

VIEWPOINT

March 2013

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PAYMENTS PRIVACY IS NOT ALWAYS SINISTER

Many shoppers prefer making payments off the radar.

Shoppers may have a variety of reasons for wanting their payments to go unrecorded, and not all of them are because of illicit or illegal activity.

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Introduction

In discussions about choices around payments, the concept of choosing a payments method because it is anonymous is often regarded with derision or suspicion. The person paying is thought to be either up to no good—buying something illegal like drugs—or seeking privacy for something a bit unsavory—buying pornography is the most frequent example in this category.

Yet despite the raised eyebrows and chuckles, there are plenty of legitimate reasons that someone might want to make an anonymous payment. The philosophical debates about things like drugs and pornography can be left for others. For payments companies, however, there are three broad reasons why someone might want to avoid a traceable payment: marketing, safety, and gifting.

Let's take each one in turn.

Marketing

In payments, one of the benefits of moving transactions online is the amount of customer data that can be gathered. Companies can now track when, where, and how their customers shop. They collect demographic and contact information along with transaction history. The beauty of this tracking is that companies can now target offers to their customers based on all of these things—sometimes even right down to where they are at a given time of day. The customers are even invited to share much of this information with friends and become part of the seller's marketing team.

These developments are exciting stuff for marketers, but for customers, constantly being bombarded with offers and messages might not be the way they wish to fill their mailboxes, inboxes, phone messages, and Facebook walls. This is especially true if they have purchased an item as a gift. Gifting will be covered in more detail below, but suffice it to say that if you are not a golfer and you have bought a set of golf tees for a friend as a present, then you are not going to benefit from lots of solicitations for clubs.

The same principle applies in the case of someone wanting to try a product for the first time. If you find you do not like a particular brand of orange juice, then do you really want another coupon for it? On the flip side, if you are committed to a particular brand, then do you want a three-foot register receipt that includes coupons for a competing brand's product that you will never use?

Making an anonymous payment with cash or a prepaid card can get you out of a lot of these kinds of messages. There are plenty of opportunities to provide for anonymous payments on both the closed-loop and open-loop side of the prepaid market.

Consider a charitable donation, for example. Many people are dismayed when, after they have contributed funds to a charity, they get so many new solicitations that they feel like their original donation was spent entirely on

trying to get more money. This particularly applies when someone donates to a cause on behalf of a friend who is doing something like running a marathon and raising funds. If you could go out and buy a closed-loop card for that particular charity off a J-hook, you could make the donation and avoid the mailers, e-mail, and phone calls. Sure, this would mean skipping the tax deduction, but for many donors, the amount is small enough to be negligible.

Safety

How many hacks are needed before shoppers change their behavior? Everyone has a different threshold for risk, but large-scale security breaches for companies like Michaels craft stores and Sony have caused many shoppers to question whether they want to put their credit and debit cards at risk online or even in stores.

Closed-loop cards for online games have been a big seller, and companies have reported that they have seen a large number of open-loop gift cards used for purposes like online bill payment and online shopping. Looking at any prepaid card mall in stores, it is now possible to see cards marketed as bill-pay and online shopping cards.

In the offline world, there are places where it may make more sense to pay cash. For example bars and restaurants are notorious for card-fraud risk because servers disappear with cards for several minutes to settle a tab. In those places, patrons may want to use cash or a card with limited risk in order to avoid worrying about whether their card has been skimmed or a transaction has been run incorrectly. And one doesn't always have a choice where to dine out; on a road trip, the next chance for food might not come for another hundred miles. There one might choose to limit the risk by paying cash.

Gifting

Another modern technological marvel is the ability for payments companies to communicate information to their customers. Instant balance alerts, transactional details, and the ability to make payments on credit cards can all be sent to a central location so that anyone in the family can arrange for a payment. Now imagine a modern, Information Age household in which the husband and wife share responsibilities for managing the household budget.

Picture the poor fellow who decides to surprise his wife with a bouquet of flowers on Valentine's Day. Now it just so happens that Valentine's Day is in the middle of the month, right when that biweekly paycheck is supposed to arrive. So the wife, checking the balance on the account to see if the check has been deposited, sees a charge for the local florist. Now the surprise is ruined.

As noted above, the advanced tracking and marketing abilities possessed by many retailers mean that someone buying a gift can be flagged as interested in something that they could not care any less about. The desire to avoid being tagged and marketed to as the fan of the latest teeny bopper is enough to make gift givers seek privacy when buying a birthday present for a daughter or niece, for example.

Conclusion

As the examples above show, an opportunity exists for payments providers who can give customers a way to pay privately. Technologies such as temporary card numbers have been developed and deployed, and existing technologies, such as closed-loop gift cards, have been repurposed by users to meet these needs. Recognizing these use cases among existing customers can point to potential new products.

Of course, when offering privacy, companies need to make sure that reasonable safeguards are in place to prevent crimes like money laundering and terrorist funding. At the same time, merchants in particular should recognize that providing privacy may not require a new payment form. It can be as simple as allowing customers to opt out of having their purchase history stored or to opt out of having a particular purchase added to their history.

As merchants, customers, and payments providers move into a brave new world of interconnectedness, offering a way out of the traditional payments matrix might be a way to win customers.



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