

A First Data Industry Report

Changing Landscape: Alternative Payment Technologies, Consumer Response, and the Future of Transactions

Introduction

The payment processing landscape has shifted noticeably, altered by an unpredictable economy and the rapid adoption of mobile technology. Financial institutions are searching for new low-risk ways to increase their bottom lines. At the same time, merchants are seeking alternative, innovative methods of payment processing. Merchants trust their financial institutions to provide payment processing services, but they are increasingly looking to secondary sources for solutions.

How can financial institutions avoid this missed opportunity for revenue? What advantages does bank-provided payment processing provide for the merchant and the financial institution?

This report, based on First Data proprietary research, explores these questions and discusses why merchant services is a valuable solution.

The Evolution of Payment Processing

Since the financial crisis of 2008, the culture of consumer credit has changed dramatically. From Q4 2011 to Q4 2012, borrowing declined by \$25 billion, or 3.6 percent.¹ Today, financial institutions still struggle to increase revenue without the risk often associated with introducing a new line of business.

Consumer adoption of new payment technologies is also shifting, and quickly. Nearly half of all American adults own a smartphone, and one in five own a tablet computer.² What's more, the number of U.S. smartphone users is expected to reach 138 million by 2015.³ Consumers are not only increasing how often they use mobile technologies, they're changing the way they use them—specifically, how they interact with daily communication and transactions in the marketplace. Research has found that 38 percent of smartphone owners have used their phone to make a purchase—with digital goods such as music, ebooks, or movies; clothing and accessories; tickets; and daily deals serving as the most popular mobile retail categories.⁴

Merchants are well aware of the evolution of consumer payments, driving them to seek out innovative and convenient methods of transaction. According to research:

- 89 percent of merchants are aware of mobile device payments.
- 41 percent will consider adoption of mobile device payments within a few years.
- 90 percent of merchants have websites, 30 percent of which are already mobile optimized.
- 47 percent of merchants say that adopting new payment and marketing technologies is an important way to stay ahead of competitors.

How do these trends affect financial institutions? What can they do to remain competitive? Those that don't react to these developments and change their practices accordingly face lost revenue—thanks in part to a new competitor: alternative payment providers.

Alternative Payment Providers: A Rising Threat

Merchants are increasingly employing alternative payment methods in the market, such as PayPal™ and Amazon™.

- Use of alternative payment providers increased by 7 percent.
- Use of Checkout by Amazon increased by 7 percent.
- Use of PayPal increased by 3 percent.⁶

Although most merchants trust their financial institutions to equip them with merchant services, they are carefully considering alternative payment providers. Ninety percent of small merchants surveyed are aware of PayPal in-store payments. Twenty-three percent will consider adoption within a couple of years. Fifty-three percent of merchants would trust PayPal to provide them with merchant services. And 27 percent claimed they would trust Amazon.

The Takeaway: Focus on Relationship Banking

What can financial institutions give merchants that alternative payment providers cannot? Valuable suites of offerings, heightened security, and, especially, personal service. In fact, from 2009 to 2011, the percentage of small merchants that name their relationship manager as their most important point of contact at their financial institution increased from 48 percent to 53 percent.⁸

An Insider's Perspective

Louis Blatt, SVP of ACI Worldwide, notes that the expanding demand for payments from consumers and merchants serves as an advantage for community banks and credit unions. Digital payments offer financial institutions the opportunity to compete against payment processors that are already causing significant market disruption and applying downward pressure on pricing. In addition, Blatt says, person-to-person transactions and mobile payments offer a unique opportunity for smaller financial institutions to reassert themselves.⁹

Conclusion

Changes in consumer behavior have triggered an increased use of new mobile technologies. This evolution has prompted financial institutions to find innovative ways to adapt or risk losing relevancy.

Although the threat from alternative payment providers is on the rise, financial institutions can and should take advantage of the opportunity for increased revenue that merchant services enables. This powerful offering includes the tools, personal service, and security that merchants seek— now and in the future.

For more information about how First Data's merchant services can make a difference for your financial institution, please contact us:

Email: merchantpartners@firstdata.com
Phone: 888.328.1578

¹New York Federal Reserve Data

²"The Future of Money in a Mobile Age," The Pew Internet and American Life Project, 2012

³Partners in Prepaid. "Smartphones Unleash Mobile Banking in North America." August 8, 2011

⁴"Mobile Shopping Goes Mainstream: Majority of U.S. Smartphone Owners Performed Shopping Activities on Their Phone in September," comScore, 2011.

⁵First Data Universal Commerce Merchant Tracker, 2012

⁶Source: Forrester's Customer Survey for First Data, Q3 2011. Source: North American Technographics (TM) Financial Services Online Survey, Q4 2010

⁷Lending to Small Businesses – Impact on Bank's Profitability," MarketsandMarkets, June 2010.

⁸Cockburn, Chuck. "Guest opinion: Businesses bring loyalty and profitability." Credit Union Times. 31 August 2011. www.cutimes.com

⁹Blatt, Louis. "Wire and ACH Revamps." BankNews. March 2012. <http://www.banknews.com>