

Emerging Payment Systems: Principles for Success

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Emerging Payment Systems

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 - Challenges
 - What problem does it solve and how?
 - Drivers for adoption
 - Core capability and value
 - Customer considerations
 - Principles for success

Emerging Payment Systems

- Perspectives
 - Offering a new system or (usually) components of one
 - Enhancing an existing system or brand
 - Considering:
 - Investing in a new system
 - Partnering to offer a new system
 - Whether to accept a new payment method
 - Whether to use a new payment method
- When is it a smart play? When is it just following the herd?

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- Challenges:
 - Generally need to create two-sided market: merchants and customers
 - Need to convince consumers to change the way they buy or move money
 - Need to convince merchants to accept a new way to get paid
 - Need to navigate development, patent, operational, regulatory, fraud, security issues and risks + cost
 - Banks innovate too – FDIC Model Safe Accounts Pilot

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- What problem does it solve?
 - Telephone/e-commerce -- credit and debit cards, ACH, demand drafts
 - Unbanked sellers – PayPal, marketplaces
 - Unbanked purchasers – prepaid, mobile, Bill-Me-Later
 - Kids – prepaid, points programs, mobile SMS
 - Mobile credit card acceptance – Square Payments

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- What problem does it solve? (cont'd)
 - Social networking – PayPal, WePay, Obopay
 - Payments outside U.S. – Global Collect
 - Interchange/processing costs – Wal-Mart, Revolution
 - Strategic independence – Amazon, E-Bay (PayPal, Bill-Me-Later)
 - Chargebacks – Moneybookers

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- What are the BIG problems of the day?
 - **Mobility** – enable mobile (proximity and remote) payments
 - **Security and Privacy**
 - Perennial number 1 concern for users
 - Major advantage over cash alternative for sellers
 - **Simplicity**
 - Convergence on mobile devices (?)
 - Multi-purse cards (rewards, debit, credit, prepaid)

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- What tips the scale toward adoption? Address the BIG problems and provide a way to:
- **Retailers:** Combine value-added (loyalty, coupons, targeted marketing) with ease of integration
- **Financial institutions:** Capture payments volume, leverage infrastructure
- **Network providers, others:** Leverage infrastructure and installed base, solidify customer relationship (business or consumer)
- **Users:** Ubiquity – use the new method everywhere and easily

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- What capability or value is at the heart of the innovation?
 - Brand
 - Distribution channels
 - Data transmission network
 - Processing platform
 - Aggregation of relationships
 - OEM (mobile handsets)

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- What capability or value is at the heart of the innovation? (cont'd)
 - Operating system or application/applet
 - Access to funds transfer systems (Fedwire, ACH)
 - Money transmitter licenses or bank charter
 - Existing base of customers (service or cross-sell?)
 - Customer service
 - ...
 - Clever new payment widget

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- Special considerations about customers
- Who are the customers for the service?
 - Consumers or businesses
 - Buyers or sellers
 - Migrating to direct consumer sales?
- Whose customer are they for payment services?
 - The retailer's
 - The payment service provider's
 - If the retailer's – then still a new type of customer relationship (Amazon)

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- Shared customers – drawing clear lines
 - Bank and mobile network operator
 - Bank, mobile network operator, and online service (e-wallet)
- Data sharing and use should be integrated with strategy, not an afterthought
 - Transaction, geo-location, customer

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- Principles for success:
 - Know the problem that is being solved and how – (own, build, license, or obtain from a partner)
 - Know what role the system will play and what it requires of itself and of customers. Examples:
 - Customer acquisition – disclosures, customer service
 - Hold or transfer funds – bank/money transmitter
 - Data processing – connectivity, security
 - Payment acceptance – POS training and terminals, back-end integration

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- Principles for success (cont'd)
 - Stay flexible and adaptable – opportunity and value may not be where you thought they were
 - Remember the basics – evaluate the system's:
 - Quality of management and track record
 - Technical expertise
 - Strength of intellectual property
 - Quality of existing alliances
 - Creditworthiness
 - Market opportunity and time to market

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