

## 15 PREDICTIONS ON THE FUTURE OF PAYMENTS

by [Steve Brown](#)

Lately, we have been thinking a lot about payments. We have just finished talking to top leaders in the industry and analyzing key trends. We have come up with 15 predictions that will play into a bank's strategy and tactics for 2013.

1. One of our views on the industry is that the next 5Ys will be tough for the traditional banking model and it will be payments/cash management (not loans or deposits), that is going to make a bank stand out. The rise of the smartphone and the tablet provide the infrastructure to radically change banking and transformation is beginning.
2. Social network currency, while increasing in popularity, will stay relegated to a side show. Despite the media hype, it will never be a serious contender to impact bank payments.
3. Micropayments will gain in popularity and will be taken up by some banks, but will never be that profitable. Before micropayment sites hit a tipping point, businesses will shift to a more traditional competing bank network.
4. Prepaid cards, driven by Durbin, will gain marketshare and more community banks will utilize them for less profitable accounts to replace lost interchange revenue.
5. Credit cards will continue to control the market, but will do so to a lesser extent than in the past. In addition to prepaid, Paypal-type applications will continue to gain popularity. The recent alliance of Paypal, GE Mastercard and Bling Nation has been a disrupting factor for small business payments. Also, physical plastic cards will be replaced by "virtual cards" and temporary numbers.
6. In the near term, integrated circuit cards (EMV) will jump in popularity due to security concerns and the U.S. will finally follow European adoption. Next year, more banks will start to issue EMV cards. However, magstrips, like Betamax, will hang on longer than anyone expects.
7. Discover will lose bank marketshare, while Amex will gain because of their payout percentage to community banks.
8. Overall market share of plastic (mostly Visa and MasterCard) will decrease, as other bank consortiums accelerate private digital networks. This change will be evident as cell phones allow a unique indentifying number for authentication, level 1 security and can be terminated within seconds of loss.
9. Banks will firmly get back in the payments game in the next 3Ys. Watch for large bank partnerships with telecomm companies to drive control of this market. Community banks will be able to get in on the action.
10. Increased competition plus regulatory pressure will lower pricing across the board. Merchants will gain more power as they try out non-network innovations and private networks.
11. ACH, because of its lack of real time processing, will give way to protocols like Internet v6 that will allow some amazing, disruptive developments. We will see our first serious open source payment

language by 2014.

12.Apple and Google will be major players starting in 2013 and will alter the landscape. Payments combined with geocoding and real time couponing will be the killer application in the space (again shifting the power to merchants)

13.Like the gold rush, the real money will be made by the person selling supplies. In payments, it will be all about developing an authentication language and platform for each payment start-up to connect to.

14.Everyone is talking about retail, so the smart bank will leap to commercial payments.

15.At the end of the day, when the dust settles, it will not be about payments, but about data.

## **BANK NEWS**

### **M&A**

New Hampshire Thrift Bancshares (\$1.1B, NH) will buy Nashua Bank (\$118, NH) for about \$19.4mm.

### **Bankruptcy**

The city of San Bernardino, CA officially filed for bankruptcy protection, citing more than \$1B of debts to as many as 25,000 creditors. It is the 3rd CA city to seek bankruptcy protection from creditors.

### **Muni Advisor**

A Financial Services subcommittee in the House has advanced legislation that would exempt banks and their employees from having to become municipal advisors. Similar legislation is before the Senate Banking Committee.

### **Floating Treasuries**

The Treasury said it will begin selling floating-rate notes in a year or so, as it seeks to meet investor demand. The delay is required to give Treasury time to change systems, choose an index and work out details.

### **Go Short or Repossess**

Analysis by Moody's finds banks lose 15% less doing a short sale on a single family residential loan than they do by repossessing it (takes longer to close, have to pay taxes, legal, maintenance, etc.).

### **Hotel Risk**

A report by the Global Business Travel Association projects spending on business travel in 2012 will rise 2.2% vs. 2011, down nearly 40% from their previous forecast of 3.6% growth. Tight business conditions, a weak Europe and a weakening economy were the primary catalysts for the reduction.

### **HELOC Risk**

RealtyTrac reports 39% of homes that have entered the foreclosure process have more than one lien. Meanwhile, the 4 largest banks hold 48% of the \$849.5B in second liens, which is a bit scary when you consider research by CoreLogic finds homes with second mortgages are 2x as likely to be underwater as those with only one mortgage.

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