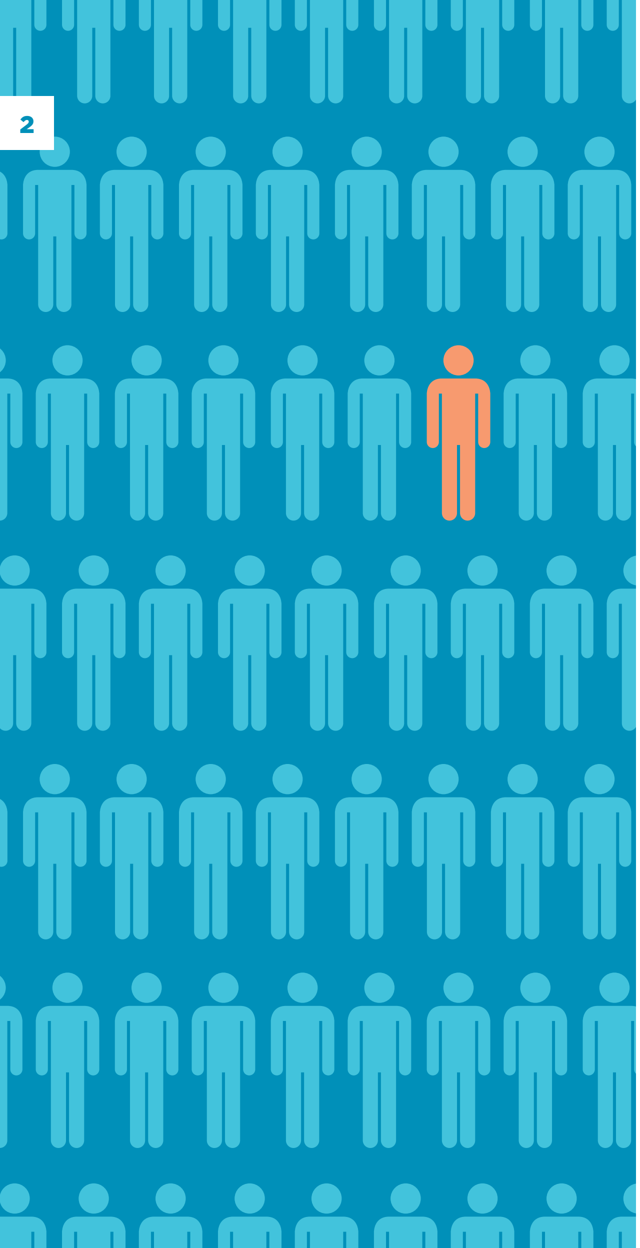
2CHECKOUT

Democratization of Payments

What the yard sale merchant means to the future of payments.



by Tom Dailey
CEO at 2Checkout

Today, just about ***anyone*** can be a merchant to *anyone*, *anywhere*.

The payments industry is undergoing enormous changes. Recent innovations in technology platforms, alternatives to traditional payment methods, mobile devices, and peer-to-peer payments are making the industry accessible as never before. **I like to call this the "democratization of payments."**

Innovation is robust, and barriers to new entrants in all parts of the value chain are lower than ever.

We will see more innovation in the payments industry in the next five years than we have in the past 20.

The pace of change is accelerating. It's exciting. It's also confusing and unpredictable in some ways. But this creates huge opportunities for nimble players, who can anticipate and exploit the dynamics of this market.

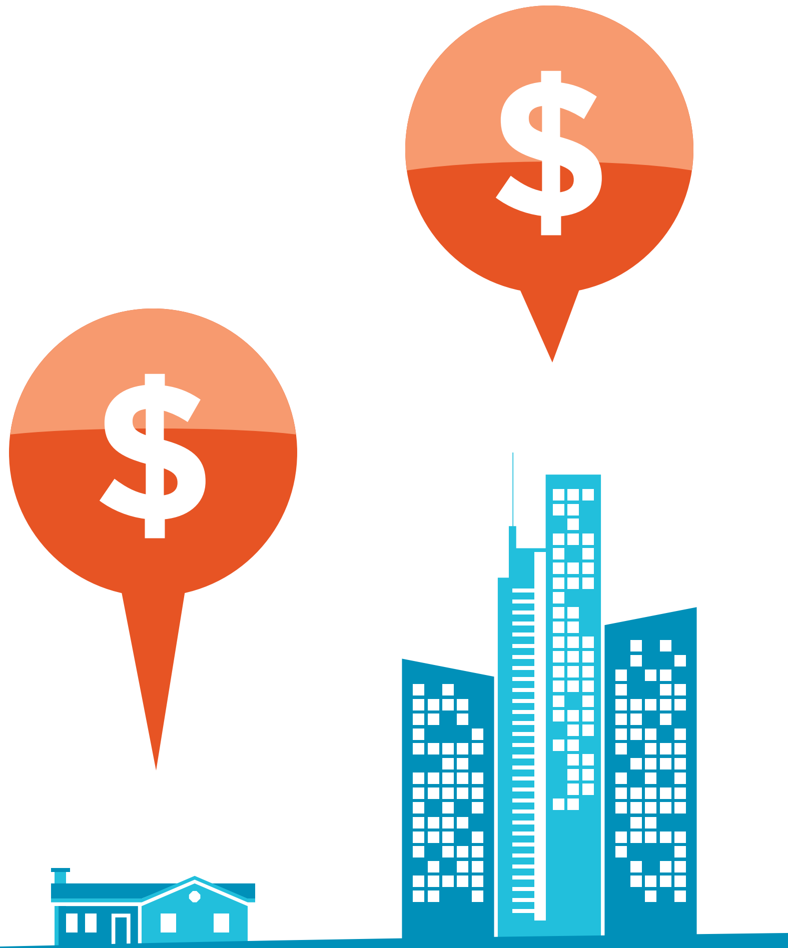
Just a few years ago, the idea that someone running a yard sale could accept card payments was almost unthinkable.

Traditional risk analysis models would have struggled in how to assess such casual sellers, and acquirers and card networks would have been incredulous at the thought of even recognizing such sellers as "merchants."

Yet today, non-traditional merchants are an accepted and growing segment, due to mobile payment technologies that allow almost anyone to accept card payments using a smartphone or tablet device. And why not? Their presence broadens the seller/merchant market and creates more opportunities for the industry to displace cash payments. Casual sellers, such as craftsmen, who were previously limited to their local markets and a few payment options, can now sell their products online—even globally—with little or no investment or physical presence. Online payment processing is the key.

In large measure, the Internet has been the great equalizer. Payment processing options that are both affordable and efficient are now widely available. This has lowered the barriers to entry in the processing industry. Historically, entering the payments marketplace required a substantial capital investment in infrastructure and technology—making new entrants relatively sparse. But now, new industry players are commonplace and frequent, and they are upending traditional ways of doing business. They learn as they go based on their own experiences, and they push the boundaries of an industry that had become complacent.

In short, the democratization of payments has blurred the lines of what it means to be a merchant. When anyone can accept and process payments, is there still a meaningful difference between a million dollar retailer and the person selling merchandise out of their basement? More importantly, does it matter?



The risks and rewards of an open economy.

Today's buyers are increasingly comfortable using alternatives to traditional card products. Consumers love that they have more freedom and choice. But some early adopters can be too trusting.

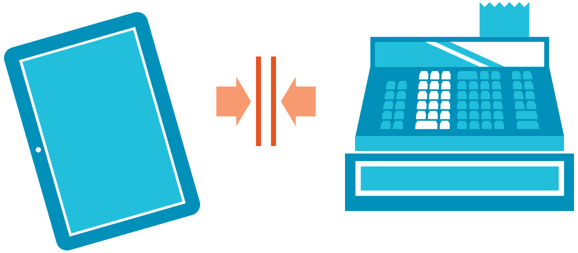
Recent media headlines reported a U.S. Securities and Exchange Commission crackdown on a Ponzi-type scheme using Bitcoin, a digital peer-to-peer currency. According to the SEC, the scam promised a large return for investors. More than 700,000 Bitcoins were collected from investors, equal to about $5 million.

Fraudsters are attracted to virtual currencies because they purportedly provide greater privacy and less regulatory oversight. Unfortunately, some consumers are almost too accepting of alternative payments methods, leading to a false sense of security that these alternatives are secure and regulated to the extent of credit card and bank-facilitated transactions.

But these risks from innovation are more than balanced by the rewards. Merchants now enjoy unprecedented access to global markets, largely free of worries around language barriers and currency complexities. There are payment processors today that can facilitate global purchase transactions securely and seamlessly for both buyers and sellers. In leveraging these new tools, small businesses can compete on a level playing field with larger, more entrenched merchants.

For the industry, innovation presents new challenges around risk management, fraud prevention, and technology. Fraudsters are becoming increasingly sophisticated and global, and their methods are constantly evolving. Processors must be vigilant for new threats, and must adapt by constantly refining their fraud prevention technologies and practices.

What does the future hold?



E-commerce and the physical point-of-sale are converging, with important implications for industry pricing and risk.

In the past, merchants were limited to accepting a few major payment brands. Today, alternatives to traditional card networks continue to proliferate. For example, in The Netherlands, iDeal, not a traditional card product, is the preferred form of e-commerce payment. That is good news for merchants, customers, and the industry, because it dramatically expands the size of the market and the number of competitors resulting in downward pressure on costs.

Competition, shrinking margins, complexity, regulation, and innovation are all increasing. Yet industry fundamentals remain largely unchanged. There is still plenty of opportunity for those who are nimble, address the needs of the market, are creative, and find ways to de-commoditize themselves through a differentiated value proposition. Part of the answer to a differentiated value lies in solving common barriers: language, currency complexity, fraud, security of cardholder data, and ease of use. One such product poised to make an impact is the virtual wallet.

In the next 10 years, plastic cards as access devices will continue to exist but erode in popularity. **Electronic, or virtual wallets, will become commonplace.** Consumers will load multiple payment methods and preferences as a single wallet and will still dominate for many years to come, substitutes, such as biometric identification, smart-chip enabled devices, e-wallets and other tokenized account access methods, will grow. This rapid innovation will place new demands on merchants and payment processors to stay abreast of changes in consumer preferences.

When a buyer uses an e-wallet to complete a purchase in a brick and mortar environment, is it a card-present or a card-not-present transaction? As self-checkout using a mobile device in a physical environment gains in popularity, will the industry consider it a face-to-face transaction even though the merchant never interacts personally with the customer? These are future realities we all need to think about.

As with any evolving industry, there will continue to be stages of trial and error, rapid successes and failures, and competing technologies. Hopefully normalization will follow as the industry matures, but I hope not too much. I believe this creative dynamism means new opportunities for us all.

Tom Dailey

CEO

A 30-year veteran in the payments industry, Dailey served in numerous executive, board and consulting roles, including head of Morgan Stanley/Discover Card's global merchant business. Dailey also serves on the Board of Directors of the American Diabetes Association, the Lumen Cordium Society of the Archdiocese of Chicago, and the Presidents Forum of the Better Business Bureau of Central Ohio.

Through the Tom E. Dailey Foundation, he provides grants to non-profit organizations supporting diversity, disadvantaged youth and the arts, among other categories. Dailey and 2Checkout also support entrepreneurs in developing countries through the Kiva organization.

2Checkout is the cloud-based payment service that maximizes online sales conversions by providing global payments with a localized buying experience.

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1.877.294.0273

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