Will micropayments thrive in social networks? (Part 1 of 2)

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This is the first of a two-part series on micropayments and social networks.

One of the most recent, and indeed interesting, phenomena is the entrance of social networks into the micropayments arena. Micropayments, generally defined as small-dollar transactions of $25 or less, are inherently inefficient. Converting them into electronic payments from the traditional cash market is costly, since fees such as interchange can consume a large percentage, if not all, of the transaction.

However, things have been changing recently as the environment for small payments has grown more hospitable. Credit card companies have introduced contactless payment devices to address the costs associated with unattended purchases such as parking meters and vending machines. The emergence of online payment network contenders such as PayPal, Amazon, Google, and others has fueled the growth of online micropayment transactions, as has the growth in online media sales, such as the 99-cent songs on Apple’s iTunes.

Several social networks have gained popularity recently as trusted sites for the exchange of information, digital media, and communication. This popularity and trust can help foster the network effect necessary for establishing an effective payment system. However, developing a new payment system is a risky venture, and many micropayment provider start-ups are not successful.

While some social network sites are exploring the opportunities to offer payment services, they are also permitting outside payment providers to place their applications on the social network platforms. These payment providers are able to leverage the social network platforms providing online payment solutions and monetizing digital currency.

The demand for digital currency via social networks and the ability to monetize transactions in virtual economies are garnering attention from venture capitalists—and they’ve captured our attention, for the moment. The remainder of this blog as well as next week’s will examine a few examples of the emerging micropayment service providers that we found. Keep in mind, our list is by no means an endorsement or an exhaustive list.

**Twitpay**

First, consider Twitter, a social networking site that lets users give short updates to other users about what they are doing. Twitter has, in essence, created an ecosystem in which third-party service providers are leveraging it to enable micropayments. A recent person-to-person (P2P) start-up called Twitpay allows Twitter users to send payments to other Twitter users—that is, as long as they both have PayPal accounts. As a third-party application that merely uses the Twitter platform, Twitpay has no formal ties to Twitter, aside from the similar name.

Here is how the application looks on the Twitpay site.

Send $10.00 to @twittername for reason

The user fills in the payment instructions and presses the “tweet” link at https://twitpay.me. The
application delivers the payment to the recipient’s Twitter Twitpay account. The recipient pays the cost of the transaction, which currently consists of PayPal’s commercial transaction fee of 2.9 percent of plus 30 cents. A user also can replenish his Twitpay account using PayPal.

Twollars
Another third-party application that recently started using the Twitter platform is Twollars, a vehicle for charitable giving in small-dollar denominations that allows Twitter account holders to donate to a charity or cause of their choice. Twollars was conceived in January 2009 as a way for people on Twitter to thank one another for sharing digital content and giving advice and information. Symbolic currency on “twollars” can be converted by charities into real currencies, such as dollars and euros, for example, again via PayPal. The Twollars Web site contends that Twollars can only be converted into real currency through donations to good causes. Charities can start campaigns on Twitter to raise funds. Any Twitter user starts with 50 Twollars. The Twitter platform allows even the smallest charity to reach a large audience. The site even allows businesses to reward customers with Twollars to be used for a charitable cause of their choice.

Next week in Part 2, we look at Facebook as well as other players in this emerging market such as Spare Change, Zong, and BOKU.

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