RS2

OUTLOOK 2020

The Rise of the New: Alternative Payments and Currencies

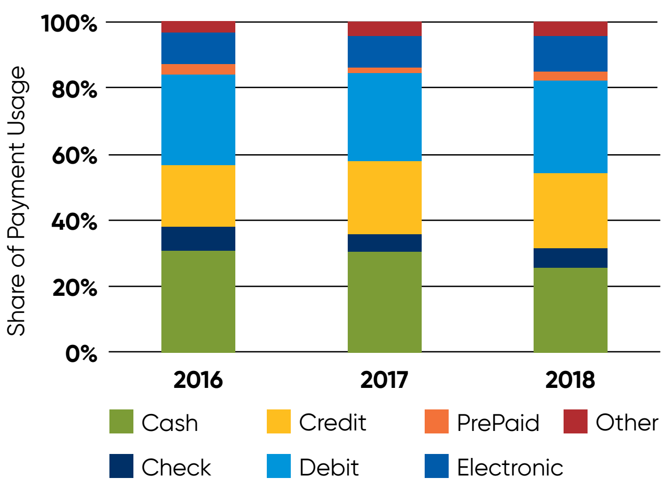
The evolution of payments has focused on eliminating barriers for both consumers and merchants, concentrating mainly on reducing the transaction time — something that benefits both sides. The current digital disruption in the payments space has ushered in new payment methods and currencies, yet consumers aren't abandoning old methods, which adds more complexity to the merchant side. These disruptions are benefiting consumers by adding convenience and speeding up wait times, but merchants find themselves struggling to adopt these new technologies at the same pace, and in some cases, are unsure how to identify which methods to support.

To address the rise of new alternative payment methods and currencies, merchants need a single, global payment platform that embeds payments at the system level to ensure acceptance at every customer touchpoint and allows merchants to keep the focus on their business.

For Payments, Diversity Doesn't Mean Elimination

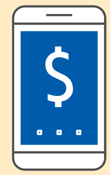
Unlike other industries where innovation and disruption resulted in an incumbent's slow demise (i.e. Uber's assault on the taxi industry), the payments industry is the antithesis of a zero-sum game. The credit and debit card hasn't killed physical currency, and mobile payments haven't killed the credit and debit card.

A 2019 Federal Reserve study recorded every transaction from a set of consumers over a consecutive three-day period and found that they used multiple payment instruments.



While cash continues to be the preference, primarily for transactions of $10 or less, cash saw its biggest decrease in 2018 as debit and credit card usage increased.

One of the primary reasons for the increased use of debit and credit cards is the use of digital wallets, such as Apple Pay, and financial institutions adopting contactless cards. Juniper Research found that digital wallet usage could rise to 40 percent in 2019 as consumers migrate away from cash.

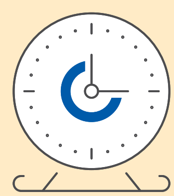


Digital wallet usage could rise to **40%** in 2019.

Consumers Drive Payment Evolution

This migration to digital transactions is unsurprising as the customer experience continues to be a major driver in the evolution of payments. For example, the Diner's Club Card was introduced after its founder forgot his wallet during a business dinner and PayPal was founded in 1998 to reduce the friction of paying online.

The effort to reduce friction at the point of sale has sped up in the last decade as consumer technology has continued to raise the bar on what consumers expect at check-out.

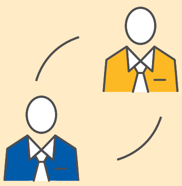


50% of consumers consider "real-time" in financial transactions to mean immediately.

The expectation, which again explains the migration from cash, is around faster payments. In fact, customers don't just expect frictionless, they expect immediate. Research from Fiserv found that 50 percent of consumers consider "real-time" in financial transactions to mean immediately. A prime example is Uber who embedded the transaction so seamlessly that it's processed, without effort, once the rider reaches their destination.

In-Person Transactions Still Reign

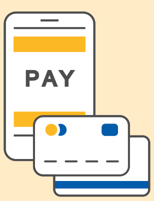
Even though consumers are spending more online and within mobile apps, like Uber, in-person payments still account for 73 percent of all transactions and have been an area of great focus in reducing transaction times.



In-person payments still account for **73%** of all transactions.

Consumers aren't the only ones clamoring to reduce wait times. Increased throughput is important to merchants as more transactions equate to more revenue. Two salad chain restaurants, Tender Greens and Sweetgreen, tested cashless checkout at a handful of locations to see if it increased throughput. Tender Greens estimated that cash transactions are four to five seconds slower than card transactions, and Sweetgreen found that its cashless locations processed five to 15 percent more transactions per hour.

Though typically credit and debit are quicker than cash, the introduction of EMV chip cards increased wait times due to it taking longer for point-of-sale (POS) terminals to read the chip. USA Today tested transaction times and found it took 12 seconds to complete a credit card transaction and only one second for an Apple Pay transaction. According to Jennifer Bailey, VP of internet services at Apple, frustrated customers have been more willing to experiment with mobile payments, therefore increasing adoption.



It takes **12 seconds** to complete a credit card transaction and only **one second** for an Apple Pay transaction.

New Currencies Add Unexpected Complexity

It's been more than ten years since Bitcoin launched, and to this day, many consumers question its value, not to mention the low acceptance rate by a large majority of merchants.

In fact, Bitcoin isn't even the most popular cryptocurrency. Tether, whose volume surpassed that of Bitcoin's for the first time in April 2019 and has consistently exceeded it since early August at about $21 billion per day, according to CoinMarketCap.com, is popular among Asian markets for its work arounds with US markets. This makes it very hard to govern and some states have actually launched investigations into its market manipulation.

Another way cryptocurrencies are hitting the market are through financial institutions and technology companies who are beginning to experiment. Libra, a global cryptocurrency, started by Facebook and founding members including Uber, Coinbase, Vodafone, and Women's World Banking, shows a committed investment from major technology and payment companies. Though the partner roster is impressive, the initiative has seen nominal consumer demand with only five percent of the general public expressing any level of interest, according to CivicScience. Libra's most recent setback has been the intervention by multiple governments requesting that development be halted until serious questions about governance have been answered.

While consumer interest and government intervention might delay the **rollout of a mainstream global cryptocurrency** for the time being, it's an uncharted area that will undoubtedly usher in **unexpected complexity for merchants**.

Merchants Are Wary of New Payment Methods

As more and more alternative payment methods and other non-traditional currencies enter the market, merchants need to decide whether or not to accept these methods. The largest challenge so far has been whether the costs of implementation add enough value to the bottom line.

> The **biggest challenge** so far with alternative payment methods and non-traditional currencies has been whether the costs of implementation add **enough value to the bottom line**.

Digital wallets existed before the launch of Apple Pay in 2014, but the adoption was slow primarily due to merchant acceptance. With uncertainty among merchants, clunky and time-consuming implementation processes, and weak consumer demand, merchants were skeptical of investing in new POS equipment to enable the technology.

Apple Pay launched coincidentally at the same time the U.S. was rolling out the mandated transition to EMV chip cards, which would require new POS terminals. These terminals were NFC enabled, which allowed Apple Pay integration among other digital wallets like Google Pay and Samsung Pay.

Apple announced at the beginning of 2019 that Apple Pay was now accepted in 74 of the top 100 merchants in the U.S. and 65 percent of all U.S. retailers now accepted Apple Pay. The adoption online has been slower as Loup Ventures recently reported that, depending on the channel, only 23-36 percent of the top 100 retailers online accepted Apple Pay across desktop, mobile, and apps.

Top 100 Retailers' Apple Pay Adoption

	Banks	Desktop	Mobile	Apps
2017	1922	9	13	22
2018	2707	14	24	24
Growth	*41%*	*56%*	*85%*	*9%*
2019	4250	23	28	36
Growth	*57%*	*64%*	*17%*	*50%*

New Solutions for Merchants

It's clear that consumers are adopting or at least experimenting with new and alternative payment methods faster than ever before. This rate of change is disrupting the traditional adoption process for merchants, who typically wait until consumer demand reaches a threshold to then implement and accept a new payment method. It's proving to be a catch-22 as consumers and merchants are dependent on each other on which methods gain wider acceptance. Unfortunately, the burden is placed mostly on the merchant who has been required to make the investment in new hardware and software. The alternative is not adapting to these consumer demands and missing out on revenue.

The chase to enable new payment methods has been going on for some time as legacy payment processors acquire companies that will enable them to offer new solutions. For merchants and vendors that add in payment layers, these patched systems end up being expensive to implement and usually require additional integrations to work properly.

As a result, newcomers have developed solutions with simplified platforms that address the current needs of merchants. Unfortunately, these solutions are typically focused on single channels (e.g. e-commerce) and lack the expertise and depth, thus requiring merchants to connect multiple services together, which adds maintenance costs, not to mention increases challenging day-to-day operations like reconciliation and reporting.

At the end of the day, merchants are focused solely on growing their business, which requires that the software they use to accept payment methods — wherever and however — is convenient for the customer.

> Merchants are focused solely on growing their business, which requires that the **software they use to accept payment** methods — wherever and however — is **convenient for the customer**.

In order for merchants to offer this flexibility, which in the end benefits their bottom line, they need a single, global payments platform that is built to handle the demand for industry-specific payment solutions and the rise of alternative methods. This allows merchants to focus solely on running and growing their business, with the solace of knowing they are ready to adapt to ever-changing consumer demands.

Learn more about how RS2 is empowering merchants with intelligent solutions here.


RS2
rs2.com/na