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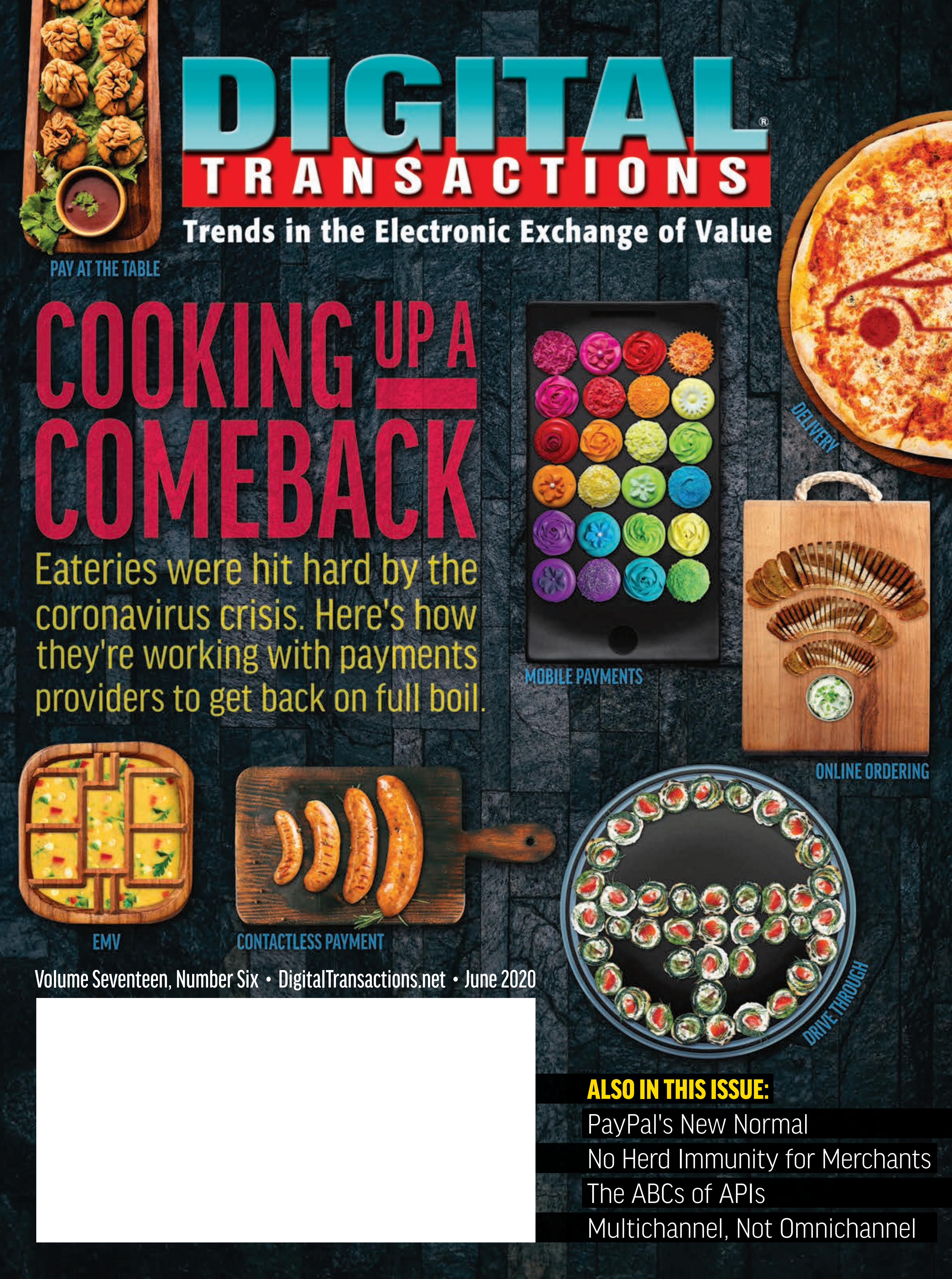
Trends in the Electronic Exchange of Value



COOKING UP A COMEBACK

Eateries were hit hard by the coronavirus crisis. Here's how they're working with payments providers to get back on full boil.

Volume Seventeen, Number Six • DigitalTransactions.net • June 2020

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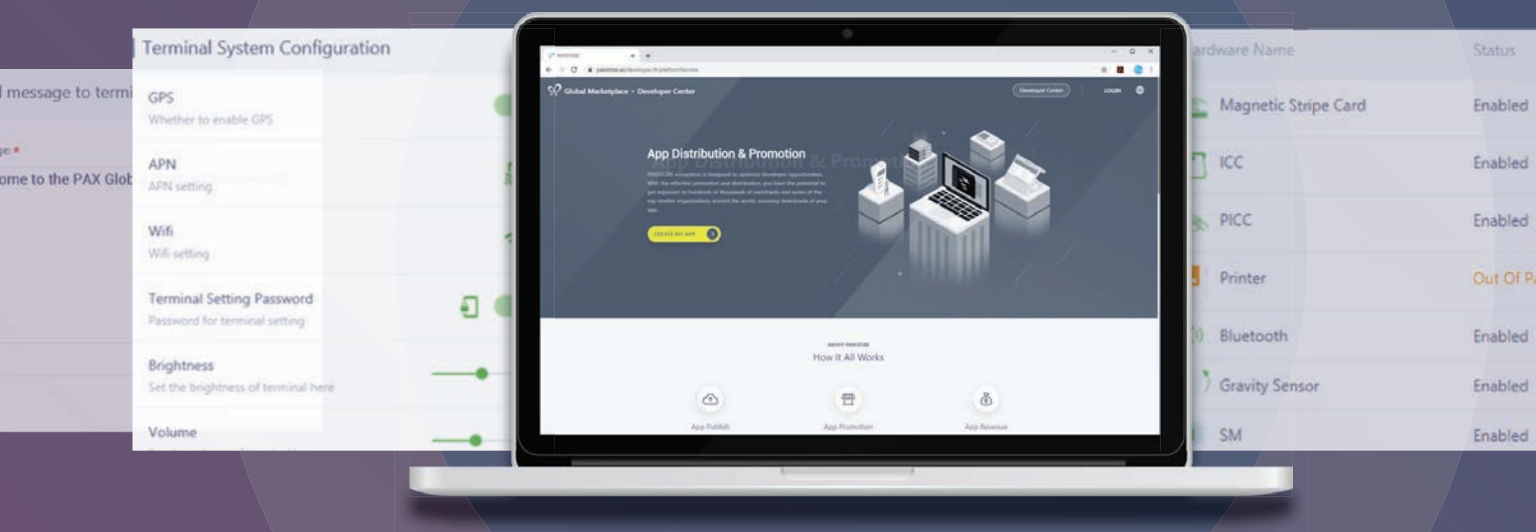

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contents

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the gimlet eye

WHAT'S ON THE OTHER SIDE?

MUCH ATTENTION HAS BEEN FOCUSED on the damage Covid-19 has wreaked on state and national economies, not to say on the lives of citizens. But we are entering a time when it may be possible to consider also what a post-pandemic world may look like. Certainly, some of the payments industry's biggest players are already doing just that.

Last month, we reported on a so-called S-1 registration statement filed with the U.S. Securities and Exchange Commission by Shift4 Payments LLC, a major processor and payments-technology provider for the hospitality sector. The purpose of the filing is to describe the company's business in preparation for an initial public offering. The timing of the IPO wasn't known at this writing, but the possible strategy behind the move could be intriguing.

First, consider the losses Covid-19 is leaving in its wake. Among restaurants particularly, the pandemic has forced dining rooms to shutter and restaurateurs to resort to online ordering and takeout and delivery to recoup revenue (for more on how their moves are impacting payments, see our cover story on page 22). That's hurting processors like Shift4 with big stakes in hospitality processing.

So some observers are wondering why the company is seeking an IPO now, of all times. We can't be sure of the answer because Shift4 says it's observing a quiet period. But one possibility is that it sees huge potential in being the provider of what will be much-needed POS gear and services on the other side of the pandemic, when restaurants will be looking to regroup and reopen.

First comes the devastation. In its filing, Shift4 indicates its gateway transactions for the week of March 22 plummeted to 7.5 million from 15.2 million the week before and 29.6 million the week of March 1. To be sure, this volume began improving in mid-April and reached 10.7 million by the week of May 3.

Still, the impact on the hospitality market is more likely reflected in later months, starting with April, when government orders in most states shut down dining rooms and hotels. Business failures resulting from these moves are likely to follow in the second half of the year.

Greg Cohen, principal at investment firm PayXAdvisory, told us Shift4 may be looking to a big payoff when the pandemic subsides and business owners begin to pick up the pieces of failed and damaged enterprises. "We will see a lot of [business] attrition, but what comes back in place will be using cloud-based systems provided by companies like Shift4," he predicts. "This will bottom out and they will benefit."

Does the market agree? Watch what happens with the IPO.

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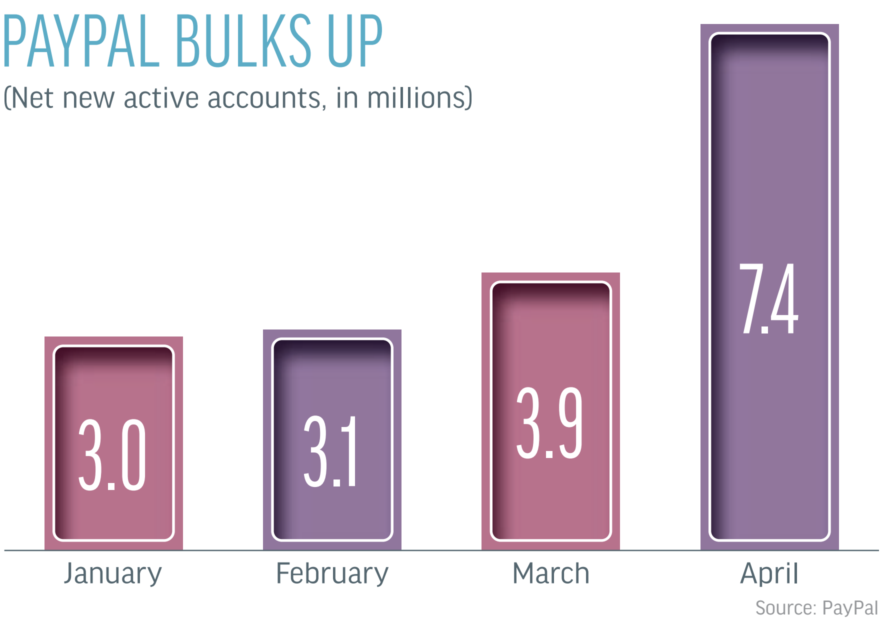
PAYPAL AND THE 'NEW NORMAL'

Observers have said before that the Covid-19 crisis is reshaping payments. Now executives at PayPal Holdings Inc. expect a growing shift to digital options to be permanent. "People don't want to touch cash. They don't want to touch screens. There's going to be a new normal," said PayPal chief executive Dan Schulman while answering equity analysts' questions last month.

Restrictions like shelter at home and social distancing have juiced activity online, a trend Schulman said really picked up steam in April and into early May. That's in large part because of increased adoption. The company added fully 7.4 million net new active accounts in April, about 140% more than were added just two months earlier and a 90% increase over March (chart).



"I would characterize April as our strongest month since our IPO," Schulman said, referring to a public offering for PayPal in 2015 that made the company independent of former parent eBay Inc.

On May 1, PayPal "had the largest single day of transactions in our history," Schulman said, without citing the number. One of its services is mobile peer-to-peer payments, a product PayPal has been refashioning to work in-store. Now, with consumers wary of touching keypads and other point-of-sale gear, Schulman said that shift will accelerate.

"I think we're hitting a tipping point where people are seeing how easy it is to use digital payments," Schulman said. Another factor that could augur a lasting trend is that merchants are approaching PayPal "talking about digital first, physical location second," he told the analysts. "We've never seen that."

In sum, Schulman estimated "online commerce has accelerated two to three years" as a result of the Covid-19 crisis. That growth, he added, will lay increasing emphasis on recent acquisitions like Honey Science Corp., provider of an online shopping assistant. PayPal laid out $4 billion for Honey last year.

Schulman was not alone in his enthusiasm for the opportunity the Covid-19 crisis has created for PayPal. "This is our moment," chief financial officer John Rainey said during the call with analysts. "We're not going to just sit back and let things happen to us."

Still, PayPal hasn't been entirely immune to weakness in the economy because of what Rainey called the "exogenous shock" of the Covid restrictions. The company's growth rate in total payment dollar volume slowed to 7% in March from double-digit rates in January and February, he said, as a result of slowdowns in travel spending and cross-border remittances. But that rate rebounded to an estimated 22% in April.

For the quarter, PayPal recorded total payment volume of $191 billion, up 18% year-over-year. Active accounts hit 325 million, including 25 million merchant accounts. That total is up 17% from a year ago. Revenue came to $4.62 billion, a 12% increase over last year's first quarter.

—John Stewart

A 'GLOBAL RESET' IN PAYMENTS

PayPal's Dan Schulman isn't the only payments exec expecting permanent change from the pandemic. Innovations will continue after the contagion eases, according to three other senior industry executives.

"The impacts of Covid-19 represent a true global reset of the entire market, not just our payments market," said Philip McHugh, chief executive of London-based merchant processor Paysafe Group. Paysafe has substantial operations abroad, including in the United States and Canada.

McHugh was one of three panelists for a session dubbed "Payments Innovation in the Time of Covid-19" at last month's Transact Connect, the Electronic Transactions Association's virtual conference.

Changes under way well before Covid-19 hit in late winter but which took on extra force include the mixing of point-of-sale and online payments as many retailers and restaurants embraced more online ordering and curbside pickup. "The lines between in-store and online solutions, or the famous omnichannel solution, were blurred; they're completely blurred now," said McHugh.

175 MILLION
Visa contactless cards in circulation as of May 2020

31 MILLION
Number of Americans who tapped a card or used a mobile device for payment in March

Source: Visa

U.S. adoption of contactless card payments had started before the novel coronavirus, which causes Covid-19, took hold, but now consumers, financial institutions, and merchants are much more open to contactless, according to another panelist, Dan Sanford, Visa Inc.'s head of North American debit and prepaid and global head of contactless payments.

"In the U.S. we already had fantastic adoption underway … the Covid situation is really accelerating the demand for contactless payments," he said.

Visa recently reported that 175 million Visa-branded contactless cards are now in circulation in the United States, making it Visa's single biggest contactless market, although the share of contactless POS payments pre-Covid-19 had been estimated to be in the low single digits.

That share seems likely to grow rapidly as coronavirus-wary consumers try to avoid using cash or touching payment terminals. According to Sanford, 31 million Americans tapped a card or used a mobile device for payment in March, nearly 50% higher than had done so six months earlier.

As part of its contactless initiative, Sanford said Visa is working with merchant acquirers and others to encourage smaller merchants to quit asking customers to sign card receipts for in-store sales. All four of the U.S.-based credit card networks made signatures optional for merchants in April 2018, with Visa the last to adopt the change. About 90 of the top 100 contactless-accepting merchants have now dropped signature requirements, according to Sanford.

Outside of the United States, nearly 60% of POS card payments are now contactless, according to Sanford. “The U.S. is quickly accelerating its adoption, and we are confident that the U.S. is going to become a mature contactless market like many other regions around the world,” he said.

Unfortunately, many merchants closed for months now by governmental measures to control the pandemic might not be around after it passes to benefit from the coming changes.

“We’re seeing signs of significant attrition in the acquiring space across small, medium, and even large businesses as they fail and as the impact of long shelter-in-place and stay-at-home orders hits hard,” said a third panelist, Colleen Taylor, executive vice president and head of merchant services at San Francisco-based Wells Fargo & Co., one of the nation’s largest acquirers.

Taylor didn’t give numbers, but said attrition’s impact will vary geographically and by how long the control measures are in place.

—Jim Daly

SQUARE’S BRIGHT SPOTS AMID COVID-19

Square Inc. reported last month its seller volume is down and its net loss more than doubled to $106 million in the first quarter. But Square’s Cash App service is thriving during the Covid-19 pandemic, and Square expects its merchant business will more than recover.

“We see significant opportunity to bring new sellers and individuals into our ecosystems and build and launch new products to serve them, both today and long-term,” Jack Dorsey, chief executive of the San Francisco-based provider of merchant processing and management software for businesses and digital services for consumers, said on the company’s quarterly earnings call with analysts. The consumer side is centered on Square’s Cash App person-to-person payment application.

Square’s new online checkout button—a product called Square Online Checkout—likely will get a boost in adoption from the company’s nearly 10-year history of providing payments technology for point-of-sale merchants. The new service enables Square merchants to place a buy button on Web sites and anywhere a link can be shared, such as in a text message, email, or on social media.

The service is compatible with credit and debit cards, Apple Pay, and Google Pay. Square says there are no fees other than its standard 2.9% plus 30-cents per transaction charge. Among its uses are accepting retail payments, collecting donations, or subscription payments. Consumers using the link enter their names, email addresses, and payment information.

First-quarter gross payment volume in Square’s portfolio of merchants, or sellers as Square calls them, grew 14% year-over-year to $25.7 billion. But Square’s volume fell precipitously in the second half of March as states’ stay-at-home orders and other measures to control the pandemic shut down businesses entirely or forced them to drastically curtail operations.

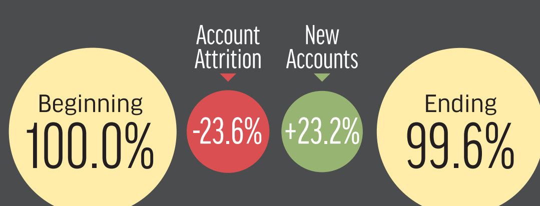
Seller GPV was down 39% for April, but it had been off as much as 45% in late March and early April, chief financial officer Amrita Ahuja said on the call. “We have seen improving growth rates since mid-April,” she said.

MONTHLY MERCHANT METRIC

Q1 2020 Account Attrition And Growth

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

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



Note: This is sourced from The Strawhecker Group’s merchant data warehouse of over 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.

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'We are seeing a lot of opportunity here, we are seeing sellers switch to Square from competitors because of the omni-channel ecosystem.'

—**JACK DORSEY**, CHIEF EXECUTIVE, SQUARE INC.

(Photo: Ryan Lash / TED)

Despite the recent rough going on the merchant side, Dorsey said Square managed to attract a number of new sellers from competitors because of its array of point-of-sale and online products. "We are seeing a lot of opportunity here, we are seeing sellers switch to Square from competitors because of the omni-channel ecosystem," he said.

Many of Square's sellers have embraced online ordering and related card-not-present channels because in-store shopping or dining has been banned in so many places. Ahuja said Square's card-not-present products generated about one-third of pre-Covid volume, but they accounted for "well over 50% of our GPV in April."

Meanwhile, Cash App, which besides enabling P2P payments offers related services that include a companion Visa debit card called Cash Card and deposit accounts provided through partner banks, enjoyed its best month ever in April. P2P volumes, Cash Card spending, and volumes for Square's Bitcoin trading and stock-brokerage services all hit records, according to Ahuja.

Square actively marketed Cash App to consumers looking to park their Covid-related stimulus payments from the federal government. That effort boosted the number of Cash App users with direct-deposit accounts from 3 million to 14 million in just four weeks, Dorsey said.

Cash App users with direct deposit generate revenues that are "multiples higher" than straight P2P users, according to Ahuja, because they use more Square products. Thus, Square will try to find ways to keep them once the stimulus payments have ceased. "We do believe direct deposit is a huge opportunity," Dorsey said.

—Jim Daly

STREAMLINING E-COMMERCE AS VOLUME BUILDS

With the world rushing to their phones, tablets, and PCs to buy what they need and want at a time when most physical stores are closed, the payment networks are maneuvering to smooth out online transactions. This includes chucking clunky checkouts and opening the way for transactions to go ahead when card credentials change.

Visa Inc., for example, said in May it has added 28 gateways, acquirers, and payment-service providers to its tokenization service, and 27 more to its one-click online buy button. The company has added more than 10,000 U.S. merchants so far to click-to-pay, as the service is called, since January. The service also claims 37 million active Visa users. "We're seeing a lot of momentum on the Visa click-to-pay side," says Alan Johnson, vice president of digital solutions for the network.

It's no mystery where that momentum is coming from. ACI Worldwide Inc. reported last month its volume of online retail transactions grew 24% over the four months from January through April compared to the same time in 2019, and were up 209% in April alone, as consumers were confined to their homes and apartments in reaction to the Covid-19 pandemic.

"Aside from the necessity for digital commerce in times when retail stores aren't available, consumers are finding that digital commerce is easy and convenient," says Thad Peterson, a senior analyst at Aite Group, a Boston-based consultancy.

Nor is this turn to e-commerce likely to fade as restrictions are lifted. "It's pretty clear that the dramatic increase in digital commerce and payment driven by the pandemic will remain for the foreseeable future," Peterson adds.

Click-to-pay is the new name for a common buy button Visa, Mastercard Inc., American Express Co., and Discover Network settled on last year. It's built on a standard called Secure Remote Commerce that comes from EMVCo, a standards body controlled by the big networks.

The idea behind the buy button is to simplify purchases online by mimicking the experience in-store of a single payment terminal that can accept cards from a variety of brands. The buy button not only simplifies transactions, it also lets the big networks compete more nimbly with players like PayPal Holdings Inc. and Amazon.com Inc., Peterson argues.

209% Online retailer transaction volume growth in April 2020, as compared to a year earlier

Source: ACI Worldwide Inc.

Among the twenty-plus processors now supporting click-to-pay, Visa said, are major names like Adyen NV, BlueSnap, and Moneris Solutions Corp. CyberSource, which Visa owns, is also supporting the service.

Visa figures that among the hordes of online shoppers are many who could become habitual users if given a quick and easy experience. "A lot of consumers may be shopping for the first time, and click-to-pay is easier," Johnson says.

He adds Visa has found that without SRC in place a consumer must negotiate an average of 23 fields to complete a purchase. "I've tried to sign up for curbside delivery and dropped out because it's so difficult," he says.

Visa's other move last month also plays a role in the effort to appeal to online consumers. The network has supported tokenization—which replaces actual card credentials with data that's meaningless if stolen—since 2014 with Visa Token Service, but the technology can also ease cases where credentials have been updated or a card has been replaced. This comes in handy in so-called card-on-file instances, where merchants can refer to credentials buyers have used in the past.

"Merchants can update credentials through API calls," Johnson says, referring to application programming interfaces that ease the transfer of data. "They can receive updates as they are made available from issuers."

Peterson says with the rise of e-commerce volumes lately, convenience for the user is as important as the security of the card details. "Providing VTS for card-not-present transactions provides an additional layer of security for the merchant without adding friction to the transaction so sales aren't impacted," he notes. DT

—John Stewart

A TALE OF TWO CENTRAL BANKS

BY GIDEON SAMID
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I HAVE HAD THE PRIVILEGE to present the vision of tethered digital money both to the Federal Reserve and to the Peoples' Bank of China, the PBOC. My business was good in both countries, but the response was vastly different.

In the United States, the financial leadership became exceedingly anxious and defensive about Bitcoin. They obsessed over the threat from digital money to bypass the central banks. Here comes a currency that is minted without a fixed mint, is traded without central oversight, and is passed anonymously across national borders. It was panic time. I was brought on to speak to bank examiners about the existential risk of Bitcoin and its many variants.

By contrast, in China there was no fear regarding unruly citizens trading en masse in digital currency contrary to government orders. So Chinese bankers looked deeper, beyond the decentralization of money.

Granted, the decentralized nature of Bitcoin is a fundamental aspect, but it does not work for the global economy. The fact that Bitcoin's value is floating unhinged to any commodity of value is also very fundamental, but not in a good way. The use of blockchain is indeed critical, but the blockchain-generated trust can be generated by other means. The key to the Bitcoin revolution lies in its ability to elevate a number into an entity, a value into an identity, a measure into a treasure.

Money was digital before Bitcoin but only as a number, with no identity value. One Bitcoin is distinguished from all other Bitcoins to the same degree that one dollar bill is distinguished from another dollar bill. In other words, while a Bitcoin is merely a string of bits, it is more than a number, it is an identity bearing a value. This is the widely underestimated revolution in the concept of money.

This notion of monetary cyber identity is why, arguably, digital money stands to become the biggest story of the first half of the 21st century. Bitcoin was not the first to identify this revolution (the BitMint patent claiming identity-bearing money was filed six months before Satoshi Nakamoto published his paper on Bitcoin), but Bitcoin is nonetheless intellectually fascinating. And for criminals, it is irresistible.

The PBOC realized that Bitcoin-like money in the sense of being tetherable is different from the prevailing money as a guided missile is different from a cannon ball. Both the missile and the tethered money can be guided by the originator after the payload is unleashed. Tethered money, as I argue in my book, *Tethered Money,* becomes a ground-breaking tool for social impact and political control.

Characteristically, the PBOC surveyed everything it could find in the West. That is how BitMint found itself invited to China, and eventually had its digital coin implemented by the Bank of Shanghai. While the Federal Reserve defended its legacy, the PBOC extended its legacy. China is now testing its digital coin, ready to offer frictionless, fine-tuned payment to nations and corporations.

The Internet lingered for almost two decades before America took the lead and ruled the world with the TCP/IP protocol. Had China been as awake then as it is today with digital money, the Internet, and the world, would have been quite different.

The ominous prospect of Nazi Germany building an atomic bomb triggered the Manhattan Project, where the goal was clearly stated before there was any sense of how to achieve it, or even of whether it was achievable. A digital-currency Manhattan Project is the call of the hour. America should be ready with a cyber financial framework to defend its global financial leadership. DT

POSTAL BANKING? YES, WITHIN LIMITS

BY BEN JACKSON

bjackson@ipa.org

THE U.S. POSTAL SERVICE has become an unlikely flashpoint in the Covid-19 pandemic, finding itself at the center of arguments over relief funds both for institutions and consumers as its revenues have dropped during shelter-in-place periods around the country.

The Post Office receives no taxpayer funds and has struggled financially since 2006, when Congress required it to prefund health-care and retirement benefits for all of its employees for 50 years. It reported a net loss of $4.5 billion for the quarter ending March 31, more than twice what it lost in the same quarter the year before.

Note that this was mostly before the pandemic and the subsequent drop in mailings. Officials have said the postal system could be insolvent before the end of 2020 without a bailout of its own. Advocates say the USPS should receive emergency funds, but the White House has opposed any support for it unless it raises prices.

One proposed solution is to allow the Post Office to offer banking services. The proponents of this idea say the service could earn revenue while bringing financial services to Americans whose need has been demonstrated by the pandemic.

About 8.4 million American households do not have bank accounts, meaning that they would need to receive paper checks for their relief payments. Paper checks have a number of problems, not the least of which is that cashing them would require breaking shelter-in-place and, potentially, social-distancing protocols.

In a New York Times OpEd published in late April, Sen. Kirsten Gillibrand, D-N.Y., said that allowing the Post Office to offer banking services could solve both problems. She had already introduced Senate Bill 2755, "The Postal Bank Act," in 2018. It called for the Postal Service to offer small-dollar loans of up to $500 at a time and deposit accounts that could not go over $20,000.

Gillibrand's bill also calls for transactional services in addition to basic accounts, including "debit cards, automated teller machines, online checking accounts, check-cashing services, automatic bill-pay, and mobile banking...."

Postal-banking supporters say by offering bank accounts and payment tools like debit cards, the problem of direct deposit and electronic payments for unbanked people would be solved. They point to similar programs in other countries, the fact that the USPS offered savings accounts from 1918 to 1966, and its network of 31,322 locations as proof that it could work.

Opponents say the Post Office should not compete with private banking and that there are private-sector options for delivering financial services to all communities. The USPS also has had its share of customer-service issues over the years that might make people avoid trusting it with their money.

On top of its existing issues, the Postal Service would face considerable expense in starting up new services, training its staff, and upgrading its infrastructure. And there is no guarantee that it would be able to price its financial services in a way that would make them profitable.

But between turning the Post Office into a bank and not allowing it to do anything lies a third way. The Post Office has provided some financial services over the years, including money orders, international remittances, and, more recently, gift cards. These products could be expanded and offered with partners.

For example, the Postal Service could sell general-purpose reloadable prepaid cards in addition to the gift cards it already offers and serve as a reload point for those cards. This would allow post offices to become doorways to the financial mainstream by adding on to existing services rather than by building new systems. DT

DAMAGE CONTROL

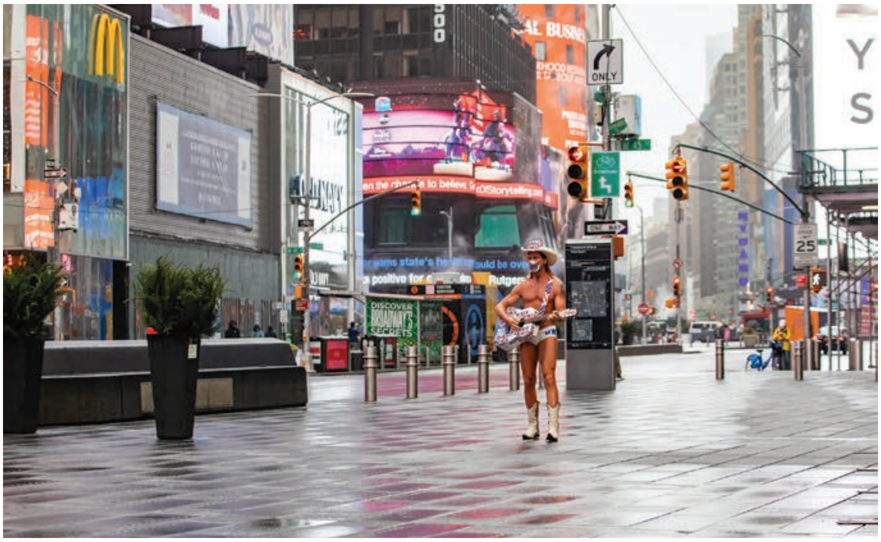
The Covid-19 pandemic threatens to send merchant acquirers' attrition rates through the roof. How bad is the damage, and how bad will it get?

BY **JIM DALY**

COVID-19 IS ON THE LOOSE, and behind it The Grim Reaper of Retail has come calling. Brick-and-mortar merchants already were struggling with the e-commerce onslaught, but now the Covid-19 pandemic has made their problems much worse—and merchant acquirers are feeling their pain.

Merchant-acquiring consultancy The Strawhecker Group estimates merchant-account attrition at 23.6% for 2020's first quarter ("Trends and Tactics," page 8), one percentage point higher than in 2019's fourth quarter.

Covid-19, however, didn't really start biting the economy until mid-March. Now some acquiring veterans say attrition could jump towards 30%, though others say they haven't yet seen a spike in attrition.



The retailing and restaurant industries, however, are full of dire predictions that many establishments shuttered by stay-at-home orders and related measures to control Covid-19's spread won't last much longer if they can't reopen soon and get cash flowing again.

Reopenings are beginning to happen, cautiously, in the majority of states, but it's unclear if struggling businesses can outlast the expected months—perhaps many months—it will take for the economy to recover its former mojo.

'SIGNIFICANT ATTRITION'

"We're seeing signs of significant attrition in the acquiring space across small, medium, and even large businesses as they fail and as the impact of long shelter-in-place and stay-at-home orders hits hard," said Colleen Taylor, executive vice president and head of merchant services at San Francisco-based Wells Fargo & Co., one of the nation's largest acquirers.

Taylor spoke at a virtual conference in mid-May sponsored by the Electronic Transactions Association, a Washington, D.C.-based payments trade group. She did not give numbers.

The travails of department stores, airlines and hotels, and small and mid-size retailers and restaurants—

the core customers of independent sales organizations and many other acquirers—have been well documented. In April, the investment bank UBS estimated that up to 20% of the nation's restaurants could close for good because of the pandemic.

Citing Covid-19, one big chain, Steak n Shake, permanently closed 57 locations, and Potbelly said it might have to close 100 of its sandwich shops.

'THE REAR-VIEW MIRROR'

Clearly, merchant acquirers have sailed into the attrition danger zone. The big question is, how bad will it get?

The Strawhecker Group gets anonymized data from 33 acquirers on nearly 4 million small and mid-size merchants to generate reports about attrition and other industry trends. Josh Istas, director of Omaha, Neb.-based TSG's Acquiring Industry Metrics service, says February-to-March attrition levels rose 40% this year from the same period in 2019. March, of course, was when many state restrictions on business activity took effect.

But attrition can be hard to pin down because of its ever-changing nature. "The tricky part with attrition is, we're always looking in the rear-view mirror," says Istas.

Attrition, of course, is a normal occurrence in the acquiring industry. Processors do their best to minimize it because finding and approving new merchants is costly, and it can take time before a new merchant account becomes profitable.

Competition is a big driver of attrition as merchants often jump ship for another payment provider that offers lower discount rates and fees, a better terminal, or a more extensive menu of business-management software.

Then there are the inevitable business failures, even in the best of times. Acquirers also close some accounts because of fraud or rules violations, and sometimes a merchant will just go dark—cease submitting credit and debit card transactions without canceling the merchant account—and then resume after a period of time.

Some payments executives say the industry's usual white-hot competition has cooled off a bit as acquirers turn their attention to helping their struggling existing merchants in any way they can. That means the business-failure component of attrition is taking on greater importance, which has acquirers closely monitoring the tea leaves.

Bluesnap 'didn't have the verticals that really got crushed by Covid.'

—RALPH DANGELMAIER, CHIEF EXECUTIVE, BLUESNAP INC.

Kevin Jones, chief executive of Nashville, Tenn.-based Celero Commerce, an ISO and business-management technology provider with 28,000 merchants generating $9 billion in annualized pre-Covid payment volume, shares data with six payments CEOs who collectively monitor industry trends. Some 25% to 38% of these executives' merchants were closed as of late April, figures he says conform with reports from other firms that monitor the industry.

"That just brings up the question of how many will reopen. We personally estimate about half of that reopening," Jones says. In other words, up to one-fifth of merchants could become permanent casualties of Covid-19.

At Celero, Jones is bracing for attrition of merchant accounts to possibly hit 30% compared to the company's usual 17%-18% range. But Jones expects volume attrition of only 10%. That's a sure sign the smallest merchants generating the least payment volume are experiencing the highest rates of failure.

And that's especially sad for fans of local color—the retailers, family-run restaurants, bars, music and entertainment venues, and other establishments that distinguish one city or small town from another. "They're the fun places to go—the local brewery, the local shop," Jones says.

DECEPTIVELY LOW

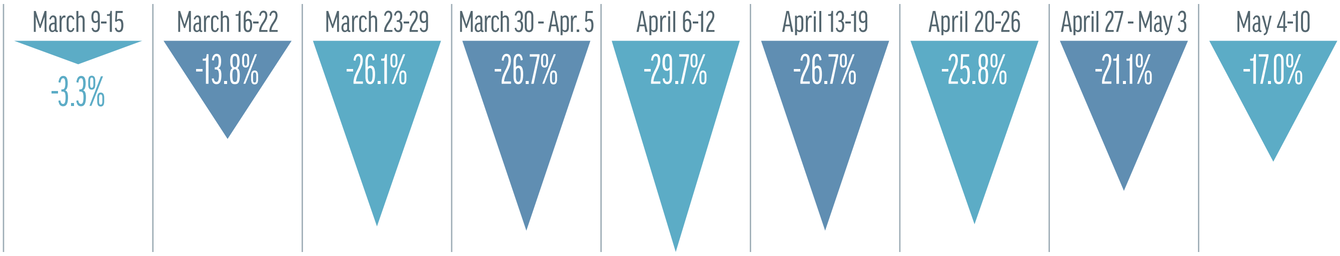
Other executives say attrition so far is still within normal ranges, but they're keeping a close eye on trends.

Robert O. Carr, CEO of Beyond, a Princeton, N.J.-based ISO and provider of other payment services, says that, as of early May, fewer than 50 merchants had called in since mid-March to terminate processing, the majority of them restaurants. But that number is deceptively low.

"Even if we said every client that hasn't processed in April or May was to attrite, that would be 13% attrition," Carr tells *Digital Transactions* by email. "We consider this to be an

A MERCHANT REVIVAL?

(Change in number of active SwipeSimple merchants from the March 2-8 baseline week)



Note: Based on transactions processed by merchants using CardFlight's SwipeSimple service.

Source: CardFlight Inc.

unexpectedly low rate considering the magnitude of this event."

Beyond serves 12,000 merchant locations with a pre-Covid run rate of $8 billion. It's heaviest concentration is in restaurants, according to Carr.

CardFlight Inc, a point-of-sale technology provider that distributes its SwipeSimple product through 80 acquirers and ISOs, monitors industry trends from data generated by its 60,000-plus merchants. The New York City-based firm reported in early May that attrition rates caused by business failures so far were not abnormal. "Account closures on SwipeSimple as of today have not exceeded historical norms," says CardFlight founder and CEO Derek Webster.

The hard-hit restaurant industry has proven to be "resilient, creative, and tenacious" by offering more order-ahead, curbside pick-up, and delivery options than it did before the pandemic, Webster says. "The bottom fell out really quickly with restaurants, but the market found its footing."

LAZARUS EFFECT

Indeed, industry optimists are earnestly hoping for a Lazarus effect—the resumption of payment processing from merchants that had shuttered because of the stay-at-home orders and related restrictions (chart).

Atlanta-based acquirer EVO Payments Inc., which has a considerable U.S. presence even though most of its merchants are in Europe, said on its first-quarter earnings call that its active-merchant count declined by about 35% after Covid-19 hit, but many such businesses plan to reopen.

"We weren't getting huge amounts of closure requests," Brendan F. Tansill, president of EVO's Americas segment, said on the May 8 call. "We were experiencing attrition levels that weren't particularly elevated vis a vis other periods in our history. What we were hearing in many instances was those merchants were temporarily dormant and their expectation was to remain open."

Tansill attributed much of the resumption to the federal government's Paycheck Protection Program (PPP), a loan program aimed at keeping employees of struggling small businesses on the payroll.

Processors in the e-commerce space, which has boomed with malls and Main Street mostly closed, have fared better than their brethren with greater brick-and-mortar exposure.

"We didn't have the verticals that really got crushed by Covid," says Ralph Dangelmaier, chief executive of BlueSnap Inc., a Waltham, Mass.-based online processor and gateway. "We've had no attrition so far."

But Dangelmaier would not be surprised if BlueSnap, which uses a software-as-a-service distribution model, gets grazed by the attrition bullet. That's because the customers of BlueSnap's customers are experiencing attrition.

"That's what I see happening—because there's less people working, there's less [software] licensing to be had," says Dangelmaier.

HELPING MERCHANTS

With the economy likely to remain in recession if not outright depression for months if not into 2021, acquirers say they are doing everything they can to help their merchants stay in business.

Tactics include fee waivers, aid in obtaining PPP loans, enhanced risk management to prevent losses, and the rollout of gift card programs to juice sales.

"The goal is really to keep the merchants in your portfolio really afloat, keep the relationship until the market comes back and we see the upswing," says The Strawhecker Group's Istas. "From an attrition standpoint, it's too early to tell when that will be." DT

THE ABCs OF APIs

This special code has made possible everything from mobile payments to open banking. Now, get ready for the next stage in the evolution of this remarkable technology.

BY **MARIA ARMINIO** AND **BO BERG**

IT SEEMS LIKE IT WAS JUST YESTERDAY that a group of technology experts from the major California banks were sitting around a table discussing ways to share ATMs. A process-flow diagram of a payment gateway emerged. The description in the box labeled debit gateway read "Magic Happens Here."

Fast forward almost four decades. Application processing interfaces (APIs) have those same mystical powers.

Simply put, APIs are a set of protocols and codes that determine how different software components can communicate. The original source code for these communication protocols was written years ago by programmers who have long since retired. To facilitate new communication among disparate databases of information, this old Cobol language needs to be wrapped into a newer language (C, C+, or C Sharp) so that the data can be converted to an application.

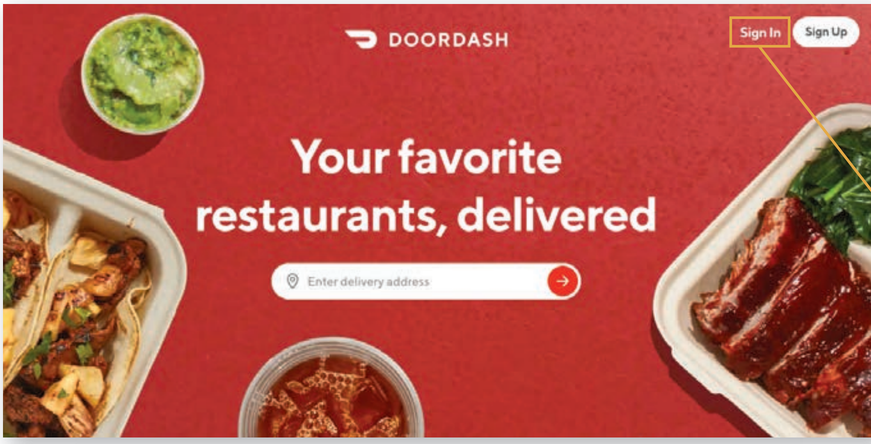
These applications have been the heartbeat for product innovation and new business solutions in the financial services industry.

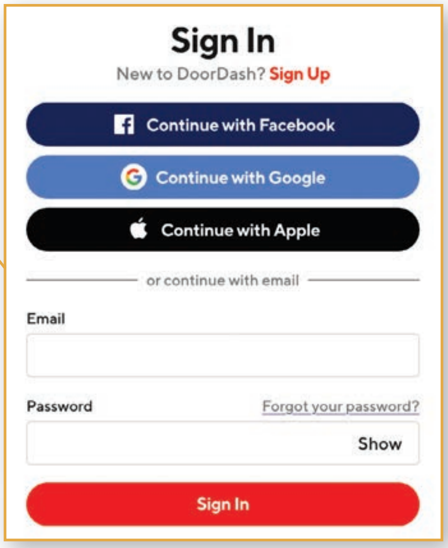
For example, open banking has ushered in a new era of cooperation and data sharing among banks and third parties. API integration facilitates an open banking strategy, which uses open APIs to access information from financial institutions for financial data exchange.

Open banking uses "translators" to address the multiplicity of communication protocols. These translators are needed to normalize transactions for processing purposes and to enable access to data from multiple sources. API translation protocols are built into the application to make this work.

Think of APIs as an integration tool that describes how to communicate with a program to access information from it. In this way, APIs enable two applications to exchange data (push or pull) among themselves and allow the capabilities of one computer program to be used by another.

APIs facilitate integration to banking platforms and/or applications





Web sites where users are able to sign in with third-party credentials foster enhanced security and ease of access for the end user.

and can also build features and functions into proprietary applications. APIs make the integration process easier, and in this way foster a better user experience.

From a payments perspective, open banking enables consumers to pay for goods and services. It makes it easier for them to access information about new products and services and perform routine customer service functions like viewing recent purchases. APIs support the development of these new applications and services.

Payment APIs have made a monumental impact on the e-commerce business, enabling online payment platforms to process card transactions, accept payments from digital wallets, track orders, and maintain user accounts. Operational functions enabled by payment APIs include:

- Transmitting and receiving payloads
- Processing transactions
- Requesting and sending money
- Retrieving account information and balances
- Managing customer / account information
- Sending invoices / accepting payments
- Sending receipt data
- Managing subscriptions

Following are some of the latest developments for APIs in the payment industry.

Core Banking

The introduction of fintech solutions has transformed the banking ecosystem, and APIs are at the epicenter of this transformation. The customer's account of record resides in the core banking platform. APIs provide that platform with access to disparate systems, applications, and libraries.

The next generation of core systems will be designed to separate channels and customer data management from the transaction, settlement, and accounting functions. These modifications will be facilitated using APIs and incorporating a middle layer for control, management and security.

APIs provide access to payment data, thereby supporting a new level of research and data analytics. Financial institutions can now take user data and use business artificial intelligence to examine patterns and spending classifications, thereby creating more innovative and targeted products and services for their customers.

Merchant Mobile Apps

In the mobile channel, APIs have profoundly changed the functionality and speed by which users can get access to data and make purchases. Merchants are actively promoting merchant-specific mobile wallets, enticing customers with rewards, discounts, and promotions.

APIs allow merchants to build capabilities right into the wallet so that they can track when, where, and what customers are buying and support a myriad of payment options. Browser-based APIs access device components, such as storage, audio, and camera, used in performing those transactions.

Location services can be facilitated right on the device by calling the API on the phone's GPS receiver. Mapping functions can be built right into the merchant's proprietary maps using Google's API for Google Maps.

Social Media

All of us have been on Web sites where you are asked if you want to log in with your Facebook or Google credentials. This is a perfect example of the use of APIs in social media.

OAUTHv2.0 is an open standard authorization protocol that provides customers with access to their data on Web sites and in social media applications without having to use their login credentials. It is the standard for secure access to APIs.

OAUthv2.0 manages shared content in social media and financial interactions; it works in concert with OpenID Connect, an authentication protocol that enables apps to verify the user's identity and generate information about them. In this case, APIs foster enhanced security and ease of access for the end user.

THE NEXT EVOLUTION

The major trends for APIs center on cloud-based services, security enhancements, business processes, and increased standardization.

Availability of APIs-as-a-Service

APIs-as-a-Service provides users with access to third-party applications and the ability to develop, test, and manage custom applications. API services support interfaces that provide a set of rules to access or interact with functions stored in a system or database.

These API services enable data retrieval from those sources or the ability to alter the data therein without knowing the database system or its rules of interaction.

Users have access to API documents that help them to generate APIs with a level of consistency and standardization. APIs-as-a-Service makes all of these services available to smaller companies at an affordable price.

Building More Security into APIs

One of the biggest industry challenges is that open APIs are relying on the security of APIs as provided by the third parties that built them. The industry is doing more to support best practices security measures for APIs, employing the latest encryption, SSL, key management, DLP, tokenization, and schema validation.

APIs support user authentication for both identity and access management in the customer onboarding process. APIs can help secure all of these layers.

The use of APIs should be policy-based, with guidelines specifying which users can get access to information and what can they do with the information. Establishing rules about the transactions performed (e.g., country of origin, transaction amount limits, etc.) can also help to mitigate risk.

Tight integration of cloud and on-premises applications will enable APIs to be shared safely. The application layer must deal with a wide range of protocols used in application requests. Parameters need to be built around these protocols to ensure security between and among the third parties.

Build Business Processes into APIs

Perhaps the biggest anticipated change is the movement to build business processes into APIs. Say, for example, your bank wanted to support a device registration process as part of the mobile app onboarding. APIs could be used to validate username and password or to send a text-based notification to the customer if the device needed to be registered. These same APIs can be used by the bank to create an enterprise service that can be used and reused across multiple channels, for example, ATMs, point-of-purchase, web, etc.

To make this work, banks will need to build rules and policies based on their lines of business and channel access requirements. The business rules need to specify the functions supported (get a balance, move funds, and so on) for each unique business line.

There may also be channel distinctions for these functions. For example, banks may want to provide lower dollar limits on money movement from mobile phones compared to that available from a customer service agent.

Efforts to Develop a Common Standard

A common language for APIs is needed so that individual applications can interact with multiple systems without having to change API usage language for every different source of data and application. Every system uses the same operations. Differences among services are the types of operations performed and the data sent and received. A single API language is necessary so that, if an application decides to employ a different service, changes to the application code are minimal.

The development of a common language for APIs presents a different challenge in the United States because there is no government mandate for standardization. Organizations are moving to create a common standard for APIs in four major areas: core banking, web, consumer, and back-end.

Good headway has been made in building business processes in these areas, but there are no common standards for some basic banking functions, like getting a balance. Moreover, there is no superset or industry standards group that is overseeing standardization of APIs. Perhaps over time, APIs will follow ISO guidelines.

Some companies will be building common standard APIs for sharing on their own. A case in point: The Clearing House released a template called the Model Data Access Agreement, designed to help banks connect to fintechs via the financial-data exchange (FDX) API, thereby establishing a common, secure protocol between the parties.

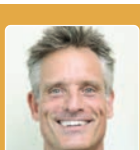
The agreement focuses on data security and control through standardized contractual agreements between parties sharing data. That's a start. In the meantime, there are tremendous opportunities for commercial entities to build out these standards. Let's see if they rise to the occasion.

OPPORTUNITIES ABOUND

APIs sit at the forefront of digital transformation. There is a huge appetite for the API business as companies move to take advantage of rapid product time-to-market and revenue growth opportunities.

We expect that companies will begin to build separate business units or even consortiums around API development of proprietary apps and apps that interface to third parties. Lots of new applications will emerge.

There will be a heavy emphasis on operational components, like onboarding for card customers and OFAC checks for wire services that will enable banks and other stakeholders to expand their footprint and connect in the cloud. DT

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COOKING UP A COMEBACK

Restaurants and point-of-sale providers alike are scrambling to stage a fast recovery from an induced coronavirus coma. Success will depend on technologies like contactless payments and online ordering.

BY PETER LUCAS

AMERICANS LOVE DINING OUT. In 2020, restaurant industry sales were originally projected to grow for the 11th consecutive year, reaching a record $899 billion, up 4% from 2019, according to the National Restaurant Association.

Those projections went out the window early this spring when states began ordering restaurants to close their doors to on-premise dining in an effort to help stunt the spread of the novel coronavirus.

Months after the first orders to halt in-restaurant dining went into effect, restaurants that remained open have limped along by offering curbside pickup and delivery. Those options reportedly generate anywhere from 20% to 30% of a restaurant's normal revenues, clearly not enough sustain business long-term.

That's a problem not only for eateries but also for merchant acquirers and payment-solution providers, as restaurants are a highly lucrative market for them. The majority of all restaurant sales are paid for with credit or debit cards.

In addition, restaurants typically have different and more specialized payment-technology needs than those of storefront merchants. These needs include POS systems that integrate with the kitchen, as well as reservation, seating, and back-office applications.

To help ease the economic pain restaurants still in operation are feeling in the face of government-imposed restrictions, some payment-technology providers have rushed systems to market that enable restaurants to accept online orders. In some cases, these systems also help restaurants avoid paying card-not-present fees for curbside pickup and delivery orders placed by phone.

Other providers have developed financial-relief programs for their restaurant clients while temporarily waiving licensing fees.

ISLAND OF SAFETY

But those are short-term solutions. Long-term, payments experts foresee restaurants needing point-of-sale solutions that help create what the restaurant industry refers to as a contactless environment. That means reduced contact between the wait staff and customers, including much less handling by staff of credit and debit cards.

Indeed, a contactless environment for payments is considered table stakes for restaurants going forward, restaurant experts say. This is particularly crucial

'Restaurants are always looking for technology to help them manage their business more efficiently.'

—**TOBY MALBEC**, MANAGING DIRECTOR FOR CONSTRATA TECHNOLOGY CONSULTING

given ongoing concerns among health officials and consumers about a resurgence of the coronavirus as the economy emerges from state-imposed lockdown orders.

"Restaurants are always looking for technology to help them manage their business more efficiently, and as the industry moves toward contactless environments, POS technology will be one of the legs of that stool," says Toby Malbec, managing director for ConStrata Technology Consulting, which has clients in the foodservice, hospitality, and retail sectors.

POS technologies that can reduce the handling of cards include mobile payments, pay-at-the-table options, online ordering and delivery, and text-to-pay applications.

But moving to contactless-payment acceptance isn't enough. Despite the array of payment options that reduce contact between staff and customer, consumers will require visual proof that options like portable and tableside POS terminals have been cleaned and sanitized before they use them.

"Consumer standards for cleanliness and sanitization are going to be much higher going forward," says Jack Baum, chief executive of Ziosk, which makes a tabletop ordering tablet for casual-dining restaurants that includes an encrypted card reader. "Consumers are going to want to see that POS terminals, tables, [and so on] are openly being sanitized."

Ziosk, whose technology is used by such chains as Chili's, Olive Garden, and Red Robin, also includes a post-dining survey with questions on cleanliness. Restaurants can use the feedback to determine whether consumers see their business as an island of health safety, Baum adds.

In addition to myriad new POS technologies that can reduce contact, there are opportunities for tech providers to offer peripheral non-payment applications, such as electronic menus and loyalty programs. The latter is something restaurants in normal times have typically shunned because of the cost of offering rewards in the face of the industry's low margins, which average about 4%.

LESS TOUCHING

Adding mobile payments to the mix is one of the easiest ways for restaurants to eliminate the need for consumers to pass their cards back and forth at the table or at a cash register. But a tipping function needs to be included to make this option more practical for restaurants, and this is a feature mobile payments currently do not support, says Jarrod DellaChiesa, president of DellaChiesa Hospitality LLC and a technology consultant for Synergy Restaurant Consultants.

"Mobile payments are going to need to evolve so they can be integrated into restaurant POS systems," DellaChiesa says. "POS vendors are going to have to come up with those tools."

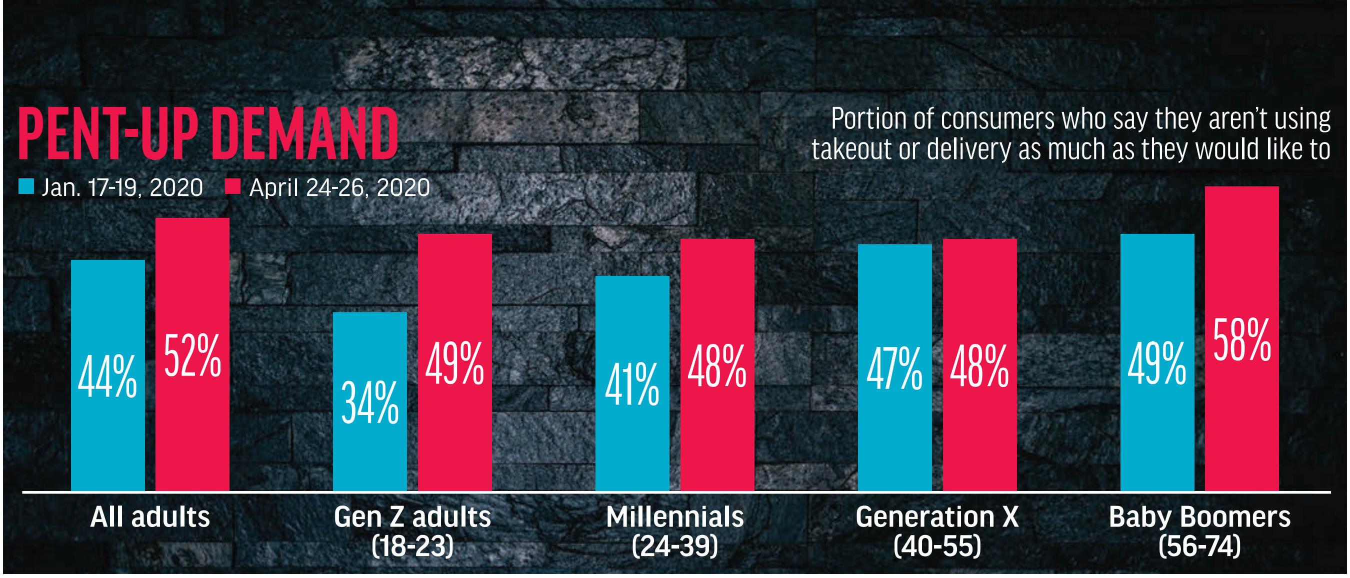
An alternative to mobile payments is text-to-pay, which allows a restaurant to send a consumer a text message containing a virtual invoice with a link embedded in it. After clicking on the link, the consumer sees the bill along with a button, which, when clicked on, initiates payment through a virtual POS terminal. The consumer then enters his card number and CVV code.

"This is a solution that can make the consumer feel more in control of his card when paying," says Lyndsey Lang, chief strategy officer for FattMerchant Inc. a payment-technology provider and processor that is exploring the technology.

Handheld POS terminals are another option to eliminate the passing back and forth of cards between servers and customers. When the bill is presented, wait staff can leave the terminal at the table and allow the customer to pay when ready. The customer can add the tip, print a receipt and go.

Restaurants can address the cleanliness issue by requiring wait staff to wear gloves and wipe down the terminal in front of the customer before putting it on the table.

One advantage to a pay-at-the table solution is that it streamlines the payment process, freeing servers to tend to other customers. "About 20% of a server's time is spent on payment," says Gordie Gardiner, CEO of TableSafe Inc., a provider of a pay-at-table tablet. As a result,



Note: Online surveys of 1,000 adults conducted over the time periods indicated. Source: National Restaurant Association

he adds, "The traditional way of paying in restaurants is inefficient and slows table turnover."

Increasing turnover speed will be important to restaurants as they reopen, since many states are expected to limit capacity, at least at first, for health reasons. Faster table turn can help restaurants seat more customers during operating hours, even with state-imposed capacity limits, Gardiner says. TableSafe says its solution speeds table turnover by six to 10 minutes.

Meanwhile, handheld terminals present a way for restaurants continuing curbside pickup to collect payment at a card-present rate on phone orders. That's important, especially for restaurants currently surviving on pickup and delivery, because the difference between a card-not-present and card-present rate is being felt more than ever, says Leslie Truelove, chief marketing officer for Ziosk.

ONLINE IS CRUCIAL

While POS systems that reduce contact between staff and customers at the table are expected to become common in restaurants, payment experts also expect restaurants will want to bundle online ordering with one or more of these technologies.

The reason, payments experts say, is that restaurants that have stayed open during the pandemic offering delivery and curbside pickup won't see that portion of their business completely revert to the dining room once on-premise service resumes.

Indeed, survey data from the National Restaurant Association indicates consumers across all age groups are primed for takeout and delivery in the wake of the coronavirus shut-downs (chart).

"Online ordering was coming prior to the pandemic and it will not go away once restaurants begin to reopen, because a lot of consumers new to the experience have gotten used to it," says Chris Lybeer, chief strategy officer for Revel Systems Inc., which makes an iPad-based POS system that includes an online-ordering application.

In fact, adds Lybeer, "I can't see restaurants operating in 2021 without an online-ordering channel."

To help restaurants that don't use its POS platform but want to offer online ordering, Revel decoupled the application and began offering it separately. "It's compatible with older POS systems, which a lot of restaurants have," Lybeer says.

Since the pandemic began sweeping across the United States earlier this year, Revel says it has had requests from more than 1,000 existing and new customers about implementing its online-ordering module.

That compatibility means restaurants don't have to scrap their legacy POS system to add online ordering. But Revel has also earmarked a portion of its monthly merchant fees for a fund to help restaurant clients that have been hit the hardest financially during the pandemic.

PATHWAY TO DELIVERY

Online ordering also provides restaurants with a pathway to delivery, as current and laid-off staff can be put to work as delivery drivers.

Third-party delivery services, such as Grubhub and Uber Eats, have come under fire during the pandemic for their fee structure. Delivery services typically charge a percentage of the total ticket. In some cases, charges can be as high as 30%, which significantly erodes a restaurant's margins.

'The traditional way of paying in restaurants is inefficient and slows table turnover.'

—GORDIE GARDINER, CEO OF TABLESAFE INC.

"Getting hit with high delivery fees is not a sustainable business model for restaurants," says Alex Barrotti, CEO and founder of TouchBistro Inc., a software developer for iPad POS systems in restaurants. By contrast, "restaurants that can offer their own delivery service don't have to pay a commission on the sale," he says.

Besides the high fees charged by third-party delivery services, Barrotti points out that the customer relationship is owned by the delivery service, not the restaurant, which can negatively affect customer loyalty.

In April, TouchBistro launched an online-ordering application for takeout and delivery orders. Development time was fast: the company had it in market in three weeks. During its first few weeks of use, restaurants received $500,000 in orders, the company says. The application is free to all TouchBistro customers for one year.

In addition, TouchBistro launched another application to help restaurants stimulate cash flow: branded gift cards. The app enables restaurants to create their own cards using customized designs and templates. It's also integrated with the restaurant's POS system. Licensing fees are being waived for the first three months.

One way to enhance online ordering is to allow customers to schedule in advance when they want to pick up their meal. Upserve Inc., a provider of restaurant-management software, includes a scheduling module in its online-ordering application. The scheduler can also be used to accept reservations online.

With online scheduling, restaurants can receive orders throughout the day, which is a convenience for consumers that can help build loyalty, says Adoniram Sides, head of product for Upserve.

Aside from developing new POS technologies, opportunities exist for POS providers to develop peripheral applications that can increase customer loyalty.

Much of the customer data gathered from online-ordering systems can be used to create a customer profile that can be become the basis for a loyalty program that could, as an example, display the customer's favorite dishes for faster ordering, says DellaChiesa. Plus, customers that opt-in to the loyalty program can be asked to provide their email address or mobile number to enable email and text-marketing messages.

Another peripheral application opportunity lies with in-restaurant digital menus that customers can access by scanning a QR code. Digital menus can make consumers who are wary of handling printed menus feel safer when restaurants reopen, payments experts say.

CASH OUT

Despite the opportunities for restaurants to embrace technology that can help create a contactless environment, what remains unclear is what percentage of restaurants will survive as the pandemic recedes.

The National Restaurant Association predicts the casualty rate will be about 20%. While fewer restaurants is bad news for acquirers and POS tech providers, the good news is that cards and digital payments are expected to cannibalize a good portion of restaurants' and bars' cash sales.

"People are a bit fearful of handling cash now because of its potential to harbor germs and viruses," says Nick Starai, chief strategy officer for payment gateway NMI. "I don't see cash sales going away completely in restaurants, but there is an opportunity to grow card volume at its expense."

To leverage that opportunity, however, POS providers will need raise their game when it comes to customer service and ease of installation for new technologies. Many restaurants have horror stories to tell about how implementing a new POS system or application was more complicated and time-consuming than they were led to believe, according to payment experts.

"The goal is to make it as easy as possible for restaurants to adopt new digital payment technologies," says Revel's Lybeer. "When a restaurant says it wants Apple Pay, they need to hear they can be up and running with it quickly and easily. The bumpier the road to adding new payment technology, the more likely restaurants are to stand pat." DT

PUTTING IT ALL TOGETHER

One of the great lessons for merchants coming through the Covid-19 experience is that one sales channel is not enough.

BY KEVIN WOODWARD

AS THE IMPACT of the shelter-in-place rules and the closing of non-essential businesses rippled through the economy, one payments technology began to grow in importance: integrated payments. And it took on new meaning for many businesses that, prior to the countermeasures, only sold through one channel.

Even businesses already selling across channels adapted. Best Buy, for example, shifted to online and curbside pickup. Consumers placed their orders online and designated a Best Buy location for pickup. Businesses of much smaller size, such as restaurants, added online ordering and payment capabilities (page 22). It was that or have no sales at all in some situations.

Integrated payments make this cross-channel payment capability easier, and in the unprecedented times businesses and consumers have coped with this spring, lend further importance to the payment technology.

It's the technology that is helping Alpharetta, Ga.-based Priority Technology Holdings Inc. replace revenue that had come from a scaled-back merchant segment. In its most recent quarterly results, released in May, revenue in its Integrated Partners segment ballooned 129% to $4.53 million.

And last year's merger of Global Payments Inc. and Total System Services Inc. (TSYS)—one of the big three payments mergers in 2019—was viewed as boosting Global's integrated-payments play.

Its partner software business, now called Global Payments Integrated, launched 30 new partners in the first few months of 2020, Jeff Sloan, Global's chief executive, told analysts in May on an earnings call. This business, Sloan says, has recorded new wins, strong same-store sales, and low attrition rates.

'A DISTINCTIVE EDGE'

It's that combination—the ability to attract and keep merchants and enable them to sell more—that makes the integrated-payments model so attractive.

"We are not seeing a slowdown. If anything, we have seen an uptick in discussions about integrated payments," says Jared Drieling, senior director of consulting and market intelligence at The Strawhecker Group, an Omaha, Neb.-based payments consultancy.

That's in part because merchants need flexibility in their ability to accept payments in multiple channels. That need has been accentuated during the Covid-19 response.

"Payments providers providing these viable options through their partners clearly have a distinctive edge," Drieling says. "We will see more and more integrated-payments partnerships."

Merchants, too, may be realizing the value of integrated payments. "The greatest lesson with Covid-19 is that a merchant cannot limit their sales to one channel," says Krista Tedder, director of payments at Javelin Strategy & Research, a Pleasanton, Calif.-based research firm.

Experts point to a distinction between ominichannel and multichannel payments. "Having one specific channel of delivery creates a single point of failure for revenue loss," Tedder says. "Being omnichannel is also a mistake. Yes, having mobile, online, and brick and mortar are important–and each merchant needs these channels."

"However multichannel takes it a step further," she continues. "each channel needs to be integrated to [the others] and know the consumer regardless of the access point. Technology and card-scheme rules need to catch up to the multichannel consumer experience."

One example of where the payments business is trailing the technology and the experiences merchants and consumers expect lies in click-and-collect, Tedder says.

With multichannel payments, each channel knows the customer regardless of the access point.

"A consumer can order a product via mobile app and pick up curbside. However although goods were picked up in person, and if returned [that] would be in person, the transaction is considered e-commerce with different network rules and fees than an in-person transaction," she says. "Ordering ahead should not be considered the purchase–the pickup should be the payment channel of in-person. Added security measures also need to be put in place to mitigate the high fraud risk with this purchase type."

That issue highlights the value of knowing the merchant's industry. "Clearly, the vertically focused independent software vendors are much more educated around the needs for that particular ISV," Drieling says. Payment providers taking on ISV partners was a trend prior to the Covid-19 restrictions, but now they will boost their efforts to identify potential ISVs, he says.

THE LEADING STRATEGY

Another lesson for merchant-service providers is that many merchants may need more education about payment-acceptance costs, Tedder says.

"The card networks charge interchange based on the transaction and merchant type," she says. "Debit, credit, and prepaid transactions have different interchange rates. Premium card products like rewards and the Apple Card have higher interchange rates, making acceptance of digital cards more expensive for merchants. Merchants who have typically been brick-and-mortar but are now taking online, email, and phone payments might not be aware of the differences."

As the effects of the Covid-19 pandemic increase the need for integrated payments, more ISVs are realizing the value they bring to payments companies, Drieling says. Payment revenue for some ISVs in payments partnerships may overtake their software sales, Drieling says.

"They are becoming much more aware of what they have to offer," he notes, and this is leading them to ask for an increased share. This is especially true among those in specialized verticals, he adds.

Many may be able to take that position because they can demonstrate demand for their software. "Merchants will be actively seeking software solutions which can lower operating costs, accept and streamline payments, reduce interchange through stored-value wallets, and security solutions," Tedder says.

"The business models which will require redirection of capabilities will be stores that have not had an online or mobile presence, online stores with limited payment options, and companies who need to create stored-value/closed-loop payment options to reduce increased interchange expenses," she continues.

'With fewer people shopping in physical stores … merchants need payment options which are secure and fast.'

–KRISTA TEDDER, DIRECTOR OF PAYMENTS, JAVELIN STRATEGY & RESEARCH

Tedder says the integrated-payments model is now the leading strategy for acquirers to improve sales opportunities and reduce cart-abandonment rates. It's critical when implementing this strategy, she adds, that the consumer experience work toward these goals.

That could mean incorporating payment methods designed for less friction, such as those using the EMVCo Secure Remote Commerce standard for e-commerce or a digital wallet like Amazon Pay, Google Pay, or Venmo, she says.

'SECURE AND FAST'

Experts stress ease of integration for merchants already struggling with the impact of the pandemic. This means application programming interfaces take center stage (page 16).

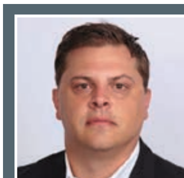
"The usage of [API code] for connectivity and integration into existing systems is key," Tedder says. "Currently merchants cannot afford to upgrade key systems but need to provide added-value applications–micro service–to their merchants. By using an integrated-payments approach, merchants can quickly add services to deliver value."

Indeed, some 87% of software developers surveyed by payments provider Paysafe last fall believed the number of payment options they offer has a direct impact on the volume of business they do. Then, 88% said upgrading their payment facilities was a priority and 86% said their customers looked to them to lead in offering new payment methods.

Having more payments options has proven essential during the Covid-19 reaction. Contactless payments gained wider adoption because many consumers wanted to reduce their need to touch a point-of-sale terminal.

"With fewer people shopping in physical stores, or the need for physical distancing and only allowing a few people in a store at a time, merchants need payment options which are secure and fast," Tedder says. "Contactless payments–both card and digital wallets–can deliver this type of experience."

She adds there are many ways this contactless experience can unfold. "Another example would be with Sam's Club," she says. "As a member, you check into the store and your mobile device is a self-scanner. When you check out of the store, your device is the payment. There is no additional interaction required to validate the sale. Fast, simple, and safe."



'We are not seeing a slowdown … in discussions about integrated payments.'

–JARED DRIELING, SENIOR DIRECTOR OF CONSULTING AND MARKET INTELLIGENCE, THE STRAWHECKER GROUP

'A GOLD MINE'

The impact of Covid-19 means merchants will actively seek software that can lower operating costs, accept and streamline payments, reduce interchange through stored-value wallets, and offer security solutions, Tedder says.

Integrated payments offers merchants a consolidated mode in which to see all of their business operations. Not only does the POS software help them manage staff, monitor inventory, or pay bills, it can provide them with real-time sales data. Such data will only increase in value.

It's the thirst for data and the unceasing need for merchants to put that data to use that will spur more POS software adoption, Drieling says. Coupling that demand with the ability to deliver multiple payments methods will generate more interest in the model.

"More and more [we] will see these ISVs become much more of a gold mine for payments providers," Drieling says. "They allow payment providers to be more flexible." DT

Veterinarians need to update their systems.

endpoint

THE NEXT BIG MARKET FOR ISVs

Here's a look at the impact integrated payments can have on the vet industry.

BY **ASHLEY JONES**

Ashley Jones is the marketing content coordinator at Global Payments Integrated.

THE GLOBAL VETERINARY-SERVICES MARKET is projected to reach $200 billion in 2020. Indeed, the landscape is quickly evolving, creating more demanding needs from practice managers looking to reduce costs, improve the customer experience, and generate revenue.

And now the digitization of veterinary practices has created a need for practice-management software that aggregates billing, payments, client-data management, revenue-cycle management, and customer service into one clean interface.

In addition to digitization, many practices are now offering telehealth services to pet owners, which has an entirely separate set of requirements to tack on top of the already-complex needs of the practice that exist today.

With roughly 35,000 veterinary clinics in the United States serving more than 160 million pets, the market is ripe for a solution that encompasses all of the must-haves that clinics are seeking alongside additional features that allow clinics to provide the best care possible.

Software developers and independent software vendors (ISVs) must be cognizant of the features that clinics need most. Certainly, billing, prescription management, client communications, and inventory management are integral to operations.

There are also additional features—instant messaging, video calls, text communications, analytics, and competitive insights—that can make one software product stand apart from the rest.

SEAMLESS PAYMENTS

Those things are all important. However, the glue that holds the pieces together is integrated payments. High-quality, business-grade payment processing does more than integrate with the workflow and offer secure payment options to vet clients. Integrated payments save essential time for practice owners and staff who already have their hands full treating patients.

The average veterinary practice likely processes at least hundreds of card swipes per month. Consider the time commitment that a clinic without integrated payments faces as those swipes occur on a system separate from the practice-management software. Dozens of hours of wasted time and productivity can seriously impact how a clinic is operating.

Reconciliation and manual, duplicate data entry is time-intensive and resource-draining, and that negative impact trickles down to how well a clinic is able to care for its patients. Integrating payments into your practice-management software restores time that would have otherwise been wasted on these administrative tasks.

The other side of it is the customer experience. Without integrated payments, checkout time for clients is longer. Manual data entry and duplication of records across systems not only slow staff down, they slow the clinic's customers down, too. Integrated payment processing can shorten checkout time and keep customers happy.

Also, as consumers move away from cash and checks, they are looking for more convenient—and broader—ways to pay. This means practice-management software with integrated payments should include an array of payment methods, including credit and debit (via swipe or chip, in-person, and online), SMS, mobile pay, and over the phone.

Consumers are demanding a seamless payment process. Developers paying attention are helping their practice owners cater to these needs effortlessly.

MORE BENEFITS

As practice owners increasingly look for little and big ways to save money and staff time, integrated payments offer both of these savings along with numerous additional benefits.

First, there's convenience. Integrated payments make practice-management software quick and convenient to use. It reduces duplicate data entry and facilitates secure payments, including the ability to store card data for recurring billing or future payments. Clinics can cut down on the time spent re-entering payment data on each visit.

Next, accuracy. Integrating payments into practice-management software can help eliminate missed charges and human error that can occur when sales data must be transferred to a separate system.

Then, there's efficiency. Practices can reduce overdue payments by enabling their customers to pay immediately in a way that is most convenient for them. Practice management software can reduce the time spent manually sorting and recording invoices and receipts as charges are automatically attached to the patient's electronic file within the software.

Next, security. Working with an integrated payments partner removes the burdens of handling EMV certification and security, end-to-end encryption and tokenization, and PCI compliance. Not only can this save months of internal work, but it means lower losses related to data breaches and noncompliance. A payments partner can lend its expertise while developers focus on the core competencies of the software.

Also, consider growth. Integrating payments into practice-management software can enhance customer engagement in unforeseen ways. Some integrated payments partners augment payments with other tools geared towards improving the customer experience.

Things like reputation management, real-time customer data, and competitive analytics can catapult a veterinary practice into faster growth cycles, especially when a streamlined payments system ties everything together.

Finally, there's monetization. This is an especially compelling benefit for software developers and ISVs that have the opportunity to control and enhance the transactions their systems already touch, while embedding commerce and starting a new revenue stream for the business. Offering payments as a value-added solution can create new revenue streams for ISVs while making their product easier to sell.

The benefits and impacts of integrated payments tend to have a trickle-down effect on how the rest of the practice operates, including back-office and front-office tasks. With less confusion around payments and reconciliation, the staff is freed up to focus on what matters most: caring for patients and their human counterparts. DT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