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OMEGA FI EXPLAINS THE RISKS OF...

PEER-TO-PEER PAYMENTS

Peer-to-peer (P2P) money transfer apps and services like Venmo, Square Cash, Popmoney, PayPal, Snapcash and others are incredibly popular, convenient and cool. In fact, Venmo has enjoyed annual growth well over 100% for the last few years, and Apple has jumped in with the introduction of P2P functionality in iMessage.

How do P2P apps work? A student downloads the app and creates a payment profile by linking the app with his or her debit/credit card or, in some cases, their bank account. That linked account is used to send and receive payments.

When a group of friends go to lunch and the waitress refuses to split the check, Venmo makes it easy for each diner to quickly transfer funds from their phone to the person who paid the bill. When four people share an apartment, sending money by Cash App makes it easy to for all four to contribute for their portion of the utility and cable bills.

The stakes are high for the corporations investing in this technology. Venmo is a subsidiary of PayPal. Square Cash is owned by Square, and Apple is entering the market. Users of these services expect them to be convenient, quick and reliable. Undergraduate members of fraternities and sororities are part of a key demographic where these apps focus their marketing efforts.

However, in the high-stakes, litigation-prone world of fraternities and sororities, P2P apps present a number of challenges and risks that should be approached very carefully or avoided all together.

Inter/national headquarters (and their insurers) should consider developing educational programs about the risks, if not restrict or ban the use of P2P apps entirely from chapter operations, for at least seven reasons.





P2P Apps Make it Easier to Sue Fraternities and Sororities



Reason #1 - P2P Apps Make it Easier to Sue Fraternities and Sororities

P2P apps and their associated transactions are discoverable. Although this author is not yet aware of a plaintiff's attorney obtaining the P2P app records associated with a particular fraternity, it is inevitable.

In years past, both fraternities and sororities were rumored to "pass the hat" at chapter meetings and events to collect cash to purchase items prohibited by inter/national policies. In order to avoid spending chapter funds on inappropriate purchases, officers allegedly collected cash from members.

Today, those same students are asking each other to Venmo funds to an officer's personal bank account. Were a chapter officer to then spend collected funds on alcohol or some other inappropriate item and were it to be discovered from the clear electronic trail of transfers through the P2P app into a student's bank account, the outcome would likely be devastating and costly.

Reason #2 - Theft is Easy with P2P Apps

Even if chapter officers are asking chapter members to pay for legitimate purchases via Venmo or Square Cash, virtually all of these transactions occur "off-book."

The revenue from members is not usually recorded and categorized on income statements or 990 returns. What's worse, the funds can easily disappear. Most students Venmo money into a chapter officer's personal bank account. If the officer is dishonest, those funds can vanish quickly.

If the chapter is using a chapter bank account instead of a personal account, there may be even more risk. How sure can we be the new treasurer changed the Venmo password on the account when she/he took office? Very likely, the new treasurer elected in November is inheriting a Venmo account structure that has been used by several previous treasurers. They all have the password and can redirect the funds received via Venmo to an account of their choosing, and no one would ever know. Venmo doesn't alert you if your password or email credentials change from within the account. Chapters that provide someone else access to their account who then conduct transactions without their knowledge are responsible for the resulting use according to section D.11.a of the Venmo User Agreement.

It is a troublesome scenario that is ripe for fraud.



Students and Parents Receive Little Protection When Paying via P2P



Reason #3 - Students & Parents Receive Little Protection When Paying via P2P

If a chapter officer or advisor accepting a payment via Venmo is unscrupulous, there is little recourse if the student or parent making a payment needs to reverse or dispute the charge.

For example, Cole sends \$10 to his chapter treasurer via a P2P app for a fraternity t-shirt. That treasurer runs off with the money and never delivers the shirt to Cole. Cole has almost no recourse. Depending on the P2P app Cole used, Cole may not be able to dispute the charge or file a chargeback with his credit card company. A \$10 issue may not seem important, but imagine a similar scenario for Cole's rent at the chapter house.

The Venmo User Agreement is clear. Individuals paying via their personal Venmo account are only covered by the Venmo Merchant Payment Protection program when the entity receiving the payment is an Authorized Merchant. How many fraternity and sorority chapters become "authorized merchants?" The consumer protections fundamental to paying with a traditional credit card or checking account do not exist when paying with Venmo to a non-Authorized Merchant.

Students using Snapcash face the same problem. Snapchat's help files are pretty clear, "you cannot cancel a payment if your recipient uses Snapcash because it has already been deposited in his or her account."

Reason #4 - Students Receiving Funds are Liable for Taxes

When a student uses his or her personal bank account to collect money from other members of the chapter, it creates revenue for that student exposing him or her to a tax liability.

Reason #5 - P2P Apps Help Chapters Circumvent the Rules

Here's a real-life example, a men's fraternity at an SEC school was placed on interim suspension by their national office for a significant disciplinary violation. The headquarters was cooperating with university officials and complying with the college's cease and desist order. Instead of complying with the rules, a few rogue chapter officers instructed brothers to Venmo the next dues installment to the treasurer rather than pay through the traditional payment channels at OmegaFi.

While the headquarters thought the chapter was properly "ceasing and desisting," the chapter was circumventing the rules, collecting money and moving forward with the party they wanted to hold - despite the sanctions imposed by the university. Because it was occurring "off-book," the headquarters had no insight into what was taking place and faced a difficult situation once the university realized what was happening.



There is Almost No Support



Reason #6 - There is Almost No Support

Fraternity and sorority finances are big business. The undergraduates we entrust to manage budgets worth tens and hundreds of thousands of dollars face competing demands for their time and attention. They need a support system. Venmo offers very little. Look through the question and replies to the @VenmoSupport Twitter feed, and you'll quickly see Venmo users struggling to find the help they need to resolve problems.

If someone does not receive their money via Snapcash, Snapchat offers no support and instructs the out-of-luck person to contact Square.

Reason #7 - Chapters are Potentially Violating the Terms of Service

P2P apps have created complex rules governing their operations. College students often do not read those terms and conditions when they sign up for the service.

For instance, Snapchat specifically prohibits using Snapcash for commercial purposes, and goes on to say in section 3 of the Snapcash / Square Cash Agreement that Snapcash users may not send or accept payment in connection with "membership clubs, including dues associated with such clubs."

Related, Venmo and Square Cash offer two types of accounts - personal and business. "Personal accounts are for use in person-to-person transfers with friends and family, and other people whom you know." While this point has not been litigated as far as the author knows, paying your dues or a fraternity expense via one of these P2P apps likely does not fall within the personal account terms of the particular service's legal agreement.

The business account option offered by Venmo comes with a fee structure. Square Cash for business costs money, too. Always cost conscious, many fraternities and sorority officers choose to use the personal account structure instead of the business one to avoid paying the Venmo fees. By doing so, they may avoid fees, but they violate the app's legal agreements and bypass some of the consumer protections that might exist under a business account.



What Alternatives Exist?

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For all of these reasons, fraternities and sororities should look to alternatives to P2P apps the way they currently exist. What alternatives exist?

1. For illegal or off-book transactions, "passing the hat" and collecting cash may be more effective.
2. To operate in a transparent, compliant manner, a third-party service provider with the ability to save a payment profile on a mobile app, like OmegaFi, will accomplish objectives similar to a P2P app.
3. Rather than making a person-to-person payment, sorority and fraternity members should use their myOmegaFi app to make a person-to-chapter payment.
4. A fraternity or sorority member using OmegaFi can establish a payment profile using the myOmegaFi mobile app. Like the popular P2P apps, the student can create a payment profile using a debit/credit card or bank account. When it comes time to pay their dues or purchase a t-shirt for a chapter function, that same student simply needs to log-into his or her myOmegaFi mobile app and click the Pay Now button. It takes two clicks.
5. Beginning this month, that same student can set-up a Visa Checkout payment profile via OmegaFi if they prefer to keep their credit card credentials on file with Visa.
6. Using the OmegaFi mobile app to pay a fraternity or sorority bill is simple for the member and provides transparency and accountability to officers and the inter/national office.

Conclusion

Although popular and convenient for personal transactions, Venmo, Square Cash and other P2P payment applications expose fraternities and sororities and their members to tremendous and unnecessary risk. Inter/national headquarters staff should expand their educational programs and discourage the use of P2P apps for managing chapter finances.

