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Welcome Another POS Competitor, PayPal. (NASDAQ Symbol PYPL)



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When Did PayPal Become a Mainstream Payment Option?

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The most trusted on-line consumer payment mechanism in the U.S. has gone public with high ambitions to own your existing fee-based POS (Point of Sale) transaction activity, PayPal.

On July 20, 2015, PayPal separated from its auction-site owner eBay to become an independent company listed on the NASDAQ Exchange. Many mature financial service executives and 'average joes' still think of PayPal as a limited service auction-site payment vehicle, relevant to only

those individuals who have moved from flea markets to the internet for their shopping and sales. Oh how wrong they are! It might be time for them to wake up and smell the Starbucks' coffee.

While PayPal was founded *way back* in 1998, in seventeen years it has built a world-class brand based upon the security of person to person and person to business commerce. Banks and Credit Unions once held the valued franchise corner on payment security through checks, ACH and card-based transactions. How secure will your customers or members claim that their payment cards or accounts are today?

As if PayPal having the advantage over trusted security was not enough, how many financial companies can boast a market capitalization over \$46 Billion? No bank or credit union at all fresh out of the gate.

The dimensions of PayPal prior to the split from eBay are enormous. In 2014, PayPal reportedly processed \$235 billion in payments from 169 million account holders and sales revenue was \$8 billion.

PayPal is also under new leadership. An ex-American Express executive Dan Schulman, who is revered by the investment community analysts as being a man who can manage an organization poised for great expansion, has taken charge. He certainly understands the payments business.

How PayPal Works

While the vast majority of financial executives are toiling over whether or not to replace all debit and credit cards with new chip-enabled plastics, chip-card reader replacements for ATMs and replacement cash-advance terminals in the branches, PayPal has been quietly building out its competitive strategy. PayPal has a huge lead over its competitors, such as American Express with its newly introduced Express Payment Option, with regards to being the trusted platform that is widely accepted with on-line commerce. Of course there always remains the option to enter a plastic card number held in your wallet on-line.

Now, through acquisitions that have held little fanfare, PayPal has maneuvered itself to the smartphone and to the cash register. The payment method PayPal has brought to market provides both the assurance to the business and the buyer that the transaction is being conducted by the PayPal account owner. Here is how it works:

1. Download the PayPal app to your smartphone.

2. Open up the app and upload a photo of yourself that the merchant will view to help verify your transaction.
3. Go to a participating merchant. They are listed within the application based upon your location and their proximity. Wendy's restaurants are one that we regularly have utilized.
4. At the cash register, be sure that you have signed in to the PayPal application prior to attempting your purchase.
5. Announce you are paying for your purchase via PayPal. The register clerk will validate your identity through your proximity via your smartphone and the photo and your name that appears on their screen.
6. With the flip of a finger, moving an image of a lever to throw a switch, you authorize the payment.
7. As a bonus you get an email in your inbox validating that a transaction just occurred on your PayPal account at a defined merchant for the transaction amount.
8. The transaction is recorded twice; once in your PayPal account and secondly showing in your linked payment account.

These transactions certainly feel extremely secure, from the validation of the transactor's photo and proximity at the register, to the multiple validations of all completed transactions. On the merchant side, PayPal has the ability to be network

agnostic and well aligned with merchants as a price competitor to the card networks that merchants love to hate (and sue).

(PayPal flyer distributed at Wendy's.)

PayPal vs. Competitors

We see the key for success as being the battle at the point of sale, as for on-line payments, for those who know, PayPal is hard to beat. Apple Pay is vying for the point of sale business as it launched its iPhone6 models into the spotlight in 2014 and has sponsorships with many of the country's largest financial institutions. Its launch into transaction tokenization, where the card numbers and identifying information are saved within the smartphone and sent to the payment terminal via Near Field Communication (NFC) technology, which should bring forth Google's Android Pay later this year.

Both of these services have limitations with smartphone model utilization. If you are still using an iPhone4 or iPhone5 (as are many of our staff), PayPal is the only option as it does not rely upon NFC. Android is expected to work with

more of their existing devices when officially launched. PayPal is a downloadable application that can run on early smartphone models, enabling a much larger audience.

The key to PayPal's success at the cash register will be recognition and adoption in this payments space. PayPal already has the brand recognition on-line. The movement from the Internet to mobile will need to continue to be the company's main focus. They will be assisted by all the pending confusion to be thrust upon the buying public with chip-cards and the varied tokenization options for differing phone manufacturers. Will a trusted payment processor such as PayPal resonate and stand out? With \$6 billion in cash and no debt, PayPal certainly has the pocketbook to make mobile adoption of its solution understood. Take in part the Wendy's flyer shown above, and the new cash register and door decals showing up across the country.

Conclusion-

We cannot help but ask:

With every day bringing forth another spillage of customer banking data into the news, when will trust totally evaporate for Bank and Credit Union based transactions?

How many card replacements can you send to a customer before they blame the messenger?

How many still believe that the chip enabled card solves the card replacement nightmare the industry has been wrestling?

With PayPal as your new, well-funded and capitalized competitor, how will you compete?

We think the really interesting and frightening combination would be the possible acquisition of PayPal, now that they are traded in the public domain, by a cash-rich Apple, to create the marriage of the physical technologies with trusted commerce in both real and cyber-space. You should tremble when you think of what those two could do together. Remember that every transaction they garner is one less transaction that financial institutions now process and receive a nominal fee.

So with that being said, is it time to monetize and apply a fee for ACH receipt at the retail banking level? Why you ask? Because the way it seems to be headed for financial institutions, aside from being the warehouse for money held in a federally-insured account, ACH as the financial back-door will be the only transaction posting mechanism that will continue to grow as it enables other payment methods.

This is where a business partner such as CMPG could assist you in defining your payments strategies and payments governance as we have with other organizations. This could include any opportunities and threat evaluations based upon our market insights, the development of plans of action and leadership of projects to ensure that you optimize return on investments. We would welcome your call.

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