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Trends in the Electronic Exchange of Value

Wave-and-pay flopped when it was tried 10 years ago with mag-stripe cards. Now it's staging a comeback with EMV. **Will the sequel get better box office?**



CONTACTLESS II

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- ✦ Payments Regulation Lightens up
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'We think a significant share of those [reissued cards] will contain dual-interface technology because the costs are coming down, and countries that have implemented this are seeing greater use of the cards.'

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An Encouraging Start

After years of ever-tightening regulation in payments and other financial services, it comes as a relief to witness some of the encouraging steps Congress and the Trump administration are taking to unshackle innovation.

As our Acquiring story starting on page 20 documents, movement is afoot on a broad front to loosen the tight grip of the federal government in ways that might just hasten useful new products and services for consumers at lower cost not only to them but to banks and non-bank payments providers.

Consider the multiple signs of how this movement is proceeding: a more cautious—some would say reasonable—approach at the Consumer Financial Protection Bureau; the Justice Department’s decision to mothball Operation Choke Point, which brought civil suits against processors serving industries disfavored by the previous Administration; and a seemingly favorable attitude at the Office of the Comptroller of the Currency toward special-purpose bank charters for fintechs.

A broad-stroke indicator of the general trend in Washington, D.C., toward a lighter hand on the regulatory lever is the volume of pages published in the Federal Register, a daily government newspaper that publishes federal regulations, proposed rules, and notices. As our story documents, this page count dropped fully 34% last year after soaring to an all-time high of 95,894 pages in 2016. Last year’s 61,950 pages was the lowest count since at least 2000.

Of course, there isn’t necessarily an appetite to roll back all recent regulation. As the story makes clear, last year’s effort in Congress to repeal the Dodd-Frank Act’s Durbin Amendment, which ran out of steam at the crucial moment, isn’t likely to get moving again any time soon. The issue, which among other things involves caps on the fees big banks can charge retailers for debit card transactions, is said to be fraught with peril for legislators, since it forces them to choose between two powerful lobbying forces—financial institutions and merchants.

And whether the Trump administration will continue to take its foot off the regulatory pedal is now an open question in the wake of President Trump’s determination to impose steel and aluminum tariffs. That’s a bad omen for the economy that payments executives should watch closely, not because it affects them directly but because it could indicate the administration’s willingness to bend market forces to its will.

Still and all, the administration’s first year has proven to be a positive force for lightening the regulatory burden for the payments business. Make no mistake, the benefits will be widely felt. As the Electronic Transactions Association’s Scott Talbott says in the story: “This kind of environment can make payment products more accessible to more consumers.”

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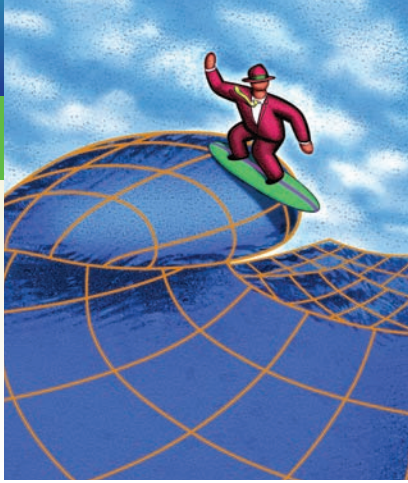
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TRENDS & TACTICS

Why Amazon Is Checking Into 'Checking'

Amazon.com Inc.'s interest in launching a checking-account-like product, reported last month by *The Wall Street Journal*, could have deep roots in its strategy both for payments in general and for Amazon Pay, the payment wallet it operates for non-Amazon sites, expert observers say.

Talks between the Seattle-based retailing colossus and banks are in the early stages, and it's far from clear any sort of product will emerge from them. But sources told the *Journal* the account would be designed to appeal to younger consumers and would not entail Amazon applying to become a bank.

Instead, the company is reportedly requesting proposals from megabanks like JPMorgan Chase & Co. and Capital One Financial Corp. to form a partnership to offer the product.

Amazon did not respond to a request for comment from *Digital Transactions*. Spokespeople for both Chase and Cap One said their institutions have no comment on the *Journal* story.

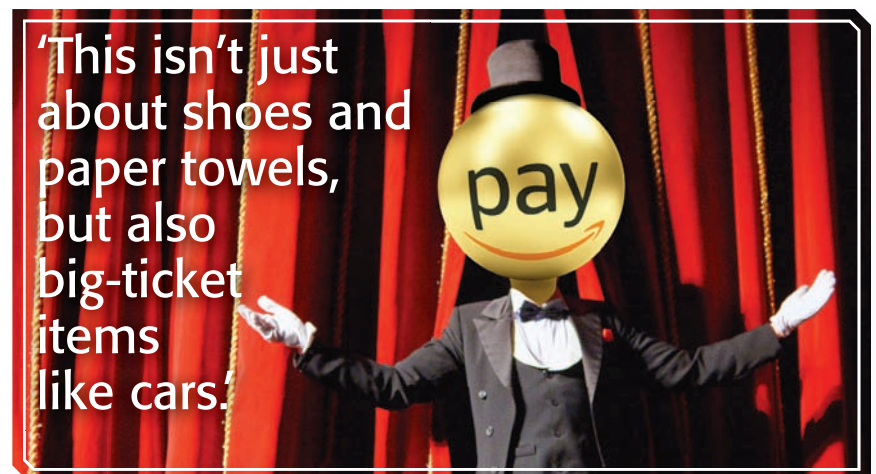
What Amazon is likely doing is exploring the idea of creating an account that could generate spending data the company could then use to shape and define marketing efforts, observers say.

"By being the provider of consumers' checking accounts, Amazon can be in the middle of not just Amazon purchases, but also gain insight into where, when, and what consumers are buying elsewhere," says Sarah Grotta, director of the debit and alternative products advisory service at Mercator Advisory Group, Maynard, Mass., in an email message.

The account could also work with Amazon Pay as a source of funds in much the same way the prepaid Starbucks account supports the coffee chain's mobile-payments service, suggests Richard Crone, principal of Crone Consulting, San Carlos, Calif.

"'Checking account' is a misnomer. Nobody uses checks any more," he says. "They could package this as a spending account and connect direct deposit. It's shoring up the foundation for Amazon Pay."

Amazon lately has been making efforts to bring Amazon Pay to physical locations in addition to online venues ("Primetime for Amazon Pay," February). Early participants include TGI Fridays, where the wallet can be used at "select" locations of the restaurant chain, as well as other stores that use First Data Corp.'s Clover point-of-sale system. Amazon has also worked on making Amazon Pay operate with its Alexa voice-response technology.





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The move to recruit a bank for a jointly offered account could also help Amazon by reducing transactions costs, some observers note. “Amazon’s scale means that card processing fees, particularly interchange, represent a very significant cost,” says Rick Oglesby, principal at AZ Payments Group, Mesa, Ariz, by email. “Anything Amazon can do to

circumvent interchange will provide very large savings.”

But the accounts could produce revenue in addition to cutting acceptance costs. “Any funds that the consumers hold in their accounts and spend outside of Amazon can generate interchange income,” Oglesby says.

But behind it all, several experts note, is the drive for usable data

about consumers’ spending habits. “By gathering this data and applying predictive analytics, Amazon can get in front of consumers’ next buying decision,” says Grotta. “This isn’t just about shoes and paper towels, but also big-ticket items like cars.”

Or, as Crone puts it, “Data is the new oil. Payment is the well.”

—John Stewart

Behind Apple’s Strange Shyness About Apple Pay

As Apple Pay’s global user base climbs to an estimated 127 million individuals, a mystery confounds some researchers: Why don’t even more consumers use Apple Inc.’s mobile-payment service?

Loup Ventures is one such research outfit. The Minneapolis-based venture-capital firm in March released its annual Apple Pay review. Among its findings is that the estimated number of global Apple Pay users increased 104.8% from 2016 to 2017, going from 62 million to 127 million. Still, only an estimated 16% of those people have activated Apple Pay, the firm said.

Loup Ventures also canvassed the top 100 retailers, according to eMarketer Inc., to gauge the level of Apple Pay acceptance. In 2018, 14% accept Apple Pay on their desktop e-commerce sites, 24% do so on their mobile-commerce sites, and 24% accept it in-app. Acceptance in all three channels has increased

substantially from 2017, when just nine offered Apple Pay on desktop, 13 on m-commerce sites; and 22 in-app.

That mobile-payment services like Apple Pay, which launched in October 2014, have yet to gain even broader adoption puzzles Gene Munster, Loup Ventures head of research. “The big picture was surprising,” he says. “The biggest surprise is that it is still nascent.”

That’s in spite of Apple “running the table” among the major mobile-payments services, which includes Samsung Pay and Google Pay (formerly Android Pay), he says.

For Munster, part of the mystery is why Apple doesn’t promote Apple Pay more. The company does send e-mail marketing messages to users. A recent one, for example, offered free delivery with Instacart if paying with Apple Pay.

But Munster looks for more reasons to use the service. Instead, he says,

“[Apple] tends to get very aggressive around features.” While Apple often touts the iPhone’s camera quality or its ability to easily take a selfie, “they need to do the same [kind of] thing when it comes to payments,” he says. An example, he says, would be to stress how, “when you use Apple Pay, it’s an easier checkout.”

“It’s a mystery why a company like Apple has this great product that they just largely left people to stumble upon,” Munster says.

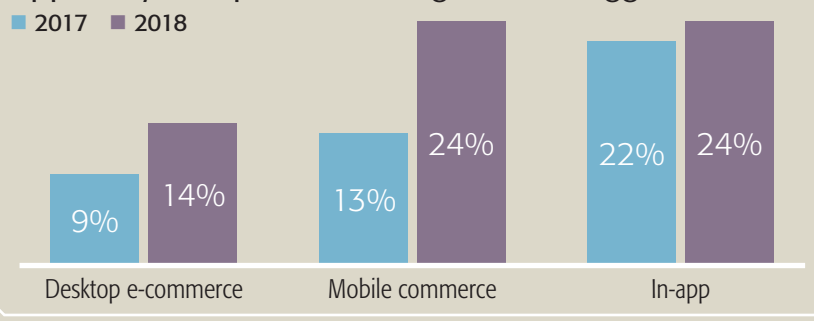
The message may be better understood internationally. In August, Apple said 75% of Apple Pay’s transaction volume originates outside of the United States. Also, according to Apple, nearly 90% of all near-field communication payments on mobile devices are attributable to the service.

Merchant acceptance also has a role. “There are merchants who can accept Apple Pay at the point of sale because of the hardware they have, but don’t know it,” says Munster, who wants to explore why merchants don’t activate mobile-payment acceptance.

Still, Munster is optimistic. “Even though 24% of the top 100 retailers accept Apple Pay, even though it’s disappointing today, the numbers will only go up in time,” he says.

—Kevin Woodward

Apple Pay Acceptance Among the 100 Biggest Retailers



Source: Loup Ventures



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Trends in the Electronic Exchange of Value

AmEx Plays 'The Price Is Right'

For decades, American Express Co.'s cards have been the costliest among the major card brands for merchants to accept. AmEx probably won't be giving up that leading position any time soon, but last month the company indicated it would play the pricing game a little harder to attract new merchants.

AmEx typically cuts its average discount rate slightly each year in the face of network competition for acceptance in both the U.S. and abroad. In earlier guidance, the New York City-based card issuer and network had predicted its average worldwide discount rate would fall 2 to 3 basis points (0.02 to 0.03 percentage points) this year.

But in a March 7 Investor Day presentation, the company upped the predicted reductions to 5 to 6 basis points.

According to the *Financial Times*, the cuts will be AmEx's biggest in 20 years. The British newspaper estimated they could cost AmEx as much as \$585 million this year.

The biggest driver of the cuts will be individually negotiated discount

rates with merchants in countries where acceptance costs are unregulated, according to the presentation. The reductions are one component of a multifaceted growth initiative now overseen by new AmEx chairman and chief executive Stephen J. Squeri, the successor to long-time CEO Kenneth I. Chenault, who retired in February.

AmEx's average worldwide discount rate was 2.43% in 2017, down from 2.45% in 2016, according to the company's latest earnings report (chart). Specific discount rates vary widely based on a merchant's AmEx volume, industry, the type of transaction, and whether the merchant is in a regulated or unregulated country.

Discount revenues from card charges at AmEx-accepting merchants are the company's single biggest source of income, totaling \$19.2 billion in 2017, up 3% from 2016's \$18.7 billion. AmEx's revenues took a hit when the company in 2016 lost its exclusive U.S. credit card acceptance deal and cobranded card with Costco Whole-

sale Corp., the world's second-largest retailer, to Visa Inc. and Citigroup Inc.

"We're making some conscious tradeoffs in the discount rate as we continue our focus on growing merchant coverage," Squeri said during the Investor Day event, according to an AmEx-supplied transcript. "The result, more places for our cardmembers to use our products, which means more revenues from both spending and lending."

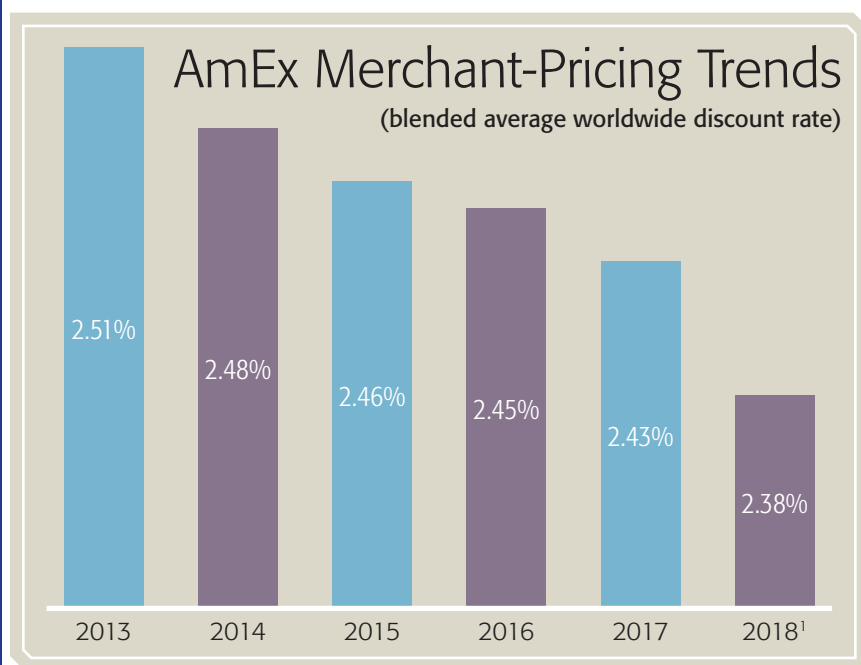
AmEx has been trying to narrow the gap between the size of its merchant base and that of the Visa and Mastercard networks, but it's still got a long way to go. A big component of the merchant-acquisition drive is OptBlue, which enlists bank card merchant acquirers to sign small businesses, and then service the accounts.

OptBlue reeled in 1 million new merchants for AmEx in 2016. In March, the Canadian Federation of Independent Business announced that JPMorgan Chase & Co.'s acquiring unit in Canada was offering the CFIB's 110,000 members access to OptBlue under a program that it said could cut AmEx acceptance costs by as much as 50%.

But AmEx's growth plan goes far beyond expanding its merchant base. It also includes cobranded cards and enhanced cardholder rewards, an emphasis on digital offerings, and more focus on commercial payments.

The presentation says 16% of worldwide billed business in 2017 came from cobranded cards, with half of that on the Delta Air Lines card. The Hilton hotel chain, which for years had split its cobranded credit card business between AmEx and Citi, recently assigned the entire program to AmEx.

—Jim Daly



1. Projected. Source: American Express, Digital Transactions

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The Fed's Secure Payments Task Force Comes to an End

The Federal Reserve last month shut down its Secure Payments Task Force, which had been part of the three-year effort to design a real-time payment system for the United States.

The Fed invited the group's more than 200 members, made up of payments executives from across the financial-services industry, to work with its Fed Payments Improvement Community. Members may also participate in "new collaborative industry work groups" the Fed expects to form later this year, the banking regulator said.

The secure-payments work group met in parallel with the Fed's Faster Payments Task Force in an effort that culminated last summer in evaluations of some 16 faster-payments systems available or under development. At the time, the Fed issued a call for widely available real-time or near-real-time payments by 2020 ("The Sweet 16," September).

The move to shutter the Secure Payments Task Force came as little surprise to some industry observers. "The job was done," says George Warfel, general manager for fintech and payments strategy at Haddon Hill Group, a San Francisco-based consultancy, and author of *Digital Transactions'* Payments 3.0 column. Warfel served on the Faster Payments Task Force, which embraced more than 300 members and ended its service last year.

Even so, with faster payment clearing and settlement on the near horizon, some critics argue a greater need for security measures could make the decision to shut down the task force an ill-advised move. In response, the Fed says stringent payment security will not lose importance.

"The security of emerging payment systems and technologies ... will

'Success is jeopardized if those in the position to implement stronger security don't have incentives to do so.'

continue to be a priority moving forward," says Connie Theien, senior vice president and director of payments-industry relations at the Fed, in an email message. "The task forces partnered to develop security criteria for faster payment solutions that are today serving as important guidance for the systems in development and in market."

Little detail is available yet about the security-related collaborative work groups the Fed plans to set up, including how many groups will be formed and what subjects they will investigate. The Fed promises more

specifics later this year.

One likely topic will be what the Fed perceives as cases where parties that can protect payment data or prevent fraudulent transactions may need a stronger business case. "Stated simply, success is jeopardized if those in the position to implement stronger security don't have incentives to do so," Theien says.

An upcoming fraud study, she adds, will address "whether stakeholder incentives are aligned to address" payment vulnerabilities.

—John Stewart

Surcharges: The Next Big Thing?

Sure, not too many merchants are doing it yet. But judging from the enthusiastic response a group of payments executives received last month when they got together to talk about credit card surcharges, it's not hard to conclude that surcharging could be the coming thing in merchant pricing.

"This is the wave of the future in our industry, it just is," said Michelle Geraci, vice president of sales at Transaction Services, a Newark, Del.-based independent sales organization that began offering a credit card surcharge program to its merchants in 2015. Geraci participated in a panel about surcharging at the Southeast Acquirers Association annual conference in Orlando, Fla.

Surcharging can help cost-conscious merchants recoup at least some of their expenses for payment card acceptance. Geraci drew a parallel with fees passengers now pay to airlines. "Twenty years ago, we didn't pay for luggage," she said, adding that "merchants are sick of paying for everybody's vacations" through high interchange on rewards cards.

A San Diego parking garage that paid \$4,000 per month in card-related fees before joining the Transaction Services surcharge program now has costs of only \$400 monthly, she said. "We didn't get any complaints from the [garage's] consumers," Geraci added.

Surcharging, however, can be complicated to implement and requires

careful attention to state laws and network rules. Basic requirements set by Visa and Mastercard limit surcharging to the lower of 4% of the sale on credit card transactions or the actual acceptance costs; no surcharging on debit purchases is allowed.

Just a few years ago, as many as 10 states banned surcharging, but courts have ruled against them in Florida, California, and New York, according to CreditCards.com. Some of the challenges came on free-speech grounds in that laws have limited what merchants can tell consumers about the pricing option.

“It appears the states are moving in the direction of allowing surcharging,” said panelist Edward Levene, president of Norwalk, Conn.-based Card-Charge, a surcharge-services provider. Still, language in the remaining statutes regulating surcharges can vary among states, requiring close attention to assure compliance, according to Levene.

An alternative to surcharging is the discount for cash, which can be applied to both credit and debit card payments, according to panel moderator Jill Miller, a payments attorney at Varnum LLP in Novi, Mich.

“The communication has to be very clear,” said panelist Erica Aranha, senior account manager at SignaPay, an Irving, Texas-based ISO that offers a discount-for-cash program called PayLo. SignaPay limits the discounts to 3.95%. The program can be adapted for e-commerce sales.

“In order for it to be considered a true cash-discount program, there has to be specific things in place,” Aranha said. They include signage and systems that properly calculate the discount and display it on customer receipts, she said.

Another important item is employee training. Clerks and sales

reps need to explain the discount to customers properly so that they don’t perceive it as a surcharge on card payments, she said.

About 30% of Transaction Services’ merchants participate in the surcharging program, Geraci tells *Digital Transactions*. It’s most popular among business-to-business and other merchants with high average tickets.

Aranha said SignaPay’s discount-for-cash program is popular in certain

retail sectors, including liquor stores. The program is one more service for merchants and hasn’t affected SignaPay’s overall volume, she said.

After the panel session ended, a rush of attendees crowded around the panelists, peppering them with questions. The panelists clearly struck a chord, but how loudly surcharging will resonate in the wider payments community is still to be determined.

—Jim Daly

Why Are Merchants’ PCI Compliance Rates Slipping?

At a time when the payment card industry continues to struggle with the consequences of data breaches, the last thing acquirers and issuers need is a slowdown in merchant compliance with critical data-security rules.

Yet that is what’s going on, warn the Merchant Acquirers Committee and ControlScan Inc. in survey results they jointly released last month.

In an online survey conducted in November and December, 62% of

acquirers, independent sales organizations, and payment facilitators said their merchants’ rate of compliance with the Payment Card Industry data-security standard had increased, leaving 38% indicating the rate had dropped or stayed the same (chart, page 14). That doesn’t sound too bad until you consider that three-quarters had indicated an increase a year earlier.

That’s a big concern, says a MAC/ControlScan report presenting the latest

The advertisement features a blue background. At the top right, the text "USAePAY 20 YEARS" is displayed in a stylized font. Below this, a blue banner with white text reads "ALWAYS AHEAD OF THE GAME". The central visual is a blue and red rocket ship with "USAePAY" written on its side, emerging from a fishbowl filled with water, creating a large splash. To the right of the splash is another fishbowl containing several orange goldfish. At the bottom, the phone number "866.490.0042" is on the left, "USAePay.com" is in the center, and "USAePay/ [Twitter icon] [Facebook icon] [LinkedIn icon]" is on the right.

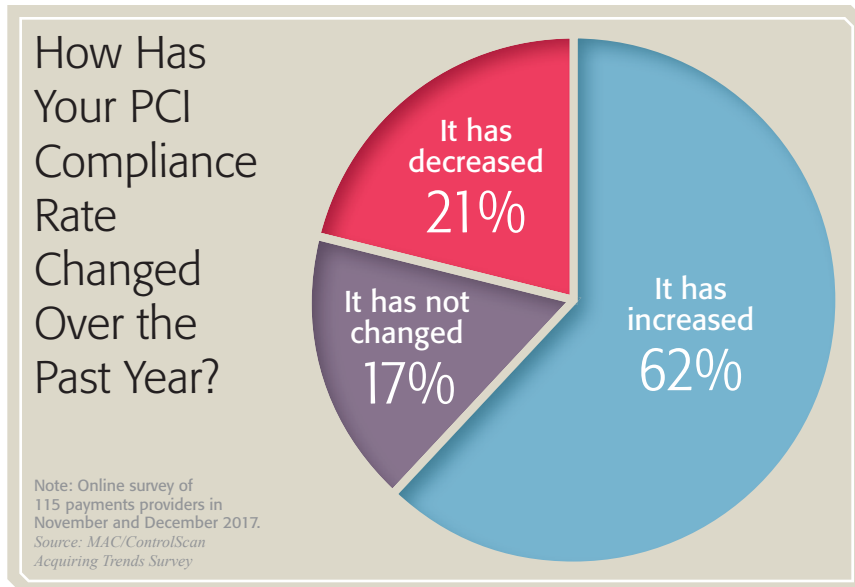
results. “Decreasing or flatlining portfolio-compliance rates are a red flag for acquirers, indicating one or more PCI program issues that must be addressed,” the report says.

Atlanta-based ControlScan, a security-systems vendor, and the MAC, a trade organization for acquirers, gathered 115 responses in the survey, which is conducted annually and concerns compliance by so-called Level 4 merchants, or small and mid-size sellers. The PCI standard has been in place for more than a decade and is seen as a key bulwark against card-data theft.

So what’s behind the one-year drop-off in compliance rates? A big part of the problem is that too many merchants that once certified their compliance aren’t maintaining that status by revalidating in later years, according to the report.

This factor, cited by some two-thirds of respondents who reported a lesser compliance rate, was unexpected. “Many ISOs and acquirers have succeeded in getting their merchants PCI-compliant to begin with, but we were surprised to learn that so many of those same merchants are falling back out of compliance,” said Chris Bucolo, director of market strategy at ControlScan, in a statement.

The two reasons for lapsing, says the report, are that merchants are



unaware of the need to revalidate or that “they don’t want to go through the process again.”

Indeed, another factor depressing compliance rates, according to the survey respondents, is what they see as the increasing complexity of the self-assessment questionnaires used to maintain compliance.

“More is being asked of the small and mid-sized merchant, and many don’t have the means to understand and integrate the requirements into their business,” says the report. “This is a perplexing issue for acquirers as well.”

Key methods to boost compliance rates, according to the report, include

setting goals for the rate within a portfolio and tracking progress, frequent communication with merchants, and partnering with independent software vendors (ISVs), the software integrators that wire merchants’ point-of-sale systems.

Forty-nine percent of respondents say they are already working with ISVs, while another 13% say they intend to this year.

“Not only can [ISV partnerships] make it easier for the merchant to conduct business, they can also eliminate unnecessary hassle in the PCI-compliance process,” says the report. **DT**

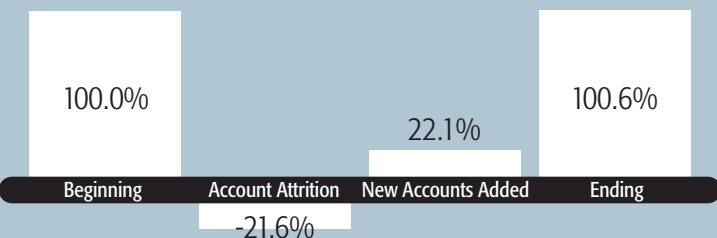
—John Stewart

MONTHLY MERCHANT METRIC

Q4 2017 Account Attrition And Growth

Account Attrition—Total attrited accounts in given period divided by total portfolio active accounts from same period of the prior year.

New Accounts Added—Total new accounts in given period divided by total portfolio accounts from same period of the prior year.



Note: This is sourced from The Strawhecker Group’s merchant data warehouse of over three million merchants in the U.S. market. The ability to understand this data is important as SMB merchants and the payments providers that serve them are key drivers of the economy.

All data is for SMB merchants defined as merchants with less than \$5 million in annual card volume.

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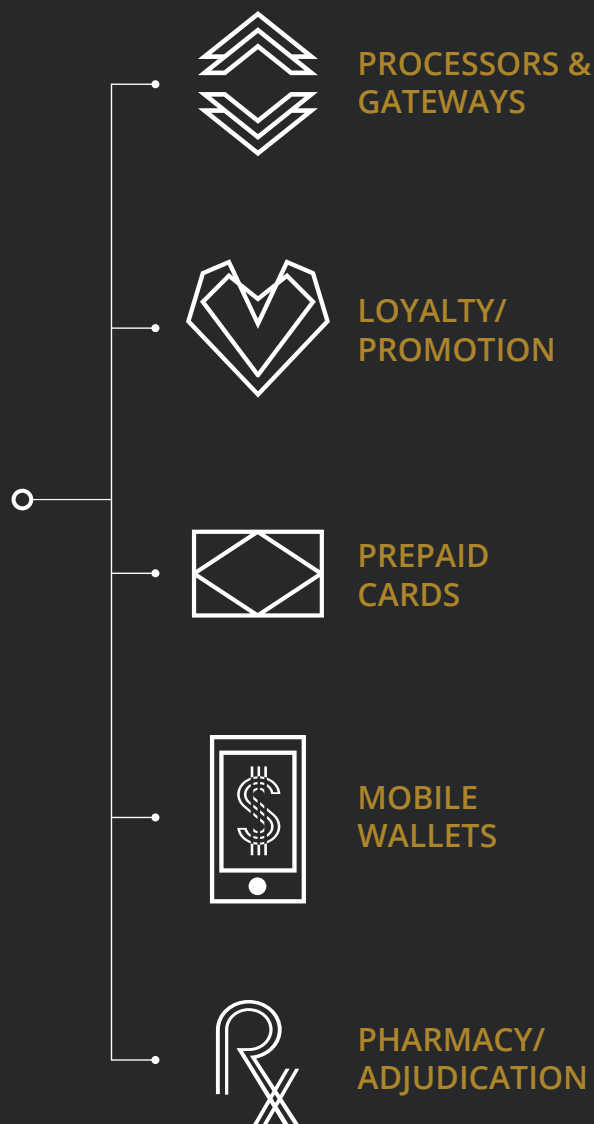
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A Remedy for Wasted Drug Dollars



Gideon Samid • *Gideon@BitMint.com*

The health-care industry is predominantly a simple, repetitive daily act carried out by millions of Americans: popping a pill. Seven out of 10 Americans are on prescription drugs. About 4 billion prescriptions are written annually, an average of 13 prescriptions per person.

Taking our daily pills is our most common act of public health care. And this act is fraught with staggering waste and consequential health damage. The World Health Organization published a shocking prescription-administration error rate of 10% to 30%, with the elderly and the self-administering patients sustaining most of those errors.

Chronic illnesses relapse. Psychotic patients lose their mental balance, posing a danger to themselves and to others. A young lady in my family was hospitalized after mistakenly taking a double dose of a potent drug.

Errors and mishaps occur too frequently in hospitals, too. Nurses are overworked and misapply critical prescription pills. The cumulative health impact is under-reported.

Add to this the cost factor. The University of Chicago published information indicating that just in long-term care facilities some \$2 billion worth of unexpired drugs are wasted annually. Overall, about \$5 billion worth of paid-for drugs are discarded annually, according to estimates.

Here is a perfect application for the new dimension of payment in our society. Digital money is not just a way to frustrate lawbreakers, it is also, and mostly, a lever for new-ground breakers. Unlike legacy digital money, which is a number in a computer address, digital money is a string of bits that carries value and identity, and as such can be linked cryptographically to its terms of use—money tethering (see my book, “Tethered Money”).

Think of an elderly lady in her apartment. It’s 7 p.m., time to take her blood-pressure medication. She takes her smart phone (or dedicated payment device) to the proximity of a mounted lockbox, which pops out the pill she is expected to take. The pill is released when the lady’s phone

sends to the lockbox the exact amount of money required for that pill. Pay-per-pill, pay-when-used.

If for any reason the lady neglects to buy her evening pill, this fact is communicated via the patient’s phone to the monitoring health-care professional, who checks on the situation. Perhaps the lady fell ill. A simple phone call will alert a forgetful patient.

The money for that evening pill was supplied by the lady’s health insurance, and it was tethered. That is, it was designated to be used exactly that evening, not the evening before. And it will expire if not used within a given window of time. The patient pays exactly for the pills he or she consumes. No more wasted, unopened, or half-used bottles. A patient will not be able to buy 90 days’ worth of opiates and sell them to addicts.

In a hospital environment, a patient-assigned iPad loaded with insurance dollars will “buy” the pills from the nurse, and will not pay for unprescribed drugs administered in error. It will also alert the nurse if an expected pill was not offered “for sale.”

Indeed, payment is not just for transfer of wealth any more. It is a detailed, fast, effective, high-resolution monitoring system. Much as Visa and Mastercard today know us intimately by our wallet movements, so our health insurance and caretaker will penetrate even deeper into our minute, momentary payments at large.

This daily, real-time knowledge is robbing us of much-desired privacy but buying us protection, attention, and real-time help with the daily routine of popping pills. Aging nation that we are, consuming pills is becoming an American cultural icon like political inflexibility and apple pie.

What we describe here is not limited to health care. When Edison presented his light bulb, it was described as a candle replacement. It took a long time for people to realize that electric light is more than a fancy candle. Expect no less time before it is clear that digital money is not a fanciful payment card. The technology is here. Unfortunately, hesitation is holding us back.

Whether I talk about it in my class or in the BitMint lab, someone always comes up with a new vision of life enhanced through high-resolution, fast, secure, tethered money paid not way in advance, not according to a later invoice, but at the exact instant of use. Is your imagination on fire? Drop me a note! ■

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How To Innovate



George Warfel • GWarfel@haddonhillgroup.com

(This is the first part of a two-part column. Part Two will appear next month.)

From the Office of the Comptroller of the Currency to the laboratories of Silicon Valley, innovation is the most important thing happening in payments today. We are re-inventing not only the technology of payments but also the methods and rules—and in some cases, the ownership of the country's and the world's payments systems.

Innovation in payments has been going on for a long time. The first “checks” came about when traveling merchants would deposit gold or currency with a bank in the city from which they were departing, carry the deposit receipt with them, and sign over the receipt to a bank in the destination city in return for the equivalent in that country's currency.

This two-part series presents a proven, practical, and uncomplex model for conducting innovation that has been used at SRI International, IBM's Watson Research Center, and PwC, and in working with clients ranging from central banks to commercial banks, card companies, retailers, and fintech startups.

GRAPHICALLY-FACILITATED GROUP INNOVATION™

1. The Right Group Beats A Lone Genius

Popular books on innovation usually tell the stories of lone genius innovators, from James Watt to Elon Musk, ignoring the reality that as much or more innovation is done by groups as by individuals. For us who aren't geniuses, the group approach can create innovation just as successfully. But you'll need the right group of people in the room. Two people from each of four disciplines should be brought together:

- ▶ Marketing people who know the customers well;
- ▶ Experienced use-case developers;
- ▶ Technologists and engineers;
- ▶ Customer-interface designers.

Large innovation groups can be effective if broken up into sub-groups made up of people from each of these categories, with each group at a table and all of them in one room. Two more things are key for successful sessions:

Have the workroom walls covered in drawing paper and involve a good facilitator to guide the process.

2. Start With the Problem—Then Work Backwards

Start by putting the problem or opportunity statement on the wall. Then, instead of trying to solve it, work backwards to what causes it. Here are some recent examples:

▶ Most banks find producing customer statements a burden. What about giving each customer a bot that would receive a feed of all transactions to and from the customer's account as they are made, with the statement getting assembled on the customer's computer rather than the bank's, and in real time?

▶ Sometimes the solution is so simple it is hard to see. The startup that invented high-speed check imaging was trying to figure out how to keep the checks that were going through the machines from becoming airborne. One of the engineers went over to the machine and turned the speed down just enough. Problem solved.

▶ How could we avoid being impacted by fraud? Maybe payment-fraud risk could be shifted to other parties if the risk could be calculated and made into a marketable option instrument. Instead of solving the problem, sell it to someone else.

Before trying to correct the problem, try innovating how to not have the problem.

3. Graphics And Groups

Innovation is unlikely to happen if people just sit and talk.

Instead of talking, innovation groups can use large-format drawings made with colored markers on paper that covers the walls. The reason for drawing on a wall, not an easel pad, is that the people watching have to move their heads to follow along.

The combination of silence and movement almost magically lowers the unproductive talk among the group members. And it does the same for the mental self-chatter in our heads. Into this space truly novel ideas will often bubble up from people's subconscious minds. Have them share these by drawing them on the walls, which can engender further ideas. ■

Next month: It Is All in Your Mind; Modeling The Innovations; Evaluating the Models.

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- **Inventory and vendor management** — Ensure your merchants have the funds on hand to pay their vendors that supply their goods and services.



The Trump Effect

Peter Lucas

Payments providers expect the Trump Administration's lighter regulatory touch to make it easier to bring new products to market faster and more cost effectively.

For better or worse, President Trump has made good on his campaign pledge to lighten the regulatory load on businesses. In fact, the brisk pace at which the new administration has eased the regulatory environment was a point the president highlighted in his State of the Union address in January.

It's also borne out by the numbers. A proxy for the level of government regulation is the number of pages published each year in the Federal Register, a daily government newspaper that publishes federal regulations, proposed rules, and notices. That number fell 35% in 2017 from a record high in 2016, the last full year of the Obama Administration (chart, page 22).

Count the payments industry among the beneficiaries of the regulatory rollbacks. The most recent regulatory olive branch to be extended to payments providers came in March when the Consumer Financial Protection Bureau issued a request to interested parties for information about its rulemaking processes.

The request was one of a series the Bureau has issued to better define its mission since Mick Mulvaney, director of the Office of Management and Budget, took over last year as

acting director ("Has Trump Tamed the CFPB?" March).

The CFPB is an agency that grew out of the sprawling Dodd-Frank Act passed by Congress in 2010 to more tightly regulate financial institutions in the wake of the 2008 financial collapse. Under its first director, Richard Cordray, it was seen by critics as an unyielding crusader that operated without proper oversight.

Now, its requests for clarity of mission are seen as a pivot toward a more pro-business stance. But in the eyes of supporters, this would run counter to the CFPB's charter to protect consumers' interests when it comes to financial products and services.

In its statement announcing the request for information, the CFPB said it was seeking input on, among other things, its adopted and inherited rules, as well as its rulemaking process.

The CFPB consolidates a large portion of the federal government's consumer financial-protection authority under its roof, giving it broad regulatory powers. Since its creation, the CFPB has paved the way for consumers to receive billions of dollars in refunds and debt relief from financial-service providers considered to have taken advantage of their customers.

Also fueling speculation that the CFPB was preparing to adopt a lighter regulatory touch was the appointment of Mulvaney as acting head. Cordray, who was appointed by President Barack Obama, resigned in November. Mulvaney is expected to leave the post later this year after President Trump appoints a new head of the agency to a five-year term.

"Mulvaney's appointment strikes a new tone at the CFPB," says Eric Grover, principal at Intrepid Ventures, a Minden, Nev.-based consultancy that closely follows regulatory issues in the payments industry.

"I suspect the CFPB will receive constructive suggestions as part of its request for information where it could make supervision less burdensome and more effective," Grover says. "The Trump Administration understands that heavy regulation suppresses business and its appointees reflect that position. The administration's focus is on pulling back what it considers regulatory overreach."

The CFPB isn't the only federal agency taking a more pro-business stance that could benefit parts of the payments industry, including acquirers.

In 2017, the Department of Justice lifted a huge monkey off the back of payments providers by ending Operation Choke Point, an anti-fraud initiative aimed at entities believed to be at high risk for engaging in fraud or money laundering. Choke Point's idea



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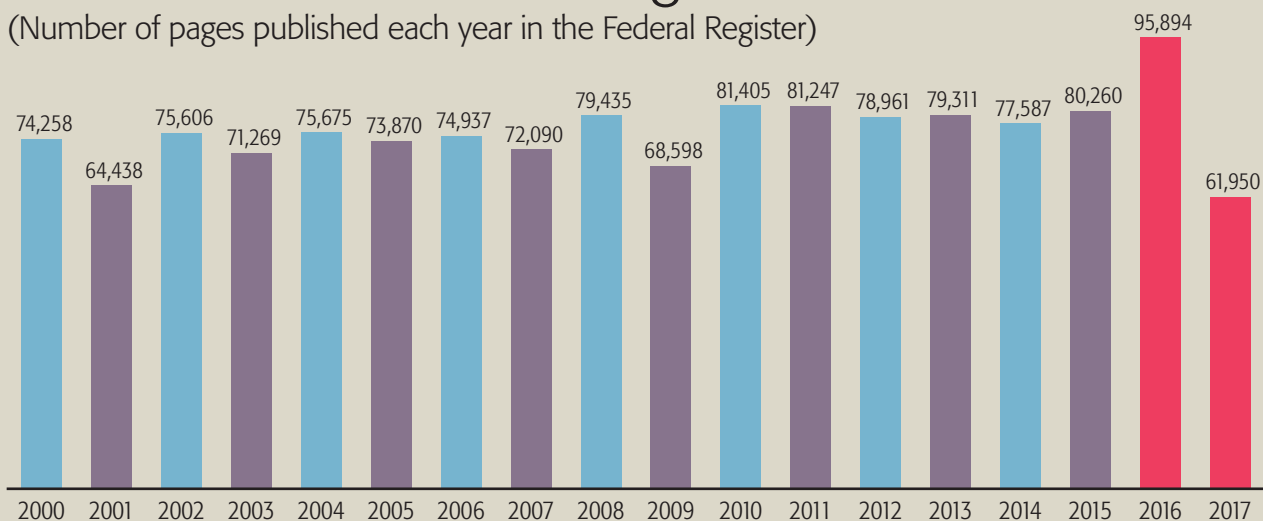
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Down From a Record High

(Number of pages published each year in the Federal Register)



Source: Regulatory Studies Center, Columbian College

was to “choke off” such businesses by bringing civil suits against the companies that processed their payments.

The initiative, launched in 2013 by the Obama Administration, was seen by some payments experts and members of Congress as a misguided operation that hurt lawful business partners and merchants. The Justice Department’s decision to shut it down “takes the foot off the industry’s throat,” says Grover. “Operation Choke Point wasn’t good policy.”

Pendulum Swings

While it is too early to say for certain what the new regulatory climate actually means for the payments industry, the early belief among payments experts is that it will foster

more innovation in payment products and services.

“As the regulatory pendulum starts to swing in the other direction, there is the potential for new partnerships between financial-service providers and [financial-technology] companies to bring new and lower-cost products and services to market faster,” says Scott Talbott, senior vice president for government relations at the Washington D.C.-based Electronic Transactions Association. “This kind of environment can make payment products more accessible to more consumers.”

One way fintech companies might benefit from the trend: special-purpose bank charters from the Office of the Comptroller of the Currency. The OCC, which has authority under the National

Bank Act and the Home Owners’ Loan Act to grant charters for national banks and federal savings associations, announced the special-purpose charter initiative in 2015 to help fintechs gain regulatory approval for new products.

In December, Comptroller of the Currency Joseph Otting said he plans on moving forward with the effort. He also said he will move on easing compliance and anti-money laundering rules for community banks.

Currently, fintech firms can only receive bank charters at the state level, which leaves them regulated by the individual states granting the license. A fintech company receiving bank charters in all 50 states, for example, would have 50 sets of regulations to follow. Meanwhile, gaining bank charters in 50 states can take a couple of years and cost \$1 million or more in licensing and legal fees, says Talbott.

A special-purpose bank charter from the OCC would also streamline the regulations fintech banks would have to comply with. The OCC would be responsible for regulating technological innovations offered by the bank. It would also subject the bank “to the same laws, regulations, examination, reporting requirements, and ongoing supervision as other

‘A fintech bank charter will provide numerous public-policy benefits ... and increased competition to develop cost-efficient, inclusive products and services.’

national banks,” the OCC said in a 2016 paper entitled *Exploring Special Purpose National Bank Charters for Fintech Companies*.

While special-purpose national bank charters have been around for some time—credit-card-issuing-only banks have such a charter, for example—the OCC further stated in its 2016 position paper that “there is no legal limitation on the type of special purpose for which a national bank charter may be granted, so long as the entity engages in fiduciary activities or in activities that include receiving deposits, paying checks, or lending money.”

Not surprisingly, reaction by some states to the OCC’s proposal has not been positive. New York State’s Superintendent of Financial Services, Maria Vullo, for example, filed a lawsuit challenging the OCC’s regulatory authority to grant bank charters to fintech firms. That suit was dismissed last December by the U.S. District Court for the Southern District of New York, handing the OCC a major victory.

The ETA is a strong supporter of OCC bank charters for fintech companies, arguing that granting such charters will enable fintechs to bring new payment products to market faster and more cost effectively by replacing the maze of state regulations they must navigate with a single set of regulatory rules.

“A fintech bank charter will provide numerous public-policy benefits, including a regular and consistent regulatory framework for chartered fintech companies and increased competition to develop cost-efficient, inclusive products and services,” Talbott says. “The OCC recognizes the value of fintechs and the need for regulations not to stifle their ability to do business nationally.”

The ETA’s legislative agenda also includes support for industrial loan company (ILC) charters. An ILC is a financial institution that lends money

and may be owned by non-financial institutions. Last year, payment processor Square Inc. acknowledged it is seeking an ILC charter to expand its small-business lending operation.

‘Through the Battles’

Whether the OCC ends up granting special-purpose bank charters to fintech

companies is likely to hinge on whether such charters would generate more innovative payment and financial-services technologies than partnerships between fintechs and financial institutions do already, says Jason Kratovil, vice president for government affairs for payments at the Financial Services Roundtable, a Washington D.C.-

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based advocacy organization for the financial-services industry.

Indeed, many fintech companies have adapted to the stricter regulatory environment they encountered under the Obama Administration, payments experts say. Some of the payments products to debut and expand during this time included Zelle, the person-to-person payments service from Early Warning Services, a financial-services company owned by Bank of America, BB&T, Capital One, JPMorgan Chase, PNC Bank, U.S. Bank, and Wells Fargo.

Also emerging during the former administration were: Venmo, the PayPal Holdings Inc.-owned mobile-payment service; cryptocurrencies such as Litecoin and Ethereum; and blockchain applications for recording the sale and transfer of any asset, such as insurance policies.

“What we have seen prior to the current regulatory environment was financial-service providers working with their fintech partners to make sure those partners adhere to regulatory compliance,” says Christopher Feeney, president of BITS, the technology-policy division of the Financial Services Roundtable. “Financial-service providers understand that they have a responsibility to make sure partners coming from outside the industry are regulatory-compliant.”

Diligent oversight of fintech partners is not likely to change in the new regulatory environment because financial institutions have come to understand that what has not changed is that the actions of partners reflect directly on them in the eyes of regulators, payments experts say.

“I believe it is important to conduct a due-diligence process to help [decide] whether to work with a fintech company, as they may be subject to additional regulatory examination in comparison to a well-known third-party for various reasons,” says Yvette Hollingsworth Clark, executive vice president and regulatory innovation

officer for Wells Fargo’s Innovation Group. “The financial institution must demonstrate knowledge of the solutions as if the institution developed [them] itself.”

Also, don’t expect a repeal of the Durbin Amendment to the Dodd-Frank Act. That amendment requires



‘The Trump Administration understands that heavy regulation suppresses business and its appointees reflect that position.’

—ERIC GROVER, PRINCIPAL, INTREPID VENTURES

the Federal Reserve to limit fees charged to retailers for debit card processing. Many politicians view repeal as a political hot potato, payments experts say. A vote would force members of Congress to squarely come out on the side of either merchants or banks, which could hurt them in a re-election bid.

A glimpse of that pressure appeared last May when nervous House Republicans stripped out a repeal provision they had previously approved as part of the Financial Choice Act. There’s little appetite for a repeat performance, observers say.

“Lawmakers have been through the battles over the Durbin Amendment and there does not appear to be any push to revisit the issue,” says Beth Provenzano, vice president, public affairs, for the Minneapolis-based Merchant Advisory Group. “The returns from the law for merchants, which worked hard to pass it and protect it, have been positive.”

‘More Dialog’

If nothing else, the new regulatory climate is creating an opportunity for the payments industry to work with federal agencies to revise regulations to reflect the times in which financial-service providers and fintechs do business.

“Many of the regulations in place today were written in an era that did not envision the kind of technology we have today,” says Heather Hogsett, vice president for technology and risk strategy at BITS.

Updating existing regulations is important, payments experts say, because future administrations are likely to have a different viewpoint than the Trump Administration when it comes to regulatory policies. They say revising regulations in place now, as needed, can help strike a better balance between needed consumer protections and a suffocating regulatory environment for payment providers.

“Fintechs have been able to solve problems financial institutions couldn’t, and regulators are starting to be pushed to figure out how current regulations apply to the new technologies coming to market and how rapidly those technologies are changing the market,” says Hogsett. “The more dialog the industry and regulators have, the more it will move innovation along to the benefit of consumers.” **DT**



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The Manual-Review Question

Kevin Woodward

It might be time to think about the future of human intervention for e-commerce transactions, especially as criminal sophistication increases exponentially.

The lifeblood of any retailer is ensuring that as many valid transactions are completed as possible. E-commerce merchants, in particular, will go to great trouble to validate as many transactions as they can. Increasingly, that great trouble includes inspection by an actual human being—something called a manual review.

This happens when a doubtful or borderline transaction pops up on the automated scoring routines. Rather than reflexively deny what could be a legitimate sale, the e-retailer asks one of its employees to examine the transaction and make a reasonable effort to determine if it should be approved.

It's a common practice with 79% of North American businesses that use manual reviews, according to the CyberSource 2017 Online Fraud Benchmark report. On average, approximately 25% of orders are subjected to manual review at these businesses.

CyberSource's report also found that 89% of transactions subjected to a manual review ultimately are approved, "... an indicator that more orders are being reviewed than might be necessary," the report noted.

A rethink of manual reviews might be in order for many merchants, especially those that can take advantage of new data sources. The reason: Criminals now have access to billions of pieces of information about consumers.

Formidable Task

Another reason for a rethink is that manual reviews are expensive for the merchant and can be frustrating for consumers.

"In many cases, we still see a role for manual reviews," Julie Conroy, research director at Aite Group LLC, a Boston-based financial-services advisory firm. "But, certainly as I talk to merchants, their goal is to leverage technology to reduce the number of transactions they have to work through the manual review from a customer-experience perspective and an operational-cost perspective as well."

Dual advances in the amounts of digital data about consumers and in machine-learning technologies to crunch that data point to "some good progress," in the ability to better authenticate legitimate shoppers, Conroy says.

The problem is that there are vast amounts of genuine data already in

the hands of criminals, thanks to multiple breaches in which not only payment data, but also such distinctive datasets as addresses, maiden names, telephone numbers, and Social Security numbers, have been stolen.

With all this data easily available to criminals, merchants and their fraud-mitigation vendors face the formidable task of verifying legitimate consumers with the clock running on wages and on other projects they could be working on.

Basic steps in a manual review might include placing a call to the customer or the issuing bank to verify shipping and billing information, along with a search of the shopper's transaction history with the merchant, or checking the shopper's Internet protocol address against the shopper's prior purchase history.

The Luxury of Time

The impulse to conduct manual reviews becomes especially strong in the face of increasing chargeback rates, says Don Bush, vice president of marketing at Kount Inc., a specialist in anti-fraud services for e-commerce merchants.

This response isn't without merit. Generally, if a merchant does manual reviews, it employs one to three individuals to handle the task. "It's easier to increase the number they do than put in a new system," Bush says. But this reaction has a big drawback. "It's

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the most costly, most time-consuming [tactic],” says Bush.

The risk, Bush adds, is that a merchant could provoke the problem with a simple change to its Web site, say on its checkout page, that might increase the number of suspect transactions.

All in all, the manual review is “not a very scalable method, especially if the merchant is in a hyper-growth area at 20% to 40% a year,” says Bush.

Today, however, the measures merchants and their vendors can use in the review process have multiplied by the score. Data from a shopper’s smart phone can be incorporated into the review process, for example, yielding more insight into the shopper’s identity.

Multiple vendors are working to get this type of data into merchants’ systems. At ThreatMetrix Inc., a San Jose, Calif.-based fraud-prevention company, the mantra is automation. “Next-generation fraud-prevention technologies enable companies to dramatically cut the number of manual reviews that are required in the first place, and then automated workflows, if a case does require manual review, are critical to be able to perform this at speed and scale,” Vanita Pandey, ThreatMetrix vice president of product and marketing, says in an email message.

Automation is essential especially because so many e-commerce merchants now offer speedier delivery



The impulse to conduct manual reviews becomes especially strong in the face of increasing chargeback rates.

—Don Bush, vice president of marketing, Kount Inc.

options, putting pressure on the authorization process.

The move toward instant or next-day delivery means that fraud teams no longer have the luxury of time to review transactions, Pandey says. “On top of this, high manual-review rates are very taxing on organizations, as they require expensive human resources. Therefore, keeping manual-review rates down and having automated processes in place are critical to both cutting operational costs and meeting rising customer expectations.”

Manual Reviews, False Declines

As Conroy notes, an abundance of new data could have a positive impact on merchants’ ability to ferret

out suspect transactions, especially because so many more consumers are using mobile devices for everyday activities.

“As you look at increasing the percentage of transactions initiated from mobile devices, [and] as you analyze these mobile devices, with device fingerprints for example, it has a ton of value,” Conroy says. “Also, as we look at the increasing denominator on mobile commerce, the mobile device in and of itself has a ton of valuable data to those willing to pay the price.”

ThreatMetrix, Pandey says, can analyze a transaction based on hundreds of attributes and cross-correlate that data against anonymized information related to that digital identity and historical behavior it has seen for that user on its global network.

“Deep behavioral assessments are able to recognize activity that deviates from what is normal for that particular individual and can dramatically cut down the number of manual reviews,” she says.

Even processors like First Data Corp., which processes more than 2,500 transactions per second for more than 6 million merchants globally, have entered the fray. One of its chief products in this area is Fraud Detect, a service it launched in 2017 that uses artificial intelligence, machine learning, fraud scoring, cybersecurity



‘High manual-review rates are very taxing on organizations, as they require expensive human resources.’

—Vanita Pandey, vice president of product and marketing, ThreatMetrix

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intelligence, and intelligence gleaned from the dark Web, to identify potentially fraudulent transactions.

“What we see today as challenging in the industry is bad guys get the card information, then within minutes they are testing these cards,” says Ajay Guru, First Data head of merchant fraud solutions. “They are able to take mobile phones they bought using stolen cards, load them, and use them in omncommerce.”

After that, criminals look to monetize their ill-gotten gains across larger industries, larger retailers, theme parks, and the like, Guru says. Typically, a small-to-mid-size merchant might review 10% to 15% of their transactions, Guru says. “These are merchants that could be retail, digital, or services,” he says.

Kount’s Bush says, in general, the typical merchant sends between 12% and 25% of its transactions to manual review. The cost of manual review could amount to \$300 to \$500 per day, in one example.

Assume a merchant processes \$10,000 daily and has a 50% gross margin. If 15% of these transactions are manually reviewed and the approval rate is in the 75% to 80% range, the merchant has only added cost and time to her transactions, Bush says. “She could be losing \$300 to \$500 a day in manual reviews,” he says. “That’s [up to] 10% of the gross margin.”

This speaks to the issue of false declines, which is when a legitimate transaction is declined because it is thought to be fraudulent. “As I talk to the more sophisticated merchants, they



‘People don’t want merchants calling them or limiting them in terms of what they can do or pay with.’

—Michael Reitblat, CEO, Forter

are more concerned with false-decline problems than manual-review problems,” says Aite’s Conroy. The reason is simple. In 2017, false declines accounted for \$300 billion in the United States, compared with \$4 billion in card-present fraud, she says.

‘Behind the Scenes’

With the proliferation of stolen, yet valid, static consumer data inundating the Internet, the ability to process this data along with the unique dynamic data generated by individuals when they use devices to interact online is becoming paramount as consumer expectations change.

As online commerce—both via desktops, mobile devices, and the Internet of Things—grows, fraudsters are moving to the next level, says Michael Reitblat, chief executive at Forter, a New York City-based fraud-prevention company.

“Now, fraudsters are moving to account-level fraud,” Reitblat tells *Digital Transactions*. This fraud is when a criminal takes over an account.

It’s especially bad because the account appears legitimate despite the criminal takeover. Therefore, a criminal could load stolen card data or use credentials stored in the account by the legitimate owner for his own purposes.

Security is compromised, Reitblat says, because many consumers use the same usernames and passwords for multiple accounts.

With a consumer grown accustomed to two-day or overnight shipping, the push to validate transactions automatically and reduce the number sent to manual review becomes more important, he says. “They want to click once and get it at the door the next day or pick up in the store,” Reitblat says. “Everything is frictionless. People don’t want merchants calling them or limiting them in terms of what they can do or pay with.”

Indeed, merchants are challenged to bolster their behind-the-scenes payments technology, Aite’s Conroy says, because the old standbys for identifying legitimate consumers have been outstripped by criminals.

For example, in the breach of credit-reporting agency Equifax Inc., which exposed 145 million consumer accounts, criminals gained access to a lot of data that was already available to them, Conroy says.

“You can’t be just reliant on usernames and passwords to get to the card on file,” she adds. “They’ve compromised all of our data. If you can, bolster that behind the scenes.” **DT**

‘Bad guys get the card information, then within minutes they are testing these cards.’

—Ajay Guru, head of merchant fraud solutions, First Data



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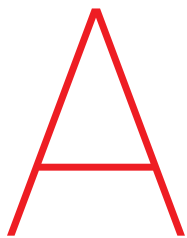


Wave-and-pay flopped when issuers tried it 10 years ago with mag-stripe cards. Now it's staging a comeback with EMV and mobile payments. **The sequel just might be better than the original, but showtime is uncertain.**

By Jim Daly



CONTACTLESS II



fter years of false starts and overenthusiastic hopes, the U.S. just might be about to connect with contactless payments.

True, consumers today make fewer than 1% of their general-purpose card payments using a contactless-enabled piece of plastic or smart-phone mobile wallets that hold digitized versions of their cards and facilitate tap-and-go transactions, according to network reports. And perhaps just 5% of U.S. credit and debit cards are so-called dual-interface chip cards that support both contact and contactless transactions.

But thanks largely to EMV—the chip-based payment standard from EMVCo, the standards body owned by the major global payment networks—the groundwork is being laid for widespread merchant acceptance of contactless payments. At the same time, U.S. payment card issuers are getting ready to replace their first generation of chip cards.

Randy Vanderhoof, executive director of the Princeton Junction, N.J.-based Secure Technology Alliance, estimates that up to 800 million EMV cards, predominantly of the contact-only variety, will hit their expiration dates within the next five years.

“We think a significant share of those [reissued cards] will contain dual-interface technology because the costs are coming down, and countries that have implemented this are seeing greater use of the cards,” he says.

EMV cards first found their way into consumers’ wallets in 2014, 2015, and 2016 as issuers labored to meet the card networks’ October 2015 EMV liability shifts meant to finally wean U.S. payments off of the magnetic stripe. The shifts left either the merchant or the issuer holding the bag for any counterfeit fraud resulting from a transaction if the card didn’t have a chip or the terminal couldn’t read chip cards.

For various reasons, most issuers took the contact-only route, which requires the cardholder to insert, or dip, the card into an EMV-capable point-of-sale terminal. Not the least was expense—contact-only cards at the time cost only about half as much as dual-interface cards.

Some banks and credit unions did switch parts of their portfolios to dual interface as EMV gathered steam. A sampling of early contactless converts includes TCF Bank, Capital One, Wells Fargo, and Oklahoma’s Banc First.

And American Express Co., which shared the Hilton HHonors cobranded credit card program with Citigroup Inc., recently acquired the Citi side of the portfolio and reissued about 1 million Hilton cards as dual interface.

On the other side of the payment hill, more than 2.7 million U.S. merchant locations now accept chip

cards, according to Visa Inc. Most of these EMV terminals also support near-field communication contactless transactions that meet EMVCo standards; in fact, some 95% of new U.S. POS terminals are contactless-enabled, Visa reports (chart, page 36).



Should a mass dual-interface conversion come to pass, the concept of contactless payments in the United States will have avenged its defeat from a decade ago, when a few enthusiast issuers provided customers with magnetic-stripe payment cards that also supported contactless payments.

Prominent in this early wave, which arose around 2005, was JPMorgan Chase & Co. with its blink cards, as well as a few other issuers. The contactless card base hit 50 million by 2008, but only 120,000 merchants accepted them (“Can Contactless Stay in Touch?” December 2008).

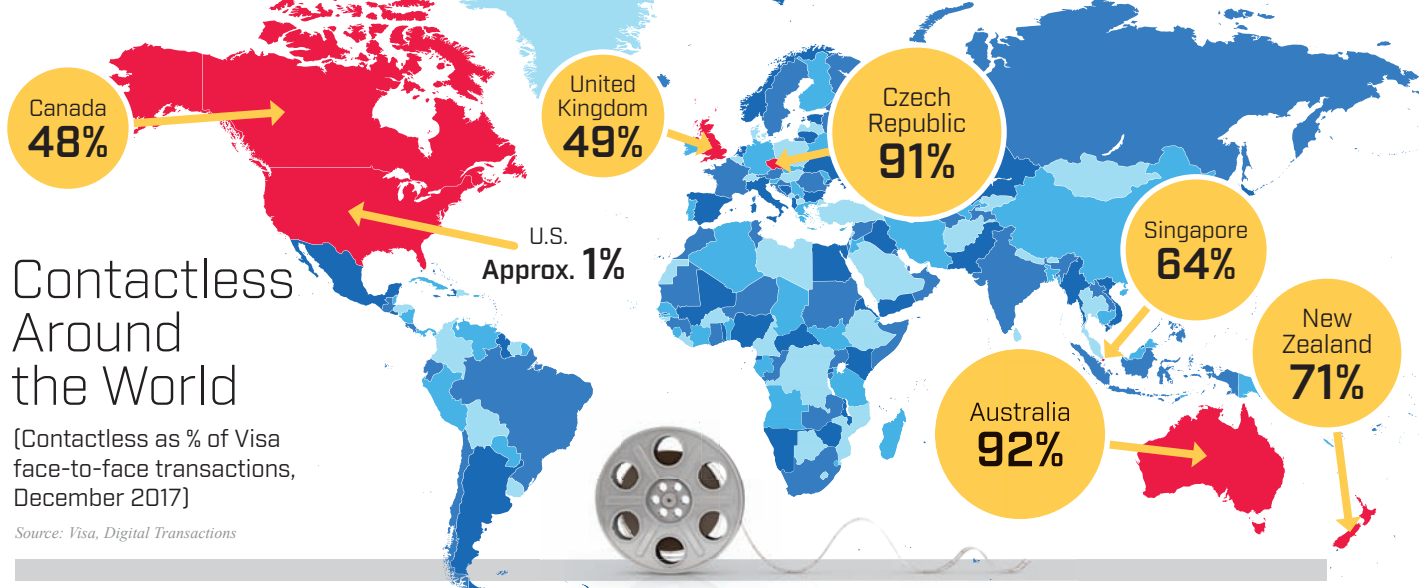
“At the time, we did not have the acceptance,” says Melanie Gluck, vice president of solution sales and tokenization at Mastercard Inc., who was with the card network during those years. “It didn’t hit its great stride.”

In addition to merchant indifference, the speed gap between contactless and mag-stripe transactions became negligible once the networks waived signature requirements for lower-value payments. That reduced issuers’ motivation to offer contactless cards, according to a Secure Technology Alliance white paper.

So why bother with a sequel to a B movie? The advantages of current-generation contactless technology can’t be denied: NFC transactions take a second or less, warp speed compared with contact-only chip cards, which were especially dogged by slowness in EMV’s first year. And thanks to tokenization and other defenses, security with dual-interface cards and the major mobile wallets is as good as if not better than that of contact-only EMV cards. Call it Contactless II.

What’s more, dual-interface cards and acceptance of contactless payments are becoming the standard in much of the world outside of the U.S. Visa, which provided a background paper but declined to speak publicly for this story, later this year will require that all new credit and debit cards in its Latin America region support contactless transactions. All new POS terminals in the region also must accept contactless payments.

Similar mandates are in effect for Visa’s Asia-Pacific region. And in 2015, Visa Europe, the bank card association that Visa Inc. acquired in June 2016, gave merchant acquirers until the end of 2019 to have all of their terminals contactless-capable.



Contactless Around the World

[Contactless as % of Visa face-to-face transactions, December 2017]

Source: Visa, Digital Transactions

Mastercard early this year required both issuers and acquirers in all regions except North America to phase in contactless card issuance and acceptance over the next few years.

The current state of contactless payments varies widely. “Some markets, like Australia, [are] heavily penetrated—92% of transactions are contactless,” says Gluck. In others, she says, “it’s embryonic.”



The U.S. clearly is on the embryonic end of the contactless scale. Progress is most visible on the merchant side, largely because NFC is riding EMV’s coattails on terminals.

It’s up to the merchant, however, to turn that NFC functionality on. Millions still haven’t, especially small merchants.

But many have. According to Visa, seven of the top 10, 14 of the top 25, and 54 of the top 100 U.S. merchants by transactions were accepting contactless payments as of December. Prominent acceptors include McDonald’s, Subway, Walgreens, Macy’s, and Trader Joe’s and other supermarkets.

Contactless payments are ideal for high-throughput merchants such as fast-food restaurants, where cash dominates. “The average ticket we see is under \$23,” Gluck says of U.S. contactless transactions.

Since Mastercard’s average tickets for debit and credit purchases are \$39.18 and \$89.19 (“Reduced Speed Ahead,” March), respectively, contactless is likely pulling in a significant number of what were previously cash payments.

Another promising sector is mass transit. The Chicago Transit Authority and the Utah Transit Authority in the Salt Lake City area, among others, already are accepting so-called open-loop contactless transactions from mobile wallets or general-purpose contactless payment cards. Riders tap the phone or card on a turnstile or reader near the bus door.

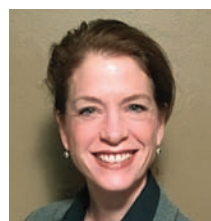
Payments executives are excited about what’s coming next. Subway and bus systems in New York, Philadelphia, and Boston all have announced plans for contactless acceptance as they prepare to replace outmoded systems heavily reliant on cash and closed-loop fare cards.

U.S. transit systems are taking their cue from Transport for London, which began accepting open-loop contactless transactions in 2012 on buses and in late 2014 on its massive subway and rail network.

“They saw immediate, and climbing at a steep rate, use of bank-issued credentials,” says Gluck.

For the week ended Dec. 31, TfL recorded an average of 535,267 daily bus journeys paid by contactless cards, and 588,840 subway/rail journeys, according to agency data.

It may be years before U.S. transit systems begin generating such volumes. Still, with the acceptance side coming along, the heavy lifting is most needed on the issuer side, where contactless cards, mobile phones, and wearables are nascent payment media today.



‘There is a definite trend toward more interest in dual-interface cards.’

—Barbara Else, vice president of global financial services, First Data Corp.

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The U.S. Contactless Landscape

54%

of top 100 merchants accept contactless payments

18%

of merchant locations accept contactless payments

95%

of new POS terminals are contactless-capable

About 1%

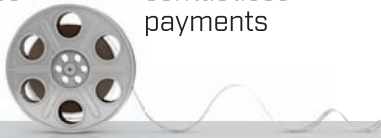
of card-based POS transactions are contactless

Apple Pay accounts for an estimated

90%

of mobile-wallet contactless transactions

Source: Visa, Mastercard, Secure Technology Alliance



Payment card manufacturing firms and processors say issuers are warming to dual-interface cards as the first waves of EMV cards approach their normal expiration dates.

“There’s definitely been an uptick in interest,” says Keith North, director of product and capabilities at Littleton, Colo.-based card manufacturer CPI Card Group Inc.

Barbara Else, who as vice president of global financial services at First Data Corp. oversees the payment processor’s massive card-production operation for client banks and credit unions, seconds that opinion. “There is a definite trend toward more interest in dual-interface cards in our base,” she says.

One factor working in favor of dual interface is a reduction in price. Several years ago, the average dual-interface card cost about \$2 in bulk, twice the price of a contact-only EMV card. Now the spread is down to around 50 cents, and executives note that prices for all EMV cards have come down.

Dual-interface cards, says Paul Kobos, senior vice president of banking and payments at Austin, Texas-based manufacturer Gemalto North America, are “not a specialty product any more.” (See Endpoint, page 54.)

But executives hedge when asked if a mass conversion to dual interface is at hand. “The banks made a big investment, and it’s going to take some time to get past,” says Kobos. “To me the question of why it hasn’t happened is simply math.”

Adds North: “It was expensive and painful for people to go to EMV.”

Others note that Americans have just gotten used to doing the dip rather than swiping, so issuers fret at the thought of disrupting these newly ingrained payment patterns with yet another round of re-education.

“Consumers, you and I, we’re creatures of habit,” says Kevin Morrison, a senior analyst at Boston-based Aite Group LLC who is preparing a research report about contactless payments. “If we don’t get a consistent experience every time, we go back to what we know works.”



Although the U.S. contactless-accepting merchant base has increased, issuers and their suppliers still would like to see many more locations to reinforce the practice of tapping or waving a card near a terminal.

First Data’s Else notes that the first generation of contactless cards failed in part because so few merchants accepted them that consumers had little reason to learn about tap-and-go payments.

“It takes a while for us to get used to things,” she says. “It has to be available in a lot of places for consumers to get used to using their card in a certain way.”

And while they have come down, prices for dual-interface cards haven’t dropped far enough yet to make the commitment decision easy for many issuers.

“Understanding that dual-interface cards are more costly than contact cards, many financial institutions



‘It was expensive and painful for people to go to EMV.’

—Keith North, director of product and capabilities, CPI Card Group Inc.

are weighing the cost versus benefit of dual interface,” Michelle Thornton, director of product for Co-Op Financial Services, a Rancho Cucamonga, Calif.-based processor and technology provider for credit unions, tells *Digital Transactions* by email.

So while they’re optimistic about the long-term prospects for dual-interface cards, executives on the issuing side are cautious about making short-term projections.

“We are in active conversations today with customers regarding their dual-interface product roadmaps,” Scott Scheirman, CPI Card Group’s president and chief executive, said at the publicly traded company’s March 12 conference call to review fourth-quarter 2017 financial results, according to a SeekingAlpha.com transcript. “But at this time, we’re not factoring dual interface into our 2018 plans in a meaningful way.”

Several issuers contacted by *Digital Transactions* for this story did not respond to repeated inquiries.



Meanwhile, despite huge amounts of hype ever since Apple Inc.’s NFC-based Apple Pay service debuted in 2014, mobile wallets have yet to give even a modest lift to contactless payments.

Payment executives estimate that fewer than 1% of U.S. face-to-face card-based transactions currently originate on mobile devices. Mobile payments are finding their biggest adoption in merchant-controlled closed-loop systems (box, page 38).

Apple Pay accounts for 90% of U.S. mobile contactless transactions, according to a white paper from the U.S. Payments Forum, a Secure Technology Alliance affiliate, that cites August 2017 research from investment firm Goldman Sachs.

Apple Pay’s chief competitors in

the general-purpose mobile-wallet market are Alphabet Inc.’s Google Pay and mobile-phone giant Samsung with its Samsung Pay service. Both wallets use variants of NFC, and Samsung Pay also uses technology that enables it to make payments at POS terminals that only read magnetic stripes.

But the Alphabet/Google wallet,

formerly known as Google Wallet and Android Pay, has just gone through yet another rebranding, leading mobile-payments watchers wondering if Google Pay is finally the name that will stick. And after an initial splash when it launched in 2015, Samsung has put only modest marketing resources behind Samsung Pay in the U.S.

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Contactless-enabled wearables such as smart watches and fitness trackers have had even less of an impact on contactless payments so far, although they are the subject of considerable development (“Puttin’ on Payments,” February).

Visa highlighted some nifty wearables with this year’s Winter Olympics in South Korea. But Fitbit Inc., a leading wearable manufacturer, is charging an extra \$20 for a “special edition” of its new Versa smart watch that includes NFC and the Fitbit Pay payment service, according to the Silicon Valley publication TechCrunch. The implication is that Fitbit might be testing market demand for payments with wearables.



With mobile wallets and wearables yet to find their footing, contactless enthusiasts are pinning most of their hopes on dual-interface cards. And for good reason. Even in markets where mobile payments and contactless cards both are viable options, most consumers choose plastic.

“What I would tell you, the majority of contactless transactions around the world are card-based,” says Mastercard’s Gluck.

So it’s no surprise that card manufacturers and other payments executives expect dual-interface card orders eventually to ramp up in a big way, perhaps not this year but not too long afterward.

“It could very well be a race to get ahead of the curve on dual interface, but the race hasn’t really gotten started yet,” says Vanderhoof of the Secure Technology Alliance.

But once the race is under way, “I think we’re going to catch up very quickly,” says First Data’s Else. **DT**

Guess Which Technology Is the Contactless Leader

Sometimes derided as the poor cousin of near-field communication technology, quick-response codes are the clear leader today in U.S. contactless payments.

The prime example, no surprise, is coffee king Starbucks Corp., which has been promoting QR-code payments through its mobile app since 2009. More than 30% of U.S. tender is now on the app, Seattle-based Starbucks said in January.

The app generates a QR code on the customer’s mobile phone. Either the customer or the barista scans the image with a bar-code reader at the counter. Payments are funded through the prepaid Starbucks Card.

Other popular merchant-sponsored mobile-payment systems that use QR codes come from Walmart, Dunkin’ Donuts, Kohl’s, and some others. No. 1 bank JPMorgan Chase & Co.’s Chase Pay app also generates QR codes on the customer’s smart phone. It should be noted that some QR-code stalwarts such as Dunkin’ Donuts also support NFC contactless payments at the point of sale.

“There’s going to be a place for QR codes in the marketplace, particularly merchant-driven mobile-payment apps because they can control both ends of the solution,” says Randy Vanderhoof, executive director of the Secure Technology Alliance trade group.

But Vanderhoof and others point out that QR codes sometimes can be clunky. Retrieving one on the phone requires taps to open an app and display the code. If the system has the merchant generating the code on its point-of-sale equipment, sometimes consumers find it difficult to scan it with their smart phone’s camera. Rewards redemptions may require a separate scan.

“It’s not going to be able to compete ease-of-use and convenience-wise with NFC,” says Vanderhoof.

Paul Kobos, senior vice president of banking and payments at Gemalto North America, says QR codes appeal most to merchants that “want to have more control over the payment cycle ... it’s a very workable solution, but not the most elegant solution.”

Gemalto, a leading card manufacturer and provider of payment-related technology, sees enough demand for QR codes that it has a product offering in the niche.

While the U.S. payments market seems to be relegating QR-code payments to a merchant-controlled niche, general-purpose card networks nonetheless are keeping their eyes on them.

“From a Mastercard perspective ... QR is part of that overall picture,” says Melanie Gluck, a Mastercard Inc. vice president. “We are still looking at and talking with customers on where that fits.”

Gluck says QR codes are quite popular in Asia and gaining in Africa. China-based payment network UnionPay International said in March that its QR-code service operates in 13 markets.



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Who's Afraid of Cryptocurrencies?

John Stewart

Can any of the largest crypto coins evolve into an everyday payment instrument? Here's what it will take to make that happen.

One year ago, there were two digital currencies whose total coins in circulation were worth more than \$1 billion. They were Bitcoin, at \$19 billion, and Ethereum, at \$2 billion. One year later, there are 21.

Back then, there were 682 coins with a total market capitalization of \$23.3 billion, according to Coinmarketcap.com, the online tracker from which these stats are taken. Today, the site tracks more than 1,500 cryptos with a total worth exceeding \$306 billion.

Is it any wonder we are living through a season of cryptomania?

But the craze has brought with it a strong dose of fraud, triggering more intense scrutiny from federal authorities (box, page 44). Some exchanges have been a little too lax about securing the private keys holders use to access their currency, leaving them vulnerable to hackers, say security experts like Al Pascual, senior vice president and research director at Javelin Strategy & Research, a Pleasanton, Calif.-based firm.

And some thugs haven't bothered with online finesse. "There's so much money now in cryptocurrency, we've seen some cases where people were beaten on the street for access to their crypto," Pascual says.

Fears of abetting such shenanigans led Twitter last month to ban cryptocurrency advertising, a move two other massive digital properties, Facebook and Google, had already taken.

'True Believers'

The runup of the past year has also bred a new type of user—the so-called hodler, a name derived from a typo of "holder" and denoting anyone who buys crypto as a speculative investment. "These are true believers. They want to buy and hold," says Pascual. "Their mentality is, if they buy 100 [different coins], they only need one to turn out."

So with whiffs of fraud and speculation clinging to them, which of the major cryptocurrencies will become everyday payment instruments you and I might spend at the local hardware store or diner? Some payments experts are unequivocal on that point.

"None of the above," says George Warfel, general manager for fintech and payments strategy at Haddon Hill Group, a San Francisco-based consultancy, and author of *Digital Transactions' Payments 3.0* column. "Either the bubble will burst, or they will be regulated and become another way to denominate dollars."

Others are a little more optimistic, but also tough realists. Here's what they say must happen if any of the major cryptos are to become widely accepted retail payment methods:

Reduced volatility. Digital currency must be "approachable" by ordinary consumers, says Pascual. Part of achieving that is coming to a price that doesn't fluctuate thousands of dollars in mere weeks. The most notorious example of that is Bitcoin, which started out 2017 at \$963 and finished the year brushing against \$20,000.

Merchants, especially, have a hard time reconciling payments that are worth significantly more or less than when they were settled. "Fluctuating value is a bad thing," says Laura Townsend, vice president of operations at the Merchants Advisory Group, an advocacy organization in payments, and a former treasury executive at McDonald's Corp. "That's a barrier."

Scalability. This is closely related to reduced volatility. The idea is to render cryptocurrency in an easily accessible and reproducible package. For observers like Pascual, that means the ability to load coins into a well-known, well-understood, branded wallet. "It makes it seem more approachable if I could load my coins into my Mastercard wallet," he says, "or load them through my bank app," rather than through wallets offered by



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exchanges, which often seem aimed at specialist audiences.

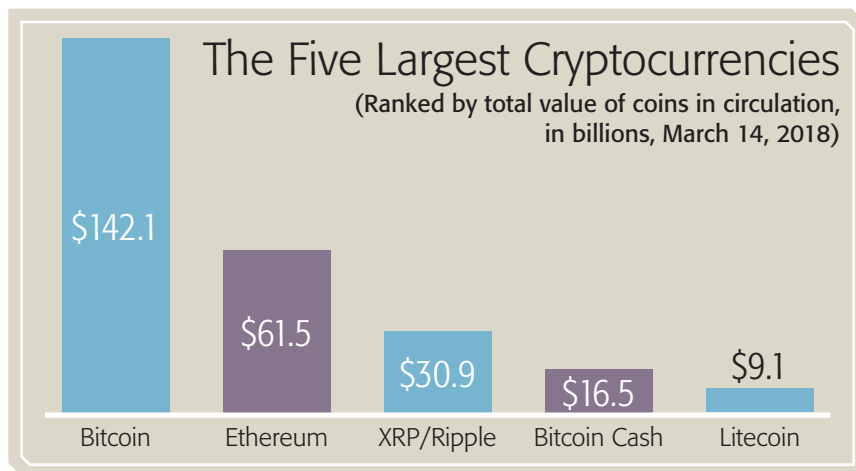
This is as important for merchants as it is for consumers, says Townsend. “Over time, what [cryptocurrency] can do for retailers is going to depend on scalability,” she notes.

Fast, cheap transactions. For a while late last year, the only thing fast about Bitcoin payments was the rate at which its transaction fee was rising. Things have cooled off since then, but the network is still struggling with traffic congestion. Even Litecoin, a Bitcoin offshoot considered by some more suitable for retail payment, saw a runup in cost early this year (chart).

Unlike the case with credit and debit card transactions, these crypto transaction fees aren’t paid by merchants. Consumers pay them when they buy things. As you might expect, higher fees suppress usage.

Tighter security. Consumers and merchants have been scared off by reports of hacks in which unauthorized parties gain access to crypto holdings by swiping what’s known as the private key, the piece of cryptography that protects the coin holdings and gives cryptocurrency its name. That perception has to change, experts say.

“It’s not the cryptocurrency that holds the weak link, it’s the exchange



Source: Coinmarketcap.com

or the individual holding the cryptocurrency,” says Tim Sloane, vice president for payments innovation at Mercator Advisory Group, Maynard, Mass.

One prescription from both Sloane and Pascual: More bank involvement. “What would really give [cryptocurrency wallets] a boost is if banks bought into them,” says Pascual. This, as he admits, will likely be “a long road,” citing the example of PayPal Holdings Inc., once a nonbank scourge that only recently, nearly 20 years after its launch, has been embraced by financial institutions.

‘Kind of Crazy’

Some parties aren’t willing to wait that long. At least one independent sales organization is doubling—make

that tripling—down on crypto for merchant acceptance.

Fort Lauderdale, Fla.-based Aliant Payment Systems Inc. last month launched programs for Ether and Litecoin to go along with one for Bitcoin that it introduced late last summer (“When the Music Stops,” October).

Pricing has been set and the company has begun talking to merchants, says Eric Brown, founder and chief executive. “We now call it cryptocoin processing, no longer just Bitcoin processing,” he says.

As of mid-March, more than 80 merchants had signed up for the triple play, all with “little to no marketing,” Brown says. All of them currently accept credit cards. With interest building, Brown adds, “it’s been kind of crazy all over the board.”

Aliant processes crypto as well as card transactions on smart terminals from Poynt Co. that it installs in clients’ stores. The digital-currency transactions at the point of sale are priced at 0.89% plus a nickel, according to information posted last month on Aliant’s Web site. Merchants that opt for a monthly plan for the Poynt device pay \$29.95 per month.

To handle the back-end processing, including conversion to fiat currency, Aliant relies on NetCents Systems Ltd., a 5-year-old Vancouver, British Columbia-based exchange.

Aliant added Litecoin, Brown says, because transactions process

Price Isn’t the Only Thing That’s Volatile

(Median transaction fee to users)

	Bitcoin	Litecoin
September 1, 2017	\$4.24	\$0.03
October 1, 2017	\$1.13	\$0.02
November 1, 2017	\$3.55	\$0.03
December 1, 2017	\$3.75	\$0.09
January 1, 2018	\$14.63	\$0.23
February 1, 2018	\$3.80	\$0.04
March 1, 2018	\$0.67	\$0.08

Source: Bitinfocharts.com

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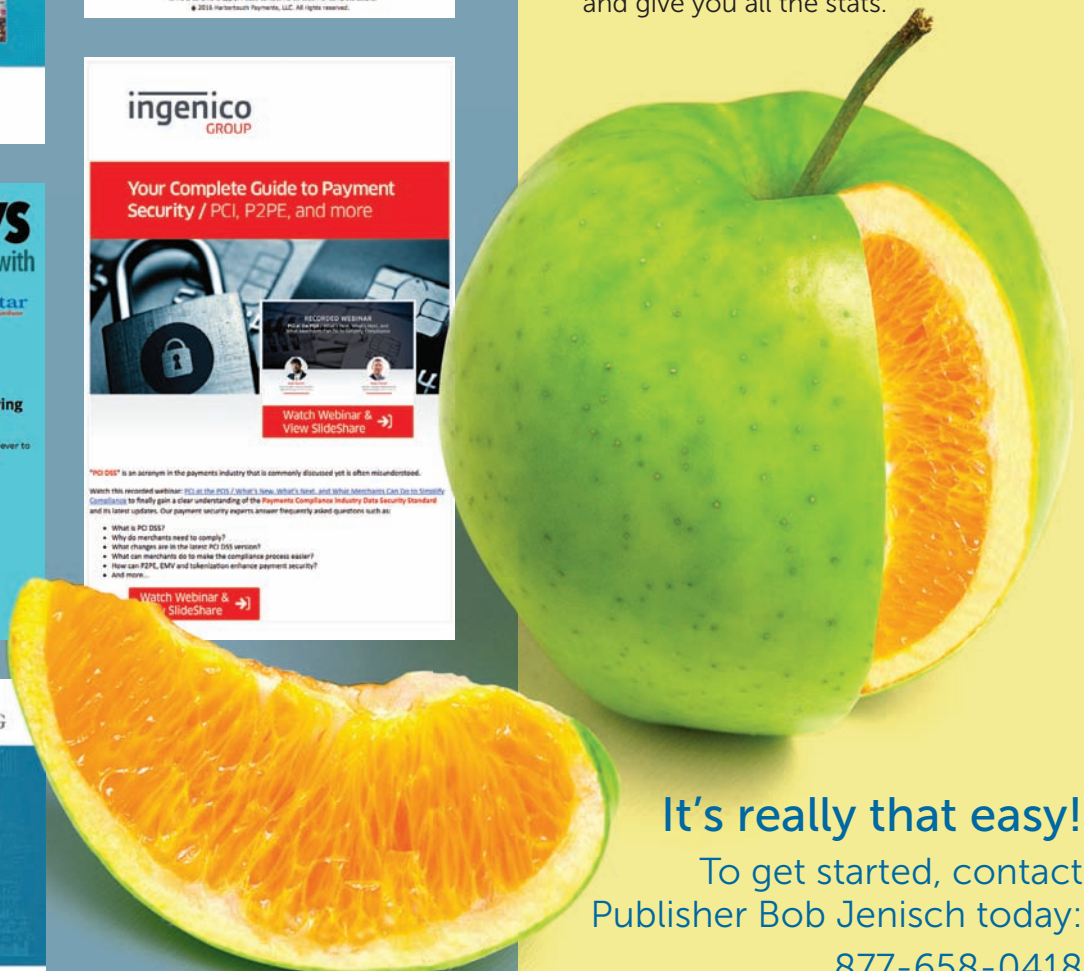
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Making a Ripple in Payments

Interest among mainstream financial institutions and payments providers in the potential for cryptocurrency is heating up just as the top U.S. financial regulator is reportedly eyeing a crackdown on so-called initial coin offerings, or token sales used by digital-currency startups to raise capital.

In the latest sign that processors, banks, and major corporations are taking crypto more seriously, Fleetcor Technologies Inc. in March said it was launching a pilot that will use XRP, the cryptocurrency offered by San Francisco-based blockchain provider Ripple Labs.

In the pilot, Fleetcor's Cambridge Global Payments unit will harness Ripple's XRP service to provide so-called on-demand liquidity to international trading partners. With instant liquidity, international firms can free up funds they would otherwise tie up in foreign accounts to back real-time payments.

Cambridge processes more than \$20 billion in cross-border business-to-business payments annually for 13,000 clients, according to Norcross, Ga.-based Fleetcor, whose main business is handling fuel, tolling, lodging and other related payments for trucking fleets.

"We are excited for the insights this pilot program is expected to deliver, and we will use that information to help both Cambridge and Fleetcor develop our use cases for blockchain in international payments," said Mark Frey, chief operating officer at Cambridge, in a statement. "We look forward to exploring how Ripple can help us continue to improve the customer experience using new technology."

Added Danny Aranda, director of business development for Ripple, in a statement: "We're focused on working with partners like Cambridge that understand the benefits of digital assets and are serious about using XRP to overcome the inefficiencies in the global payment system."

Cambridge had already been piloting XCurrent, a separate technology for international messaging and transaction settlement. Both XRP and XCurrent are part of RippleNet, Ripple's blockchain system.

Ripple's technology appears to be adding momentum. It announced last fall that its client list had exceeded 100, and now includes major money transmitters Western Union and MoneyGram, which is also piloting XRP. Its XRP token is the third-largest cryptocurrency after Bitcoin and Ether, with \$30.9 billion in value outstanding as of March 14, according to Coinmarketcap.com. Its price, at 79 cents, has soared in the past year after trading for less than a penny in March 2017.

But the Securities and Exchange Commission cast a shadow over the cryptocurrency scene last month with "dozens" of subpoenas and requests for information issued to companies and advisory firms. The SEC is concerned about the potential for fraud in the growing, and largely unregulated, market created by initial coin offerings, news reports said.

ICOs have raised about \$1.66 billion so far this year after generating \$6.5 billion in 2017, according to data cited by *The Wall Street Journal*.

faster than with Bitcoin. In contrast with Bitcoin, whose surging price last year fed an investing mania that many experts called a bubble, "nobody's talking about Litecoin as an investment," says Brown. "What's going to work in the payments space? It's going to be Litecoin."

Litecoin, which emerged in 2011 and now ranks as the fifth-largest cryptocurrency by market capitalization, also boasts more reasonable user fees than Bitcoin, Brown points out. The median transaction fee stood at 4 cents on March 1, compared to 67 cents for Bitcoin, according to Bitinfocharts.com.

Ether's blockchain, on the other hand, is useful in high-value transactions where chain of ownership might

come into play, Brown says. "Ether brings value to the table with smart contracts in titling a boat or a car," he says.

Aliant, which has been in business 15 years, processes credit card, debit card, and automated clearing house transactions for 6,700 merchants, with annual card volume alone totaling \$435 million. Its specialty is e-commerce and high-risk sellers, a category in which, Brown argues, low-cost, fast transactions that can't be repudiated will be attractive.

'A Floodgate-Type Surge'

Old Road Harley Davidson is neither an e-commerce merchant nor a high-risk specialist. Nor is the Santa Clarita, Calif.-based motorcycle dealer an Aliant merchant. But it is a convinced

crypto enthusiast, and slow sales haven't dampened its attachment to the notion of digital currency.

Old Road, which started taking Bitcoin last year through Bitpay, an Atlanta-based exchange, had sold exactly one bike for the currency as of late March. It was almost two, but the second buyer backed out when the bike couldn't be modified to fit her needs, owner Mike Moffett says.

Moffett remains far from discouraged. Wide usage will take time, he says, adding, "We'll see how the crypto space grows. We'll be involved in it."

Some have no doubts how it will grow, despite its severe growing pains. "There is a floodgate-type surge that is coming," Brown says. "Crypto is here to stay. It just makes sense." **DT**

CAPTURING OMNICHANNEL PAYMENTS

By Scott Dowty, Chief Revenue Officer at Apriva, LLC

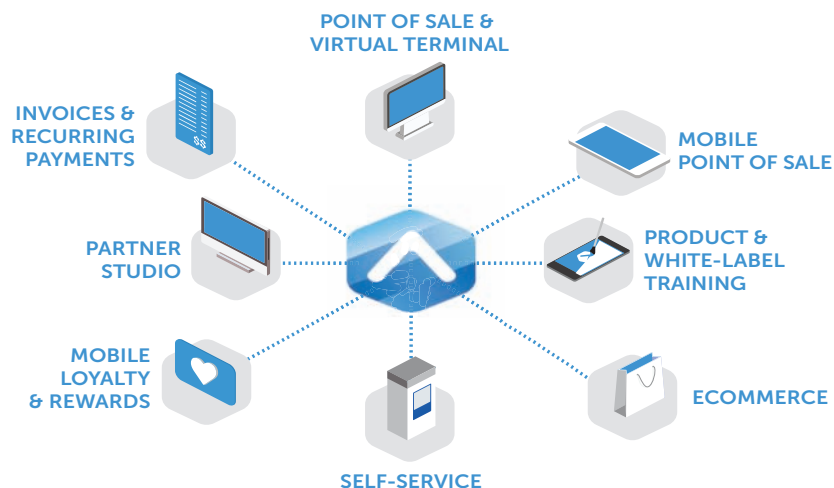
Merchants today need to connect with their prospects and customers across multiple channels to survive and thrive. This “omnichannel” strategy requires meeting the customer in store, online, with mobile, with self-service and vending, perhaps even with mail order/telephone order options. And where merchants connect with customers, they must be ready to take payments on that channel, as requiring customers to order or pay through another channel risks losing the sale.

Merchant service providers (MSPs) recognize the importance of providing omnichannel technology solutions for merchants who support multiple touchpoints in a competitive marketplace.

TECHNOLOGY DRIVING BUSINESS

Tech-savvy consumers require merchants—and their MSPs—to offer omnichannel payment options, everything from in-store terminals, to mobile pay, eCommerce, self-service payments, vending, loyalty programs, and much more than traditional POS solutions. In addition, MSPs must provide value-added services and customer support for merchants to win and retain their market share.

Providing such a diverse and adaptive range of payment services can be challenging for MSPs. Coupled with the niche technologies and industry knowledge required to support specialized markets, MSPs need to be both forward-thinking and responsive to effectively serve ever-evolving merchant needs. And MSPs need technology partners similarly aligned to forward-thinking solutions and responsive customer support to bolster their solution sets.



APRIVA'S ADAPTIVE PAYMENT PLATFORM

Apriva's technologies can be tailored to meet the payment needs of merchant markets. From payment acceptance via smartphones and tablets, to self-service/unattended retail, virtual terminal, digital invoicing, and integrated payments encompassing a wide variety of MSR, semi-integrated EMV, or full EMV devices, Apriva delivers a broad set of products to resell to merchants.

Uniting payments across all channels, Apriva's payment platform includes customizable reporting, reconciliation, BIN range management, interchange optimization, mobile loyalty and rewards, plus traditional and disruptive payment technologies. With Apriva's broad and agnostic approach to payment processors, payment types, and hardware, MSPs gain the ability to offer a wide variety of options to their merchants.

Plus, Apriva offers a unique “unlimited growth” pricing model that locks in payment processing costs on the platform, allowing MSPs to aggressively grow—enjoying greater margins while costs stay flat and revenues rise. And as trusted advisors to over 1,100

ISOs and MSPs across North America, Apriva delivers secure payment technologies that are ever evolving to capture payments and reduce risks.

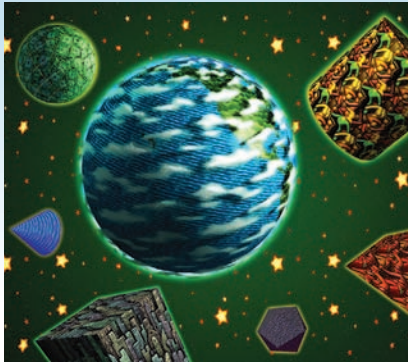
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Universal Cards 2.0

Kevin Woodward

Will additional embedded features in the new universal cards move them ahead in the age of digital wallets? People may have to forget the failures of the earlier generation first.

Getting consumers to carry more than one credit or debit card has been the goal of most issuers for the simple reason that many cardholders tend to use just one card—the fabled “top-of-wallet” card.

In that quest, an electronic version seems to be the preferred choice. The question is, which electronic version. Digital wallets, especially mobile ones, garner a lot of attention and use from consumers. Merchants like them. Payments companies like them. Issuers like them. Consumers can load multiple cards, including pre-paid, loyalty, and gift options in most instances, from a variety of issuers

Then there is the universal card, which retains the familiar shape and form of the decades-old payment card. Universal cards enable consumers to load multiple payment cards, typically using a mobile app to capture the card information. Early incarnations included products like Coin and Stratos, while current ones include an entry from Edge Mobile Payments LLC and Dynamics Inc.’s Wallet Card.

To be blunt, the early entries haven’t fared well. Coin’s assets were sold to wearables-maker Fitbit Inc. in 2016, and CardLab Innovation ApS

announced in 2017 it purchased the Stratos card connected platform and ceased the member program.

Yet universal cards, especially in a market like the United States where consumers overwhelmingly prefer using a physical card to make a point-of-sale purchase, continue to have appeal.

‘Half-Baked Technology’

Dynamics announced its Wallet Card in January. In addition to offering digitized and tokenized card credentials stored on the battery-powered device, the Wallet Card’s uniqueness is bolstered by the inclusion of cellular connectivity and messaging capabilities, marking its utility as an Internet of Things device.

The other contender is Edge Mobile Payments, which launched in 2017 following the Santa Cruz, Calif.-based company’s purchase of another universal card contender, Plaste. In a statement, Edge’s founder and chief executive said Plaste “ran out of funding.” Edge offers a color touchscreen, a rechargeable battery, and a card-locator function.

Among the slate of current universal cards, the Dynamics Wallet Card presents a different angle of attack

because it is primarily courting issuers, not consumers. Chief among its tactics is talking to financial institutions, which bear the cost of issuing cards, in many instances multiple cards to the same cardholder.

Cheswick, Pa.-based Dynamics is no stranger to the payment card industry. In 2010, it provided the card for a Citigroup Inc. test that enabled users to apply rewards by pressing a button on the card. In 2014, Mastercard was an investor in a \$70 million Dynamics funding round. That year, too, Dynamics introduced its first EMV contactless and magnetic-stripe card.

The distinction for the Wallet Card is the cooperative relationship between Dynamics and the payment industry, Jeffrey Mullen, chief executive, tells *Digital Transactions*. With a focus on selling to issuers, and the connection to the payments industry, the device stands out from its past competitors and known existing ones, he says.

“None of the other imitators had certification,” Mullen says. “They launched half-baked technology directly to consumers without the support of the industry.”

For the Wallet Card, Dynamics garnered the support of Visa Inc., Mastercard Inc., and JCB Co. Ltd., and enlisted four banks as issuers, along with Softbank Group Corp., owner of the Sprint wireless network.

IN PURSUIT OF HOLISTIC AML

By Computer Services, Inc. (CSI)

Now, more than ever, achieving a 360-degree view of customers is essential for optimized and effective anti-money laundering (AML) compliance. Financial institutions, including banks, investment firms, and insurers—and the services they offer both retail and corporate customers—have grown in size and complexity in terms of lines of business, products offered, delivery channels, and regional and global footprints.

In addition, the rapid expansion of e-commerce, digital lifestyle services, and other online services is driving growth in online and in-app transactions and other new modes of transferring funds, introducing an entirely new realm of financial activity.

And, in response to stricter regulation and more effective AML programs at financial firms, money-laundering techniques have grown in sophistication in order to elude detection.

The complexity and reach of modern-day financial services provide the perfect terrain for money-laundering schemes that use any combination of multiple customers, accounts, products, financial firms, and regions. The rapidly expanding ecosystems of e-commerce and online financial services provide even more opportunity for moving and cleansing illicit money.

To avoid being the unwitting host of schemes involving tainted funds, financial institutions and online services alike must be able to follow the money by tracking customer and account activity across the enterprise. They must also be able to assess the overall risk posed by customers who hold multiple accounts, as well as the risk inherent in networks of linked customers and accounts.

Holistic AML compliance, then, should capture a consolidated and coordinated view of customers and activity across lines of business, products,

and regions, including state and—for multinational institutions—national borders.

BARRIERS TO HOLISTIC AML

At many firms, AML technology and operations are decentralized and organized by line of business or geography. This siloed approach to compliance is a serious barrier to achieving a holistic, 360-degree view of the customer for risk assessment purposes.

At the same time, most firms do not have the appetite for full-scale, rip-and-replace projects in order to build these enterprisewide capabilities. Moreover, smaller financial institutions are challenged to implement sophisticated capabilities in an affordable and manageable way.

THE SOLUTION

Given such challenges, many firms are focusing on adding strategic components to their compliance stack in order to efficiently achieve enterprisewide AML compliance. The following program components help support a holistic approach to AML:

- ▶ A centralized method of building customer risk profiles
- ▶ Real-time screening to support faster onboarding, same day payments, and digital services
- ▶ AML and anti-fraud programs integrated at the enterprise level
- ▶ Advanced technologies such as machine learning to reduce false positives and support dynamic risk profiling

Implementing enterprisewide AML can be an effective way to overcome limitations of legacy compliance solutions, while at the same time supporting AML compliance operations in today's rapidly changing financial landscape.



To learn how your institution can implement an airtight AML compliance program, read the full white paper, *Achieving Holistic AML*, from CSI, in partnership with Celent. www.csiweb.com/resources/white-papers/achieving-holistic-aml



Photo: Dynamics

Dynamics is marketing its Wallet Card to issuers, not consumers.

“Banks are the ones distributing these cards for free,” Mullen says. “In most cases, our card will be no different.”

Unlike other universal card devices, the Wallet Card is adopted and branded by a single issuer. These issuers will be attracted to Wallet Card because it will last potentially years longer than conventional plastic cards. That’s important because the device is more expensive than a traditional EMV chip card.

Mullen won’t disclose prices, but he argues the reduction in card mailing and servicing will let issuers recoup their costs. Credit bureau Experian plc says the average U.S. consumer has 3.1 credit cards.

Not only do issuers pay for distribution of conventional cards, they have to service cardholders, too, usually with online Web sites and more expensive-

to-operate call centers. And if the card is caught up in a data breach, there is the cost of reissuing, Mullen says. Breaches also may cause attrition.

With the Dynamics Wallet Card, a digitized and tokenized version of a new card number could be issued to the cardholder over the air in case of a breach, minimizing the cost and delay of sending new plastic.

Such a capability may help eliminate an \$8 call to a cardholder and a typical \$6 cost to replace a card, as well as reducing the potential attrition, Mullen says. “Issuers that buy the Dynamics Wallet Card have been able to see the value,” he says.

‘A More Holistic View’

The cost of issuing may be a deciding factor for some banks, says Thad Peterson, senior analyst at Aite Group LLC, a Boston-based financial-


services consultancy. It’s not only the initial issuing costs, but the ongoing management expenses that might make a universal card attractive to issuers, he says.

“They don’t have to replace the plastic every two years,” Peterson says. “You have to look at the overall cost of the plastics of the customer over time.” Issuers also save costs because there is no need to integrate a new system, unlike the case with mobile wallets, Mullen says.

But that doesn’t mean banks won’t continue to pursue participation in mobile-payment services, like Apple Pay, Google Pay, and Samsung Pay, sometimes known as the “Pays.”

“At a high level, the Pays have helped what I call multiproduct relationships,” Mullen says. One result of that is a combined Web site where banking customers manage their checking and savings accounts, as well as their credit card accounts. This used to be done via two separate Web sites in many instances, Mullen says. “The Pays have a created a more holistic view within the bank portfolios,” he adds, which helped create data-reporting systems based on all the products a customer uses.

Mobile wallets are nowhere near replacing physical payment cards as the primary instrument at the point of sale, but that doesn’t mean banks will ignore them. They can’t, Mullen says, because of the branding swagger they engender, especially Apple Pay. But



‘Issuers that buy the Dynamics Wallet Card have been able to see the value.’

— Jeffrey Mullen, chief executive, Dynamics

AGILITY AND THE MLS: MAINTAINING RELEVANCE IN A CHANGING MARKET

By Michael Nardy, Founder and CEO

Working through the challenges of the market, today's MLS need to be as agile as ever, often changing their marketing approach, sales pitch, and even reevaluating verticals they tackle in order to stay competitive. Recently, the growth of Surcharging and Cash Discount programs have caused merchants to focus on the opportunity to pass card processing expenses onto their customers. While these programs can create a competitive landscape for the MLS, they should not look at these programs as a panacea to solve their own portfolio's growing attrition and margin compression, but rather a chance to educate and engage their merchants.

The goal of the MLS, ISO and Agent salesperson in the merchant services industry has always been twofold; to remain relevant in the market and translate that relevance into a larger, more stable residual. The best MLS tailors a processing program specific to their merchant's needs, including a wide variety of services, pricing plans, technologies, and perhaps programs such as Surcharging and Cash Discounting.

It is important to remember that Surcharging has certain requirements that must be observed, and it is essential to find the right partner that can assist with the registration and card brand requirements. Additionally, the idea of Cash Discounting might attract your merchant and, given their particular industry or customer demographic, may or may not be the perfect solution to their business needs.

Electronic Payments has spent nearly 20 years building and perfecting tools and programs for the MLS and ISO channels, and has seen first-hand the growth of over 1,000 successful partners. Notes from these success stories are

as varied as the individuals behind them. Some agents have perfected an integrated omnichannel approach, leading with a combination of new payment and POS technologies. Others have grown through the value or money-saving model, competing against a current offering by lowering a client's processing costs. Still, others have gained a deep knowledge and understanding of the myriad card brand rules and offer programs that benefit from enhanced Interchange qualification, such as Level III processing and similar Interchange Optimization programs.

While many of these programs are new or en vogue, the point of any competitive ISO or MLS is to not take a one-sized fits all approach as it relates to pricing and technology in your merchant program offering. Find and align with a company that shares your values, develops and markets new and cutting-edge technology, and supports the countless pricing and processing plan options in the market. As a payment processing consultant, you are well positioned to develop programs that satisfy your interests, as well as those of your merchants and their valued customers.



Connect with Keith Ashcraft, Director of Corporate Recruiting, to learn more about how Electronic Payments can grow your MLS.
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cards are not going anywhere either, Mullen says. They'll be necessary to load into a mobile wallet.

The Dynamics Wallet Card, with its non-consumer sales focus, may be on to something different, and potentially, with merit, Peterson says. "Up to now, the [universal] cards that have been out there have been consumer-facing cards. In essence, they have been a replacement for a wallet."

Consumers had to pay annual fees to use these other cards, and neither issuers nor processors were involved. "It wasn't much of a value proposition," he says. "With this card, this is clearly an issuer-side sale, simply because the dynamics of it allows the issuer to give me a single card for multiple accounts."


Mobile wallets, however, do have something in their favor. The incremental expense is minimal, Peterson says. "The value-proposition issue remains with mobile wallets. It doesn't cost me anything, nor my bank or my processor. It's a much easier hurdle from a value-proposition perspective."

'All Your Cards Available'

For Frank Sandeløv, chief executive of the Denmark-based CardLab, which bought the Stratos assets, the universal card concept has a lot of merit. Stratos, in particular, has a strong patent portfolio around connecting the card and an app, which is closely related to the CardLab patent portfolio. Sandeløv intends to return the card platform to the market when it finds the "right partner for it," he says.

"The platform is intended to be updated and offered [to] banks, payment institutions, and others as a hosted platform," Sandeløv says in an email to *Digital Transactions*. This will enable banks to create additional revenue streams and add CardLab's mag-stripe tokenization technology, which Sandeløv says is more secure than the EMV chip solution in the United States.

He makes that argument because the Stratos mag stripe is dynamic and can be rewritten as necessary. "The platform also gives the bank the option to replace blocked cards within minutes by issuing a virtual card that



'Most people leave the major part of their cards at home in a drawer. Now you have the opportunity to have one phone and one card and have all your cards available.'

—Frank Sandeløv,
chief executive, CardLab

can be used physically via the connected card to the app," he says.

"You have to remember that mag-stripe cards still are the only universally accepted payment solution and the tokenization furthermore is an open standard that does not require

paying fees to big payment-system providers," he continues. These "big" providers, he says, include Visa and Mastercard.

Sandeløv says the annual-fee model has merit, too. Because the card can hold offers, gift, and loyalty cards in addition to payment cards, consumers can always have a discount option with them at purchase.

"Studies have shown that most people leave the major part of their cards at home in a drawer and quite often miss bonus points, rebates etc. as they are not able to show their card," Sandeløv says.

"Almost all gift cards, loyalty cards and membership cards are cheap mag-stripe cards, and left in the drawer they represent no value," he adds. "Now you have the opportunity to have one phone and one card and have all your cards available, making sure that you redeem the rebates, bonuses, and [so on] that you are entitled to."

And, as geolocation can make offers and advertisements available just as the consumer is near a merchant, she will be able to save money, he says.

Optimistic Outlook

Mullen's and Sandeløv's optimistic outlook for their universal card programs is likely realistic. "Mobile is going to come, but it's not coming as quickly as anticipated," says Peterson. "We're all carrying two to three cards."

The challenge, and what the Dynamics Wallet Card is bypassing, is persuading consumers to opt in, and pay for the service, Peterson says. With banks sending a Wallet Card, consumers may be more likely to use its capabilities. "If I'm a consumer and I get one of these cards, I quickly understand it can be a credit or debit or loyalty card," he says.

Now time will tell if he's right, and the new entries can avoid the fate of the older ones. **DT**

THE ACH PROBLEM: HOW ITS BIGGEST UPSIDE IS BEING EXPLOITED

By David Barnhardt, EVP of Product, GIACT

Accounts receivable professionals say that they expect nearly half of all payments will be made by way of ACH by 2020¹. But while financial institutions, payment providers, businesses and consumers continue to adopt and benefit from faster payments, significant new challenges and risks are emerging in tandem.

Fraud is ever-adapting and faster payments is no exception. The same benefits that Same Day ACH provides can also be its biggest weakness. The shortened settlement window, for example, can easily be taken advantage of by fraudsters who are able to bypass existing fraud prevention tools.

In the midst of all of the excitement and rush to adopt a Same Day ACH model, now is the time to take a step proactive steps and carefully consider the following:

▶ **Legacy systems won't work.** Legacy account validation processes—including prenotes and trail deposits—will be ineffective at identifying and preventing Same Day ACH fraud. Those relying on existing fraud reduction or account validations tools give fraudsters a window of opportunity to exploit them. The result of using legacy systems to facilitate ACH fraud prevention will likely result in higher rates of unauthorized administrative returns, fines and penalties, negative customer experiences, and unacceptably high fraud losses.

▶ **Fortune favors the prepared.** Those planning to offer Same Day ACH debits need to update their existing systems and processes so that they're able validate both account status and ownership in real-time before it is made available to customers. This proactive step will reduce unauthorized and administrative returns as well as prevent a surge in fraud at implementation.

▶ **Know your customer.** To defend against customer impersonation and account takeover, it's important to have the best possible intelligence on your customer. This can be accomplished through a robust upfront validation of not only account status and account ownership, but also the customer's name, address, phone number, e-mail, and social media accounts. Financial institutions and processors who only rely upon traditional fraud prevention system will likely be taken advantage of by fraudsters who realize the lack of enhanced fraud prevention tools designed for same day processing.

▶ **Balance speed and safety with automation.** Automating and accelerating transaction reviews will enable faster risk analysis and transaction decision making. Today, some fraud reduction systems are still manual and exist in silo, which requires hours (if not days) to identify risk—making comprehensive, simultaneous screening (including OFAC checking, identity verification and payment validation) impossible in a same day environment.

▶ **Stop relying on customer-initiated transaction flagging.** Finally, don't rely on customer-initiated transaction flagging as a stop-gap to prevent fraudulent or mistaken transfers. With same day payments, most customers will no longer have time to identify suspicious debits and will therefore not be able to alert their financial institution or service provided before the payment is debited.



To learn more about how to protect your organization and customers, download the GIACT white paper, *Securing Faster Payments*: www.giact.com/resources/



Three Ways You Can Prepare Your Retail Business for mPOS

Ben Wagner

If you've decided to invest in a mobile point-of-sale (mPOS) solution for your retail stores, you're already aware of the array of benefits it offers your business. However, many retailers face challenges in implementing their new mPOS technologies. That's why it's important to have a plan in place to address these obstacles.

Here are the three ways that retailers can prepare their business for mPOS success.

1. Alter your store layout

Modifying your store layout while adopting mPOS creates several opportunities to alter the customer journey and improve efficiency and space usage.

Convert checkouts to selling space.

Using mPOS creates opportunities to supplement stationary or multilane checkouts, or simply reduce the number of them in favor of creating more selling and display space. Stationary checkouts can handle the typical levels of business, while mPOS can handle the occasional peaks without permanently dedicating that space to additional lanes.

Strategically place receipt printers.

If your associates will be providing mobile checkouts, strategically place receipt printers around your store. This way, if a customer prefers a paper receipt, a mobile associate can print and retrieve one quickly, without straying far from the point of service.

2. Train your staff

One of the mPOS challenges identified by retailers in a recent IHL Group

survey is the need to train store associates properly. This is crucial. Make sure to train your associates thoroughly and validate their understanding in several key areas:

mPOS device and application. mPOS devices come in different form factors, depending on your business needs. Some are paired with smart phones, others with tablets, and some with fixed POS systems. Whatever devices you choose, your associates should be trained to use them and any related mobile apps and tools.

Upselling. The POS apps on your mPOS solution may enable your associates to access product and inventory information. They need to be trained to use these features to upsell and cross sell. As an example, they can use a tablet POS solution to show the customer related accessories or items when they're providing mobile customer service or checkouts.

Customer engagement. Your associates should be trained for optimal customer engagement. Make sure they understand how to use all the features of their mPOS solution to enhance customer interactions and provide outstanding, personalized service.

Preventing cart abandonment. Your associates need to know how and when to use your mPOS solution for line busting and to quickly recognize and help a confused or frustrated customer. By offering preemptive customer service and alternative purchasing options, including accepting

payments anywhere in the aisle, they can rescue a sale that might otherwise be lost. For example, they can help customers find their desired product at another store and pay for it now, or order it online from your warehouse, with same- or next-day delivery.

3. Maintain your mPOS payments infrastructure

Your IT staff should also know how to maintain the new infrastructure for your mPOS deployment. Here are several points to keep in mind:

Better, secure Wi-Fi. It's critical to consider upgrading to better Wi-Fi connectivity and maintaining an optimized network. This will help ensure that transactions and service interactions are smooth, secure, and seamless.

Remote updates. According to IHL Group's report, 45% of retailers point out that mobile security is complicated and demanding. A mobile-device management solution is a perfect way to address this. It allows you to install regular software updates, monitor security, and track your devices remotely, while saving considerable time and cost.

Charging and securing devices. Your store staff needs to be in the habit of charging devices regularly. With many mPOS solutions, such as mobile smart terminals and tablet POS, charging stations are available to dock and charge your devices. **DT**

Ben Wagner is director of solutions at Ingenico Group, North America.

KEEPING UP WITH THE EVOLVING PAYMENT EXPERIENCE

OVER THE YEARS, merchants have been continually forced to adapt to the changing needs and preferences of consumers. Now more than ever, we are living in a consumer-driven economy, and with evolving technologies, the power of the consumer has filtered all the way to the payments experience. As consumers increasingly use digital tools to shop, they now expect to be able to pay how they want, when they want, anywhere they want.

The evolving consumer demands will dictate how merchants must shift to remain relevant, and it's up to merchant services providers and resellers to keep pace with the latest solutions and counsel merchants appropriately.

PAYMENT EQUIPMENT HAS CHANGED

Due to long lines and wait times, customers have consistently reported that making a purchase is the most painful part of the shopping experience. To address this, over the last decade we've seen a dramatic evolution in payment technology and a plethora of advanced experiences being introduced. Payment equipment has evolved from bulky credit card terminals with limited capacities to inexpensive mobile readers and POS systems.

Now, merchants can equip their employees with mobile POS devices, effectively eliminating the cashier counter and long lines. Employees can access product specs and inventory information on their devices, so there is no more running back to storage. Dispersion of shoppers creates a better overall customer experience, allowing staff to take their time providing top-tier service.

THE POINT OF SALE IS SHIFTING

In addition to upgrading equipment, some retailers are going one step further by eliminating the traditional checkout experience entirely. This has facilitated "tailored-to-me" shopping experiences.

Developments in omni-channel technologies are redefining how payments are accepted, most obviously with the proliferation of e-commerce as

well as hybrid features like online order ahead with in-store pickup. In addition, integrated payment technologies now allow businesses to accept and manage payments within existing software, turning most any PC, tablet or smartphone into a point of sale. And, as "smart" software is integrated into more varied hardware, from parking meters to laundromat washers, more products are becoming points of sale able to accept credit transactions.

The multiplication of integrated payments offers great opportunities for innovative payment technology and merchant services providers who are able to help businesses re-envision their customer's experience.

THE WAYS TO PAY HAVE MULTIPLIED

The shift to EMV chip cards a few years ago provided a major incentive for merchant services providers to consult with merchants and encourage them to upgrade their equipment. Now, the ability to accept EMV chip cards, online payments and NFC/mobile wallet solutions like Alipay, Apple Pay or Samsung Pay is common. The market will continue to expect merchants to keep pace and accept payment types that each individual consumer deems to be the most convenient.

PREPARING MERCHANTS FOR THE FUTURE OF PAYMENTS

While some cutting-edge solutions aren't appropriate for every business, a reseller can advise merchants on what technologies suit them. Evaluating solutions like implementing contactless/NFC payment acceptance or setting up a mobile POS system may seem daunting for a business, but a knowledgeable reseller can make it easy. For instance, North American Bancard offers a comprehensive product suite, with many free options, enabling merchants to get started quickly and add solutions as they grow.

As a merchant services provider or reseller in this ever-evolving marketplace, aligning yourself with a payments technology partner at the forefront of emerging solutions is necessary to keep your merchants successful.



For information on how you can help merchants be better positioned for the future of payment acceptance, please visit www.gonab.com or call (888) 229-5229.

There's an emerging glimmer of hope, and it's been right under our noses for years.

Why Contactless Could Soon Leave the Station



Paul Kobos is senior vice president of banking and payments at Gemalto North America.

City transit systems provide the ideal scenario for contactless payments to take root with U.S. consumers, says Paul Kobos.

If you live in a major metro area, you're probably intimately familiar with the never-ending pains of public transportation. Whether it's subways, light rail, buses, or ferries, customer service can be hit-or-miss and infrastructure can be downright outdated. And yet, public transit remains critical for our daily comings and goings.

In parallel, ever since the advent of EMV in the United States, complaints have been reported regarding the speed of more secure payment methods in retail locations. Although superior contactless-payment options have been abundantly available in other regions of the world for several years, slow U.S. uptake on both the issuer and merchant-acceptance fronts has held us back from realizing the true promise of contactless.

Against that backdrop, there's an emerging glimmer of hope: The intersection of those two less-than-ideal situations provides the perfect proving ground for the killer consumer use case for contactless payments, and it's been sitting right there under our noses for years. There are quite a few reasons why mass transit serves as the killer use case and why contactless could soon take off in the sector.

All Day, Every Day

Consumers are creatures of habit. Whereas they might alternate among credit card swipes, EMV chip dips, mobile payments, or even checks (seriously!) at various retailers, the vast majority of people using public transit use the same

payment method for the same activity every day, probably multiple times each day. This unmatched regularity of using a contactless card, mobile device, or wearable to pay for public transportation every day quickly becomes habit.

Additionally, when traveling to or from work or social engagements, consumers always tend to have their phones with them. That's not always the case when taking a quick walk down to the grocery store or a drive to the gas station. It's much less likely that they'd strand themselves without a form of contactless payment and much more likely that they'd turn to a device they're already carrying and actively using for other mid-commute purposes if it offers payment functionality.

Again, if you've ever taken public transit, you know that there are few environments where people are in more of a rush. When technology is introduced to those commutes, it has to work universally and it has to be fast. While one app and payment device can be used in the exact same way across every one of the hundreds of public-transit turnstiles or terminals in a city's system, the retail world has to contend with overwhelming fragmentation of acceptance terminals and compatible forms of payment.

Tap-and-go payments that take less than a second—as is the norm with contactless—are perfectly suited for on-the-go transactions. Furthermore, low-value transit transactions can be optimized for distance-based fares that are

MAKING SENSE OF THE ISO AND ISV CONVERGENCE

By Todd Linden, CEO of Payment Processing North America at Paysafe

FOR A LONG TIME NOW, Independent Sales Organizations (ISOs) and Independent Software Vendors (ISVs) have supported the retail sector in providing individual merchants with the payment systems they need to meet customer demand. ISOs have provided merchants with their payment terminals, ePayment systems and other support, while ISVs have complemented these with software solutions.

However, what merchants want from their payment systems is changing. Credit and debit cards have overtaken cash in the US, the country is in the middle of migrating cards over to the EMV “chip and PIN” standard, and alternative payments, such as eWallets, are becoming more and more popular. At the same time, merchants want new ways to engage with their customers through mobile apps and personalized loyalty or reward campaigns. They want solutions to help them simplify operations by automating the inventory process, as well as billing, reporting and scheduling. All of this is putting pressure on merchants to upgrade their payment equipment and business software.

As a result, merchants want their payment partners to provide a different and varied range of solutions. This is blurring the lines between what makes an ISO and what makes an ISV, as each subsector competes to offer additional services traditionally associated with the other.

This convergence offers many opportunities for ISOs and ISVs to grow their businesses, but can pose a challenge too. Where can these companies turn for support in navigating this increasingly complex marketplace?

Payment Service Providers (PSPs) have a key role to play in helping such organizations through this market transition. Offering the widest possible range of payment technology can help both ISOs and ISVs meet their merchants’ needs cost-effectively. A single partner providing all the technology required to support their customers can significantly streamline

a company’s supply chain, saving time and resource. Paysafe, for example, offers a comprehensive array of payment solutions to meet the needs of ISOs and ISVs. We recently partnered with Verifone to provide a semi-integrated, cloud-based point of sale (POS) system designed specifically to meet the business needs of small merchants.

A partner that provides a complete business management solution—from in-store to online—can also be ideal for ISOs and ISVs supporting bricks-and-mortar merchants moving into the eCommerce space.

Those that offer exciting value-added services can help ISOs and ISVs stand out in a competitive market and attract new merchant customers too. PSPs can offer big data that can provide merchants with key insights into customer behavior, such as how buying habits are affected by the weather and at what time of day sales increase for certain types of product. This information can help them improve the service they offer to consumers and increase revenues.

Finally, comprehensive dedicated customer-centric support services from PSPs can also help ISOs and ISVs to explore new technologies and products, providing them with the information they need to develop their own services, so they can deliver the best possible solutions for their merchant customers.

The merging of ISOs and ISVs is showing no sign of abating, and is the key challenge facing the sector in 2018. We at Paysafe are pioneering new ways to support both sides of the industry through this convergence phenomenon, which is precisely why we will be exploring the issue at ETA Transact in Las Vegas this month.

As we’ll explain, working with the right payment partners will help organizations in both subsectors arm themselves with the information they need to continue to meet merchants’ requirements. In doing so, we can help everyone in the payment ecosystem thrive in this changing payment landscape.

processed while riders are en route and aggregated before being sent to the financial institution. This makes payments process faster for the consumer and more flexible for transit agencies and their service providers.

Open Sesame

Another key benefit for users of contactless payment methods for public transportation is the freedom and flexibility that come along with systems that are designed as open-loop. Usability, centralized access to all modes of transportation, and the overall value of an open-loop contactless transit card or app are compounded in that they are tied into the broader Visa, Mastercard, or other payment-brand network. That can make the same card or app valid for such related expenses as tunnel tolls.

From a security standpoint, open-loop contactless payment systems leverage the globally standardized security features already present in modern mobile devices or dual-

interface cards—secure elements, EMV, tokenization, and others—rather than starting from square one and relying on strong security measures needing to be built in to new proprietary, closed-loop systems.

Often, progress is blocked by an unwillingness from any one entity to be the innovative first mover or early adopter. Fortunately, we’ve already passed that sticking point with contactless payment for transit. Even closer to home than standout global examples like Singapore, South Korea, and London, New York’s MTA has been hurtling toward installing a contactless payment system this year. Chicago has offered a card/mobile-payment combo for quite some time. And even midsize markets like Salt Lake City and Portland have rolled out contactless-payment options. With each of those examples, the systems have worked for citizens and they’ve worked for the cities.

Daily transportation fares fall squarely into a bucket of small, low-

consideration purchase transactions that would grease the wheels by rapidly boosting consumer confidence in and familiarity with contactless technology and payment behaviors. There’s existing research that supports the idea that small transactions are more likely to create top-of-wallet awareness, in turn driving increased spend for contactless issuers.

The use of contactless payment methods in public transit isn’t a new idea by any stretch. And it’s not as though contactless is going to replace traditional stored-value transit cards overnight. Having said that, to this point, we also may not have been leveraging the use case to its full potential in experimenting with, testing, building, learning about, and expanding contactless-payment systems throughout society and commerce. Once contactless payments leave the public-transit station in earnest, I expect we’ll see more than a few other industries hop aboard to avoid being left behind. **DT**

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