Alternative Payments

An overview of new (and some not so new) methods of payment

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What Is A Payment?

• Change of ownership of value

• Value can be in multiple forms
  – Monetary
  – Non-monetary

• Monetary value is generally kept in banks

• Banks are the only authorized entities to change ownership of monetary value
Traditional Payment Architecture

Access Vehicle Layer
- Credit Cards
- Debit Cards
- RTN/Sort Code/BLZ Account number
- User Id/Password

Network Layer
- VI/MC/AX/etc.
- EFT Networks
- ACHs Globally
- OBeP Gateways

Funds Layer
- Credit
- Debit
- Cash
- Other
Emerging/Alternative Payments Are External

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Emerging/Alternative Payment Attributes

• Complement, rather than substitute, traditional methods of payment
• Not controlled by financial institutions
• Address a need for consumers and merchants satisfactorily met by traditional payment mechanisms
• Generally, resolve “last mile” problems encountered by traditional payment mechanisms
• Usually found in the e-commerce or mobile “milieu”
• Should not be confused with new payments technology
Consumer & Merchant Needs

• Familiarity
  – Can I use my preferred payment method?

• Safety
  – Will I be protected? Can I trust the merchant with this instrument?

• Convenience
  – Is it accepted? Will it make checkout easier?

• Rewards
  – Will I get cash back/miles for my purchase?

• Acceptance
  – Does my acquirer/processor support this method of payment?

• Transaction costs
  – How much does it cost per tx?

• Sales lift
  – Will it increase my sales or is it just replacing one form of payment with another? Can I reach overseas buyers?

• Operational costs
  – Are there chargebacks, credit losses or other hidden costs?
  – How difficult will integration be with my back room systems?
Why are Emerging/Alternative Payments Important?

- Online retail purchases
- As a % of total retail purchases

Billions of dollars

Percentage of Total Retail Sales

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Emerging/Alternative Payments Categories

• Payment wallets and services
  – PayPal, Google Checkout, Amazon Payments

• Alternative credit sources
  – Bill Me Later, Credex

• Decoupled/Affinity debit
  – Tempo, Moneta

• Cash In Solutions/Pre-paid Cards
  – Blackhawk, Green Dot

• Online Banking Electronic Payment (OBeP)
  – eBill Me, iDeal, Giropay

• Mobile / telephone based billing
  – Obopay, Mpesa, Zoompass
Payment Wallets and Services

• How they work
  – Store payment information in a secure place. Payment is processed by the wallet without sharing financial information with merchant accepting the wallet

• Value proposition
  – Consumer
    • Safety and privacy
  – Merchant
    • Accept cards and ACH payments without a merchant acquiring contract or an ODFI relationship
    • Lower cost than accepting bankcard payments directly
    • Sales lift
    • Reduces compliance burden

• Other comments
  – Requires consumers to have bank account or bank card
PayPal Overview

- Launched in October 1999
- Went public (IPO) in February 2002
- Acquired by eBay in October 2002
- Available in 190 markets, supporting 24 holding currencies
- Reported result Q1 ’10
  - TPV $21Billion (2009 TPV >$71 Billion)
  - 84 Million “Active” Accounts
  - $2,641 in TPV transacted every second

Why consumers like PayPal?
- FAST
  - “Express checkout”
  - Transactions take only a few seconds
- EASY
  - Simple account set up
  - Enables multiple financial instruments
- SECURE
  - “Shop without sharing”
  - Buyer protection

Why merchants like PayPal?
- SAFE
  - Fewer fraudulent transactions
  - Seller protection
- EASY
  - All-in-one solution
  - Immediate account set up
- COST EFFECTIVE
  - No set up fees
  - Lower cost than competition
  - Simple bundled pricing
- INCREASED SALES
  - Incremental revenues

Complement the existing financial payments networks by leveraging the payments infrastructure to deliver secure internet payments worldwide.
Alternative Credit Sources

• How they work
  – Provide an alternative line of credit to consumers. Usually requires the retrieval of a credit bureau. Line of credit usable at only one or at many merchants

• Value proposition
  – Consumer
    • Additional purchasing capability
    • Safety and privacy
  – Merchant
    • Lower cost (i.e. 50bps for Revolution)
    • Sales lift

• Other comments
  – Requires consumers to have good credit score
Decoupled Debit / Affinity Debit

• How they work
  – Consumer is issued a closed loop or a general purpose card (i.e. Visa or MasterCard) which is linked to a checking account not held by the card issuer. Transactions are settled via the ACH network

• Value proposition
  – Consumer
    • Convenience
    • Safety
    • Rewards
  – Merchant
    • Lower costs - closed loop around 50 bps (i.e. Revolution Money, NOCA)
  – Card Issuer
    • Interchange income from merchant

• Other comments
  – Requires consumers to have bank account
Cash In Solutions / Pre-Paid Cards

• How they work
  – Consumer pays with cash and obtains a pre-paid card or loads value to a purchasing account. Card can be general purpose (i.e. Visa or MasterCard) or single use/merchant

• Value proposition
  – Consumer
    • Safety of financial information
    • Enabling online shopping when bankcards are not available
    • Enable unbanked access to financial payments infrastructure
  – Merchant
    • Incremental sales
  – Card Issuer
    • Interchange income
    • Fee income

• Other comments
  – Does not require consumers to have bank account
Online Banking E-Payment (OBEP)

• How they work
  – Link consumers from the merchant web site to the consumers’ online banking where buyers are authenticated by the bank and the payment authorized online. Settlement of transaction can happen in real time or through the ACH.

• Value proposition
  – Consumer
    • Safety of financial information
    • Convenience
  – Merchant
    • Lower fees
    • Sales lift
    • Guaranteed payment, no chargebacks

• Other comments
  – Requires consumers to have bank account and use internet banking
How Do These Things Work? iDeal Demo

You returned to the online store.
Order accepted!

Welcome to Boeken Gigant

You returned to the online store. Order accepted!
iDeal is a Four Corner Model

- Issuing bank
- Acquiring bank
- Bilateral agreement
- Interchange fee
- Existing contract
- Internet Banking
- iDEAL contract
- Fee
- Consumer
- Merchant
Mobile Payments

• How they work
  – Mobile phone is the access vehicle to a purchasing account. Purchasing account could be the implied credit line given by the phone carrier, a stored value account (i.e. PayPal), or it could be a regular bankcard or bank account settled through the ACH

• Flavors of Mobile Payments
  – M-Payments
  – P2P
  – Mobile Wallets
  – Mobile Remittances

• Value proposition
  – Consumer
    • Safety of financial information
    • Convenience
  – Merchant
    • Lower fees
    • Sales lift
  – Carrier
    • Transaction fees

• Other comments
  – May not requires consumers to have bank account
New Tools

• Micropayments Aggregation
  – Apple I-Tunes
  – Contenture
  – Bitcents

• Contactless Devices
  – Visa payWave
  – MasterCard PayPass
  – Amex ExpressPay
  – Discover Zip

• Identification/Authentication
  – SignatureLink
  – Smartswipe
  – OpenID
  – Acculynk
  – HomeATM
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