

## Chase Paymentech: Push in Alt Pay is Paying Off

American Banker | Friday, January 18, 2008.

By Daniel Wolfe

Chase Paymentech LLC, a rarity among merchant acquirers in its active pursuit of online payment alternatives to credit cards, plans to add more of these emerging services to its lineup.

Industry watchers say merchants are eager to offer payment alternatives, which can help them attract new customers, and Chase Paymentech says it has been able to sign up more merchants by making it easier for them to offer these payment methods.

Bob Nadeau, a product development group executive at Chase Paymentech, said merchants' interest in alternative payments "is incredible." By incorporating them into its processing system, he said, Chase Paymentech "has definitely helped" spur

acceptance of them. "We believe we've had a great influence, in that it's something we promote heavily."

Mr. Nadeau would not provide any revenue figures for Chase Paymentech's alternative payments services, but he said it has grown considerably in the past year. The fee structure for most payment alternatives is comparable to the per-transaction charges merchants pay for credit cards, he said, though the actual prices vary. The acquirer currently lets merchants accept payments through several of the most popular alternative services, including PayPal Inc., Google Inc.'s Checkout, Bill Me Later Inc., and Green Dot Corp.'s prepaid cards. It plans to announce its support of another service in the next few weeks, though Mr. Nadeau would not name it.

Bruce Cundiff, a research analyst for Javelin Strategy and Research in Pleasanton, Calif., said Chase Paymentech, a joint venture of JPMorgan Chase and Co. and First Data Corp., is the only merchant acquirer to embrace online alternatives to credit cards. "They're the market leaders," he said, and offering these services gives the Dallas company a "very significant" competitive edge, because it is "not offering plain vanilla card processing." He estimated that alternative payment services were used for 14% of all online retail transactions last year.

"The online payment processor CyberSource Corp. also has promoted alternative payments, Mr. Cundiff said."

Bundling the services with its standard card options and offering all of them to merchants through a single system has been a key for Chase Paymentech, he said.

"The whole point of the merchant services provider is they are all things to their merchant," he said. Allowing merchants to accept more types of payments without requiring them to sign contracts with each service provider "has certainly sped the decision on the part of a lot of merchants" to offer these services to customers. Chase Paymentech has backed alternative payments for years. It started supporting eBay Inc.'s PayPal two years ago and Google's Checkout at its inception in mid-2006. Chase Paymentech is also an investor in Bill Me Later, a provider of instant credit for online purchases, and has offered Bill Me Later to merchants for four years. And most recently it began supporting in October Green Dot.

Merchants began demanding support for alternatives in the 1990s as automated clearing house transactions were gaining momentum,

Mr. Nadeau said. As companies like PayPal began promoting their payment methods to merchants, the merchants came to Chase Paymentech to ask if they could support those payment methods without signing a separate

contract, he said. Expanding beyond just credit card acceptance has lured some merchant clients that want to offer other types of payments without having to maintain several contracts at once, he said. (The exception is Google Checkout, which requires that merchants have a direct relationship with Google.)

Offering these payments services, in turn, is helping the merchants win customers. Green Dot, for example, caters to the unbanked, and Bill Me Later courts people who want to shop online but do not want to use cards.

Use of all these services is growing. "If you go to checkout pages nowadays, you're seeing the likes of PayPal and Bill Me Later ... displayed in the same prominent space as Visa and MasterCard," Mr. Nadeau said. "If a particular merchant does better with Bill Me Later than with Visa, you may see the Bill Me Later logo in

a more prominent spot." Adam Cohen, a principal in the consumer product and retail practice at Brulant Inc. in Beachwood, Ohio, said some large merchants are already accepting three major alternative payment brands: PayPal, Google, and Bill Me Later.

A study he published Tuesday says 5% of the 100 online retailers he surveyed in November offered all three methods. None of those surveyed in February 2007 were offering them, and he said he expects that figure to grow this year.

A big reason for this growth is that the industry is lowering the barriers for merchants, he said. PayPal and Google, for example, have offered aggressive promotional pricing, and Chase Paymentech has done its part to simplify integration.

Jennifer Roth, a senior analyst with the global payments practice at TowerGroup Inc., a Needham, Mass., independent research firm owned by MasterCard Inc., said Chase Paymentech has had "a major influence" by offering merchants alternatives "with little or no integration on their side."

"It's a good strategy," for Chase Paymentech, and almost no other acquirers are following its lead, Ms. Roth said. "For the most part, everyone offers the same services in the merchant acquiring space."

"Chase Paymentech has been probably the most aggressive of the acquirers" pushing payment alternatives, she said. One benefit of offering alternatives is that there is little risk Chase Paymentech will lose its credit card transactions in the process, Ms. Roth said.

Alternatives "are probably still a small portion" of revenue "in comparison to credit cards," she said, "the demand is definitely growing," and merchants see them as a way to get new business. This is especially so with Chase Paymentech's addition of Green Dot because of its appeal to the underbanked, she said. "With Green Dot, you are reaching another consumer segment."

