

Tech titans' relentless advance into payments

September 16, 2020

* Views expressed are strictly the author's.

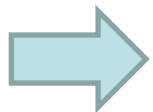


Eric Grover

- Payments can be enormously profitable, boost consumer and merchant engagement, and offer data from which monetizable insights into consumer and merchant behavior can be gleaned.
- US tech platforms have enormous reach and like payment schemes Mastercard, Visa, and PayPal, enjoy powerful network effects. They use and have further ambitions in payments.
- Thus far, the “GAFAs” have taken a steady, incrementalist approach to expanding in payments.

Facebook, world's leading social-media platform

- 2.5 billion people use Facebook, Instagram, Messenger and/or WhatsApp daily. –a)
- Facebook Credits, debuted 2009, retired 2013
- Facebook Pay
 - Wallet funded by payment cards or PayPal
 - P2P and retail payments on platform
 - No consumer fees. Merchants pay acceptance fees.
 - Within Facebook across ~ 135 countries
 - Available in US on Facebook and Messenger, and rolling out on Instagram. US merchants pay 5%.
 - Will be integrated across Facebook, Messenger, WhatsApp, and Instagram properties planetwide.



Potential to generate and displace a huge volume of transactions

Facebook, world's leading social-media platform

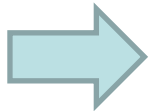
- Facebook Pay
 - Brazil
 - 120 million WhatsApp users
 - Cleared regulatory hurdles and live on WhatsApp
 - Funded by credit or debit cards, secured by a 6-digit pin or fingerprint.
 - Merchants pay 3.99%
 - India
 - 400 million WhatsApp users
 - Piloted in 2018
 - February, 2020 received approval to expand pilot to 10 million users –a)
 - Appears to have cleared an antitrust challenge and the RBI's concerns.
 - World
 - With 2 billion WhatsApp users planetwide, potential is immense. –b)
 - Relies on existing payment networks and processors, but reduces their visibility, and, in the case of processors, fees.

(a- Megha Mandavia & Priyanka Sangari, "As WhatsApp Pay debut looms, rivals add more storefronts to keep up," The Economic Times, March 11, 2020

(b- Hannah Zhang, "WhatsApp hits 2 billion users," CNN, February 13, 2020

Facebook

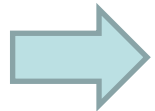
- Original Libra system proposal provoked a firestorm from regulators and politicians worldwide
- Libra 2.0
 - Stablecoin backed by each jurisdiction's fiat currency, initially dollars, pounds and euros
 - P2P and retail payments, in-app, online and at the physical pos
 - Will be used from Facebook's wallet Novi and third-party digital wallets
 - Don't have to use other Facebook products to use Novi
 - Fee-free P2P payments
 - Will incent use on platform. If successful, libra use could/should spillover to e-commerce off-platform and at the physical pos



Has the potential to roil the payments world.
Will facilitate dollarization.

Google, world's leading search engine, browser, email, video platform, and mobile operating system

- Google Checkout launched 2005
- Android Pay
- Google Pay
 - Retail, P2P, and bill payments
 - Retail banking partnerships with 8 US banks. –a)
 - Stupendous growth in India, leveraging the NPCI's real-time interbank payment system IMPS and UPI
 - 98% of half a billion smartphones use Android. –b)
 - > 67 million active users and \$110 billion annualized volume –c)
- Google takes 30% fee on payments within Google Play and 5% of payments in its browser store



The Search Goliath has punched under its weight in payments

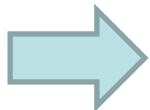
(a- Sarah Perez, "Google signs up six more partners for its digital banking platform coming to Google Pay," TechCrunch, August 3, 2020. Banks include Bank Mobile, BBVA USA, BMO Harris, Coastal Community Bank, First Independence Bank, SEFCU, Citi and SFCU.

(b – "Google faces antitrust case in India over payments app," The Economic Times, May 27, 2020

(c- Ibid. 67 million active users as of September, 2019

Amazon, planet's leading e-tailer

- Wants to make payments frictionless on-platform
- Amazon WebPay (a Venmo-like service) launched in 2011 failed.
- Amazon Local Register competing with Square launched 2014, shutdown in 2015
- Provides co-branded general-purpose (Chase) and proprietary (Synchrony) credit cards, a prepaid card and Amazon Cash.
- Credit for sellers.
- 112 million US Prime users –a)
- The e-retailing Gargantua reportedly abandoned plans to launch a checking account –b)
- Amazon Pay is a payment scheme off-platform delivered through third-party acquirers like Worldpay (FIS). Potential with FIS's rewards as a currency



Incrementalist and relentless

(a- Don Reisinger, "Amazon Prime's numbers (and influence) continue to grow," Fortune, January 16, 2020

(b- Dan Ennis, "Amazon abandons plan for checking accounts," Banking Dive, November 18, 2019

Amazon, betting big on India

- Invested in 2015 in semi-closed gift-card digital wallet provider QwikSilver. -a)
- In 2016 acquired Emvantage, a provider of a online payments gateway, mobile payment tools for merchants, and a prepaid wallet -b)
- Acquired digital personal assistant platform Tapzo in 2018 -c)
- Amazon Pay launched bill payment services in 2018 -c)
- 2018 invested \$22 million in alternative SMB lending platform Capital Float -d)
- With Mastercard in 2018 invested in Tonetag, a fintech enabling payments to be transmitted by sound waves. -e)
- 2018 led \$12 million round for digital insurance startup Acko -f)
- Participated in D round funding online marketplace for financial services BankBazaar in April, 2020, after putting in \$60 million in 2016. -g)
- June, 2020 Amazon launched “Smart Store” for SMBs tied to payments, competing against Flipkart PhonePE’s Switch and Google Pay’s Spot

(a- “Vivek Pai, “QwikSilver raises \$10 million from Amazon & existing investors,” Medianama, January 6, 2015

(b-Catherine Shu, “Amazon Acquires Emvantage To Build Its Online Payment Platform in India,” TechCrunch, February 16, 2016

(c- Supraja Srinivasan, “Amazon Pay acquires personal assistant platform Tapzo,” The Economic Times, August 29, 2018

(d- “Amazon Places \$22 million India’s Capital Float,” Pymts.com, April 24, 2018

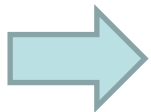
(e- Shurtika Verma & Anirban Sen, “ToneTag raises up to \$10 million from Amazon, Mastercard, others,” Mint, May 30, 2018

(f- Jon Russell, “Amazon leads \$12M investment in India-based digital insurance startup Acko,” TechCrunch, May 27, 2018

(g- “BankBazaar receives another investment from Amazon,” The Paypers, April 10, 2020

Apple, mobile-phone phenom

- Apple Pay
 - Intended to boost engagement and enhance iOS platform
 - Retail and P2P (Apple Cash) payments
 - Captures a piece of interchange from bank issuers.
 - Takes 30% of payments made in its apps store
 - Generates just under \$1 billion in annual payments revenue ^{–a)}
- Apple Mastercard credit “card” (Goldman Sachs), Apple Visa credit card (Barclays), and Apple Cash Card (Green Dot Bank)
- Acquired Mobeewave ^{–b)}
 - Technology uses NFC to turn iPhones into mobile card acceptance terminals without a hardware dongle. Potential to transform/further expand mobile acceptance



Likely to stay course enhancing iPhone/iOS platform

(a- Telis Demos & Dan Gallagher, “Is This the Year You Finally Stop Swiping Your Credit Card?” WSJ, August 14, 2020

(b- Apple acquirers softPOS firm Mobeewave,” Finextra, August 3, 2020

Implications for banks, traditional FIs, payment networks and processors

- The good:
 - The tech platforms can and will generate additional payments and financial services in developed and particularly emerging markets
- From banks' and traditional payment systems' perspective the bad:
 - Tech platforms will own a piece of customer relationships, if not outright relationship primacy, at the expense of FIs.
 - While the US tech giants' economics aren't driven by payments and financial services, as they move more commerce onto their platforms and increase share, they will squeeze the existing ecosystem's economics
 - For the payments ecosystem increased concentration and the ability to influence payment share, hurts transaction economics

Implications for banks, traditional FIs, payment networks and processors

- The ugly:
 - GAFAs are inching toward becoming partial or outright payments ecosystems.
- Mitigants:
 - Existing systems work well.
 - Building network critical mass and therefore relevance and value is hard.
 - Consumers and merchants are creatures of habit in payments
 - Reluctance to be regulated as a bank

Q&A