

Payments 2021: The Year in Review

Talk About Payments Webinar

Retail Payments Risk Forum

December 16, 2021



Federal Reserve
Bank *of* Atlanta

Logistics

Retail Payments Risk Forum Presenters



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Polling Question

What is your role in the payments industry?

- Consultant
- Financial services
- Government/law enforcement
- Merchant
- Payments geek
- Technology provider
- Other



Payments 2021 in Review

- **Impact of COVID-19**
- **Data Security**
- **Fintech Issues**
- **eCommerce Trends**
- **Payments Inclusion**
- **Digital Currency**
- **2022 Payments Outlook**
- **Your Questions**

The views expressed in this presentation are those of the speakers and do not necessarily represent the views of the Federal Reserve Bank of Atlanta or of the Federal Reserve System.

Consumer Payments Behavior 2019–20



REMOTE PURCHASES CLIMBED

Higher income groups' online purchasing surged.



CARD SHARE OF PURCHASES GREW

Most of the card increase is due to the increase in remote purchases. At-home workers used cards most.



USE OF CASH IN PERSON DECLINED

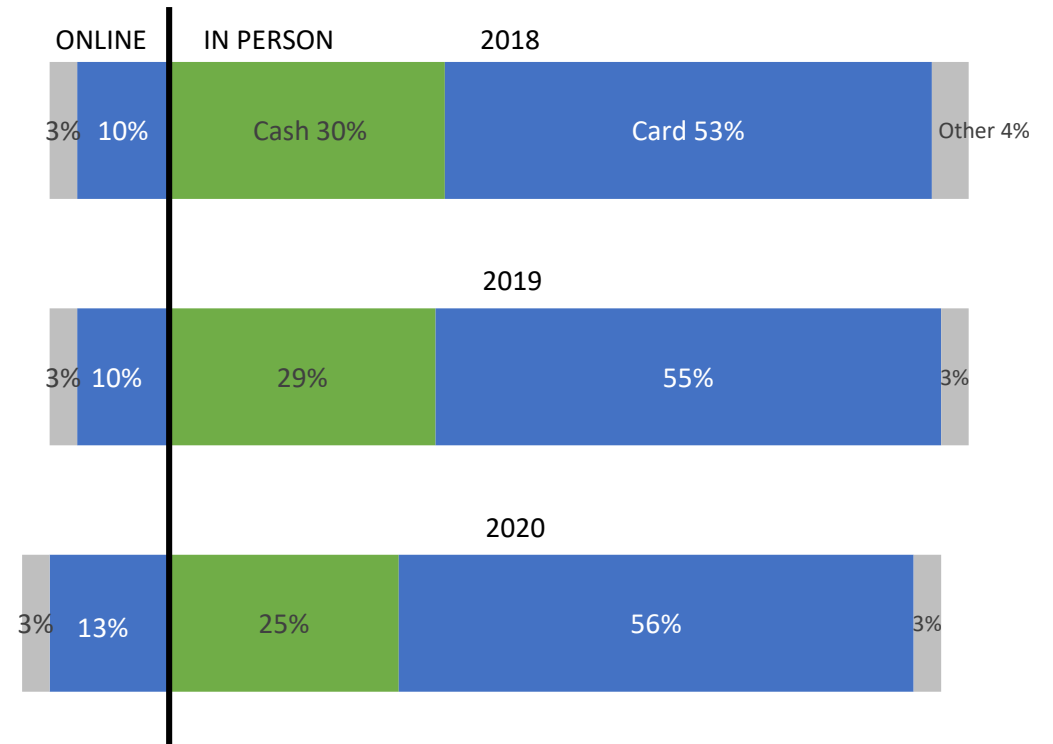
Fewer consumers used cash even once: 78.4% to 69.2% from 2019 to 2020.



NOT-PAPER P2P INCREASED

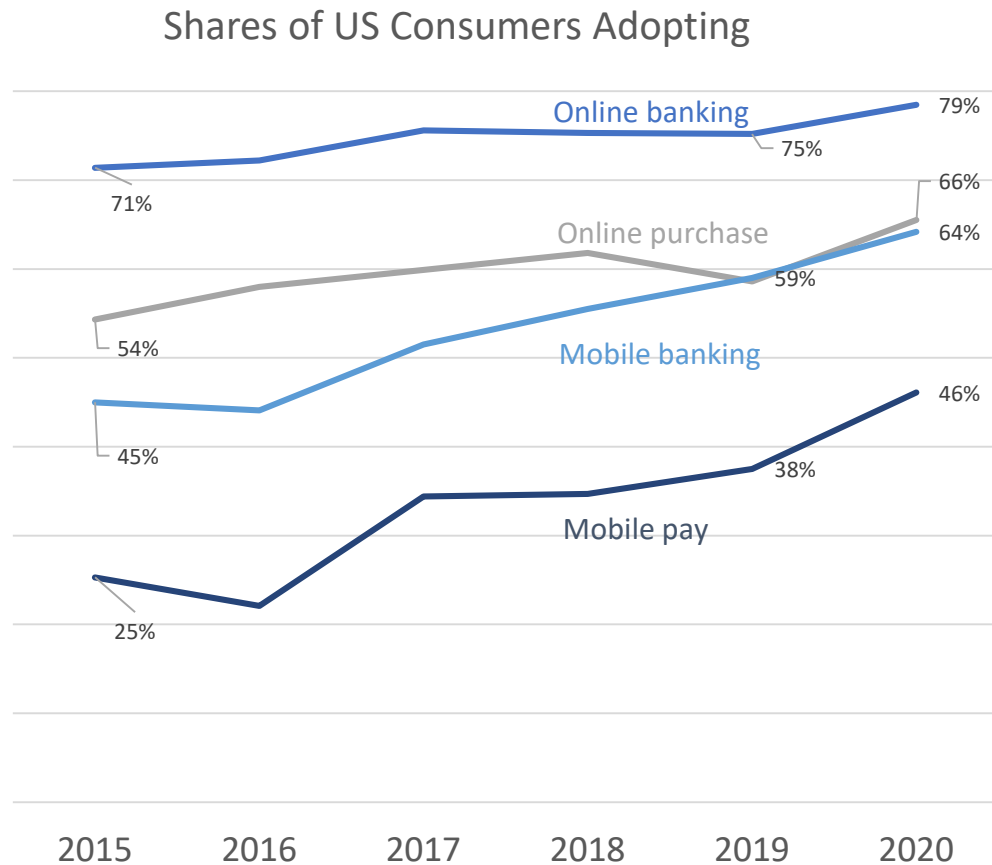
Middle-aged groups—35 to 55—increased shares of not-paper more than did younger groups.

Shares of purchases by US consumers



Source: Survey of Consumer Payment Choice

Consumer Trends Accelerated



Technology adoption trended up for at least the past 5 years.

Changes from 2019 to 2020 were pronounced.

Ransomware Remains Predominant Cybersecurity Threat

Ransomware Trend by Month



Use of Crypto in Fraud and Cyberattacks Persists

ransomware *mixing services*

anonymity-enhanced cryptocurrency

direct transfer romance schemes

second hop transfer

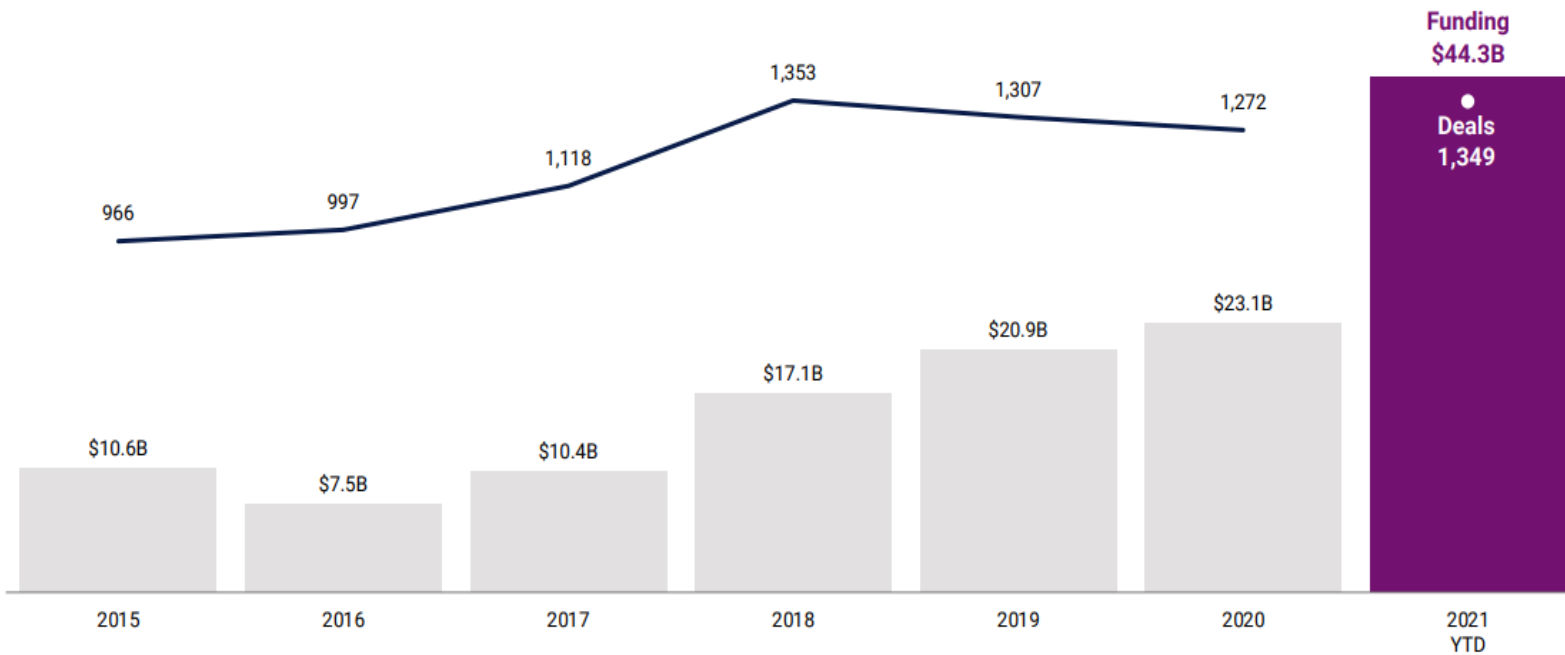
lottery scams **BEC/EAC**

cryptocurrency ATMs and QR codes

chain hopping elder fraud

Fintech Issues

US fintech funding in 2021 YTD up 92% compared to 2020's year-end total



State Of Fintech | US Trends

CBINSIGHTS 190

Payment companies up 80%

- 31 new unicorns
- Big tech shift to lending



US fintech bank investments

- Capital markets
- Wealth & asset management
- Blockchain/crypto
- Alternative lending



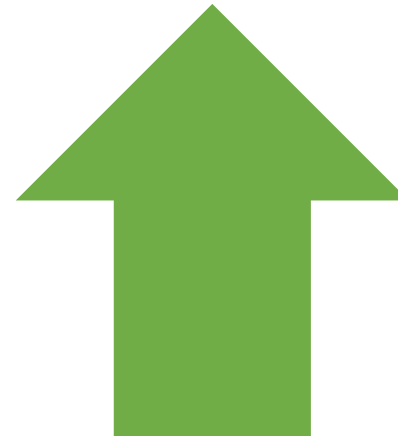
Fintech options

- M&A
- IPO or SPAC
- Charters
- Partnerships
- Banking-as-a-service

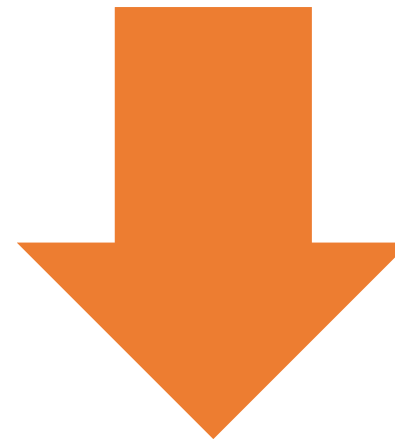


Open Banking in the United States

- Record levels of capital pouring in
 - Already in 2021, investment dollars have surpassed last year's record, rising to \$2.2B across just 21 deals.
- Increased buy-in by major financial institutions
- Global regulatory change
- Flourishing partnerships
- Varying definitions and use cases



I own my
data

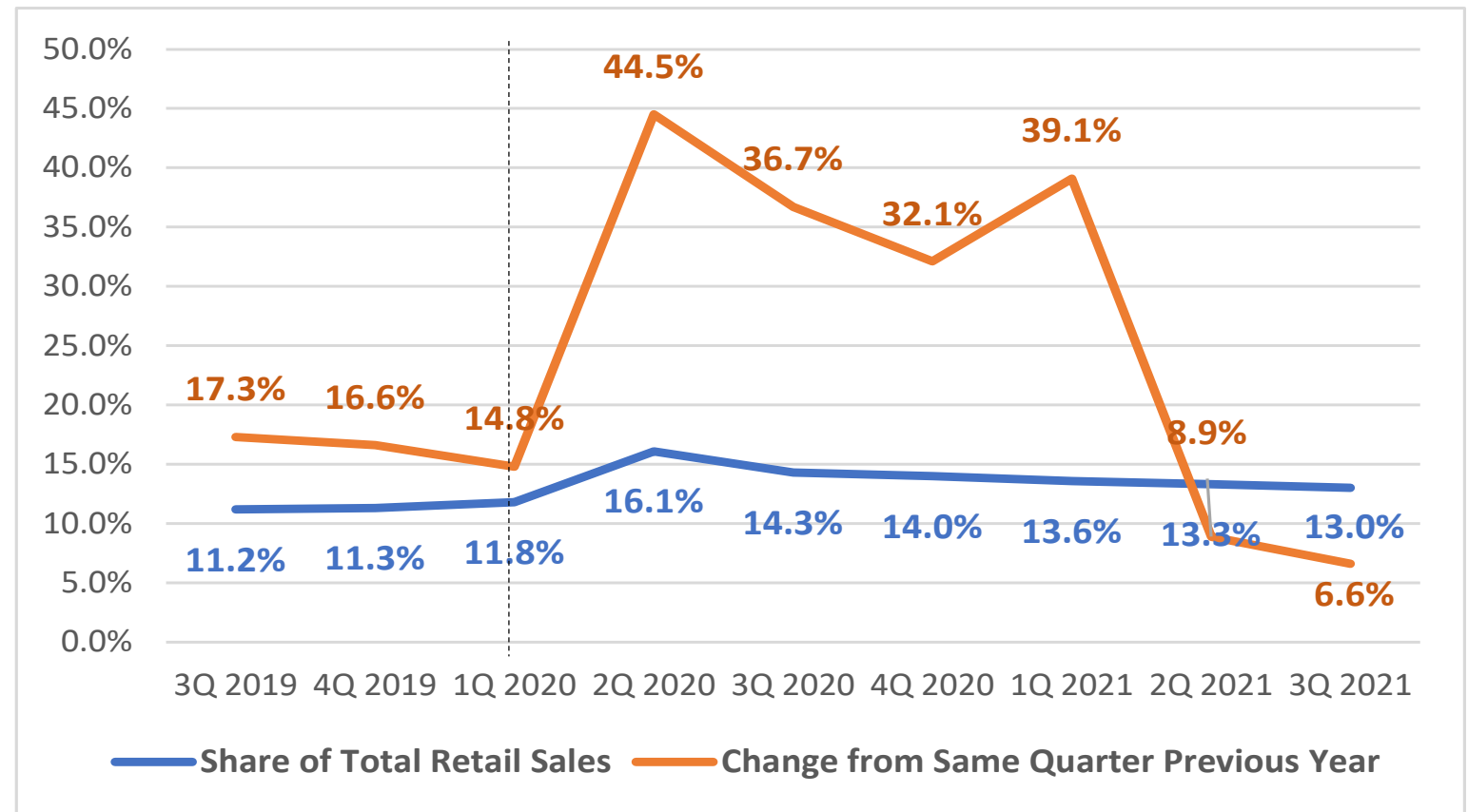


Regulatory
framework
not ready yet

eCommerce Growth

- eCommerce's share of overall retail sales flattens as in-person shopping returns.
- Thanksgiving weekend online sales in 2021 were strong but slightly lagged 2020.

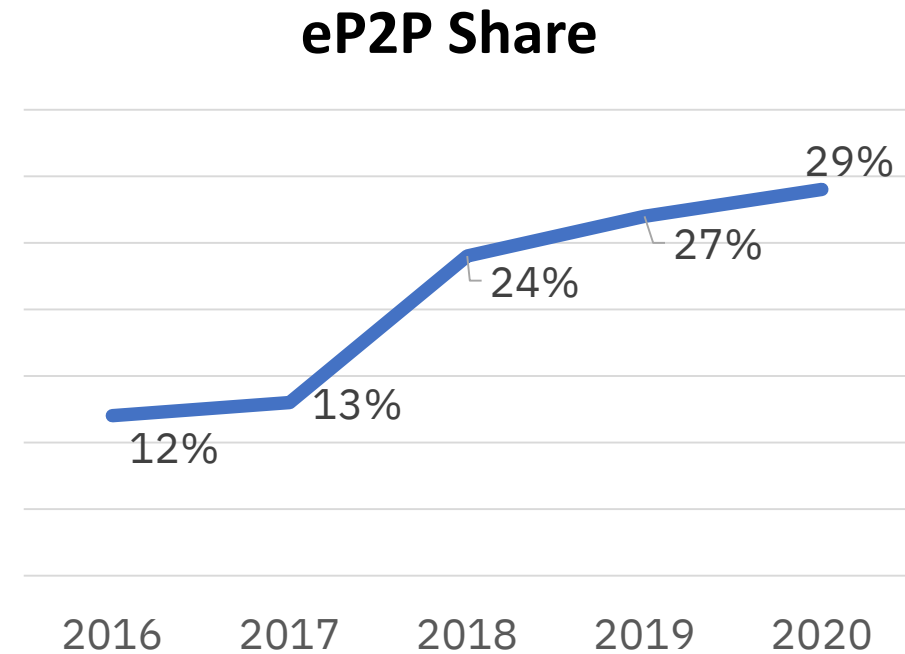
eCommerce Sales as Percentage of Retail Sales and Y-O-Y Growth



Source: U.S. Department of Commerce

Peer-to-Peer (P2P) Payments

- Overall, peer-to-peer (person-to-person) payments continue to be dominated by paper-based transfers.
 - Currency, check, money order
- In 2020, 7 out of 10 P2P payments were made with paper-based payment methods.
- Electronic P2P share is growing.



Source: 2020 Diary of Consumer Payment Choice.

eP2P Apps

- Market is dominated by PayPal/Venmo and Zelle.

Company	Q3 2021 Transaction \$	Y-O-Y Growth
Zelle	\$127 Bn	51%
Venmo	\$60 Bn	36%

- Many eP2P companies are active in acquiring global buy now, pay later (BNPL) capabilities.

eP2P Issues

- Criminals prefer eP2P payments due to their clearing speed and finality.
- Irrevocability of eP2P transactions has created customer experience issues.
- Consumer advocates encouraging Consumer Finance Protection Bureau (CFPB) to provide great protection when consumers are scammed.
- Contingent Reimbursement Model (CRM) Code adopted in UK in 2020 coming to the U.S.?
 - Provides for consumer reimbursement if a customer suffers a loss “through no fault of their own.”

Buy Now, Pay Later (BNPL) Use

- According to a Motley Fool 2021 survey, 55.8% of 2,000 adult respondents had used a BNPL program as of March 2021.
 - Usage grew from 37.7% in July 2020

Age Range	Used BNPL Service (7/2020)	Used BNPL Service (3/2021)	% Growth
18 - 24	37.7%	61.2%	62%
25 - 34	46.8%	60.1%	28%
35 - 44	50.1%	60.6%	21%
45 - 54	42.2%	53.1%	26%
55+	20.6%	40.9%	98%

Source: Ascent Services (Motley Fool)

BNPL Issues

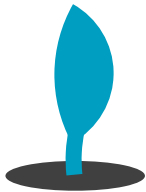
- Heightened legislative/regulatory attention
 - CFPB's positions on the applicability of various consumer "credit" protections are evolving
- Concern about late fees
 - Motley Fool (Ascent) survey reported 31% had incurred a late fee.
 - Late fees range from \$0 to \$38 depending on vendor and program.
- Concern about credit agency reporting as well as handling of returned merchandise

Remote Payments Fraud Trends

- Payment fraud in the remote channel continues to outpace overall remote transaction growth.
- Merchants continue to try to balance customer experience with fraud prevention/detection tools.
- Primary eP2P fraud continues to result from account takeovers.
- EMV 3DS shifts liability to issuer for online transactions.
 - Antifraud technology provider Ravelin claims that 68 percent of transactions in the US now use 3DS2 with a 99 percent authentication success rate.
- Frequent customer education is key.
 - Challenges due to customers often going through third-parties

Payments Inclusion

There is no single path to financial inclusion, which opens several areas for exploration.



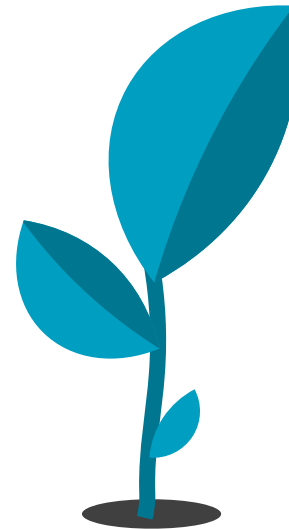
Ensure payment systems remain open for everyone

Cash is still a viable payment option.



Everyone has fair and equitable access to payment options

Bridge the gaps, understand benefits offered by digital payments.



Everyone can use payment options fairly and equitably

Design and research inclusively, understand barriers to adoption.



Economic resilience and mobility

Through financial inclusion and an economy that includes everyone, we can promote economic resilience and mobility.

Faster Payments

Electronic payment services that provide funds to the payee within seconds or up to a few hours of initiation by the payer, including:

- Instant payment services
- Same-day ACH
- Push-to-card
- Digital wallet apps

9 in 10 businesses expect to be able to initiate and receive faster payments by 2023; many are ready to do so now.

[MARKET READINESS BRIEF: Businesses look to the future with faster payments \(fedpaymentsimprovement.org\)](https://www.fedpaymentsimprovement.org/)

**60% of consumers think “real-time payments” are not truly instantaneous.
44% of consumers believe nonbank apps provide instant access to funds through their bank accounts.**

[Real-Time Payments: An Urgent Priority for Financial Institutions
November 30, 2021; Fiserv and Javelin](#)

Looking ahead to

2022

“We are prone to overestimate how much we understand about the world and to underestimate the role of chance in events.”

Daniel Kahneman

“Distinguishing the signal from the noise requires both scientific knowledge and self-knowledge: the serenity to accept the things we cannot predict, the courage to predict the things we can, and the wisdom to know the difference.”

Nate Silver

QUESTION TIME

Connect with us @Atlanta Fed

[Nancy Donahue](#)

[Claire Greene](#)

[Dave Lott](#)

[Jessica Washington](#)



Resources

- Blogging every Monday at [Take on Payments](#)
- [Consumer Surveys](#)
- [Federal Reserve Payments Study](#)
- [Payments Inclusion](#)
- [Community Bank Access to Innovation through Partnerships](#)
- [Conducting Due Diligence on Financial Technology Companies: A Guide for Community Banks](#)
- [Retail Payments Risk Forum](#)