

NEXT-GEN DEBIT

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SEPTEMBER 2021

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ACKNOWLEDGMENT

The Next-Gen Debit Tracker® was done in collaboration with PULSE, a Discover company, and PYMNTS is grateful for the company's support and insight. [PYMNTS.com](https://pymnts.com) retains full editorial control over the following findings, methodology and data analysis.



WHAT'S INSIDE

Consumers flocked to digital and touchless payment methods in 2020 and appear to be carrying such preferences into 2021. They underpin these increasingly popular contactless methods with familiar payment tools, however — notably debit cards. PULSE's recently released [2021 Debit Issuers Study](#) found that touchless debit card penetration in the United States jumped from 11 percent in 2019 to 30 percent of all cards by the end of 2020, while contactless debit transactions grew sixfold. Debit occupies a strong place in the payments ecosystem that is emerging from the global health crisis. Nearly 10 percent of consumers [say](#) they have used debit much more since the pandemic began. These trends point to a crucial shift in how consumers use the payment method and through what devices and channels.

Among the primary contactless payment solutions consumers are tapping for online and offline purchases are mobile and peer-to-peer (P2P) services, such as Zelle and

Venmo. These services allow users to send and receive payments instantly between accounts. These account-to-account (A2A) payments [represent](#) the fastest-growing segment of debit payments, comprising 4 percent of all debit transactions in 2020. PYMNTS [data](#) revealed that debit is a dominant way individuals make eCommerce transactions, with 31 percent of consumers saying they prefer to use debit online. This represents a significant channel for debit growth, with another recent [study](#) finding that 70 percent of consumer spending is now done electronically.

Support for speedier payment methods is critical as these instant payment tools become the preferred way for individuals to make and receive payments. To remain competitive, merchants must understand the growth of A2A payments, the rising popularity of contactless and P2P payment methods and debit's critical role in the changing payments space.

AROUND THE NEXT-GEN DEBIT WORLD

Consumers may be more familiar with A2A transfers than they think, especially as individuals grow more comfortable using the mobile wallet or P2P payment tools that fall under the A2A banner. [Studies](#) from as early as 2019 found that 71 percent of U.S. consumers were already making transactions using P2P methods. Events such as the launch of Venmo's in-store QR code payment technology in 2020 signaled that these methods were well on their way to becoming ubiquitous. These developments have made it imperative for merchants to understand how consumers use P2P and other A2A payment methods at the point of sale (POS) to augment their online and in-store checkout experiences.

Debit cards may be the method of choice for many consumers attaching payment details to their P2P or mobile wallets, indicating that debit may play a starring role in A2A's future growth. Recent results from one ongoing [study](#) found that while debit transactions overall decreased in 2020, debit spending rose by 8 percent compared to 2019, with the average debit transaction growing from \$40.50 in 2019 to \$44.80 last year — the most significant rise in the study's history. The study also found that A2A transactions per active debit card per month rose by 60 percent, with the average debit user making one A2A transaction on that card per month in 2020.

Recognition of debit's connection to digital wallets or other touchless payment tools may be especially important for merchants looking to engage younger users. Millennials

and Generation Z consumers have adopted contactless payments at higher rates than other generations. They are also conducting more of their purchases through channels that champion the use of these methods. This includes online shopping channels and unattended retail, such as automated kiosks, with 23 percent of consumers between the ages of 18 and 34 [saying](#) they have used the latter to make purchases more often since the pandemic's onset. Keeping pace with how these customers utilize digital and self-service tools could offer merchants an edge with this key demographic.

For more on these stories and other next-gen debit headlines, check out the Tracker's News and Trends section (p. 10).

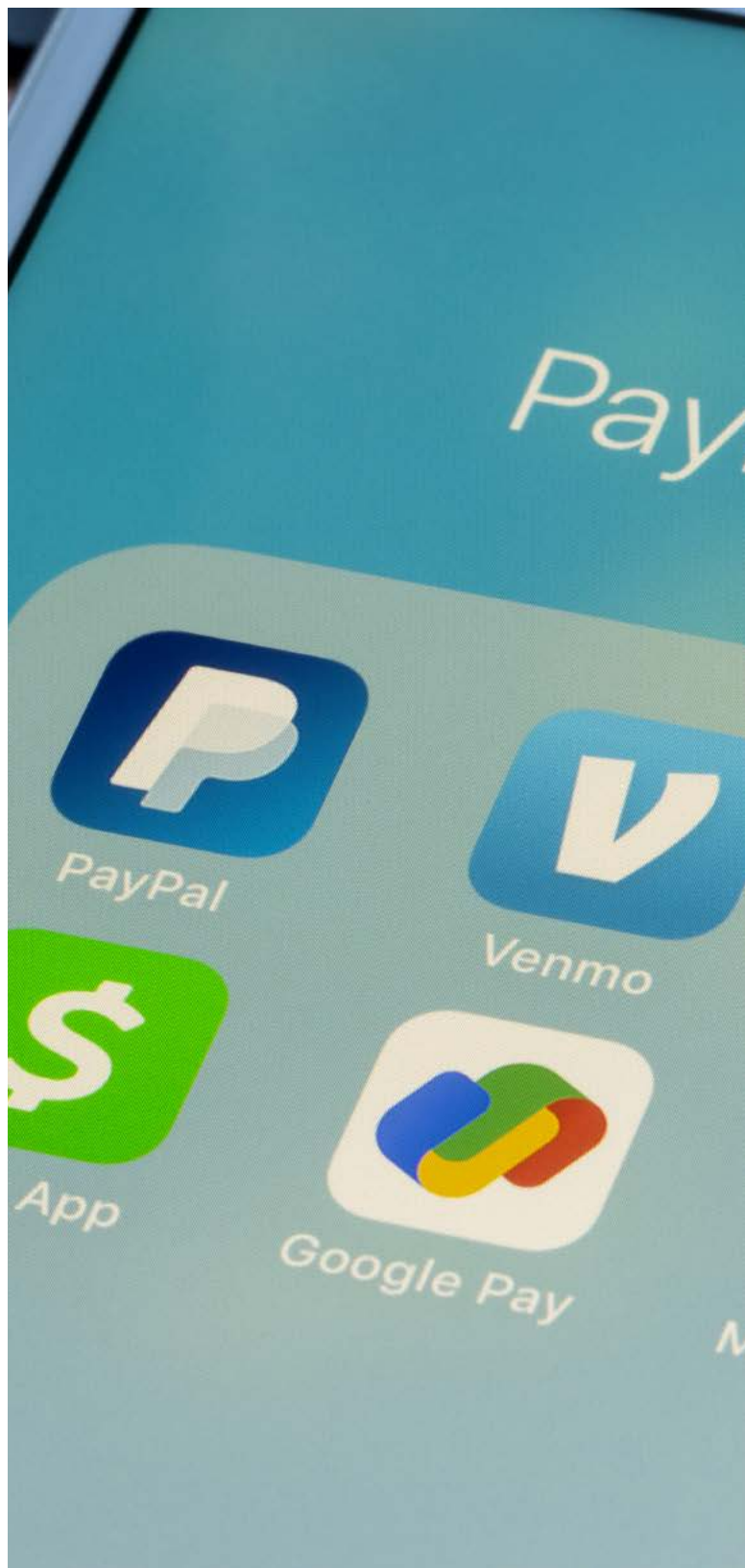
HOW MERCHANTS CAN TAKE ADVANTAGE OF RISING CONSUMER A2A PAYMENT PREFERENCES TO BOOST LOYALTY

Consumers were already using contactless payments before the events of 2020, but the global health crisis led to a significant change in where and how frequently they utilize such solutions. P2P apps have morphed from a tool consumers use to send money to friends into a payment mainstay for daily purchases both online and in brick-and-mortar stores, causing a surge in interest for merchants as they look to engage and retain customers. In this month's Feature Story (p. 7), Hisham Salama, chief digital officer, executive vice president for [Bank of the West](#), discusses how the pandemic pushed consumer adoption of P2P

apps and other A2A payment methods forward and why merchants should examine the role of debit to keep the attention and loyalty of such customers.

DEEP DIVE: HOW 2020 DROVE A2A PAYMENT ADOPTION FORWARD AND THE KEY ROLE DEBIT IS PLAYING IN ITS CONTINUED EXPANSION

Consumers who expected swift and easy payments before the pandemic are anticipating even faster, more convenient transactions in its wake. The events of the past 18 months have prompted more individuals to adopt payment methods that send money directly between accounts, including mobile wallets like Square's Cash App, PayPal's Venmo and bank-owned Zelle. Usage of these A2A payment tools, which allow for near — if not complete — instant transfers of funds, is likely to expand over the next several years, with one [study](#) predicting that consumers will spend nearly \$1.2 trillion through P2P or mobile wallets by 2023. Keeping up with how consumers and businesses are tapping A2A payments may prove crucial for merchants, but they must also consider what payment rails underpin such solutions. This month's Deep Dive (p. 14) looks at how A2A payment adoption rose over the last year and the critical role of debit in that growth.



5 FIVE FAST FACTS



CONTACTLESS DEBIT

Penetration of touchless debit cards grew to 30 percent in 2020.

A2A DEBIT GROWTH

A2A payments represent the fastest-growing debit spending segment.



10%

Share of consumers who have used debit much more since the pandemic began

31%

Portion of consumers who prefer to make online payments with debit

24%

Share of bridge millennials who have used contactless cards to make purchases in stores

Bank of the West: How Merchants Can Keep Pace With Emerging A2A, P2P Payment Preferences



Consumers have always favored swifter payments, and the value they place on speed and convenience has increased since the global health crisis began. This translated into a growing interest in next-gen payment methods that can make transactions as instant as possible, wherever customers shop. More consumers are turning to A2A payment methods, such as P2P payment apps, when shopping at physical stores, for example, said Hisham Salama, chief digital officer, executive vice president for [Bank of the West](#).

“Consumers have been widely focused on P2P for years,” Salama said in a recent PYMNTS interview. “But the pandemic surfaced an interesting behavioral shift — payments prior to the pandemic were typically centered on an event [such as a] concert, dinner, et cetera, and payments were made in near real-time to cover the balance or split a bill. During the pandemic, consumers have increasingly opted for contactless mobile payments such as Apple Pay and Google Pay for in-store purchases.”

Catering to this growing preference for P2P and other A2A payment methods is vital for retailers to improve customer engagement and loyalty. Determining how consumer payment needs and wants, which are notably still underpinned by debit or other traditional payment cards, are continuing to change should therefore be a top goal for today’s merchants.

MOVING A2A INTO THE PAYMENTS SPOTLIGHT

The shift in individuals’ payment preferences is far from new. Venmo, Zelle and other popular P2P payment options already existed with thriving user bases before the health crisis, Salama noted. The pandemic appears to have pushed A2A payment methods such as P2P apps further into the payments mainstream, however. Businesses are eyeing these methods with more interest as consumers continue to cling to them, with a broader number of merchants convinced that such payment methods will not be going away.

“What’s notable is how business acceptance of those payment apps has changed,” he said. “Small businesses have done a very good job of allowing consumers to select their payment method once in store. ... The more savvy stores are also layering in rewards programs alongside the everyday purchase. The most seamless integrations have been done through the payment terminal and not a separate app.”

Accepting A2A payments enables consumers to make payments instantly at the POS, creating a smoother customer experience and promoting greater loyalty. This means it is likely that merchant adoption of these methods will increase in the near future. Monitoring such developments is key for both merchants and banks, as the more access to instant payments consumers and businesses have, the more they expect that type of payment experience everywhere. The barriers to supporting emerging payment methods have also become fewer over time, further saturating an

already crowded field. Both Zelle and Venmo have launched new features in recent years, with Venmo now offering QR code payments and Zelle offering a specific solution for small business transactions.

“The more options consumers have access to, the better the experience for the entire consumer population,” Salama said. “In the past, [setting] up a new payment [acceptance] type was difficult. Today, the effort required is minimal. Banks should focus on maintaining their role in the payment value chain while also supporting growth within the payment ecosystem. There should be a healthy balance.”

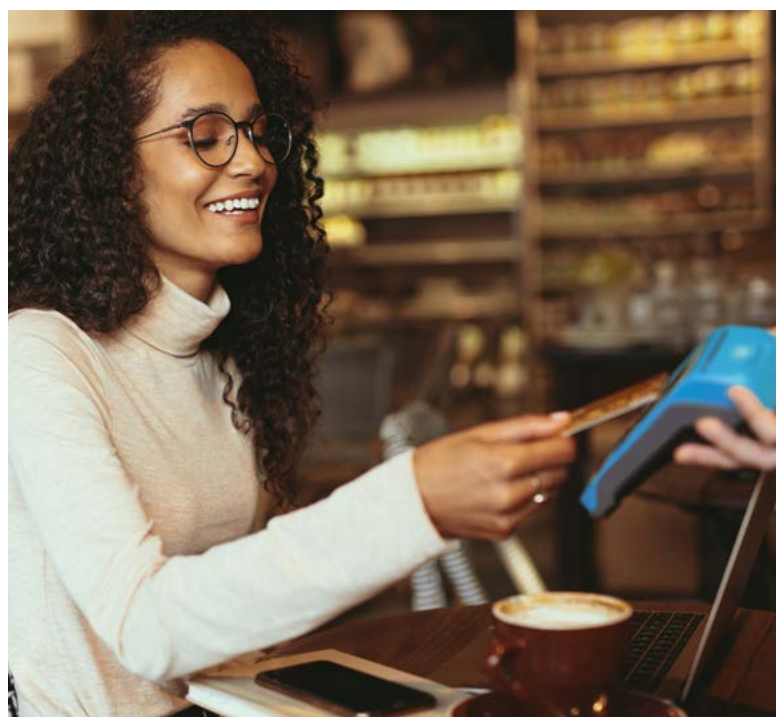
The pandemic appears to have accelerated the creation of a more diverse, varied payments ecosystem, where consumers and merchants have increased access to swifter, more convenient payment methods regardless of channel. This means both merchants and banks must stay aware of how this ecosystem is growing to ensure they offer the payment methods that can give them a competitive edge.

MEETING NEXT-GEN PAYMENT NEEDS

Salama expects to see the adoption of P2P and other A2A payment methods grow, especially as the development of real-time payment networks continues. Ensuring merchants, their payment providers and their banks can keep consumers’ attention means they must begin to think about payments as largely method-agnostic.

“Given the direct integration and support of banks, I hope to see Zelle expand to a number of new areas where their payments are accepted,” he said. “If this holds true, the consumer behavioral shift challenge will become convincing a consumer to shift payment method from card to network and give up current card rewards. Loyalty is key.”

Thinking about payments in terms of network or the particular payment rail consumers prefer is one way merchants may be able to gain a key advantage over their competitors as the next-gen, real-time payments ecosystem takes shape. Many consumers still underpin their chosen P2P or mobile wallets with familiar, treasured debit cards, for example, making it critical for retailers to examine the role debit and other such payment rails could play when capturing customer loyalty.



NEWS & TRENDS



A2A AND DEBIT PAYMENT DEVELOPMENTS

THE PANDEMIC ACCELERATES A2A PAYMENT ADOPTION AMONG CONSUMERS

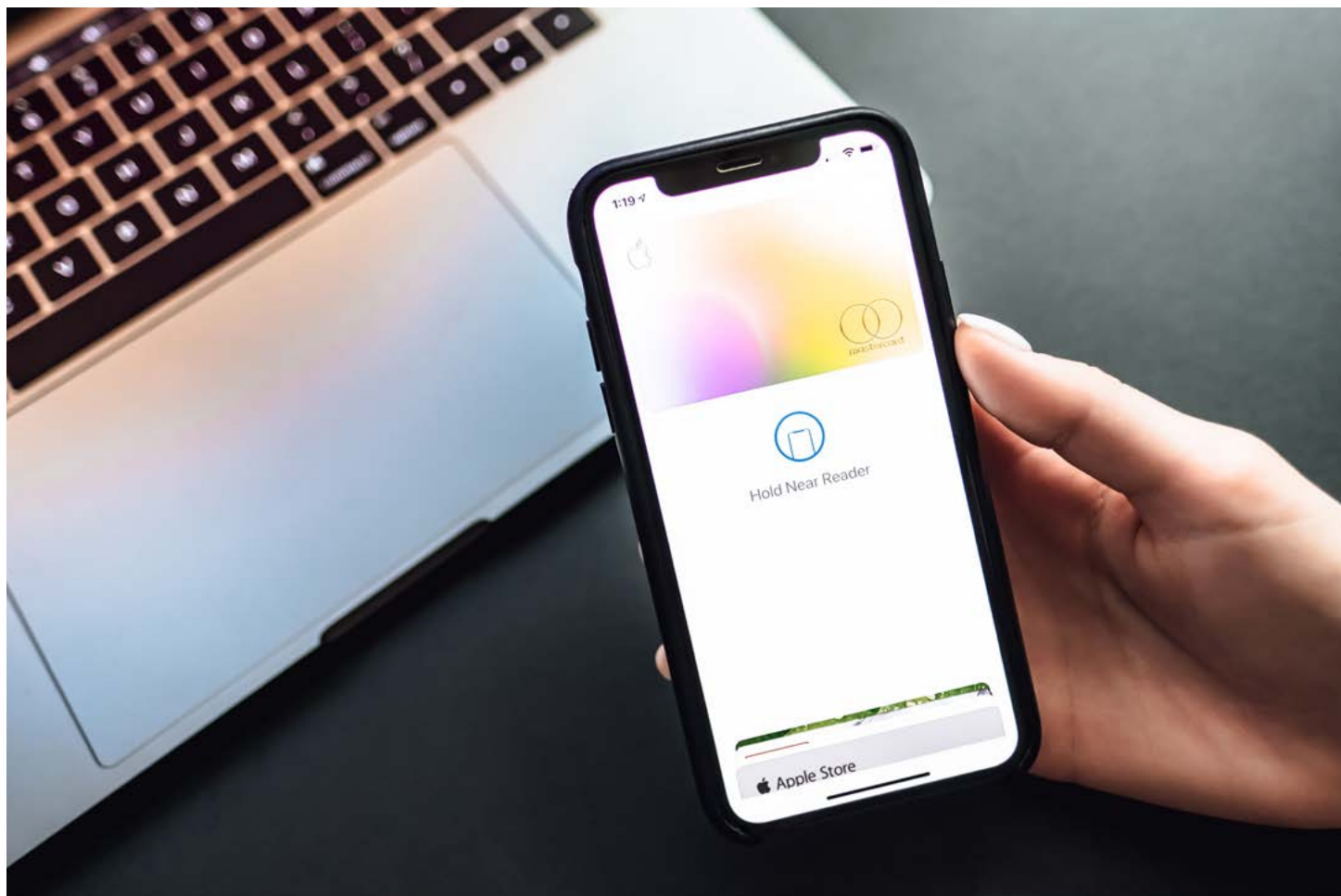
The use of P2P payments has been expanding for years, with one poll from 2019 [finding](#) that 71 percent of U.S. adults used P2P payment platforms. A further 24 percent of respondents reported they did so frequently, tapping popular apps such as Square's Cash App and PayPal's Venmo, as well as tools such as Facebook Pay.

The pandemic accelerated the adoption of P2P and other A2A payment solutions among consumers, especially as their preferred P2P wallets began to offer solutions geared toward their changing needs. Venmo introduced QR code payments for brick-and-mortar purchases in 2020, pushing such A2A methods further into the mainstream payments ecosystem. Merchants must monitor how usage of these payment tools will continue to develop in the future, both on- and offline.

NUMBER OF DEBIT TRANSACTIONS FALLS SLIGHTLY WHILE AMOUNT SPENT INCREASES

Businesses can also stay competitive by watching what payment tools consumers use to support their mobile and P2P wallet transactions. Recent [studies](#) from debit issuer PULSE showed that debit card use is expanding as individuals turn to mobile wallets for payments, with overall debit spending growing 8 percent year over year in 2020.

This occurred even as the overall number of debit transactions fell slightly, accounting for \$76 billion in payments compared to \$78 billion in 2019. Consumers are also spending more with their debit cards, with the average debit transaction growing from a \$40.50 average in 2019 to \$44.80 last year. This indicates that debit remains a thriving payment method within the U.S. despite the minor dip in overall payment volume.



DEBIT BECOMES DOMINANT PAYMENT METHOD FOR eCOMMERCE

eCommerce is one space where debit cards have rapidly become the preferred payment method for consumers. Recent [studies](#) found online debit spending grew by 50 percent year over year in 2020, compared to the 5 percent overall growth in credit spending for the same channel. Millennial and Gen Z shoppers — demographics that are notoriously debt-shy — are turning to digital channels for daily purchases like groceries and retail,

which may be responsible for the jump in online debit spending.

The influx of younger users may also account for the significant expansion in digital wallet usage in stores and online, with the report finding that use online ballooned 394 percent year over year. This means digital wallets now account for 4 percent of spending online, compared to the 1 percent they represented before the global health crisis.

CONTACTLESS PAYMENTS AND NEW TECHNOLOGIES

GEN Z EMBRACES DEBIT FOR UNATTENDED RETAIL PURCHASES

The events of the past 18 months have rapidly shifted consumer shopping preferences, leading to a boom in eCommerce purchases and transactions made through unattended retail channels, such as self-service or automated kiosks. Younger consumer groups, such as millennials and Gen Zers, were drawn to unattended retail channels during the pandemic, with 23 percent of individuals between

18 and 34 **claiming** they utilized these solutions more often than before the pandemic. This compares to 18 percent of consumers between the ages of 35 and 54.

Most consumers make payments on these unattended channels with debit and credit cards, with 67 percent overall noting this was their preferred payment method. The popularity of unattended retail also comes as consumers grow more comfortable attaching these cards to other emerging payment solutions, such as mobile wallets. Consumers are also becoming increasingly fond of contactless payment solutions, with 68 percent of users claiming that touchless payment options are essential.



CONTACTLESS DEBIT PAYMENT USE EXPANDS IN THE UK

U.S. consumers are far from the only group embracing contactless payment technologies or using debit as their payment method of choice with mobile wallets or touchless cards. Contactless transactions among shoppers in the United Kingdom grew 50 percent in May 2020 compared to the same month in 2019, according to one recent [study](#), as consumers used debit cards in 65 percent of such transactions. The jump came as U.K. consumers left behind both cash and cards in the height of the pandemic, and as financial regulators within the market increased the transaction limit for touchless purchases to £100 GBP (\$137 USD).

Debit spending has continued to grow in recent months as health and safety restrictions within the U.K. have relaxed, with shoppers making 1.7 billion debit card transactions in May 2021. This shows that spending is recovering in this market and that U.K. consumers, like their American counterparts, are more likely to reach for their debit cards or debit-supported touchless payment tools to make more purchases.

PAYPAL MOVES TO ENABLE VENMO DIRECT DEPOSIT FOR GIG WORKERS

The rising popularity of contactless debit payments in markets worldwide is leading FinTechs and mobile wallet providers to consider uses for touchless payment tools outside of retail. Payment provider PayPal recently [announced](#) a partnership with financial services provider Fiserv to enable direct deposit of gig workers' paychecks to their PayPal or Venmo wallets, for example. This will grant independent contractors such as rideshare drivers or couriers easier access to funds, providing key benefits for workers who typically lack the regimented payroll cycles of full-time employment. The tool could also support instant payments for other disbursements, including insurance claims or federal tax refunds, according to company statements.

Moves such as these will bring mobile wallets closer to the center of users' financial lives, especially as a higher volume of money movement occurs online. Recent studies show 94 percent of U.S. employees already use direct deposit for paychecks. Enabling direct deposit into mobile wallets could help create financial opportunities for unbanked or underbanked users who lack traditional bank accounts.

DEEP DIVE



WHY DEBIT IS DRIVING THE A2A PAYMENTS EXPANSION

The pandemic fueled an unprecedented increase in debit spending in 2020, according to a recent [study](#). Closures, stay-at-home mandates and reduced store hours led consumers to shop less frequently. Still, they made larger purchases when they did — and because of economic uncertainty, debit was the highly preferred payment method over credit for these purchases. The simultaneous need to migrate from physical to digital commerce also meant that CNP transactions — including A2A money transfers — surged, increasing 23 percent year over year, making up more than one-third of all debit transactions last year.

A2A money transfers using debit are soaring, with A2A transactions — including those made via P2P wallets — per active debit card per month [leaping](#) nearly 60 percent in 2020, following 100 percent growth in 2019. Consumers are increasingly turning to these solutions to send or accept funds, not just quickly but instantly. One recent [study](#) predicts that approximately 20 percent of Americans will be using Zelle by the end of the year, for example, and nearly 30 percent will be using Venmo.

Support for speedier payment methods is growing critical for consumer payments and B2B transactions as instant payment tools become the preferred way for individuals to send and receive payments. The following

Deep Dive examines debit's role in the rise of A2A transfers, especially through the growth in usage of mobile wallets such as Zelle and Venmo, and how both consumer-facing and B2B merchants can take advantage of such trends.

THE DAWN OF A2A AND DEBIT'S ROLE

A2A transfers are swiftly overtaking more traditional payment methods, such as cash or plastic cards, at the physical and digital POS globally. One recent [study](#) found that A2A payments currently account for 13 percent of all checkouts in Europe and nearly 6 percent of all checkouts in the U.S., for example. Seizing the A2A opportunity requires merchants to understand how, and most importantly, why A2A payments are rising to prominence among consumers and businesses.

The main factor driving the boom in A2A transfers is the growing popularity of contactless payment methods, including mobile apps that support instant payments. One [report](#) found that the U.S.'s top digital or money transfer apps experienced a record 35 million downloads in Q2 2020 alone — a 53 percent increase over Q2 2019. Consumers are also unlikely to put aside their mobile payment apps now that many retailers are reopening their physical locations. Another [study](#) predicts that U.S. customers will send nearly \$1.2

trillion via mobile wallets by 2023, including Square's Cash App, Venmo and bank-owned Zelle.

Many consumers were adopting mobile-optimized payment methods before the health crisis, naturally, but touchless payments are rapidly replacing other payment tools at the POS. This is especially the case among younger consumers, such as millennials and members of Gen Z. Recent PYMNTS [data](#) shows that more than 64 percent of bridge millennials — those 33 to 43 years old — utilize digital wallets to pay at physical stores, while 24 percent have used contactless credit and debit cards to make such purchases. The pandemic boosted debit spending, but members of younger generations, especially those belonging to Gen Z, are increasingly eschewing credit in favor of debit when making purchases. One [study](#) found this generation would even prefer to make payments in cash than use credit cards.

This indicates that younger consumers are likely to maintain both their use of touchless payments and their preference for debit as the underpinning payment rail of their favored mobile and P2P wallets, thus fueling A2A's growth. The draw of instant payment tools also influences the B2B payments space, making it critical for companies to carefully examine how A2A payments may play a role in their B2B processes.



A2A AND NEXT-GEN B2B PAYMENTS

Debit-supported A2A transfers could help companies smooth out friction points in their B2B or business-to-consumer payment processes by enabling speedier payments for gig entrepreneurs or B2B payments to suppliers, for example. This could not only offer firms a key competitive advantage as more businesses migrate their B2B payments online but could also become the standard way to pay in the future. One [report](#) found that digital B2B payments accounted for approximately one-quarter of total B2B payments' value in 2020, and it predicted an expansion in B2B instant payment use over the next two years.

The B2B payments space may thus be the next great expansion area for A2A transfers, and understanding how debit fits into this area is crucial. Bank debit and checks remain two of the top methods companies use to send payments, but with check use rapidly declining, debit is poised to take a greater stake in the B2B payments world. Keeping watch over how A2A transfers and debit spending could transform both B2B and consumer-facing payments is therefore essential for today's businesses.

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