



# *TRENDWATCH 2.0*

*Q4 2019*

## **PAYMENTS SYSTEM INDUSTRY SYNOPSIS**

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# Random Thoughts

## Welcome to Payments (and Other Stuff) 4.0!

Note: septuagenarians and those heading for retirement soon need not read this TrendWatch section. It's probably too late.

Just as the global arena for payments and other electronic banking genre was heading for the innovation plateau and newsworthy doldrums, Visa decides to change the game in a huge way. The card brand is putting \$5.3 billion of shareholder money into acquiring API developer, Plaid.

Surely, the acquisitions made by Fiserv, FIS, and Global Payments in 2019 were meaningful events. Indeed, they have resulted in major concentrations in the issuing, acquiring, and core banking sectors but real game changers? Not so much.

In acquiring Plaid, Visa ticked a number of strategic boxes. It paid twice Plaid's late 2019 valuation. It used a November 2019 "strategic investment" in Plaid to good end. It gave the VC and PE investors a sizable return for their \$353.3 million in funding largess. And, it put an exclamation mark behind its claim that it is no longer just a card company!

Like a number of others in the bank-connectivity space like Twilio (NYSE: TWLO), Noyo and Stripe, Plaid sits in the middle of non-FI fintech players and banks. Acorn, Venmo, Betterment, Robinhood, Chime and Square use Plaid to gain access to bank accounts for a variety of reasons including payments processing and routing. If the company's statements are accurate, 200 million users avail themselves of the apps Plaid has spawned in its seven year history. Its links connect more than 11,000 FIs and other financial services providers with 2,600 fintech developers. That's a ton of code; most of it aimed at U.S. consumers and their personal financial information.

Those nervous about the prospects of "Open Banking" reaching U.S. shores should take note that we're about to witness the equivalent of

Ellis Island for transformation of banking as we've come to know it. We should probably have seen this coming while witnessing the bidding war between Visa and Mastercard for Earthport which doubled overnight Visa's connections in the top 50 global markets. (For its part, Mastercard has moved heavily into the network security realm, another strategy to pump up network value and corporate valuation.)

Bottom line for younger payments industry practitioners: The payments and electronic banking rules learned as you were coming up still apply but to a broader base of constituents including other API developers, fintech innovators, and third parties having rightful access to depositor and borrower information. More moving parts with new transactions. Tougher audit standards and newly defined banking technology. Decades ago, a comic book describing how the ACH works was published. A similar effort illustrating how Payments 4.0 works will be a large as the Encyclopedia Britannica.

When Yodlee launched its screen scraping approach to data aggregation in 1999, bankers and networks screamed bloody murder, citing privacy and ownership concerns. Things had settled down by 2008 when Bank of America led a \$35 million financing round. Having gained a bit of legitimacy, Yodlee moved on to providing data scraping technology for big name players like Mint.

So, here we are in 2020 on the cusp of a significant change in the way consumers view their aggregated financial data, utilize new tools that match purchasing needs with payment options, and create their own (not our) definition of "retail banking." Payments executives in the 2<sup>nd</sup> or 3<sup>rd</sup> quarter of their workday lives are in for some exciting times courtesy of Visa and the company that makes the next move.

***Until Next Time...And Good Luck!***



## 2019 Predictions

**2018 Holdover: Venmo's (unnamed) P2P competitors will follow its lead and announce plans to morph into POS and mPOS services.**

**Q1:** Haven't seen it yet, but Zelle's growth numbers continue to impress.

**Q2:** More of the same; staggering Zelle growth but no overt move into POS.

**Q3:** Does B2B count? Getting closer to C2B, month by month.

**Q4:** We're declaring victory on this one even though we got it wrong. Venmo is moving too fast in the merchant service innovation arena for Zelle to keep pace.

**2019 is the year we will see the beginnings of mobile payments interoperability.**

**Q1:** It's not likely that Apple Pay will make the first move considering Apple's recent entrance into the credit card arena.

**Q2:** Geez, this is going to take a long time. Maybe straight M&A will get it done.

**Q3:** Forget about it. We're raising the white flag on this one for the rest of the year!

**Q4:** We give up. May never happen, at least not in our lifetime.

**Blockchain applications will proliferate; two global successes will be announced.**

**Q1:** May have to eat this one in light of recent statements by bank CEOs and CTOs regarding blockchain's value being oversold. Nevertheless, over 40 central banks are working on blockchain opportunities to speed up and cheapen trans-border transactions – most involve hard-currency denominated tokens, not those derived from algorithms. Where's the fun in that?

**Q2:** Now we're cooking! Thank you, Libra Association.

**Q3:** Hold 'er Knute, not so fast. Looks like PayPal walking back their thinking while others hem and haw. Too much regulatory scrutiny perhaps.

**Q4:** The funny thing about bandwagons is that they can sometimes take a wrong turn. Several serious players are saying the value of blockchain is overblown while innovative consortia like CULedger are making great strides in identity protection and trade finance. Frankly, we're confused; never a good state for consultancies.



## 2019 Predictions

### **Voice banking, a virtual assistant application, will gain in popularity despite predictions to the contrary.**

**Q1:** U.S. Bank, Capital One, and Fiserv seem to think we're right, but voice banking is nowhere near critical mass yet.

**Q2:** Slowly but surely there are new skills being launched on Echo and elsewhere; but it's likely to be a long slog.

**Q3:** Consumer studies indicate that people are wary of voice banking yet the number of skills and tasks being cataloged continues to grow. Puzzling, right?

**Q4:** Still not there yet but having Alexa and Google Home being hardwired into our vehicles and the 2020 CES showcasing every possible way for us to avoid bending over or walking a few extra steps, we believe the new decade will see lots of voice banking apps.

### **The Clearing House will launch its RTP system in earnest. The Fed will play catch-up.**

**Q1:** RTP is up and running with at least one FI and TCH just added four new seats to its RTP Advisory Committee for smaller players (but no merchants).

**Q2:** "Catch-up" is a relative term, actually. The Faster Payments Council is going as fast as a collaborative association can and the Fed publicly applied the brakes in a May announcement. Meanwhile, RTP enrollment hasn't hit Mach 1, either.

**Q3:** Well, now we know the Fed's plans and we're eagerly awaiting how the markets react. Merchants, small banks and most credit unions are pleased with the idea of a public sector player operating a faster payments system. Yet, as noted in Random Thoughts, the real drama queens have yet to take the field.

**Q4:** Now we're being teased with the notion that the Fed could accelerate its rollout timeframe with creative vendor contracting. Maybe "catch-up" will wind up being closer to "outatheway."

### **The pharmaceutical industry will see another M&A transaction involving an outsider.**

**Q1:** One can hope, drug costs are rising fast; sadly, this prediction may take a bit more time.

**Q2:** Pharma costs aren't center stage anymore but they're still there and high. This will happen.

**Q3:** It's a pretty safe bet that Purdue Pharma will be on the block soon. Depending on the level of toxicity that remains after bankruptcy, someone will come along with some money.

**Q4:** Looks like we blew this one; 2020 may provide a clearer view of the way forward. Hope so, drug expenses (legal ones) are draining some older generation folks we know.



# TrendWatch Summary: Industry Focus Areas – Q4 2019

Recent Activity Level	Industry Impact	Entrenched Player Impact	Market and Industry Situation	
			Focus Area	Recent Movements
Low	●	●	<b>New Payment Forms</b>	Even this year's Consumer Electronics Show was short on new payments approaches.
Med	●	●	<b>ATM Restructuring</b>	The industry continues to restructure through M&A as volumes decline and the new operating system is virtually mandated by Microsoft.
High	●	●	<b>POS Volume Trend</b>	Holiday season debit spend was over the moon.
Low	●	●	<b>Legal/Regulatory Issues</b>	With the prospects of a Senate hearing looming, are you kidding? Nothing is happening in payments legislation; probably a good thing.
Med	●	●	<b>New Venture Growth</b>	Health care and insurance continue to attract attention; those sectors grow while we see new twists in fraud detection and prevention.
Med	●	●	<b>Earnings Announcements</b>	With the exception of brick and mortar retailers, earnings continue to impress the investor community.
Low	●	●	<b>Industry Investments</b>	See our note in the M&A section.
Med	●	●	<b>Payments Industry Security</b>	The claim is that EMV is working to reduce card-based fraud. Yet, with the petroleum retailer EMV deadline coming up in October, that could change. Visa and Mastercard aren't being lenient and software/hardware and certification hurdles abound.

- Positive
- Mixed
- Negative



# TrendWatch Summary: The Players – Q4 2019

## Industry Players to Watch

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***The One-click Payments Button Players*** In this nervous new world of online fraud, it will be interesting to see how consumers react to having their personal information lodged in a place accessible for four payments networks.

***The Challenger Bank Sector*** Even though the entrepreneurs behind these Neobanks target the laggards that operate legacy financial institutions, they are also vying among one another for marketplace supremacy. Look for new offers, some downright scary, others harebrained, to emerge.

***Apple Card*** It doesn't appear that Apple and Goldman are out of the applicant discrimination woods just yet. Let's watch to see how Cupertino and NYC respond to these complaints.

***FedNow*** Will the Fed really take its merry old time to roll out FedNow or are we going to see, and benefit from, "FedNow Lite?"

***The Retailer Sector*** True, Christmas on a Wednesday coupled with a late Thanksgiving were not optimum conditions. Still, we had record spend levels for the holiday period. Now watch for last-gasp merchant behavior as the final beans are being tallied up. Retail site vacancy rates are high already; not a good time to be a mall operator.

***Legislation Coming Out of Weed-legal States*** Clearly, the Federal government is at loggerheads with local legislatures in states when the citizenry have approved legalization of marijuana. Big losers during this impasse are licensed vendors/dispensaries and those wishing to consume the product. Some states and municipalities are so troubled by the cash-only status quo that they're conducting research into forming public banks. That wouldn't be good either, we opine.



## 2019 Payments Industry YTD Yields

Congratulations to readers with tax-deferred retirement accounts fully invested in the total market; 2019 generated 22 percent in returns. On the other hand, had you skewed your portfolio a tad toward our industry, you could have picked up a few extra scheckles and ridden the big boy M&A wave. For sure, not all IPOs worked out well for investors in 2019 but Bill.com brought smiles. No telling what 2020 will look like but we're sticking with the cards we were dealt, for now.

Industry Player	12/31/2018	12/31/2019	Price	Cap Value	YTD 2019	
			△	△	Yield	Rank
Alliance Data Systems	\$150.08	\$112.20	(\$37.88)	(\$2,253.86)	-25%	16
American Express	95.32	124.49	29.17	31,503.60	31%	11
Bill.com (12/19 IPO)	22.00	38.05	16.05	1,133.13	73%	2
Cardtronics PLC	26.00	44.65	18.65	759.06	72%	3
Discover Financial Services	58.98	84.82	25.84	12,426.46	44%	8
Euronet Worldwide	102.38	157.56	55.18	2,781.07	54%	7
Fidelity National Information Services	102.55	139.09	36.54	6,971.83	36%	10
Fiserv Inc.	73.49	115.63	42.14	6,569.63	57%	5
Everi (fka GCA)	5.15	13.43	8.28	638.39	161%	1
Jack Henry & Associates	126.52	145.67	19.15	1,606.69	15%	13
MasterCard Worldwide	188.65	298.59	109.94	14,226.24	58%	4
MoneyGram International	2.00	2.10	0.10	5.79	5%	15
PayPal	84.09	108.17	24.08	29,377.60	29%	12
Square	56.09	62.56	6.47	2,115.69	12%	14
Western Union	17.06	26.78	9.72	5,528.44	57%	6
Visa	131.94	187.90	55.96	47,336.56	42%	9

Bitcoin Closing Price	\$3,671.72	\$7,177.36	\$3,505.64
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95%
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Sources: Company releases; Morningstar.com; Bloomberg.com; and Coinbase.  
 Note: 2019 YTD yield excludes dividends; based on 12/31/18 and 12/31/19 closing prices.





## Interesting News This Quarter

Subject	Source / Date	Summary
Merchant Services	<i>Various Q4</i>	<p>They say that nature abhors a vacuum and it seems like the adage holds true for the payments . The scorched earth round of megamergers witnessed in 2019 appears to have created an eddy that is pulling in new players. In October, industry veteran, Trent Voigt, launched Paynetworx with 10,000 merchants and about \$20.0 billion in annual volume. Meanwhile, four processors – Payscape, Payroc, NXGEN and BluePay Canada combined to create a new entity with 55,000 merchants operating in 46 countries and processing \$24 billion in annual volume. Payroc will be the surviving brand. Expect to see more of these transactions and startups as merchants scramble for more options in payments processing.</p> <p>There's another potential vacuum that deserves watching – core processing. Already one new entrant, Neocova, is beginning to make inroads with small banks trying to avoid getting the cold shoulder from mega-cores. Other newcomers include Mambu, Finxact and Nymbus.</p>
Kroger and Visa	<i>Finextra October</i>	Well, somebody blinked. Supermarket giant, <b>Kroger</b> , is once again accepting <b>Visa</b> credit cards at all of its stores including the 26 Foods Co. and 142 Smith's food, drug and fuel outlets that the Cincinnati-based conglomerate had made the sharp end of the No-Visa spear. Just like last July when the two combatants settled their differences over EMV debit transaction routing, neither party is talking much.
Venmo	<i>PYMNTS.com October</i>	Like 'em or not, you have to admire what PayPal is doing with its <b>Venmo</b> P2P program. It has rolled out a retailer-specific 5.0 percent cash-back reward plan with Target, Sephora, Chevron and Papa Johns and another 4.0 percent scheme with Dunkin', Sam's Club, and a few more. The cashback is funded directly to users' Venmo accounts. From there, users can pay friends, use their Venmo debit card, or pay merchants that accept the brand for payment. Pretty soon, merchants will be able to use PayPal's Venmo Payouts services which will support direct payments to consumers. Finally, Venmo is close to launching its co-branded credit card with Walmart-spurned and old-line PayPal partner, Synchrony Financial. Interesting bundle of services for Zelle to have to counter, don't you think?
Challenger Banks	<i>Business Insider October</i>	Citing consumer research conducted by Capgemini, <i>Business Insider</i> reports that <b>Challenger Banks</b> (aka Neobanks) have made considerable inroads among U.S. consumers and the survey results suggest the trend will continue. For instance, 68 percent of the respondents said they already have checking, savings or credit card accounts with challengers while 61 percent said they either have or will have a loan or mortgage with one of the upstarts within three years. Primary reason for switching? You guessed it, lower cost (70 percent) or better ease of use (68 percent.) Not a rosy picture, right? TrendWatch caveat: based on 35 years of conducting consumer research, it's a safe bet that a good number of these respondents were stretching the truth. Maybe.



## Interesting News This Quarter

Subject	Source / Date	Summary
Jackpotting	<i>Digital Transactions November</i>	Using white plastic to attempt to drain an account via ATM access has become so 1990s, don't you think? Now, when helped by an unsuspecting (or poorly trained) employee, phishing scammers can kick off a <b>jackpotting</b> scheme to drain entire ATMs and it's happened to 97 banks around the globe in 2019. Drafted as urgent messages from senior executives, the emails urged recipients to divulge passwords which in-turn lead to the installation of malware and the game is on. Fortunately, U.S. deployers have dodged the jackpotting bullet but we believe it's just a matter of time, or timing.
Uber Money	<i>Business Insider October</i>	Geez! What happened to the old "stick to your knitting" adage? <b>Uber Money</b> is a new(er) digital wallet that lets users see their transaction history, store and management their money and view other Uber financial products. It will initially be part of the Uber Driver app with subsequent releases to the Uber and Uber Eats apps. Uber Money joins the throng of other Uber financial services products – Cash, Uber Credit Card and the drivers' Uber Debit Card. We suspect that Uber is enticed to play in payments based on its 2018 card volume of \$43.5 billion. Next, the ride-sharing service might consider figuring out how to make a buck for its shareholders?
Apple Pay	<i>Finextra October</i>	Steve Jobs would be proud. Digital product research house, eMarketer, reports that <b>Apple Pay</b> has toppled perennial volume leader, Starbucks, as the number one originator of mobile app transactions. According to the analysis, Apple Pay is now available for use in 70 percent of U.S. retailers and accounts for 47.3 percent of mobile payment users. The Starbucks app, with its 25-plus million users comes in second at 39.4 percent. And, it seems we're using our mobile apps more frequently; up 24 percent from a year ago. Increased deployment of contactless terminals and the warm fuzzy feelings we hold for Apple are the key contributors. An interesting test of brand power versus utility.
Retail closures	<i>Business Insider January</i>	Holiday season sales notwithstanding, 2019 was brutal for retailers; the statistics on <b>retail closures</b> are disheartening. Over 9,300 stores closed during the year, nearly double the experience in 2018. Surely, there were key drivers behind the numbers – Payless Shoes, Gymboree, Fred's, etc. The consumer and payments industry impact is significant regardless of the names behind the data. When you consider small businesses that also called it quits in 2019, there are close to 30,000 few places for consumers to use their payment cards or mobile apps. Absent these brick and mortar players, online retailing giants like Amazon and Walmart continue to gain control over consumer spending and this concentration of Porter-esque "seller power" may limit issuer ability to differentiate and reduce consumer choice options. Not a happy way to start the new year, we fear.  Update: Reis Moody's Analytics reports that the EOY 2019 mall vacancy rate is higher than any time during the past two U.S. recessions – 9.7 percent. Curiously, the average rent for retail space is at an all-time high - \$43.53 per square foot. Go figure.



## Interesting News This Quarter

Subject	Source / Date	Summary
ACH	<i>Digital Transactions</i> December	<b>Automated Clearing House</b> payments will soon (well, in relative terms) see significant improvements needed to bring the Same-Day service more in line with the rush to real-time. NACHA rule changes will result in a third settlement window while the Fed will extend processing hours for its National Settlement Service by one hour and its Fedwire Funds service by one-half hour. These changes kick in on March 19, 2021, the same date the per-transaction cap will be raised to \$100,000 from \$25,000. Among other things, these rule changes will enable those of us in the Western half of the U.S. to originate more same-day files for processing. These are not subtle changes and moves the ACH Same-Day service into a more competitive position versus real-time combatants The Clearing House and the Fed.
Gig workers	<i>Business Insider</i> December	<p>If you're a <b>gig worker</b> (and 40 percent of the U.S. workforce is), you can expect having more attention paid to you in the new decade as Visa and Mastercard begin rolling out services for expedited disbursements, Uber and Lyft enrich their respective suites of financial services for drivers, and Silicon Valley launches apps designed to monitor receipts and manage expenses. All good things for gig workers, we say. However, if you're a gig worker in California, you're pretty much screwed. AB5, the brainchild of the dolts in Sacramento, goes a very long way to force companies dependent on freelance work to enroll gig workers as employees as of January 1, 2020. So far, three sizeable lawsuits have been filed (Uber and freelance news correspondents among them) for relief. No word yet from the bench (although the request for a TRO was bounced) and those who received carve-outs in AB5 – Realtors and newspaper delivery folks – are breathing a big sigh of relief. Executives with California-based U-Haul franchises are ecstatic – out-bound traffic is likely to pick up.</p> <p>Update: According to the <i>Washington Post</i>, Uber has launched Project Luigi, an internal initiative that will result in serious modifications to its driver app that will provide drivers with greater flexibility in their ability to accept or reject rides and select their preferred work hours. Hope it works out; a lot of nonprofit charitable organizations are being clobbered by AB5; that, and this state's stupid minimum wage laws he said with a whine.</p>
Aspiration	<i>Business Insider</i> November	Not all challenger banks are created equal. For instance, <b>Aspiration</b> , a neobank with a professed user count of 1.5 million, has laid off 15 percent of its staff after having raised \$110 million in funding. According to CNBC, the challenger is having trouble enticing the investor community to fund its need for another \$200 million, a number that would lift its valuation to \$1.0 billion. Growth in global funding for challenger banks is not linear and is becoming more erratic quarter-to-quarter as investors begin looking more for profits over user enrollment growth.



## Interesting News This Quarter

Subject	Source / Date	Summary
Citibank	<i>ATM Marketplace November</i>	In the meantime, <b>Citibank</b> is taking a swing at challenger bank services by offering its “Elevate Checking” product, a high yield checking account that pays 1.0 percent for high balances and unlimited ATM fee reimbursements. True, the earnings thresholds a tad “elevated” – you need \$25,000 on deposit to earn the 1.0 percent – but the other perks appear to put Elevate Checking on a par with most of the neobank offerings. Good timing, we think.
Facebook	<i>Digital Transactions November</i>	<b>Facebook</b> appears to be suffering from the “moth to a flame” syndrome as it offers yet another way for its 1.6 billion users to use a wallet for payments. Facebook Pay enables users to store a payment method (note the singularity) to make purchases within Facebook apps. Initially, the service is limited to close-in apps but eventually will roll out to some others in the FB family like Instagram and WhatsApp. We’re not overly concerned that the new, “private label-ish” wallet will wage global domination; it’s more of a nuisance, actually.
Visa and Mastercard	<i>Bloomberg November</i>	Bloomberg investigative reporters have sniffed out a story about <b>Visa</b> and <b>Mastercard</b> being scrutinized by the Federal Trade Commission. Apparently, the FTC’s bloodhounds are sniffing around V and MA policies that might prohibit merchants from routing transactions over debit networks like Pulse, NYCE and Star. In particular, the FTC is looking into mobile wallets and their entanglements with the global AID. It seems the investigation has not been announced publicly as yet so everyone is mum. Where there’s smoke, there’s fire, or words to that effect.
Google	<i>Finextra November</i>	Speaking of <b>Google</b> and Citibank, the two firms are partnering with a Stanford University credit union to offer a checking account they have cleverly code-named “Cache.” Due to launch early in 2020, Cache entails a very odd placement for Google – in the backseat – from where it has designs on capturing depositor behavior information. Of course, the Alphabet subsidiary has no plans to sell the data it harvests, or so it says. The bankers involved in the lash-up are eager to gain access to a younger cohort through Cache. So, it seems that Citibank is pursuing the affluent set with premium rates for Elevate Checking and the younger segment with Google. Those of us in the middle have to fend for ourselves, it seems. Trade paper, <i>CU Times</i> notes that analyst Jaret Seiberg believes that Congress will take a dim view of the Cache partnership along the same lines of Libra and Apple Card. Time will tell.
PayPal	<i>Digital Transactions December</i>	U.S. payment juggernauts have been trying to crack the Chinese payments processing industry for decades. American Express partially cracked the code in 2018 when it was awarded the right to offering clearing and settlement services on a “preparatory approval” basis. Now we learn that upstart payments player, <b>PayPal</b> figured out a way to acquire 70 percent of the equity in Chinese player, Gopay, and thereby win the right to offer online payments within the country’s borders and to offer cross-border transfers. Nice job!



## Interesting News This Quarter

Subject	Source / Date	Summary
Oklahoma	<i>Digital Transactions December</i>	“And then there were four.” <b>Oklahoma</b> Attorney General throws in the towel on the state’s ban on surcharging leaving Kansas, Colorado, Connecticut, and Massachusetts as the four remaining holdouts. The AG walked away from the state’s ban because he determined that it restricted speech, the approach first used against New York’s similar legislation. Of course, CardX LLC, a Chicago-based firm that specializes in credit card surcharging systems for merchants, heralded the decision. And yet, we don’t see evidence of wide-spread surcharging. Wonder why?
Square	<i>Various January</i>	Super-aggressive merchant services player, <b>Square</b> , flexes its market power again by increasing the cost of instant and same-day transfers to 1.5 percent. The fee for merchant transfers from their Square merchant services accounts to their primary bank accounts had previously been 1.0 percent. This increase follows November’s new merchant discount scheme which went from a flat 2.75 percent rate to 2.6 percent plus 10¢. The cost of next-day transfers remains zero.
One-click payments button	<i>Finextra October</i>	The long ballyhooed (and once investigated by regulators) <b>one-click payments button</b> is now in the wild. Live-at-launch merchants include Cinemark, Movember, and Rakuten will be joined other better-known retailers BassPro, JoAnn Fabric, Papa John’s, Saks, Shop.com and Tickets.com shortly. The four networks have built the universal payments button on the Secure Remote Commerce standard and believe consumers will benefit from not having to key-enter personal account numbers and other information when making online purchases. Major payments processors – Adyen, Authorize.net, and so on are on board so the only unknown at this point is to what degree consumers will use the feature. Adoption curves are lengthy and slow to rise, we remind readers.
Chase Sapphire Card	<i>Mobile Payments Daily January</i>	The <b>Chase Sapphire Reserve</b> offering and others in the high-end suite of card products gets a new partnering relationship with DoorDash. By simply entering their Sapphire card as the default payment method in the DoorDash app, cardholders receive a one-year free DashPass membership worth over \$100. Oh, did you hear that Chase is raising the annual fee on Sapphire Reserve from \$450 to \$550? New applications made after January 12 get the new pricing. As of April 1, its “everyone in the pool” time. Clever, no?
N26	<i>PYMNTS.com December</i>	Challenger bank, <b>N26</b> , is taking a new tact in the battle for debit card cash-back benefits. The firm has announced merchant-funded discounting programs with Bookings.com, Lime, Headspace, Babbel, Curology, Headout, and YOOX. Although it’s a limited time offer, cardholders can receive merchant-centric discounts and rebates when they use the N26 debit card. A novel partnering program if nothing else.



## Interesting News This Quarter

Subject	Source / Date	Summary
Robinhood	<i>Various December</i>	U.S.-based commission-free stock trading platform and bank-want-to-be, <b>Robinhood</b> , had a busy December. On December 1, it announced the withdrawal of its banking charter application a scant seven months after submitting the application to the OCC. Hard to tell if this is good or bad news. Twelve days later, Robinhood announced a consumer cash management service that pays customers 1.8 percent interest on money not invested in securities. Astute readers may recall that the online brokerage had stirred things up a while back with a product announcement for a checking and savings account package paying 3.0 percent interest. Unlike the prior offering, the new cash management service is partnered with a FDIC-backed bank to keep things legit. Despite growing pains and strategic missteps, Robinhood is on a roll, having reached 10 million in subscribers by yearend 2019.

## M&A and Alliance Activity

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Global Payments	Desjardins Group assets	Canadian transaction acquirer	While <b>Global Payments</b> searches for the \$100 million it expects to wring out of its TSYS acquisition, it takes another expansion step by paying an undisclosed amount for the merchant accounts held by Canada's <b>Desjardins Group</b> . The Canadian processor is cooperative having 7 million members and ranking sixth in asset size in that country. The acquisition adds roughly 25 percent to Global's existing book of Canadian revenues. The deal comes with a ten-year marketing agreement between the parties for new business referrals. Meanwhile, Global POS equipment will start replacing the Desjardins gear this March.
Google	Fitbit	Exercise tracking & payments	<b>Google</b> attempts to ease its struggles in the wearable category by spending \$2.1 billion to acquire <b>Fitbit</b> , which, itself, has languished of late as the effort tracker marketplace has become more competitive. Google had previously invested \$40 million in Fossil to gain some wearables style design expertise and a major chunk of the watchmaker. Fitbit supports NFC payments through most of its high-end trackers and timepieces, putting Google back in the payments realm.
DST Capital, others	Chime	Challenger bank	Neobank <b>Chime</b> agrees to a \$500 million Series E round of funding that raises its valuation to nearly \$6 billion. Plans for the new funding are all over the map – new product development, more staffing, a second Chicago office and, perhaps, a bit of its own M&A activity. Chime claims to be gaining 150,000 direct deposit user each month, hit the 5 million customer threshold in September and has been advertising its early delivery of paychecks feature across cable and network channels. No word yet on when profitability will be reached.
Deluxe Corp.	Fiserv remittance business line	B2B and C2B payments	As it works through the assimilation process with its First Data acquisition, Fiserv is triuing up its business line assets. <b>Deluxe Corp.</b> pays an undisclosed amount for the lockbox operation. Earlier, Fiserv had sold off 60 percent of its investment services business to private equity firm Motive Partners. Older readers might recall that Deluxe was engaged in the lockbox business years ago but left the segment when it spun off Deluxe Data and other assets under the eFunds IPO transaction. End game strategies work as well as others, they say so keep writing those checks.



## M&A and Alliance Activity

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
General Atlantic, others	Riskified	Payments and fraud-prevention	<b>Riskified</b> joins the rarified air club of startups with \$1.0 billion in valuation as it lands a Series E funding round totaling \$165 million. The Israeli operation uses AI to recognize fraudulent customers and claims reduced user expense and approval rate increases in the 20 percent range. An older start by most standards (2012), Riskified includes LastMinute.com, Gymshark, and Megabus among its customers. The round will be used to finance global expansion including an office in Shanghai.
Mastercard	RiskRecon	Cybersecurity	Meanwhile, <b>Mastercard</b> continues to invest in protecting the network’s merchant base from online fraudsters. The card brand has acquired <b>RiskRecon</b> to go along with its earlier take-down of Ethoca. Scuttlebutt on the street suggests that Mastercard is attempting to use network security as a key pillar in its marketing messages to existing and perspective merchants. If the effort works, we’ll all better off – less hassle for consumers, lower fraud losses for issuers, and lower costs for merchants (well, maybe two out of three.)
Wellington Management, others	Current	Challenger bank	Another \$20 million is invested in the Neobank space as <b>Current</b> receives Series B funding. Current focuses on teenagers through issuance of a Visa-branded debit card initially for teenagers but now inclusive of their parents. Future plans call for a cash rebate plan, a credit card, and maybe some Bitcoin options. With 500,000 in users, this Neobank remains in growth mode but with its sketchy business plan, we wonder if Chime, N26, or Monzo aren’t better ways to go?

*Explanatory Note* Previous issues of TrendWatch have included an M&A section running far longer than this quarter’s. WSJ recently published a piece that might suggest even shorter chapters in the future. The newspaper analysis suggests that recent tepid responses to IPOs have sent VC and PE investors to sidelines. Indeed, it has been reported that unicorn funding fell in Q3 2019 to the lowest level since Q2 2018 (which wasn’t a particularly good quarter in general) and IPO offerings in Q3 2019 were off 30 percent from the prior quarter. WeWork and Uber, two high-flying players, have lost \$100 billion in valuation in 2019 while WeWork was forced to shelve its IPO. So, it would follow that absent a solid source of end game funding, i.e., the IPO market, VC and PE investors would become wary of all but the most solid of opportunities and those within close reach of the breakeven line. So, there you have it. Perhaps.





# Curiosities

We've found a few items in our payments review that we consider mildly amusing.

Subject	Source / Date	Summary
Cashierless Checkout	<i>PYMNTS.com</i> <i>December</i>	Experiments with <b>Cashierless Checkout</b> sites in the U.S. haven't gone well due, in most part, to customer feedback and pressure from advocates for underserved market sectors. In France, it's the labor unions and the population at large that fear a "societal change" throughout the country. Seems French law <i>prohibits workers from being on the job past 1:00 PM on Sundays</i> and savvy retailers like Géant Casino supermarket have been trying out cashierless facilities to stimulate Sunday business. The General Federal of Labor in France says "Sundays are sacred [and] if they change that, it will change French society." Oui, oui! For the better, we think.
Apple Card	<i>WSJ</i> <i>October, 1997</i>	Handwringing credit card issuers concerned over the rousing success that Apple has <i>apparently</i> achieved with its titanium <b>Apple Card</b> might want to consider the fate that befell AT&T and its Universal Card. (The facts: Apple Card users generated \$10 billion in purchases and created \$736 million in cardholder debt in the first month of program availability.) Launched in 1990 with a no-fee guarantee, the Universal Card product recorded huge adoption numbers – 19 million customers with balances that peaked at \$14 billion. Declining profitability due to huge loan losses and rising operating expenses forced the telecommunications giant to put the program up for sale. Citibank paid \$3.5 billion for the book of business – you do the math. Zebras shouldn't try to wear spots, they say.
NYC Parking Meters	<i>Business Insider</i> <i>January</i>	"Naw, we'll skip this update" say a lot of us including someone high up in New York City traffic department. Bad idea. Because NYC failed to update its parking meter software provided by Parkeon, 14,000 meters covering 85,000 parking spaces failed on January 1. Sounds like a commuter's personal Y2K. Will NYC give drivers ticketed at the non-working meters a break? No. Can the inoperative meters be brought back to life remotely? No. How many NYC workers does it take to update a parking meter? More than one, we think.
Bank of America	<i>Yahoo.com</i> <i>December</i>	30 million people use <b>Bank of America's</b> mobile banking app and 10 million have enrolled in the bank's Erica virtual assistant program. Seems that not nearly enough of a head start for BofA so between the middle of December 2019 and January 17, 2020, the bank will transfer \$15 to each new customer who tries mobile check deposit, transfers money using Zelle, or uses mobile bill pay. Really? We get the underlying economic rationale but, come on. How about a tip jar at the teller window to lower costs?



## Curiosities

We've found a few items in our payments review that we consider mildly amusing.

Subject	Source / Date	Summary
Bank of England	<i>CNN January</i>	<p><b>Bank of England</b> created quite a stir when it introduced plastic polymer bank notes in £5 and £10 denominations in 2016. Touted as being safer and longer-lasting than the paper variety, it appears that the Bank got it half-right. So far, 50 million of the new notes have had to be replaced. Seems they don't fold well, can be torn, and the foil used for printing wears out faster than the old paper-and-ink currency. Back to the drawing (or extruding) board, we guess.</p> <p>Reminds us a bit of Earth Day 1990 when SeaFirst Bank (now part of BofA) launched its postage stamp dispensing service via bank ATMs. Conservationists quickly noted that the stamps were made from polymers and virtually indestructible, playing havoc with the Earth Day recycling spirit. Oops.</p>
Royal Mint	<i>Finextra October</i>	<p>For what it's worth, <b>Royal Mint</b> has partnered with Mastercard and Accomplish Financial (a UK card shop) to offer an 18 karat gold payment card. For a mere £18,000 you, too, can have a flashy card engraved with your name and signature. Then again, the card comes with limitless spending, zero FX and transaction fees and its own whiz-bang app. Oh, please.</p>



## Useful Links for More Information

Here are some companies referenced earlier should you care to learn more about them. (This section used to be much longer. Perhaps its brevity is a function of low industry innovation or we've done payments just about every way they can be done).

Company	Role	URL
<a href="https://current.com">Current</a>	New challenger bank in the U.S.	<a href="https://current.com">https://current.com</a>
<a href="https://robinhood.com">Robinhood</a>	Commission-free brokerage	<a href="https://robinhood.com">https://robinhood.com</a>
<a href="https://www.deluxe.com/?locid=SD:FTR_Col3_Deluxe.com">Deluxe Corp.</a>	Check/forms printer & payments	<a href="https://www.deluxe.com/?locid=SD:FTR_Col3_Deluxe.com">https://www.deluxe.com/?locid=SD:FTR_Col3_Deluxe.com</a>
<a href="https://www.riskified.com">Riskified</a>	Fraud detection/prevention	<a href="https://www.riskified.com">https://www.riskified.com</a>
<a href="https://n26.com/en-us">N26</a>	U.S. and Europe challenger bank	<a href="https://n26.com/en-us">https://n26.com/en-us</a>
<a href="https://www.cardx.com">Card X LLC</a>	Surcharging software	<a href="https://www.cardx.com">https://www.cardx.com</a>

## Back in the Day!

Thanks to Rick Lyons, one of the electronic payments super heros, we have a picture association puzzler this quarter. First email that describes what these OG devices are and their use gets some Dorado Industries stuff.

Good luck!

