

## Payment Insights

### Episode 1: Pandemic impacts and near-term prospects

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Guest: Dan Sanford, Visa

Luther: 00:00

You're listening to Payment Insights from Merchant Services at Bank of America. With a global pandemic, the shutdown of the world economy, widespread social unrest in the US, and a crazy election cycle, 2020 was an unprecedented year. Now that we're in 2021, there's hope on the horizon with multiple new vaccines and a rebounding economy. Taking a look back, we'll answer the question: What did the pandemic mean for the world of payments? Welcome to our inaugural episode, where we're going to discuss near-term prospects for payment industry. I'm your host Luther Maday, part of Global Strategy here at Bank of America. And with me today is Daniel Sanford, Senior Vice President of Corporate Strategy and Development with Visa. For merchants large and small, last year was either a boom or bust scenario. Some sectors saw tremendous growth, and some struggled to survive. Dan, what are you hearing from large corporate clients when it comes to how they changed their payment strategy last year, and how it keeps evolving?

Dan: 01:04

Thanks, Luther, and thanks for having me. What I think we're hearing from clients is that there is no silver bullet. There's no quick cure for the economy. And there's no one size fits all approach for our merchant partners, particularly our large corporate clients. If you look at what happened in 2020, it impacted them in ways that were profound and long-lasting. Their top line growth for merchants, particularly large merchants, has really been contingent on where they were going into the pandemic, you know, and for our partners that had already been investing significant resources in e-commerce in an omni-channel solution that may have already been providing sort of new services, like buy now/pay later or buy online/pickup in store. They really had a first mover advantage. They were able to really pivot on a dime, adapt really quickly to the pandemic, continue to serve their customers, and for many of them, they actually saw it as a boom. Grocery as a channel that's really boomed during this pandemic, e-commerce is an area of tremendous growth. There's one camp of merchants that, you know, were sort of at the ready and able to quickly pivot. And then you have like another contingent of merchants that, it was really an investment year for them. The pandemic caused them to really move their pipeline of next initiatives up by three years. And they had to do all of that work in 2020. And they had to invest in

their IT systems. They had to update their internal websites. They had to train their staff. They had to change their inventory. They had to rethink about their fraud management, how they would address and mitigate risk with some of these new experiences that they were rolling out. And so, it was dependent on what category you operated in. It was dependent on your readiness and how quickly you were prepared for the pandemic or ability to be agile and adapt. And then I'd say there's a third contingent of large merchants who continue to grapple with the impacts of the pandemic because their business model was impacted severely and continues to be with lots of sheltered in place orders, think about travel, restaurants that have done a lot to try to adapt, and yet they're still dealing with a lot of very challenging business priorities, given the ongoing pandemic that we face.

Luther: 03:25

Yeah. Thank you, Dan. It's not only merchants that have adapted, right? I think we all as consumers have adapted as well. I myself have a little bit more time to shop because I'm not stuck in a commute two to three hours a day, so my shopping habits are different. What are some big changes on the consumer front?

Dan: 03:43

Yeah, that's a good question Luther. I mean, I think you have to go back to just how different this recession has been. You know, if you look at it from an individual's perspective, the economy is sort of either great or awful, depending on who you talk to. Like those that have good jobs and can work from home, they're padding up their savings and investments as they have fewer places to spend their money. So, you know, I'm not taking that trip anymore. I'm not going to those summer weddings. And so since you're sitting at home, that's part of the reason you're seeing e-commerce really boom. But I think what you'll see in terms of the re-emergence of travel and retail in those segments is that as you get vaccinated, as those borders open up, you'll see a tremendous amount of excitement for people to travel. And so I think, you know, no one's got a crystal ball, but we can definitely tell from the consumer surveys from the research, that there's a tremendous amount of pent up demand. So I think it's not a matter of if, but when you're going to see those sectors really emerge. And for partners, especially the larger retailers, I think they're spending a lot of time right now, trying to figure out the timing of that, so that they can be prepared with the right inventory and hiring practices, and everything else, to serve that market demand that I think we're all anticipating will come. You know, either later this year into 2022, depending on what sector you're in.

- Luther: 05:04      Yeah, and I appreciate that, Dan. I'm going to switch gears here. We've seen face-to-face retail come to a standstill. So, most of the large brands out there shifted their focus to having consumers buy directly from their website. Well, now that we're in this kind of environment, where does it leave omni-commerce? What is the definition of omni-commerce now in this new environment?
- Dan: 05:27      I think it's still incredibly important because while you've seen the shift during the pandemic to e-commerce, consumers are still going out and shopping; it really just depends on what segment or category you are. And yes, the face-to-face channel is depressed from historical norms and yes; it's not seeing the same level of growth as e-commerce. I think we do expect and realize that consumers are still going to go back and live their lives. They're going to go to work, maybe not five days a week, maybe its three days a week, maybe it's just a more flexible sort of arrangement that people have, but I think it's still going to be critically important. What I think that pandemic did in terms of just fast-forwarding consumer expectations by years in terms of the experiences that they come to know and want and expect from the payments industry and from our retail partners. Contactless is a great example of that. And I know the question was really on e-commerce, but it's this journey that we were already on, pre-pandemic. And then the pandemic has actually really accelerated adoption, accelerated issuance because consumers now come to expect and desire those safe experiences. And so, whether you're talking about the face-to-face channel or you're talking about the growth we've seen in e-commerce, it really comes down to the expectations that consumers have for frictionless convenient, safe payment experiences that are delivering significant proposition to them.
- Luther: 06:59      I want to dive a little deeper on that because you bring up a great point. Given that consumers are looking for a frictionless payment experience, do you see consumer behavior actually shifting from websites or businesses where they feel that it is not as easy to complete the transaction?
- Dan: 07:18      Yeah, absolutely! And this is something we at Visa spent a lot of time researching. It manifests itself in different ways. So in the face-to-face channel, we've seen a huge acceleration in tap to pay payments. So, you know, if you go to the face-to-face environment and you look at tap to pay, we're seeing a tremendous amount of support from retailers who want to provide fast, frictionless, secure payments. And so you've seen a real significant uptick and just enablement. Now you're seeing merchants/retailers promoting it across the board

because they want to mitigate any interaction between their staff and their customer. And they know that the customer has come to expect it. We've recently done a study on tap to pay payments and consumer perceptions, and almost two thirds of consumers say that they would choose to shop at a retailer that accepts tap to pay because they've come to expect the ability to pay without any interaction with the clerk.

Luther: 08:18

Totally agree! Something you put a smile on my face. Consumers prefer not talking to the clerk. Isn't it funny how we've evolved just over a short period of time, where at one point, if you walked into a store and the clerk basically ignored you, you would walk out, right? Things have really changed. Now, let's take look at how the payment industry is evolving, which mainly includes digital payments and cashless payments as a whole. Are there things that merchants should be looking out for that could eventually have an impact on how they operate today?

Dan: 08:45

One of the things that we've seen a step change in is, sort of, the environment around going cashless. We've been talking about, for a number of years now, the benefits of electronic payments, the benefits to retailers of going cashless, going completely digital. And, you know, a few years ago there was a reaction from many city, state local governments that started proposing potential bands on going cashless. And with the pandemic, a lot of that has gone away. And in fact, you've actually seen more government agency advocacy for the digitization of payments. Early on in the pandemic, the WHO came out and said they recommend using contactless payments, the former president's, Trump's white house task force recommended contactless payments. We at Visa just did our first cashless Super bowl at Tampa. But, you're not seeing the same backlash in many communities against doing that. In fact, it's more viewed as a positive because cash is viewed as sort of dirty. And I think you're going to see a big focus from many payments companies, many retailers on the benefits of going cashless, while also making sure that we're solving for that under-banked sector to ensure that it's inclusive of everyone within a community, and that everybody has access to those financial tools to support cashless. But that's one of the things that I actually think has seen a step change just in the perceptions around going cashless from where we were before the pandemic to where we are now.

Luther: 10:11

Yeah, that's very interesting. I was just reading a study from Bank of America that showed that almost 70% increased digital activity across all our consumers and clients, right? From that perspective, if you look

at merchants and what they need to do to meet that demand with additional cashless options, digital payment options, when we talk about alternative payment methods, etc. Dan, what kind of advice would you have for merchants from that perspective?

- Dan: 10:38
- Yeah, it's a great question. At the physical point of sale, absolutely, obviously advocating for support and enablement for contactless payments for making sure that there's really good signage, clear messaging to the customer, because people don't really want to hand over anything to a clerk anymore. We're at about 260 of the top 300 merchants in the US support contactless, but there's still an enablement conversation that we're having with lots of retailers. They often say like, old habits die hard, and consumers, you know, are just very accustomed to pulling out a \$5 bill to pay for their morning coffee or their morning bagel. You know, if you look at transactions under \$10 in the US, 60% of them are still done on cash, those small transactions, where you just habituate tapping to pay when you have contactless payments enabled. And then beyond that, you know, it's really investing in your customer and investing in loyalty and rewards, and having an e-commerce platform, investing in some of the new experiences that customers have come to expect. It's really just all about being on the forefront of providing a great customer experience in this new paradigm we find ourselves in.
- Luther: 11:45
- I think you're spot on Dan! Well, on that note, thank you so much for your insights. I know we'll all be watching these trends that you mentioned. I really appreciate your time.
- Dan: 11:55
- Yeah. Thanks, really appreciate it.
- Luther: 11:57
- Absolutely! That'll do it for this episode of Payment Insights from Bank of America. I'm your host Luther Maday. Thank you for listening and stay tuned for our next episode.
- Luther: 12:13
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