

Believer Network Whitepaper

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Executive summary

At Believer, we believe that the best way for global commerce to become more efficient and accessible is by making cryptocurrency spendable everywhere.

With cryptocurrency transactions exceeding 20 billion USD each day,¹ it's simply a matter of time before digital commodities become a central part of global commerce. And yet, cryptocurrency's collective value of 0.25–0.5 trillion USD² remains practically unusable in physical retail.

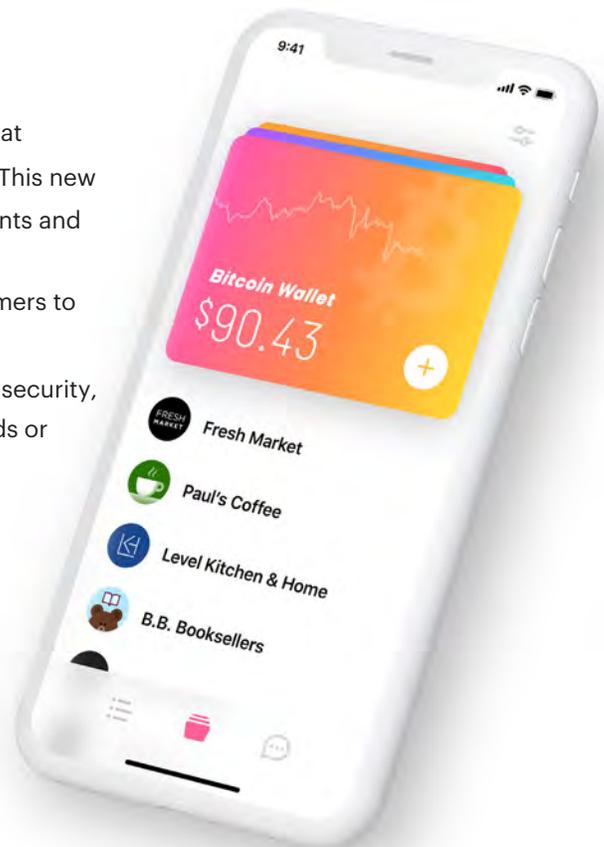
Considering that 90.9 percent of retail sales in the US still take place offline,³ brick-and-mortar payments are the primary hurdle in realizing the true utility of cryptocurrencies. Furthermore, widespread retail acceptance of cryptocurrency is critical for its sustainable value.

The solution to blockchain payments

We have developed the Believer network as an open standard that enables instant cryptocurrency payments in stores and online. This new network is designed to act as an intermediary between merchants and the blockchain, offering them inexpensive and fraud-resistant transactions without volatility exposure. Believer enables consumers to pay with

their preferred cryptocurrency while preserving their freedom, security, and data privacy. And, Believer doesn't require any physical cards or merchant point-of-sale upgrades.

Believer was developed from decades of experience in fintech, retail, and payments. Today, Believer features many high-profile merchants on its platform, the launch of which marks the first real instance of a decentralized, global payment network with the power to make commerce more efficient and accessible for billions of people.



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Vision



We're making cryptocurrency useful

In the original Bitcoin whitepaper, Satoshi Nakamoto outlined a perspective on the fallacies of modern-day commerce, which relies “almost exclusively on financial institutions... to process electronic payments.”⁴

Digital payment instruments in the United States and around the world consist of complicated financial settlement processes—costing merchants *up to 4 percent in processing fees* for purchases and involving up to twelve different entities (each a discrete point of failure) to process a single exchange. Meanwhile, retail fraud losses in the US alone continue to reach all-time highs, claiming more than 48.9 billion USD in 2016.⁵

However, present-day payment instruments are extremely useful to consumers because they have widespread merchant acceptance. And in order for cryptocurrencies to realize similar real and sustainable value, it is critical that they become spendable everywhere.

Many companies have recently developed wallets and apps that enable retail blockchain payments, but they are *universally dependent on existing payment networks*. The promise of cryptocurrency is not being realized when it also requires physical debit cards, linked accounts, or centralized payment infrastructure to facilitate the purchase of a cup of coffee.

Believer is the first network specifically designed to facilitate practical cryptocurrency payments by enabling instant, no-fee transactions at stores, restaurants, and online. Believer represents a milestone in the utility of cryptocurrency—payments that are both consumer and merchant

6 We're making cryptocurrency useful

friendly. With a simple SDK, Believer allows developers to add retail payment features to any app, streamlining acceptance of cryptocurrencies for merchants and eliminating volatility exposure.

Believer Coin (BLVR) is the new digital collateral token for facilitating retail cryptocurrency payments on the Believer network. Believer Coin is staked to collateralize every payment on the Believer network, enabling instant, fraud-free point-of-sale transactions at merchants worldwide—helping to achieve a long-term vision of making cryptocurrency spendable everywhere.

As a simple, neutral, fixed-supply ERC20 token, Believer Coin ensures that the network itself is blockchain-agnostic, and allows people to spend the cryptocurrencies that are meaningful to them. Anyone can use Believer Coin to stake wallets on the Believer network. Stakers help to collateralize payments made by those wallets, and in return, they earn stake rewards based on transaction volume.

By connecting merchants, banks, and the blockchain with this open network, we're building a new, global payment system to challenge the status quo.

We envision that the Believer network will ultimately come to represent open network infrastructure for any blockchain payment, similar to how card associations such as Visa, Mastercard, UnionPay, and American Express offer closed payment rails for credit cards. Beyond that, with digital global payments *in excess of 10 trillion USD each day*,⁶ this retail platform will make cryptocurrency more valuable, meaningful, and useful.

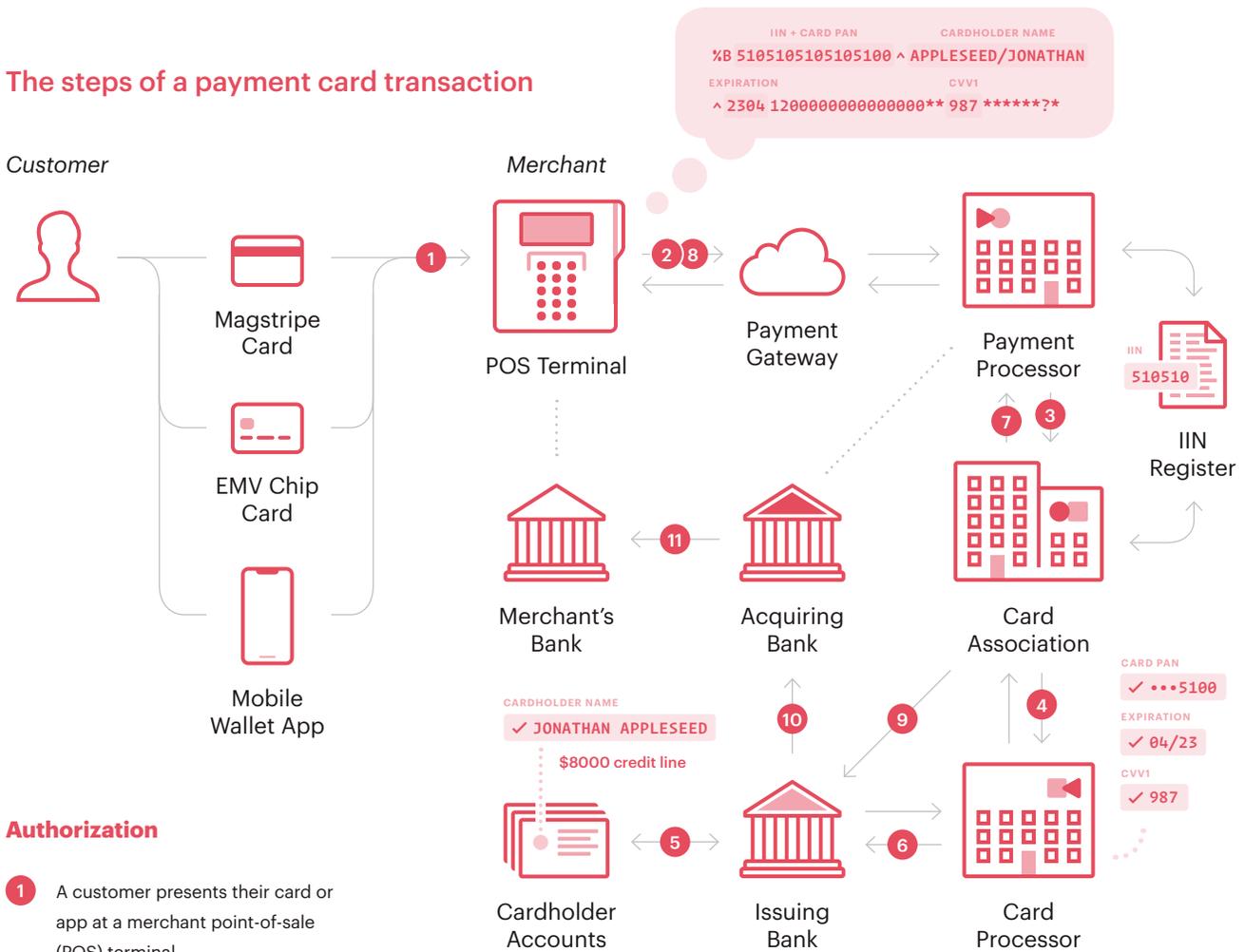
The blockchain as the future of commerce

The limitations of traditional payment instruments—fraud and cost—are solved by the primary strengths of blockchain technology. Accordingly, merchants and the greater blockchain community each stand to benefit from making cryptocurrency spendable everywhere.

For many merchants, payment card fraud and transaction expense are two of the most significant operating costs to manage and actively reduce (e.g., in 2017, losses due to payment card fraud amounted to an estimated 28 billion USD worldwide).⁷ Payment card fraud today takes many forms, from stolen account numbers to abuse of marketing incentives. Even chargebacks, initially developed as a consumer protection over forty years ago, have become a vehicle for malicious activity. And smaller merchants ultimately share a disproportionate share of the damages, as they have fewer resources to counter sophisticated fraud or defend themselves in the case of a dispute.

In addition to the costs of fraud, the very act of processing a payment can be extremely expensive, due to the variety of fees and operating expenses involved in handling cash, payment cards, and other payment instruments. For instance, in 2016, the top twenty-five merchants by revenue worldwide spent a collective 19 billion USD to accept payments.⁸ In general, these expenses are a result of complex settlement processes across a variety of network participants, including payment gateways, processors, card associations, and financial institutions. Due to this complexity, a standard payment card transaction in the United States involves more than ten discrete steps.

The steps of a payment card transaction



Authorization

- 1 A customer presents their card or app at a merchant point-of-sale (POS) terminal.
- 2 The terminal reads the magnetic stripe or embedded signature data from the card and transmits it through a payment gateway to a payment processor.
- 3 The processor uses a list of Issuer Identification Numbers (IINs) to route data through the appropriate card association, or network.
- 4 The card association sends the transaction to the bank that issued the card through a card processor.
- 5 The issuing bank reviews the transaction data, metadata, and internal risk models to determine whether the transaction should be authorized.

Clearing & settlement

- 6 The issuing bank returns an approval or decline to the card association, along with any other verification data as requested by the merchant.
- 7 The card association relays the authorization to the processor, which sends a transaction success message back to the POS terminal.
- 8 Based on the merchant's decision to complete the transaction, the POS terminal sends the payment processor instructions to "settle" the prior authorization amount, which are then relayed to the card association.
- 9 The card association directs the issuing bank to transfer a final purchase amount (minus interchange) to the processor's own bank, called the "acquiring bank." It returns a success message to the payment processor.
- 10 The acquiring bank receives funds within 2 business days. Meanwhile, the issuing bank resolves the customer's pending record of charge, and appends it to their statement.
- 11 The acquiring bank initiates a daily transfer for funds collected minus any fees for processing.

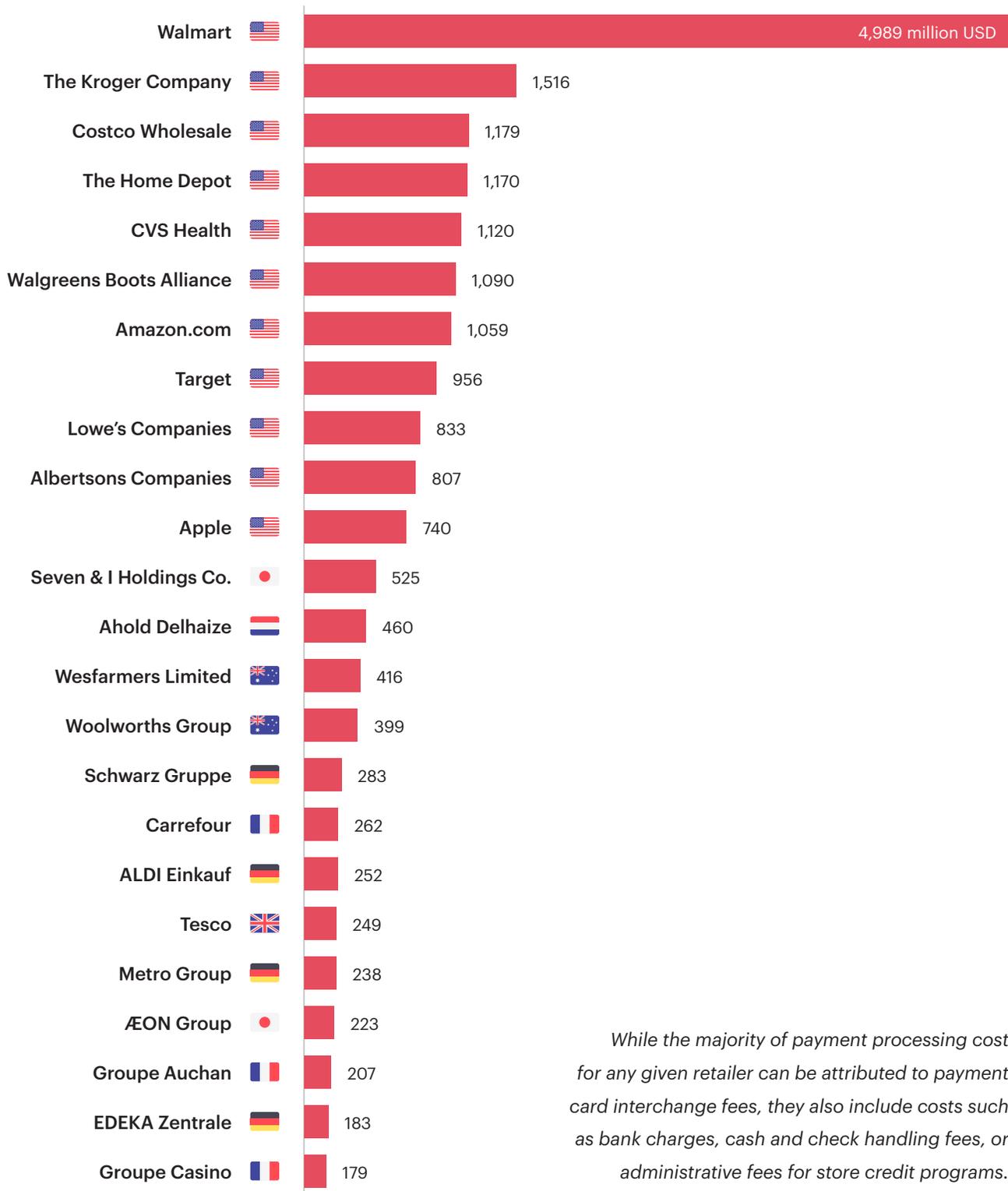
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CARDHOLDER NAME
✓ JONATHAN APPLESEED
 \$8000 credit line

Payment processing costs of the world's largest retailers by revenue in 2016⁹



While the majority of payment processing cost for any given retailer can be attributed to payment card interchange fees, they also include costs such as bank charges, cash and check handling fees, or administrative fees for store credit programs.

How merchants and the blockchain stand to benefit

The blockchain offers a practical solution to merchant concerns of fraud and cost. It dramatically reduces the number of possible fraud vectors by enforcing tamper-proof transactions on a ledger, and it decentralizes transaction verification—creating an open market for processing that more closely represents the actual computation cost. As an added benefit, the blockchain provides native support for borderless payments, which opens merchants to a global community of customers without requiring additional payment infrastructure or currency exchange.

Meanwhile, the blockchain needs merchant adoption in order to become a viable supplement to other payment methods. Additionally, with this increased utility comes more straightforward cryptocurrency valuation, reduced volatility, and market stabilization. Growing merchant acceptance will make cryptocurrencies substantially more valuable, and truly enable the globalizing effects of peer-to-peer electronic cash that Satoshi Nakamoto envisioned.

Blockchain adoption is inevitable

For these reasons, we believe that the blockchain complements the infrastructure of traditional payment instruments. However, due to the operational and technical complexity in managing native cryptocurrencies at scale, many merchants will require an intermediary service. This service must be designed so that it cannot compromise the core principles of data protection, decentralization, and choice that have bolstered the cryptocurrency community since its inception.

We believe that the Believer network offers the first practical cryptocurrency payments service for retail, dining, groceries, fuel, travel, and more. We remove the complexities of acceptance to bring fraud resistance and low-fee processing to merchants, while still protecting consumer tenets of privacy, decentralized governance, and freedom of choice. By allowing merchants and their customers to engage directly as buyers and sellers, global commerce becomes vastly more efficient.

A framework for consumer adoption

The software that moves the vast majority of money around the world today still uses legacy standards created during the late 1970s,¹⁰ but in the absence of a compelling alternative, consumers are trapped into maintaining the status quo.

Since the creation of Bitcoin in 2008, blockchain communities have attempted to make cryptocurrencies a useful complement to traditional payment instruments like credit cards, debit cards, and cash. However, fundamental user-experience challenges such as unintuitive QR code interfaces, complex address strings, new security protocols, and network capacity issues have hindered commercial adoption. Various scaling solutions such as multi-layer protocols and Proof of Stake consensus algorithms show considerable promise for improving the speed and utility of blockchain transactions, but create issues of complexity and compatibility for merchants.

A variety of mobile wallets are promoting cryptocurrency payment solutions, but unfortunately, they are completely reliant on existing legacy infrastructure. These wallets utilize high-fee virtual Visa and Mastercard debit cards—requiring bank accounts, physical cards, and multiple tiers of centralization. Digital payments on these platforms are subject to low transaction limits (in some cases, less than \$100),¹¹ as well as Apple's restrictions for NFC access on iOS devices.¹² Justifiably, these systems have extremely low consumer adoption due to the increased friction compared to a typical payment card.

The solution to blockchain payments is not building cryptocurrency acceptance on top of the existing multi-layer networks, but creating a *new network* that solves merchant and consumer needs alike.

While decades of retail payments experience confirm the pain points of fraud and processing cost, we find that consumers' needs are distinctly different. Consumers evaluate payment instruments against an individual framework of five basic criteria:

<i>Basic consumer criteria</i>	<i>Bank transfers</i>	<i>Payment cards</i>	<i>Mobile wallets</i>	<i>Believer</i>
Freedom of choice				
The need to avoid fees, and mechanisms of unwarranted control	×	×	×	✓
Security				
The need to use a system without fear of loss by deception or failure	✓	✓	×	✓
Speed				
The requisite convenience of instant confirmation, often lost to security	×	×	✓	✓
Usefulness				
The need for widespread acceptance of a particular payment instrument	✓	✓	✓	✓
Value				
Any incentive to use a payment instrument (e.g., rewards, no fees)	×	✓	×	✓

Speed, usefulness, and value are often the most critical factors in choosing a particular payment instrument at retail. Each of these features must be addressed for cryptocurrencies to see widespread adoption.

In order for a viable blockchain cryptocurrency payment network to achieve meaningful scale, the table stakes for consumers are the following:

1 Real-time transactions

Merchants and their customers need to receive confirmation that a transaction was successful in less than one second.

2 No consumer-facing fees

Consumers will not pay a premium to use blockchain cryptocurrencies, because such a cost represents negative value in their decision-making framework. The fee must be zero on the consumer side of the transaction, and ultimately provide competitive spending incentives.

3 Broad acceptance

In order to see widespread consumer adoption, it must be possible to use cryptocurrencies for the majority of daily expenditures. Any less than that, and the mindshare required to maintain “front of wallet” utility will not be attainable.

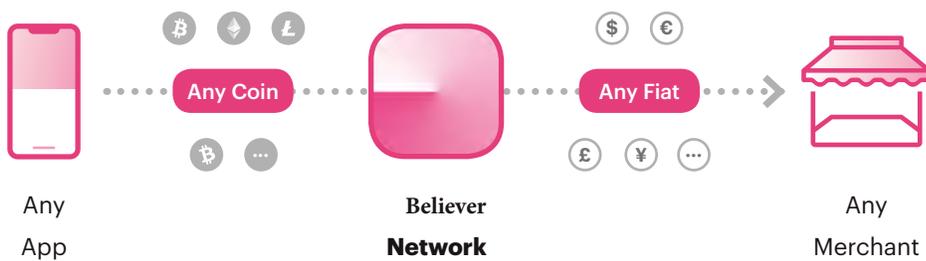
Meeting and dramatically exceeding these expectations will be challenging, but any new payments network must comprehensively solve both consumer and merchant needs. We believe that Believer satisfies all of the core consumer requirements necessary to break the legacy payments status quo.

Product



Introducing Believer is an open network for enabling instant cryptocurrency payments in stores and online, allowing merchants to receive secure cash deposits via their existing points-of-sale.

Scalable retail payments for any app

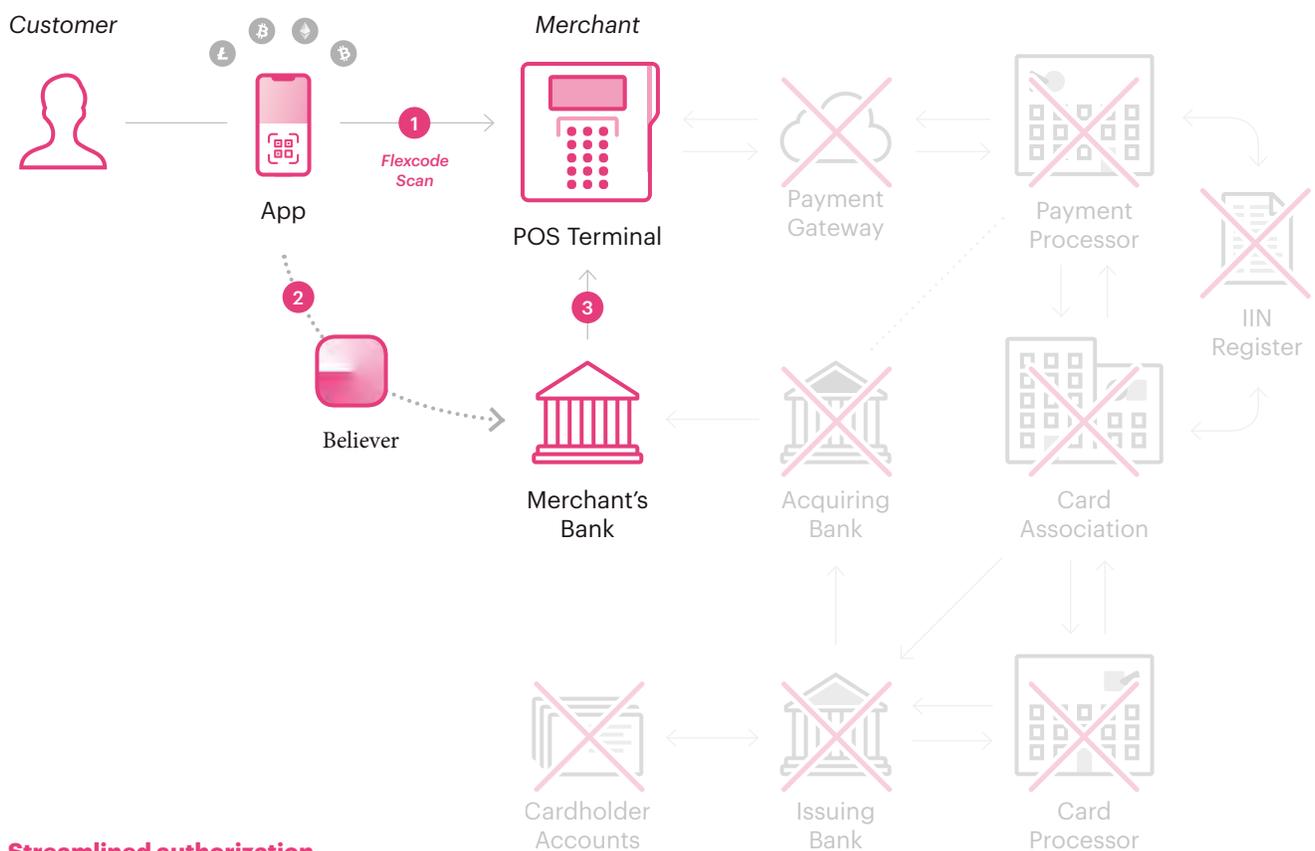


Believer is designed to facilitate payments from any wallet, in any coin, to any merchant, across the globe. Flexa's network is already integrated with many high-profile merchants, offering instant acceptance of potentially hundreds of cryptocurrencies to developers all over the world.

The vision for this new network is to become the open, seamless standard for cryptocurrency payments in physical retail.

Believer will enable developers to integrate retail cryptocurrency payments within their own apps. By creating the most simple, direct network, Believer enables broad cryptocurrency acceptance with the least complexity—no longer requiring the variety of payment gateways, processors, associations, and financial institutions.

Sample Believer transaction flow



Streamlined authorization, clearing & settlement

- 1 A customer scans their app at merchant POS for payment in any cryptocurrency supported by Believer.
- 2 The app requests the current conversion rate for the customer's desired cryptocurrency, and submits a blockchain transaction via Believer.
- 3 The Believer network transmits a one-time authorization code (FPAN) in real time to authorize the transaction on the merchant's POS terminal, then pushes fiat funds to the merchant's bank account. The customer's purchase is complete.

The Believer payment experience

Flexa payments are designed to be as simple as possible. With just a single tap and scan, Believer verifies your cryptocurrency balance against a public index rate and generates a proprietary flexcode for payment.

Because Believer payments do not require NFC (like traditional payment cards), they are not restricted by Apple's requirements for payment cards to be loaded into the Wallet app, nor by tap-to-pay (contactless) implementation timelines or transaction limits. This greatly reduces the network's risk as compared to other cryptocurrency payment solutions.

A Believer transaction has two primary components, which are delivered to client apps through the Believer Wallet SDK:

- The first is called an flexible primary account number, which is a one-time authorization that allows a merchant to debit local fiat currency against the selected cryptocurrency wallet balance.
- The second is called a **blvr**code, which is a proprietary and backwards-compatible barcode format that is scannable by standard point-of-sale barcode readers. Each flexcode conveys the FPAN with any user-authorized metadata through the merchant's point-of-sale system.

Because all Believer transactions use the same authentication process for payments, they represent the only interface that is just as secure—and just as usable—whether used in stores or online.

Online Believer transactions will make use of identical FPAN provisioning mechanisms and back-end integrations. In fact, online Believer transactions will differ from physical Believer transactions only in their form of approval. Instead of using a flexcode, virtual Believer transactions will relay an FPAN via an account-linked device.

Principles for network development

Believer has presented six principles for the network, representing our vision for its ongoing development and sustained platform growth.

**In order to become a trusted, public
cryptocurrency payment rail, we believe that
Believer must be:**



Compliant



Secure



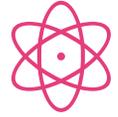
Instant



Open



Simple



Useful

We present these principles to help guide the development of Believer, and we hope to build trust and transparency with the blockchain community by articulating them as the ongoing intentions guiding the network:



Compliant

We designed Believer to support local compliance requirements and data protection regulations. Notably, unlike alternative solutions for institutional cryptocurrency payments, the network does not require Believer or third parties to act as custodian of funds; the technology functions as a direct payments processor without volatility exposure for merchants.



Secure

The Believer network has been designed with open-source, end-to-end encryption for resilience from man-in-the-middle attacks and other forms of surveillance or tampering, and exposes only non-sensitive information in the course of completing a transaction.

 **Instant**

Believer is the only network to offer instantaneous conversion of cryptocurrency via direct bank deposits at merchant point-of-sale, regardless of block time. End users need only one tap to authorize payment, with transactions (confirmed by point-of-sale) currently measured at less than a second. Believer transactions are designed to be the absolute fastest payment solution available in the world.

 **Open**

Flexa is designed to enable the free and open use of cryptocurrency at retail. The network will be accessible to a wide variety of developers and merchants around the globe. To support this widespread acceptance, the network community need only stake Believer Coin. Therefore, Believer requires no proprietary license or gateway in order for developers to integrate their wallet or transmit cryptocurrency transactions.

 **Simple**

From tap to transaction, Believer supports simple, straightforward API methods for exchange and payment. Because the network is not reliant on existing payments infrastructure, payments are pre-authorized in a single message, enabling authorization signatures and settlement to be combined into one fraud-resistant transaction. Flexa's simplicity of integration, operation, and settlement makes cryptocurrency payments easy for merchants and their customers alike.

 **Useful**

Finally, Believer is designed to be backwards-compatible with existing POS systems, and as interoperable with as many partners and platforms as possible. We have developed the Believer network toward broad accessibility and widespread acceptance—starting with the very first apps on the network, which take advantage of existing POS integrations and require no new hardware or merchant upgrades.

Background

The present state of digital payments

Digital payments take many forms around the world and move a collective 10 trillion USD each day.¹³ The majority of these transactions are conducted using one or any combination of three instruments:



Direct bank transfer

e.g., SWIFT, Fedwire, ACH

Global and domestic bank clearing networks that move 3.6 quadrillion USD in 102 million transactions per year¹⁴

Common throughout Europe for all transaction sizes, and in the US and Canada for large and commercial transactions



Payment cards

e.g., Visa, American Express

Plastic cards leveraging credit and debit networks to move small purchases of 26 trillion USD in 257 billion transactions per year¹⁵

Common in most geographies throughout the world for small transactions, especially the US, Canada, Europe, and Asia-Pacific



Mobile wallets

e.g., Apple Pay, Google Pay, Alipay

Mobile apps that proxy traditional payment instruments to move more than 8 billion USD in 300 million transactions per year¹⁶

Common in Asia-Pacific for all transactions (via bank transfers); gaining broad acceptance in the US, Canada, and Europe



Direct bank transfer

In general, non-cash payment instruments are underpinned by a traditional account held at an insured financial institution, such as a commercial bank or credit union. Whenever money is exchanged via one of these payment instruments, whether electronically or by an offline ledger, it is ultimately transmitted between financial institutions. To reconcile these payments, a variety of domestic and international standards are used for direct bank transfer between businesses and consumers (also sometimes called “electronic funds transfer”), such as ACH/IAT, CHIPS, SWIFT, RTGS, Fedwire, BEPS, NEFT, and KFTC.

Despite their ubiquity, each of these systems rely on legacy infrastructure that remains vulnerable to fraud and transaction inefficiencies.

Legacy infrastructure

The underlying technology of the global financial network is difficult to navigate, consisting of a variety of incompatible legacy protocols and standards; many of the current electronic settlement systems have remained relatively unchanged for 40 years. For instance, Automated Clearing House (ACH) transactions in the United States are still conducted via fixed-width text files (with precisely 94 characters per line), uploaded to various FTP servers and downloaded at specific times of day for settlement. Until 2016, these transactions cleared the following business day, when NACHA announced an update allowing for same-

Daily processing volume

SWIFT

5 trillion USD¹⁷

30.7 million transactions¹⁸

Fedwire

2.1 trillion USD²¹

528,000 transactions

CHIPS

1.4 trillion USD²¹

430,000 transactions

ACH

120 billion USD¹⁹

70.1 million transactions

day payments.²⁰ This “upgrade” involved no changes to the underlying specification; rather, banks were required to process transactions twice instead of once daily.

Other clearing systems include the Society for Worldwide Interbank Financial Telecommunication (SWIFT); the New York Clearing House Association’s CHIPS network; and the Federal Reserve’s Fedwire network. Each involve substantially more robust checks and balances than ACH and benefit from greater speed, increasing the complexity of the global financial system. Together, these systems transmit a staggering 3.6 quadrillion USD in global volume.²¹

Fraud vulnerability

Despite the additional supervision involved in these ledger systems, their protocols and networks are vulnerable to fraud. In a 2016 survey of the largest financial institutions, “cybersecurity concerns” was the most-responded challenge that bank executives said they faced in their day-to-day role,²² and many such instances of theft have recently become public.

In 2016, thieves made off with 81 million USD by impersonating Central Bank SWIFT operators.²³ Throughout a single weekend, they routed four transactions through the New York Fed’s mostly automated system, moving 101 million USD from Bangladesh to the Philippines. It was only when a New York Fed official caught a thief’s misspelling of the beneficiary name that they were able to alert Bangladesh Bank officials and prevent the transit of an additional 920 million USD.

In 2018, a larger heist was discovered involving the Punjab National Bank and promissory “letters of understanding” issued through SWIFT, where funds were laundered by using a password provided by bank officials for direct access to the SWIFT network.²⁴ Letters of understanding were issued for the equivalent of nearly 1.77 billion USD, and they were not correlated with the lesser amount that was registered via SWIFT in the bank’s holdings. Despite repeated warnings against fraudulent SWIFT messaging from the deputy governor of the Reserve Bank of India, the scam went undetected for nearly seven years.²⁵

Transaction inefficiency

Despite the underlying fraud vectors, funds transmitted over SWIFT, Fedwire, CHIPS, and ACH incur costs of approximately 18 billion USD every day.²⁶ Additionally, transfers require three to five days for settlement, and up to 4 percent of payments fail due to technical reasons.²⁷

The blockchain could potentially offer several enhancements in these systems, namely cryptographically secure transactions, immutability, and data redundancy. For instance, Ripple, a prominent US startup, allows financial institutions to quickly settle cross-border payments using its xCurrent network, claiming a 60 percent reduction in net cost.²⁸ Remittance providers such as Western Union and Moneygram have also piloted using native Ripple blockchain tokens (XRP) for settlement.²⁹ Using products such as these, we believe that blockchains have the potential to influence well beyond the primary layer of the global financial network.



Payment cards

Direct bank transfers are just one of the several steps involved in conducting a standard transaction with a payment card (e.g. a credit or debit card). In practice, the payment card authorization and settlement framework implemented throughout the United States and Europe involves the coordination of no fewer than six parties in order to transmit and guarantee funds.

Although payment cards offer universal acceptance and consumer benefits, they are prone to many single points of failure as well as the rising costs of fraud and incentive fees.

Many single points of failure

The companies involved in payment card processing serve mutually exclusive roles and extract a share of the transaction fee. This fee is called “interchange,” and has been variously regulated by the European Union (Interchange Fee Regulation, April 2015), and the Federal Reserve (Durbin Amendment, July 2010).

Payment cards also mandate a secondary network provided by entities called “card associations.” Card associations work with payment processors to conduct the three broad stages of a payment card transaction: authorization (verifying funds in accounts on either side of a transaction), clearing (transferring funds between banks after the exchange of goods or services) and settlement (paying a merchant).

Daily processing volume

Union Pay

41 billion USD³⁰

105 million transactions³¹

Visa

20 billion USD³²

305 million transactions

Mastercard

12 billion USD³³

184 million transactions

American Express

3.2 billion USD³⁷

19.8 million transactions

JCB

731 million USD³⁷

8.1 million transactions

Discover

466 million USD³⁷

6.4 million transactions

In order to accept payment cards, merchants incur disproportionately high processing fees which are often one of their largest operational costs.

In 2012, responding to these rising processing fees, some of the largest merchants in the US—including Walmart, Target, Best Buy, CVS and 7-Eleven—created a cooperative organization called Merchant Customer Exchange (MCX), with the charter of developing an ACH-backed payment instrument to avoid interchange fees.³⁴ After three years of continuous merchant investment and delayed development, the MCX mobile app never exited a pilot phase. Although it was successful at reducing merchant costs of processing, MCX was never able to deliver a compelling consumer value proposition. In 2017, JP Morgan Chase acquired the MCX technology to integrate with its existing Chase Pay system.

In the past decade, payment card processing fees have skyrocketed for two main reasons: first, because of an increase in fraud, including losses that are paid by issuing banks when they reimburse their customers for unauthorized charges; and second, because of the consumer demand for better card benefits and rewards on high-end credit card products.

Rising costs of fraud

EMV (Europay Mastercard Visa) chip cards have found mainstream adoption in Europe, Asia and the US, but payment card fraud in aggregate has continued to rise. Despite broad acceptance of the card-based technology, 2.8 million fraudulent accounts were created in 2018,³⁵ and account takeovers cost merchants 5.1 billion USD.³⁶ Additionally, transactions made online (i.e., “card-not-present”) have seen fraud losses increase more than 100 percent since the introduction of the EMV standard.³⁷ Chip-enabled cards have subsequently increased payment security, but are still vulnerable to man-in-the-middle attacks, especially when merchants don’t upgrade their systems to support encrypted transaction data from EMV-capable terminals. Cards can also be cloned from unsophisticated account enumeration, physical card skimmers, RFID readers, or simply a restaurant waiter with a cell phone camera.

In 2016, the total fraud losses for payment cards worldwide was estimated at 22.80 billion USD,³⁸ with 46 percent of all US citizens reporting card fraud within the past five years.³⁹

Recently, the rate of identity theft has soared, with more than 1,500 corporate data breaches,⁴⁰ including the theft of 143 million credit reports from Equifax⁴¹ and 40 million credit card numbers from Target.⁴²

Yahoo—now part of Verizon—also revealed that hackers obtained the personal information of its entire database of 3 billion worldwide users during an attack in 2013.⁴³

Incentive fees

Credit card rewards points also contribute to the high fees incurred by merchants to accept these payment instruments. Originally introduced by American Express in 1991,⁴⁴ these points have since become a cornerstone of consumer marketing for major credit card products. Today, travel and dining bonuses have become extremely competitive for the major credit card issuers: Chase, Capital One, and American Express are each vying for coveted “front of wallet” placement by offering up to 5× points or five percent cash back on various purchase categories.

As a result, many industries have developed to help the affluent consumer “optimize” their spend for maximum returns, perhaps without realizing that the true cost of these rewards is subsidized either by the small merchant businesses (which lack the required leverage to negotiate more affordable interchange rates), or the other payment card consumers who finance debt through high monthly APR interest. Many small businesses ultimately choose to avoid payment cards altogether and revert to cash-only transactions, putting them at a significant consumer disadvantage.



Mobile wallets

More and more, third-party mobile wallets are becoming mainstream payment instruments, capitalizing on their ability to aggregate various aspects of bank accounts and payment cards and offer even more consumer choice and convenience. While some (like Apple Pay, Google Pay, and Samsung Pay) simply serve as vehicles for virtual cards by proxying existing payment cards' primary account numbers, or PANs; others (such as Alipay, WeChat Pay, PayPal, Venmo, Square Cash, and Apple Pay Cash) have built a suite of value-added services and integrations on top of what is essentially a stored value account.

Many of these mobile wallets have seen substantial growth in recent years—especially in China—but their traditional payment instrument underpinnings present limitations on the ability to provide meaningful incentives, grow internationally, and manage fraud vulnerabilities.

Limited incentives

Today, even the largest and most successful mobile wallet apps and services enable the vast majority of their transactions by proxying an underlying insured or regulated payment instrument, such as a bank account or payment card. By functioning as this abstraction layer, services like Apple Pay and PayPal are able to offer value-added features like enhanced security or purchase protection, but are limited in their ability to provide unique incentives or sustainable bonus structures beyond what the underlying instruments already support natively.

Daily processing volume

Alipay

4.7 billion USD⁴⁵

175 million transactions

WeChat Pay

3.3 billion USD⁴⁶

130 million transactions⁴⁷

PayPal (incl. Venmo)

425 million USD⁴⁸

8.3 million transactions⁴⁹

Paytm

55 million USD⁵⁰

11 million transactions

International incompatibility

Moreover, mobile wallets have seen substantial growth in markets without entrenched financial institutions. For example, in the absence of traditional, credit-based payment infrastructure throughout China, companies like Alipay and WeChat Pay have built a direct system that facilitates mobile transactions on a private payment network over the internet. The rapid growth of these platforms—in terms of both scale and versatility—is impressive. But because the underlying financial infrastructure is still provided by domestic financial institutions, international growth is encumbered by the overhead of adapting these systems to foreign banks and exchanging currencies.

Outside of payments, the major value in third-party mobile wallets is their usefulness for internal or peer-to-peer transactions via network effects. Many people join Alipay, WeChat, Venmo or Square Cash because their friends are there, or because it's easier to send money to a phone number or username than it is to share account numbers. These features build community, but ultimately limit platform growth to these regional groups because users have limited incentive to interact internationally.

Fraud vulnerability

Mobile wallets are essentially an interface to existing payment instruments, which can make them vulnerable to certain types of fraud. By storing many payment instruments behind a single online account and password, these apps create an opportunity for account takeovers, which in 2018 amounted to 5.1 billion USD in losses.⁵¹ Many apps also distinguish between peer-to-peer payments and payments for goods and services because of their inability to mitigate buyer fraud, such as chargebacks and ACH returns.

For example, due to its ACH underpinnings, Venmo's terms and conditions explicitly warn against using the app for retail payments. When a fraudster reverses an ACH transaction used to load a Venmo account, the company is forced to reverse the transaction within its own ecosystem, sometimes by directly debiting beneficiaries' bank accounts.

1. "Cryptocurrency Market Capitalizations," CoinMarketCap, April 30, 2018, <https://coinmarketcap.com/charts/>.
2. CoinMarketCap.
3. "Quarterly Retail E-Commerce Sales," U.S. Census Bureau, PDF, February 16, 2018, https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf.
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