



Cornerstone  
ADVISORS

# Payments Trends & Disruptors

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CALIFORNIA  
**BANKERS**  
ASSOCIATION



# Payments Strategy: Marketplace



**‘Pay By Bank’ Trend Is Next Front In Merchants vs. Banks Payments War**

**How Square is Building a Small Business Banking Powerhouse**

**Digital Wallets Could Cost Banks Billions in Lost Payments Income**

**CFPB puts credit card comparison sites on notice**

**Millennial, Gen Z consumers turning to BNPL services as costs rise:**

**How real-time bill payments can reduce overdrafts**

**Consumers Don’t See Any Benefit from the Credit Card Bill, a Bankers’ Group Contends**

**Real-time payments are changing gig-economy, real estate payments at small banks**

**Apple’s Strategy in Banking: Memoji, Marketing & Next Moves**

**How Capital One’s Bid for Discover Could Shift Payments Competitive Balance**

**Debit routing rule tables turned on regulators**

**Credit cards are the most popular payment method in the US**

**Chime Extends Fee-Free Overdraft Feature to Credit Builder Card**

**Get access to the FedNow Service via Plaid Transfer**

**Affirm: Transactions Per Active Customer Gain 30% Year Over Year**

**Achieve survey reveals why consumers get hooked on buy now, pay later financing**

**Will FedNow and BNPL Dent Credit Card Use?**

**DOJ calls Apple card fees ‘significant expense’ for banks**

**Retailers slam Visa, Mastercard settlement on swipe fees**



# Topics For Today's Discussion

- Current Payment Trends
- Customer Migration to Digital
- Customers & Margins at Risk
- Disruption is impacting Payments Revenue

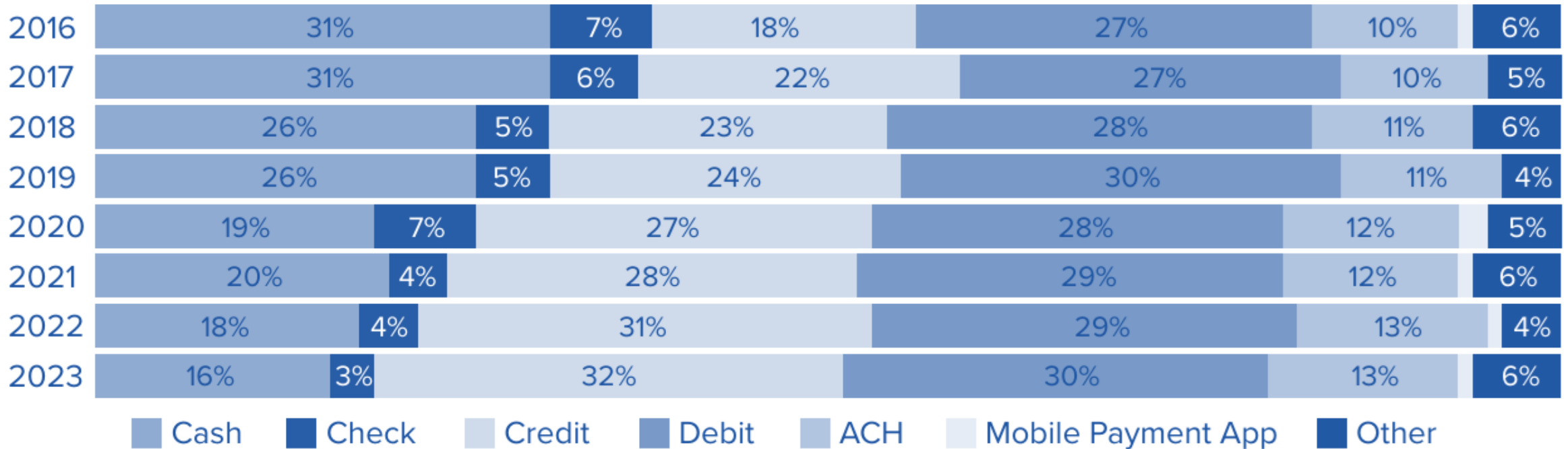


# Current Payment Trends

# Consumer Payment Trends



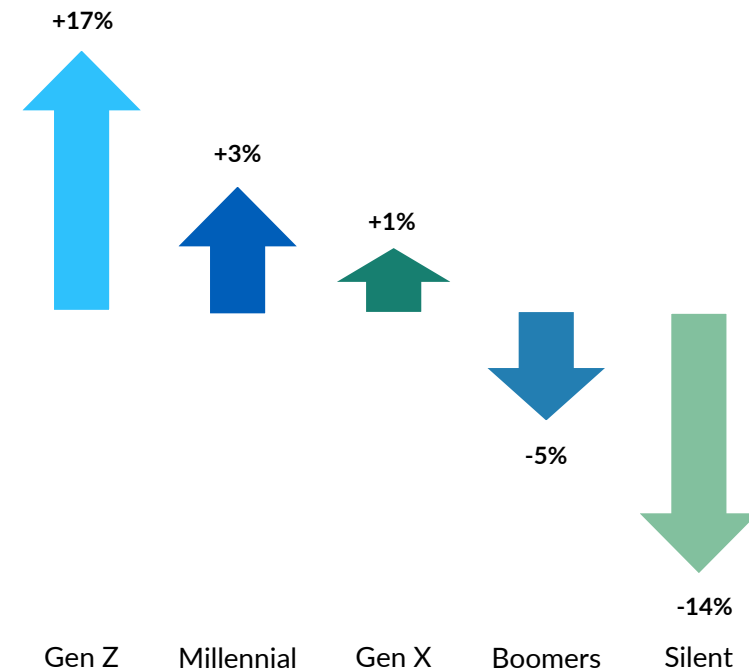
Figure 2: Share of payment instrument use for all payments



# Consumer Spending Trends

Type	2022 - 2027	
	Volume	Transactions
<b>PAPER</b>	<b>(23%)</b>	<b>(26%)</b>
Cash	(17%)	(23%)
Checks	(41%)	(52%)
Other (MO,CC,TC)	(13%)	(16%)
<b>CARDS</b>	<b>36%</b>	<b>37%</b>
Credit Cards	43%	43%
Debit Cards	32%	37%
Prepaid	7%	6%
<b>ELECTRONIC</b>	<b>28%</b>	<b>37%</b>
Preauthorized	9%	3%
Remote	50%	70%
<b>Total</b>	<b>29%</b>	<b>26%</b>

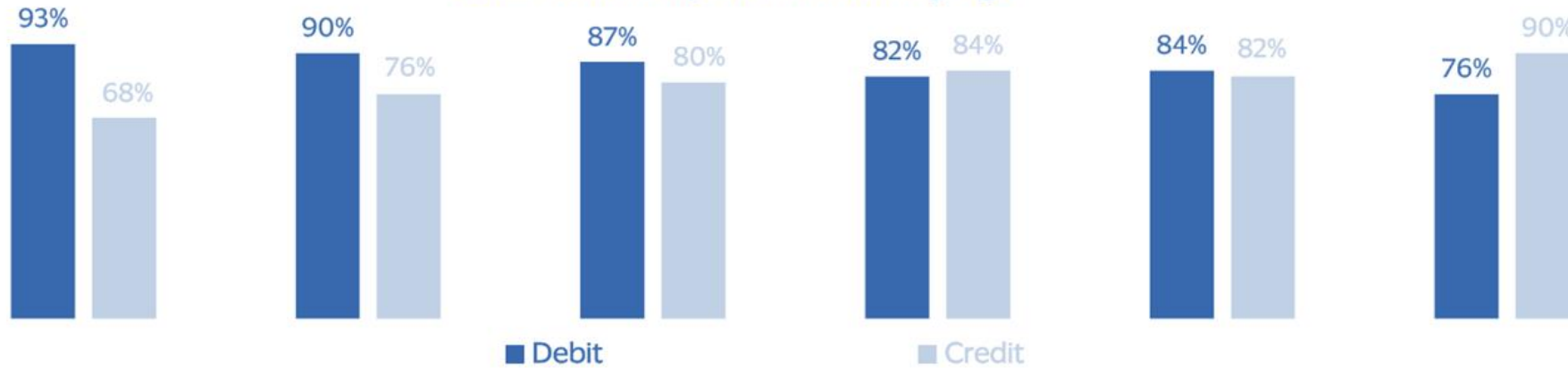
Virtually all spending growth through 2035 will come from the Gen Z consumer



Source: Visa

# Generational Payments Preferences

Card Ownership Distribution by Age



**Millennials and Gen Z**

Avg Spend/month: \$1,470  
Avg # Txn/month: 23

% Consumers using debit as primary card

**58%**

**Gen X**

Avg Spend/month: \$2,154  
Avg # Txn/month: 30

**48%**

**Boomers**

Avg Spend/month: \$2,593  
Avg # Txn/month: 35

**39%**

# Customer Migration to Digital

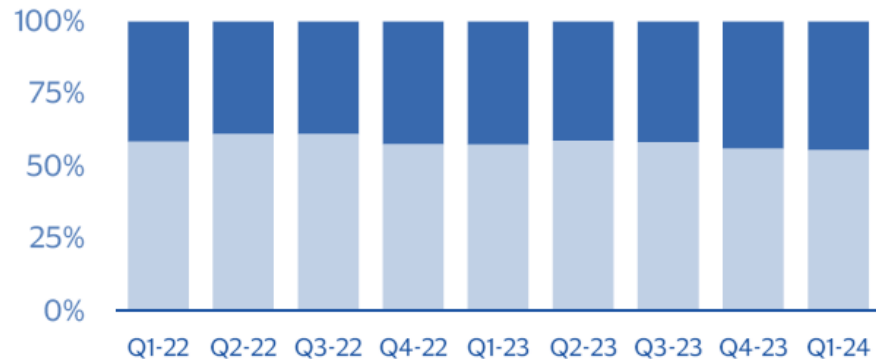




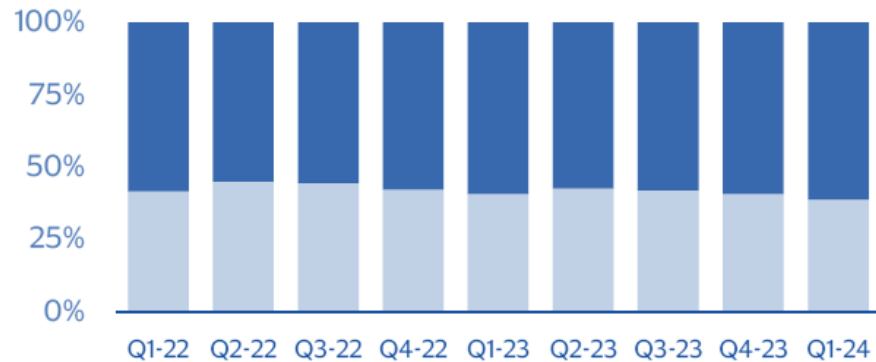
# Shifting Spend

## Channel Share and YOY Growth

### Transaction Volume Share



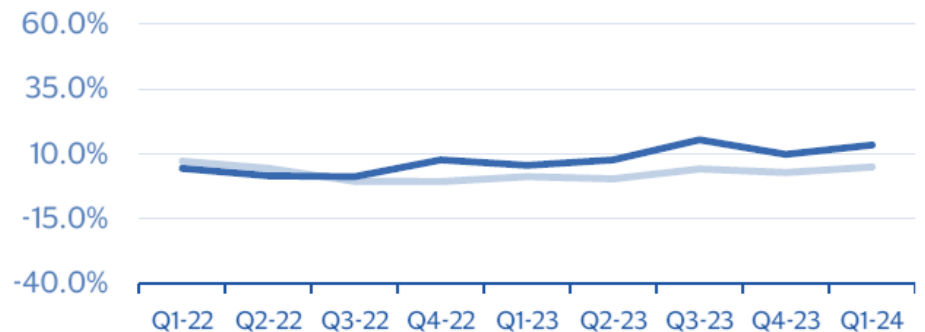
### Payment Volume Share



### Transaction Volume Growth



### Payment Volume Growth



Source: Visa Consumer Debit transactions, excludes Interlink, Prepaid. US issued cards only. AFT data is included. Exempt Issuers

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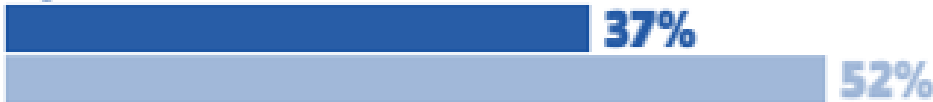
# Digital Wallet Adoption



## E-COM

● 2023 ● 2027

### Digital wallets



### Credit cards



### Debit cards



### A2A



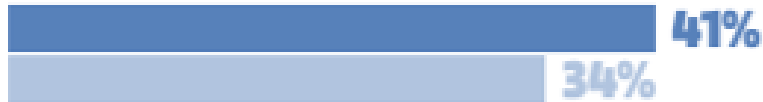
### BNPL



## POS

● 2023 ● 2027

### Credit cards



### Debit cards



### Digital wallets



### Cash

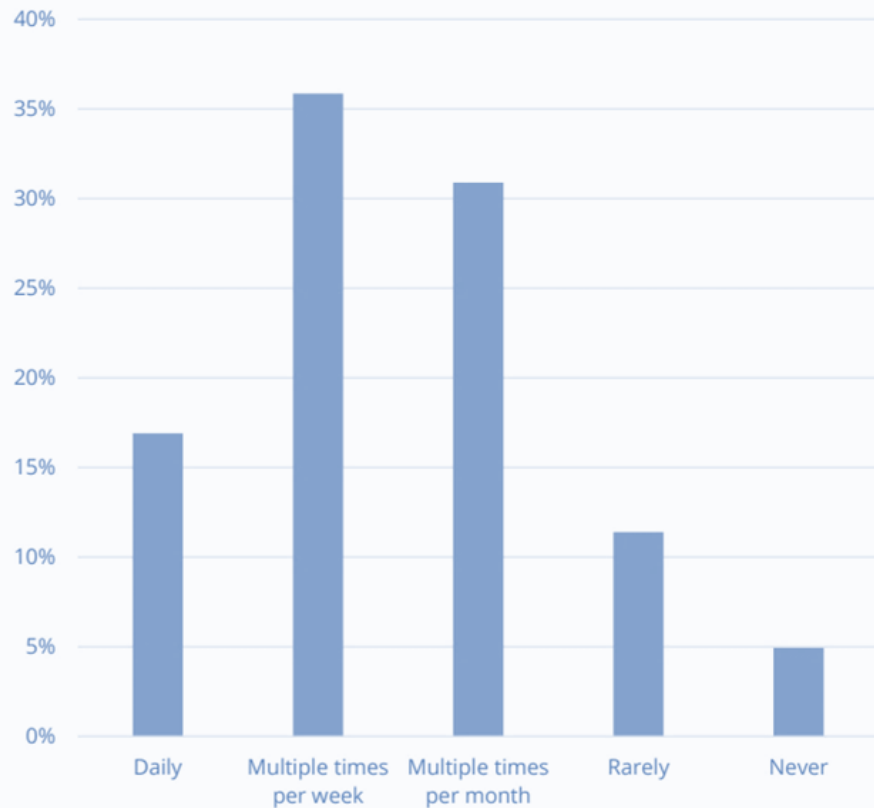


### Express checkout

# Digital Wallet Adoption is Key!

## Reliance on Mobile Wallets

Question 8. How often do you leave your physical wallet/purse at home and only take your smartphone/smartwatch mobile payment wallet with you?

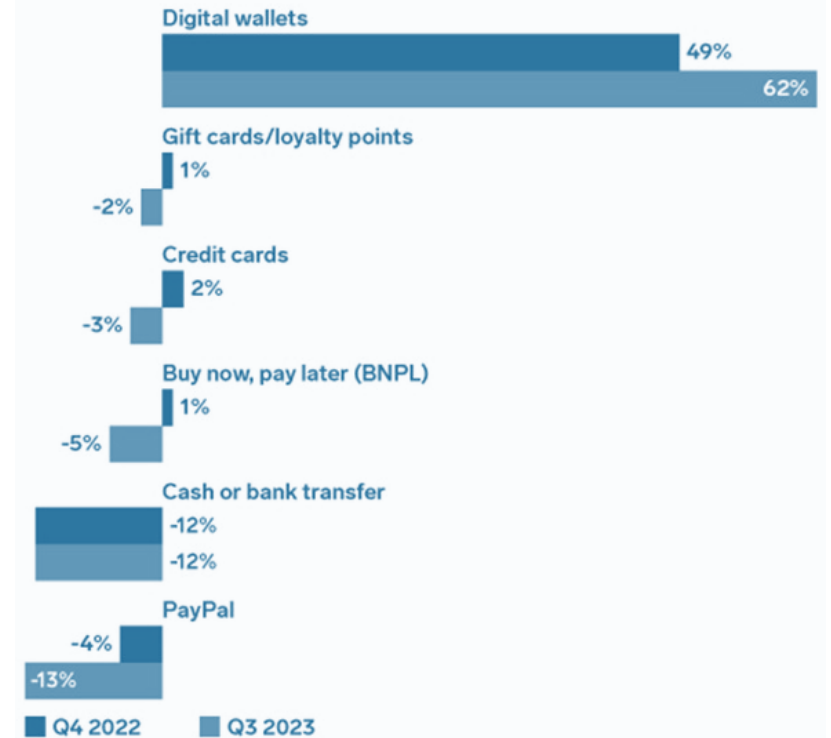


## Digital Wallet Activity



## Payment Type Transaction Growth Worldwide, Q4 2022 & Q3 2023

% change vs. same period of prior year



Note: represents activity tracked by Salesforce; broader industry metrics may vary  
Source: Salesforce, "State of Commerce," Jan 9, 2024

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Insider Intelligence | eMarketer

# Fintech Disruption



# SEARS

# amazon

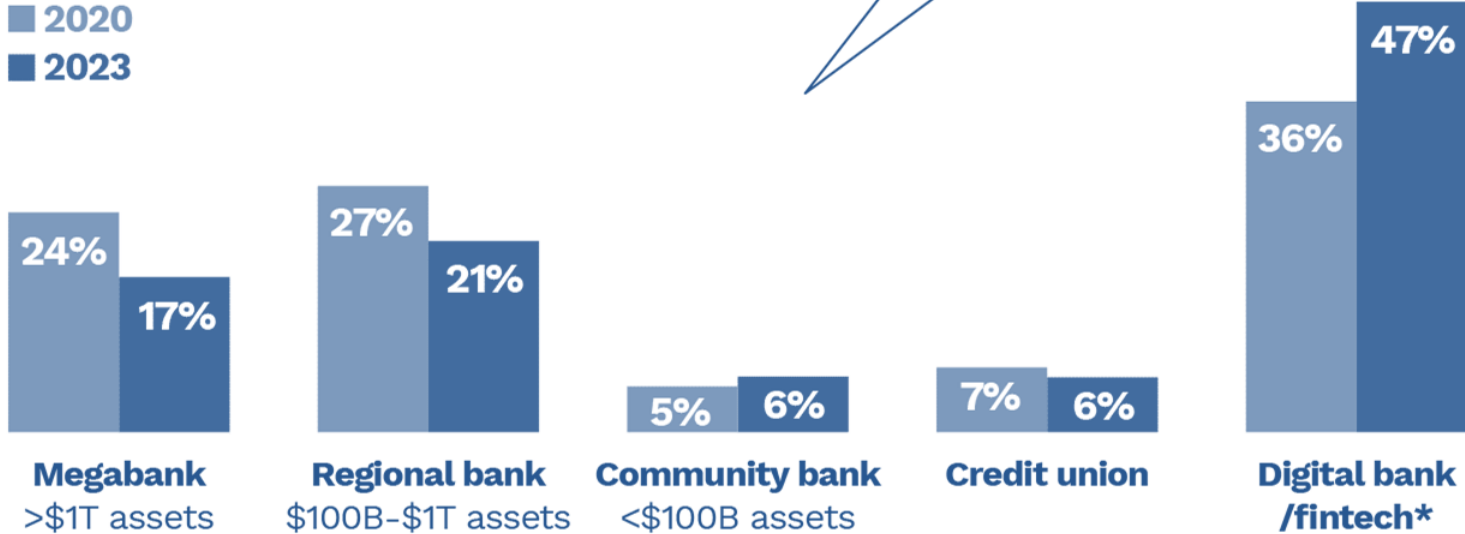
**“The greatest danger in times of turbulence is not the turbulence itself, but to act with yesterday’s logic.”**

**- Peter Drucker**

# New Account Trend



Where people are opening checking accounts today



\*Digital bank/fintech includes multiple types of providers, including chartered neobanks, non-chartered challenger banks, chartered digital-only banks, payment-oriented tech firms like PayPal, and fintechs like Chime that rely on banks for underlying services.

# While Our Clients Are Talking About Relationships...



**SoFi**

## Number of Debit Card Users

3.8 Million

**chime**

7 Million

**venmo**

~6 Million?

**Cash App**

24 Million



## Market Dominance:

~40 Million Debit Cards

242 Million Debit Cards in U.S.

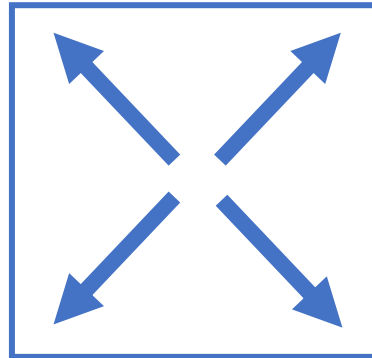
# Digital Banks Grew Effectively Using Three Tactics

## Target



Established core users by approaching unique **niches** with a **tailored offering**

## Expand



Scaled by relying on **effective data analysis**, looking within unique niches to conduct **product diversification**

## Retain



Deliver a **differentiated digital experience** to ensure retention and engagement





# Customers & Margins at Risk

# Key Regulatory Changes



## ***Durbin 1.5 Reg II CNP – Rule Clarification***

- Took effect July 1, 2023
- Impact will be significant, but gradual due to reliance on merchant acceptance
- Sad Math

## ***Durbin 1.0 Cap Interchange – Revision (Proposed)***

- Adjusted interchange rate for Non-Exempt Fis (\$10B+)
- Decrease in base component from \$0.21 to \$0.144
  - -31% impact to debit interchange income

## ***Durbin 2.0 CCCA – Proposed***

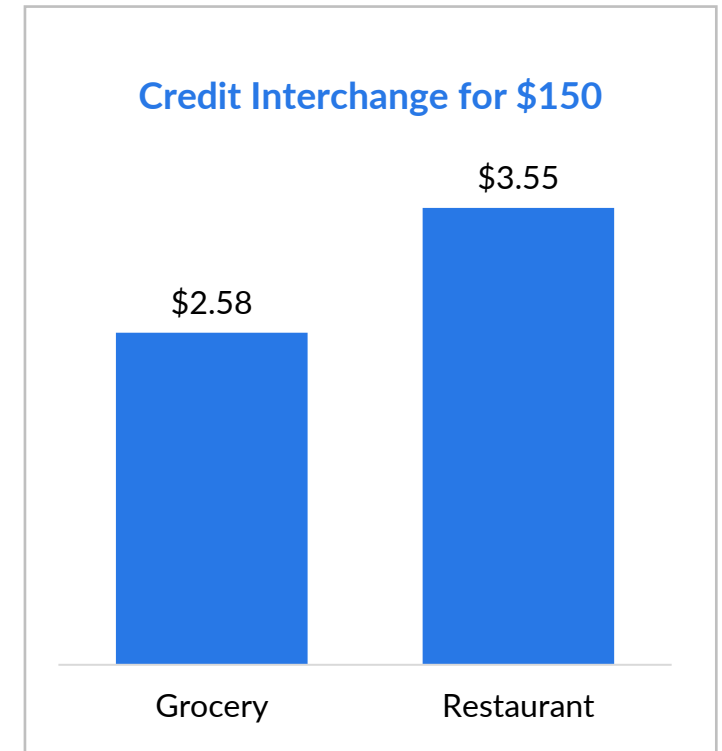
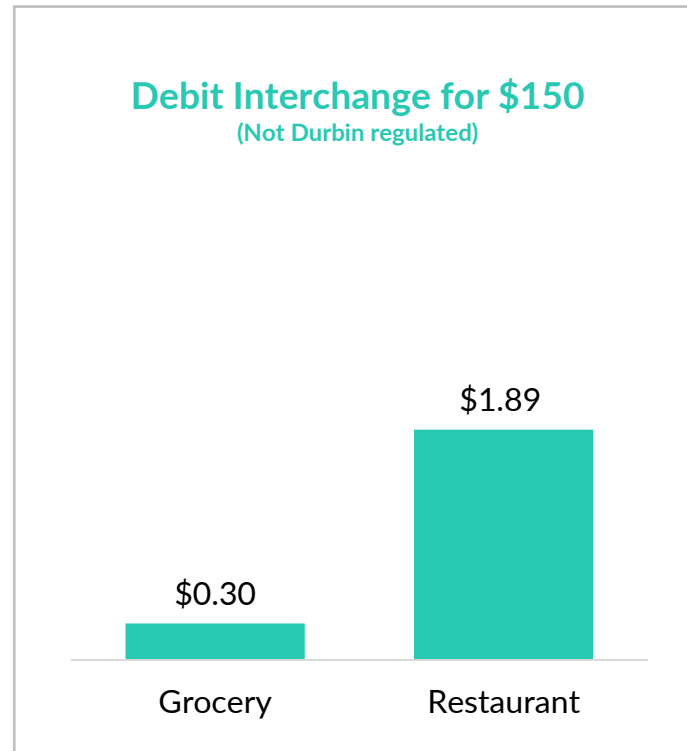
- Proposed legislation would require a secondary network for Credit Cards issued by FIs over \$100B
- Strong potential for trickle down effects for consumers and community FIs

# Interchange Impacts

The type of merchant where your cardholders shop can make a big difference in your interchange income

If you are not a Durbin regulated institution (under \$10B in assets) and a cardholder spends \$150 at a grocery store with their debit card, average interchange is \$0.30, whereas the same amount of spend at a restaurant yields \$1.89

On the credit side, spending \$150 at a grocery store yields \$2.58 in interchange, whereas the same amount of spend yields \$3.55 at a restaurant

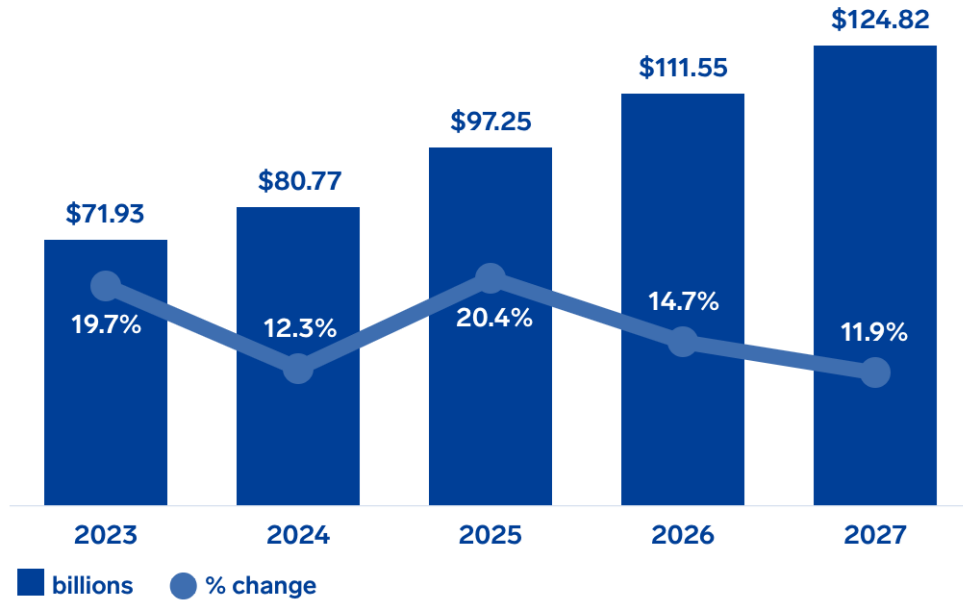


# Disruption is Impacting Today's Revenue



# Buy Now Pay Later

**Buy Now, Pay Later Payment Value**  
US, 2023-2027

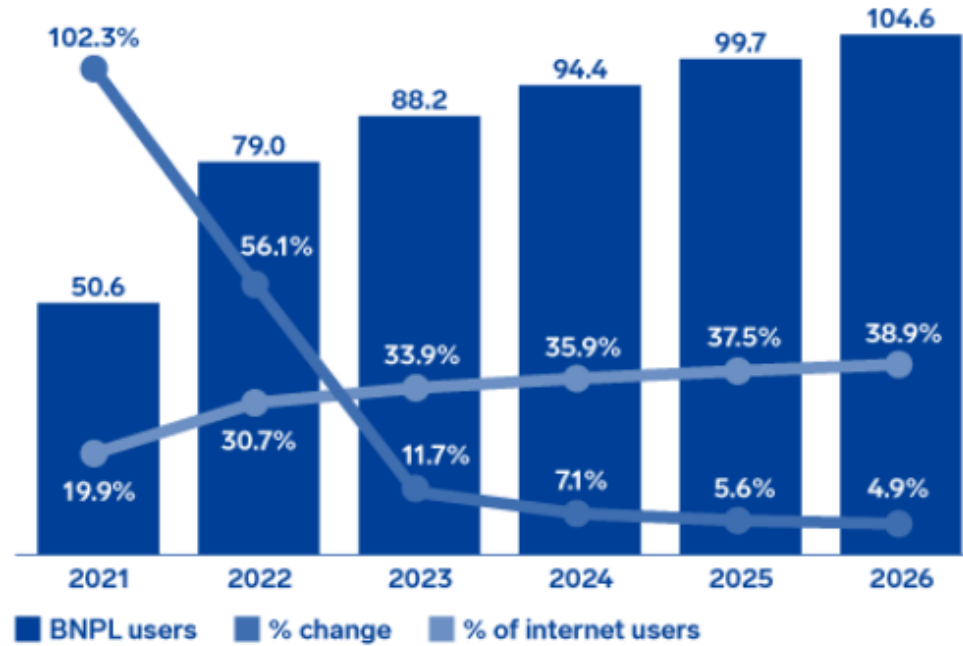


Note: includes products or services paid with a buy now, pay later service platform; excludes payments such as bill pay, taxes, or money transfers, gambling and other vice goods sales

Source: Insider Intelligence | eMarketer, July 2023

Insider Intelligence | eMarketer

**US Buy Now, Pay Later (BNPL) Users, 2021-2026**  
millions, % change, and % of internet users



Note: ages 14+; internet users who have accessed a buy now, pay later account digitally and have made a payment toward a purchase at least once in the past year; includes purchases of goods and services

Source: Insider Intelligence, June 2022

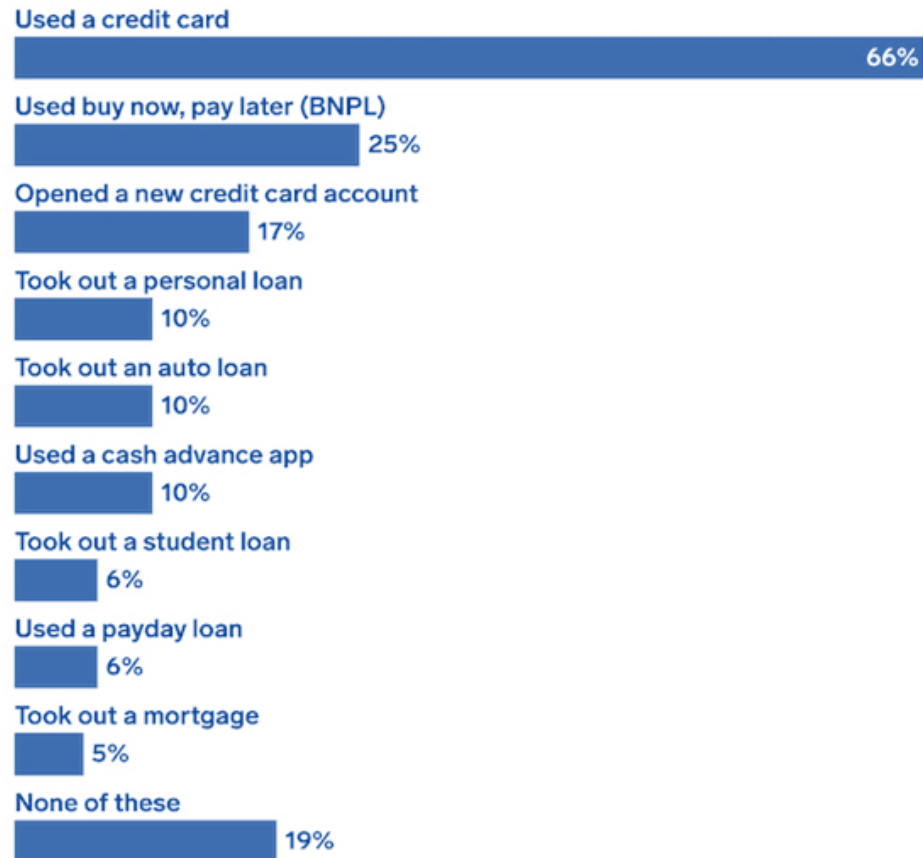
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InsiderIntelligence.com

# Buy Now Pay Later

## Credit Usage Among US Adults, by Type, April 2024

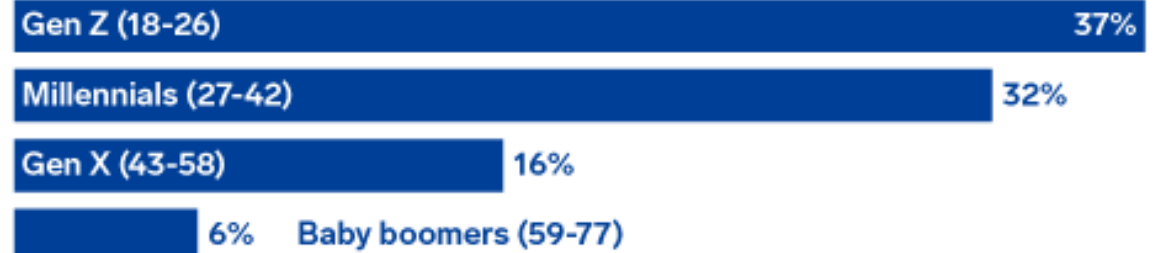
% of respondents



Note: in the past 12 months  
Source: NerdWallet, "2024 State of Consumer Credit Report" conducted by The Harris Poll, May 28, 2024

## US Adults Who Used Buy Now, Pay Later (BNPL) to Make at Least One Purchase Recently\*, by Demographic, Sep 2023

% of respondents in each group



Note: \*August 2023  
Source: Morning Consult as cited in company blog, Sep 26, 2023

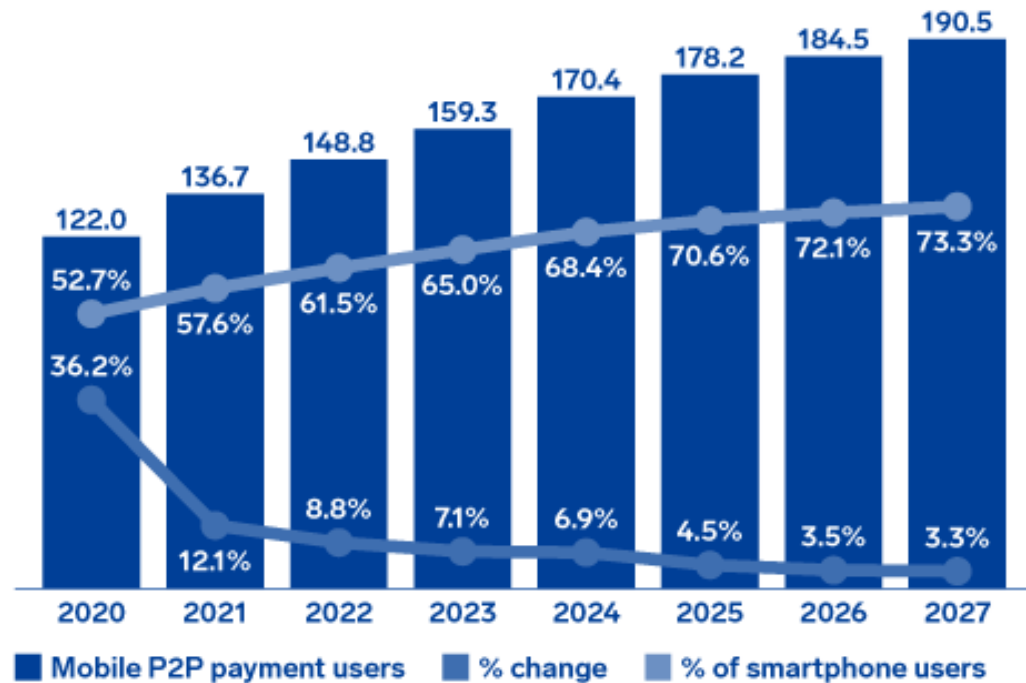
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# Alternative Payments – P2P

## US Mobile Peer-to-Peer (P2P) Payment Users and Penetration, 2020-2027

millions, % change, and % of smartphone users



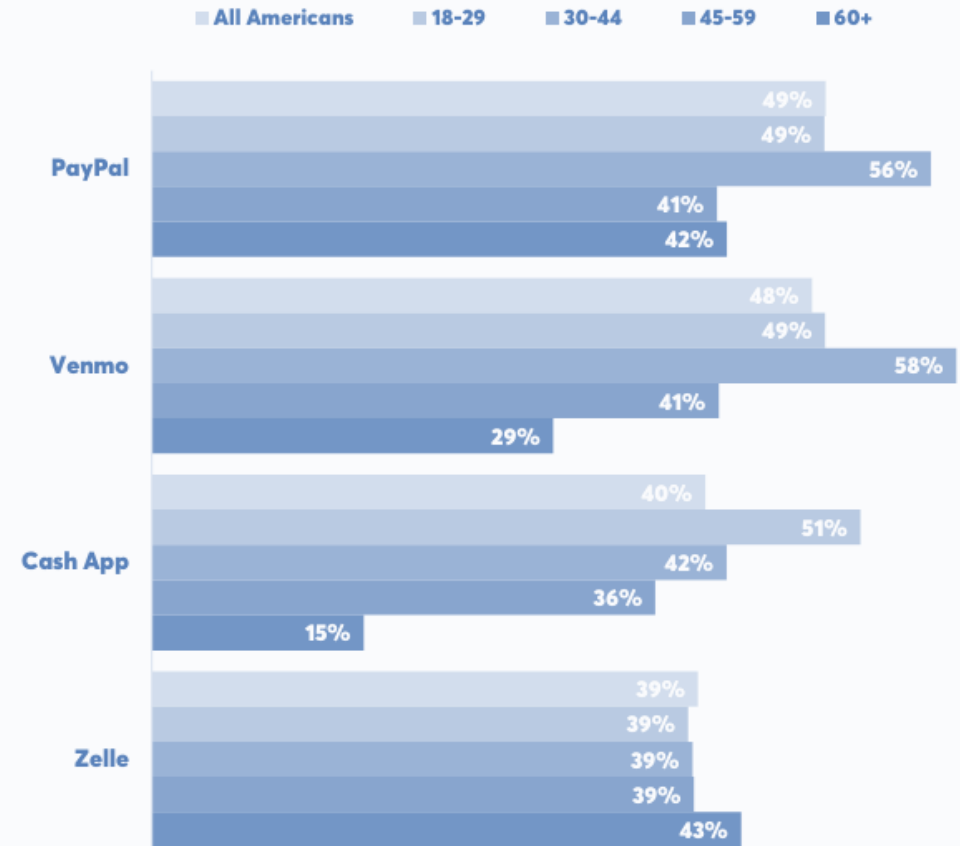
Note: ages 14+; mobile phone users who make a peer-to-peer (P2P) payment transaction via mobile phone at least once per month

Source: Insider Intelligence, April 2023

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## Use of the top four P2P services by age group



# Real-Time Payments and Use Cases



## Business-to-Consumer (B2C)

Paying employee wages  
Disbursing insurance claims



## Consumer-to-Business (C2B)

Bill Pay  
Medical Expenses



## Business-to-Business (B2B)

Payments for inventory or services  
Purchase Order Invoicing



## Business-to-Government (B2G)

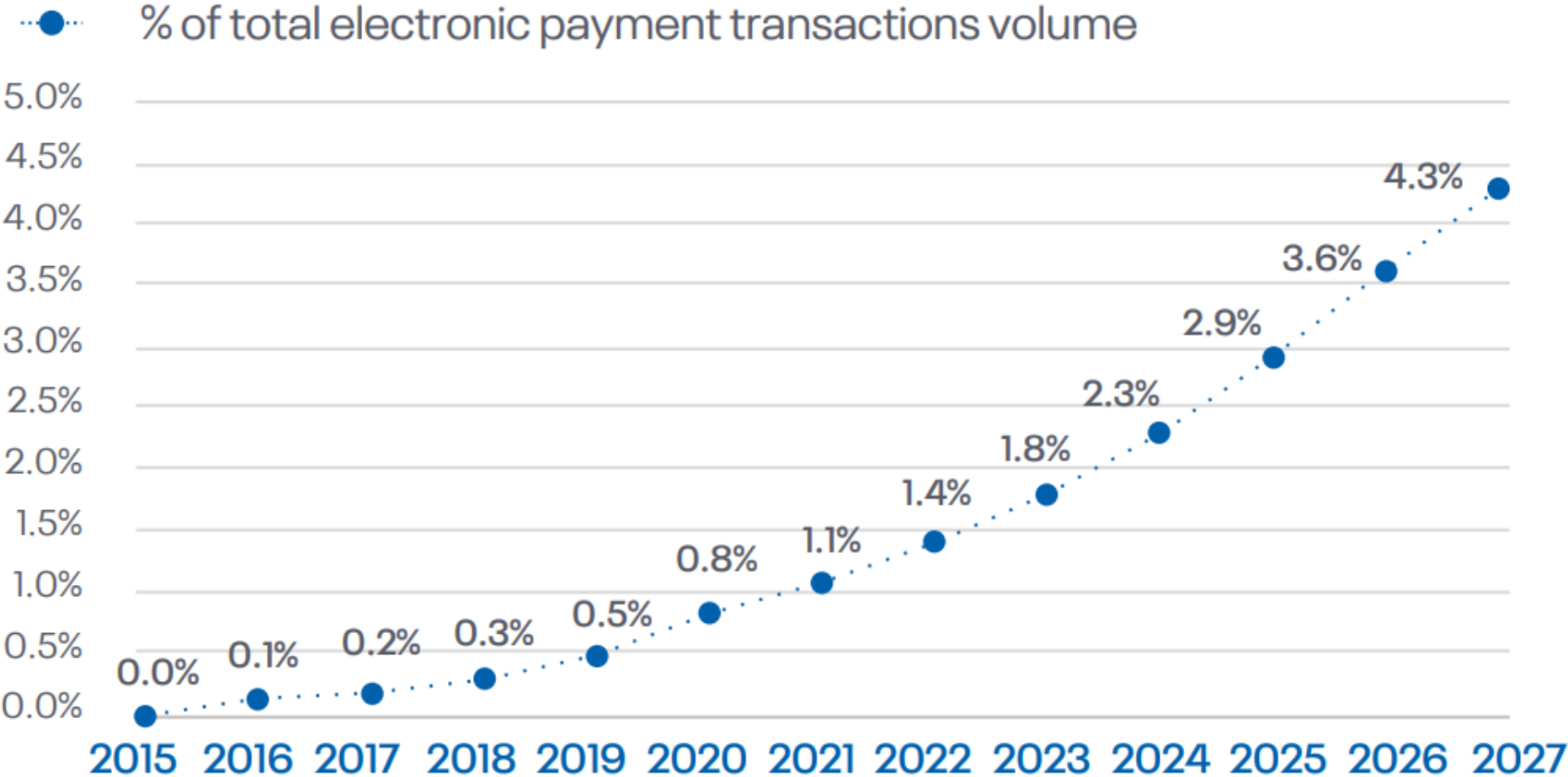
Federal or state tax payments



# Real-Time Payments



## Real-Time Payments Volume and Its Share in Overall Non-Paper-Based Transactions, 2015-27f





# The Five I's - Invest in Payments!



- How are you saying the words?
- What marketing strategies are you using?

Inform

Iterate

Incentivize

Interface

- How are incentives tailored to different audiences?
- How do you make incentive programs engaging?

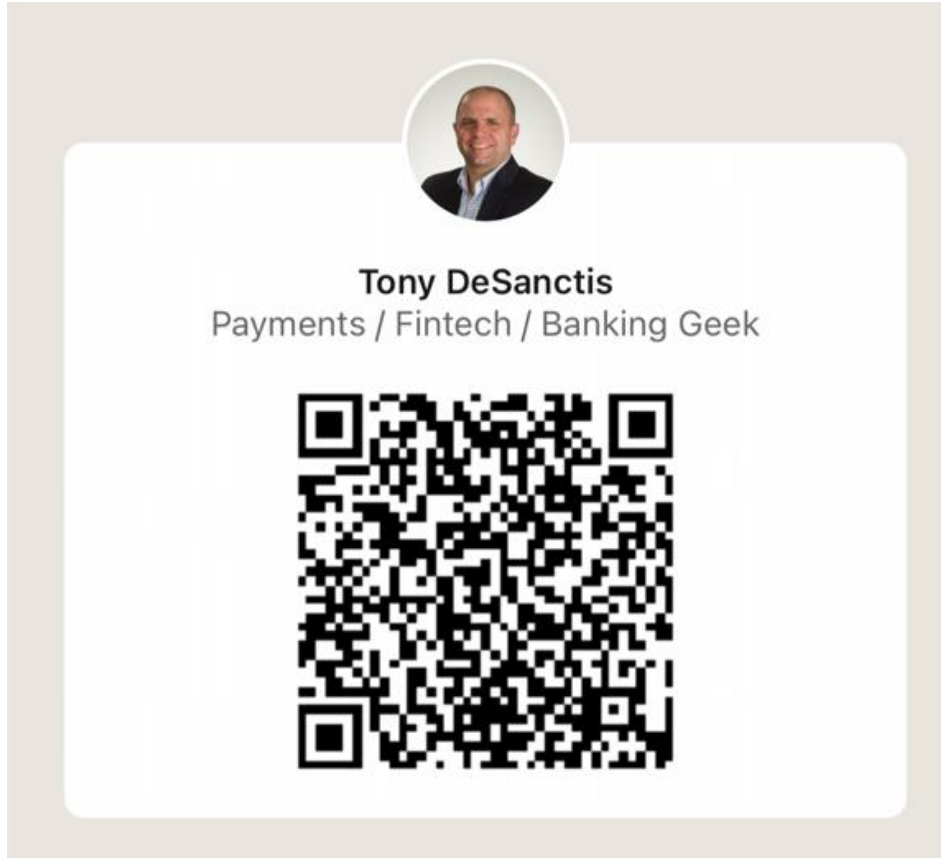


- Are you growing your product and service offerings?
- How do you leverage data to measure the success of new products?

- What are your technological capabilities?
- Do you have an all-in-one platform for your products?



# LinkedIn and Contact Info



A LinkedIn profile card for Tony DeSanctis. At the top is a circular profile picture of a man in a suit. Below the picture, the name "Tony DeSanctis" is displayed in bold, followed by the text "Payments / Fintech / Banking Geek". At the bottom of the card is a large QR code.

Cornerstone Advisors Senior Director

