DIGITAL TRANSACTIONS

Trends in the Electronic Exchange of Value

A TOUCHY SUBJECT

Contactless payments are making headway at last, but some sticky complications remain.

Volume Sixteen, Number Six • DigitalTransactions.net • June 2019

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the gimlet eye

WHERE ARE THE MOBILE INCENTIVES?

FOR YEARS NOW, the payments business has predicted a mass uptake of mobile wallets, and for years the pundits have been disappointed. Activity via services like Apple Pay, Google Pay, and Samsung Pay has been notably non-overwhelming, despite backing from these tech giants.

Now, another question mark has appeared for mobile payments, this time having to do with the connection between the new dip-and-tap EMV cards, on the one hand, and mobile payments, on the other.

Conventional wisdom in the payments business has long held that the advent and spread of these contactless cards would pave the way for wider use of mobile payments. But research released last month seems to throw cold water on that idea. Indeed, the ease of tapping and the familiarity of plastic could tempt mobile-phone owners away from using a mobile wallet, according to the survey results from New York City-based Auriemma Research.

The firm's latest Mobile Pay Tracker canvassed just over 2,000 consumers in January and February who were eligible to use Apple Pay, Google Pay, or Samsung Pay. While these consumers are understandably enthusiastic about the experience of contactless connectivity at the point of sale, it's unclear whether that sentiment will translate into greater use of mobile wallets, the study says.

To be sure, the rollout of new contactless cards meeting new near-field communication standards is far from complete. Major issuers like JPMorgan Chase & Co. have only begun pumping out the cards in recent months. But Visa Inc. has predicted there will be about 100 million cards in circulation in the United States by the end of the year. These are so-called dual-interface cards, which can be inserted into a chip reader as well as tapped at a terminal.

Already, the Auriemma survey indicates 55% of respondents who use mobile wallets agree that contactless-card transactions are faster than mobile payments.

And, while merchants are still installing new terminals that can work with newer contactless standards, that doesn't pose a barrier for cards, according to Auriemma research director Jaclyn Holmes. If tapping doesn't work, you can just insert the card, she points out.

But she adds the wallets may have one big weapon, if they will only deploy it: rewards for usage. Apple Inc., for example, has until recently been notably reluctant to promote Apple Pay with incentives, but that seems to be changing with its new Apple Card alliance with Goldman Sachs Group Inc. Set to debut this summer, the new digital Apple Card will offer cash-back incentives.

When it comes to mobile payments, rewards make all the difference in adoption and usage, Holmes says. Are the wallet panjandrums listening?

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Trends in the Electronic Exchange of Value

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trends & tactics

CONTACTLESS: CONNECTING?

THE CONDITIONS for the widespread adoption of contactless payments using chip cards are in place, asserts a report from the Federal Reserve Bank of Boston. But when that will happen and what will trigger it are unknown in the Fed report, "Tap to Pay: Will Contactless Cards Pave the Way for NFC Mobile Payments in the U.S.?" released last month.

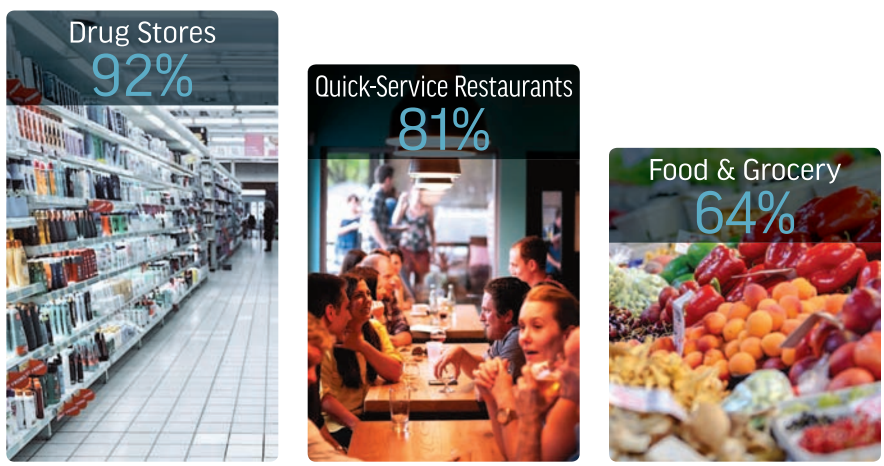
"The rest of the developed world is contactless," says Marianne Crowe, vice president of payment strategies at the Boston Fed. "It's becoming a need for us to become current with the rest of the world as well."

The U.S. payment card industry finally took a big step in that direction in 2015 when financial institutions began issuing EMV chip cards in earnest. Now, the industry is promoting contactless EMV payments as the next step (for more on contactless, see page 20).

The effort is aided by a number of large issuers, such as JPMorgan Chase & Co., committing to issue chip cards with contact and contactless interfaces. Most EMV point-of-sale terminals placed at merchant locations in the last several years are contactless-capable, though not all merchants have activated the function.

CONTACTLESS BECOMES MORE COMMON

(Percentage of Visa transactions at contactless-enabled merchants in "everyday-spend" categories)



Source: Visa Inc., cited by Federal Reserve Bank of Boston

Another favorable condition is the marketing of smart phone-based mobile wallets, like Apple Pay, Google Pay, and Samsung Pay, that exposed millions of consumers to tap-and-go payments.

One question Crowe, report author along with Elisa Tavilla, a Boston Fed industry consultant in payment strategies, wanted to examine is the relation between contactless cards and mobile payments.

"There are always people who like using their cards and will continue to use a card," Crowe says. "Those people will probably adapt easily to contactless cards. It's quicker and easier than inserting the chip."

As for mobile payments, uncertainty about additional user growth abounds. Earlier this year, only 14% of U.S. smart-phone users made a mobile payment with one of the "Pays," the collective term for the three tech-based mobile-payments services, said Juniper Research.

Will contactless cards spur mobile-payments growth? Possibly, because more merchants might activate the contactless function. "Even though Apple Pay and other NFC wallets have been around for a while, not all consumers have tried using them," Crowe says. "But, with the card, everyone will have the option of using it by tapping or inserting it." EMV contactless cards and mobile-payments wallets use the same near-field communication radio frequency technology.

But there could be a gain for contactless cards regardless. A consumer might attempt to pay with a mobile wallet, only to discover the POS terminal is not contactless-enabled. If a consumer does that with a contactless card, however, it's easy enough to dip the same card into the reader to complete the transaction, the report says.

"This uncertainty may drive consumers to use a contactless card, at least in the short term, because they know it will work each time they pay. The simplicity of using contactless cards may also appeal to a broader consumer audience that includes those who are less tech-savvy," the report says.

Crowe and Tavilla also say that the current contactless payment push stands a better chance of success than the card industry's previous effort in the mid-2000s. The big difference now is that many merchants have POS terminals that, if not already activated for contactless payments, can easily be made so, and don't need special readers.

"The market seems more prepared," Tavilla says. Most consumers have phones with NFC capability and the cost of dual-interface cards has come down. A non-printed, non-personalized, contact-only EMV card may sell for less than 50 cents. A dual-interface card may be approximately $1, or even less with volume orders.

—Kevin Woodward

PAYPAL HAS 40 MILLION REASONS TO SOLVE ITS VENMO PUZZLE

There's much more to PayPal Holdings Inc. than Venmo, but that's where the payments industry's spotlight has shone in recent years. Still, in spite of all the attention it gets, Venmo had always kept one thing secret: how many active users it has. Late in April, PayPal lifted the veil. More than 40 million people, it turns out, use the peer-to-peer payment service.

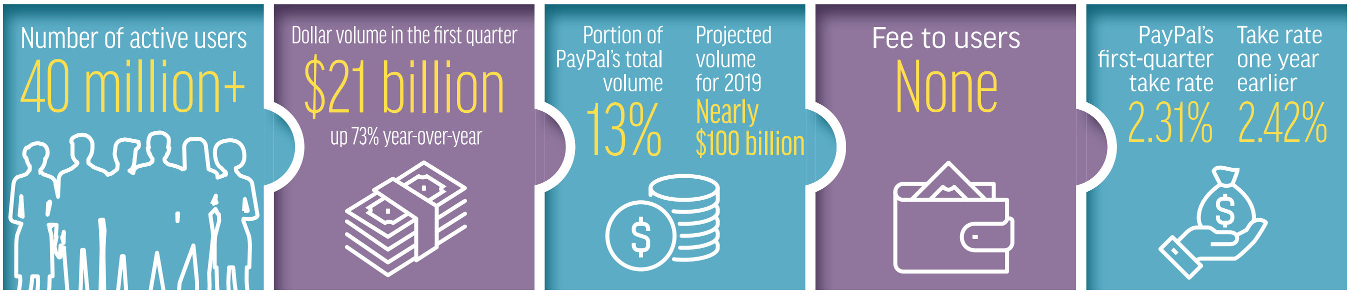
Venmo users rang up $21 billion in volume in the first quarter, up 73% year-over-year and triple the volume seen two years ago. That means Venmo, which already accounts for 13% of PayPal's dollar volume, will generate almost $100 billion in volume this year, PayPal predicts.

But Venmo gets outsized attention compared to the rest of PayPal not only because of its sizzling growth but also because of the impact the free service is having on its parent company's financial results. On a quarterly earnings call, PayPal's top brass expressed some frustration with that assessment, pointing to how merchant acceptance is beefing up Venmo's top line.

"Merchants are increasingly turning to Venmo," chief executive Dan Schulman told analysts on the call. He was echoed by Bill Ready, chief operating officer: "We're pleased with the monetization of Venmo and the rate at which that's progressing."

The top execs didn't go so far as to release a P&L for Venmo, but they're clearly encouraged by moves over the past couple of years to induce merchants to accept a Venmo-branded debit card and

THE VENMO FACTOR



Source: PayPal

to take the service in payment for e-commerce sales.

Tactics like these, which draw acceptance fees from sellers, have driven Venmo's annualized revenue run rate to more than $300 million as of the end of the first quarter, according to Schulman. "I expect that to continue to grow," he said on the earnings call. Merchants taking Venmo include Uber, Uber Eats, Grubhub, Seamless, and Fandango.

One example of how a merchant could succeed with Venmo acceptance, he added, is a recent campaign by the restaurant chain Chipotle to promote Venmo. The company signed up 1 million customers for the rewards-linked program in just one week, Schulman reported. "There are a lot of areas where we can grow top-line revenue" for Venmo, he said.

For now, though, Venmo's fast growth continues to put pressure on PayPal's margins. The company's transaction take rate, or the percentage of a sale it keeps, drifted down again in the first quarter to 2.31%. Twelve months ago, that rate stood at 2.42%. Chief financial officer John Rainey blamed "strong P2P growth" for two-thirds of the decline.

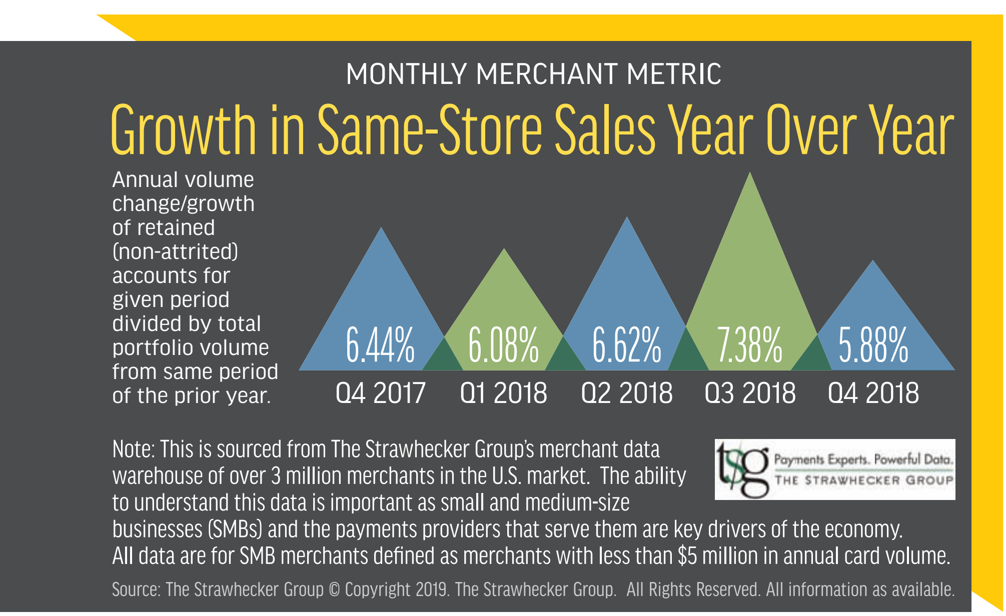
Another hot spot for PayPal is its relationship with eBay Inc. The big online marketplace, which once owned PayPal, is moving ahead with a so-called payments intermediation plan that relies on the Dutch payments provider Adyen for gateway services to PayPal as well as other payment methods.

Meanwhile, an operating agreement the parties signed in 2015, when eBay spun off PayPal, runs until the summer of 2020. By that time, Schulman predicted, eBay will account for "well under" 5% of PayPal's volume, compared to just under 10% now.

"They're just becoming a much smaller part of PayPal at a much faster pace, which is great," said Schulman. "There's nothing that gives us any pause for concern." That may be because PayPal has been working with merchants to list on "multiple marketplaces," Schulman added. "Consumers are 54% more likely to buy when a merchant accepts PayPal, and eBay sellers know that."

Also, PayPal during the quarter invested $750 million in Mercado Libre, an Argentina-based e-commerce marketplace with 248 million registered users in 19 countries, more than eBay's 179 million. The company expects the investment to pay off in growth in Latin America and in cross-border payments.

—John Stewart



ACCOUNT-VALIDATION EDICT COMING TO ACH

Internet purchases are one of the ACH's fastest-growing transaction categories, and now an automated clearing house network rule tightening security around those transactions is set to take effect Jan. 1.

The rule change, technically an amendment, affects so-called WEB debits, which cover a wide variety of ACH-funded Internet payments. It will require merchants as ACH transaction originators to validate the customer account used for WEB debit transactions.

It's not that NACHA, the Herndon, Va.-based governing body of the ACH network, has not had security procedures around WEB debits before. The network has required originators to use "commercially reasonable fraudulent-transaction detection," says Michael Herd, NACHA's senior vice president of ACH network administration. But "commercially reasonable" isn't defined, and account validation hasn't been mandated.

"The validation piece isn't required today," Herd says. "Account validation is not explicitly required."

But it will be come Jan. 1. The change comes as e-commerce is booming on the ACH. Internet transactions rose 10% year-over-year in the first quarter. Plus, better security is all the more important as the growing number of same-day ACH transactions speeds up the payment process.

"Given the potential volume and velocity of Internet payments, certainly the time is right to take the next step," says Herd.

How extensive the changes in fraud-control techniques the tightened rule will cause for originators and the originating depository financial institutions (ODFIs) they work with is a matter of debate. "I think for many there won't be" changes, says Herd.

Many ODFIs and merchants already are using processors and vendors that provide a variety of account-validation systems. And the ACH network itself uses so-called pre-certifications, a technique that generates a zero-dollar test transaction to the account receiving the payment request, and micro-deposits to ascertain account validity.

But both those and another commonly used method to determine if an account is valid and active have their shortcomings, some ACH experts say. Micro-deposits, for example, can enable a fraudster with stolen account credentials to verify the credentials are valid.

"That's something the fraudsters are watching, if it doesn't come back they know it's a good account," says Debbie Peace, chief executive of ACH Alert, an Ooltewah, Tenn.-based fraud-prevention services provider.

A recent white paper from Allen, Texas-based risk-control technology provider Giact Systems LLC says a strong account-validation system should encompass account status; payment history, particularly nonsufficient funds transactions and chargebacks; ownership and matches of ownership to the payment originator; and consistency in the customer's personal identifying information.

"The only true way to protect WEB debits is through robust account validation that goes beyond simply confirming if an account is active," the paper says.

—Jim Daly

A CHANGING OF THE GUARD AT NACHA

The nation's automated clearing house network is getting new leadership.

NACHA announced last month that its long-time president and chief executive, Jan Estep, will cede that role July 1 to chief operating officer Jane Larimer. Estep will formally retire at the end of the year, NACHA said, following a confidential process she set in motion late in 2018 with NACHA's board of directors.

Larimer, a 23-year veteran at NACHA, has filled a number of roles at the governing body for the automated clearing house network, including oversight of network rules and risk management as well as legal counsel.

In particular, she has played a key role in the network's transition to same-day processing, part of the overall U.S. payments industry's recent trend toward faster payments. Same-day ACH credits took effect in 2016, with same-day debits following suit a year later.

Larimer was a "unanimous" selection by the NACHA board to succeed Estep, according to NACHA's announcement. "The … board feels that it has been very fortunate in finding a new CEO with Jane's background in the industry, coupled with her leadership ability, experience, and values," said board chair Laura Lee Orcutt, in a statement. "Jane is the best person to lead NACHA in collaboration with its board, members, and the industry." Orcutt is an executive at Wells Fargo & Co.

The Herndon, Va.-based payments organization began searching for a new CEO "earlier this year," according to the announcement, and evaluated both internal and external candidates against a list of desired attributes drawn up by a board committee.

Larimer (right) will take over from Estep (left) next month.

Estep, who took over NACHA at the end of 2008, has guided the organization through a key decade in which it has benefited from an increasingly rapid transition from checks to fully electronic payments. With endpoints at virtually all of the nation's financial institutions, the ACH network handled more than 23 billion transactions last year.

"Jan's tenure has strengthened NACHA's role in the payments ecosystem," Orcutt said in the statement. "We want to thank Jan for the tremendous investment she has made in NACHA over the years."

Estep says she triggered the search for a new leader when she informed the board she planned to retire at the end of 2019. Estep will assume the position of president emeritus after Larimer takes over.

For her part, Larimer says one of her top immediate goals is getting NACHA's business-payments directory up and running. NACHA last fall acquired the Roseville, Minn.-based Business Payments Directory Association, an organization formed in 2016 to develop a database, or what it calls a public phone book, of business payees and payee information.

The database allows payers to find the information needed to make payments to their payees electronically. The BPDA last summer began working with Discover Financial Services on a proof-of-concept platform for a B2B payments directory built on blockchain technology.

NACHA expects the directory will produce a "better corporate experience," says Larimer. "Today there's a lot of friction in business-to-business payments."

Meanwhile, Larimer disputes some observers' opinions that fast-growing real-time payments systems could take a bite out of ACH volumes. "I believe it's complementary," says Larimer. "End users use payments for a whole host of different reasons, and all of us like to have choice. There is always going to be a need to use ACH."

More broadly, Larimer intends to keep NACHA at the forefront of payment-industry changes. "It's in NACHA's DNA to keep that weather-eye out on the horizon, so keeping a further vision, a further view of what's changing in the industry—how do we continue to bring stakeholders together to solve thorny issues," she says. "That's what we do." DT

—John Stewart, with additional reporting by Jim Daly

THE 'HEALTH-CARE' STRATEGY

BY GIDEON SAMID
gideon@bitmint.com

THE BEST HEALTH-CARE ADVICE YOU CAN GET IS: "Eat right, sleep right, exercise, wash your hands, do Yoga, and don't watch the news." We have plenty of data to validate such advice, and it works. Alas, every so often, we get sick, fall, get hurt. And then we expect a powerful health-care system to make us whole again.

Now imagine we diverted all the investment in doctors and hospitals to make roads less slippery and to send the food police to make us all eat broccoli. Fewer of us would require hospitalization, granted, but what about those who get sick or wounded nonetheless?

Remarkably, in cyber security this ridiculous strategy is the norm. Here, the "Stay Healthy!" equivalent is "Don't Get Hacked!" which, too, is very good advice. But what if you do get hacked, what then?

Publicly available databases (the kind merchants and banks run) must keep their data ready, readable, and searchable. Yes, we surround our data with cyber fences, but we are also surrounded by diabolic cyber intelligence.

The good guys may win 99 times, but if they lose once, they lose their shirt. The most protected databases in the world have been embarrassed by humiliating penetrations.

We need heavy strategic emphasis on bouncing back, on minimizing, even neutralizing the damage of a broken cyber fence. Some principles: (i) data-at-rest-encryption; (ii) high-resolution, fast-rewind backup technology, and (iii) data fingerprinting. Combined, these three tools will make hacking uneconomical for the hacker and drive those smart computer mavens to an honest job.

End-to-end encryption is a great buzzword, but the big damage from hacking is due to theft of data at rest. It must be encrypted. When pulled for human review, decrypt it; when returned to storage, re-encrypt. But what about statistical reports? If the data is encrypted how can one find patterns therein? A modern branch of cryptography offers effective solutions to this challenge. Also, new super-fast ciphers reduce any delay in data retrieval to alleviate any inconvenience.

Data backup has been a routine protocol, but backup technology has not kept up. Archiving an image of a database every so often is laborious. Event logs are more efficient but rarely applied at sufficient resolution.

Recent technology allows a database to secretly mark the identity data of its customers. Dubbed "fingerprinting data," the idea is to effect a subtle distinction between the private data held by its owner and the same data stored in the service database.

When the database is hacked, the thief would use the subtly marked data to attempt to steal the victim's identity, but unbeknownst to him the marked data will tell the merchant or the bank that the data presented came from a hacked database. The attacker then turns prey. Once hackers realize they can't profit from their spoils, they will lose their incentive to attack financial databases.

These powerful recovery strategies should be combined with new, efficient ways to spot penetrations, which often remain hidden for months. The new digital-money technology may prove handy. Much as "Follow the Money" is the prime fraud-detection technique in the real world, so it may be for cyberspace, once we implement fast, frictionless, high-resolution digital payment for every cyber service.

Effective cyber recovery requires data refreshment, which calls for shying away from biological and other immutable identifiers, relying instead on fully randomized, expiry data. Inconvenient, yes, but we give up convenience to buy security. None of the great promises of cyberspace can be realized if we lose the security battle. DT

GETTING HEARD BY EMVCo

Six big networks control EMVCo, which in turn controls the global EMV standards. But merchants have ways to wield some influence.

BY **KEVIN WOODWARD**

WITHIN THE FRATERNITY OF COMMERCE, merchants have at times taken issue with directives set out by payments organizations. The most common differences usually center on pricing, but disputes about payment methods and security also emerge.

Take the case of merchants and EMVCo LLC, the standards body charged with setting global specifications for EMV online and offline. They have the common goal of wanting secure, quick, and consumer-friendly digital transactions. But their separate visions for reaching that goal sometimes lead to disputes.

EMVCo's domain includes contact, contactless, and quick-response code payments, payment tokenization, mobile EMV payments, and the e-commerce specs 3-D Secure and Secure Remote Commerce. While EMVCo runs the specs, merchants are finding their voices are being listened to.

In addition to its primary membership for payments organizations directly involved in the industry, EMVCo formed an associates program in 2010 as a way for those with business and technical interests in the organization's payments realm to have some input.

Now, some of the biggest merchants are taking advantage of the program. The 140-member Merchant Advisory Group, an advocacy organization for merchants that counts the likes of Walmart Inc., Southwest Airlines Co., Target Corp., and The Wendy's Co. among its members, joined EMVCo in 2018 as a business associate.

"We just joined last fall," says Laura Townsend, the MAG's senior vice president of operations, in response to the impending arrival of Secure Remote Commerce, an online payment spec under EMVCo's domain.

"In light of SRC, we decided to join because we feel strongly there needs to be a strong merchant perspective

in how they go about digital remote commerce," Townsend says.

This input is critical, she says, because the ultimate decision makers are the owners of EMVCo: Visa Inc., Mastercard Inc., Discover, American Express Co., JCB Co. Ltd., and UnionPay International. "It's really difficult for merchants, but what EMVCo did was they created a way for membership organizations like ours to join whereby our members can participate in the discussion, get access to documentation, and provide feedback," Townsend says. "Economically, that works out very well."

'A CHALLENGING BALANCE'

Prior to the 2010 launch of the business and technical associate programs, EVMCo operated a board of advisors and continues to do so, says Brian Byrne, EMVCo's director of operations.

EMVCo itself formed in 1999 following the 1996 publication of the first EMV chip card specification. Though EMVCo is legally incorporated in Delaware, it does not have a central office. Its employees work from home or from their employers' office.

"We were originally formed to focus on contact chip transactions, but as payments evolved and as commerce evolves, basically as card-based payments evolved, EMVCo evolved with it," Byrne says.

Certification issues ensnarled the U.S. EMV rollout, but the logjam has since dissipated.

"Now we have a suite of specifications. As the need to support secure payments migrated from face-to-face to the virtual worlds, so did EMVCo's work as well."

These technical and business-associate members provide vital feedback, Byrne says. "We get a lot of strong and active input from our associate members," Byrne says. That is in addition to feedback from its subscriber base, those individuals and companies wanting to stay informed about EMVCo actions.

At $750 per individual and $2,500 per company, subscriber status is less expensive than the annual $12,500 fee for a business-associate membership and $25,000 for the technical-associate program.

Subscribers get early access to EMV specification revisions and can directly ask EMVCo for feedback or guidance on technical issues. Technical associates can participate in working groups, attend twice-annual technical-associate meetings, and can vote on EMVCo board of advisors candidates.

Business associates can have a seat on the board of advisors, participate in the annual EMVCo meeting, and receive a discounted technical-associate membership rate. Retailer Amazon.com Inc. is both a business and technical associate, while Target Corp. is a business associate only.

MAG chief executive John Drechny, who attended his first EMVCo board of advisors meeting in March, says the meeting is beneficial because it "gives merchants an opportunity to voice our opinions regarding draft specifications, but EMVCo or their owners are not bound to implement any of the suggested changes."

On that note, EMVCo's Byrne says constituent input is vital. "We solicit a lot of direct input from the board of advisors meetings," he says. "We ask

'There needs to be a strong merchant perspective in how [EMVCo goes] about digital remote commerce.'

—**LAURA TOWNSEND**, SENIOR VICE PRESIDENT OF OPERATIONS, MERCHANT ADVISORY GROUP

‘We don’t want to be in the position of having any vested interest in one particular region.’

—**BRIAN BYRNE,** DIRECTOR OF OPERATIONS, EMVCo

about what’s going on in their markets. What technology has progressed to where a specification is needed. Every market uses its own implementation of our specifications. It’s a challenging balance to maintain.”

‘CUMBERSOME, CONFUSING’

As one of companies that owns EMVCo, American Express says it listens to merchants and others in the payments industry for guidance about how it implements EMVCo specifications.

“We are always actively engaged in discussions with industry stakeholders, including merchants, issuers, and organizations involved in the payments ecosystem, about solutions to provide consistency and security while preserving payment choice and flexibility,” an AmEx spokesperson says.

For example, the AmEx spokesperson says, in recent years merchants have said they want to see standardization within the online and mobile-commerce space, “especially to help minimize the risk of bespoke solutions and redundant integration efforts. American Express values the important perspective of the merchant community.”

Recently, the merchant community has been vocal about Secure Remote Commerce, one of the newest EMVCo standards (“The SRC Express,” January). This spec, also known as SRC, establishes the technical framework for enabling consumers to use their payment cards across channels more easily than current protocols allow.

For example, a consumer could choose to set a tokenized version of her payment card with an eligible merchant, though that merchant may not use the current card-on-file system.

“While digital commerce has become a preferred way to shop for many consumers, we continue to hear from our consumers and merchants that the online-checkout process remains cumbersome, and, at times, confusing due to the myriad checkout solutions available,” AmEx says. “That’s why American Express is working with other industry stakeholders to advance the EMV Secure Remote Commerce specifications, which for the first time establishes a way for card payments to be made in a consistent way across Web sites, mobile apps, and other digital platforms.”

EMVCo is “well positioned to develop SRC specifications given its expertise in payments, and the ability for stakeholders across the industry to participate in the development process,” the card brand adds.

While EMVCo’s work on the SRC spec continues—the organization released a draft spec in March with hopes of publishing the 1.0 version this year—merchants, such as those represented by the Merchant Advisory Group, are weighing in. The MAG, for example, submitted 10 comments on the SRC 0.9 draft.

The association has been public about its view on SRC, too. A year ago, Townsend described SRC as “another example of a payment product designed in a silo with limited information flow and arbitrary, tight timelines,” in a commentary posted on DigitalTransactions.net. She hoped then that EMVCo would engage other payments stakeholders in the development of the spec, which it appears to have done.

“To date, generally, EVMCo has been very good about listening,” Townsend says now. “They opened the SRC specification to the public. The proof will be in the pudding and what they do with our feedback.” EMVCo’s outreach includes acquirers, too. It hosted a free education session on SRC at Transact ‘19, the Electronic Transactions Association’s annual event.

‘THE NASTY DETAILS’

While EMVCo is charged with developing an interoperable standard that can be used around the world, the actual implementation is up to the users of the spec. “One thing that gets overlooked in EMVCo's work is there are over 60 payment networks worldwide, including RuPay in India and Interac in Canada, and they all use EMVCo specifications royalty free," Byrne says.

But that, too, can be an issue for merchants, Townsend says. "The implementation is different every single time," she says. "Primarily the differentiation is because of the different networks and how they implement their business rules and how they implement the standards that come out of EMV."

When the U.S. payment card networks migrated to EMV in 2015, each card brand had its own rules, requiring separate certifications for any payment equipment that accepted chip card transactions. Borne mostly by acquirers and processors, which are generally responsible for ensuring payment equipment is EMV-compliant, these certifications caused a backlog that since has dissipated.

This need to differentiate speaks to the card brands' need to compete, Townsend says merchants are told. "The networks and the business rules they implement are how they compete, whether it's incentives to issuers or rules around liability," she says.

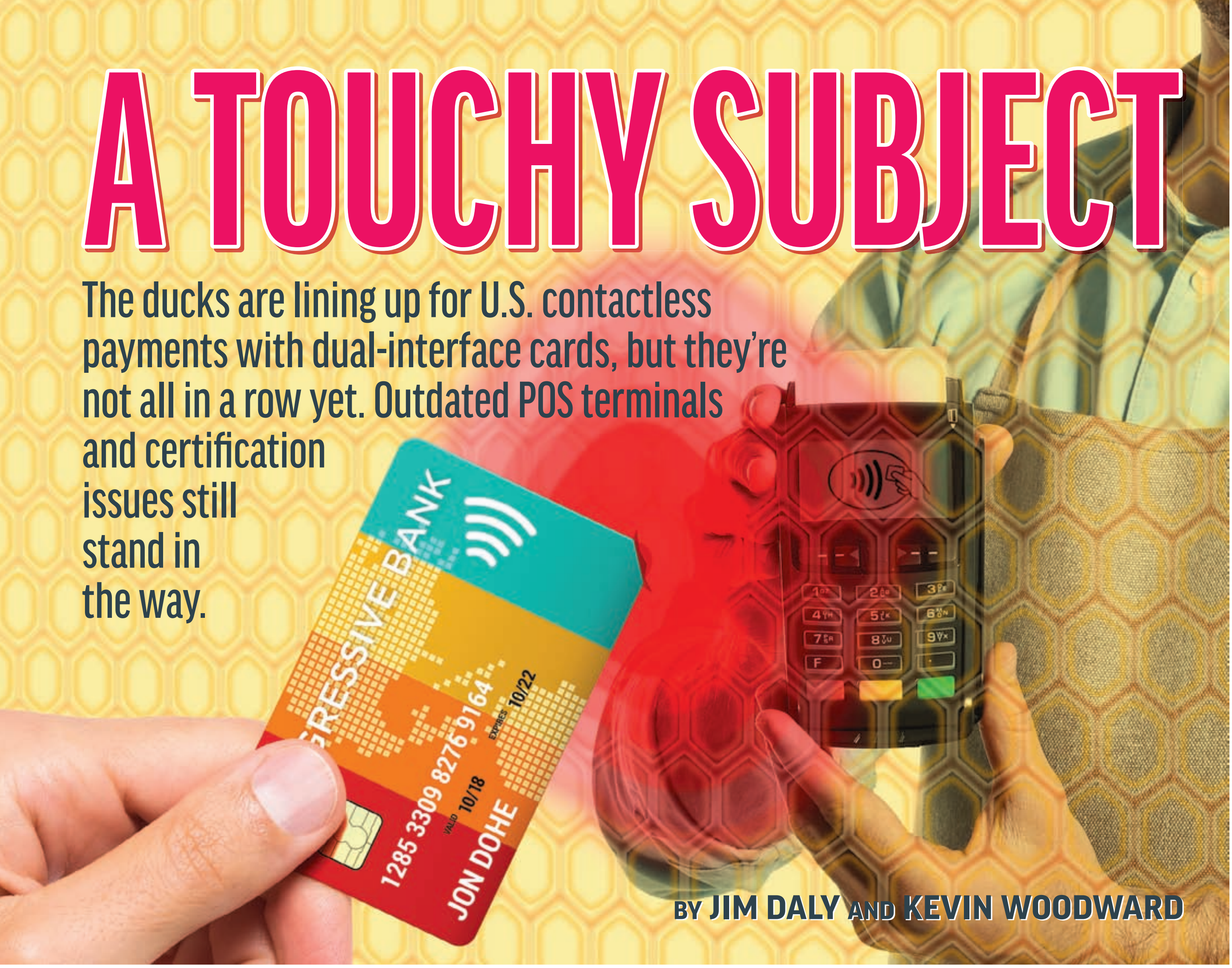
In EMVCo's situation, it is not tasked with the implementation of the standards it shepherds, Byrne says. "EMVCo's promise is to deliver globally interoperable secure products that are delivered by the payment systems," he says. The separation of development and implementation is there, Byrne says, because "we don't want to be in the position of having any vested interest in one particular region."

EMVCo wants to eliminate the risk of affecting the global interoperability of its specs, he adds. "That's why we're structured the way we are," he says. "We believe it's the right model to support the core mission of EMVCo, to make sure we have a globally interoperable product."

The trouble is, merchants, like those represented by MAG's Townsend, may not enjoy the same global uniformity. "The reality is we go where the consumer wants to go," she says. "They're going to dictate what types of payments [and] what technology to implement. At the end of the day, we all want security, ease of payments, and making it simple to pay, but all the behind-the-scenes is where the nasty details come out." DT

A TOUCHY SUBJECT

The ducks are lining up for U.S. contactless payments with dual-interface cards, but they're not all in a row yet. Outdated POS terminals and certification issues still stand in the way.



BY JIM DALY AND KEVIN WOODWARD

Forget the swipe

and even the dip.

Tapping plastic cards is the wave of the future, in the eyes of some payment prognosticators.

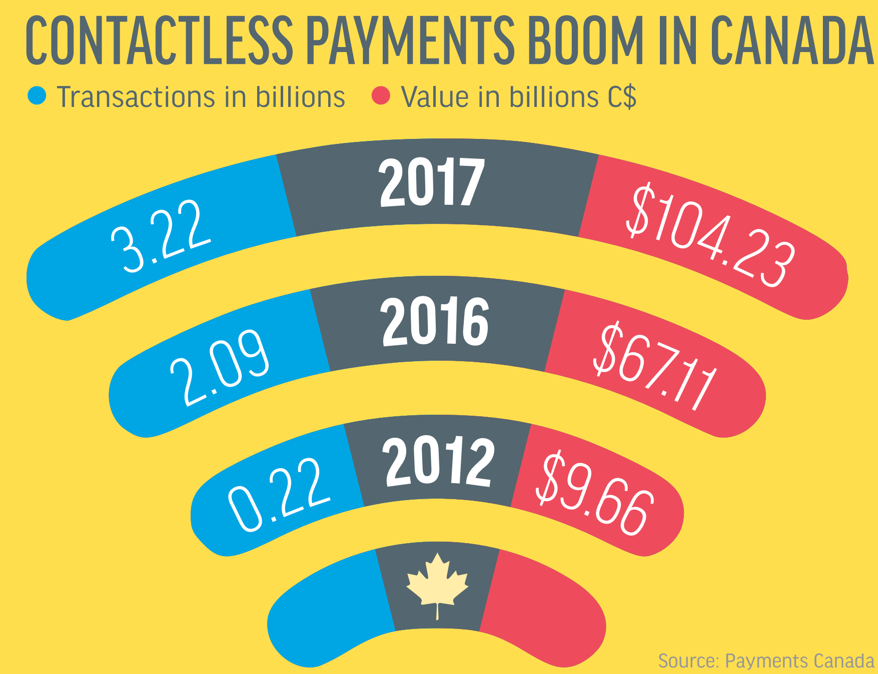
Last month, Visa Inc. said 11 of its top 25 card issuers are now rolling out contactless cards, and the network predicts 100 million such cards will be circulating by year's end. Committed issuers include such giants as JPMorgan Chase & Co., the nation's largest credit card issuer, and Wells Fargo & Co., among others. American Express Co. already is in the game, too.

Plus, 80 of the top 100 merchants by transaction volume allow customers to tap to pay at checkout, according to Visa. With countries such as Canada and the United Kingdom far ahead, it finally looks like the U.S. is connecting with contactless.

"After 15 years of industry stakeholder debates, trials, and pilots to determine when contactless payments would finally take off in the U.S., all the components are finally in place to make it happen," says an April report from the Federal Reserve Bank of Boston.

But wait. That report came out just before struggling department-store chain J. C. Penney Co. Inc. stunned the retailing and payments industries by turning off contactless acceptance. It turns out that a conflict between contactless payments based on the EMV chip card standard and an older standard known as magnetic-stripe data (MSD) was the source of the problem—and JCPenney might not be the only retailer affected.

In this article, *Digital Transactions* examines how merchant technology, thorny standards, and certification issues could slow down the spread of EMV contactless transactions in the U.S., despite the speed and security advantages of tap-and-go payments.



PENNEY PULLS THE PLUG

MSD technology essentially converts mag-stripe track data into a format usable with the first generation of contactless cards. JCPenney's contactless turnoff was a reminder for many about the difficulties of retrofitting the U.S. for a new type of payment.

U.S. merchants began replacing their mag-stripe-based point-of-sale terminals with new devices that could process chip cards as a result of the card networks' October 2015 EMV liability shifts. But some merchants eschewed the option of EMV-based contactless payments and chose terminals that could read only EMV contact chip cards in which the card is inserted, or dipped, into the device.

In contrast, most new EMV POS terminals are capable of accepting not only dipped payments, but also contactless EMV transactions using near-field communication technology, though it's up to the merchant or acquirer to activate NFC.

Going with lower-function contact-only terminals made sense for some merchants not only because of cost but also because the vast majority of the first-generation EMV cards were of the contact-only variety.

Such cards at the time cost issuers only about half as much as so-called dual-interface cards that support both contact and contactless EMV payments, the latter of which use NFC.

Plus, many of the contact-only EMV terminals, including those at JCPenney, had the ability to support mobile contactless payments through the Apple Pay, Google Pay, and Samsung Pay smart-phone wallets, even though they didn't draw on the NFC capabilities those wallets support.

If a smart phone with one of the major mobile wallets detects the terminal can't process an EMV contactless payment, the wallet can "step down" from EMV and still process a transaction using MSD, according to Randy Vanderhoof, executive director of the Secure Technology Alliance, a Princeton Junction, N.J.-based trade group that researches chip card payments. (Vanderhoof also is director of an SCA affiliate, the U.S. Payments Forum.)

But no such stepdown is available for dual-interface EMV cards when tapped on contact-EMV/MSD terminals. That potentially means longer lines, or even lost sales, at checkout as a customer takes a bit of extra time to dip the card.

Vanderhoof notes that MSD was the standard used in the pre-EMV generation of contactless cards dating back more than a decade, the best known of which was Chase's blink card issued from 2005 to 2014. Consumers, however, didn't embrace these early contactless cards, in part because merchants didn't, either. Even so, MSD capability was built into many contact-only EMV terminals later on.

Visa in October 2017 set an April 13, 2019, deadline for terminals to support the newer EMV contactless standard and retire MSD. EMV is more secure because it uses one-

‘In Canada, the stars aligned.’

—PATRICK DIAB, VICE PRESIDENT OF PRODUCT AND CLIENT SOLUTIONS, MONERIS

time cryptograms in transactions whereas MSD doesn’t. Plus, EMV is the contactless standard in many countries, while MSD was developed mainly for the U.S. market, though it briefly was used in Canada.

The initial JCPenney news said nothing about dual-interface cards. Instead, it focused on the retailer dropping Apple Pay, the most popular of the mobile wallets. The Plano, Texas-based retailer confirmed to *Digital Transactions* later that it also accepted Google Pay and Samsung Pay.

It surprised many observers to see JCPenney pull the plug on the mobile wallets because, after years of trying, the payments apps finally seemed to be attracting more merchant acceptors and consumer users.

“The payment brands want to get MSD out of the market and move everyone to the contactless EMV front,” Vanderhoof says. “That is how it is impacting on Apple Pay, because in the case of JCPenney they had enabled for EMV contact [transactions] but not EMV contactless.”

While everyone seems to want MSD out, Mastercard Inc., American Express, and Discover Financial Services have yet to join Visa in explicitly trying to banish the old standard.

In a statement that didn’t mention Visa by name, JCPenney implied that contactless payments, presumably of the EMV variety, will return to its stores some day.

“Given the resources and lead time associated with meeting the new mandate, JCPenney chose to suspend all contactless payment options until a later date,” the company said. “Customers still have the ability to complete their transactions manually by inserting or swiping their physical credit cards at our point-of-sale terminals in stores, an option employed by the vast majority of JCPenney shoppers.”

The move by JCPenney, which has struggled with weak sales in recent years, raises the question of who else is still relying on contact-only EMV/MSD terminals.

“I would agree that there are other retailers that are in the same situation as JCPenney,” says Vanderhoof, though he wouldn’t name any. Some merchants, because of “other priorities,” decided not to make EMV contactless upgrades, he says.

Marianne Crowe, vice president of the payment strategies group at the Boston Fed and a co-author of the April report, agrees JCPenney likely isn’t alone.

“My sense is it’s probably more than we originally thought,” she says, adding, “I don’t think a lot of people knew about the difference” between the MSD and EMV contactless standards.

Another question is what penalties, if any, the merchants will face that hadn’t upgraded their terminals for EMV contactless payments by Visa’s April 13 deadline. Visa declined comment.

‘MUSCLE MEMORY’

As the U.S. wrestles with its contactless-payment issues, Canadians can look south and smile. MSD did make some headway in Canada, but not for long because the country embraced EMV more than five years before the U.S. did.

The country’s largest acquirer, Toronto-based Moneris Solutions Corp., recently reported that in the first quarter contactless for the first time accounted for more than half of card-present transactions—51.5%. Contactless payments grew nearly 25% year-over-year while overall credit and debit card spending rose only 2.5%, Moneris reported.

By comparison, contactless is probably still in the low single digits as a percentage of U.S. card-based payments.

The reasons for this difference between the neighboring countries are several. One, Canada’s financial system is much more centralized than that of the U.S., making new technologies and systems easier to deploy.

“In Canada, the stars aligned,” says Patrick Diab, vice president of product and client solutions at Moneris.

A big factor is that few Canadian merchants own their POS terminals.

As JCPenney's experience shows, mobile payments can be affected by one card brand's changes in contactless requirements.

Instead, they rent them from acquirers. That leads to quicker upgrades and helped spread terminals that supported both EMV contact and contactless NFC-based transactions, according to Diab.

"The refresh rate is quicker," he says.

In addition, high-speed Internet, an essential element for fast contactless transactions, was coming into the market at about the same time the card networks mandated chip-and-PIN payments in 2006.

"Contactless without high-speed Internet loses its value," says Diab.

When Americans finally do get dual-interface cards into their pockets, some researchers predict they will quickly become the favored vehicle for contactless payments, not the mobile wallets.

True, consumers have just learned how to dip, but the operative factor remains the act of pulling out the plastic, not a smart phone, to pay for something, according to Raymond Pucci, director of the merchant-services practice at Maynard, Mass.-based Mercator Advisory Group Inc.

"The contactless card will have a much better chance of adoption by consumers, the main reason being people have muscle memory on their cards," says Pucci.

In any case, issues involving tap-and-pay ubiquity are now moving to the forefront.

A VERY BUSY PROCESS

It's behind the scenes, as it almost always is in the payments industry, that the concrete work remains to be done. For many acquirers and processors—the entities that are responsible for ensuring contactless readers are certified as EMV-compliant—that means selecting POS hardware and software and submitting them to testing labs for certification. That, in itself, is enough work to keep certification and testing labs and processors occupied for months.

Visa, so far, is the only card brand mandating that acceptance devices not support contactless MSD transactions for its cards in favor of its EMV contactless option, called qVSDC, or quick Visa Smart Debit/Credit transaction path.

The requirement, which only applies to merchants already accepting EMV contact and contactless MSD payments or deploying contactless in the future, says they must support only qVSDC, according to Itai Sela, president and chief executive of B2 Payments USA, a Toronto-based firm that provides payment-testing tools, card simulators, training and consulting, and POS-development services.

What may complicate testing and eventually certification processes for contactless devices is that Visa is the sole card brand mandating such a change, Sela says. The other card brands have not announced a cessation in support for mag-stripe contactless, although they highly recommended migrating to EMV-grade contactless. Indeed, they do mandate that any new contactless implementation must be EMV-enabled.

This may present a problem for merchants.

"One brand may say no certification is necessary to migrate to EMV contactless, just update your device and go," Sela tells *Digital Transactions,* "but other brands may require certification" for upgrading to EMV contactless transactions. "The issue the industry has is [that] in some devices you can't just change something for a single brand."

In the case of contactless payments, the reader has a unique kernel in its operating system for each card brand. That kernel may share configurations, limiting the ability to turn options on or off for only a single network.

"They don't have the technical ability to allow you to change a certain setting for just one card brand," says Sela.

In the meantime, processors and acquirers have to contend with testing and certifying their payment devices and applications to the appropriate EMV specification.

EMVCo, the international organization that develops and maintains the EMV spec and related testing processes, does not mandate or enforce implementation policies. These are handled by payment networks independently of it, an EMVCo spokesman says.

Common to both contact and contactless EMV certification is ensuring compliance at three levels. Level 1 is related to the hardware certification, Sela says. Level 2 covers the compliance of the EMV kernel, which is the library of EMV and/or contactless commands enabling the configuration and support for the various EMV security features.

Once a device attains Level 1 and Level 2 certification, it can be integrated with a payment application, which requires a Level 3 certification to ensure its compliance, such as to a brand's specification or for end-to-end certification.

Certification for EMV contactless is different from EMV contact transactions.

"While most POS terminals now support both contact and contactless, the requirements and features tested are different," says Jean Fang, product manager of global laboratories at FIME, a France-based testing and certification-services provider. "Contact interfaces undergo electrical, protocol, and functional tests, while contactless interfaces undergo analog, digital, interoperability, functional, and performance tests."

The certification process for contact and contactless is usually the same, Fang says, but the test plan and the reader type differs.

A typical process for gaining certification for contactless EMV works like this: "If merchant has an EMV-capable terminal and it is capable of contactless, the merchant contacts their processor to upgrade the terminal firmware and software," says Vanderhoof, speaking in his capacity as director of the U.S. Payments Forum. Most EMV POS terminals made in the past few

> 'You're supposed to run your certification process only after you know everything is fully tested.'
> **—RANDY VANDERHOOF,** EXECUTIVE DIRECTOR, SECURE TECHNOLOGY ALLIANCE

years come with support for contactless EMV, he says.

"If the terminal already is EMV-enabled, the merchant just needs to add the contactless software that supports Visa, Mastercard, [and] American Express [with Discover coming in 2019], and do certification," Vanderhoof says. "Certification involves running a series of test scripts based on the payment-network requirements."

If the terminal passes the certification steps, then the merchant will choose to activate contactless or keep it turned off until a later date.

"You're supposed to run your certification process only after you know everything is fully tested," Vanderhoof says.

TEST, THEN CERTIFY

What tends to happen in some cases is that developers will try to develop based on test cases instead of developing a product to a full-requirement specification, Sela notes.

"Many in the industry totally miss that," he says. "They test to certify instead of fully testing their solutions to ensure that everything is supported correctly and only then go for certification."

In one example, a manufacturer of automated fuel dispensers, an industry that faces an October 2020 EMV liability shift ("Where EMV Spells Headache," May), might have five families of products to sell to fuel retailers, Sela says. These might connect to six or seven gateways or processors, creating a veritable spider's web of some 70 unique connections, each of which must be certified as compliant with each of the card brands' EMV requirements.

"Then the problem is they are certifying without their main transaction type, which is used at the automated fuel dispenser and called a pre-authorization complement transaction," Sela says.

Specifically, they should be at least testing that each connection can correctly complete this type of transaction. But that's a challenge.

"Most of the brands don't have a certification test case for preauth completion," he says. The manufacturer will run 70 certifications, he adds, and not be able to prove that their only transaction type actually works.

Other issues may surface, too, especially following deployment, FIME's Fang says.

"As ever, banks' main concern comes with issuance and deployment in the field," she says. "Everything has been put through its paces during certification, but going live can still bring some surprises. For example, the information inputted by a personalization bureau or processor during production may be different from what has been certified."

"This is where expert consultants and testing partners deliver real value, mitigating challenges throughout the entire process to ensure a successful launch," she adds. "Some banks even have internal procedures to run alpha/beta tests on all the devices/terminals before final deployment. Testing labs usually certify samples only."

There may be other changes that may prompt recertification.

"POS devices are highly customizable," Vanderhoof says. "Larger merchants and merchants with specialized payments needs such as accepting other forms of payment, loyalty, and payments switches and routing systems, may need to recertify if they make software, hardware, or configuration changes or they add new functions that impact payment and that, under payment-network certification rules, require recertification."

Examples include operating-system changes; alterations to the kernel; the addition of new functionality (like cash back); or adding a new PIN pad, he says. Recertification means going back to each brand, according to Sela.

Clearly, achieving EMV contactless certification is a lot of work.

"Ultimately, certification is the foundation of worldwide payments interoperability," Fang says, "enabling the acceptance of secure transactions regardless of the card or device used, the terminal technology, hardware, software, [or] the country in which the payment is made." DT

IS IT ENOUGH?

For Mastercard and Visa chargeback process changes to make the most impact on friendly fraud, merchants will have to take matters into their own hands.

BY MONICA EATON-CARDONE

Monica Eaton-Cardone is cofounder and chief operating officer of Chargebacks911, Clearwater, Fla.

ABOUT A YEAR AGO, Visa Inc. rolled out a new initiative to update, modernize, and streamline chargeback procedures and the dispute-management process.

Later in the year, Mastercard began to roll out its Mastercard Dispute Resolution (MDR) program. While the MDR rollout is ongoing, the goal is the same as with Visa: Simplify the chargeback process and bring Mastercard disputes into the 21st Century.

Why are these overhauls necessary, though, and do they achieve what the companies set out to do?

DENSE AND COMPLEX

The chargeback process was introduced more than 40 years ago. Although the market has changed dramatically in that time, how we manage disputes hasn't changed much at all. That disconnect between decades-old procedures and the realities of what has become a digital-enabled marketplace has developed into a very costly problem.

The foundations of our existing chargeback processes were developed in a pre-Internet age, and so they were not designed with e-commerce in mind. This has led to the development of a costly new fraud source, called friendly fraud.

Friendly fraud occurs when a customer files a chargeback without proper justification. That individual could be motivated by buyer's remorse, or by having mistaken a legitimate purchase listed on a billing statement for fraud, or even by confusion about chargeback and

Monica Eaton-Cardone

(Photo: Chargebacks911)

> The longer we go without universal rules and procedures, the worse current challenges get.

merchant-return policies. In any case, the user disputes a sale, and, in most cases, the merchant loses.

Friendly fraud has flourished in recent years for several reasons:

Convenience and customer entitlement: Contemporary consumers feel entitled to supreme convenience. If they don't get it, they may file a chargeback.

Pace of change: Developments in technology and other institutional practices left chargeback procedures out of date and unresponsive to current conditions in the market.

Inconsistent standards: Each card scheme has its own complex system of rules and procedures. Merchants can't keep up.

Widespread access to payment cards: Payment cards are far more commonplace than they were in 1974. Thus, the volume of transactions—and disputes—is much higher.

Despite these and numerous other problems, there seemed to be little will to modernize the process until recently. As mentioned, chargeback policy is dense and complex. A complete overhaul would be a massive undertaking. At this point, though, it's no longer possible to deny change must come for the chargeback system.

KEY POLICY CHANGES

Both the Visa Claims Resolution (VCR) and MDR initiatives are attempts by the respective card schemes to modernize the chargeback process. These overhauls represent a response to the demands of a contemporary, digital marketplace.

Looking at the two initiatives, some of the key changes include:

New workflows: All VCR disputes are now filed into one of two workflows, allocation or collaboration. The former will automatically assign liability to the party responsible, while the latter is largely identical to the preexisting Visa dispute process.

New reason codes: All of Visa's reason codes saw changes with VCR. The Mastercard changes were less extensive and were primarily focused on eliminating irrelevant or redundant codes.

New processes: With a Mastercard dispute, issuers must check for refunds/reversal prior to a chargeback to prevent unjust enrichment and double refunds.

New uses for existing tools: While the older Visa Resolve Online system was already a useful avenue of communication, VCR adoption made this system the primary means to resolve a Visa dispute.

New timelines: Both VCR and MDR involve time reductions for cardholders, banks, and merchants to initiate and resolve a dispute.

The changes to Visa and Mastercard procedures introduced under these policy overhauls share two common goals: reduce dispute volume and achieve faster and fairer resolution. Still, while the initiatives represent progress, we're still far from the kind of change we really need.

SHORTCOMINGS

Neither initiative really addresses one of the core issues with chargebacks: friendly fraud. It's still too easy for a customer to make a false claim and file a dispute. As long as that's the case, we're still going to see problems with chargeback processes.

In a broader sense, the problem with policies like these is that they don't address the inconsistent standards at the core of our friendly-fraud problem. Complex rules and procedures specific to one card scheme or one class of disputes make chargeback processes almost indecipherable for individual merchants.

This results in a snowball effect. The longer we go without universal rules and procedures, the worse current challenges get.

Standardizing chargeback procedures and regulations across card schemes would simplify things greatly. We could then establish standard practices and responses for banks and merchants, which is the only way to address the ongoing problems caused by friendly fraud.

MERCHANTS' BURDEN

In the meantime, the burden for preventing friendly fraud still falls to merchants. But how can they meet it?

The first step in reducing friendly-fraud disputes is to distinguish friendly-fraud chargebacks from those caused by criminal fraud or merchant errors. This is possible by adopting a number of tools and strategies, including:

Verification tools: Fraud scoring, Address Verification Service (AVS), CVV verification, 3-D Secure, geolocation, and transaction-velocity limits are all valuable tools to identify potential fraud. Merchants should use them in a coordinated effort to better identify fraud attacks.

Optimize customer service: Before customers file disputes, they should first try resolving issues through customer-service channels. Providing round-the-clock, live, and responsive customer service is a great way to deter these buyers from requesting a chargeback.

Exercise best practices in fulfillment: Merchants want to reassure customers that they're not some "fly-by-night" scam. This can be achieved by offering fast response with tracking and delivery confirmation. Notifying customers in the event of potential delays is also key.

Manage subscriptions: With recurring payments, merchants shoud communicate any changes in their terms of service. Also, they should make it as easy as possible to cancel service and fulfill cancellation requests promptly.

With these practices in place, merchants can filter out most criminal fraud and merchant-error chargebacks. This leaves just friendly fraud, which can be addressed with chargeback representment.

Chargeback regulations and processes are highly complex, varied, and inconsistent across different card schemes. Most merchants don't have the time or resources to dedicate to chargeback remediation. In these cases, it's best to turn to professional chargeback management.

Until we have a more consistent, dynamic, and developed chargeback environment that is responsive to the realities of contemporary e-commerce, merchants will see chargebacks continue to increase. DT

Savvy banks know they don't need whizbang IT departments to compete with nonbanks.

endpoint

DON'T GET SWAMPED BY THE POS CREDIT WAVE

Fast, frictionless credit at the point of purchase, delivered via mobile apps, threatens to sideline banks. It won't—if they look upon new fintechs as friends rather than foes.

BY **MEHMET SEZGIN**

Mehmet Sezgin is chief executive and founder of myGini Inc., San Francisco.

WE INCREASINGLY USE SMART PHONES to make contactless payments and apps to collect rewards. And now, we use new and fast-growing short-term credit finance at the point of sale—and not always for big-ticket items.

Indeed, payment technology has diversified into frictionless credit provision at the point of sale. Retailers that realized this early on and entered into technology partnerships are already reaping the rewards. Now, with card issuers able to offer more-attractive payment-installment plans for customers to use at checkout, merchants have a golden opportunity to appeal to new prospects, regain lost customer relationships, and benefit from increased loyalty.

COMMONALITIES

Imagine a cardholder wants to buy a big-screen TV ahead of the Super Bowl but can't make a full payment right away. The customer wants to make the best financial decision, and he wants it to be quick and easy. So what can he do?

OPTION 1: He considers using a store-brand credit card. Store-brand credit cards are a convenient option, and usually have better approval rates than general-purpose credit cards. That's despite the fact that these cards can come with a high annual percentage rate, less-enticing rewards, and more complex terms and conditions than bank-issued credit cards.

OPTION 2: Alternatively, the customer can use short-term credit financing right at the point of sale. These plans are quick to apply for, mostly frictionless, and offer a wide range of immediate solutions, including one-off finance programs, delayed payments, and installments.

Outside the U.S., third-party technology providers are rapidly taking off to help retailers offer payment plans. Sweden-based Klarna, which has been operating in the United States now for several years, is one of the most well-known, serving some 60 million customers. Globally, PayPal Credit (formerly BillMeLater) is also building its fan base.

Two things are common to both of these scenarios. First, the customer gets a fast, convenient experience that will induce him to return and use the service again at other places, maybe for an unexpected vet bill or maybe just for a big grocery bill. Second, customer loyalty grows.

IS IT TIME TO TAKE ANOTHER LOOK AT LEASING?

NLS Equipment Finance thinks so.

NLS Equipment is a new company, launching just this month, that offers both traditional and new leasing opportunities all designed to encourage ISOs to give leasing another try.

These include: a special bonus program running through June 15; a Zero Payment Recourse program for qualified ISOs; expedited funding; and, a host of other benefits.

"We are determined to make NLS Equipment Finance a truly ISO-centric leasing company," says Sara Krieger, an executive vice president at the company. She is part of a team of former leasing executives who founded the company and now manage its day-to-day operations.

"Our decades of experience in leasing taught us what works best and what doesn't," Krieger said. "We took the best of the best from our experiences with traditional leasing. To that we added new programs, new solutions and new opportunities for sales offices, as well as for their merchant customers," she added.

This means ISOs get all the benefits of offering equipment leasing: conversation starters and program differentiators; loyalty boosters; and, of course, profit generators. And now, they also benefit from expedited processes, streamlined operations, efficient digital signing and new risk-reducing, income-generating programs like Zero Payment Recourse.

To encourage agents to see for themselves just how much better a leasing experience with NLS Equipment can be, the company is also offering a $150 bonus for every lease submitted and funded through June 15.

"ISOs looking for new ways to engage merchants need to look again at leasing," Krieger says, adding, "We offer proven programs from decades of leasing experience, updated with new, modern ways to be successful."

NLS EQUIPMENT FINANCE LLC

ISOs looking for more information about NLS Equipment are invited to contact Krieger at sara.krieger@nlsequipment.com or visit www.nlsequipment.com.

But notice that there's one big downside that's common to both of these scenarios. Recall that the customer is also a bank card user. In both of these scenarios, the issuing bank loses out on customer relationships and, in the long term, on transactions, too. But there is an ideal opportunity for card-issuing banks and credit unions to muscle in on the act.

DIFFERENTIATOR

When consumers choose a finance option, they want to know several things: how much money they owe, when they will be paying towards the purchase, and a clear timeline of when the plan finishes. They also don't want to be worrying about their monthly cash flow.

Bank-driven payment-installment plans can give them this information, and some issuing banks are now coming around to offering this service at the point of sale. In fact, some have started to realize that the way to compete with retailers and digital-banking challengers is to offer installments on specific purchases as part of their mobile services.

In fact, when financial institutions offer payment-installment plans through their mobile-banking app, they give customers a more complete view of their finances as well as a more interactive experience. For example, these services can allow customers to receive a push notification when a scheduled payment has been successful or when a purchase is eligible for installments. These in-app installment notifications are the issuing bank's way of thanking the customer for using their credit card instead of a store-branded one. It also recognizes making a purchase decision is not always easy and offers a simple and stress-free solution right away.

With mobile-based installment features, customers can decide more than just whether they want to finance a purchase. They can opt for different time and installment specifications.

That said, it's not just the customers who get to pick between options.

Here's what I mean. For banks to offer a sophisticated and personalized service, they themselves must be able to set the parameters of their installment programs with a large degree of freedom. Most banks don't have large IT departments that can design these services around the customer experience. But some third-party technology providers specialize in this.

These integrators can configure installment plans so that they can be offered at specific retailers or retailer types—both physical and online—over any spending amount or time period, while allowing issuers to specify eligible customer types, card types, and even interest rates. Outsourcing to fintechs is a viable option to gain a fresh perspective into customer needs in the form of app user reports and more targeted customer insight, without the IT burden.

Make no mistake. Customers are looking for convenient and frictionless payment experiences and will increasingly choose to spend their money where the option to spread the cost of a purchase is available in-store. For issuing banks, this means offering payment-installment plans can be the differentiator between gaining a customer and losing one.

Being idle in this digital age can cost financial institutions revenue and customer relationships. But as more fintech providers step up to help them, not hinder them, mobile-based payment solutions are starting to fill the gap. Although slow to catch up, issuing banks are well-placed within the payments ecosystem to capitalize on short-term credit provision. In fact, they can be the biggest winners.

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