First Annapolis
Consulting | M&A Advisory Services

Navigator

November 2014

renewed its merchant services alliance with

The undersigned served as exclusive financial advisor to Bank of the West

Happy Holidays

We would like to extend our best wishes and a sincere thank you to our clients, colleagues, and friends across the industry and around the world.

We wish you a happy holiday season.

Follow us on Twitter and LinkedIn

A Perspective on Payments Innovation and International Growth with Sebastian Siemiatkowski, Chief Executive Officer of Klarna

Recently we had the opportunity to speak with Sebastian Siemiatkowski about Klarna's unique approach to payments and the keys to success in a changing marketplace.

Klarna Group is the leading online payment service in Europe. Since 2005, Klarna has enabled merchants to let customers pay for online purchases after receiving their goods. In 2014, Klarna... More

Q3 2014: U.S. Credit Card Issuer Performance Snapshot

At the end of last year most industry observers forecasted marginally improved receivables growth in 2014. These predictions are proving to be correct as the nation's largest issuers have... More

Processor Contract Terms Impacting Value of Merchant Acquiring Portfolios

In the sale of an ISO or acquirer, merchant agreements, which are intangible assets, are a key element of what the buyer is buying. Moreover, asset purchase structures are quite common in this industry... More

Apple Pay – A User's Perspective

The much-anticipated Apple Pay is live. First Annapolis has tested the platform extensively from the user's viewpoint. Card set-up, card activation, and in-store experience were observed, with the .. More

Does Alibaba's Record-Setting IPO Introduce a New Payments Competitor?

On September 19th, 2014, the Chinese e-commerce giant Alibaba Group debuted on the NYSE as the largest IPO in history ($25 billion). Yet despite its recent headlines, most people in the U.S. are... More

Positioning of Multi-Product Programs in Retail

For decades, consumer credit has been offered to the customers of many leading national retailers in the form of sales financing, private label credit... More

What is Bitcoin and How Does it Work?

As bitcoin steps into legitimacy, it behooves our clients and friends to better understand exactly what is bitcoin and how does it work, which we do in this... More

Current State of Bitcoin Acceptance

Bitcoin has a long road ahead before merchants widely accept the currency, but bitcoin acceptance is expanding and accelerating. Silk Road, the illicit... More

eBay and PayPal Split: What's Next?

By the end of 2015 eBay and PayPal will become independent, publicly-traded entities. A combination of shareholder pressure and competitive... More

© 2014 First Annapolis Consulting, Inc.

A Perspective on Payments Innovation and International Growth with Sebastian Siemiatkowski, Chief Executive Officer of Klarna

Recently we had the opportunity to speak with Sebastian Siemiatkowski about Klarna's unique approach to payments and the keys to success in a changing marketplace.

Klarna Group is the leading online payment service in Europe. Since 2005, Klarna has enabled merchants to let customers pay for online purchases after receiving their goods. In 2014, Klarna acquired the German company SOFORT, another online payment service. The combined company's 1,200 employees now serve 25 million consumers and 45,000 merchants in 15 European markets. Klarna recently announced it will enter the U.S. in 2015 as part of its global expansion. Klarna is backed by premier investors including General Atlantic, Sequoia Capital, Atomico, and others.

Sebastian Siemiatkowski is the Chief Executive Officer of Klarna. Sebastian and his two co-founders developed the idea for Klarna during an entrepreneurship competition at the Stockholm School of Economics. Sebastian has received multiple awards for his leadership including the "Rising Star of the Year" by Ernst & Young, "Leader of the Year" by Adecco, "Manager of Tomorrow" by Sweden's leading Management Magazine and "European Entrepreneur of the Year Award" by TechTour.

Our discussion covered topics such as the international payments landscape, Klarna's innovative approach to payments, as well as new products and new markets.

1. **What was the original concept behind Klarna? How has that evolved over time?**

   Klarna was created as quite a straightforward product. We saw that when you shop in-store or use mail order, you are able to touch and feel the products before you pay for them. This is especially true in Europe, where invoices were really the main form of payments in the mail order world. But online, you had to pay first using a card. We saw an opportunity that this traditional payment method, the invoice, could also be very effective online but none of the new e-commerce merchants really had the energy to build up the processes needed to offer it. So we said we can enable this payment method that obviously is liked by consumers, but we can also take all the hassle and risk away from the merchant side to make it as easy to offer as a card payment.

   So really where we started was offering a short-term credit of two weeks to allow people to pay after delivery. Then about two or three years after our launch, we saw that sales financing tools like installment plans were a natural next step.

   More recently we considered, "how do we grow globally in places where invoices are not as common and consumer preferences aren't the same?" We saw our core capabilities as being able to make fast risk decisions and simplifying the user experience. So we used these talents to build Klarna Checkout, which we launched in Sweden about a year ago. Klarna Checkout is our next-generation hosted payment solution that attempts to solve the biggest checkout-related problems that merchants have – accepting local payment methods, enabling one-click payment for everyone, simplifying mobile checkout, and staying up to date with changing requirements – through one integration.

2. **Building a new payment service is hard. Why have consumers and merchants gravitated towards Klarna?**

   The primary driver for consumers in the early days was safety. Most people in Europe use debit cards instead of credit cards so when you pay it is real money coming out of your bank account, and there was real anxiety around e-commerce for a long time. Another big element has been our focus on reducing friction in the checkout experience while the card associations went in the other direction, especially in Europe, with new security protocols which actually added more steps and friction points to the payment process online. And of course the flexibility to pay over time was also obviously a reason to choose Klarna.

   For merchants, initially we were making it easier and less risky to enable a payment method that consumers liked. Merchants could offer invoices or installments without building up credit knowledge and billing and debt collection and all those things.

   We just approached the market differently from the very beginning. We realized quickly that we couldn't compete with banks on our balance sheet, on our cost of funds. But we saw we could build an easier to use solution. In Sweden, some banks had tried to offer sales financing online but they were quite terrible from a user experience perspective with too many steps and paper contracts and so on, which led to financing being a very small share of online checkouts, even in sectors like electronics where it is typically quite important. For example, a typical Swedish electronics retailer would finance about 30% of their in-store sales. Before Klarna, financing was only 2% to 3% of online sales, but the way we implemented it with a simplified experience, it quickly became 15% to 20% online. Based on that, we could position against the bigger players as a premium service based on our better results.

   Today with Klarna Checkout the proposition is a bit different. It's still about a good customer experience leading to higher sales. But payments are so much more complicated for merchants than they used to be and we can simplify them again. This is valuable for all kinds of merchants. You'd be surprised, even really big merchants have much to worry about – building their e-commerce platform, optimizing the presentation of merchandise, etc. – that even though everyone will say "payments have to be a top priority," oftentimes it gets overlooked.

   People in the industry are often surprised to learn that Klarna never was, and has never been, an alternative payment service like all the digital wallets out there that only capture maybe 5% to 10% of payments. From day one, Klarna has always been the *main* payment method for our merchants; our share of payments is typically over 50%.

3. **You have said that you want Klarna to be a global company. You are on your way with a presence in 16 countries. What lessons have you learned in your international expansion so far?**

   It is very hard to scale a credit business, and so we've tried to understand what it is that makes it hard and how do we create a new model that reduces those challenges and allows us to become global.

   Every market is very different. When we went from Sweden to other Nordic countries to Germany and elsewhere, we learned a lot about how to take risks in new countries, the availability of data, and so forth. We learned that we need to find models that are local in their appearance but abstract local differences as much as possible. For example, we are

© 2014 First Annapolis Consulting, Inc.

learning how to make good credit decisions on behavioral data, such as what you are buying and when, because there are definitely differences in the credit bureau data available by country. We are also being careful to avoid adverse selection. This is an area where our Checkout product will be valuable because we can cherry pick in real time which customers receive credit offers at first then scale up over time as we gain more confidence in that market.

So we have learned from all the challenges that we've had launching in different countries, between different user experiences, different behavior, and different consumer credit laws, to build a highly configurable platform and flexible processes that will allow us to scale.

4. **Klarna now has over 1,000 employees – a size at which many companies slow down, but Klarna has continued to innovate. What advice do you have for leaders of established payments companies to foster innovation within their large organizations?**

   Innovation today is in the details. Fifteen or twenty years ago it was innovative to just make online payments work but today that's not enough. To be innovative now you have to be constantly fine-tuning the small things, which requires detailed knowledge about your product. And there are not that many people who have enough knowledge and still have the passion to continuously drive this innovation. Big organizations need to focus on recruiting these people and being agile enough to let them do their work.

   Another thing we have learned is that in order to be innovative in the financial services industry, it is as important to have the best lawyers and the best engineers. Unfortunately in many companies the legal department and the compliance department believe that their job is to say no. That is not the case. Their job is to understand the desired user experience and help create products that are within the regulatory standards but are, at the same time, extremely easy to use: how are legal terms being presented, what questions do you really need to ask, can you ask some questions later, and so forth. That demands creativity. Legal innovation is key to success in the online environment.

5. **Klarna owns the "full stack" with its own brand, bank license, technical platform, and servicing operation. What were the pros and cons of this approach? Would you recommend new startups follow this approach?**

   There were definitely people along the way who thought that was perhaps not the best choice. But looking back, I would tend to disagree. Our vertical integration has been our big strength; it is what set us apart and enabled us to do creative things.

   Back when we started we never ever would have been able to create such a user-friendly credit product with so few questions if we were working with a bank. They would have focused on compliance and their internal rules; we were able to focus on understanding the new Internet environment. We have also benefited tremendously by performing both issuing and acquiring under one roof. This gave us a lot of product flexibility which we used to deliver merchant-specific products and evolve over time.

   But it definitely created challenges along the way. We had to build a lot of technology and change it over time as we evolved. It has also been a challenge to hire enough of the right people. That said, there is a tendency in business to say "oh, there are challenges here, it's too complex, let's not do it." But it's when you overcome complexities that you create barriers to entry; that's when you really create value.

For more information, please contact Ben Brown, Senior Consultant, specializing in Credit Card Issuing and Payments Innovation, ben.brown@firstannapolis.com.

Q3 2014: U.S. Credit Card Issuer Performance Snapshot

By James Watts

At the end of last year most industry observers forecasted marginally improved receivables growth in 2014. These predictions are proving to be correct as the nation's largest issuers have experienced positive receivables growth trends for the second consecutive quarter – an increase of 2.4% on a year-over-year basis and of 0.8% on a quarter-over-quarter basis. Although the industry continues to signal that credit card losses will increase eventually, loss rates once again declined by 43 bps on a year-over-year basis and 32 bps on a quarter-over-quarter basis. Other notable credit card trends include:

1. **Differing Perspectives on Future of Loss Rates:** Charge-off rates are at historic lows. For example, Chase citied that its third quarter loss rate of 2.52% is an all-time low. Many issuers have openly discussed the expectation for loan growth to drive higher charge-offs and as a result have increased loss provisions compared to last year. Charge-off guidance is not ubiquitous; however, and some industry experts are predicting that the low loss rate environment will persist, a perspective which is partially supported by favorable third quarter delinquency trends.[1]

   "Moving on to credit, the environment remains benign. We continue to see improvements in card early delinquencies, and the card net charge-off rate was 252 basis points, an all-time low." - Jamie Dimon, Chairman and CEO, JPMorganChase

   "While the impact on the charge-off rate will be modest at first, we expect that the impact will grow throughout 2015 and beyond" - Richard Fairbank, Chief Executive Officer, Founder and Chairman

2. **Rewards Are a Key Battleground:** Receivables growth appears to be being driven by (i) an easing in credit card lending standards by a few large banks and (ii) a general broad-based pickup in loan demand.[2] Many large issuers are seeking to capitalize on forecasted growth by bolstering product value propositions in what is already an intensely competitive environment. For example, Citi launched its Double Cash Card at the end of August, which offers up to 2% cash back: 1% as purchases are made and 1% as the balance is paid. Other more dated examples include Wells Fargo's Propel card, American Express' EveryDay cards, and Sam's Club's 5-3-1 MasterCard products, all of which offer attractive everyday spend-based value propositions.

   "This has been intense -- specifically rewards and cash back has been intensely competitive for many years and this is not the first time that

© 2014 First Annapolis Consulting, Inc.

we've seen issuers come out with what might look to some of us to be unsustainable." - David Nelms, Chairman & CEO, Discover Financial Services

3. **Standards on Subprime Lending Remain Tight:** Many issuers have noted a very slow and prudent return to subprime lending. According to Moody's Analytics and Equifax,[3] the volume of card loans originated to applicants under 620 remains well below, less than half, pre-recession levels. Furthermore, credit card mail data suggests that the percentage of offers promoting credit building and non-fee / non-rewards cards has remained relatively constant year-over-year since 2011.

   "So being subprime, not kind of fitting the Citi model, in spite of the fact that that it's a terrific business, it's not a business that in the long term we'll be in." - Mike Corbat, CEO, Citigroup [on the sale of OneMain Financial]

   "With very rare exceptions, I'm not seeing people get back into subprime credit cards." - David Nelms, Chairman & CEO, Discover Financial Services

[1] Based on information published by the American Banker via the American Banker Association.

[2] According the Federal Reserve Senior Loan Officer Survey in 2014.

[3] As published in the American Banker.

For more information, please contact James Watts, Manager, specializing in Credit Card Issuing, james.watts@firstannapolis.com.

	Receivables			Purchase Volume			Net Loss Rate			After-Tax ROA		
Issuer	**($B) 3Q14**	Change (vs. 3Q13)	Change (vs. 2Q14)	**($B) 3Q14**	Change (vs. 3Q13)	Change (vs. 2Q14)	**3Q14**	Change (vs. 3Q13)	Change (vs. 2Q14)	**3Q14**	Change (vs. 3Q13)	Change (vs. 2Q14)
Chase[1]	$127.0	2.4%	0.7%	$119.5	11.7%	1.3%	2.52%	-34 bps	-36 bps	3.05%	-51 bps	76 bps
Citigroup[2]	$109.5	-2.1%	-0.8%	$63.0	5.4%	-2.0%	3.61%	-33 bps	-20 bps	3.96%	46 bps	33 bps
Bank of America[3]	$89.0	-1.4%	0.0%	$53.8	1.8%	0.4%	2.79%	-68 bps	-32 bps	3.05%	-36 bps	-4 bps
Capital One[4]	$73.1	4.6%	2.8%	$53.7	13.2%	2.0%	2.83%	-84 bps	-69 bps	3.06%	-62 bps	-44 bps
American Express[5]	$58.0	6.4%	0.5%	$136.2	9.3%	-0.2%	1.40%	-30 bps	-20 bps	4.48%	32 bps	53 bps
Discover[6]	$53.7	6.6%	1.8%	$29.6	5.8%	0.9%	2.16%	11 bps	-17 bps	3.54%	-11 bps	-11 bps
Wells Fargo[7]	$28.3	11.3%	3.9%	$15.9	15.6%	3.1%	2.87%	-41 bps	-33 bps			
U.S. Bank[8]	$17.9	4.7%	1.2%	$30.8	7.1%	4.3%	3.53%	-22 bps	-39 bps	4.75%	29 bps	13 bps
Sum/Wtd Avg[9]	$556.4	↑ 2.4%	↑ 0.8%	$502.5	↑ 8.7%	↑ 0.6%	2.68%	↓ -43 bps	↓ -32 bps	3.52%	↓ -13 bps	↑ 22 bps

[1] Includes income from acquiring business and private label receivables and volume.
[2] Earnings restated in 1Q 2014, historical figures adjusted to conform to new reporting methodology. Purchase volume includes cash advances.
[3] Receivables, purchase volume, and net loss rates are for U.S. consumer cards. After-tax ROA restated to include "Consumer Lending" only; which now includes Dealer Financial Services.
[4] U.S. card business, small business, installment loans only. Purchase volume excludes cash advances.
[5] Receivables and charge-offs are for U.S. Cardmember Lending business only. Purchase volume is for U.S. Card Services segment, consumer and small business.
[6] Includes U.S. domestic receivables and purchase volumes only. Restated: ROA reflective of Direct Banking segment (80+% credit card) and implied U.S. Cards tax rate of ~40%. ROA denominator estimated from total loans ended totals.
[7] Wells Fargo began reporting purchase volume in 4Q 2013.
[8] After Tax ROA reflects Payment Services line of business income and average loans. Earnings restated in 1Q 2014, historical figures adjusted to conform to new reporting methodology.
[9] After Tax ROA excludes Wells Fargo. Credit specific income not reported. Reflects any previous quarter restatements.

Processor Contract Terms Impacting Value of Merchant Acquiring Portfolios

By Scott Calliham

In the sale of an ISO or acquirer, merchant agreements, which are intangible assets, are a key element of what the buyer is buying. Moreover, asset purchase structures are quite common in this industry, and frankly, most of the strategic buyers (as opposed to financial buyers) are 'platform players' in the sense that they will wish to convert the underlying merchants to their own platforms. ISOs and acquirers with agreements with third-party processors should be aware there are certain terms in those agreements that can impact the valuation and/or the sales process of merchant assets. Key terms directly related to ownership of the merchant relationship have the most dramatic impact on valuations. However, there are tangential terms, some of which are more obvious than others, related to ownership that can meaningfully impact asset valuations and potentially hinder a sales process.

More Obvious Terms Impacting Value and Process

1. Specific ownership language. Specifying the ISO/acquirer owns the merchants agreements (either upfront or at end of term) can be a key driver of value. Technically, the requirement that the Sponsor Bank be a party to the merchant agreement creates ambiguity with respect to who has what rights under the merchant agreements. It is the agreement between the ISO and the Sponsor Bank (directly or through the arrangement with a processor) which determines who controls (and effectively 'owns') the merchant agreements.

   In the event the merchant ownership language is unclear, the value of the asset may be diminished.

2. Specific right to transfer the merchants to another processor. The right

© 2014 First Annapolis Consulting, Inc.

to transfer the residuals should be specified at a minimum, but to attain full value, the agreement should provide the ISO or acquirer the right to trigger the assignment of the actual merchant contracts from the current sponsor bank to a new sponsor bank. Further, a portability/transfer/assignment right that is subject to a payment from the ISO or acquirer to the processor is a conditional form of ownership in addition to being a financial issue. Finally, a portability/transfer/assignment right that only becomes active at the end of a processing agreement term poses significant practical problems, and represents a cloud on the title of the assets in time periods other than at the natural expiration of the contract. Note that the terms "portability" and "transfer" do not have objective meaning – the terms mean whatever the contract says they mean. So if the contract does not define these terms, there will be a core ambiguity on who has what rights and, again, effectively a cloud on the title of the assets.

In the event transfer rights are unclear or undefined, this may pose challenges (e.g., contractual dispute, delays in conversion, etc.) with the existing processor when the owner wishes to convert the portfolio to another third-party processor and may be viewed as an impediment to a sale by prospective buyers.

3. Non-solicit and non-compete clauses. The value of the assets can be diminished in a sale if the ISO or acquirer does not have reasonable non-solicit protections in its processor agreement. If the processor can directly solicit the merchants in the sold portfolio after the sale, the buyer runs the risk of having higher than normal merchant attrition. Additionally, if the buyer assumes a processor agreement that has tight non-compete provisions, for example, restrictions on the territory in which the ISO/acquirer can operate, the buyer may find that the restrictions impede its own business.

   Non-solicit restrictions on the processor in a contract can enhance the value in a sale while the non-compete obligations of the ISO or acquirer can negatively impact value or impede a sale.

4. Portfolio segregated at processor in unique BIN/ICAs. All merchants added to the ISO or acquirer portfolio on the processor should ideally be placed in a unique BIN/ICA so that a mass conversion is smoother and quicker when necessary.

   In the event the merchants are co-mingled with other ISO or acquirer BIN/ICAs, this may delay and increase the expense of the conversion.

5. Transfer rights of unique BIN/ICA to another acquirer. Without the right to transfer the BIN/ICA's to another acquirer, having unique BIN/ICAs in the first place may be a moot point. Ideally, an ISO or acquirer should have the contractual rights to cause its Sponsor Bank to assign the BIN/ICA to another bank.

   In the event there are no transfer rights, at a minimum this may delay any conversion and may even prevent a conversion as the owner of the BIN/ICA may not willingly transfer the rights to another party.

6. Assistance from processor for de-conversion. There should be, as specific as possible and practical, language that commits the processor to assist in any de-conversion. Additionally, specifying contractually the cost of de-conversion the processor will charge will take an unknown variable out of the equation and can help improve the valuation a buyer may put on the table.

   In the event there is no contractual commitment for de-conversion assistance, this may delay and possibly increase the expenses associated with a conversion.

Less Obvious Terms Impacting Value and Process

7. Rights of First Refusal. A Right of First Refusal is a term whereby the ISO or acquirer has an obligation to bring any offer to purchase the ISO or acquirer's portfolio (or residual stream) to the processor and if the processor meets the terms of the purchase offer, the processor has the right to purchase the assets. On the surface, this appears to be a reasonable term – as the ISO or acquirer is typically interested in maximizing value, regardless of the entity purchasing the assets. However, practically speaking, potential bidders may be uncomfortable spending time developing a robust bid simply to see the third-party processor meet the bidder's offer.

   This may result in either (i) lower valued offers from bidders, and/or (ii) may result in a lower number of offers from prospective bidders. The ISO or acquirer may opt to get the third-party processor to waive its rights upfront, though this will let the third-party processor know the ISO or acquirer is looking to divest its portfolio. The ISO or acquirer may not wish the processor to know this for various reasons in the event a sale does not go through. This will certainly create a condition to closing the buyer will require and may delay closing.

   A variant of a Right of First Refusal is a Right of First Offer. This should be more palatable to a seller as it provides the processor with the right to make an offer for the assets, but the ISO or acquirer is not contractually obligated to accept the offer.

8. Short time window for conversion. In the event the ISO or acquirer has clear ownership rights and transfer rights, and there is a clear path for conversion, there should be no terms that obligate the ISO/acquirer to convert the portfolio within an unreasonably short time frame. For example, the processor may seek to impose a specified time window on completing the conversion and in the event the conversion is not complete within that time period, certain terms come into effect (e.g., higher pricing on merchants left, conversion assistance is withheld, merchant ownership rights are terminated, etc.). There are a number of factors that come into play in determining if a conversion is going to be successful or not (e.g., number of merchant relationships, if multiple front-end and/or back-ends are used, if there are any differences in services offered to merchants on the go-to-platform such as settlement windows, reporting, pricing structures, etc.) and make the conversion process highly variable and often unpredictable. Conversions are either ties or negative outcomes – they are rarely wins.

   Depending upon the terms related to conversion, this can have a detrimental impact to the value of the assets or, at a minimum, cause the bidder to structure the offer in a way that reduces the conversion risk (e.g., earn-outs based upon successful conversion, etc.).

In order to maximize the long-term value and divestiture process of a portfolio of merchant-related assets, ISOs or acquirers should attempt to keep these contractual terms and their impacts in mind when negotiating agreements with processors. Of course, there are the day-to-day aspects of agreements that impact value (e.g., pricing, servicing, etc.), but there are merchant ownership and related terms that can get overlooked by ISOs or acquirers at the outset when negotiating their third-party processing agreements. There are always gives and takes in negotiations, but if an eventual sale is a possibility for the ISO or acquirer, these guidelines will only help achieve optimal value and improve the chances of a smooth divestiture.

For more information, please contact Scott Calliham, Principal, specializing in Merchant Acquiring, scott.calliham@firstannapolis.com.

© 2014 First Annapolis Consulting, Inc.

Apple Pay – A User's Perspective

By Bob Rohr

The much-anticipated Apple Pay is live. First Annapolis has tested the platform extensively from the user's viewpoint. Card set-up, card activation, and in-store experience were observed, with the goal of comparing Apple Pay to traditional card buying.

Card Set-up and Activation:

Adding cards to Passbook was largely a seamless process, with pre-loaded iTunes cards the easiest to load by simply confirming the CVV. Adding additional cards was a mixed bag. Most issuers required a text message or a phone call as an additional validation step after entering card details, while other (and in some cases the same) issuers required no additional verification. Those who verified by phone were placed in the issuer's standard VRU queue as no "direct Apple Pay activation" line was established.

In-Store Experience:

First Annapolis tested transactions at a range of merchant categories using different customer authentication methods.

In general, customer authentication has not changed due to Apple Pay. Existing merchant no signature floor limits and preferred routing methods are similar for Apple Pay and traditional card payments. While Touch ID is an additional authentication method, our tests showed that it does not let the user bypass traditional signature or PIN customer verification. This begs the question, "Why use Apple Pay if I still need to provide a PIN or signature?"

To help answer the question, we evaluated Apple Pay on four criteria: Speed; Reliability; Simplicity/Convenience; and Security ("Acceptance" was not included in the analysis).

Key observations include:

- **Speed:** Apple Pay enables a faster, less cumbersome transaction. In swift motions, a user can authenticate the transaction through Touch ID and then replace the phone securely in pocket/bag, often with the use of only one hand. In addition, the processing and authorization speed is comparable to traditional card transactions.
- **Reliability:** All use case transactions were processed and authorized seamlessly and comparable to traditional card transactions; however, in a few use cases merchants were unfamiliar with the process, producing awkward interactions. These issues will likely be remedied as merchants become more familiar with Apple Pay.
- **Simplicity/Convenience:** Both forms of payment are simple, convenient, and largely undifferentiated in terms of ease of use. Both require a simple customer action and motion.
- **Security:** Apple Pay is a more secure transaction. A physical wallet is left securely in a pocket/bag and the card account number is never visible nor displayed on the receipt. Instead, the last few digits of the iPhone's device account number are displayed.

Figure 1: Apple Pay POS Use Cases and Results

Channel	Merchant Type	Card Type	Use Case	Transaction Amount	Customer Authentication Method	
					Touch ID	Signature/PIN
In-store	Grocery	Credit	Purchase less than $50	$10	✓	None
In-store	Grocery	Credit	Purchase greater than $50	$63	✓	Signature
In-store	Grocery	Debit	Purchase greater than $50	$70	✓	PIN prompted
In-store	Retail	Debit	General purchase	$11	✓	PIN (Customer self-select PIN/SIG)
In-store	Retail	Credit	Big ticket purchase	$115	✓	None
In-store	QSR	Credit	Purchase less than $10	$6	✓	None

Source: First Annapolis Consulting research and analysis.

Figure 2: Apple Pay Framework – Users Perspective

Category	Definition	Apple Pay	Traditional Card
Speed	Total transaction time from pulling phone/wallet out to completed authorization	+	✓
Reliability	Consistent operation and authorization	✓	✓
Simplicity / Convenience	Ease of use	✓	✓
Security	Perceived security of transaction	+	✓

Notes:

This analysis assumes a comparison of Apple Pay vs. traditional credit/debit cards at Apple Pay accepting merchants with Apple Pay compatible credit/debit cards.

Rankings are based on the author's judgment and qualitative observations. Quantifiable metrics such as total transaction time or seconds until authorization were not gathered.

Source: First Annapolis Consulting research and analysis.

Summary Results:

Apple Pay is an elegant transaction from the user's standpoint; however, acceptance at users' favorite retailers is critical for sustained success, as it's currently accepted at only a handful of merchants covering ~220,000 terminals. For now, enjoy the faster, more secure payment method but don't forget your wallet at home.

For more information, please contact Bob Rohr, Senior Consultant, member of the Deposit Access Practice, specializing in Debit and Prepaid, bob.rohr@firstannapolis.com.

© 2014 First Annapolis Consulting, Inc.

Does Alibaba's Record-Setting IPO Introduce a New Payments Competitor?

By Jeff Crawford and Stephen Kiene

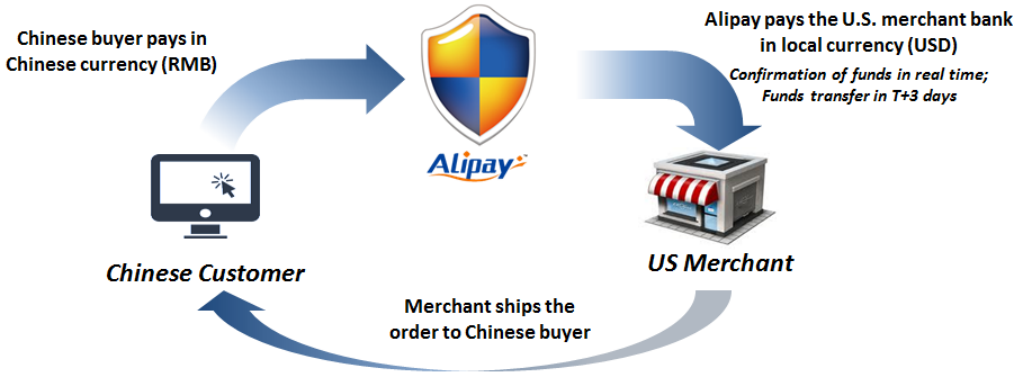
On September 19th, 2014, the Chinese e-commerce giant Alibaba Group debuted on the NYSE as the largest IPO in history ($25 billion). Yet despite its recent headlines, most people in the U.S. are not yet familiar with Alibaba, a collection of multiple B2B websites and Chinese retail entities, including a C2C retail site (called TaoBao) that is often compared to the U.S. auction site eBay (Figure 1). One Alibaba-affiliated company that is of particular interest to the payments industry is the online and mobile payment platform called Alipay, which was spun off from Alibaba four years ago but is still controlled by Alibaba's chairman and former CEO, Jack Ma.

Figure 1: Alibaba Marketplaces and Affiliates

Source: Alibaba.

Alipay is a third-party escrow service that is commonly compared to the U.S. firm PayPal, which gained popularity in China by facilitating payments for items purchased on one of Alibaba's retail marketplaces. Unlike U.S. based companies that advertise instant payments, Alipay delays payment for most merchants until the buyer confirms satisfactory delivery of the goods, which has helped build confidence in e-commerce in China and spurred much of Alibaba's growth. Building on this e-commerce tradition, Alipay built a dominant position in the Chinese market by placing an emphasis on mobile integration, and its mobile app is now also commonly used outside of Alibaba, including ordering tickets, making person-to-person payments, and managing bill payments. Estimates of Alipay's market share in China vary widely depending on the source, but Chinese internet research firm iResearch reports that Alipay handles close to 80% of all Chinese mobile payments, mostly via remote mobile transactions in apps and online.[1] In comparison, the U.S. mobile payments market remains much more fragmented with many established and developing players trying to gain traction with consumers.

Figure 2: Alipay Services for U.S. Merchants

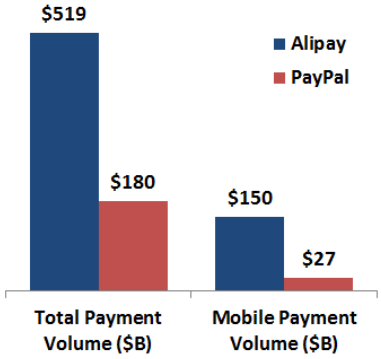


Source: Alibaba.

It is important to note that even though Alibaba Group chose the U.S. market for its IPO, Alipay services are currently not generally available for U.S. consumers, and its largest near-term impact will be limited to facilitating the sale of goods and services to Chinese consumers. Several e-commerce payment processors, including Cybersource and newcomer Stripe, currently offer Alipay as a payment option for U.S. merchant websites as part of Alipay's cross-border payments services (Figure 2). Online shopping network ShopRunner also recently announced support for the payment service for an unnamed number of its brand partners.

However, the sheer size of volume (Alipay processed almost three times more total annual payments volume than PayPal in 2013 and almost six times more mobile annual payments volume in the same year (Figure 3)) and its dominant position in a large and growing market warrants attention.

Figure 3: 2013 Payment Activity Metrics



Source: Alibaba and eBay.

Similar to eBay and PayPal, Alipay's association with the broader Alibaba platform has had tremendous advantages for both entities. Accordingly, Alipay's position as an independent service provider positions the company to take advantage of new opportunities outside of its core marketplace business. As a large and mobile-savvy company, Alipay represents a competitive force that could play a disruptive role all across the market, but especially for other online-only payments firms like PayPal. Jack Ma, speaking about a potential partnership with Apple, stated recently at the WSJD Liveglobal technology conference, "I hope we can do something together," Mr. Ma said, though he cautioned that it should be a "marriage" that both sides want. Also, speaking more directly about eCommerce, Ma stated, "Amazon, eBay. You need more."

Following this IPO, it appears that the industry should be paying closer attention to this leading Chinese firm. It has the technical competency and investment capacity to be a major player in any market in which it chooses to compete. While perhaps not an immediate threat to U.S. financial institutions, Alipay certainly warrants monitoring in the near term.

[1] http://www.iresearchchina.com/views/5901.html.

For more information, please contact Jeff Crawford, Manager, jeff.crawford@firstannapolis.com; or Stephen Kiene, Consultant, stephen.kiene@firstannapolis.com, members of the Deposit Access Practice, specializing in Debit and Prepaid.

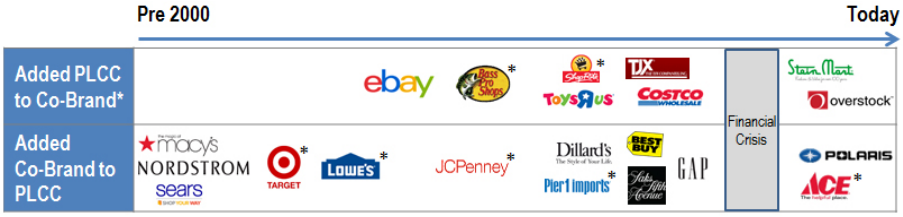
 © 2014 First Annapolis Consulting, Inc.

Positioning of Multi-Product Programs in Retail

By Ryan Douglas and Doug Berkowitz

For decades, consumer credit has been offered by many national retailers in the form of sales financing, private label credit cards (PLCC) and co-brand credit cards. Over the past fifteen years, we have observed a trend in select retail sectors, initiated by department stores and discounters, of retailers progressing from a single credit product to a multi-product offering. Some retailers, including TJX and Toys "R" Us, have added a PLCC product to their existing co-brand offer, while others have added a co-brand card to their existing PLCC product (e.g., Gap, Best Buy, Macy's). This multi-product trend is less prevalent in some sectors such as specialty apparel (PLCC) and furniture (sales finance).

Figure 1: Credit Program Transitions to a Multi-Product Offering



Source: Retailer websites and take-one applications, retailer store visits, First Annapolis Consulting observations.

As portrayed in Figure 1, several national retailers have transitioned to a multi-product offering after initially launching a single product. A notable slowdown in retailer adoption of multi-product offerings occurred during the recent financial crisis when issuers were reluctant to launch new programs, and in some cases, rationalized product offerings especially in sectors such as petroleum (gas cards). In most cases, issuers and retailers elected to shutter or de-emphasize co-brand products in favor of PLCC. Reasons for retrenchment ranged from excessive competition from bank-branded value propositions (petroleum), to the inability to generate sufficient purchase volume outside the retailer in order to support the incremental cost of operating a co-branded credit card, to insufficient approval rates on the co-branded product. As an aside, of the programs displayed in Figure 1, seven have reverted back to offering a single product (marked with "*").

For retailers that offer both co-brand and PLCC products, how the product offering is positioned to customers is a critical component of program success. Proper product positioning contemplates the customer and store associate experiences and maintains a strong focus on the stated objectives of the program (e.g., promote loyalty, drive incremental sales, increase profitability, etc.). There is a range of ways in which retailers position the multi-product offering in the market today. A number of retailers allow their customers to choose the product that they would like to apply for (e.g., Sears, Amazon, American Eagle), while others appear to steer a certain product to applicants (e.g., Best Buy, Walmart, TJX). Saks Fifth Avenue has a unique co-brand upgrade model, where applicants receive a PLCC card, and then have to apply for an upgrade to receive the co-brand card. Figure 2 further describes the various strategies and offers additional examples of associated programs.

Although motives for expanding to a multi-product offering can vary, we have observed some common themes associated with the introduction of each product. Through the introduction of co-branded products, some retailers aim to attract a segment that prefers a general purpose card to PLCC, while others hope to create a larger revenue pool for the program. Some view it as a loyalty play, adding an external value proposition so customers can earn rewards for everyday purchases and have increased incentive to return for incremental purchases at the sponsoring retailer (to redeem their rewards). Successful retail co-brands tend to have a combination of sufficient sponsor retailer-based spend and brand affinity to drive significant outside purchase volume.

PLCC is commonly used to deepen underwriting, and thereby increase new account volumes and program reach. Many retailers have also found that highly creditworthy customers prefer PLCC to co-brand as a means of accessing an attractive card program value proposition without taking on superfluous credit. Additionally, many retailers prefer PLCC for its sole focus on increasing retail sales / credit penetration. Of course, since its inception, PLCC has been used as a financing program; allowing retailers to offer promotional financing or a dedicated line of credit to increase sales of big-ticket items.

For more information, please contact Ryan Douglas, Senior Consultant, ryan.douglas@firstannapolis.com; or Doug Berkowitz, Senior Analyst, doug.berkowitz@firstannapolis.com. Both specialize in Credit Card Issuing.

Figure 2: Positioning the Multi-product Credit Offer

	PLCC Only	PLCC Primary	PLCC & Co-Brand: Bank Choice	PLCC & Co-Brand: Customer Choice	Co-Brand Primary	Co-Brand Only
Program Description	▪ PLCC is only product offering ▪ POS is primary acquisition channel	▪ PLCC accounts upgraded based on spend or activity ▪ PLCC remains primary customer acquisition tool	▪ Customer is applying for a "rewards card" ▪ Issuer decides whether to approve for a co-brand or PLCC (typically try co-brand first)	▪ Customer choice of card product at POS ▪ PLCC could still be used as downsell for co-brand declines	▪ Co-brand is lead product and typically highlights a strong value proposition	▪ Co-brand is the only product offering ▪ POS or take-ones in the store are the primary acquisition channel
Examples	Lowe's, Neiman Marcus, Kohl's, Target, JCPenney	Saks Fifth Avenue	TJX, Gap, Best Buy, Walmart	Sears, amazon, American Eagle Outfitters, Ann Taylor	macy's	Disney, Cabela's, L.L.Bean

Source: Retailer websites and take-one applications, retailer store visits, First Annapolis Consulting observations.

© 2014 First Annapolis Consulting, Inc.

What is Bitcoin and How Does it Work?

By Chris Dickey

As bitcoin steps into legitimacy, it behooves our clients and friends to better understand exactly what is bitcoin and how does it work. We would encourage you to also read *"Current State of Bitcoin Acceptance"* in this edition of the Navigator.

What is bitcoin?

- Bitcoin is one of the first "cryptocurrencies," a medium of exchange which uses advanced mathematics to securely exchange information.
- No financial institution, bank, or company controls bitcoin.
- Bitcoins are digital and are stored online or locally on electronic devices (computers, mobiles, USB sticks) rather than in accounts managed by authorities or institutions. Like cash, once lost (i.e., by a computer crashing), the bitcoins can never be recovered.
- Bitcoins are transferred instantly to anyone anywhere in the world via addresses (i.e., 3J98t1WpEZ73CNmQviecrnyiWrnqRhWNLy). No other information is exchanged, so address owners are anonymous.
- Bitcoins are sent directly from one party to another without being routed through an authority or institution.
- Bitcoin transactions are irreversible.
- It is impossible to duplicate a bitcoin or spend a single bitcoin twice, as all transactions are verified by the bitcoin network, a process known as "mining."
- There are a finite amount of bitcoins; only 21 million will ever be generated.

Initially bitcoin was viewed as a speculative commodity but as its price volatility is decreasing, its use as an alternative payment method is increasing. Today, there are more than 5 million consumers using bitcoin as a payment method worldwide, up from less than 1 million a year ago.[1]

For a consumer to pay with bitcoin, he or she will need a personal bitcoin wallet either online, or on a computer, tablet, or mobile device. The consumer will get an address or QR code from the merchant and send bitcoins using their wallet. Many sites pass cost savings relative to traditional card processing onto consumers in the form of discounts.

Merchants that would like to begin accepting bitcoin have two options:

1. Create a bitcoin wallet, post the wallet address or QR code and ask customers to send bitcoin to the wallet address in exchange for services. The merchant will need to manually match payments to orders to confirm payment, and take the full risk of bitcoin volatility.
2. Partner with a bitcoin acquirer like Coinbase or BitPay that allows merchants to accept bitcoin payments like any other payment method. These acquirers offer APIs and shopping cart integrations that enable a bitcoin checkout option. The acquirer handles conversion, pricing, and risk, settling in USD or EUR within 3 business days. This leaves the merchant with little or no actual contact with bitcoin. Fees are low or nonexistent; Coinbase offers free transactions for the first $1 million processed, increasing to 1% of sales volume thereafter. BitPay offers free transactions, using FX conversion spread as its source of revenue.

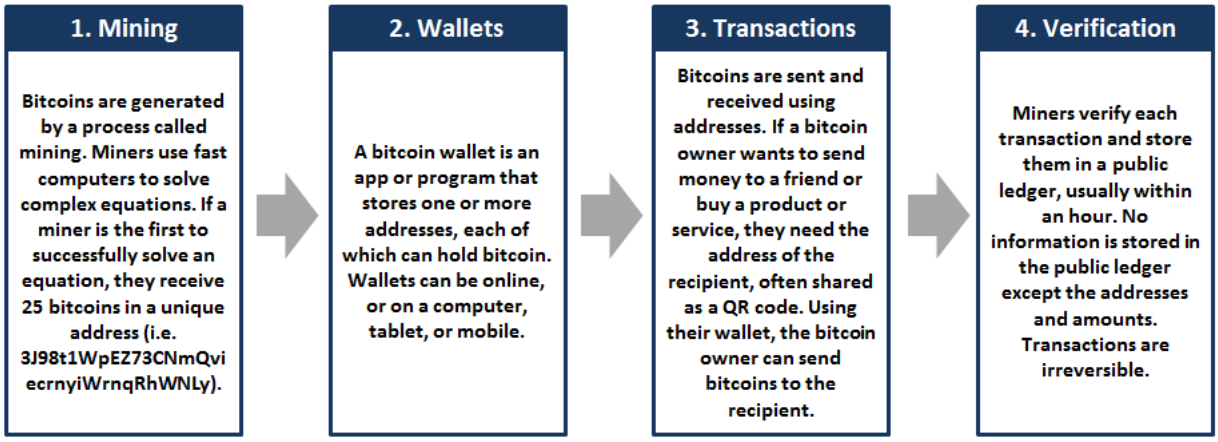
As described in further detail in our *"Current State of Bitcoin Acceptance"* article, more than 75,000 merchants worldwide accept bitcoin, 90% are e-commerce merchants. Market leading PSPs and acquirers are showing interest in working with bitcoin including Braintree, Global Payments, and Digital River, which already work with bitcoin acquirers Coinbase or BitPay to enable and bitcoin acceptance.

Fraud is currently not a problem with bitcoins, which are arguably more technically secure than most other payment methods. But like cash, bitcoins can be lost or stolen. Their built-in anonymity means that verifying the true owner of a bitcoin is impossible, so it is easy for merchants to potentially accept stolen currency. The anonymity and structure does not create fraud risk for merchants so long as they use a bitcoin acquirer such as BitPay or Coinbase as there is no chargeback system for bitcoin and payment settlement is guaranteed via the bitcoin acquirers (so long as they remain financially positioned to honor this guarantee). Without a chargeback system in place, there is potential for tension between merchants and consumers.

In addition to its function as a payment network, the bitcoin network can be used to securely transfer other digital documents such as contracts, securities, and votes. There are startups working on these and other bitcoin-based applications such as remittance. Funding in bitcoin startups is growing, with $168 million invested to date in 2014, while only $2 million in funding was recorded for the whole of 2012.[2]

Bitcoin has the potential to shake up the $440 billion global remittance market given that by nature, bitcoin is designed to be fully digital and global with streamlined value-chain processes (i.e., does not involve banks, schemes, processors, physical distribution points, etc.). Bitcoin technology could challenge traditional forms of remittance by potentially reducing costs and

Figure 1: How Bitcoin Works



Source: GSV Capital and First Annapolis Consulting research and analysis.

© 2014 First Annapolis Consulting, Inc.

increasing the ease and speed of remittances. No one in the market has yet created an effective under-banked wrapper to enable this type of potential.

Regulation of bitcoin will be a key driver of success or failure of the system. Regulators around the world remain cautious and interested to regulate bitcoin in some shape or form, although few have explicitly legalized and regulated (Canada) or outlawed (Russia) the form of payment.

Despite growing acceptance by consumers and merchants, there are barriers and uncertainties as to widespread bitcoin adoption:

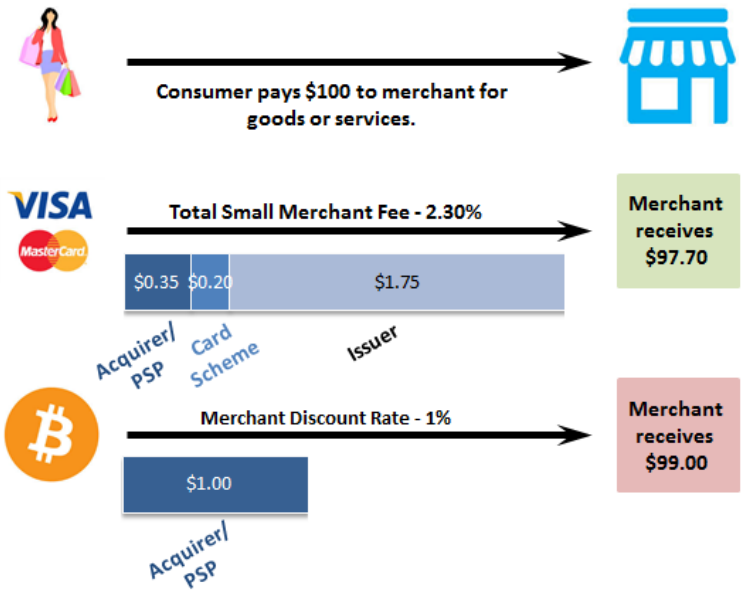
- Bitcoin is still unknown or perceived as unsafe by the majority of consumers.
- High volatility relative to flat currencies makes holding bitcoin financially risky.
- There have been a number of high profile bitcoin thefts and exchange bankruptcies, further eroding consumer confidence in the currency.
- Most people don't have any idea how to buy a bitcoin because it is perceived as being too complicated.
- There are genuine concerns about bitcoin scalability. Right now, the bitcoin system can only process a tiny fraction of the amount of transactions compared to Visa or MasterCard.
- There is a growing amount of government legislation around bitcoin, creating uncertainty.
- There are other virtual currencies in the marketplace, though none close in stature to bitcoin.

[1] *Reuters Article "Bitcoin shows staying power as online merchants chase digital sparkle" by Gertrude Chavez-Dreyfuss.*

[2] *http://www.coindesk.com/bitcoin-venture-capital/.*

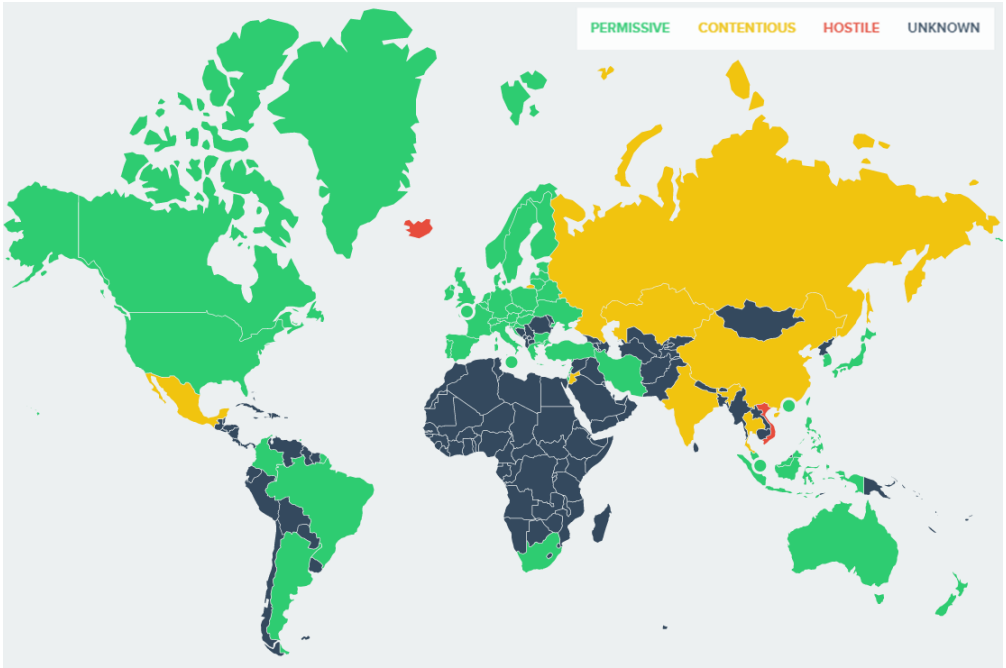
For more information, please contact Chris Dickey, Associate, specializing in Credit Card Issuing, chris.dickey@firstannapolis.com.

Figure 2: Comparison of Bitcoin Economics vs. Cards



Source: First Annapolis Consulting research and analysis.

Figure 3: Legality of Bitcoin by Country



Source: http://www.bitlegal.io/.

Current State of Bitcoin Acceptance

By Chris Dickey

Bitcoin has a long road ahead before merchants widely accept the currency, but bitcoin acceptance is expanding and accelerating. Silk Road, the illicit online black market, was an infamous early adopter of bitcoin, taking advantage of the currency's anonymity. The U.S. FBI forced Silk Road to shut down in October 2013. Since then, many legitimate online retailers began to accept bitcoin as an alternative payment method alongside PayPal and other digital wallets. Initially, bitcoin-acceptance was led by small merchants seeking publicity from the enthusiastic bitcoin community. Now bitcoin acceptors increasingly include known brand names.

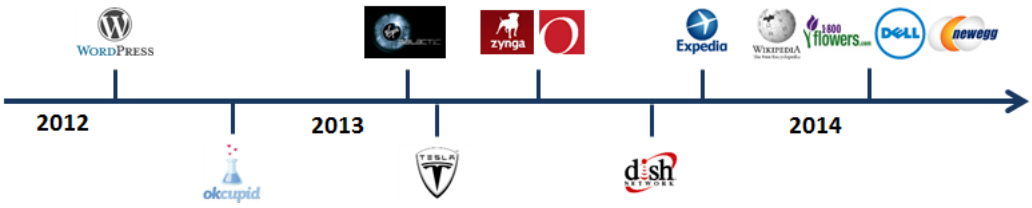
Overstock.com has been a flagship brand driving notoriety by publishing its bitcoin sales figures. Overstock's bitcoin sales are currently $15,000 per day, and are expected to double by the end of this year[1] (Overstock processed $1.6M in bitcoin sales in the first quarter of 2014[2]). Dell, Dish Network, and Expedia are among the other well-known merchants now accepting bitcoin online. European merchants have processed almost $40M in the first three

 © 2014 First Annapolis Consulting, Inc.

quarters of 2014, a growth rate of over 1000% year-over-year.[3] Throughout 2013, bitcoin acceptance increased slowly, but the trend has been accelerating this year as more major merchants begin bitcoin acceptance.

Coinbase and BitPay act as the bitcoin acquirers for most of the mainstream bitcoin-accepting merchants and PSPs. These are a new class of acquirers that are willing to accept the risk of bitcoin price volatility and don't need traditional acquirers to process payments. These companies convert bitcoin to USD, or another fiat currency, immediately after payment, reducing the merchant's exposure to volatility risk.

Figure 1: Notable Bitcoin Merchant Acceptance Announcements



Source: First Annapolis Consulting research and analysis.

The numbers published by Coinbase and BitPay indicate that over 75,000 merchants worldwide accept bitcoin, an estimated 90% of which are e-commerce merchants (10% brick-and-mortar). The biggest sectors are retail (computers/technology, electronics, apparel), travel, and food. The average ticket price of a bitcoin transaction at present is $400+, significantly higher than many other payment methods. And, mid-to large-size companies are showing the most interest in accepting bitcoin as a payment method.

We believe that the acceptance base has room to accelerate as the current base already includes a number of key merchant aggregators such as Square, Shopify, Intuit, and Etsy, who allow their merchants, primarily SMEs, to accept bitcoin on a turn-key basis. BitPay describes signing up 500 to 1,000 new merchants per week, a figure that is increasing 20% month-over-month. Mainline payment providers are increasingly enabling bitcoin. Digital River, PayPal, Braintree, and Global Payments have referral agreements and technical integrations with Coinbase or BitPay, allowing merchants of all sizes to integrate bitcoin payments. It is unclear how many of their merchants have taken advantage of this service, but as acceptance rises bitcoin's turnkey nature and PSP support will make integration easier.

Bitcoin has notoriety, but what does it mean for merchants, acquirers, and PSPs – should you accept and/or commercialize now? While Overstock has reported some success with bitcoin with few glitches, there remains uncertainty about the scale and stability of bitcoin's future. As of today, bitcoin is best suited for e-commerce merchants with a customer demographic of tech-savvy males aged 18 to 45 years old, bitcoin's main demographic.

Bitcoin's value proposition for merchants includes: an opportunity to drive incremental customers, a reasonable cost of acceptance relative to credit cards (1% merchant fee is typical for CoinBase and BitPay charges a typical merchant fee of 0%, instead making money on FX conversion spread), and a payment guarantee from the acquirer (assuming there is one).

Payment acceptance service providers would be wise to put bitcoin on their medium-term radar and to learn and understand the commercial model and advantages and disadvantage in the meantime. The success of early adopters Digital River and Global Payments could quickly spur other providers to enter this market – either in the form of PSP facilitation or direct bitcoin acquiring and assumption of risk.

Bitcoin merchant acceptance has taken strides forward in the past year. Bitcoin is no longer seen as just an illicit way to do business, but rather as a legitimate alternative payment method. Acquirers like Coinbase and Bitpay are making it easier for merchants to accept bitcoin as a low cost, acquirer-guaranteed payment method. As a result, merchants are increasingly accepting bitcoin. That being said, current penetration is still low suggesting prudent investment.

[1] *Reuters Article "Overstock CEO says bitcoin sales to add 4 cents to 2014 EPS" by Gertrude Chavez-Dreyfuss.*

[2] *FOX Business interview with Overstock.com CEO Patrick Bryne.*

[3] *BitPay press release.*

For more information, please contact Chris Dickey, Associate, specializing in Credit Card Issuing, chris.dickey@firstannapolis.com. If you are interested in learning more about accepting bitcoin, please contact Brooke Ybarra, Manager, brooke.ybarra@firstannapolis.com specializing in Merchant Acquiring.

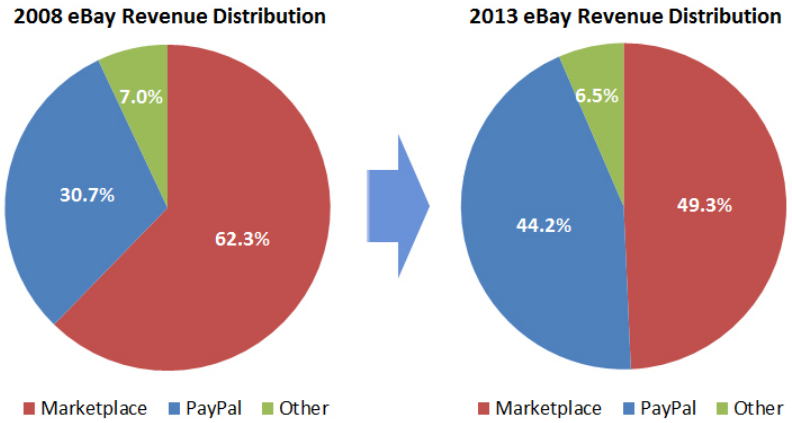
eBay and PayPal Split: What's Next?

By Jeff Crawford and Chris Razzano

By the end of 2015 eBay and PayPal will become independent, publicly-traded entities. A combination of shareholder pressure and competitive innovation is believed to be the source of eBay's September 30th announcement to spin off PayPal. Carl Icahn, who acquired a 0.82% stake in eBay, had been calling for a split since January 2014, saying eBay was holding PayPal back from bigger opportunities. eBay's recent strategic reversal to divest its payments unit, PayPal, comes at an eventful time in mobile payments with recent developments within the industry setting the stage for an overhaul of all market participants. PayPal's newfound freedom may provide both companies with an opportunity to meaningfully increase their value for shareholders and consumers with new services.

Over the past nine months, Carl Icahn has been very vocal in his

Figure 1: eBay Revenue Distribution

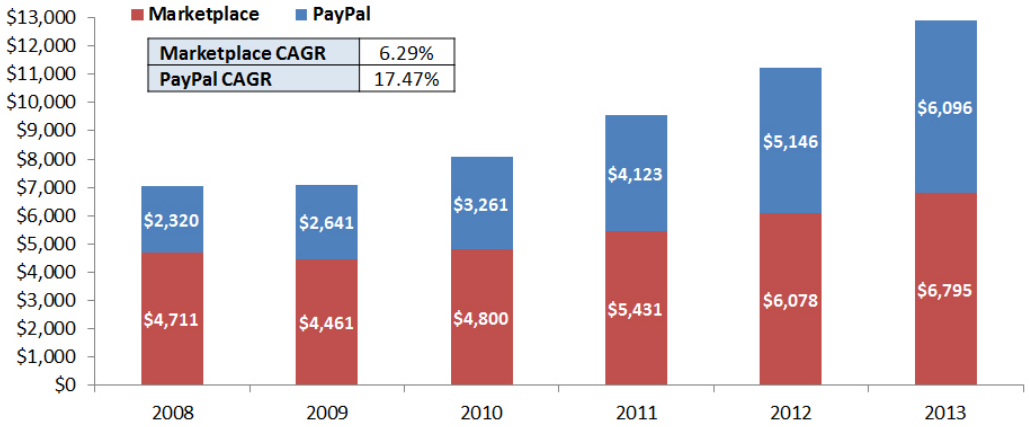


Source: eBay Annual Reports.

© 2014 First Annapolis Consulting, Inc.

views towards PayPal. Icahn argued that a sell-off would provide PayPal with the opportunity to focus on its core business and pursue more external opportunities. John Donahoe (eBay's CEO) remained steadfast in his assertions that eBay and PayPal benefited from synergies that would be in the company's long-term interests. Growth has been a major point of contention for pro-split advocates. Revenue growth over the last quarter for eBay was 6%, compared to PayPal's 20%. PayPal seems poised to surpass eBay's marketplace revenue in the upcoming year leading critics to believe PayPal's potential has been limited by serving as a crutch for eBay's progress.

Figure 2: eBay Net Transaction Revenue by Type (millions)



	2009	2010	2011	2012	2013
Marketplace Growth	-5.3%	7.6%	13.1%	11.9%	11.8%
PayPal Growth	13.8%	23.5%	26.4%	24.8%	18.5%

Source: eBay Annual Reports.

Recent developments in mobile payments may have also incentivized eBay to heed Icahn's call for a split. The release of Apple Pay, Alibaba's IPO, and Square's recent $6B valuation have recently shaken up the already fragmented mobile payment industry in the U.S. After establishing partnerships with retailers and credit card networks, Apple's entrance into payments has raised mCommerce standards with its cardless, tokenized NFC appraoch. Alibaba's IPO early September also poses a threat to the mobile payments industry with its innovative mobile payment processing platform: Alipay. Alipay, the Chinese company's PayPal-like payments processor is evolving into an all-in-one financial management platform. While not yet be available to U.S. consumers, its extensive offerings may be replicated and improved upon by PayPal. Finally, companies such as Square and Stripe have been able to pursue a wider variety of initiatives as independent players.

On the one hand, the spin-off should not impact the way that PayPal interacts with the industry at large (merchants, banks, acquirers, PSPs) as their model, value proposition, and core business drivers remain the same. However, the spin-off will allow PayPal to partner with other networks, POS platforms, eCommerce marketplaces, and financial institutions, while maintaining a competitive presence in the mobile payment space. In the past, many of these potential partnerships would have been a conflict of interest. Processing payments for Amazon, Google, and other online marketplaces will no longer be a conflict of interest once the service is no longer linked to a direct competitor. In addition to the Internet giants, any brick-and-mortar stores seeking eCommerce solutions may be able to take advantage of PayPal's newfound freedom, potentially creating more competition for merchant acquiring. Another potential outcome for the two separate companies could be a discounted purchase from a competitor. Once eBay and PayPal are independent, eCommerce platforms may be interested in buying a cheaper eBay that is not linked to PayPal.

The split of eBay and PayPal could bode well for both if they are able to chart courses that continue to accelerate recent growth trends. For eBay, this means focusing on its core competency in all other areas of commerce outside of payments, while for PayPal, moving from niche acceptance to mainstream online and offline purchase acceptance will be critical. Both entities will likely take time to shake off their previous association, but a focus and competency in mobile commerce leaves them well positioned for future growth.

For more information, please contact Jeff Crawford, Manager, jeff.crawford@firstannapolis.com; or Chris Razzano, Analyst, chris.razzano@ firstannapolis.com, members of the Deposit Access Practice, specializing in Debit and Prepaid.

Founded in 1991, First Annapolis is a specialized advisory firm focused on electronic payments. Our market coverage is international in scope with a primary focus on North America, Latin America, and Europe. First Annapolis is headquartered in the Baltimore / Washington, D.C. corridor and Europe is served through our office in Amsterdam. In total, we have over 70 professionals across our practice areas giving us one of the largest and strongest advisory teams focused exclusively on electronic payments.

© 2014 First Annapolis Consulting, Inc.