

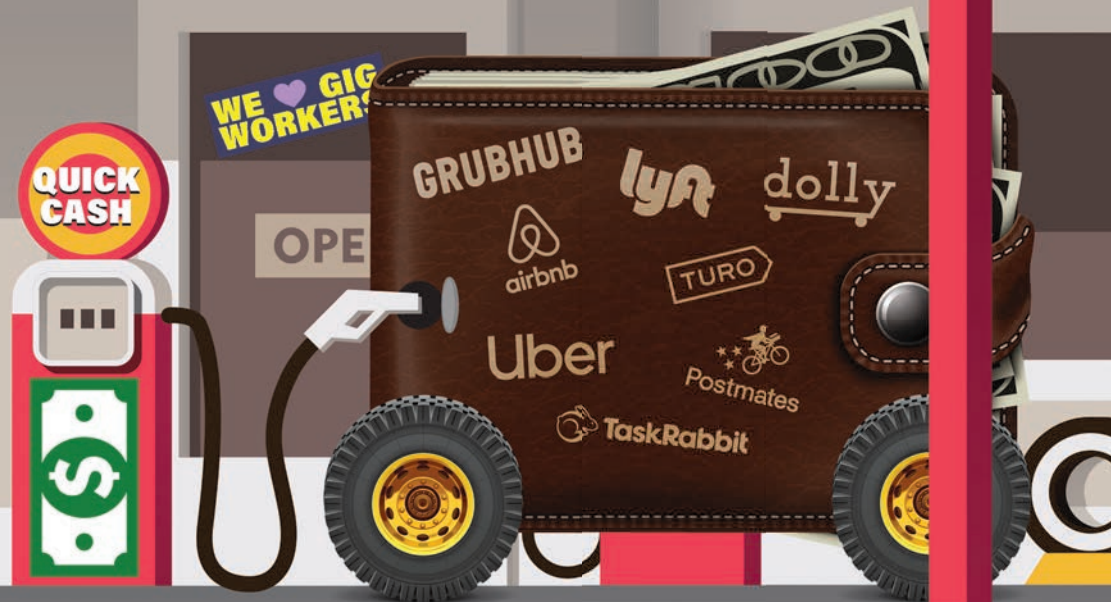
DIGITAL[®] TRANSACTIONS

Trends in the Electronic Exchange of Value

THE **PAYOFF** IN **PAYOUTS**

Disbursements once were a staid business dominated by checks and ACH direct deposits. No more, thanks to the rise of the gig economy and new payout technology.

SPEEDY PAYOUT STATION



Volume Seventeen, Number Two • DigitalTransactions.net • February 2020

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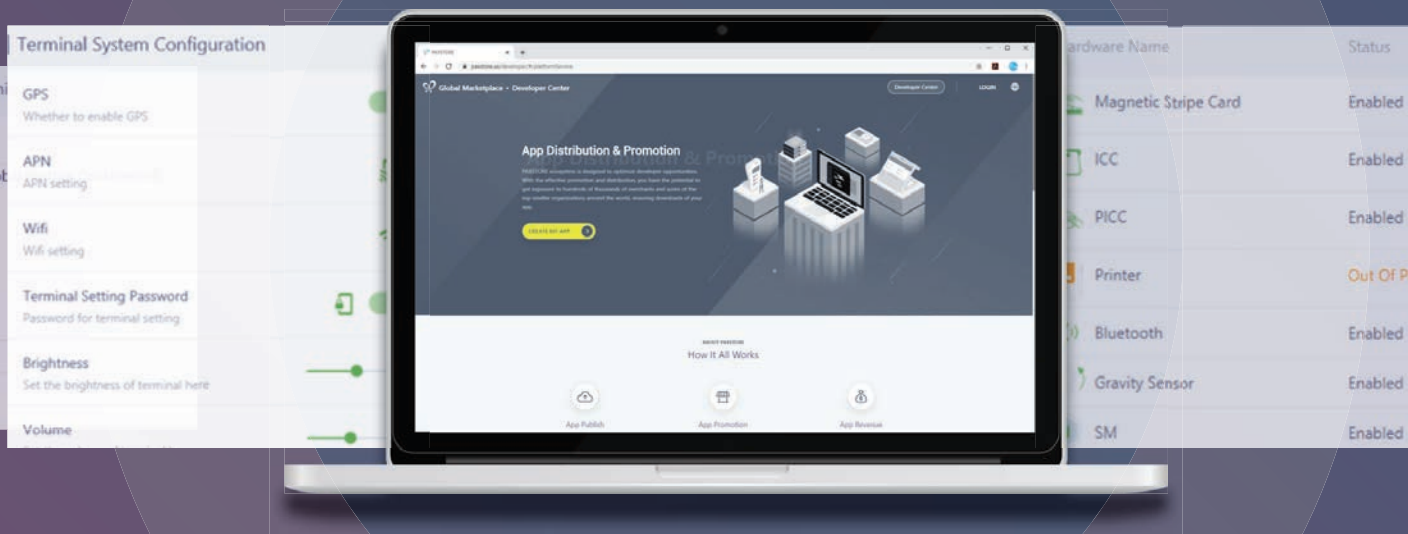
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WE WERE NO SOONER DIGESTING THE LATEST—and rather dour—developments about Facebook's Libra project than news broke last month that a group including a former chairman of the Commodity Futures Trading Commission was starting an initiative to develop a so-called digital dollar. Indeed, the group, which has enlisted the resources of the consulting firm Accenture Plc, is setting up as The Digital Dollar Foundation.

Digitizing the dollar promises faster transactions and better controls to combat money laundering. But the initiative has another important motive force. The Digital Dollar initiative is led by J. Christopher Giancarlo, who ran the CFTC from 2017 until last summer, a time during which new futures markets for Bitcoin came into being. Indeed, Giancarlo's warm interest in the digital currency earned him, on social media, the sobriquet "Crypto Dad."

For now, specifics about the Digital Dollar proposal are sketchy. Generally speaking, it will likely be based on blockchain and, unlike Libra, subject to central-bank regulation. As with Bitcoin or Libra, it will enable money transfers to occur much as we send text messages back and forth. To develop the details, the new foundation set up the Digital Dollar Project, which is expected to fill in at least some of the blanks and start taking public comments this summer.

To be sure, other countries are reportedly developing electronic versions of their national currencies. Accenture alone has worked on such projects for Canada, the European Union, and Singapore, and appears poised to advise Sweden similarly. But there are clearly reasons for the Digital Dollar beyond fear of falling behind other nations.

One such rationale has to do with the notion, which became widespread after the Libra concept was announced, that digital currencies should not be developed and administered outside the regulatory umbrella of central banks. Indeed, critics have argued a private-sector currency launched under the auspices of a corporation, particularly one with the privacy issues raised by Facebook, poses systemic risk that may not be easy to manage. Facebook, of course, said when it launched Libra that it would ultimately be just one player among many backing and processing the new currency.

We hold no brief for Libra, but neither do we place undue confidence in the wisdom of the Federal Reserve or other central banks. Right now, too many questions swirl around the Digital Dollar concept to make a fair comparison to other forms of electronic money. For example, what will this dollar token look like, and how long will it take to build this blockchain? How secure will it be against hackers?

In the meantime, we wish the project luck and hope soon to see further details.

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BEHIND VISA'S \$5.3 BILLION BET ON PLAID

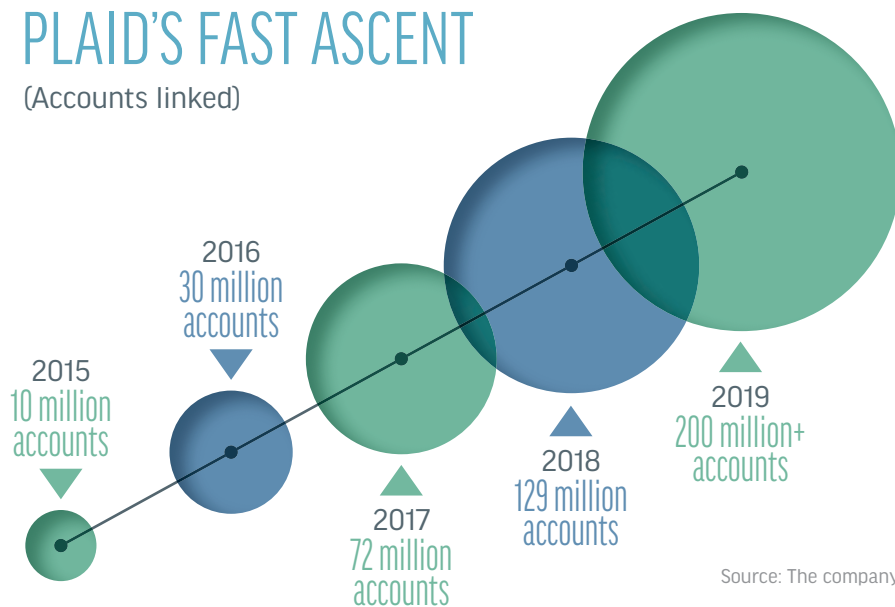
Visa Inc. and Mastercard Inc. have made it plain in recent years they're interested in something much bigger than card payments. A few weeks ago, Visa underscored its own determination to be the network for the world's payments economy by announcing it will lay out fully \$5.3 billion to buy Plaid Inc., a 7-year-old company that connects nonbank payments providers like Stripe and Venmo with users' bank accounts.

The deal, which Visa expects will close within the next three to six months, brings the world's largest card-payments network closer to its ambition to facilitate "the movement of funds for any purpose around the world," according to Visa chief executive Alfred Kelly, who discussed the transaction during a conference call in January.

But the deal also represents a big bet on a "network-of-networks" strategy Visa has pursued recently that involves closer cooperation, rather than rivalry, with the digital startups whose businesses require access not just to consumers' credit and debit cards but to their ultimate source of funds. The deal for Plaid is a "very important acquisition. Their solution will allow Visa

PLAID'S FAST ASCENT

(Accounts linked)



Source: The company

to address [real-time payments] for any number of use cases," says Patricia Hewitt, principal at PG Research & Advisory Services, a Savannah, Ga.-based consultancy, in an email message.

That funding access is what San Francisco-based Plaid enables for a range of companies, many of which didn't exist a decade ago, including fintechs like Acorn, Betterment, Chime, and Square, as well as Stripe and Venmo, a unit of PayPal Holdings Inc.

And Plaid's network is growing fast. It provides bank connections

for more than 200 million users of these apps, up from 129 million a year ago. Indeed, that number has grown at a 115% average annual rate since 2015 (chart). With these links under its tent, Visa can "deliver payments initiation to developers globally for non-card [payments] and [real-time] payments," Kelly said.

Visa has shown itself willing to spend big money to secure other anchors in that network-of-networks strategy—and push well beyond card payments. Last year, for example, it paid \$320.4 million for Earthport Plc, a cross-border

payments provider, after prevailing in a bidding war with Mastercard. At a stroke, that deal doubled Visa's bank-account connections in the top 50 global markets from 50% coverage to 100%, estimates Robert Napoli, an analyst with William Blair & Co. LLC.

"Visa's evolving from being a card specialist to being a general-purpose payments provider," notes Rick Oglesby, principal at AZ Payments Group, a consultancy in Mesa, Ariz., in an email message.

But buying Plaid could make sense just from the point of view of the rapid development of the market the company operates in. Globally, 75% of the world's consumers who have an Internet connection are using a fintech app, according to numbers provided by Visa. That's up from just 18% four years ago. Plaid alone links more than 2,600 fintech developers to more than 11,000 companies in the banking and financial-services sectors.

"The fintechs' connection with any network came primarily if they offered a product that could be used at the point of sale. This acquisition would give Visa the opportunity to engage with the fintech market in addition to the card-payment rails," notes Ben Jackson, chief operating officer at the Innovative Payments Association, Washington, D.C., in an email message.

Opportunities like that haven't escaped the notice of either of the country's largest payments networks. "This acquisition by Visa, while significant, continues a well-established trend," says Tim Sloane, vice president of payments innovation at Mercator Advisory Group, a Marlborough, Mass.-based consul-

tancy, in an email message. "Both networks are positioning themselves as providers of a wide portfolio of bank products, not surprisingly aligned with payments and managed access to bank data."

Visa clearly expects a big dividend on this latest investment. Officials said the company will pour resources into expanding Plaid's reach internationally in an effort to globalize its base of fintechs and banks.

That may take some time, but Visa projects Plaid will add anywhere from 80 to 120 basis points to its revenue growth rate as soon as 2021. "We intend to invest heavily in the early years to expand internationally," noted Vasant Prabhu, Visa's chief financial officer, during the Jan. 13 presentation.

But for all that potential, the Plaid deal wasn't swaying investors one way or the other the day after the big announcement. At mid-morning, Visa's stock was trading at nearly \$196 per share, up less than 0.50%.

—John Stewart

FRAUDSTERS DEPLOY THE HUMAN TOUCH

So-called sophisticated attacks monitored by Mastercard Inc. subsidiary NuData Security jumped 430% in late 2019, with fraudsters deploying more human-aided online attacks rather than fully automated ones in order to fool the defenders.

Those findings come from NuData's "2019: Fraud Risk at a Glance" report released in January. NuData is a Vancouver, British Columbia-based antifraud specialist Mastercard bought in 2017 that uses behavioral biometrics to spot attempts at account takeovers, e-commerce fraud, or other suspicious activity.

Behavioral biometrics is a science that tries to detect imposters' fraudulent activity in real time by

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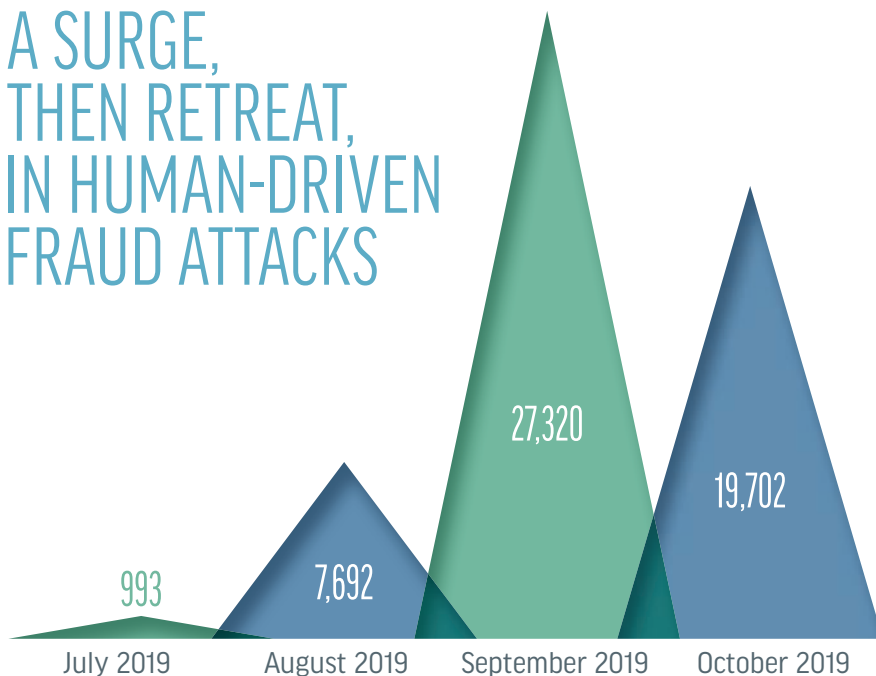
comparing their online behavior with the known patterns of a genuine user, such as the speed and rhythms of the way a person types on a keyboard, the way the legitimate account holder uses a smart phone, and numerous other related metrics.

The report, which tracks attacks on NuData’s network of clients from January to October, says human-driven attacks jumped from about 1,000 in July to nearly 28,000 in September before falling off in October. In all, human-driven attacks remained steady for more than half the year before increasing by 330% in the last four months of the study period.

In many such attacks, fraudsters pay workers in developing countries to complete logins and enter other information manually in order to bypass a bank’s or e-commerce site’s defenses against bad bots—malicious software applications designed to run repeated code on their own.

Bots can unleash massive attacks on the login pages of retailers, banks, and credit unions, or

A SURGE, THEN RETREAT, IN HUMAN-DRIVEN FRAUD ATTACKS



Note: Only what NuData calls high-risk events tallied here, excludes medium-risk events. Source: NuData

any organization with personal or financial data accessible through the Internet.

NuData also says “sophisticated attacks, those focused on quality rather than volume, have grown 430% since July, compared to the previous seven months.” One sign of a sophisticated automated attack

is forcing a software script to type account information—usernames and passwords, for example—on a keyboard even when it doesn’t need to, in order to seem human.

Other signs, according to NuData, include use of irregular pauses and keystroke patterns that indicate a person rather than a bot is entering the data, and pairing up Internet Protocol and location data so that all signs point to one location for the user. Such pairings are more costly than commonly used randomized IP and location data, which are more likely to trigger a fraud alert.

“Bot-detection tools, improved CAPTCHAS, and other technologies that mitigate automation are starting to affect bad actors,” NuData’s report says. “As expected, fraudsters look for alternatives to bypass these bot challenges, especially when targeting high-value accounts, such as financial accounts or merchant accounts with stored value.”

—Jim Daly

MONTHLY MERCHANT METRIC

Total Gross Processing Revenue, in Percent

Sum of total discount, total transaction fee revenue, and total other fee revenue divided by total volume

Q3 2018	2.510%
Q4 2018	2.509%
Q1 2019	2.514%
Q2 2019	2.527%
Q3 2019	2.544%

Note: This is sourced from The Strawhecker Group’s merchant data warehouse of over 3 million merchants in the U.S. market. The ability to understand this data is important as small and medium-size businesses (SMBs) and the payments providers that serve them are key drivers of the economy. All data are for SMB merchants defined as merchants with less than \$5 million in annual card volume.

Source: The Strawhecker Group © Copyright 2020. The Strawhecker Group. All Rights Reserved. All information as available.



'ALEXA, FILL 'ER UP'

Consumers who have Alexa, Amazon.com Inc.'s voice assistant, enabled in their cars and trucks soon will be able to pay for fuel at more than 11,500 Exxon and Mobil gas stations from inside their vehicles.

Announced in January, the service, compatible with vehicles with Alexa built in or enabled with an Echo Auto or other Alexa-enabled device, means consumers will be able to use Amazon Pay and the default payment information stored in it to pay for fuel.

Payment processor Fiserv Inc. will provide technology to enable the service. Some Audi, Ford, Lincoln, Lexus, and Toyota models work with Alexa natively or with an app.

Details of how the service will work are scant, but a short Amazon Pay video shows an animated driver pulling up to an Exxon pump and saying, "Alexa, pay for gas on pump 4." Alexa responds with a confirmation request for the station's location.

If confirmed, it then asks if the user is ready to activate the pump. A "yes" starts the activation process and Alexa affirms that Amazon Pay will be used. From there, the user fills the gas tank.

Several fuel retailers, including Irving, Texas-based ExxonMobil Corp., already have similar services, albeit without the voice assistant. They work by geolocating the device, in this case a smart phone, confirming the location and payment method, and completing the pump activation.



Paying for fuel using Alexa is another example of a potentially vast new payments venue: in-car commerce. Alexa for the pump will be available later this year, Fiserv and ExxonMobil note. It was demonstrated last month at CES 2020, the show formerly known as the Consumer Electronics Show, in Las Vegas.

Seattle-based Amazon has been keen to add more payments services beyond its e-commerce site for Amazon Pay. In October, bill-payment provider Paymentus Corp. announced the ability to get bill data via Alexa and eventually pay bills using Amazon Pay.

In related news, Campbell, Calif.-based Aiqudo Inc., a voice-technology provider, said it will allow drivers of Byton Ltd. electric vehicles to interact with payments, shopping, and other apps on their mobile devices while driving.

Also, New York City-based EyeLock LLC said it has collaborated with SiriusXM to create an in-vehicle iris-authentication technology that can allow drivers to access the SiriusXM e-wallet. For more on in-car commerce, see "Hitting the Accelerator," the cover story in the January 2019 issue of *Digital Transactions*.

—Kevin Woodward

SQUARE UPS THE PRICE FOR FAST TRANSFERS

In its latest pricing change, Square Inc. disclosed last month that it will raise the cost of instant and same-day transfers from its merchants' Square balances to their bank accounts to 1.5% per transfer from the previous rate of 1%.

The change, announced on Square's blog, took effect Jan. 7 for new users of the transfer service and will kick in Feb. 7 for existing users. Pricing for standard next-day transfers remains at zero.

In explaining the rationale for the increase, a spokesperson for San Francisco-based Square told *Digital Transactions* by email that "now that sellers have alternative fast and free transfer options, including free next-day transfers and no-cost instant access with Square Card, we felt the timing was

SQUARE'S LATEST PRICING MOVES

Instant Transfers¹



POS Discount Rate



¹. Instant and same day. Source: The company

right for this change.” The spokesperson would not say how many Square merchants, dubbed sellers, use instant and same-day transfers.

Square Card is a prepaid business Mastercard issued by Sutton Bank that makes funds in the seller’s Square account available instantly for purchases. Cardholders also

get a discount when they make purchases at other Square sellers’ locations.

The higher fee for the instant-transfer service, which was called Instant Deposit until December, is just the latest move by Square to generate more revenue from its growing array of services.

In November, the company replaced its longstanding 2.75% point-of-sale discount rate with a new pricing plan of 2.6% plus 10 cents. *Digital Transactions* estimated the change could reduce Square’s POS credit card revenues slightly but increase income from card-present debit transactions.

—Jim Daly

WILL BITCOIN EVER CALM DOWN?

Bitcoin entered 2020 on a high note but remains a volatile cryptocurrency, both in value and in transaction cost. That volatility can reward savvy users but continues to hinder the leading cryptocurrency’s usefulness as a payment method.

The coin exited 2019 with a value exceeding \$7,000, roughly double what it was as it entered the year. But that’s not the full story. Last summer, Bitcoin scaled the heights, reaching a peak of more than \$12,800 in late June, according to statistics from CoinMarketCap.com. It couldn’t sustain that lofty level and began a long downward drift over the ensuing months.

All told, 2019 was a better year for Bitcoin than 2018. That year, it reached a peak over \$17,000 early in January, shed \$10,000 in value over the ensuing month, suffered another collapse in November, and ended the year more than 70% under the value it started with.

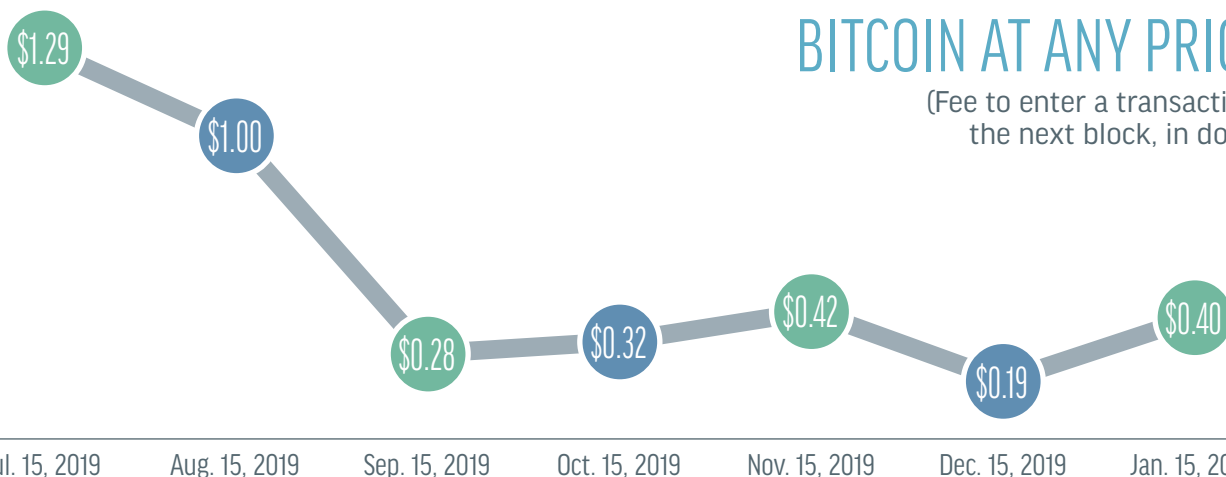
Such volatility hurts the digital currency’s potential as a payment method, since merchants can never be sure of its value after accepting it. But Bitcoin’s price isn’t its only volatile feature. The fee users pay miners to enter transactions also fluctuates, sometimes wildly.

As 2020 dawned, the fee to enter a transaction in the next block—

which involves the fastest processing time—stood at 11 cents, according to bitcoinfees.info. Sounds reasonable. But that fee started 2019 at around a nickel and soared as high as \$6 by summer, before tailing off the rest of the year.

With latency in the network, a rapidly climbing fee can require multiple attempts to complete a transaction as users struggle to keep up with the fee increases—and merchants wrestle with volatile values—during a slow processing time.

Still, Bitcoin remains the king of the cryptocurrencies. Its market cap, which stood at \$161 billion



BITCOIN AT ANY PRICE?

(Fee to enter a transaction in the next block, in dollars)

Source: bitcoinfees.info

at mid-January, commanded a two-thirds share of the total market cap of all the coins and tokens tracked by CoinMarketCap.com, a number that exceeds 5,000. And in May, a so-called halving is set to take place, in which the number of Bitcoins awarded as incentives to miners will be chopped

in half, from 12.5 coins to 6.25.

This event, which is baked into Bitcoin's code, occurs roughly every four years. It can lead to sharp increases in Bitcoin's price as less well-equipped miners step away from the business in the face of the reduced incentive. Its last occurrence, in July 2016, led to a price

rise, but it developed slowly over the course of four months.

Taking the long view may also cheer holders of Bitcoin. The cryptocurrency's value since July 2010 has grown more than 9,000,000%, according to a recent calculation by Bloomberg News.

—John Stewart

FISERV GOES TO BAT FOR CLOVER

Fiserv Inc. is breaking new ground, at least in the payments industry, by putting not its company name but the brand of one of its leading products on a stadium.

The processor announced in January that First Data Field, a 7,000-seat stadium in Port St. Lucie, Fla., where the New York Mets hold spring training and home to a Mets minor-league affiliate, will be renamed Clover Park beginning this month. No, this isn't a reference to plants of the genus *Trifolium*. The name comes from Fiserv's line of Clover point-of-sale hardware and payment and business-management software for small and mid-size businesses.

Fiserv inherited Clover when it acquired leading payment card processor First Data Corp. last July for \$22 billion in stock. First Data bought the naming rights to the stadium in 2017 as part of a 10-year marketing agreement.

The agreement, which continues under Fiserv's ownership, came shortly after First Data embarked on an initiative to get Clover devices distributed in sports and entertainment venues for fans to



(Photo: Fiserv)

Clover's new field of dreams.

pay for food and other purchases at games, concerts, and other events.

"The stadium, formerly known as First Data Field, is being renamed Clover Park as part of the integration of First Data and Fiserv, following the combination of the two companies in 2019," Jack Rooney, senior vice president of marketing strategy and client engagement at Fiserv, told *Digital Transactions* by email.

"The new name highlights the Clover platform from Fiserv and was selected because of the brand's direct connection to the fan and customer experience," Rooney said. "Clover enables payments at thousands of businesses, including more than 25 major stadiums and arenas across the U.S., including Citi Field in New York and Fiserv Forum in Milwaukee."

A Mets spokesperson in New York said by email that "Clover will have signage at several prominent locations at the stadium. And yes, we will be using the Clover equipment." Rooney adds that "there will be other focused promotion within the stadium, with the details to be finalized."

Owned by St. Lucie County, the stadium is the home of the St. Lucie Mets, the New York Mets' Advanced-A minor-league affiliate. The new name will be the stadium's fourth since it was built in 1988. It was first known as Thomas J. White Stadium until 2004, when it was renamed Tradition Stadium.

The stadium is undergoing a \$57-million renovation, according to local press reports. The value of the Fiserv/First Data naming rights deal hasn't been disclosed publicly, according to a Fiserv spokesperson.

Fiserv is based in Brookfield, Wis., just west of Milwaukee. Fiserv Forum is home to the National Basketball Association's Milwaukee Bucks as well as Marquette University's Marquette Golden Eagles men's basketball team. DT

—Jim Daly

CHOOSE CYBER PEACE!

ENCRYPTION THAT IS MATHEMATICALLY SECURE is readily available, but not used. Many Microsoft Windows vulnerabilities are known, but not publicly exposed. Digital payment without the Internet is possible, but not pursued.

These pathways to cyberspace are left untreaded because a quarter-trillion-dollar industry (2023 projection) is thriving on cyber war (see my book, *The Unending Cyber War*), and because the National Security Agency and its global counterparts need this war to achieve their ends. These agencies may be hoping they're smarter than their adversaries and can secure a strategic edge, but this is a short-sighted approach and we are all paying the price for it.

Cybersecurity angst is good for business. An unrelenting news feed detailing data breaches and cyber calamities is like shelling an enemy before charging right in. The present state of affairs is retail security. Patch here, patch there, add another fence around your data. Fine tune the firewall, pay more people to watch more data, to validate more software, to write more policies, to flood the media (this magazine included) with fresh tools and apps, algorithms, and procedures—hundreds of billions of dollars worth.

In fact, the actual price is double that. Various estimates suggest



BY **GIDEON SAMID**
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that the “burden-of-use” cost of security technology actually equals its direct cost. I personally suspect it to be higher. Worries about security absorb firms’ attention, hinder them from free-flowing action, and burden them with cumbersome code compliance, obscure policies, and excruciating protocols—all of which have to be accommodated, studied, and practiced. Soon thereafter, the same people have to learn a new tool and a new procedure. Yet, the massive time and attention claimed by this security angst is never properly accounted for.

Cyber insecurity is mushrooming, despite security expenses going through the roof. How come? It’s because cyber security exploiters, abusers, and fraudsters are proliferating even faster. Along with this trend, the commercial side of hacking has matured into a state of remarkable efficiency. With so many breaches, hackers found it increasingly difficult to monetize their harvest, but now the victim himself pays because hackers fine-tune the ransom demand to make it more attractive to pay up than to resort to any alternative. Some ransomware criminals even open

friendly “customer service” Web sites that gently advise paying victims how to get their data back. The response: more apps, more narrow tools, live monitoring.

On the national stage, the chaos and vulnerabilities are seen as opportunities. The big dogs, like the NSA, believe that they have more brainpower, more funds, and better tools to turn this chaos to their advantage. The little guys reason that they cannot match the U.S. Navy or the U.S. Air Force, but they have a reasonable chance to find an Alan Turing-quality mind in their small country who can out-smart the U.S. Goliath. So they, too, revel in the security chaos and root for the cyber war to continue.

Cyber peace remains a naive dream, a utopia. Not because it is not doable, but because the powers that be don’t want peace on Earth.

Still, the progress of powerful technology can be brought to a slow crawl, but it cannot be stopped. One by one, the dwellers of cyberspace will deploy unbreakable cryptography. They will use 5G to deploy quantum randomness to thwart identity theft, suppress payment fraud, and dry out fake news. And recovery technology will take the sting out of data breaches. All will be operating with a shared data environment, which will retain its integrity for all.

Cyber peace will be long in coming. It crawls. But it is unstoppable. **DT**

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WHAT IS THE FUTURE OF PRIVACY?

PRIVACY IS ONE OF THE BIGGEST ISSUES FACING PAYMENTS.

Individuals, businesses, and governments confront decisions on how data is gathered, stored and protected, and used.

We all generate huge amounts of data every day as we shop online or in stores, browse the Web, or even just move around with smart phones in our pockets. Payments companies, retailers, advertisers, and others want to collect that data, analyze it, and use it.

We risk ending up in a payments panopticon. A panopticon is a form of prison where all the cells are arranged in a circle with guards at the center who can see into every cell. As payments, social media, and data analytics converge, every aspect of our lives could soon be viewed through the payment tools we use.

The scale of data collection and sharing is so large and complex that we can no longer protect ourselves against data compromises or manipulation. For example, we can't know if malware has been installed on a card reader or if companies are safely storing and handling our data.

An example of this was the trove of data uncovered in October on an open Web site by Data Viper. They found information on 1.2 billion individuals, including names, email addresses, phone numbers, and LinkedIn and Facebook profile infor-



BY BEN JACKSON

bjackson@ipa.org

mation. It appeared this data had been gathered from public sources and combined with information bought from a data aggregator.

There is no way we can forbid a data broker from selling information it has gathered or prevent a screen scraper from pulling data off Web sites. We also can't force companies not to make security mistakes like storing our data in the clear.

As well-meaning companies develop tools to bring things like social-media associations into lending decisions, we are rapidly approaching a network that will rival China's social-credit system. It's an ugly view of the future to think that we could end up in a social panopticon of our own making where our every move is scrutinized.

Facing the threat of hacks on one side and privacy violations on the other, our only options are to minimize our interactions with companies we don't trust and shrink our digital footprints. But it's impossible to recall data that has been released into the datasphere.

Legislators and regulators are looking to provide some defenses. There are many privacy bills in the U.S. Congress. Many focus on

specific topics, such as genetic information, Internet tracking, and tracking passengers on planes. A number of states are considering privacy bills. The only enacted law is the California Consumer Privacy Act (CCPA), which goes into effect in July. However, bills in other states are so numerous that California won't be alone very long.

Regardless, payments companies have a vested interest in strong privacy protections. They can protect themselves from reputational, regulatory, and financial risk by making sure that data is secure and shared judiciously.

An open-source effort called The Digital Standard is working on best practices for data security and privacy. It recommends that products have the highest level of data privacy by default and require customers' affirmative consent to all data sharing. The Standard's Web site has recommendations for data security and data privacy and includes procedures for testing both kinds of programs.

The cornucopia of data provided by people's digital footprints offers opportunities for analyzing, sharing, and selling that data. Nonetheless, every opportunity has a cost. The cost in this case is that companies must pay attention to privacy or risk having products and services abandoned by people who don't want to be exposed for commercial gain. **DT**

acquiring

WHERE UNATTENDED CHECKOUT IS THRIVING

Thanks to cashless payment technology, markets ranging from laundromats to parking lots to vending machines are expanding sales and ushering in loyalty lures.

BY PETER LUCAS

DIG JUST BELOW THE SURFACE of unattended retail—which is enjoying stellar growth of late thanks to expansion beyond its origins in vending to include laundromats, parking, transit, and retail stores like Amazon Go—and you’ll find a market undergoing dramatic change thanks to advances in cashless-payment technology.

Cashless-payment options, such as mobile payments and contactless cards, increase the speed and convenience of making a purchase. But the technology behind them also enhances the consumer experience in unattended retailing.

Smart technology is being leveraged in vending and laundry

machines, for example, to gather data that can be linked to individual cardholders. Operators can use such information on subsequent visits to interact with consumers to try to increase the size and frequency of sales and grow customer loyalty.

“Digital marketing and loyalty experiences are being integrated into unattended merchant environments to engage consumers and keep them coming back,” says Paresh Patel, chief executive and founder of PayRange Inc., a provider of mobile-payment solutions for vending machines, laundromats, and other unattended environments. “Consumers no longer have to be anonymous in this environment.”

The market size of unattended retail is difficult to determine because it is so fragmented, payment experts say. What is quantifiable, however, is that cashless acceptance in unattended retail delivers a substantial sales lift without cannibalizing cash sales.

‘INTELLIGENT EXPERIENCES’

After adding cashless acceptance to a vending machine, for example, total monthly sales jump 19% in the first 11 months to \$646 on average, according to USA Technologies Inc.,



a provider of cashless-acceptance technology for unattended merchant markets. Of that total, cashless sales, which are incremental, increase 16% to \$171 during the first 11 months, while cash sales grow 8% to \$475.

While the increase in cash sales seems counter-intuitive, USA Technologies attributes the jump to the inclusion of cashless payments making vending machines a destination for consumers. Over time, higher-end items will net sales from cash customers, the company says.

“Expanded product offerings make the vending machine more attractive to consumers in general, which improves machine performance,” says Maeve McKenna-Duska, chief marketing officer and senior vice president at USA Technologies. “There are always going to be cash and cashless customers.”

Another aspect of cashless acceptance that appeals to merchants operating in unattended environments is that the technology can also be used to gather machine-performance data.

For example, PayRange uses data gathered from payment-acceptance devices on washers and dryers to notify consumers how many and which machines are available at a given time, and when their load is expected to be finished. Messages are communicated to the consumer through the PayRange mobile app.

“Our aim is to enhance the customer experience by bringing the types of intelligent digital experiences consumers are used to when purchasing online,” says Patel.

PayRange is connected to about 250,000 vending machines and kiosks in more than 350 cities across the

United States and Canada. While the company does not disclose its merchant-acceptance fee, which is based on a percentage of the transaction, Patel says it is less than the typical cost of card acceptance.

‘CONNECTED COMMERCE’

Parking is another segment of unattended retail where mobile payments are predicted to play a major role. Parking payments in the U.S. total \$35 billion in the U.S., of which \$26 billion is captured by parking lots and \$9 billion by street meters, according to Arrive Inc. a provider of mobile-based solutions for the parking industry.

While parking lots have accepted cards through unattended kiosks in the lot or card readers at the gate for more than a decade, the advantage of mobile payments is increased convenience.

“Consumers can pay using a mobile wallet without leaving their car or rolling down the car’s window, says Dan Roarty, president and chief operating officer at Arrive. “That saves consumers time because they no longer have to fumble with a card or call up a bar or [quick-response] code from a parking app and scan it as they enter the lot.” Through the app, he adds, “We even allow consumers to prepay for parking at a discount, which is another convenience.”

Arrive, which was known as Park-Whiz until it rebranded in January 2019, is now mapping out its next step: tying into the smart capabilities of automobiles to enable consumers to load a mobile wallet into the car’s electronics to pay for fuel or to locate, and pay for, parking.

Arrive is making its application programming interfaces available to automakers such as General Motors Co., Honda Motor Co. and Fiat Automobiles S.p.A. for use in computer-automated dashboards.

“Automakers see fueling and parking as part of connected commerce in the automobile,” Roarty says. “Enabling a consumer to make a payment from within her car or digitally locate a parking lot or meter on the street is what automakers are working towards.”

With the groundwork for automotive commerce being laid, Roarty predicts card acceptance at parking lots and meters will become obsolete. Some cities, such as San Francisco, accept credit and debit cards at street meters. Others, such as Chicago, allow consumers to pay for street parking at kiosks servicing an entire block.

MACHINE INTELLIGENCE

Like parking and vending machines, public transit is enjoying rapid growth in cashless payments. In December, New York’s Metropolitan Transportation Authority announced that riders had used contactless cards 4 million times to pay for subway and bus fares since it began accepting general-purpose cards at the turnstile last May. Visa Inc. predicts the success of the New York MTA’s card-acceptance program will pave the way for other transit authorities to follow suit.

In 2019, Visa helped launch 60 contactless transit projects, including Miami-Dade Transit, and is working on 180 projects globally. Live transit projects are seeing a 40% year-over-year rise in contactless transactions, Visa says.

“The speed and convenience of cashless payments is catching the attention of consumers for transit-fare payment,” says Julie Creevy Scharff, vice president, consumer products for Visa. “Cashless payments are deeply woven into unattended payments because of the speed and convenience they provide.”

As cashless payments expand into unattended retail, loyalty programs are expected to pay a prominent role. PayRange uses incentives to get consumers to use machines within its network more frequently. Consumers can earn points redeemable toward discounts and other incentives on future purchases. Machines in PayRange’s network see a minimum sales increase of 5% and as much as 20%.

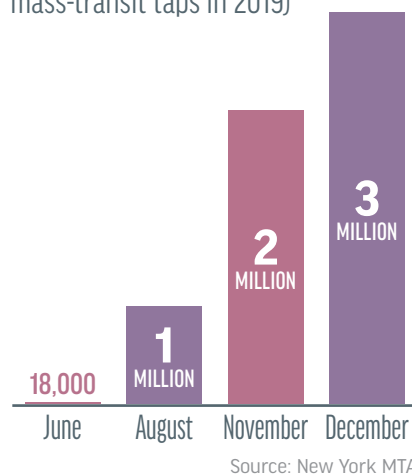
USA Technologies offers a closed-loop loyalty program that rewards users with discounts and other incentives to make future purchases. To join, consumers enroll a credit or debit card. Purchases are tracked and earned rewards are delivered to the consumer’s account. Registered cards are tokenized to protect cardholder data.

Consumers not enrolled in USA Technologies’ loyalty program can still earn rewards, since networked vending machines can identify and track cards used to make a purchase. When a reward is earned, the consumer is notified by a message on the machine’s screen.

“One thing we can do with our loyalty program is flash a message on the machine’s card reader promoting a discount for using a certain type of payment, such as Apple Pay or the option of earning a reward with X number of purchases,” says McKenna-Duska.

NEW YORKERS TAKE TO TAPPING

(A snapshot of monthly contactless mass-transit taps in 2019)



Greater machine intelligence also brings operating efficiencies. Merchants can identify best-selling items, the frequency at which consumers buy, when it’s time to restock, when a machine has broken down, or when a consumer’s account needs to be refunded because an item got stuck in the machine, says McKenna-Duska.

AT THE PUMP

Like vending machines, gas stations were early adopters of unattended card acceptance at the pump. With the deadline for converting to EMV chip card acceptance looming in October, an opportunity exists to bring new EMV-compliant technologies, such as contactless cards and mobile payments, to pumps.

Still, adding these options on top of EMV card readers can be costly for small station owners. Bringing a fuel pump, which typically has four nozzles, into EMV compliance costs \$25,000 to \$30,000, on average, fuel

industry experts say. The price can rise to \$40,000 by adding loyalty, fleet card acceptance, and third-party marketing/discount programs.

Absorbing those costs can be financially painful for small station owners, which is why a larger portion of them have yet to become EMV-compliant, payment and fuel industry experts say.

One option is to retrofit in-pump card readers. Sound Payments Inc., a Jacksonville, Fla.-based provider of payments technology, has developed an EMV-upgrade kit for fuel pumps that bypasses the forecourt controller, which is middleware through which card data gathered at the pump passes on its way to the processor (“Options for EMV at the Pump,” p. 34).

Instead, Sound Payment’s technology encrypts cardholder data at the pump and transmits it directly to the processor, which eliminates the risk of the forecourt controller getting hacked. If a criminal tampers with the device, it stops working. The retrofit kit costs less than \$1,000 per fueling point.

Digital marketing and mobile payments are also part of the equation. Houston-based P97 Networks Inc. has struck deals with a variety of players, such as Verifone Systems Inc., Mastercard Inc., and JPMorgan Chase & Co.’s ChasePay, to support its PetroZone application. That application enables mobile payment at the pump and in-store and consumer registration of loyalty cards.

With advances in payments technology enabling a richer customer experience, don’t be surprised to see unattended payments become a bigger piece of the payments pie. **DT**

components

EASING THE PAIN AT THE TABLE

EMV is here, but widespread adoption of pay-at-the-table devices has yet to happen. Could that be changing?

BY KEVIN WOODWARD

WHEN THE U.S. PAYMENT CARD INDUSTRY converted to chip cards using EMV technology more than four years ago, hopes abounded like diners queuing up to eat that the ability to pay at the table would soon proliferate.

With respect to pay-at-the-table point-of-sale technology and the market for it, those hopes failed to materialize. But now that may be changing.

Consumers are fairly comfortable with chip cards—82% of them are at least aware of the cards, found a recent Ingenico Group/FreedomPay survey—and now most merchants accept the cards. By 2030, pay-at-the-table devices will be commonplace, the National Restaurant

Association, in its “Restaurant Industry 2030” report, forecasts.

Is the time for broader pay-at-the-table POS adoption finally at hand?

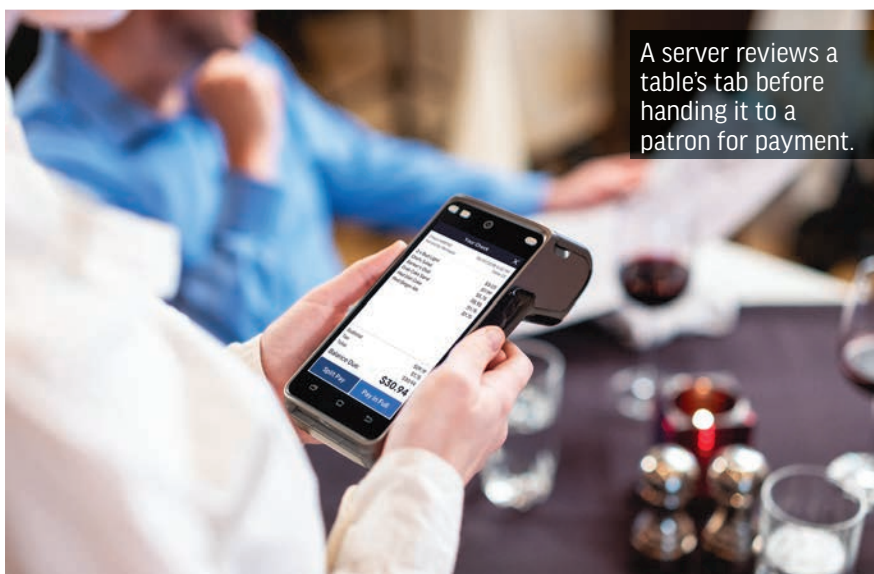
TAKING FLIGHT

Travelers moving through Chicago’s Midway International Airport might think so. A \$323-million modernization project at the nation’s 25th busiest airport (according to TripSavvy.com) includes a concessions redevelopment that has put pay-at-the-table point-of-sale devices in 28 of the 35 restaurants. Eventually, there will be more than 70 dining and retail brands selling to the more than 22 million passengers annually flying in and out of Midway.

Under the auspices of the Midway Partnership, a joint venture involving Vantage Airport Group, Hudson Group, and SSP America, a full revamp of the airport’s concession is under way and expected to be complete in a year.

SSP America, the Ashburn, Va.-based unit of SSP Group, which has locations in 35 countries and says its restaurants serve approximately 1.5 million daily customers, is shepherding Midway’s pay-at-the-table use.

SSP America provides services at 34 airports in the United States and Canada and uses pay-at-the-table



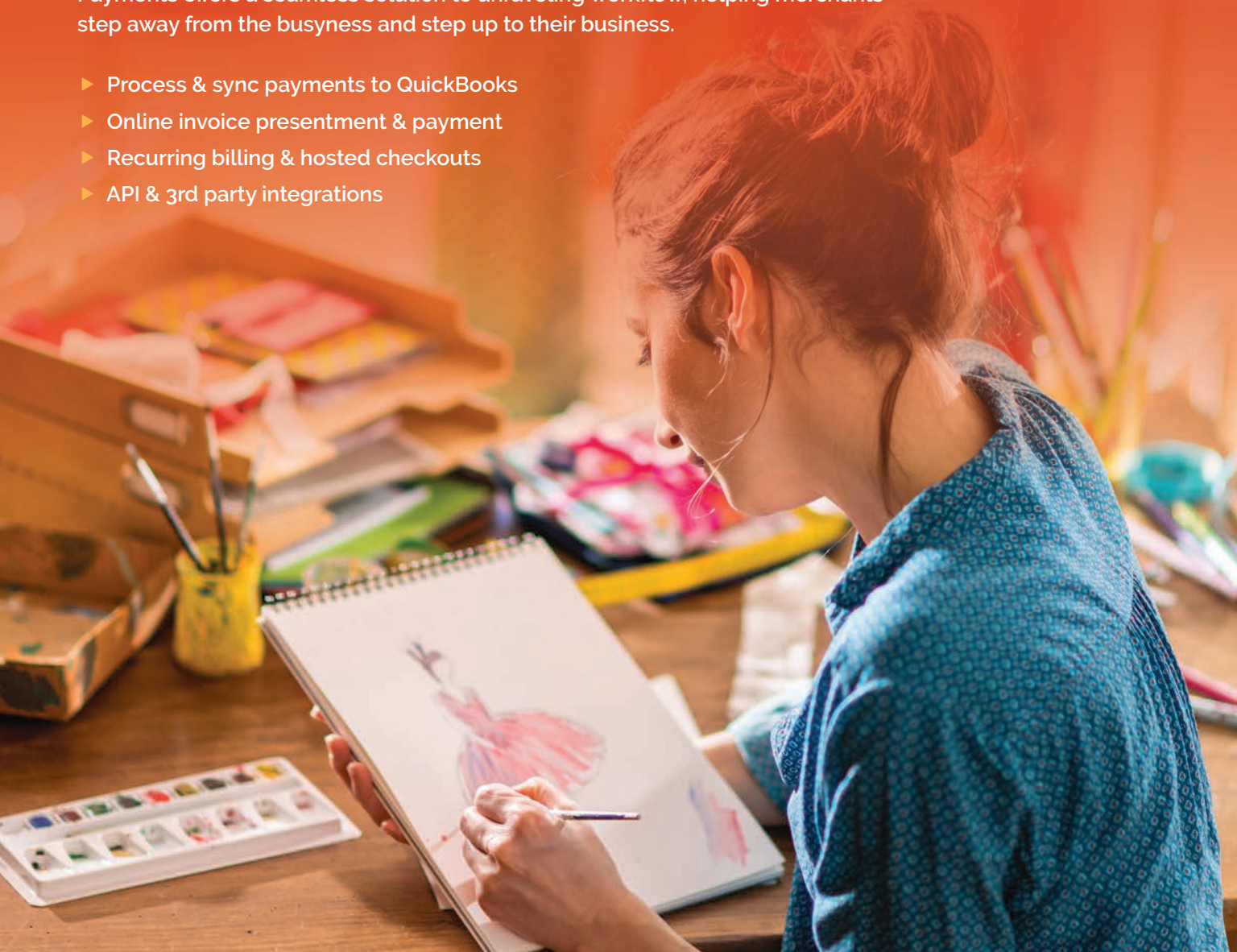
A server reviews a table’s tab before handing it to a patron for payment.

(Photo: Shift4)

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A consumer taps a contactless card against a Shift4 pay-at-the-table device.

(Photo: Shift4)

technology across all of its table-service restaurants and bars. Given its parent company's international presence—it's based in London—and that more than four years have passed since the U.S. EMV transition began, SSP America considers pay-at-the-table a distinctive, yet conventional service to offer.

With the worldwide adoption of chip cards and U.S. consumer familiarity with the technology, it makes sense to use pay-at-the-table, especially where security concerns and table turns, a valuable restaurant metric, are prevalent, the company says.

"Travelers are accustomed to PIN pads these days," says Todd Kaufman, vice president of information technology at SSP America.

"Even if not standard at street-side restaurants, they are familiar with PIN pads at retail stores."

SSP America uses pay-at-the-table devices with wireless PIN pads and with the same transaction flow seen with POS devices at most quick-service and retail environments, Kaufman says.

"International travelers expect it, since the United States is the last country in the world to adopt pay-at-the-table devices," he says, adding that SSP America uses pay-at-the-table devices at 100% of its sit-down restaurants across its portfolio.

VERY COMPLEX

Some observers expect interest in pay-at-the-table to increase

among U.S. consumers, too, "especially as contactless cards become more prevalent," says Rachel Huber, senior analyst for payments at Javelin Strategy & Research, a Pleasanton, Calif.-based advisory firm. Forty percent of consumers have at least one contactless card today, she says.

"As a consumer, not handing over my card to a stranger is compelling, especially considering security is such a concern for consumers today," Huber says. "From a consumer-experience standpoint, tapping and paying can help speed up the payment process as well, a common pain point for table-service restaurants. This standard of service has been the norm in Europe for years and one Americans can get on board with, bringing more transparency and trust to the payments process."

One significant difference between Europe and the United States is that Europeans, having adopted EMV chip cards many years ago, are accustomed to using chip-and-PIN. Chip-and-signature is the U.S. norm. The distinction is important in restaurants because the U.S. tipping culture traditionally obliges the server staff to step away. With pay-at-the-table devices, the server can remain at the table, but not always.

These customs had been contributing factors to the slow U.S. adoption of pay-at-the-table services following the onset of the EMV migration, says Mike Russo, chief technology officer at Shift4 Payments LLC, an Allentown, Pa.-based payments provider. "It never really took off at scale," Russo says. It was very complex and very expensive, he adds.

'The United States is the last country in the world to adopt pay-at-the-table devices.'

—TODD KAUFMAN, VICE PRESIDENT OF INFORMATION TECHNOLOGY, SSP AMERICA

That is starting to change as consumers have grown accustomed to using chip cards. And security remains a paramount concern, which means consumers like the idea of not handing over their card to a server who disappears with it for a while. “Most people think [pay-at-table] is cool,” Russo says.

TECHNICAL CONSIDERATIONS

Pay-at-the-table consolidates many steps in the restaurant payment process. Ingenico Group, a France-based POS terminal maker, outlines 12 steps in the traditional U.S. restaurant payment, beginning when the server delivers the bill to the guest and proceeding to when the server picks up the signed receipt and returns to the POS system to enter the tip adjustment.

Pay-at-the-table reduces this process to six steps. One time saver, and one that bypasses any social discomfort associated with writing the tip amount with the server present, is when the diner inserts the credit or debit card into the reader and enters the tip. This cuts out the steps in which the server runs the card and makes a tip adjustment.

Shift4, for example, offers its SkyTab device at no cost when merchants sign a processing agreement with the independent sales organization. “With SkyTab, restaurant operations are streamlined, no more back and forth to the table, and since the tip is going in before the payment, no tip adjustment is necessary back on the POS,” Russo says.

Technical considerations also are important. Russo says when a new pay-at-the-table installation is ordered, one of the first steps is that

Shift4 reaches out to its partners—it sells direct but also through sales partners, POS system dealers, and independent software vendors—for an assessment of the merchant’s needs.

Generally, pay-at-the-table devices can connect via WiFi or on a cellular network to process transactions. Russo says all SkyTab devices shipping now have a 4G SIM card built in. Cellular can provide a backup to the primary WiFi connection or be the primary option.

One Shift4 client, a pizza restaurant, brings its device along on deliveries so consumers can use their payment cards, Russo says. It also can be useful at resorts, where many might order drinks from the beach.

Cellular is also the choice for the pay-at-the-table service at Midway, Kaufman says. “Nationwide, it’s an airport-by-airport, sometimes unit-by-unit, decision based on WiFi options and cellular strength.”

Technically, SSP America will conduct a wireless or cellular survey of a location. “Questions we need to answer are: How big is the restaurant? What is the number of bartenders and servers? What’s the throughput? How many different service stations?” Kaufman explains.

He says the costs for using pay-at-the-table devices are the same as for traditional POS setups. “There are no additional costs outside possible costs for dedicated WiFi if needed. But the costs are minimal,” he says.



Many pay-at-the-table devices now feature a common design that includes a full display screen and large buttons to tap.

TURNING THE TABLES

A big advantage for restaurants is that pay-at-the-table greatly aids table turns, Kaufman says. Because they’re watching the time to make sure they catch their flights, customers at airport restaurants typically have less patience for slow service or lengthy waits for card transactions.

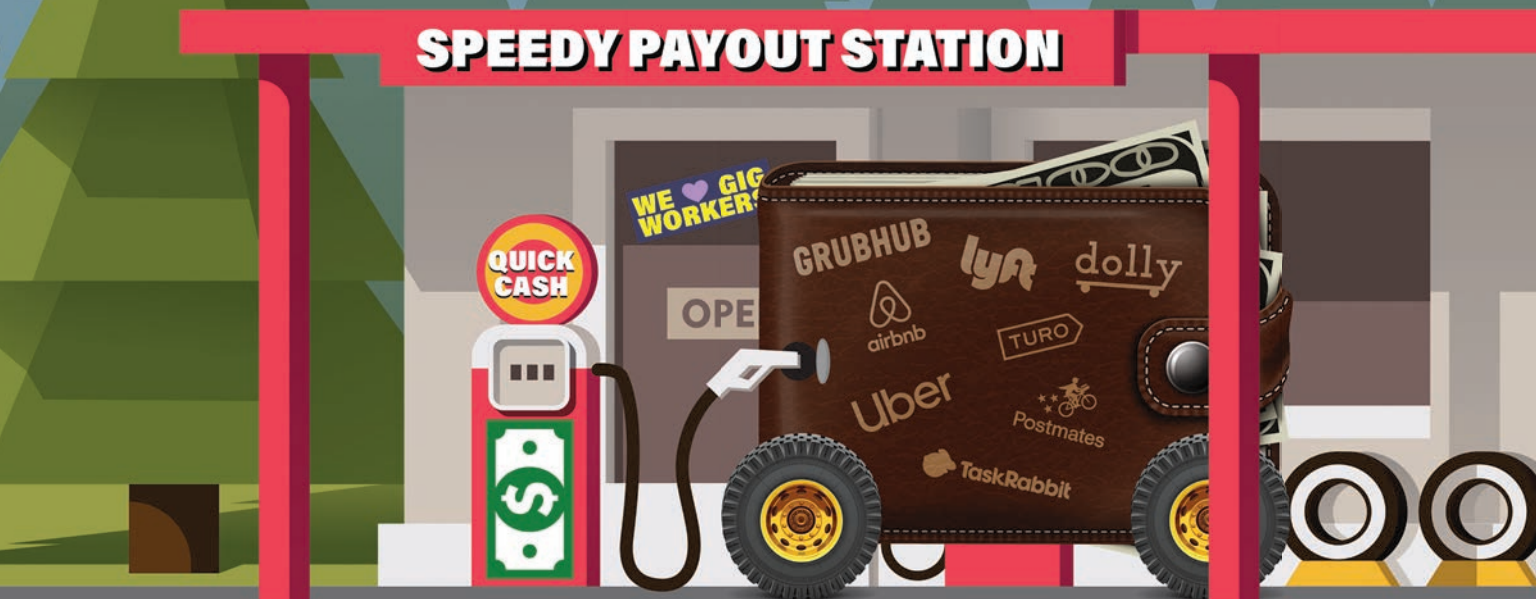
“For example, where a typical dinner on a high street might involve a bottle of wine, appetizers, entrée, and dessert, we’re serving a glass of wine and an entrée airside,” he says. “So, passengers deeply want the service speed to move along very quickly. The pay-at-the-table devices only help us in this regard.”

For Russo at Shift4, the pay-at-the-table devices are a means to an end. “Our approach goes back to the basics,” he says. With a device in place, it’s easy enough for consumers to make a card payment, generating revenue for Shift4. **DT**

THE PAYOFF IN PAYOUTS

Disbursements once were a staid business dominated by checks and ACH direct deposits. No more, thanks to the rise of the gig economy and new payout technology. **BY JIM DALY**

SPEEDY PAYOUT STATION



WHEN THEY'RE OWED SOMETHING, 21st Century consumers aren't satisfied with waiting to get a check, and waiting again for it to clear. They want payment, and they want it now.

Technology and new services are developing rapidly to meet this growing demand for fast electronic payouts. That's because banks, transaction processors, and fintechs are eyeing a business-to-consumer payment market with an estimated size of \$10.7 trillion in 2018 on 3.55 billion transactions, according to Boston-based research firm Aite Group LLC.

The dollar value of disbursements to consumers over age 18 grew 78% from 2014 to 2018, Aite says. What's more, the payout market's growth likely is accelerating.

"Depending on whose data you're looking at, this market could be growing as fast as 40%," says Robert Clayton, vice president of Advanced Payment Solutions at Brookfield, Wis.-based Fiserv Inc., the core processor and tech-services provider for banks and credit unions that bought leading payment card processor First Data Corp. last year.

Fiserv's payout services include Rapid Deposit, which provides instant settlements to merchants using the company's Clover point-of-sale payment systems.

FAST ENOUGH

Despite the growth of electronic B2C services, checks and direct deposits through the automated clearing house network still



dominate the payout market. Based on a survey of 2,538 Americans, Aite estimates that in 2018 68% of consumers received funds disbursements via direct deposit, and 49% via check.

While direct deposits are faster than getting a check and waiting for it to clear after deposit, they're often pegged to predetermined schedules. Consumers and companies increasingly are looking at a growing menu of payout alternatives with more flexible options.

These options include everything from the Real Time Payments (RTP) service from The Clearing House Payments Co. to the so-called push-payment services from Visa Inc. and Mastercard Inc., Visa Direct and Mastercard Send. Then there is Zelle from

bank-owned Early Warning Services LLC, PayPal Holdings Inc., and various offerings from processors and fintechs.

There's plenty of room for growth. Fewer than 20% of consumers say they have received payouts through general-purpose payment cards. And what Aite calls "alias-based" payout alternatives, a category that includes services such as PayPal or Zelle that can make use of phone numbers or email addresses to route payments, came in at 29% and 3%, respectively (chart, page 26).

Plus, the ACH is getting faster, making it a stronger player in the B2C payout market. The Federal Reserve in December approved a third daily window for same-day processing, which means the ACH in March 2021 will have achieved its goal of three daily settlement windows.

That might not be instant, but the ACH alternatives can be fast enough for many businesses, depending on their particular needs, and cheaper than many options.

WHO'S THE BOSS?

With technology and opportunities rapidly changing, a host of established payments companies and well-known and not-so-well-known fintechs are looking for a slice of the payout pie.

In addition to the aforementioned providers, players in the space include ACI Worldwide, Checkbook.io, Dwolla, Fiserv rival Fidelity National Information Services (FIS), Finix, Ingo Money, Marqeta, Siplee, Stripe, TabaPay, TransCard, Vela Payments, and Western Union, says a January Aite report focusing on the market's vendors. There's also room for emerging niche providers such as Alacriti, according to Aite.

All these providers think they can meet a growing consumer and business demand. "People want their funds immediately," says Thomas Spataro, U.S. treasurer for Computershare Ltd., an Australian provider of shareholder and administrative services for

'Depending on whose data you're looking at, this market could be growing as fast as 40%.'

—ROBERT CLAYTON,
VICE PRESIDENT
OF ADVANCED
PAYMENT
SOLUTIONS,
FISERV INC.

U.S. FUNDS DISBURSEMENTS BY PAYER CATEGORY

Figures for 2018

	Value (billions)	Transactions (millions)	Percentage of U.S. Consumers Receiving Payout
Freelance/gig	\$3,257.5	669.9	19%
Government	\$2,704.4	403.8	79%
Investments	\$1,149.5	190.3	27%
Marketplaces	\$1,068.6	321.7	29%
Employer	\$775.1	309.2	30%
Small business	\$645.2	96.2	5%
Other income	\$441.8	285.1	24%
Insurance	\$270.4	108.1	18%
Merchant	\$248.2	1,128.1	65%
Consumer lending	\$131.5	41.6	7%
Total	\$10,692.2	3,553.9	

Note: Based on Aite/Ingo Money survey of 2,538 U.S. consumers, Q2 2018.

Source: Aite Group, February 2019

companies and banks that has a large U.S. operation based in Canton, Mass. Computershare uses The Clearing House's RTP network for some of its payouts to shareholders.

The most prominent niche in the payout sector is the gig, or on-demand, economy—think Uber, Lyft, deliveries, and all manner of services performed by people who work for themselves, not a company.

Young adults, whether by choice or because some companies are averse to hiring full-time workers, are a major driver of the gig economy. By some estimates, freelancers now account for about one-third of the U.S. workforce, according to Aite.

In addition to its high profile, the gig economy is the volume leader in the payout market. Aite estimates disbursements to gig workers, freelancers, and independent contractors totaled \$3.26 trillion in 2018 through nearly 670 million transactions. The gig economy's dollar value and transaction count grew 114% and 53% from 2014 to 2018.

"We're going to continue to see growth there, especially with Millennials," says Aite senior analyst Talie Baker. "More and more

people are wanting to be their own boss instead of working for a corporation."

A spokesperson for San Francisco-based Uber Technologies Inc., the leading ride-share provider and arguably the face of the gig economy, did not respond to a *Digital Transactions* request for comment.

'LONG STORY SHORT'

Other large payout segments include government with its tax refunds and assistance programs, investment and insurance disbursements, payments by merchants to consumers in their loyalty programs, and payments generated through marketplaces such as Amazon and eBay, according to a February 2019 Aite report (chart).

Even the distribution of gambling winnings is getting in on the payout action. "We're seeing a lot more of this in the online space as e-gaming and sports are becoming more legitimized," says Fiserv's Clayton ("The Sporting Chance," July 2018).

Bill Sheley, a Visa senior vice president and global head of Visa Direct, says in an email

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THE LATEST TRENDS, NEWEST TECHNOLOGY & LEADERS FROM THE PAYMENTS INDUSTRY

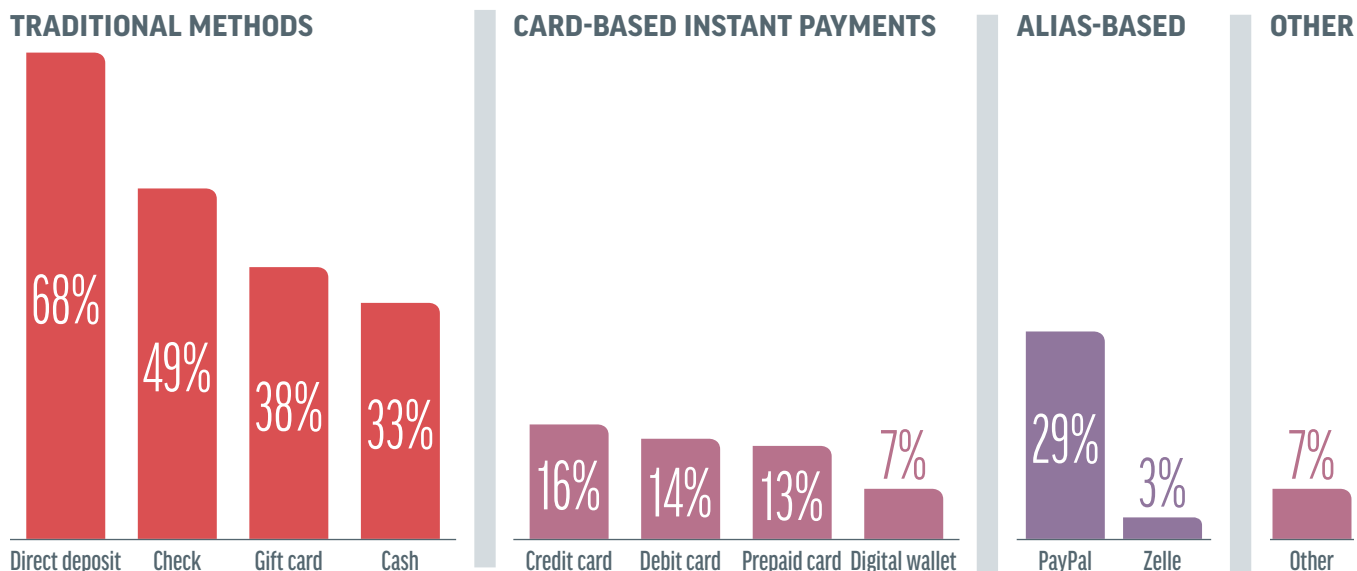
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PAYMENT METHODS FOR U.S. FUNDS DISBURSEMENTS

(Portion of consumers who received disbursements in the preceding 12 months, by payment method)



Note: Based on Aite/Ingo Money survey of 2,538 U.S. consumers, Q2 2018.

Source: Aite Group

message that “the on-demand economy is changing consumer and business expectations across industries, and there is a lot of potential in translating real-time payment technology to those verticals. Visa Direct has already been applied to over 30 use cases to meet these changing expectations, both in established and new or emerging verticals.”

Visa Direct and Mastercard Send both rely on a technique called the original credit transaction, which the networks first developed to handle refunds to customers by reversing the usual flow of funds so money moved from the store to a cardholder account.

According to a Mastercard spokesperson, the most common use cases for Mastercard Send are wage disbursements and early access to earned wages for hourly and gig/freelance workers, insurance claims payouts, person-to-person payment cash-outs, health-care and loan disbursements, and rapid settlement for merchants.

Some firms in industries where demand for workers, and turnover, is high are

looking at real-time payout services to aid in employee retention. With newer payout services, workers can be paid before their scheduled paycheck date, sometimes even at the end of a shift.

That can help with retention in industries such as quick-service restaurants and retailing, according to Steve Ledford, product executive for The RTP Network at New York City-based The Clearing House.

The Clearing House reported in December that Rochester, N.Y.-based Paychex Inc., which provides payroll and human-resources services to small and mid-size companies, would be using RTP for some use cases. “This is a way of holding on to employees,” says Ledford.

RTP, which uses money-movement technology from Mastercard’s Vocalink subsidiary, launched in late 2017 with a handful of clients using it as a business-to-business payment service. But financial institutions and companies continually are coming up with new use cases, including B2C payments, according to Ledford.

In addition to gig-economy payments, RTP is making its way into so-called digital-wallet transfers. For example, users of PayPal or its Venmo P2P payment service can now extract money from their digital wallets through transactions that use RTP rails.

In all, RTP over its full array of use cases recently has been growing about 20% month-on-month, according to Ledford. “We’re having millions of transactions a month,” he says.

Computershare, the investor-services firm, has replaced some of its wire and other daily money-movement transactions with RTP. It also has used Zelle and PayPal for various payouts, such as class-action award distributions to shareholders.

Ten years ago, 90% of such distributions were made by check, according to Spataro. “Long story short, now it’s changing considerably,” he says.

‘A QUANTUM LEAP’

The insurance industry is adding electronic payout options for claims, but it still has a long way to go. In 2018, 65% of consumers who received a property-and-casualty insurance claim disbursement were paid by check, and another 20% by direct deposit, according to an October 2019 Aite report. Only 5% or fewer of claimants received payouts via each of several other electronic forms.

Old-fashioned float through checks is a major reason why electronic payouts haven’t yet made much headway in the insurance business, according to Jay Sarzen, senior analyst, property and casualty, at Aite.

“If you’re an insurance carrier, a property-and-casualty insurance carrier, you’ve got a lot of incentive in a low interest-rate environment to hang on to your money as long as you can,” he says.

Then there is insurers’ high comfort level with check-based reconciliation and auditing processes, he adds. Still another reason is that insurers have plowed most

of their budgets for operational improvements into more upstream processes such as underwriting and claims adjustments, not the actual disbursement of an approved claim payment.

“Property-casualty insurance carriers are not necessarily looking to innovate on, if you will, the last step,” he says.

Nonetheless, the insurance industry is transitioning into electronic payouts, the first stop being the ACH.

“The bottom line is that with insurance carriers, a lot of them have moved to ACH payments,” says Sarzen. “For them, that represents a quantum leap over a check ... to them, that is an instant payment.”

Also gaining traction are push payments to debit accounts, the types of payment available through Visa Direct and Mastercard Send, according to Sarzen. In that regard, Sheley says Visa is working with a number of insurance companies and their vendors globally to integrate Visa Direct into their claims-payment processes.

In the U.S., these companies include Erie Insurance in partnership with PNC Bank, and Invenger Technologies in implementing real-time disbursements for American Family.

“We have seen significant growth in insurance payouts, which is often thought of as a legacy industry,” says Sheley.

OFF THE RADAR

Also ripe for further payout penetration are online marketplaces for the sale of personal goods and services as well as vacation rentals of furnished houses or apartments as alternatives to hotels. PayPal, of course, is a huge player in this niche, and Airbnb is the reigning king of rentals.

Aite valued this total market at \$1.07 trillion in 2018—\$823.7 billion for rentals and \$244.9 billion for personal goods, with the rental part alone doubling in value since 2014.



‘If you’re an insurance carrier... you’ve got a lot of incentive in a low interest-rate environment to hang on to your money as long as you can.’

—JAY SARZEN,
SENIOR ANALYST,
PROPERTY AND
CASUALTY, AITE



'The on-demand economy is changing consumer and business expectations across industries.'

—BILL SHELEY,
SENIOR VICE
PRESIDENT AND
GLOBAL HEAD OF
VISA DIRECT, VISA

"Marketplaces, you're going to continue to see that grow," says Baker. "People are just trying to come together to try to sell products and services."

Another projected growth market is payouts from retailers to consumers for a number of different purposes, including brand and store incentives and loyalty-program rewards, store credits, rebates, product evaluations, and travel reimbursements. Aite valued that market at \$248.2 billion in 2018.

Government payouts—state and federal tax refunds and aid—are the second-biggest of the overall categories ranked by Aite, valued at \$2.7 trillion in 2018. But with growth of 48% over four years—certainly not bad—the public sector's increase in electronic distribution was among the lowest among Aite's groupings.

Companies in the B2C payout space are busily promoting their services, but their marketing efforts are largely off consumers' radar.

"Mastercard Send is actively working with a wide range of partners, including FIs [financial institutions], PSPs [payment service providers], acquirer[s] and processors, fintechs and merchants to broaden our distribution," the Mastercard spokesperson says by email. "We are also constantly enabling new use cases as instant push to card payment becomes more popular with consumers and small businesses."

'STRUCK DUMB'

While the opportunities in B2C payouts remain wide open, what's not as clear is how providers will make money in the long term as payout services grow and mature. Important top- and bottom-line issues have to be resolved, including the speed and pricing of services.

"The tradeoff here is there's instant and there's cheap," says Fiserv's Clayton.

That said, Fiserv wouldn't be in the payout business if it didn't believe it could make

money, according to Clayton. He expects some "high-volume, high-profile" scenarios to result in price compression, but such scenarios can be offset if a provider can sell auxiliary, higher-margin services, he says.

What's more, financial institutions need to assess if and how B2C payout services might affect revenues from their other payment services. One lucrative income stream banks try especially hard to protect is the interchange they get from credit card transactions.

"There will be a point of arbitrage that will be kind of interesting to watch play out," Clayton says.

Regarding revenues, Aite's consumer survey, commissioned by Ingo Money, uncovered one hopeful sign that might prove to be the envy of person-to-person payment providers, whose customers are notoriously disinclined to pay fees.

Among 230 respondents who had received a property-and-casualty claim disbursement within the preceding 12 months and would select an instant-payment option if available, 58% said they would be willing to pay a fee, and another 18% said they might. Only 24% said they would not pay.

What's more, a substantial minority, 37%, of respondents who replied to a question about how much they would pay to get an instant insurance payout of \$1,000 said they would fork over \$50 or more.

Analyst Sarzen says he was "struck dumb" by that number. "Maybe 37% of respondents are living on the edge that much," he says.

Providers can only hope that such receptiveness to fees can be nurtured. In the meantime, they're planting seeds all over the electronic payouts market.

"As new potential use cases for Visa Direct continue to come to light, we anticipate the business to grow steadily throughout fiscal year 2020," says Sheley. "Given that globally today 83% of transactions are still in cash, paper, or other inefficient forms of payment, the opportunities for push-payment technology are great." DT



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THE CASE THAT WON'T END

A push by big retailers to have certain payment-network rules scuttled in court is keeping one of the biggest cases in the history of the payments business alive. What will happen now?

BY JOHN STEWART

IF YOU THOUGHT THE MASSIVE— and massively complex—payments litigation known officially as *In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation* is all over but the shouting, think again. The shouting is likely to go on for quite some time and bear consequences for banks, networks, and merchants that could go far beyond the \$6.24-billion settlement that won final approval in December from the Brooklyn-based U.S. District Court for the Eastern District of New York.

What was settled was the so-called monetary-damages portion of the 14-year-old case, known as MDL 1720 for short, where the “MDL” refers to multidistrict litigation. Courtesy of the defendants,

a roster that includes Mastercard Inc. and Visa Inc. as well as a number of big-name banks, millions of mostly small and mid-size merchants will now split a \$6-billion pot to compensate for damages they allege they suffered through paying artificially high discount fees for card transactions.

Left unsettled, however, and looming ominously on the horizon, is the other part of the matter.

That’s because some of the nation’s biggest merchants, including Home Depot Inc., 7-Eleven Inc., and Target Corp., opted out of the money-damages settlement and focused instead on something that’s always been part of the case but cuts much closer to the bone for the payment networks: the networks’ mandates and restrictions surrounding card acceptance.

‘WE’LL TRY THE CASE’

These merchants reason that if they can get the rules changed or dropped, they’ll win something more valuable than a portion of money—they’ll win leverage over the point of sale and potentially “alter the balance of power” in the long-running relationship between merchants and networks, according to Anita Boomstein, an attorney specializing in payments who is closely following the case but is not representing any of the parties.



Visa and Mastercard “have always had total control through their rules on pricing and on how cards are accepted at the point of sale,” she says. “This case challenges their ability to do that.” Visa declined to comment for this story. A Mastercard spokesperson did not respond to a request for comment.

The rules for which the merchants are seeking injunctive relief include a number of hobgoblins they have complained of for years, including honor all cards, no surcharging, no bypass, and accept at all outlets.

Merchants also would like to see a ruling that corrects what they argue is network non-compliance with the debit-routing rule as laid out in the Durbin Amendment, which requires that merchants have a choice of a second network for each transaction.

These complaints involve many matters on which the networks aren’t likely to give ground, and the merchants know it. Their lawyers are already girding for battle in the Brooklyn courtroom.

“We have no reason to believe that defendants are inclined to talk in a way that’s meaningful at this stage,” says one attorney on the merchant side who spoke on condition of anonymity. “We have the wherewithal to take this to trial and beyond if that’s what it takes. We developed a strong record and we’ll try the case.”

Long-time observers, too, see little chance of pre-trial agreement. “The chances of no settlement are greater than ever,” says Eric Grover, principal at Intrepid Ventures, a Minden, Nev.-based payments consultancy.

‘ORIGINAL SIN’

Those sympathetic to the networks aren’t fazed. “Lawyers like to bill,” shrugs an attorney who spoke to *Digital Transactions* on background. He is not connected to the case but follows payments litigation.

This attorney, along with some other network partisans, argue the focus on acceptance rules is really a smokescreen for something else. “It’s a bloody-minded obsession with cost,” he says, arguing merchants ignore the cost of cash acceptance while seeking to change rules they see as foisting unfair card costs on them. But the cost of cash “greatly exceeds what they pay” to accept cards, he says.

But merchants retort the network rules hobble their ability to negotiate

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MDL 1720: A TIMELINE

- **2005 - October**
Judicial Panel on Multidistrict Litigation combines 14 antitrust cases
- **2006 - April**
Plaintiffs file first consolidated amended class-action complaint in U.S. District Court for the Eastern District in Brooklyn, N.Y.
- **2009 - January**
Plaintiffs file second consolidated class-action complaint
- **2012 - October**
Parties agree to a settlement
- **November**
Court grants preliminary approval of settlement, sets two classes, one for damages (opt-out possible), one for injunctive relief (opt-out not possible)
- **2013 - December**
Court certifies the two settlement classes and approves the proposed settlement over objections of several plaintiffs
- **2016 - July**
Appellate court vacates approval of settlement and certification of settlement classes. Case goes back to Brooklyn, with plaintiffs divided into two groups: those seeking monetary damages, and those seeking relief from acceptance rules
- **2017 - March**
Supreme Court refuses to hear appeal of the lower court's nullification of \$5.7-billion settlement
- **2018 - September**
Parties agree to a \$6.24 billion settlement of the monetary damages case
- **2019 - September**
\$6.24 billion monetary-damages settlement wins preliminary court approval
- **December**
Court issues final approval of monetary-damages settlement

costs in the first place. Honor all cards, for example, requires that a merchant that accepts one type of a network credit card must take them all (litigation decided in 2003 established merchants could take credit but not debit, or vice versa). And that requirement now extends to wallets.

"Honor all cards is the core issue," says Mark Horwedel, formerly chief executive of the Merchant Advisory Group, which represents retailer interests in payment matters, and now a consultant to CMSPi, a U.K.-based research group that advocates for merchants. "It's no secret," he says, "that most merchants see honor all cards as the networks' original sin."

But if the merchants are set on invalidating this rule, the networks are equally determined to preserve it. "I think [the networks] will fight strenuously to preserve the honor-all-cards rule, which has been a fundamental, and unbreakable, requirement for decades," says Boomstein.

A closely related issue is that of steering, in which, for example, cashiers may "steer" a customer away from a particular card and

toward one the merchant favors for cost or other reasons.

That, too, is banned, a restriction that seemed to be upheld for good when the Supreme Court ruled in favor of American Express Co. in a steering case in 2018. Visa and Mastercard originally were defendants in that case, as well, but quickly settled and modified, but did not rescind, their rules.

The Supreme Court decision, some observers say, could undermine the retailers' case for injunctive relief, at least on this question. The networks "aren't looking to make any huge concessions," says the pro-network attorney who has been observing the case. "If the retailers choose to take it to trial, they would probably not do that well in the wake of the AmEx decision."

'WAY TOO LONG'

But for which side are the stakes highest at trial, if it comes to that? While many see the networks occupying a stronger position, they also see them as having the most

to lose, and hence the bigger reason to push for a settlement. If the merchants lose at trial, they simply occupy the position they're already in, this reasoning goes. "It's status quo for the merchants, not a catastrophic outcome," says Grover.

But if a jury finds against the networks, even if that outcome is unlikely, "their business model could be wrecked," he says. Even though he sees no immediate prospect of a settlement, he argues the prospect of that scary outcome could ultimately hold sway. "If I'm the networks, I'm going to push for something that works and avoid a jury trial," he says.

The question now is how far off the day may be. This case, which stems from separate actions that were ultimately consolidated in 2005 into MDL 1720, has already wore on for years. Some of the combatants, at least, are eager to get on with the courtroom combat that could finally end the matter.

"I hope the trial's soon," says the attorney representing some of the merchants. "It's gone on way too long already." **DT**



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OPTIONS FOR EMV AT THE PUMP

The deadline for converting gas stations to EMV is fast approaching, and this time there won't be an extension. What to do?

BY **BILL PITTMAN**

Bill Pittman is senior vice president at Sound Payments Petro Solutions, Jacksonville, Fla.

EMV PAYMENTS ARE COMING to a pump near you, and gas stations need to get ready to accept them or face financial consequences.

A majority of the world has been using EMV chip cards and EMV-capable readers for years, mainly due to higher fraud rates with magnetic-stripe cards than what was experienced here in the United States. But now, as fraud has grown in the U.S., the card brands are mandating that card-present businesses support EMV cards to help reduce losses.

The push to support EMV stemmed from a change in the rules

where merchants and acquirers are liable for all applicable counterfeit fraud associated with EMV chip transactions if their inside POS terminals do not support EMV technology. This became effective for retail EMV chip transactions in October 2015. Consequently, most retailers now support EMV at their in-station points of sale.

However, the mandate was pushed back for pay-at-the-pump at gas stations due to the extra complexity to support it. The due date was initially October 2017, but was postponed to October 2020.



Recently, the Merchant Advisory Group (MAG), an association that advocates for merchants on payments issues, requested another delay due to the lack of industry readiness. But the card networks denied the request.

MAG says it is now “encouraging industry stakeholders to prepare for October 2020 by having sufficient capacity of certified technicians, adequate software availability, and streamlined certification processes to ensure that fuel merchants are able to transition to EMV and avoid negative financial implications.”

This means that if there is not support for EMV at the pump by October 2020, merchants and acquirers will take on the liability for fraudulent transactions.

STAMPEDING CHARGEBACKS

Fuel margins are low, so the financial implications could be huge. It could take only a few chargebacks on gas for large SUVs to wipe out profits for the day. Further, when general retail converted to EMV, fraudsters targeted non-compliant merchants. This means even if you don't have a lot of chargebacks—but remain noncompliant with the new mandate—the costs could potentially go up.

In fact, using current statistics, the costs at the pump are:

- ▶ More than \$50 million in chargebacks recorded over the last several quarters. These become the responsibility of the merchant for all noncompliant solutions in 2020. This doesn't include any associated fines or fees;

- ▶ Brand reputation ruined due to fraud at your pumps. This



It could take only a few chargebacks on gas for large SUVs to wipe out profits for the day.



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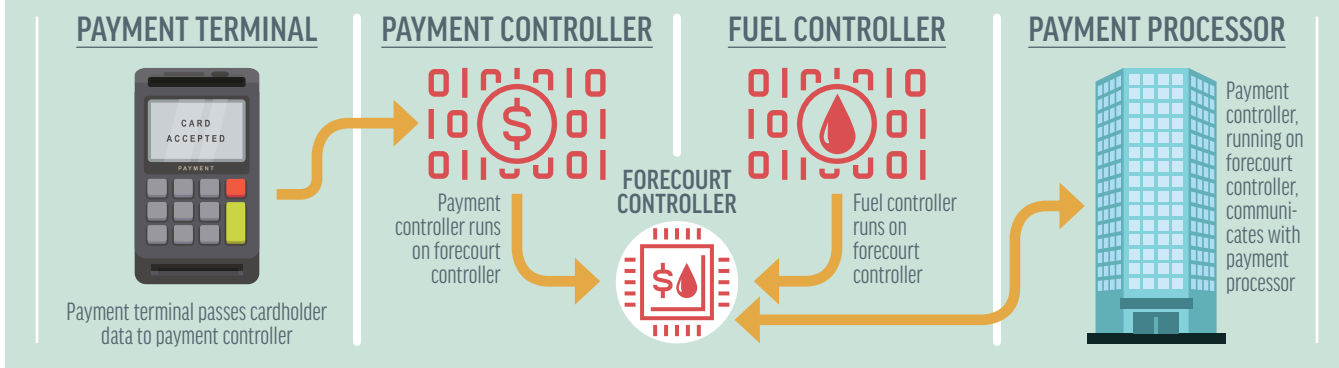
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COMPONENTS OF AN OUTDOOR EMV SYSTEM WITH FULL INTEGRATION



equates to lost sales as customers will avoid using your station for fear of getting their data stolen.

A CERTIFICATION ECOSYSTEM

To make the situation worse, there is a large technology hurdle to cross. The challenge here lies in the fact that existing outdoor EMV systems are made up of three parts: fuel control, payment control, and the outdoor payment terminal. Typically, the fuel controller and payment controller run on the same device, called a forecourt controller, as shown in the illustration above.

Retailers may get these solutions from different vendors. The problem is, it is critical to keep all parties aligned for delivery and successful deployment of EMV. Not easy to do, especially given new EMV-certification requirements. One example: if any component in the payment flow changes, you need to re-certify each new solution.

That means the payment software will need to have separate certification for each outdoor payment terminal, controller, and payment processor. There are hundreds of

permutations of controllers, card readers, and payment processors that handle petroleum.

To make matters worse, certification with the payment processor/host is a very long and tedious task that takes months at a minimum. Not many options exist that are certified at this time.

To simplify matters, most pump companies suggest you use their complete end-to-end system. The problem is, this limits stations' options and can get very expensive.

MAP FOR MERCHANTS

So, what is a merchant to do? There are a few options. They break down into three factors: what equipment you currently have, what you want to do in the future, and how much money you have. You can:

► **BUY A NEW PUMP AND COMPLETE SYSTEM.** Of course, this is what the pump manufacturers want you to do, and you may not have a choice if your pump is too old. The benefits to this approach are that you know your system should work. The disadvantage is it can be very expensive for the new hardware, software, and downtime to the business.

► **RETROFIT YOUR EXISTING PUMP AND SYSTEM.** A retrofit involves upgrading your existing pump and system to accept EMV. The major pump manufacturers have retrofit kits that work on some of their newer pumps, but these kits are relatively expensive and require you to upgrade your payment software. Several third-party companies have developed retrofit kits that are less expensive.

FIT TO BE RETROFIT

If you want to consider the retrofit-kit option, you should take two factors into consideration.

FACTOR 1 – STATION CONFIGURATION

First, the fuel controller, payment controller, and outdoor payment terminal need to be able to work together and be certified with your payment processor/host. Otherwise, you are just buying another mag-stripe system and are at the mercy of your vendors for when they will have the EMV certification you need.

To minimize this problem, you should consider the integration method between the components. There are two types of

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Read news feeds on any social media platform, or watch your nightly news, and you're likely to hear about cyber-criminals hacking someone's data. Facebook and Capital One are just a few of the notable security breaches this past year, so it might be fair to say 2019 was a year of PCI pandemonium and we are knee deep in a compliance crisis.

The fact the Department of Homeland Security recently issued a warning to businesses to be on alert for potential Iranian cyberattacks doesn't help. One expert was quoted in a recent article saying, "We also anticipate disruptive and destructive cyberattacks against the private sphere." This threat confirms businesses of all sizes are possible targets and measures should be taken to secure data.

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THE CHALLENGE SMBs FACE.

While major organizations like Facebook and Capital One have robust security resources available at their fingertips, there are businesses that would be crippled by a cyber-attack from criminals – particularly small to medium-sized businesses (SMBs). Merchants that fall into this category are smaller operations who might not be able to financially fend off the devastating blow of a data breach.

After everything is said and done, the average cost for a breach in the United States is more than \$8 million, according to a recent study from IBM and Ponemon Institute. The same study noted that there is a 29.6 percent chance for a typical company to experience a data breach in the next 24 months.

Cybercriminals know large organizations have a lot to lose, but they also know businesses in the Americas region (continents of North and South America, along with associated islands) are ripe for pillaging with only 20.4 percent of all businesses being PCI compliant. The SMB merchant is a particular target, because merchants of this size often lack resources to follow the complex standards.

HOW TO SIMPLIFY PCI COMPLIANCE.

PCI compliance is not just a merchant or consumer problem, it's a payments industry problem. Between spiraling fees for non-compliance and the inability to properly educate or assist merchants who need the most

help, it is clear there is ample opportunity for payment companies to create a simplified program that helps merchants achieve, and ultimately maintain, PCI compliance. Enter NAB's PCI Plus.

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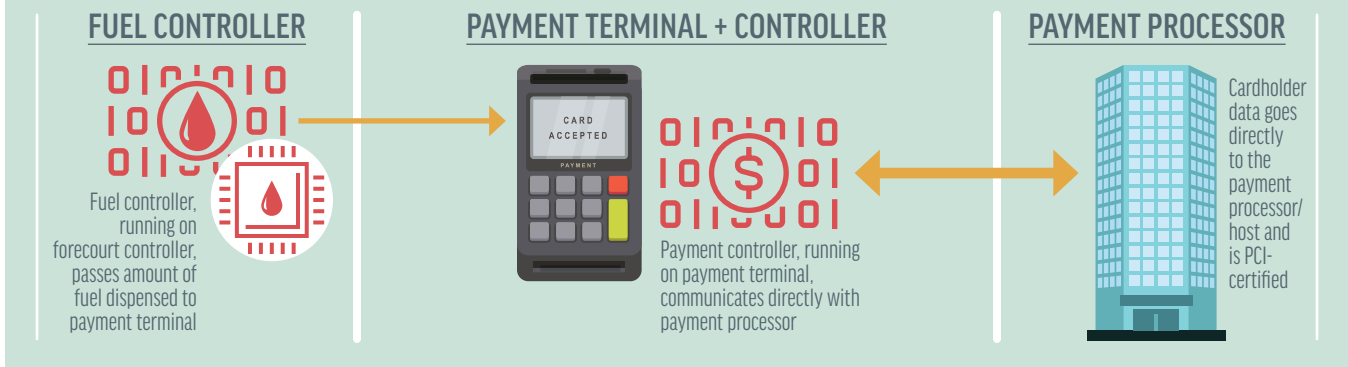
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COMPONENTS OF AN OUTDOOR EMV SYSTEM WITH SEMI-INTEGRATION



integration methods between the payment device and the payment processor/host.

Most existing U.S. implementations in petroleum are conceived as a full integration, where the payment application runs on the forecourt controller, separate from the payment terminal. The payment terminal just gets the cardholder data and passes it to the payment application for processing.

This concept may not work with your existing equipment, and any time something changes it can require a new certification across each piece of the solution affected. Since the payment application is separate from the payment terminal, this implementation also puts the station in PCI scope. Thus, system security becomes an important issue, as this configuration is responsible for much of the card skimming.

A new method to consider is called semi-integration. With semi-integration, the payment application runs on the payment terminal. So all card processing is handled by the payment terminal, which links directly to the payment processor. This is how most of the rest of the world does payments.

By separating the payment terminal from the rest of the system, this configuration provides more flexibility because it's compatible with a multitude of pumps and forecourt controllers and does not require new certifications for each.

It is also more secure, since cardholder data goes directly to the payment processor/host and is PCI-certified. Also, the payment device at the pump is a PCI-certified payment terminal, so if anyone tries to tamper with the device, it will stop working. In addition, this approach minimizes downtime because you can upgrade one pump at a time. You don't need to take the whole station down to convert to EMV (see illustration).

FACTOR 2 – FUTURE PROOFING

Besides your station configuration, the second major consideration is the future. If you are going to have to change your pay-at-the-pump terminal anyway, you may as well

get one that can handle the future. It should support existing payment methods, such as PIN-entry for debit, and new payment methods, such as contactless through Apple Pay, Samsung Pay, and other digital wallets.

It should also be easily managed and upgradable so you can support new options such as mobile payments without replacing the hardware. Also, consider whether you want to have a screen at the pump so you can support advertising and order at the pump with pick-up in-store.

It is clear EMV at the pump is going to happen soon. The choices of technological direction and implementation are out there. As a merchant, you want to weigh the costs and factors according to how you want to do business and ultimately choose a solution that provides security, expandability, and ease of implementation.

Now is the time to act. October is only months away. **DT**

If you are going to have to change your pay-at-the-pump terminal anyway, you may as well get one that can handle the future.

Merchants should account for the total costs of accepting cash.

endpoint

SURCHARGING? DON'T WASTE YOUR TIME

Adding to the tab to account for payment card costs is just plain dumb. Here are the reasons why.

BY RICK OGLESBY

Rick Oglesby is principal at AZ Payments Group, a Mesa, Ariz.-based consultancy.



NOW THAT RECENT COURT AND LEGISLATIVE DECISIONS have cleared the way, many merchants and merchant-service providers are considering surcharging to recover credit card acceptance costs. If you are one of them, you should think twice. Here are the two main reasons why:

1. THE PRO-SURCHARGING FINANCIAL ARGUMENTS ARE BOGUS

You're on vacation with your family and dining in a spectacular beach restaurant. As you scan the menu, you estimate it's going to cost about \$80 per person. "No problem," you think, until you spot a note at the bottom of the menu that says, "Sorry, no credit cards." How much smaller did the menu just get? Did your vacation feast just become appetizers to share? For many, the answer is "yes."

Now that cards are accepted almost everywhere, many consumers carry little cash, so attempting to steer transactions to cash will almost definitely reduce sales. Even if the consumer is carrying sufficient cash, the impacts of cash steering can be dire for merchants.

Let's say you're now home from vacation and back at work at a

retail store where you are responsible for cash management. Every morning, and for every checkout lane, you make sure that the cash drawers are stocked so cashiers can make change as needed.

As cash transactions are completed, you continuously re-stock smaller bills and coins in each drawer and remove larger bills and excess balances to the safe. At the end of the day, you produce an accounting report for each drawer (starting cash balance, total cash in, total cash out, ending balance). You inventory denominations-on-hand to make sure you can re-stock the drawers tomorrow.

Then, under heavy security, you oversee the removal of cash from the safe into an armored truck, which delivers excess cash to the bank and returns smaller denominations to re-stock the drawers. Last year, you had three incidents of attempted armed robbery, leading to the resignations of six employees and higher insurance costs. Your recruiting and training costs run about \$15,000 per employee.

After all that, do you still think that cash transactions are cheaper than credit or debit transactions? When you consider both opportunity costs and direct expenses, the

cost of cash is often as high as or higher than credit.

Sophisticated merchants know this. You'll see them arguing the contrary when it helps them negotiate with or sue payment networks, but in most cases the arguments are ridiculous. Don't confuse legal or negotiation posturing with reality.

2. SURCHARGING RARELY MAKES BUSINESS SENSE

Here are a couple of circumstances where, even if surcharging made financial sense, it would not make business sense:

1. **When the merchant has competition**
2. **When the merchant does not have competition**

Competitive pressures equalize total cost whether it is made up of a base price plus a surcharge or a

single, bundled price. Additionally, consider Oglesby's universal pricing law:

Buyers enjoy paying for valuable things, but they abhor paying for things that are not valuable.

How many buyers will enjoy paying a fee? None, that's how many. Merchants are better off with a single, bundled price that meets or beats competitive pricing.

In non-competitive markets, such as a truly unique restaurant, professional services, a venue with exclusive events, or any other situation where the product is unique and valuable, it may be feasible to surcharge without complaint from consumers. If they want something they can't get elsewhere, they will pay.

But should they? No. In non-competitive markets, merchants optimize prices to demand. Breaking the price into a base plus a surcharge doesn't create a magic loophole enabling a higher total price.

It denigrates the buyer's experience. Merchants that can raise prices without impacting demand are better off just raising the base price.

So when does surcharging make sense? It can make sense when the following circumstances apply: the buyer is captive; the risk of damaging the seller-to-buyer relationship is low; the merchant can't raise the base price.

Here are four examples:

1. Regulated monopolies: Government entities collecting taxes or utility companies collecting for critical services, such as electricity or water, have captive buyers, but pricing is regulated. The risk of damaging the seller-to-buyer experience is low because there are no alternative providers.

2. Landlords collecting rent: Landlords and tenants agree to long-term leases that lock in pricing and duration, so the buyer is captive. The costs of switching to alternatives is high for both, so the risk of damaging relationships is low. The base price is locked in by the lease.

3. Taxis: Once consumers enter taxicabs, they are unlikely to get out until arriving at their destination. Fares are one-time-only, so risk to the seller-to-buyer relationship is low. Pricing is regulated.

4. Ticket vendors: The buyer is captive to the event and venue he or she wishes to attend. The vendor is a third party with no ability to change the base price and a very limited relationship with the buyer.

In the rare instances where these circumstances apply, surcharging can make sense. Otherwise, don't waste your time. **DT**

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