

The E-Files: P-2-P Payments Proposition

Who would have ever guessed that what began roughly five years ago as a means to acquire and trade Pez® Dispensers would provide the impetus for a new genre of payments, broadly identified as person-to-person (P-2-P) payments? With the introduction of online auction Web sites such as eBay.com™, virtual strangers gained the ability to conduct transactions with a

mouse click. But, although the act of “acquiring” an item at one of these sites seemed to occur with the blink of an eye, often the payment portion of the transaction occurred through slower, traditional channels, specifically the U.S. Postal Service and check clearing processes. And, because the parties typically were not acquainted, there were risks with regard to payment and product quality.



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P-2-P payment services were pioneered by non-financial institutions to provide a safer, simpler and more expeditious method of settling online auction transactions, and on the surface, looked “new.” However, as is the case with many types of emerging payments, they too combine “newer” technologies (Web, e-mail and potentially automated teller machines) and traditional payments infrastructures (bank accounts, debit and credit card networks, the Automated Clearinghouse [ACH], and potentially electronic funds transfer [EFT] networks.) Consequently, several financial institutions are now offering similar products.

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Individual transactions

Though P-2-P payment services were created to meet the needs of auction participants, they are also being used to facilitate “cybersettling” of accounts when no selling is involved. For example, you might send funds to your child away at school, pay your babysitter or contribute to a gift fund for a coworker. Three providers of such settlement services are a non-financial institution, PayPal, and two financial institutions, BankOne and Citibank. In each of these models, both the sender and recipient must have e-mail addresses and be able to use a Visa or MasterCard credit or debit card or a bank account.

PayPal, an early provider of P-2-P services, uses a “viral” approach to facilitating payments. Individuals register to send a payment to anybody with an e-mail address by using a Visa or MasterCard credit card or a bank account. And, to gain access to the funds, the recipient also must register with PayPal. For example, assume you purchased a gift for your parents’ anniversary from both you and your brother who lives across the country. Your brother is a PayPal user and sends his share of the gift’s cost to you by going to the PayPal Web site and entering your e-mail address, his MasterCard account number, and a dollar amount. Moments after he sends the e-mail, you receive a message from PayPal indicating that you have money in an account waiting for you. You respond to the e-mail and are advised that to receive payment you must first register with PayPal. Upon registering, you

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can direct a credit to a bank account or a MasterCard or Visa credit card, leave the money in your PayPal account, or request that a check be cut and mailed to you. In addition, because you are now a registered PayPal user, you can also send payments to others.

BankOne and Citibank offer similar services. Their products, eMoneyMailsm and c2itsm, respectively, function essentially the same as the PayPal product with three exceptions. First, the eMoneyMail service is not “viral.” Therefore, registration by recipients is optional, but not required, to retrieve funds. However, the c2it service does require that the recipient either be a c2it or an America Online[®] (AOL)

QuickCash member. Second, these sites enable the use of debit cards as well as credit cards. Third, unlike PayPal, which also offers business services, the eMoneyMail and c2it services are primarily for individuals dealing with smaller-dollar transactions.

If these services sound the least bit enticing, you’re probably wondering how much they cost to use. The PayPal service is currently free for personal accounts. The eMoneyMail and c2it services charge senders a \$1 and \$2 per transaction fee, respectively. Recipients also may incur a \$1 fee if they opt to receive a check instead of a credit to a bank account or to a debit or credit card. However, it is unclear at this point how profitable P-2-P services will be for banks and other offerors.

Each of these P-2-P payment services offers varying safeguards against risks such as fraud. PayPal insures every account up to \$100,000. Likewise, eMoneyMail has a \$300 per day and \$600 per rolling-30 day transaction limit. And c2it has a \$500 per day and \$2,000 per consecutive four-

day transaction limit. Among some of the other safeguards the services provide are verifications on e-mail addresses, shipping addresses, and passwords and/or PIN numbers to complete transactions.

Business transactions

In addition to PayPal, eMoneyMail, and c2it, another group of providers has emerged that offers a broader range of intermediary services. Two fairly basic intermediary services are Billpoint[™] and ProPay[™]. Billpoint, a joint venture between eBay.com and Wells Fargo Bank, and ProPay, a service of The Lake Bank N.A., Minnesota, protect sellers from insufficient funds by providing payment confirmation services. For this benefit, sellers are charged a transaction fee as well as a percent of the total transaction. In addition, both services provide buyers privacy with



regard to payment information and protection against fraud when a credit card is used.

Other intermediary services, such as those provided by i-Escrow[®], Inc. and ePreview.net, Inc., offer some additional protection and guarantees. For example, with i-Escrow, one party initiates the payment process by filling out the details of the transaction on a form on i-Escrow's site. The other party acknowledges those terms, including the length of the inspection period and who will pay for shipping and the escrow fee. Upon acknowledgement of the terms, the buyer forwards payment to i-Escrow, typically via a credit card online. The company verifies the funds are good, then instructs the seller to ship the merchandise directly to the buyer for inspection. When the buyer approves, he or she instructs i-Escrow to release payment to the seller in the form of a paper check.

The ePreview.net service is similar to i-Escrow's, but instead of a seller shipping goods directly to a buyer, the seller instead ships to an affiliate for onsite preview by the buyer. These affiliates provide services ranging from supervised packaging and shipping to providing expert verbal appraisals of merchandise during the buyer's preview process.

Further adaptations

These are examples of how P-2-P payment services have adapted to meet individual and business needs of online users. P-2-P payment services are also being adapted to use other infrastructures and technologies. For example, the New York Cash Exchange (NYCE) Corporation is promoting technology that will let people pay anyone from a multitude of devices, including the Internet, ATMs and telephones, and provide immediate availability of the funds by settling through the NYCE EFT network infrastructure. This technology requires that the person making the payment know the ATM or debit card number of the per-

son receiving the payment, and both people have to have accounts at financial institutions that are members of NYCE. NYCE is currently piloting this technology. However, issues such as security risks arising from distributing one's ATM or debit card number and the fact that buyers won't want to pay right away for a product before they have had an opportunity to view it still need to be addressed.

Time can only tell how widely P-2-P payments will be used. In the meantime, we will continue to tell you about other products that come along.

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