

J.P. MORGAN MERCHANT SERVICES

Key Trends to Drive Your Payments Strategy



The Biggest Payment Trends Right Now



01
Cashierless tech
has arrived



06
Key insights,
big impacts



02
Faster payments for
consumers and businesses



07
Payments in context



03
From subscriptions
to recurring relationships



08
Integrated payments



04
Payments simplified



09
Customer-centric,
seamless payments



05
Relentless fraudsters



10
What happens after Covid

- a. E-commerce and omnichannel
- b. BOPIS
- c. Debit/credit mix
- d. Contactless



Over the past year, the global health situation amplified many existing trends: businesses of all sizes turned to e-commerce, contactless payments accelerated, and the popularity of omnichannel purchasing skyrocketed.

Meanwhile, we are also starting to get a glimpse of the seamless future in payments. Several pilots of cashierless technology were announced in the past year, the start of a fundamental shift in how consumers engage in commerce. New methods of moving funds, such as Push to Card and QuickAccept, are substantially reducing the time required to receive money. And new avenues for commerce are opening as payments become integrated everywhere. The state of payments today is one of great upheaval and exciting possibilities.

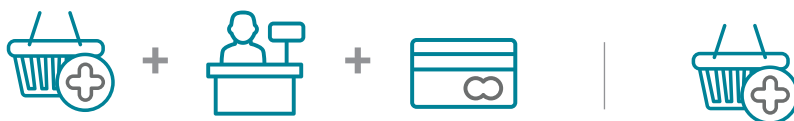


Cashierless tech has arrived

The retail experience is about to undergo a radical transformation unlike any in the past century. Here's how far we've come. Obtaining goods in the pre-modern store of the 1800s required three steps: first, you identified goods for purchase; then you informed the clerk who obtained those goods for you; and lastly, you paid. The modern store, attributed to Woolworth's, eliminated the clerk's role in fetching goods and allowed customers to touch and feel items. **The next major transformation will reduce the number of steps to just one—you'll select your goods and leave, making the payment either entirely in the background without the need to check out, or with substantially less time than required by existing checkout processes.** By eliminating one of the biggest frictions in the retail purchasing experience, this transformation introduces new possibilities for customer service, reductions in losses and lower operational expense.

The potential for a fully-automated, seamless checkout had appeared to be just within reach for several years. **Now, the number of pilots in the market indicates that an inflection point for this technology is here. Startups and established players in this space are quickly learning and iterating.** Between them, these companies offer several different approaches—from complete retrofits to solutions that are adaptable to in-place infrastructure, from cash-friendly solutions to 100% digital. Cashierless technologies are even being integrated into other next-generation experiences. For example, a shopper's voice or vehicle is recognized to offer a personalized menu or pricing. At the current pace of innovation, cashierless experiences may soon be available broadly, fundamentally changing our notion of the store.

The next major transformation will reduce the number of purchase steps to just one.





Instant and faster payments everywhere

After using instant payments services like Zelle, people began to wonder, why can't every payment be this quick and easy? The speed of payments is now accelerating. Gig economy drivers expect to be paid per ride. Insurance claimants expect real-time payouts. Small businesses want access to funds on the same day as the sale.

Merchants have options to enable faster payments.



99%
US MARKET
READINESS FOR
PUSH TO CARD

PUSH TO CARD, which allows consumers to receive funds immediately through their eligible Visa and Mastercard debit and prepaid cards. Push to Card reaches over 99% of the U.S.¹ market and supports P2P and B2C payments, as well as small business B2B payments.



60%
US MARKET
READINESS FOR RTP

REAL TIME PAYMENTS (RTP), an instantaneous, 24/7 bank-to-bank payment rail offered by J.P. Morgan through its membership with The Clearing House. The RTP network expanded in 2020 to cover close to 60% of deposit accounts in the U.S. and now clears millions of payments a month.²



THE FASTER PAYMENTS TREND is not exclusive to consumers—suppliers are also looking for faster payments as part of a better user experience, especially for gig-economy and small businesses, and as part of a resiliency and working capital strategy for large suppliers.

In addition, the Federal Reserve is currently developing a real-time system, although completion is expected to take several years. Globally, many payments systems already have instant payments—for example, real-time payments in the UK have been available since 2008. The challenge in the U.S. is the degree of complexity resulting from a far greater number of banks than in other countries.

Merchants want their money faster, too. J.P. Morgan already offers next-day funding for U.S. transactions, which compares to two days or longer for most other providers. Meanwhile, Chase for Business customers have access to the fastest free funding in the industry. Through QuickAccept, these merchants can get funds to their account on the same day as a sale.³ The best part: Same day funding is available at no additional cost.

J.P. Morgan Offerings

[Real Time Payments >](#)
[QuickAccept >](#)

From subscriptions to recurring relationships

Subscription and recurring revenue models can be a challenge to implement. Plus, consumers set a high bar before agreeing to a new recurring commitment and want the same flexibility and choice they have elsewhere. But these approaches are worth the effort. Recurring revenue and subscription companies have been rewarded with some of the highest valuations in the market. Even where recurring revenue solutions aren't the traditional approach, companies are trying to deepen their relationships with customers. **Through these deep, recurring relationships, data can be fed back into product and marketing, personalizing the consumer experience with tailored offerings.**

Many companies are still working through their approach to recurring relationships, and the degree of maturity varies by industry. Subscription startups are just beginning to implement basic recurring revenue models, while scaling companies are experimenting with more complex charging models, including usage and multi-product billing. At the most mature level, optimizers have made the recurring relationship a centerpiece of their strategy, leveraging data from multiple sources and touchpoints.

Many businesses are realizing that they need greater flexibility in their systems to support recurring customer relationships. To meet this demand, new types of providers have been growing over the last several years. These companies often sit between ERP and CRM platforms, and help businesses measure and manage their recurring relationships. J.P. Morgan has deep integrations with each of the leading recurring billing and subscription management platforms in the market.



Payments simplified

As huge numbers of consumers turned to the internet during the pandemic, many businesses were unprepared. Their existing systems weren't ready for e-commerce or omnichannel and they faced a sudden requirement to update their business models and IT infrastructure. Moreover, they had to perform critical enhancements while adapting to other virtual trends such as the rise of global marketplaces and social commerce.

How are merchants managing this transformation? Many are turning to the convenience of a range of integrated solutions. Companies might access payments acceptance through their ERP/CRM, subscription or e-commerce platform. From these platforms, merchants can pick and choose to select best-in-class suppliers across the technology ecosystem, integrating quickly through APIs. Taking that one step further, banks like J.P. Morgan can allow merchants to access information and services beyond payments, such as balances and reporting, via real-time via APIs that are integrated into ERP systems. It's important for a merchant that's weighing payment acceptance options to look into the details of the platform's payments integrations. Just because an integration is available doesn't necessarily mean it's a deep one.

Many merchants are also dealing with a tangled flow of funds into and out of their business, overly complicating the financial picture. Compounding this legacy challenge is the increasing number of consumers turning to digital channels and the difficulty of cobbling together solutions from various vendors.

As a result, merchants are turning to a single provider with a variety of connectivity options to solve for this complexity—whether that's using a plug-and-play bank platform like J.P. Morgan Access or a white label, embedded solution like J.P. Morgan Concourse, or connecting directly to the bank via customized APIs. The provider offers one integrated package of payments, treasury services and commercial cards, and the client gets one set of APIs, one set of analytics, and one integration into the underlying technology.

J.P. Morgan can manage the full range of complexity in payments and provide an integrated view into companies' entire financial picture, from pay-in to pay-out.



J.P. Morgan Offerings

[J.P. Morgan Concourse >](#)

[J.P. Morgan Access >](#)

[J.P. Morgan Wholesale Payments >](#)



Relentless fraudsters

Over the past year, the pandemic has driven a major consumer shift from retail and physical points of sale to ecommerce and omnichannel purchasing. This rapid shift created opportunities for fraudsters, especially at merchants that lacked experience in digital channels. Online commerce, curbside pickup, order ahead, and other rapidly growing omnichannel experiences all rely on card-not-present (CNP) infrastructure to make a payment. Because CNP transactions can be attempted anywhere and by anyone, they incur high rates of attempted fraud compared to transactions where the physical card is present.

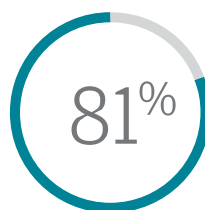
Fraudulent attacks are growing in sophistication and frequency. Card testing in particular has been a major issue for many merchants. Fraudsters that engage in card testing acquire immense batches of credentials online and then test these cards, typically by making small value purchases to determine which they can use. When they find a good card, they go on a spending spree. Card testing was especially prevalent this holiday season, when many merchants suspended IT system updates, to prevent any glitches during a period of intense demand.

Even when transactions are rightfully declined, the merchant can still incur substantial costs in fees and resources. In addition, more categories of businesses now need to manage fraud. Many merchants had previously approached e-commerce as a backup or supplementary channel, but now it's their primary one. Restaurants, for example, have moved to a CNP environment, and even after the pandemic, they may continue to support CNP transactions through purchasing options like QR codes.

Considering the immense potential for fraud today, there are a few ways to address the issue. One approach taken in Europe is to tackle fraud through PSD2 SCA, a robust

but demanding solution that often adds an additional point of friction in the checkout process. The trade-off of this approach is that merchants may experience potentially higher numbers of abandoned transactions in return for greater security. The U.S., meanwhile, continues under the existing framework, tolerating somewhat higher fraud rates for an improved consumer experience and higher conversion rates.

So what should a merchant do? The best solution is a multi-layered approach. This means applying information from as many data points as possible. One of the best sources of data to use in a multi-layer approach is from a merchant's own customers. Many businesses are collecting this data by encouraging consumers to enter their card credentials, instead of using guest checkout. Merchants taking a multi-layered approach also analyze each specific transaction and monitor constantly for unexpected activity. Finally, merchants taking a multi-layered approach work with fraud prevention partners that apply AI-based strategies, partners with tools like J.P. Morgan Safetech. Anticipating what's next in fraud is just as important as having a fraud strategy—because by the time you act, the fraudsters already have.



Percentage of organizations targeted for payments fraud ⁴

J.P. Morgan Offerings

[J.P. Morgan Safetech >](#)

Key insights, big impacts

Over the past year, many merchants learned how to pivot quickly to e-commerce and omnichannel. Having established the fundamentals, the next step for these merchants is to optimize payments in digital channels, to approve the most transactions for the least cost. There are numerous ways that a payment can go wrong. Perhaps the customer hasn't updated their billing address, or there's a typo in the checkout form. Even something as unexpected as the time of day can affect whether an issuing bank declines or approves an authorization request. But merchants don't have to stand by and watch otherwise good transactions be declined—there are several ways to improve authorization rates for the least cost.

Data scientists at J.P. Morgan help merchants optimize payments by deploying six levers to increase authorization rates and three levers to reduce costs. One important lever is wallet cleanup. Many merchants have a large number of cards on file that have expired or that contain outdated customer data. By proactively encouraging consumers to update their credentials, or by using an automated tool such as Account Updater, businesses can ensure that fewer transactions are declined due to old cards being on file. Another important lever is the data that's submitted to the issuing bank. Issuers often have slightly different expectations about data elements, and more transactions can be approved by ensuring that the submitted data meets those expectations. Other key levers around authorization rates include transaction timing, transaction routing, retry strategy, and PSD2 considerations. Critical levers to reduce costs include interchange downgrade detection, L2/L3 data, and selection of the network for routing. Many merchants can optimize costs further by leveraging J.P. Morgan's proprietary platform, ChaseNet, to process Chase cards.

In addition to helping clients navigate their approach to payments, J.P. Morgan has a unique ability to generate unparalleled insights into the behaviors of customers.

We do this by connecting Merchant Services' acquiring data (#1 U.S. wholly owned merchant acquirer based on bankcard volume in the U.S.)⁵ with Chase issuing card data (#1 card issuer in the U.S.)⁶. While others try to model customer behavior to give estimates and approximations, J.P. Morgan can show what's actually happening. Furthermore, as an end-to-end payment provider, J.P. Morgan can amplify the advantages of our acquiring and issuing data, with solutions to help clients capture key insights into their liquidity, working capital, and payment flows.



J.P. Morgan Offerings

[ChaseNet >](#)

Payments in context

What if you could reduce the time between payment and a consumer's initial thought: I need this? What if you could move the payment process right up to the moment of need? This is the essence of a contextual payment. It's about giving the consumer the opportunity to commit to a purchase wherever they are and whatever they're doing. Contextual experiences are available through numerous channels—**through smart devices, in vehicles, on social media, through streaming content, wearables, smart speakers, virtual reality environments and other channels.**

In-vehicle payments are just one example of a contextual payment. Drivers love the idea of interacting with brands directly through the vehicle's infotainment system, either with voice or through touch. The first in-vehicle implementations were functional but not especially seamless—for example, your payment credentials had to be entered separately into each different app. Current initiatives, however, are making it as easy to pay for a coffee through your car as it is to pay in person. Whenever the driverless future arrives, in-vehicle, contextual payments will only grow further. Commerce and payments enabled in social media and streaming platforms are another example. Love the outfit you saw in your favorite streaming platform show? You'll be able to buy directly and seamlessly through that platform and others.

Most consumers and merchants think of the payment as an active process: you take out your card in-store to pay, or you select your card online. This idea of payments as an active process is changing as technology is enabling contextual payments. Voice recognition, for instance, has improved substantially, making smart speakers and in-car payments new modes to pay. Further advancements in AI and natural language processing will contribute to increasing accuracy and usefulness of voice over time, enhancing the utility of the contextual payment.



Integrated payments

Independent software vendors (ISVs) have made it easier than ever for merchants to set up and run their business efficiently. These ISVs provide the specialized software that businesses run on, and often include integrated or embedded payments. The advantage for the merchant is the ability to get payments acceptance up and running rapidly and securely with their business management software. **Integrated payments have also opened up an opportunity for ISVs to add a new revenue stream. Research shows that integrated experiences can help companies increase revenue per customer by 2–5 times.⁷**

ISVs that want to offer integrated payments aren't constrained to one approach. The simplest path is a referral model, where the ISV refers payment acceptance functionality to the processor. The processor handles everything—onboarding, customer relationship, and other functions needed to get merchants ready to accept payments. ISVs taking this approach can monetize payments without much risk or investment in time or resources. At a next degree of complexity, white-label solutions give ISVs greater control over the user experience and generate more revenue, while the processor assumes the risk.

As ISVs scale, they often want to assume greater control over the payments process—which they can do by becoming a PayFac, giving the software company the highest degree of flexibility around onboarding, risk preferences and ability to capture revenue. Becoming a PayFac, though, has historically been a time-consuming, laborious process. In

fact, Visa lists only 634 registered PayFacs globally⁸. So how is this payments model expanding? Providers—including WePay from J.P. Morgan—are enabling ISVs to perform nearly all the services of a traditional PayFac, without having to become one themselves. This kind of solution is a hybrid of the traditional white-label and PayFac integrated payments models and is referred to as “PayFac as a Service”.

It's not just core payments functionality that can be integrated into businesses—banking services can be integrated too. For example, with J.P. Morgan Wallet, companies can set up virtual accounts for their customers and businesses, and fund those accounts instantly, capturing information at the individual and business level. Since these aren't traditional bank accounts but rather virtual ones, customers can then keep their money in the wallet, use it for purchases, or transfer it out through the company's preferred channels.

Integrated experiences can help companies

Increase revenue

2^{to} 5X's
per customer

J.P. Morgan Offerings

WePay >

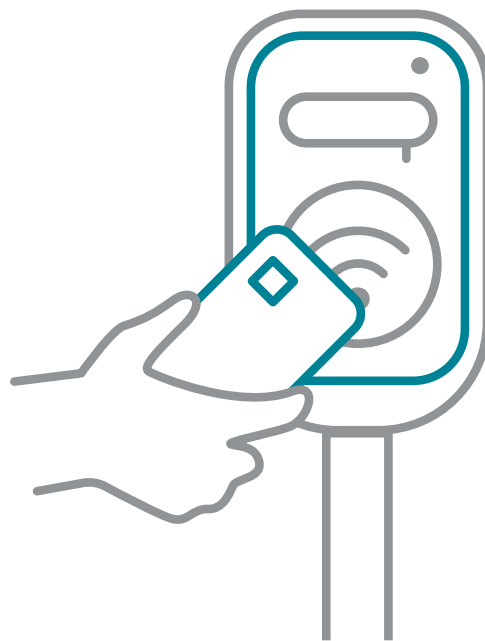
Customer-friendly, seamless payments

In any transaction, the payment is the moment of truth. It's when a customer transforms intent into action. And standing between the consumer and the payment lie numerous frictions. In high-friction checkouts, consumers convert at lower rates and some may decide to just shop elsewhere for good. While many businesses have adopted robust, forward-thinking approaches to reducing frictions, many others are just now considering how to reduce them. A few verticals are especially ripe for transformation—in health care, for instance, 87% of transactions are still paper-based, and consumers often have little insight into what they are being billed or even when the next bill will arrive.⁹

There's no single formula for reducing these frictions. For a given business in a given vertical, the specific solutions will look very different. As a starting point, merchants should ensure that they are accepting the methods of payment their customers prefer—whether that's digital wallets or local methods of payment. Digital wallets in particular can have an outsized impact online, where too many businesses in the U.S. and internationally still require manual entry of card information. In-store, potential benefits of mobile wallets include elimination of signatures and physical receipts, along with shorter approval times than dipped cards.

At another level of sophistication, merchants and payment providers are thinking of new ways to enable a payment. These can take the form of insurance companies placing a pay button in an emailed quote, petro companies enabling payment in the mobile phone, or a QSR that orders your favorite meal through a one-click app. Consumers will continue to benefit from merchants' ongoing focus on new ways to offer easy, seamless payments.

In Europe, a major effort is underway to make payments more seamless and consumer friendly, called the Retail Payments Strategy. Key goals for this strategy are to support cross-border payments, encourage new payments solutions, and create a rich market for payments technologies. Even when Europe has implemented payment regulations that can cause frictions, it has also been thoughtful about paths to improvement. For example, there are plans to make SCA PSD2 more seamless for the consumer, through approaches such as biometrics (whose guidelines are expected as part of the upcoming PSD2.3 release). There is also significant potential in the SCA PSD2 framework for decoupled authentication, where the authentication takes place entirely in the background.



Post-Covid: What returns to normal, what changes



As we start to see a light at the end of Covid, a big question for merchants is whether trends of the past year return to normal, or whether there has been a permanent change in consumer attitudes to contactless payments, tender types, buy online, pick-up in store (BOPIS) and e-commerce.

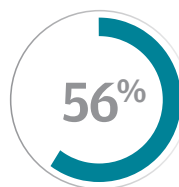
It's no surprise that merchants have seen a growing number of contactless payments during the pandemic. In the U.S., contactless payments began to accelerate, while globally—where contactless payments were much more common pre-Covid—they increased substantially. Wherever they have been introduced globally, contactless payments have become a preferred, highly popular way to pay. Post Covid, there is no reason to believe the U.S. will be an outlier.

For many consumers, e-commerce has been a lifeline over the past year. Total retail U.S. e-commerce was estimated to constitute 16% of transactions in Q2 2020, up from 11% before Covid.¹⁰ Consumers are buying groceries for home delivery for the first time, showing up to virtual health care appointments, and spending heavily on marketplaces. Surveys of consumers suggest that approximately 56%¹¹ will continue to engage online with merchants and service providers after Covid.

Covid also drove a change in the mix of payment tenders at many merchants. As consumers hunkered down and banks enacted more cautious underwriting, debit overtook credit as the most popular method of payment in the U.S. This reversal follows a period of sustained credit growth, driven by rich rewards programs, deeper underwriting at some banks, and the health of the overall economy. For merchants seeing a spike in debit transactions, the question

is not if, but when, consumers return to credit cards. Much will depend on factors such as the potential for stimulus, monetary policy support, vaccine availability and other factors. Meanwhile, many consumers are trying buy-now, pay-later solutions for the first time. The convenience, transparency and ease of using these payment plans have resonated with shoppers.

Merchants are attributing strong growth of digital sales to their introduction of BOPIS, which spiked during the pandemic. This growth took place even though implementations of BOPIS haven't always been the most seamless. Some companies are experiencing challenges managing the extreme popularity of this. But over time, as inventory control systems become better integrated and merchants implement best practices, its popularity is expected to endure.



% of consumers that expect to continue to engage with merchants post COVID ¹¹



44%
increase in e-commerce from before COVID ¹⁰

References and Notes

¹ Source: Visa, Mastercard

² The Clearing House, <https://www.theclearinghouse.org/payment-systems/rtp/institution>

³ Payments approved by 8 PM ET are eligible for same-day deposits 6 days a week, excluding Saturdays. See the QuickAccept Terms of Use for details. Payments processed and approved by 5:00 PM Pacific Time (PT) / 8:00 PM Eastern Time (ET), Sunday through Friday (including holidays), will be deposited into the business owner's Chase business checking account that night. All payments processed and approved by 5:00 PM PT / 8:00 PM ET on Saturdays will be deposited into the business owner's Chase business checking account Sunday morning by 7:30 AM ET. There is no additional cost for same-day deposits but standard rates and fees will apply for business checking and payment processing. New customers qualify for same-day deposits upon sign-up when processing payments through software using Chase Integrated Payments, Powered by WePay and depositing into a Chase business checking account. All payouts are subject to WePay terms of service, including risk assessment and fraud monitoring. Same-day deposits are available in the U.S. only. Additional exclusions may apply.

⁴ 2020 AFP Payments Fraud & Control Survey.

⁵ Nilson report, March 2020.

⁶ Insights are based on aggregated, de-identified information, while ensuring that no data on individuals or entities is shared to protect customers' privacy.

⁷ Andreessen Horowitz blog, Fintech Scales Vertical SaaS, 2019.

⁸ As of January 2021.

⁹ InstaMed, a J.P. Morgan company report, "Trends in Healthcare Payments Tenth Annual Report, 2019," April 2020.

¹⁰ U.S. Census Bureau, Quarterly E-Commerce Report.

¹¹ McKinsey & Company report, "Adapting to the next normal in retail: The Customer experience imperative," May 2020

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