

What's Next in Payments

Payments Law Virtual Bootcamp – June 12, 2020

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Today's Discussion

- Overview of payments ecosystem
- Spotlight on new developments and technologies
 - Innovation in response to COVID
 - Faster Payments
 - Push Payments
 - Contactless
- Managing regulatory and legal requirements and challenges

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Overview of the Payments Ecosystem

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Types of Payments

- Credit and debit cards
- Prepaid cards
- Virtual cards
- ACH transactions
- Mobile payments/digital wallets
- Virtual currency
- Paper checks
- Electronic checks
- Remotely created checks



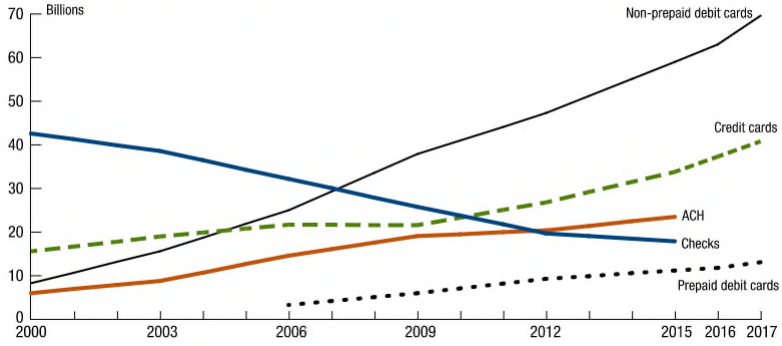
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Payment Trends

Figure 1. Trends in noncash payments, by number, 2000-17



Source: The Federal Reserve Payments Study: 2018 Annual Supplement

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Spotlight on new developments and technologies

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Innovation in Response to COVID

- Customers may be wary of physically entering stores and may be more receptive to ordering, app-based shopping, and curbside pickup. These options include:
 - Gift card programs
 - Shifting sales online
 - App-based shopping
 - Contactless payments
 - Curbside pickup
 - Mobile wallet adoption and use
 - Rise of pay by link solutions

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Faster Payments

There have been two developments in the search for banks to provide real-time payments to customers:

- **FedNow** is a proposed real-time gross settlement (RTGS) system to be developed by the United States Federal Reserve. It is intended to allow real-time payments from real-time clearing and settlement.
 - FedNow will remedy two current issues. Currently, senders and receivers must be signed up with the same provider, and the funds are available to the recipient before the debit and credits needed to fund the transaction have occurred.
 - Direct participants include Fed member banks, while fintechs can access FedNow indirectly through their financial institutions or an agent or service provider.
- **The Clearing House (TCH)** is a real-time payments (RTP) service that has been on the market since 2017. TCH is owned by a consortium of large banks. It allows recipients to receive payments shortly after the sending bank initiates the transaction. All federally insured depository institutions can be participants.

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Push Payments

- A number of the card brand networks have implemented push-to-card payment solutions in recent years.
 - “Visa Direct” is Visa’s product platform for the transfer of funds through Visa’s Original Credit Transaction (OCT) technology.
 - Mastercard has developed a service called Mastercard Send. In both cases, the services allow cardholders to “push” funds to eligible cardholder accounts (e.g., credit, debit, and prepaid) in a fast and secure manner.
- Key Players
 - Card networks
 - Sponsor banks
 - Third-party service providers

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Push Payments

- Although push-to-card technology is still relatively new, the card brands and industry participants have already identified a variety of promising uses:
 - P2P Money Transfer – This includes both domestic and cross-border remittances.
 - Merchant Settlement – Push-to-card is being used by a number of payment facilitators and other merchant acquirers to speed up settlement by sending payments directly to a merchant’s card account.
 - Gig Worker Payouts – One of the most promising uses is using push-to-card to pay out funds owed to gig workers, or to affiliates or contractors of a business.
 - Funds Disbursement – Push-to-card services can be used by businesses and government authorities to send funds for such purposes as the payment of insurance claims, expense reimbursements, and other payments.
 - Bill Payment – Similar to funds disbursement, push-to-card can be used by businesses to pay suppliers.

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Payment Facilitation

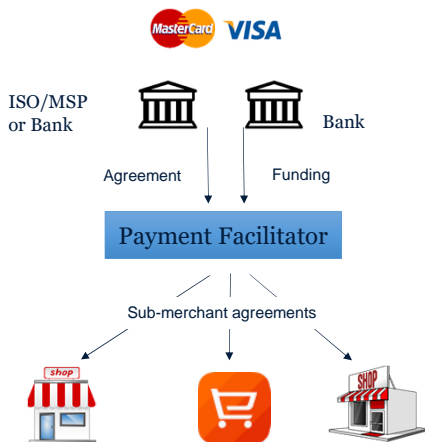
- A payment facilitator (or PayFac) is a merchant that operates a sub-merchant platform.
 - PayFac opens a MID (merchant ID number) through a Visa/MC acquiring bank or ISO/MSP.
 - PayFac establishes a relationship with gateway / processor to process transactions (this may be provided through the acquiring bank's service provider).
 - PayFac sets up underwriting and boarding process for sub-merchants (subject to card brand and acquirer requirements).
 - PayFac signs up sub-merchants for processing through its MID, usually on an expedited basis.
 - Simple online application
 - “Frictionless boarding” / “just-in-time” underwriting
 - Sub-merchants process under the PayFac's MID.
- Lawful payments aggregation.

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Payment Facilitation



Vertical PF

- Focuses on one industry (running races, food service, medical offices)
- Example: RunSignUp
- Value-added services (ex: enrollment, race management, race-day tools, reporting)

Horizontal PF

- Provides the payments engine for any type of merchant
- Examples: Stripe, Square, WePay
- Value-added services (ex: subscription services, e-commerce platforms, reporting)

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Contactless Payments

- State and local governments have recommended protective measures to combat the spread of COVID-19, and the World Health Organization has recommended the use of contactless payments.
- Contactless payments are an alternative payment method that does not involve touching a surface, usually a screen or keypad. This payment method allows customers to purchase goods while avoiding contact with heavy-use surfaces that could potentially be contaminated with the COVID-19 virus.
- Customers can “tap and go” or “scan and go” by holding their card payment or mobile device close to the point-of-sale terminal, without physically touching the surface.
- Advantages of contactless payments
 - Provides customers with a sense of comfort
 - Easy to use
 - Generally faster than cash transactions/ traditional methods

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