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P2P PAYMENTS:
THE LATEST WAY FOR YOUR MEMBERS TO PAY

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PAYMENTS

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HIGHLIGHTS

- One of the fastest growing payment methods today is P2P (peer-to-peer).
- P2P payments are transactions that allow consumers to transfer funds from one account to another via the internet or mobile device.
- In 2017, the transaction value of P2P payments in the United States was projected to exceed $120 billion, and to double this amount by 2021.
- Zelle, Venmo, Square Cash, and Apple Pay Cash are a few of the most popular providers.
- This white paper will provide a baseline of knowledge about P2P payments and prepare strategic planners for what will soon be one of the most common payment processing methods used by consumers.

INTRODUCTION

The world of payments is changing more rapidly than ever as a result of consumer demand and the evolution of technology and communication methods. Today's consumers are using cash and checks less often and are using payment methods that are quick and provide little resistance. These same consumers are also shifting away from utilizing traditional service providers when it comes to the transfer of money. Previously, payments would have been processed through a service linked to the user's primary financial institution. Now, FinTech companies are quick to offer and market emerging payment technologies, causing financial institutions to also move into these non-traditional payment arenas to retain their customer base.

P2P payments are transactions that allow consumers to transfer funds from one account to another individual's account via the internet or a mobile device. Generally, there are two different ways to initiate a P2P transaction. The first approach utilizes a third-party processor to designate a transaction account or payment card to transfer and/or accept funds. These transactions are processed via the vendor's website or mobile application, where users are typically identified by their email addresses and can send funds to other users of the same service. The other common method of P2P processing is via a financial institution's online or mobile application, where the sender has an established banking relationship. The sender designates the recipient by means of either an email address or mobile phone number, where the recipient will then receive notification of the transfer. This notification directs the recipient to enter his or her account information to accept the funds. In this case, the recipient does not need to have an account at the same financial institution as the sender to receive the funds.

P2P By the Numbers

P2P transactions are becoming more and more prevalent. In 2016, financial institutions held 83% of the P2P market share. In 2017, the transaction value of P2P payments in the United States was expected to grow by another 55% to $120.38 billion. This growth rate is expected to increase by twice that amount by the year 2021. The volumes equate to 63.5 million adults in the United States using P2P payment apps at least once a month, or 32.6% of all smartphone users, with this number expected to grow to more than 100 million users by 2020.

What Members Are Asking

Financial institutions can continue to maintain a P2P stronghold based on a number of characteristics that consumers are looking for as part of P2P. Typically, consumers are interested in:

- *Availability*: Can this product integrate with products from other providers? How reliable is the app?
- *Transfer Option*: What types of transactions can be performed with the app? What are the fees associated with each transaction type?
- *Payment Method*: What tools can be used to perform these transactions and how quickly will the funds be available for use?
- *In-App Features*: Is there a social media feature associated with this product? What options are available for questions or challenges with the app?
- *Security*: What fraud protections are available via the app? How are we notified of suspicious activity?

Your credit union is already facilitating payments for a number of providers in this marketspace. The following paragraphs provide a general overview of the most common and popular providers, pros and cons associated with each, and the services they offer that meet the demands of consumers interested in using P2P.

ZELLE

Zelle®, formerly known as clearXchange, is owned by Early Warning Services (EWS). EWS is collectively owned by some of the largest financial institutions in the United States, including Bank of America, BB&T, Capital One, JPMorgan Chase, PNC, U.S. Bank, and Wells Fargo. EWS provides real-time payment authentication and risk mitigation to a network of more than 2,300 financial institutions, government organizations, and payment companies. Its services enable consumers to perform transactions conveniently and securely via an established data exchange system that shares intelligence among its participants.

Founded in 2011, clearXchange was developed by banks to send digital payments via their established networks. Money is sent directly to an end-user's bank account without requiring a third party to process the payment. EWS acquired clearXchange in 2015, enabling it to bring real-time digital payments to consumers. In 2016, EWS rebranded clearXchange as Zelle to create a national digital P2P payment service. Zelle's network consists of an alias-based directory that connects financial institutions to facilitate faster payments. It also includes real-time messaging between participating financial institutions. This network provides operating rules and regulations for its members and allows for collaboration between leading payments networks such as Visa® and Mastercard®.

Visa has recently launched a service called Visa Direct that integrates debit and prepaid cards into this payment app. This addition will allow financial institutions to earn interchange income on transactions processed via Zelle while allowing consumers to still enjoy the benefits of secure real-time payments. In addition to the 28 financial institutions who are already part of this network, 34 financial institutions will be implementing Zelle in early 2018. According to EWS, 95 million consumers have access to Zelle via these financial institutions and, in response to a recent marketing campaign, 100,000 people per day are signing in to the Zelle app for the first time. Zelle transferred $75 billion in funds via 247 million transactions in 2017.

Zelle will put financial institutions in the middle of P2P payments, alleviating the need to share their business with alternative providers by integrating with their existing mobile banking applications. The requirement for financial institutions to process only real-time payments will expand consumer adoption of this payment method. Real-time payments will be attractive to generations beyond Millennials, and will provide a strong replacement for cash and checks for small-business owners who do not have sufficient transaction volume to accept payment cards. The common brand between financial institutions will also make this service more visible to consumers and will increase understanding and adoption of P2P payments. This common brand will also attract processors to Zelle. Challenges associated with Zelle include the ability for financial institutions to bring it to market quickly based on the steps needed to process transactions in real-time and the integration with mobile banking providers.

VENMO

Venmo was launched in 2009 by Andrew Kortina and Iqram Magdon-Ismail as a music exchange program that enabled an individual to send text messages to receive free music files for listening. The shift to money movement came by accident when Magdon-Ismail forgot his wallet and found that reimbursing people for the money he borrowed was not an easy task. It was at this time that they shifted direction from music sharing to being a social payment application. In 2012, Venmo was sold to Braintree for $26.2 million. In 2013, Braintree was acquired by PayPal, placing Venmo under the PayPal suite of services.

Venmo is widely used by millennials to send or request money via a website or mobile application. These funds move instantly from one Venmo account to another. To cash these funds out of the Venmo account, however, the user needs to have a credit union account or bank account linked within the app. These funds are transferred to the account within one or two business days. Venmo is a free service unless the consumer is using a credit card, in which case a 3% fee is assessed per transaction. Venmo contains a social network feature in which users can post pictures and make posts on a timeline. As of November 2017, Venmo reported nearly 10 million users, which equates to 66% of the mobile payment market, and close to 2 million merchants who accept Venmo transactions. Venmo processed $9 billion in payment volume during the third quarter 2017, a $1 billion increase from the second quarter of the same year and a $4.1 billion increase from the same time period the previous year.

Venmo has a number of strengths that make its offering attractive to consumers. Ease of use, fast adoption by millennials, social network features, low fees, and backing by PayPal make this a service that will continue to grow and expand as P2P adoption continues. Limitations of Venmo include a disconnect between the wallet and the payment credentials, low starting limits established for users, limited adoption by older demographics, limited transaction options, slow access to cash, and the fact that it can only be used within the United States. These limitations present challenges to widespread adoption and use.

The roadmap for Venmo looks promising based on partnerships with both Visa and Mastercard for real-time push payments and on the capabilities available via Braintree. Expanded merchant acceptance of payments via this application will soften some of the limitations listed above.

SQUARE CASH

Square, Inc., was founded in 2009 by Jack Dorsey, who is also the chairman and founder of Twitter. Dorsey realized that there was a need within the merchant community to allow small business owners to accept electronic payments without needing to invest in traditional payment card equipment. Square technology enables any person with a smartphone to accept card payments with lower costs compared to the traditional acquisition systems. In 2013, the company launched a new product called Square Cash®, which came into the marketplace with such a strong media presence that a lot of people have been watching this product from its inception. In 2014, Square Cash created a partnership with Snapchat and now powers the app.

Cash App

Square Cash was one of the first to offer real-time P2P transactions. In this app, users link a debit card to their Square account, allowing funds to be automatically withdrawn from the sender's account. Once the transaction has been accepted, funds are immediately deposited into the receiver's account. At first, this service was free to all users. In 2016, however, the company added a fee equal to 1% of the transaction amount (next-day funds transfers continued to be at no cost). Square Cash has also opened the app to accept consumer-to-business (C2B) transactions. Businesses are charged a fee of 2.75% of the transaction amount, which means they can accept payments at a much lower cost than what is assessed by card processing vendors. The business service is intended for small entrepreneurs such as landlords, charities, photographers, etc. Square Cash also offers a virtual debit card number that can be used to spend the funds that reside in a Square Cash account.

Another benefit associated with Square Cash is their $Cashtag feature. This is a unique ID that can be implemented on the Cash.me website. This site provides additional security, as there is no need for a user to provide any personal information such as mobile numbers or email addresses. Merchants who accept this payment method display the $Cashtag symbol on their website for easy identification of acceptance.

Square Cash has strong brand recognition, drawing consumers to a brand they are familiar with. They have also been very successful in developing relationships with companies that consumers also have strong ties to, such as Apple and Starbucks. One challenge associated with Square Cash is the requirement of separate credentials to access the wallet feature. Another challenge is the very low spending limits set for new users.

APPLE PAY CASH

Announced at the World-Wide Developers Conference in June 2017, Apple Pay Cash is the most recent entry into the fast-growing P2P marketspace. Because Apple Pay Cash is deployed via Apple's iMessage, accessibility is limited to those with supported devices, including the iPhone SE, iPhone 6 and later, iPad Pro, iPad (5th generation), iPad Air 2, iPad mini 3 and later, and the Apple Watch. This presents a challenge for consumers who do not own Apple devices.

Apple Pay Cash was made available to users with the iOS 11.2 update in December 2017, and works almost identically to other P2P services. It can be used to send or receive money with transactions processed via a debit card being free; however, transactions processed with a credit card will accrue a 3% transaction fee. Once the funds are received, the balance may either be retained within Apple Pay or transferred to an account, which can take up to three days to process. Apple Pay Cash also has a virtual debit card issued by Green Dot Corporation that funds are loaded onto, with transactions being processed via the Discover network. When funds are received they are added to this card, which can be used to make purchases using Apple Pay in stores, in apps and on the internet. Users can ask Siri to launch payments, or include the phrases "owing money" or "making a payment" in a text message to launch the Apple Pay Cash button.

There is added security in the fact that card information is protected on the corresponding device via the tokenization process. Transactions made via this service are private between parties, whereas social-network-based services like Venmo make this information public, less the transaction amount, via a newsfeed. Apple's more than 85 million iPhone users give Apple Pay Cash an inherent advantage over other similar services.

CONCLUSION

Many P2P providers already have a very personal relationship with consumers. The majority of these non-traditional players in the marketspace are connected to or integrated with social media and are managed by the same organizations that support these services. In 2017, 81% of Americans had a social media profile, offering these providers a captive audience of over 1.96 billion consumers worldwide. While these providers have a social connection with consumers, they are lacking the traditional banking knowledge that is also vital to consumer adoption and usage. Most of the non-financial-based applications are not solving the fundamental challenges that make P2P payments attractive to consumers. An example of this is bill-splitting and the itemization of receipts and bills. If a user still needs to mentally perform the calculations to determine individual responsibility, then the application has done nothing to relieve this burden. The itemization of bills can be time consuming and result in errors, which could lead to disputes and ultimately impact relationships in a negative manner. Another challenge with third-party providers is the lack of connection they have with the user's banking experience. Not many of these services are integrated with online or mobile banking apps. Moreover, the holding of funds in prepaid accounts creates a secondary banking relationship that most users do not want. Most consumers are already challenged with managing budgets and tracking their daily spending. Adding the lack of a real-time money transfer creates significant friction for both parties linked to the payment.

Having a strong strategy will be vital for financial institutions to gain traction in this $200 billion market. The first step in developing this strategy is to determine whether or not you want to be a player in this space. If so, P2P should be elevated to the top of your mobile product strategic plan to drive transactions. Based on a study conducted by the Federal Reserve, 80% of mobile banking activity involves consumers checking their account balances and processing banking transactions. Since these activities are performed via a financial institution's core mobile banking app, there is already a captive audience for P2P services. According to a Fiserv study, consumers who use mobile banking have 2.3 products with their financial institution versus 1.3 products for consumers who utilize branch-only services.

Once a decision has been made to enter the P2P space, credit unions will need to make sure that customers are aware that the option is available to them. Aggressive marketing will be required to transition users from a digital provider to your solution. The good news is that this can be accomplished easily via channels that already exist between credit unions and the consumer, such as mobile and online banking messages. There may also be opportunities to include P2P payments as part of a relationship rewards program or to develop incentives for those who utilize the P2P service. Leveraging the trust that consumers have in their financial institution has proven to be a successful message based on the fact that the average transaction amount for Zelle users is $350, while the average transaction amount for Venmo users is between $25 and $40.

Credit unions will be faced with serious decisions regarding payment and mobile strategy in the very near future, with many factors to weigh as part of the decision-making process. P2P could be a disruptor to a number of payment methods, including those that generate revenue for credit unions such as interchange, usage fees, ATM terminal surcharges, and acquirer revenue generated via other services such as Shared Branching. P2P could make some consumers feel there's no need to be affiliated with a primary financial institution at all. These factors, combined with the rapid growth rate associated with the processing of these payments, will force executives to keep a close eye on this trend and most likely drive credit unions to offer the P2P service to their customer base.

About the Author

Product Expert **Rebekah Higgins** is Synergent's Vice President of Payments. She has over 20 years of experience in the payments industry and is a key member of Synergent's product development team, where she assists in the planning, creation, launch, and management of new financial products. Her focus is on identifying market needs through research, vendor partner offerings, and by leveraging Synergent's core competencies.

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Venmo: https://venmo.com/

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