P2P and P2B Means What to Me?

By Hugh Patterson

If you have read recent articles related to the financial industry, you are aware of how payments are evolving faster than possibly any other aspect of the financial services world. We are told that for banks and credit unions to stay relevant, they must stay on the leading edge of payment solutions. But what does that really mean? You offer ACH, ATMs, debit cards, credit cards, merchant services and of course the ever-dependable check processing. Why not leave these small person to person (P2P) and person to business (P2B) transactions to others? After all, customers still must keep their money with you. Well, in reality they don't.

Three major fintech players in the P2P and B2B transaction space, PayPal, Square and Venmo have effectively eliminated the need for using a check. While the user ultimately still needs a checking account and a debit card, all of the money movement is facilitated by the vendor. Can you say goodbye interchange revenue? Both PayPal and Venmo offer the user the ability to retain a ledger balance and process transactions using those funds. The user only needs a checking account if they want to obtain cash. A quick ACH credit to their checking account and your ATM allows them to access the cash.

I recently wanted to make a purchase at an airshow. The vendor told me that he did not take debit or credit cards but offered me the option of paying via Venmo or Zelle. I opted for Zelle as that meant that the transaction fee income would be realized by the financial institution and not a third-party fintech vendor. Zelle is one of the newest P2P/B2B transaction vendors and one that you need to be aware of. Zelle was created by a co-op of financial institutions as a way to retain transactions and the related income. With Zelle, the funds remain in the user's checking account. When a transaction is originated by the user, the financial institution charges a fee for the service and transfers the funds to another financial institution. While Zelle can be costly to implement, it allows you to generate revenue and more importantly it keeps your financial institution in the middle of the transaction. With early support of financial institutions and core providers, adoption of the Zelle transaction model has been rapid. The firm eMarketer expects Zelle to grow as much as 73% in 2018 and TechCrunch projects that Zelle will reach 22.9 million users this year.

There are no signs that the pace of innovation in the transaction space is going to slow down. For now, financial institutions have the upper hand as you are the most trusted protector of your customer's funds. In addition, all transactions still ride on either the ACH or EFT rails. With literally thousands of fintechs out there trying to break down those barriers, it is only a matter of time before vendors such as PayPal take the place of total transaction facilitator.

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