SEP 01
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PayPal teases consumer stock trading offering

Article

The news: Payments giant **PayPal** is rumored to be in the process of rolling out individual stock trading to its US customers, according to CNBC. Allegedly, PayPal is in talks with broker dealers while also exploring possibly taking over a trading platform.

Why is PayPal considering retail investing? PayPal has likely sized up the potential benefits of getting into the global retail investing boom that's accelerated over the past year.

- **Retail investing boom.** PayPal has likely decided that the staggering user growth digital trading platforms scored in the past year is too good to miss out on: In the US, these platforms added 10 million new brokerage accounts during H1 2021.

- **Established status.** PayPal is a household name accounting for 22% of online transactions in the US, while also enjoying a high level of consumer trust. These factors mean it would be rewarded by user growth if it moved into retail investing.
- **Competitor success.** Payments competitor **Square** also offers trading and has reaped the rewards of user base growth and increased engagement. The Square use case shows it's possible for a payments firm to extend itself smoothly into trading and use the opportunity to offer a one-stop-shopping financial services experience.

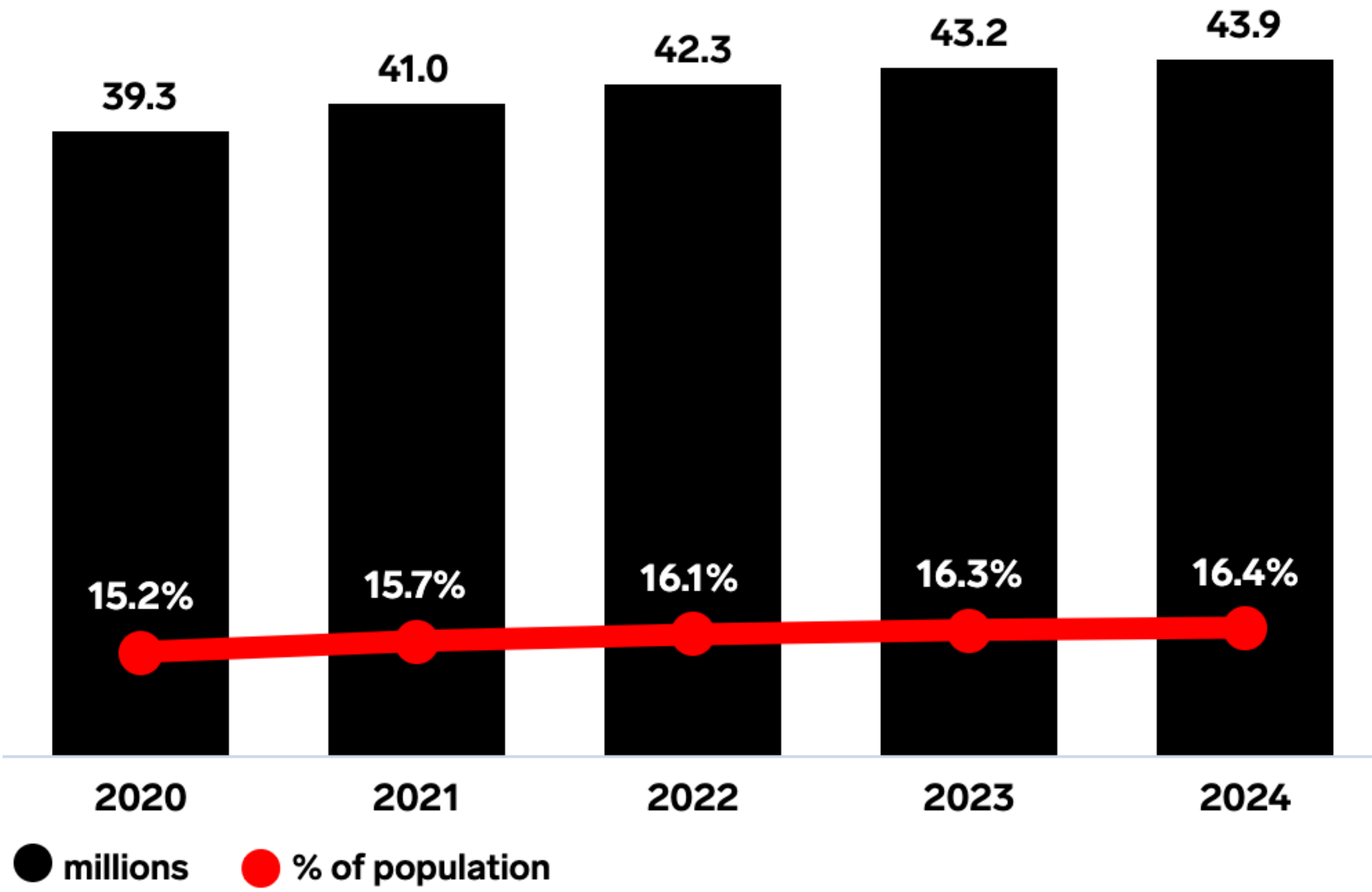
Bigger picture: As trading volumes slow and regulatory scrutiny spikes, an established player like PayPal will create a new obstacle for digital-trading platforms and could finally inhibit the frenetic pace of their user growth.

Regulatory scrutiny, in particular, portends less-favorable operating conditions for digital-trading platforms in the US and would upend their business models.

- **Gamification.** The SEC has asked for feedback on gamification methods, seeking to better protect consumers against taking on undue financial risk. Gamification strategies are commonplace among players like Robinhood and eToro, but the SEC fears that incentives to encourage users to trade frequently also encourages traders to risk more of their capital.
- **Payment for order flow:** At the same time, the SEC has indicated it will consider banning payment for order flow (PFOF)—the payment brokers receive from market makers for routing the trades to execution. **PFOF is a principal source of revenue for digital trading platforms, such as Robinhood, and is central to their business model as it finances their ability to offer commission-free trading.** Yet the SEC has raised concerns that it creates unfair conditions for investors by preventing them from accessing competitive prices.

Digital Brokerage Users

US, 2020-2024



Source: eMarketer, August 2020

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