PYMNTS INTELLIGENCE | INGO Payments

March 2024

Peer Pressure: Balancing Convenience With Compliance in P2P Payments

Money Mobility Tracker® Series

Demand for fast and efficient peer-to-peer (P2P) payments is soaring, especially among younger consumers. To maintain this momentum, FinTechs must ensure that their P2P apps not only deliver exceptional experiences but also provide robust protections from fraud and adhere to regulatory standards.

Read the previous edition

FEBRUARY 2024

Money Mobility Tracker® Series

What's Inside

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Acknowledgment

The Money Mobility Tracker® Series is produced in collaboration with Ingo Payments, and PYMNTS Intelligence is grateful for the company's support and insight. PYMNTS Intelligence retains full editorial control over the following findings, methodology and data analysis.

Introduction

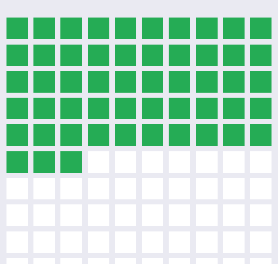
Peer-to-peer (P2P) payments have grown increasingly popular over the past several years, especially among younger consumers, who prefer a digital-first payment experience. In fact, at least half of millennial and Generation Z consumers say they use P2P payments for both in-store and online purchases, and 49% of organizations say they support P2P payments for their customers.

With increased adoption come raised expectations for what a P2P app should offer, with seamlessness and convenience emerging as consumers' top priorities. Firms seeking to implement P2P apps, or improve existing ones, will need to balance the need for smooth user experiences with the ever-present need to meet regulatory requirements that often compete with these priorities.

P2P Payment Demand

Younger Consumers Flock to P2P Payments

P2P payment apps are gaining popularity due to their ease of use and versatility in various situations. Younger consumer groups — especially millennials and Generation Z — are particularly enthusiastic about these payment methods.



53%

of consumers ages 18-25 use payment apps more frequently than before.

Zelle payment volume surged 25% year over year, according to Bank of America.

Zelle payment volume among Bank of America customers increased to $101 billion — up 25% year over year — according to the bank's Q4 2023 earnings report. In contrast, traditional debit and credit options showed only modest growth, increasing by just 3%. This rise in P2P payments is largely driven by usage among younger demographics: One study found that 53% of consumers ages 18-25 reported using payment apps more often than before to manage increased costs from inflation, with 50% of consumers ages 26-41 saying the same. Interestingly, this growth has led to the emergence of a social phenomenon among certain groups: 30% of young adults said they knew a "Venmo vulture," typically a friend who regularly sends them frivolous P2P payment requests for small amounts.

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P2P Payment Demand

Many non-payments-related companies are implementing P2P transactions to become ‘everything apps.’

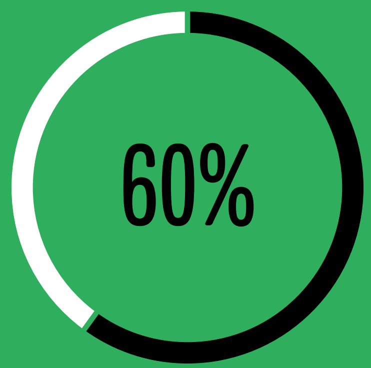
X, formerly known as Twitter, is one of the major companies embracing the so-called “everything app” or “super app” trend, recently announcing that it will incorporate P2P payments into its platform this year. Meanwhile, African startup Union54 has partnered with Mastercard to launch ChitChat, a super app that provides secure messaging, dollar-based virtual cards and access to a Mastercard USD debit card. In Europe, Lydia, which emerged as a P2P app in 2013, has expanded its service offerings to include loans, savings accounts, cryptocurrency trading and more.

From the consumer side, about seven in 10 consumers surveyed by PYMNTS Intelligence expressed an interest in the super app concept, with their level of interest rising alongside their income and level of technology integration. Within the lowest income bracket, more than 60% of respondents displayed interest in using a super app, showcasing its broad appeal.

P2P Payment Challenges

P2P Payment Methods Struggle to Meet Customer Demands

Customers have grown accustomed to leveraging P2P payment methods and have developed distinct preferences and dislikes among the apps they use. Too often, though, P2P payment providers overlook these considerations.



Share of U.S. consumers who use P2P apps to pay bills

93% of FinTechs say their customers encounter payment issues.

PYMNTS Intelligence research revealed that while most FinTechs recognize their customers' issues with P2P payments, many are not accurately identifying the underlying reasons. For example, 41% of consumers depositing money and 28% of those withdrawing funds cited the absence of a guarantee of good funds or speed as their primary issue. In contrast, FinTechs reported just 20% and 12% of their account holders having those concerns, respectively. As the P2P payment market becomes increasingly crowded, these FinTechs must address their customers' primary concerns or risk losing them to the competition.

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P2P Payment Challenges

70% of digital wallet users encounter friction when paying bills.

Paying bills via mobile wallets ranks among the most popular P2P payment use cases, with 60% of American consumers saying they use them for this purpose. While two-thirds of these users express satisfaction with the experience, 70% of users leveraging mobile wallets to pay their bills at least once per week report encountering friction. The most common issues revolve around information security and authentication, as cited by one-quarter of respondents. Other frustrations include limited features, inconvenience and cost.

P2P Payment Regulatory Concerns

P2P Payment Providers Grapple With Regulation

P2P payments are certainly convenient for consumers, but like all digital transactions, they carry the risk of fraud and scams. Government regulators are calling on these apps to tighten their fraud prevention systems.

40%

of fraud losses in the U.K. stem from authorized push payment fraud.

APP fraud is on the rise among P2P payment apps.

Authorized push payment (APP) fraud is a scourge among P2P payment apps. In this type of fraud, criminals deceive individuals or businesses into transferring funds to the fraudster's account. According to a report, APP fraud constituted an astonishing 40% of all fraud losses in the United Kingdom in 2022. Such frauds are difficult to reverse due to the victim's authorization of the funds transfer — even amid fraudulent circumstances.

Many banks and payment providers are enlisting artificial intelligence (AI) to combat APP fraud. In fact, a recent study shows that more than 70% of financial institutions (FIs) with assets of at least $5 billion employed both AI and machine learning (ML) solutions to tackle fraud in 2023. These systems analyze spending patterns and flag inconsistencies as potential fraud.

P2P Payment Regulatory Concerns

Manhattan's DA is calling on P2P app CEOs to shield their users from fraud.

Manhattan District Attorney Alvin Bragg Jr. recently sent letters to the CEOs of Venmo, Cash App and Zelle, in which he demanded immediate action to protect their consumers from various types of fraud. "Thousands or even tens of thousands [of dollars] can be drained from financial accounts in a matter of seconds with just a few taps," Bragg told Newsweek. "Without additional protections, customers' financial and physical safety is being put at risk."

Bragg pointed out that P2P app users have even been threatened at knifepoint to send money to their attackers via Venmo. Due to Venmo's policy against reverse charges, the stolen funds could not be recovered. Consequently, Bragg has called on mobile payment providers to change their policies to reduce the impact of all fraud types on their customers.

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Call to Action

Balancing Convenience and Regulatory Requirements in P2P Payments

P2P apps offer unparalleled convenience and efficiency for users, revolutionizing the way individuals transact with other consumers and businesses. Balancing customer expectations for convenience with regulatory imperatives to combat fraud presents a formidable challenge for P2P platforms, however. Nevertheless, payment providers must embrace the right technologies to meet these two often-competing goals.

End-to-end encryption, multifactor authentication and biometric verification are instrumental in protecting user information and fostering compliance with regulatory requirements. P2P payment apps can leverage emerging technologies like AI and ML to further enhance fraud prevention without compromising convenience. These technologies enable apps to learn user behavior patterns, predict transaction outcomes, and personalize the user experience. By striking the right balance between convenience and compliance, P2P platforms can deliver a seamless and trustworthy payment experience long into the future.

About

PYMNTS INTELLIGENCE

PYMNTS Intelligence is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multilingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.

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INGO Payments

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