bank. "We will develop additional synergies by integrating the respective products from Deutsche Bank and Better Payments," said Thalhammer. The bank plans to offer further banking and payment services via the existing Better Payment channels.

Better Payment operates a service for the technical processing of online payments. For this purpose, the company uses a payment platform ("online payment gateway") to carry out and receive online payments. The payment platform enables retailers - or their clients - to accept all common means of payment and to be able to receive all types of payment consignments. Better Payment offers its own "online payment gateway" as a "white label" solution to other companies and does not operate under its own brand. For these "white label" customers, payment processing is a useful addition to their own product portfolio.

This includes banks, financial service providers or SaaS (“software as a service”) providers who offer their customers the technology enhanced with their own services. In the business with “white label” solutions in particular, Deutsche Bank expects very high growth rates in the double-digit percentage range for the number of affiliated dealers over the coming years. Around 1,500 retailers are already using the company's payment platform. Contracts with existing customers remain unchanged.

Better Payment will keep its headquarters in Berlin. All Better Payment employees, including its long-standing management team, will stay on board and work for Deutsche Bank in future.

Source: Deutsche Bank

Industry News

Mastercard reinvents installments to give consumers **more payment choices wherever they shop**

Mastercard Installments BNPL program to come to market in the U.S., Australia and the UK; Enables consumers to access this increasingly popular form of payment across its vast global acceptance network

- New Buy Now, Pay Later (BNPL) program gives consumers a flexible, ubiquitous way to pay online and in-store through equal, interest-free installments – an additional choice to debit, credit or prepaid cards.
- Mastercard Installments enables banks, lenders, fintechs and wallets the ability to offer BNPL experiences at merchants with flexibility across the entire acceptance network.
- Seamless integration into Mastercard’s trusted network enables merchants to quickly offer secure BNPL solutions backed by the security and peace of mind that comes with Mastercard.
- Mastercard Installments offers comprehensive consumer protections with respect to responsible data use and fee transparency.

- Mastercard to work with Barclays US, Fifth Third, FIS, Galileo, Huntington, Marqeta, SoFi, and Synchrony in the U.S., and with Qantas Loyalty and Latitude in Australia on the BNPL program.

To meet growing consumer demand for flexible, digital-first payment options, Mastercard today unveiled Mastercard Installments, a unique and innovative Buy Now, Pay Later (BNPL) program that delivers greater choice at checkout, both in-store and online.

Mastercard Installments uses the power of the company's trusted network to make BNPL available to millions of consumers and merchants worldwide. It enables banks, lenders, fintechs, and wallets to offer a variety of flexible installment options to consumers - including a zero percent interest, pay-in-four model – without onerous integration into the merchant infrastructure, allowing them to quickly offer secure and competitive BNPL experiences at scale.

Mastercard Installments enables consumers to digitally access BNPL offers, either pre-approved through their lender's mobile banking app or through instant approval during checkout. Pre-approved installments can be used directly on a merchant's website, and can be stored in digital wallets including Click-to-Pay, to then be used online or in-store wherever Mastercard is accepted. Instant approvals during checkout will be available through Click-to-Pay shortly after launch. Consumers will have full transparency on lender practices up-front during the approval process, and unlike most current BNPL offerings, consumers will continue to benefit from zero liability fraud protection, the ability to challenge unrecognized charges, and the peace of mind that comes with Mastercard's acceptance footprint.

"At the heart of it, payments come down to choice – and people want more from their money with greater flexibility and control in how they pay and where they shop," said Craig Vosburg, Chief Product Officer, Mastercard. "Mastercard Installments has been built on our guiding principles to protect consumers and enable choice without sacrificing trust and security. It is a digital-focused way to pay today and tomorrow, delivered through consumer's most trusted relationships with their banks and other lenders, at merchants of their choice."

Mastercard Installments builds on Mastercard's investments in open banking that help deliver a simple and convenient experience for consumers, merchants and lenders. As an elective option for lenders, with consumer consent, account-level transaction histories can be considered as part of the underwriting process, enabling credit to be safely extended to a greater number of shoppers. Open banking technology also facilitates the consumer's preferred method of repayment, which may be their checking or savings account, a Mastercard debit card, or another payment product.

Key benefits of Mastercard Installments include:

Consumers: The Mastercard Installments program enables consumers to choose how and when they pay for items from a brand they can trust. Consumers enjoy a seamless experience before and after checkout through options to access BNPL offers, or secure an offer at the time of checkout, from trusted lenders for use at a variety of merchants interest-free. As consumer protection is paramount at Mastercard, Mastercard Installments provides ubiquitous acceptance backed by zero liability fraud protection, not yet available through most current BNPL offerings.

Merchants & Acquiring Banks: The Mastercard Installments program helps merchants scale BNPL offerings to consumers to turn convenience into a competitive advantage. BNPL solutions have been shown to increase average sales by 45 percent and reduce cart abandonment by 35 percent post-implementation*. Mastercard Installments provides seamless merchant integration with a streamlined process for millions of merchants who already accept Mastercard. Meanwhile, acquiring banks can offer installments capabilities to their entire merchant base with minimal, simple integration.

Lenders: Through the Mastercard Installments Program, lenders can offer a flexible, seamless BNPL experience to both existing and new customers, expanding their lending opportunities in one of the fastest growing consumer segments. Mastercard Installments provides an expedited time to mar-

ket and global expansion opportunities with a responsible lending approach.

Wallets and BNPL players: Digital wallets and BNPL players can easily integrate Mastercard Installments' APIs and deploy the solution to consumers and already integrated merchants, extending reach beyond their existing footprint. Mastercard Installments is embedded in the core Mastercard network, which means there is no longer a need for wallets and BNPL players to build direct settlement arrangements with merchants or acquirers. BNPL providers can also supplement their existing networks with additional merchant acceptance.
Fueled by changing consumer spending habits during the pandemic, BNPL adoption continues to accelerate globally. In addition to consumer demand, the momentum is being driven by issuer and merchant desire to deliver new, complementary ways for consumers to shop both in-store and online.

Mastercard Installments will also provide access and support to a new suite of APIs to power each step of the BNPL journey; from installment calculation to multiple repayment options, all delivered securely and at a global scale through the Mastercard multi-rail network. Learn more on Mastercard Developers.

Mastercard Taps Key Partners in the U.S. and Australia

Mastercard Installments will first come to market in the United States, Australia, and the United Kingdom (UK). Mastercard is working with Barclays US, Fifth Third, FIS, Galileo, Huntington, Marqeta, SoFi, and Synchrony in the U.S., and with Qantas Loyalty and Latitude in Australia. Mastercard is committed to supporting its customers across the globe to offer the Mastercard Installments program, with plans to scale to other markets in the future.

Denny Nealon, CEO, Barclays US Consumer Bank said, "Barclays US Consumer Bank is excited to partner with Mastercard as it introduces its new BNPL solution. Our ambition to be the premier choice for America's best brands hinges on our ability to deliver a full suite of products that meet and exceed the needs of our partners and customers. Mastercard Installments leverages the full power and reach of the Mastercard Network and will complement the highly-customized credit and lending solutions we offer to our partners that drive their businesses forward while delighting their customers."

Howard Hammond, Executive Vice President and Head of Consumer Banking at Fifth Third Bank said, "We are excited to see Mastercard bring this BNPL solution to the market to provide customers more choices and ease concerns about payment. This new Mastercard Installments program meets the growing demand for flexible options both at the checkout and online."

Vicky Bindra, Chief Product Officer, FIS said, "BNPL is one of the fastest growing alternative payment models globally - it is transforming the traditional purchasing experience for both consumers and merchants. The rapid growth of BNPL is rooted in the choice, flexibility and expediency it gives shoppers. We are delighted to partner with Mastercard to provide pioneering services to new and existing customers; this collaboration will spearhead further innovation in the space, making BNPL more accessible to merchants and consumers, while driving confidence and trust across the ecosystem to bring increased adoption."

Amit Dhingra, Retail Payments and Consumer Lending Director, Huntington National Bank said, "We are pleased to see Mastercard continue to develop innovative payment features, like Buy Now, Pay Later for consumers and merchants. We recognize the need for customers to have greater choice and flexibility in new and different ways to manage their finances."

Ahmed Fahour, Managing Director and Chief Executive Officer, Latitude Financial said, "Through our long-standing partnership, Latitude is looking forward to working with Mastercard to bring new BNPL payment solutions to life in Australia, benefiting merchants and providing customers with a superior shopping experience."

Salman Syed, SVP/GM North America at Marqeta said, "Mastercard has taken a forward-thinking approach to enabling the Buy Now, Pay Later ecosystem with their new Installment Program. It allows BNPL providers and financial institutions access to a merchant network that encompasses anywhere Mastercard is accepted, and Mastercard has done the hard work of building out the network infrastructure to support that. We're excited about the possibilities for new innovation opened up by combining Mastercard Installments with Marqeta's modern card issuing platform and see this being an attractive proposition for banks and fintechs alike."

Anthony Noto, CEO of SoFi said, "As a digital personal finance company with a passion to help people get their money right, we pride ourselves on bringing products and features that meet our members' wants and needs when it comes to saving, spending, and borrowing money. The demand for a new way to pay via BNPL within a debit account like SoFi Money is clear; SoFi is thrilled to be deepening its partnership with Mastercard to bring this technology to life."

Michael Bopp, Chief Growth Officer at Synchrony said, "Mastercard's enablement of BNPL offerings across their network will further empower merchants and consumers with access to a greater variety of payment options. We are committed to providing our partners and customers with choice, flexibility and long-term value, and we look forward to exploring ways we can collaborate with Mastercard in this endeavor."

Source: Mastercard

Enabling Crypto with BitPay

BitPay, the world's largest provider of bitcoin and cryptocurrency payment services, and Verifone, a global FinTech leader and payment solution provider to the world's largest retail brands, today announced the extension of BitPay's blockchain payment technology to enable consumer cryptocurrency payments on Verifone's in-store and eCommerce Cloud Services platforms in the United States. The new solution enables merchants to broaden their customer base and promote crypto acceptance while being protected from the price volatility of the cryptocurrency markets. Merchants will begin rolling out the solution later this year.

The solution is easy for merchants to implement and intuitive for consumers. Merchants will be able to accept crypto payments directly from Verifone without the need for an account with BitPay. The consumer will be able to pay seamlessly using approved crypto wallets. With over 100 million crypto wallets in use globally, consumers will enjoy this straightforward, one-step transactional model using their preferred native wallet to make a direct purchase with their cryptocurrency. The solution supports major wallets like Blockchain.com, BRD, Metamask, BitPay, and more to make purchases in Bitcoin (BTC), Ethereum (ETH), Dogecoin (DOGE), Bitcoin Cash (BCH), Wrapped Bitcoin (WBTC), Litecoin (LTC), and 5 USD-pegged stablecoins (GUSD, USDC, PAX, DAI, and BUSD).

At checkout, consumers will select their preferred crypto wallet on a Verifone device and scan an on-screen QR code using their crypto wallet to complete the transaction. Once the crypto funds have been verified, the merchant will receive an approval message on the in-store terminal. Funds will be settled promptly into the merchant's bank account in traditional currency (e.g. USD) via Verifone.

"Verifone's merchant base includes many of the world's largest and most well-known brands looking to tap into the growing crypto market," said Stephen Pair, co-founder and CEO of BitPay. "This partnership allows these businesses to easily and securely accept crypto payments, and benefit from pent up consumer demand to spend crypto."

As the market cap for all cryptocurrencies is $2 trillion, holders of the currencies are looking for places to spend their crypto money. "Our merchant base is busy enabling several new advanced payment methods (APMs), and the appetite for crypto payments has exploded this year," said Jeremy Belostock, head of APMs at Verifone. "Together we have solved all the potential challenges for merchants: there's no translation risk, low implementation costs, and consumers will find the payment experience very seamless."

The partnership also allows Verifone the right to make a strategic investment in BitPay. "This partnership, solution and investment highlight Verifone's commitment to enabling revolutionary and meaningful payment experiences for merchants," said Mike Pulli, Verifone CEO. "Our Advanced Payment Method platform is robust, and this crypto solution with BitPay adds tremendous value for Verifone and our customers."

Current Verifone merchants who want to begin taking cryptocurrency payments in-store and online should contact their Verifone sales representative. The solution requires one of Verifone's Engage or new Android line of devices connected to the Verifone Cloud. New merchants, large or small, can fill out this contact form to purchase the solution.

Source: Verifone

bunq partners with Paysafe to enable cash deposits for digital banking

bunq, the app-based Dutch challenger bank, has partnered with leading specialised payments platform, Paysafe (NYSE: PSFE), to provide customers with access to cash services. Customers who prefer to use cash in their daily lives can now use Paysafecash, one of Paysafe's eCash solutions, to conveniently add cash into their bunq accounts.

The international roll-out of the partnership between Paysafe and bunq, which starts with 21 European countries, facilitates quick and secure cash deposits directly via the bunq mobile app: After selecting Paysafecash as the top up method in their app, the customer chooses how much cash to deposit into the account and generates a unique barcode for the transaction. The customer can then go to a nearby payment point, scan the barcode at the point of sales terminal and make the payment in cash. The deposited amount will show on the bunq balance within minutes. Paysafecash is available at around 190,000 payment points in 29 countries (including the US and Canada), providing an extensive network for bunq customers in the 21 countries where the service has been activated.

Ali Niknam, founder and CEO of bunq, commented, "bunq was founded to challenge what banking is and can do. By putting our users first we have created a bank that is super focused on making life easy in a sustainable way. Teaming up with Paysafe means bunq users in even more European countries now have a safe and easy way to add cash to their bunq accounts."

Udo Müller, CEO of paysafecard, the team behind Paysafecash, added: "The partnership between bunq and Paysafe allows for truly convenient and inclusive banking services. Our well-established eCash network provides a perfect extension to app-based digital banking and allows bunq to reach cash-reliant customers, which represent a considerable and attractive target audience."

Source: Paysafe

Square Offers Sellers and Consumers a **New Checkout Experience with Cash App Pay**

Starting today, Square sellers will be able to accept payments through Cash App Pay, a new contactless payment method for both online and in-person transactions. With Cash App Pay, consumers can seamlessly pay with their Cash App account at participating Square sellers. For both in-person and online transactions, customers simply scan a seller's QR code at checkout, or click a button on their mobile device for a payment process that is fast, elegantly designed, and more secure.

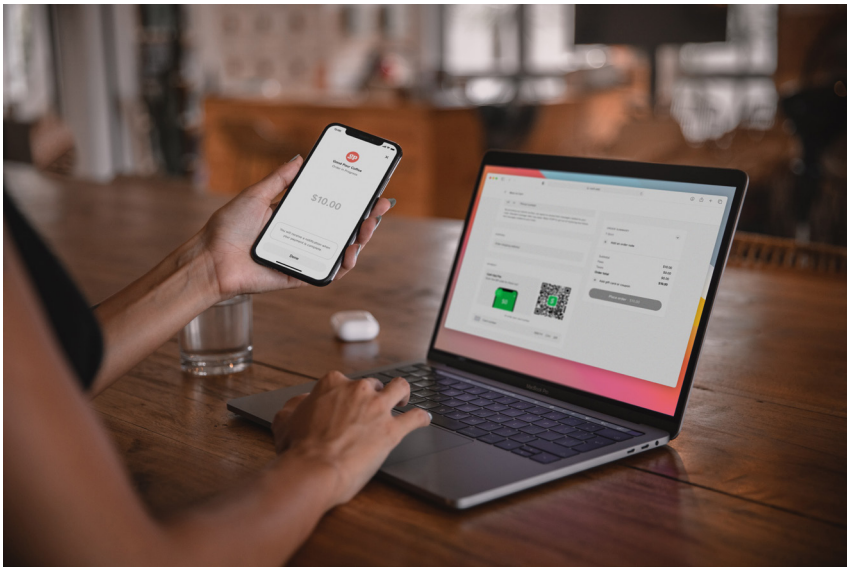
With this powerful software integration between Square's Seller and Cash App ecosystems, businesses can now offer their customers more variety and choice in their payment methods. Square sellers will also be able to better reach Cash App's more than 70 million annual transacting active customers – offering consumers reduced checkout friction and an improved customer experience.

"I am stunned by how easy and intuitive Cash App Pay is to use for both my staff and customers," said Peter James, Business Operations Manager of The London Tea Merchant in St. Louis, MO. "Our customers love the ability to scan a QR code and quickly pay right from their phone, which has simplified and sped up our checkout process. Cash App Pay is also proving to be a great way for us to reach a whole new customer base."

This feature is the latest way that Square is offering merchants new omnichannel commerce offerings that enable sellers to meet customers where they are. As contactless and QR code-based payment methods have become more mainstream, Cash App Pay has become a top-requested feature by both Square sellers and Cash App customers.

"Square aspires to help sellers never miss a sale by continually offering businesses new, innovative ways to bring commerce to life," said Alyssa Henry, Lead of Square's Seller business. "Cash App Pay enables us to offer a simple and mobile-friendly way for businesses to reach customers across online and in-person, bringing accessibility and flexibility to every transaction. We look forward to deepening the integrations between Square's Seller and Cash App ecosystems that will continue to offer enhanced experiences for businesses and customers alike."

"At Cash App, we are always looking for new ways to enhance our commerce capabilities and meet our customers where they are," said Brian Grassadonia, Lead of Square's Cash App business. "The option to checkout online or in-store with Cash App has been a frequent



request amongst our customer base. With the launch of Cash App Pay at Square merchants, we're excited to introduce this new, seamless checkout experience to consumers across the United States."

Cash App Pay is available to Square sellers as a software update, with no technical integration or new hardware required, creating a seamless onboarding experience. It also allows merchants to manage receipts, reconciliation, and settlements of Cash App Pay in their existing Square system.

Cash App Pay is the next integration point between Square's two ecosystems, joining the previously introduced Square Loyalty, where shoppers can easily track their points and rewards at participating businesses within Cash App.

Cash App Pay is free for consumers to use, and will soon be available to all Square sellers in the United States.

Source: Square

Klarna partners with Stripe to help online businesses grow their revenue

Klarna, the shopping and flexible payment provider, today announced a strategic partnership with Stripe, a global technology company building economic infrastructure for the internet. The partnership will allow millions of businesses running on Stripe to offer Klarna's flexible payment options to their consumers.

In recent years, consumers around the world have gravitated to popular "Buy Now Pay Later" payment options, which allow them to receive products immediately while spreading their payments out over time. For businesses, offering this flexibility can dramatically increase conversions and boost revenue. In fact, Klarna's research found that businesses offering Klarna at checkout generated a 30% average increase in conversion and a 41% increase in average order value. Some retailers discovered that 40% of Klarna shoppers were new to their brand, allowing them to win entirely new customer segments.

Indochino, a long-time Stripe user, found exactly that. As a leading provider of men's apparel and custom suits, Indochino wanted to offer its customers an enhanced checkout experience, with a range of flexible payment options. And, like many modern businesses, it wanted to do so as fast as possible, with minimal engineering effort. "Through the Klarna and Stripe partnership, we were able to get up and running quickly with a tailored service that met our needs perfectly," said Alex Nazarevich, Vice President, Growth at Indochino.

By partnering with Stripe, Klarna will now make its flexible payment options available to millions of internet businesses already using Stripe across the US and 19 countries in Europe.

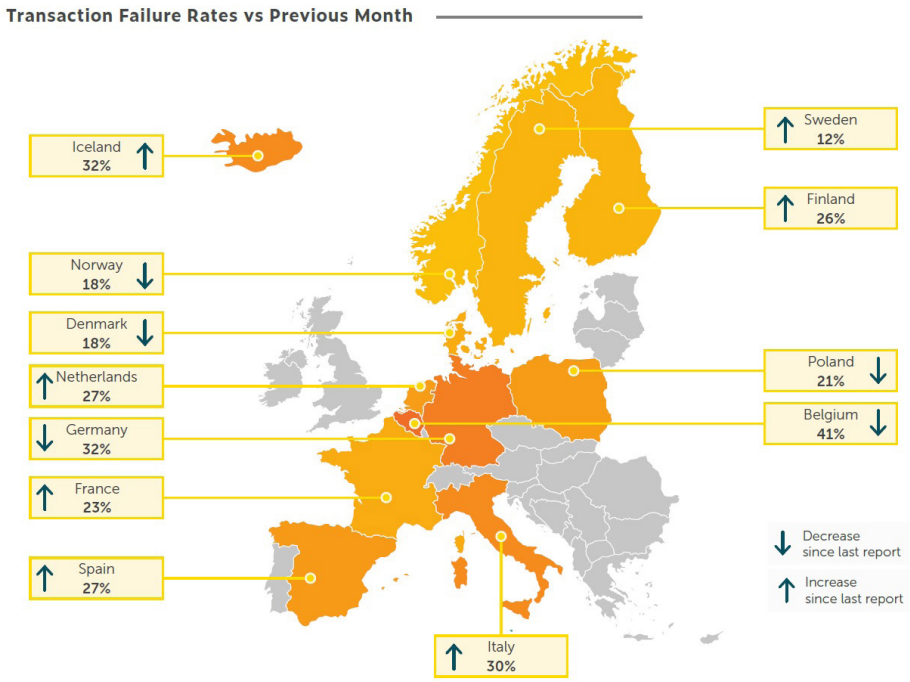
Koen Köppen, Chief Technology Officer at Klarna, said: "Over the past years, Klarna and Stripe redefined the e-commerce experience for millions of consumers and global retailers. Together with Stripe, we will be a true growth partner for retailers of all sizes, allowing them to maximize their entrepreneurial success through our joint services. By offering convenience, flexibility, and control to even more shoppers, we create a win-win situation for both retailers and consumers alike."

Today's announcement also includes a deeper collaboration between Klarna and Stripe. Stripe is now Klarna's preferred payments partner for consumer purchases—meaning that, after a customer's initial purchase from a retailer is funded by Klarna, the subsequent repayments are all processed by Stripe as well. After initial tests with Stripe yielded significant improvements in reliability and performance, Klarna decided to shift even more of its payments volume to Stripe than initially planned. Klarna will now rely on Stripe to process the majority of its payment volume in the US and Canada.

"We're thrilled to partner with Klarna so that millions of businesses on Stripe globally can offer increased payment flexibility," said Will Gaybrick, Chief Product Officer at Stripe. "Klarna's payment options are a powerful tool for online businesses to attract more customers, boost conversion rates, increase basket sizes, and thus grow their revenue."

Source: Stripe

SCA: EU failure average of 26% leads to **e-commerce losses of €82 billion**



The enforcement deadline for Strong Customer Authentication (SCA) has passed for most European countries and the latest data from the CMSPI Failure Rate Tracker for August 2021 suggests a European average failure rate of 26%.

Extrapolated over the course of a year and applied to online retail volumes; if these rates were to continue, it would mean over €82 billion of sales at risk due to declines or abandonment for retailers.

Given the existence of such friction at checkout for consumers, it is now more important than ever for merchants to ensure they are actively taking measures to achieve optimal approval rates.

The key reason for this significant disruption to online commerce, according to the CMSPI report, is due to the performance of EMVCo 3D-Secure version 2 (3DS2): an authentication protocol that has been selected to support all online card transactions in Europe (€320.9 billion in 2019).

Significant Transaction Failure Across Europe

Failure rates on transactions being challenged through 3DS V2 are still high. The estimated failure rate across Europe is at 26% as of August 2021 with estimated failure rates in Belgium, Germany and Italy significantly higher at 41%, 32% and 30%, respectively.

On a European weighted average basis, the estimates suggest that failure rates have seen improvement since August 2020, with failure rates improving by nine percentage points from 35%.

The estimated failure rate in Italy had been trending upwards between August 2020 and January 2021, reaching a peak of 50%. Since then, the rate has shown a downward trend and this appears to have continued into July 2021.

The estimated rate did, however, increase last month. Between August 2020 and January 2021, the estimated failure rate in Belgium was trending downwards while the opposite was true for Germany.

These trends reversed from January 2021 with an upwards trend observed in Belgium and a downwards trend observed in Germany. However, the estimated rate for Belgium did decline slightly last month.

E-commerce retailers invest significant amounts of money to get customers onto their website or app, to optimise the look and feel of the website, and to get the customer to press the pay button, or "convert".

However, after the customer presses pay, the retailer has little control over whether the payment is accepted, or not.

On average, just 3.3% of retail customers who enter a website click pay and once you factor everything that happens "post-pay button", this reduces to 1.96%.

Of the transactions that fail following a payment request, CMSPI figures show that 20% are "false declines". These are good customers, with sufficient means to pay,

who are prevented from doing so.

Furthermore, these false declines cause over €20 billion of lost retail sales each year in Europe alone. This is before any impact of added friction as a result of SCA. Failure rates are typically higher in an ecommerce environment as compared to the 'brick and mortar' environment due to the complexity of payment flows and the greater likelihood of fraud online.

However, SCA has led to increased failure rates online as the two factor authentication requirement naturally adds more friction for consumers which can lead to transaction abandonment.

Furthermore, the industry has faced a number of challenges in implementing SCA tools leading to timing and latency issues as well as an overly cautious attitude to maximising the usage of SCA exemptions.

Therefore, it is now more important than ever for merchants to do all they can to reduce false declines and optimise their e-commerce arrangements to offset some of the impacts felt as a result of SCA.

Source: Payments, Cards & Mobile

Blogs & Perspectives

M&A of the month: JP Morgan acquires the majority of Volkswagen Payments SA

Car manufacturers have been looking at opportunities to diversify and develop value-add propositions and revenues streams for many years. Financial services are a key component of that. Looking at the annual reports of BMW or Volkswagen it becomes apparent that their respective financial services divisions contribute roughly 30% to group profits. The contribution to group sales is much lower, suggesting significantly higher margins in their financial services divisions. But why are we talking about the automotive industry?

Last month we saw a very interesting announcement of JP Morgan acquiring a 75% stake in Volkswagen Payments SA, which is part of Volkswagen Financial Services. Like many other car manufacturers, Volkswagen Financial Services was created to facilitate financing and leasing deals to car buyers on the one hand and supporting dealerships with equipment related capital loans on the other hand. It gradually expanded into servicing and insurance products as well as direct car rental solutions. By 2020, Volkswagen Financial Services served 11m financing/leasing contracts, 10.5m servicing/insurance contracts, and managed 1.4m current/deposit accounts. But there is more. Whilst we have not done a full benchmarking analysis of other car manufacturers, we would argue that Volkswagen has taken a very strategic outlook for the division very early on intending to explore other (revenue) opportunities. The development of Volkswagen's payment platform was a key part to support various use cases:

- The creation of heycar, an online platform for used cars
- The acquisition of Voya, a business travel start-up that can act as a (paid for) digital travel assistant
- PaybyPhone, a well-known parking meter app that allows car owners to digitally pay parking charges across the UK

And then there is mobility. In Volkswagen's own terminology, mobility "describes the future of transportation services and is much more than just connected cars. Mobility will be using the smartphone to locate, hire, unlock and drive away vehicles in an instance, subscribing to services as opposed to buying vehicles, using data to direct traffic and ease congestion, right through to a single app to book train tickets, flights, and taxis." To support these cases, there is Volkswagen Pay, a wallet solution to enable customers to make payments, in some instances from within a smart vehicle. According to research group Grand View, in-vehicle payments are expected to reach $4bn by the end of this year.

So why does Volkswagen not want to run this grow-

ing business on its own? Firstly, there is probably an argument that most car manufacturers have been hit financially by the COVID crisis and selling 75% of the payment business (not the full financial services business!) for a reported low-to-middle double million figure is a nice cash injection. Secondly, it needs to be remembered that Volkswagen operates a multitude of different car brands and operates its financial services business in over 30 markets. Each market has different payment needs, preferences, and other local requirements such as connectivity to local systems. This is where JP Morgan can help. JP Morgan is known for having relationships with other car manufacturers such as Jaguar / Land Rover, but as a big, global corporate bank, it can provide local settlement capabilities. It can provide payment gateway functionality and APM support. At a time when it is pushing its 'corporate acquirer' proposition (Note: 'Corporate acquirer' is EDC's terminology for recent developments by JP Morgan, Deutsche Bank or Citibank to integrate traditional merchant acquiring business in its corporate banking offerings), getting access to Volkswagen may well be a nice little benefit on the side. Combining a, from what we understand, well-developed payment platform at Volkswagen with truly global reach and capabilities can really be the foundation to extend its platform proposition to meet future customer demands within the automotive industry and beyond. It is an intriguing link-up in a growing industry.

Edgar, Dunn & Company
Management Consultants

Author: Volker Schloenvoigt, Principa, Edgar, Dunn & Company
Source: Edgar, Dunn & Company

Past, Present, and Future: The COVID Effect on Payments

Planning for the future is a key factor in formulating short- and intermediate-term strategies. Considering past performance, which is not necessarily indicative of future performance, along with forecasting techniques should inform strategies, especially in volume-based industries such as payments. In the simplest of terms, more payments volume means more revenue. First, let's focus on past performance. This article focuses on the impact of COVID-19 during 2020, the recovery in 2021, and forecasting into the future.

IMPACT

The market disruption in 2020 due to the global pandemic required companies to adapt quickly to regulations and changes in consumer spending. Each industry type was impacted uniquely. Leveraging TSG's Acquiring Industry Metrics platform, monitoring 2020 impact from an industry-specific view provides clarity.

For example, date nights out turned into date nights spent at home. Movie Theatres and Babysitting Services decreased spending by -73% when comparing August 2020 to August 2019. It's important to use an established, consistent baseline for comparison (See What Is Meaningful Data?). The impact on Movie Theatres and Babysitting Services is intuitive in hindsight but would have been difficult to predict in January 2020. Conversely, as individuals and consumers practiced social distancing in 2020, there

was a demand for safe, outdoor activities. Where can one safely escape the confines of home (?), the open road and open water. Motor Home Dealers, Boat Dealers and Boat Rentals increased spending by +48%, +35%, and +34%, respectively.

The industry concentration mix within a merchant portfolio, along with the unique industry type impact, drove portfolio performance in 2020. You may think, "How is this different than any other time period?" In essence, the concept is not, but predictability is the challenge. Now with a baseline established, the next step is to monitor recovery.

RECOVERY

The next question to ask is, "How is the market recovering?" To measure recovery, we can compare August 2021 performance to August 2019. Notice that we are using the same baseline as measuring impact. Comparing 2021 performance to 2019 performance provides context into where we are today.

In the example of Movie Theatres, spending recovered to +30% (CAGR) in August 2021 compared to 2019. A positive value is an encouraging sign that Movie Theatre spending is recovering. Conversely, Baby Sitting services decreased -18% in 2021 compared to 2019. So, not only was Baby Sitting Services adversely impacted during 2020, it's also slower to recover in 2021.

As we saw in our impact example, Motor Home and Boat Dealers were favorably impacted during 2020. Measuring their recovery, or in this case continued performance, in 2021 tells two different stories. Motor Home Dealers increased +13% in 2021 compared to 2019, whereas Boat dealers decreased -5%. Uncovering the more recent recovery affects the forecasting into the future.

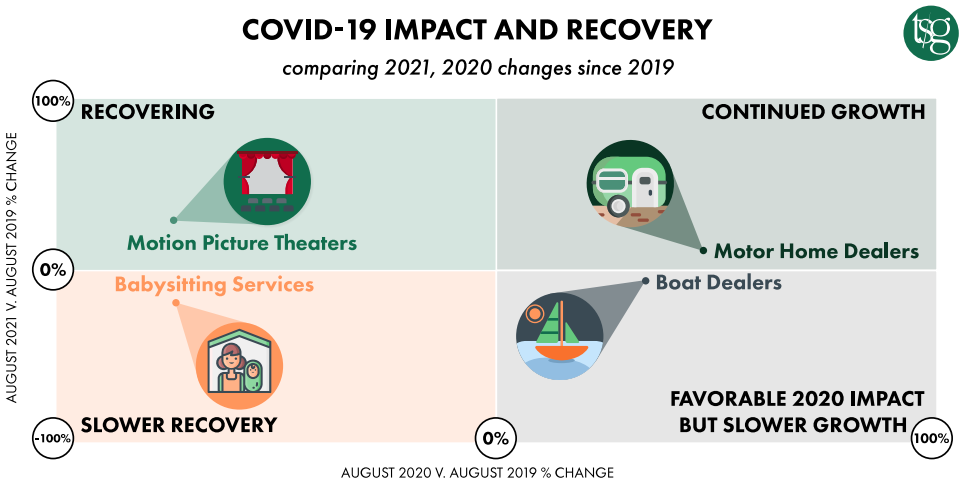
HOW IMPACT AND RECOVERY COME TOGETHER

This article provides examples of adversely and favorably impacted industry verticals. For the adversely impacted industries, how much time of increased spending is required to make up for lost spending during depressed months of the pandemic? In our Movie Theatre example…

The average adjusted monthly credit/debit card spend per location was $37,500 prior to March 2020.
Over the next 15 months the monthly spend was $11,000 (-71%).
Lastly from June 2021 to August 2021, the same measure was $50,500 (+35% compared to pre-pandemic spending).
Assuming the go-forward average spend remains at $50,500 each month, it will take 28 months to recover the lost volume from March 2020 through May 2021. This analysis could be completed for any industry over the same time period. Using this type of logic allows for a type of breakeven analysis.

FORECASTING

The last piece of the puzzle is to measure or forecast what's going to happen. Unfortunately, the magic crystal ball does not exist. In the previous Movie Theatre example, a broad assumption was made that spending would remain at $50,500/month moving forward, but that was just to make a point. Go-forward spending will always be impacted by a myriad of predictable and unpredictable variables. Big data and data science have come leaps and bounds over time which gives payments companies more tools in their kit.



Source: The Strawhecker Group's AIM Market React Report (August 2021)

Staying close to timely performance metrics is critical. It is challenging to predict future industry performance until a baseline is established. Although a lagging indicator, monitoring impact and recovery provides the baseline of market performance. For payments companies, big data is at the heart of short- and intermediate-term strategies. Utilizing all available data to establish an Impact and Recovery baseline is the start to forecasting future performance.

Author: Josh Istas, Senior Director of Analytics
Source: The Straw Group

Making **digital currency** interoperable

Imagine splitting the check with your friends, when everyone at the table is using a different type of money — some using a central bank digital currency (or CBDC) like Sweden's eKrona, and others preferring a private stablecoin like USDC. How about sending $500 in USDC to a friend in London, and having those funds automatically converted to digital British pounds before they arrive in her CBDC wallet. Now imagine all this happening in real-time, across multiple networks, and compatible with multiple digital wallets.

In the not-too-distant future, this very well may be a reality. But getting there will take solving one key problem: cross-chain interoperability. In other words, how do you get different digital currencies, relying on different tech stacks and protocols, with different compliance standards and market requirements, to "talk" to each other in a wider network of value?

Visa's research and product teams have developed a new concept to move the conversation forward. We're calling it a "Universal Payment Channel" (UPC) and it acts like a hub, interconnecting multiple blockchain networks and allowing for secure transfer of digital currencies. Think of it as a "universal adapter" among blockchains, allowing central banks, businesses, and consumers to seamlessly exchange value, no matter the form factor of the currency.

We're excited to share the mechanics of UPC in our research paper, as well as policy guidance for central banks and regulators on the implication of this research from the Visa Economic Empowerment Institute.

Why cross-chain interoperability matters for CBDC

Before we dive into the specifics, let's address a burning question: if many of us are already splitting checks and tipping for services with existing financial tools and traditional currencies, why might we need a Universal Payment Channel?

While digital currencies may not be a part of your daily financial life today, it's likely that they will play an important role in the future. Over the past two years, central banks around the world have shown an increasing interest in exploring CBDC — a new, digital form of central bank money that can be used directly by consumers, merchants, and financial institutions.

In the coming years, many central banks will likely implement some form of a digital ledger. Central banks will select the tech stacks and design protocols that make the most sense for their constituents, taking factors like governance, market requirements, technology providers, compliance standards, and nation-specific priorities into consideration.

As the number of digital currency networks increases — each with unique design characteristics — the likelihood that consumers, businesses, and merchants are transacting on the same network and utilizing the same type of money decreases.

We believe that for CBDCs to be successful, they must have two essential ingredients: a great consumer experience and widespread merchant acceptance. It means the ability to make and receive payments, regardless of currency, channel, or form factor. And that's where Visa's UPC concept comes in.

A network of blockchain networks

The story of UPC begins in 2018. The Visa Research team — a group of scientists and engineers focused on emerging technologies —began developing a framework for interoperability that would work across different blockchain networks and be independent of the underlying blockchain mechanisms.

The UPC hub concept that emerged would connect different blockchain networks by establishing dedicated payment channels between them — whether that means connecting CBDC networks between countries or connecting CBDC networks with vetted private stablecoin networks. New, trusted blockchains could easily be added to the network of networks by creating new payment channels within the UPC hub.

More than advance a vision for interoperability, UPC also has implications for transaction speeds in digital currencies. Where today's modern payment networks can handle tens of thousands of transactions per second, some of the largest existing blockchain networks can currently handle only a fraction of those volumes. UPC's specialized payment channels would be established off the blockchain and leverage smart contracts to communicate back with the various blockchain networks, delivering high transaction throughput securely and reliably and improving speeds overall.

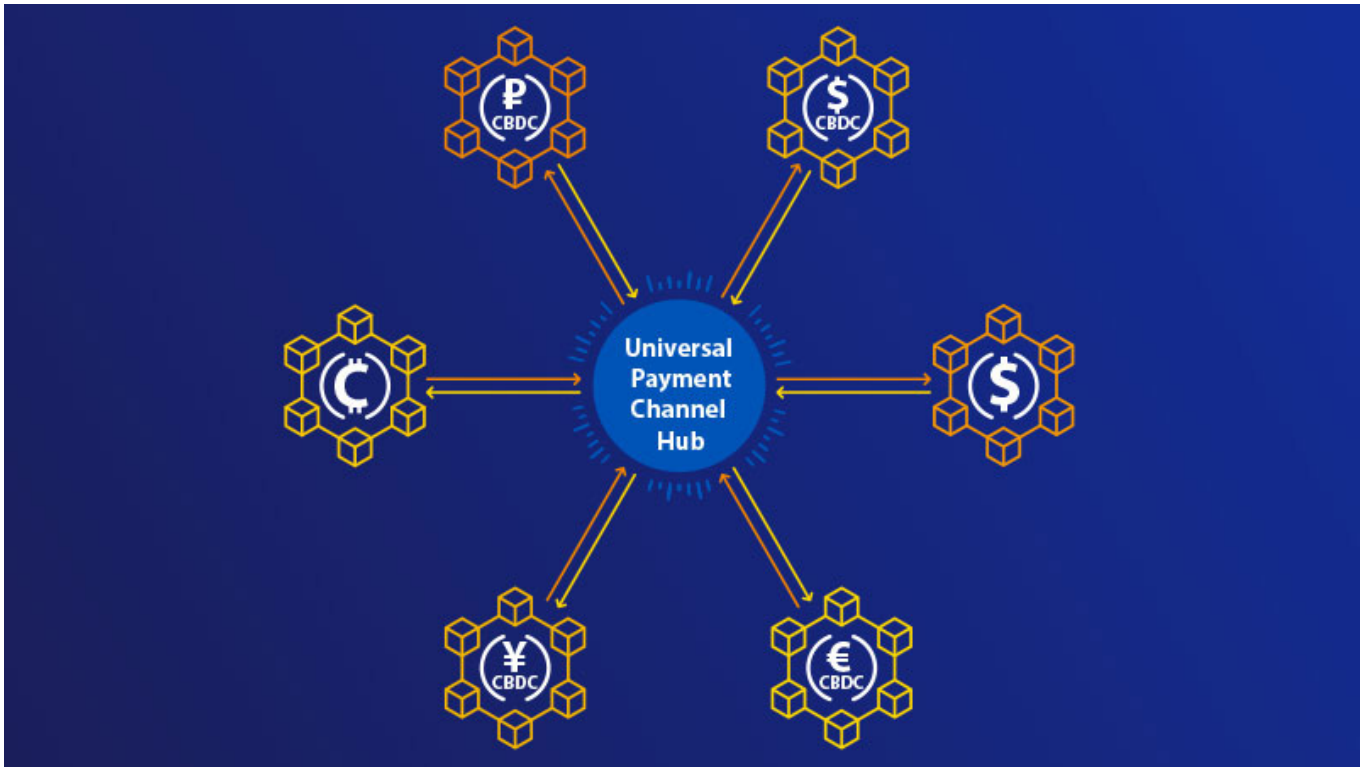
While UPC would exist in the background for most users, it would deliver the kind of cross-chain interoperability that makes CBDC useful and attractive for consumers and businesses globally.

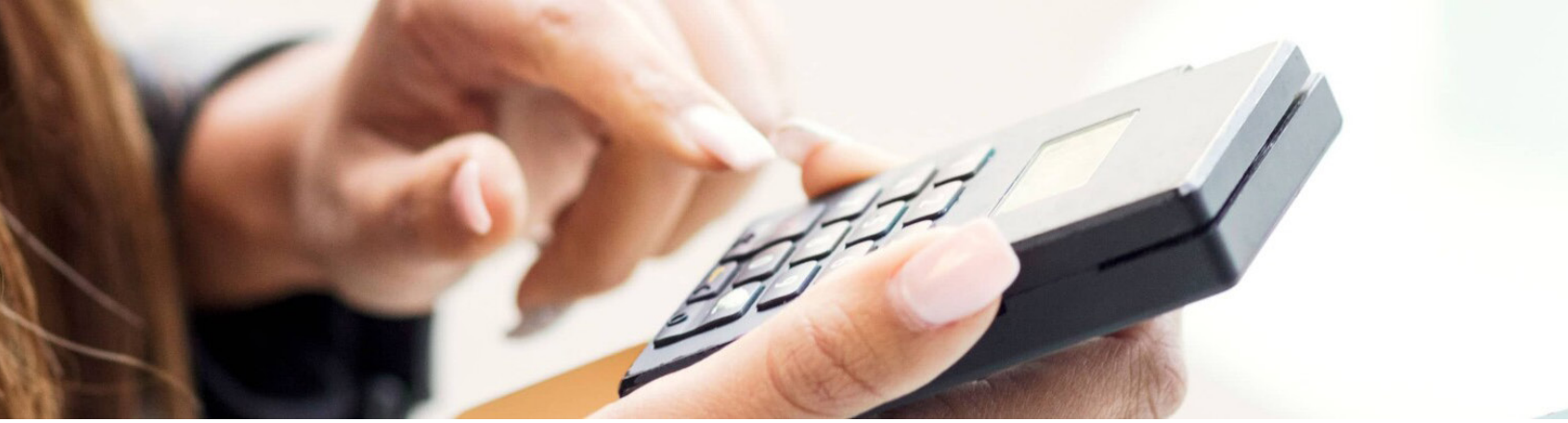
A network working for everyone

Ultimately, the UPC solution aims to serve as a network of blockchain networks — adding value to multiple forms of money movement, whether they originate on the Visa network, or beyond.

We're excited to share this concept with the global community of researchers, builders and policy makers exploring new frontiers in money movement. As we continue our applied research, we're working to translate our ideas into actual lines of code — check out a sample of our basic smart contract for UPC here. We welcome your comments and technical feedback to our UPC design at universalpaymentchan@visa.com.

Author: Catherine Gu, Global CBDC Product Lead, Visa
Source: Visa





Industry reports

The Global Payments **Report 2021:** All in for Growth

Payments snapped back from the rigors of the pandemic faster than most observers would have expected. Analysts use the term elastic to describe a market participant's success in absorbing change. But the payments industry wasn't just elastic—it was a slingshot. The nimbleness with which it adapted to the crisis enabled economies the world over to rebound faster as well.

As purchasing habits shifted almost overnight from offline to online and from cash to noncash, payments players responded in kind, accelerating e-commerce enablement, expanding fulfillment options, and streamlining point-of-sale and online checkout. They helped people who were dealing with financial uncertainty by providing debt relief, flexible installment purchases, supplier financing, and cash-flow management.

Although many industry experts, including BCG, expected payments growth to slow significantly as a result of the crisis, revenues declined only marginally from 2019 to 2020. We now anticipate that the total revenue pool could nearly double to $2.9 trillion by 2030, up from about $1.5 trillion today.

But growth has a price. The industry's success is attracting new players and leading to faster innovation. Over the next several years, we're likely to see continued platformization as payments acceptance and services become embedded in more digital ecosystems and as software solutions become more specialized. Regulators, governments, and central banks are engaging more actively, too. Many are developing new payments frameworks and holding players to higher standards in a number of areas. As a result of these changes, most industry participants will have to adapt their strategies, operating models, and routes to market—in some cases, retooling down to the core.

These are among the findings of BCG's 19th annual analysis of payments businesses worldwide. Our coverage opens with a comprehensive market outlook, examining global trends and regional performance. Then we examine the likely implications of these trends for the industry's major participants—focusing on challenges they're likely to face over the next five years and on actions they can take to secure long-term growth.

The pandemic revealed the payments industry's ability to respond to change. Now is the time to build on this capability. The race for advantage starts now.

Source: Bcg

GLOBAL PAYMENTS 2021

All In for Growth

October 2021

By Yann Sénant, Markus Ampenberger, Ankit Mathur, Inderpreet Batra, Jean Clavel, Tijsbert Creemers, Toshihisa Hirano, Kunal Jhanji, Stanislas Nowicki, Michael Strauß, Alejandro Tfeli, Álvaro Vaca, and Michael Zhang

Leading in the New Reality

Digital Transformation |

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Contents

Merchant Payments Players Are Fighting Disintermediation

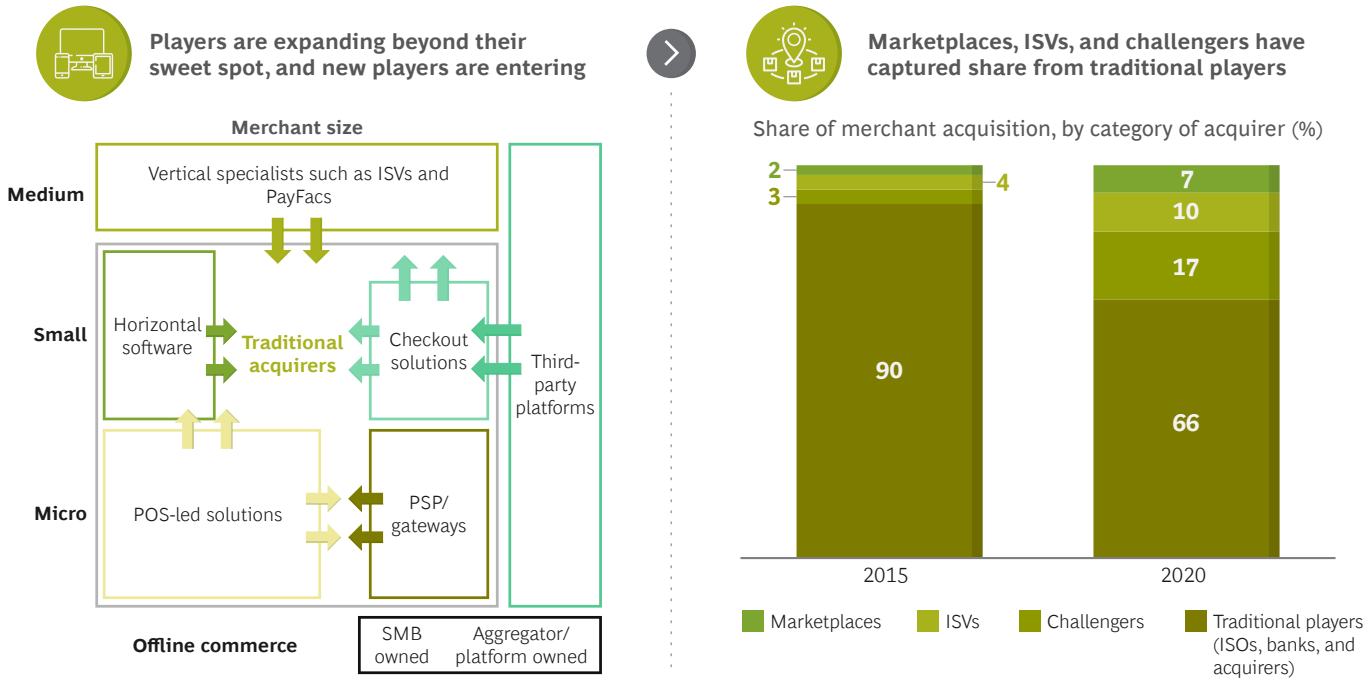
Merchant acquiring is one of the fastest-growing businesses in payments. From 2015 to 2019, revenues in this area increased at an average rate of 11.8% globally, driven by e-commerce adoption, new payments methods, and value-added services (VAS) such as risk and fraud management and merchant and consumer finance. Although growth tapered to just 2.2% from 2019 to 2020, the outlook for the next five years is for revenues to resume their former trajectory, with a CAGR of 11.3% expected through 2025. Capturing that growth, however, will require new and established players to work differently than they did before.

Three Challenges to Address

Just a few years ago, payments offered plenty of opportunity for all comers. However, the market has become increasingly disaggregated. The COVID-19 pandemic is one force behind this development, hurting acquirers that are exposed to sectors hit hard by the crisis, such as entertainment, travel, and tourism. But business model and market characteristics are additional factors, driving valuations sharply higher for companies with certain segment, product, and operational strengths. Three elements are particularly important:

- **Profitability varies widely across segments.** The SMB and online segments have generally had the strongest payments revenue growth and margin potential, but some verticals saw their growth clipped during the early stages of the pandemic as aggregators and delivery services such as Doordash and PostMates ate into transaction volumes. In contrast, large corporate customers—which typically produce less attractive margins—have continued to deliver high transaction volumes that provide payments players with a steady stream of revenues and enable them to amortize their fixed costs. These segment dynamics may require payments players to adjust their customer portfolio composition to strike an optimal balance between growth and margin performance. Rebalancing is not simple, however, as the SMB and large corporate segments have very different go-to-market characteristics.
- **A fast-expanding heterogeneous market adds complexity and pressure.** The desire to enter high-growth sectors and claim first-mover advantage has fueled massive business development across the value chain. (See Exhibit 4.) That value chain consists of three broad markets: incumbents and payments services providers that historically have served large, offline merchants; global, digital-native players that predominantly serve online businesses; and local integrators and SMB specialists that offer specialized payments services. Entities that have secured a strong position in one market are using their financial and customer momentum to jump into new categories where they hope to build critical mass and create platform dominance. Because this activity is occurring throughout the value chain, slower movers have to spend more to defend their turf, and they face an increasing risk of lockout when attempting to enter new markets.

Exhibit 4 - The SMB Acquiring Landscape Is Evolving Rapidly



Source: BCG analysis.

Note: Because of rounding, not all bar chart percentages add up to 100%. ISO = independent sales organization; ISV = integrated software vendor; PayFac = payments facilitator; POS = point of sale; PSP = payments service provider; SMB = small or medium-size business.

- **E-commerce growth is accelerating disintermediation.** Boosted by pandemic-related shifts in buying patterns, e-commerce adoption will likely grow by double digits over the next several years—much faster than physical point-of-sale transactions will. Online marketplaces are also becoming more popular for both buyers and sellers. Shopify and other software platforms that support the configuration of online shops and websites make this form of e-commerce engagement simpler and more cost-effective for merchants, especially small and medium-size ones that may lack the resources to staff digital development in-house. As the sharing economy expands beyond car services and lodging, ISVs and online marketplaces will embed payments capabilities—such as onboarding for small, local merchants; checkout for consumers; and recurring or subscription-based payments—into their platforms, commoditizing the core transaction product. To remain competitive, established payments players will need to offer specialized VAS and rethink their direct-to-customer distribution models.

A Time to Refocus and Retool

The ongoing rapid changes within the payments landscape will require organizations to adjust their strategy, operating model, and go-to-market approach. We have identified three areas where companies should focus their attention.

Reboot strategy to identify defendable pockets of growth. Acquirers and processors need to evaluate opportunities through multiple lenses. First they must determine which segments, verticals, and geographies hold the most promise for their particular combination of strengths. Second, they must identify the capabilities and investment required to win. For example, to succeed in the high-growth e-commerce segment, acquirers will need to accommodate everything from the initial gateway and acceptance of relevant local payment methods to VAS and data analytics. They will also need to enable rapid digital merchant onboarding and seamless integration into online platforms. Anticipating downstream risks and competitor moves is important to help management articulate differentiators that will allow the business to defend its advantage. But all of these efforts call for significant upfront planning.

Banks contemplating a reentry into the merchant acquiring arena could have a compelling advantage over nonbank competitors, since they can offer merchant customers both payments acceptance and such banking services as current accounts, foreign exchange hedging, and lending products. That breadth enlarges the customer value proposition, but banks must still undertake the same calculus as monoline acquirers and figure out how best to differentiate their offerings. Institutions considering this move must also decide whether to bring acceptance and acquiring fully in-house, which can be a challenge for businesses that are starting from scratch, or outsource noncore activities such as processing, which could result in less control. Each approach has different investment requirements, too.

Upgrade the operating model. Four core capabilities are essential to winning in the merchant acquiring space. The first is establishing an agile product innovation engine, given the strategic importance of technology. Leaders must have multiple bets in play so they can adjust quickly to market movements. And rather than leaving maintenance of that portfolio to chance, acquirers must create a formal product innovation discipline with a senior executive sponsor and support from cross-functional teams. Executive ownership is essential to ensure alignment from the business, remove organizational blockers, and procure needed resources.

To encourage bold thinking, acquirers may wish to keep the product innovation function separate from the core business. Independence can free innovation teams to test multiple concepts—including ones that could cannibalize the core business. We have seen instances where, after creating a robust product innovation muscle, acquirers have been quicker to validate new value propositions and move into attractive segments.

The second core capability is professionalizing risk management and compliance. The spike in credit and fraud risks (notably in segments where the spread between purchase and service delivery is wide), the Wirecard accounting scandal, and the need to implement anti-money-laundering and sanctions provisions have increased institutional concern over risk management in merchant acquiring, especially for nonbank acquirers that have not been subject to bank-style regulations in the past. To professionalize risk management and compliance, acquirers need to consider merchant credit-risk factors and related scoring, develop a toolset to codify and streamline mitigation interventions, establish risk governance and risk steering mechanisms, and define specific merchant-onboarding guidelines. (See Exhibit 5.)

Exhibit 5 - Five Core Elements to Professionalize Risk and Compliance

Core element	Description	Priority		
		Crisis response	M&A/ postmerger integration	Growth agenda
Risk fact base	Quantify merchant credit risk, and determine risk-bearing capacity	High	High	High
Risk mitigation and portfolio restructuring toolset	Develop levers to reduce exposure from unexpected loss, and define requirements for merchants	High	High	Medium
Risk governance setup	Ensure involvement of relevant decision-making bodies, focusing on onboarding and monitoring processes	High	High	High
Risk steering cockpit	Leverage internal and external sources to enable concise risk reporting, and report on interactions with merchants	High	High	High
Onboarding playbook	Establish requirements for new merchants, set contract terms, and prepare quick guides for sales team	Low	High	High

Source: BCG analysis.

Third, acquirers must upgrade their digital sales capabilities. Outbound marketing and early direct sales used to be the primary method of customer acquisition in B2B; but in the digital era, data-driven lead generation and sales activity have become more important than they used to be. To win new business, acquirers need to attract merchants over all digital channels—the web, mobile, and chat. Leaders will improve their inbound marketing capabilities, optimizing digital search and their own websites to make it easier and more rewarding for merchants to find product information. They'll also master automatically collecting merchant contact information, tracking merchant interests online, qualifying leads in near real time, and quickly routing the most promising leads to sales teams for a seamless buying journey. Enabling swift, efficient digital onboarding and robust customer service after the sale are other must-dos to retain customers and upsell with VAS.

Fourth, acquirers must retool their approach to M&A. In the past, the primary driver of large deals was the need to gain scale and geographic reach. Now, however, acquirers also use partnerships to aid market and product expansion, so they need to evaluate a broader set of potential targets—an undertaking that requires detailed analytics across a range of market niches. In addition, they must adjust their screening mechanisms. With valuations at record highs, investors want to see evidence that acquirers can deliver revenue performance that justifies those multiples. Long-term synergies are no longer enough. Acquirers will have to prepare a clear business case for any planned partnership and engage in more frequent stakeholder communications. In support of that effort, they should create a comprehensive integration plan that articulates the overall M&A narrative, guides investor communications, and establishes the day-to-day operating rhythm for different deal stages. We recommend setting up a dedicated integration office, laying out the decision-making chain of command, and creating concrete milestones such as day-30 plans, day-60 plans, and day-90 plans. In parallel, acquirers should also create a postmerger integration strategy that lays the groundwork for the future governance and operating model, factors in the distinctive cultural characteristics of the acquired organization, and identifies change-management practices to help align and embed successful ways of working.

Adapt go-to-market approaches. Acquirers have an opportunity to forge new and deeper customer relationships by doubling down on two strategic channels. The first of these is to become the go-to data and analytics partner for merchants—something that merchants have told us they very much desire.

Analytics, A/B testing, and customer journey optimization are key needs that fall into an acquirer's wheelhouse. For example, acquirers can use their data and analytics resources to help merchants screen for fraud more effectively. Merchants can then use those insights to focus their interventions on a few bad apples, rather than encumbering everyone else's purchasing experience by imposing authorization checks on the entire customer base.

Likewise, A/B testing can help merchants determine which payments options customers prefer and how to best present these methods on the checkout page. Doing so can help declutter websites that may currently list seven or eight payments methods. In addition, acquirers can help merchants create a seamless omnichannel experience by advising them on the best ways to integrate payments into the customer journey, such as through curbside pick up and other fulfillment methods. Acting as a trusted advisor in these ways can help merchants improve their conversion rates and allow acquirers to build strong relationships and greater customer lifetime value.

The second play is to define a channel strategy for the SMB segment. Acquirers have the chance to ride the growth wave in this space, but they must decide whether it makes sense for them to disrupt their business model by selling through an ISV, online marketplace, webshop provider, or other partner—or to go to market directly. Aligning with a partner could allow the acquirer to sell complementary VAS through the vendor's platform, increasing reach and revenues. But in that scenario, acquirers must enable easy integration, develop a robust API portfolio, and foster a strong developer community. Alternatively, going direct would give the acquirer more control and the potential for greater margins—but that path might require high levels of sustained investment.

In addition to thinking through their ISV play, acquirers should revisit their go-to-market approach for captive channels. For example, banks may want to pivot from a branch-based distribution model to a digital one, to lower costs and improve scale. Creating a quick, simple onboarding experience for SMBs is critical to success. Banks and nonbanks should also look for multipliers such as hotel, restaurant, and hospitality industry associations that can improve lead generation and lower acquisition costs in markets that have a large number of diverse participants. Finally, players should manage their value propositions in these channels strategically, by offering such things as smarter product bundles tailored to industry-specific needs and by applying risk-based pricing.

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MPE 2021: Resilience Through Innovation

MPE and AITE Group is bringing you the summary of the key themes that from the largest European Merchant Payments conference, held this year virtually in February 2021.

MAY 2021

Ron van Wezel

IMPACT POINTS

- This Aite Group report summarizes the key themes from the Merchant Payment Ecosystem (MPE) conference held virtually in February 2021. The report provides an overview of the top trends and issues in merchant acquiring and payments.
- The pandemic has strongly accelerated the shift to digital and contact-free payments, driving innovation in physical and online commerce. The crisis has shown the resilience of payments as a value-generating activity as well as the innovative power of the industry to support merchants in their digital journeys.
- The growth of cross-border commerce puts challenging requirements on merchants to globalize their offerings and support local consumer preferences at the same time.
- Alternative payment methods (APMs) and real-time payment alternatives are growing at a faster rate than traditional payment networks and will surpass them in transaction volume in the near future.
- As of May 2021, the enforcement deadline for strong customer authentication (SCA) has passed for most European Union (EU) countries, and issuers are expected to ramp up soft declines. Implementation issues with EMVCo 3-D Secure 2.0 (3DS2) must be resolved to avoid huge amounts of transaction failure in the coming months. Payment service providers (PSPs) and technology vendors have an important role to play to support merchants in their quest to mitigate the risk of friction and cart abandonment.
- New players have appeared in the acquiring value chain to provide payment services to small and midsize enterprises (SMEs), operating as payment facilitators (payfacs). Payfacs are becoming a formidable force, competing with traditional acquirers. The payfac model allows software companies to manage payments in-house. This gives them more control over the payments process and a significantly larger share of the payments revenue.

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SCA Enforcement: Lessons Learned

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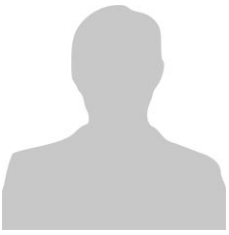
As of March 14, 2022, all UK merchants will be required to comply with Strong Customer Authentication (SCA) requirement which aims to increase payment security and protect sensitive consumer payment data.
SCA has been enforced with the European Economic Area (EEA) for up to nine months, depending on each individual country's enforcement date.

Accertify believes that the EEA can serve as a barometer to understand how enforcement of SCA will impact the U.K. market.

Join this webinar, presented by Accertify Inc. to hear key lessons learned from the enforcement of SCA in the EEA area, such as:
• Review SCA performance data from multiple industry sources
• Understand how SCA has impacted payments within the EEA
• Summarise SCA KPIs (Key Performance Indicators)
• Ensure readiness for UK enforcement

Speakers & Panelists



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Fraud Fighters: **Measuring the True Impact** of Your Fraud Ops Team

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In the fight against fraud, humans are your most expensive asset and you need to know how they are performing - but how do you measure their success? You're going to need to look at more than just your chargeback rate – but what metrics matter the most? Join us to learn how companies like Square, Google, and Facebook measure their Ops teams.

Join our webinar for a deep dive on the metrics that matter when it comes to measuring your team's effectiveness

1. What key metrics do high-performing teams leverage
2. What components go into assessing the ROI of an analyst
3. The hidden costs associated with fraud

Speakers & Panelists

Alan Moss
(Moderator)
MD Europe for Western Europe
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