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Trends in the Electronic Exchange of Value

THE BNPL PHENOMENON

What's driving it—and how is it changing payments?

Volume Eighteen, Number Ten • DigitalTransactions.net • October 2021

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the gimlet eye

WHITHER BNPL?

IT TAKES NOTHING AWAY from the phenomenal arc the buy now, pay later trend (page 24) is describing across the payments landscape to say that, in essence, it's something quite old dressed up in modern duds. After all, installment credit in retail has been around for decades.

But the genius of the current trend is that it borrows from both credit and debit and adds a critical overlay of technology to make it an easy and quick decision for consumers to buy—consumers who might otherwise have taken a pass because the transaction would have strained their credit card limit or added too much to their debit card balance.

Adding to the allure of BNPL is that buyers get to take the merchandise home, or have it delivered as quickly as would have been the case with a credit or debit card. And some BNPL players, like Affirm, also make it simple to return the goods.

Speaking of Affirm, it's cottoned on to that debit card idea—with a twist. The company said last month it's developing a debit card called Affirm Debit Plus that taps the user's checking account for installment payments or for payment in full (see the "Trends & Tactics" section starting on page 6). Affirm's CEO, former PayPal executive Max Levchin, is so focused on the product that he's testing it personally.

So it's a mix of a very old idea with some very new twists and some quite snazzy technology that dispenses with the one-to-one relationship between consumer and merchant and replaces it with a built-in, automatic one-to-many link. Credit and debit cards did the same thing a few decades ago. Will BNPL eat into credit card usage—or, for that matter, debit card spending? Is it a risky bet for the providers?

Taking the second question first, it doesn't look like there's a definitive answer yet. BNPL is a child of the pandemic. It was around before Covid struck, but it drew its rocket fuel from the huge crowds of consumers who flocked to the Internet to do their shopping when physical stores shut down or converted to curbside pickup. That may suggest that, to the extent these users are also credit card holders, the risk profile is no worse than it is for your "what's-in-your-wallet" card.

The first question is trickier. Visa, Mastercard, and Amex aren't reporting any drain on their spending volumes so far, but those volumes are enormous, and BNPL usage, though growing fast, isn't that impactful yet. And the card networks have developed their own answers to BNPL. Visa even has an API for it.

So we're reduced to a cliché: Watch this space.

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Trends in the Electronic Exchange of Value

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A BUSY AFFIRM TESTS A NEW DEBIT CARD

Will a debit card be coming soon from Affirm Inc.?

A new card product that taps the user's checking account for in-full purchases or installments is in beta testing with "several hundred people," at buy now, pay later specialist Affirm Holdings Inc., the company's chief executive, Max Levchin, told equity analysts last month.

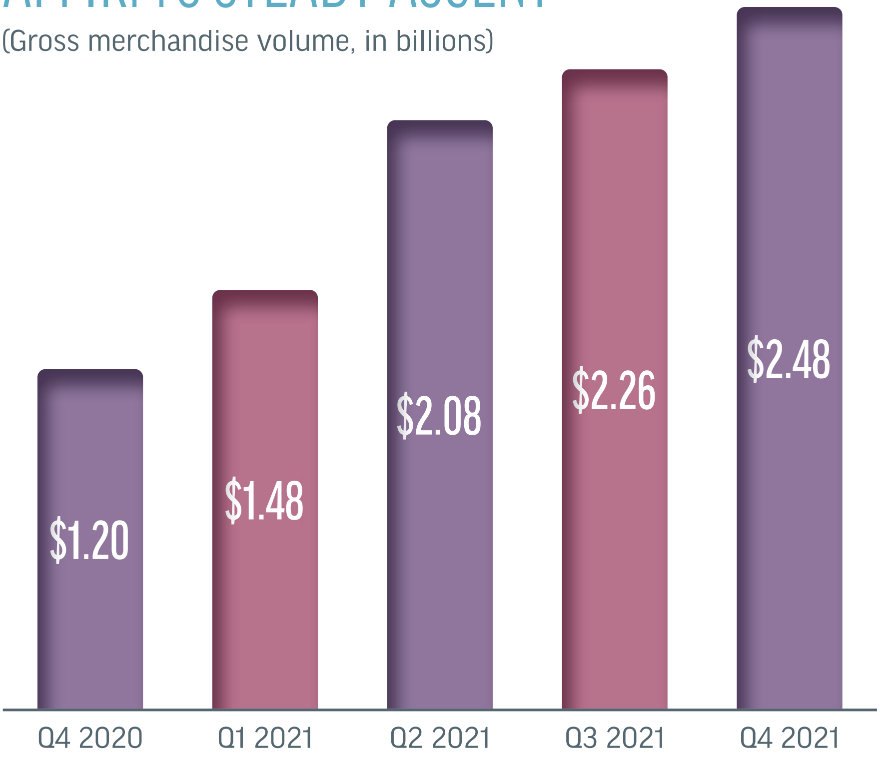
Levchin added that testing of a new buy now, pay later service for e-commerce giant Amazon.com Inc. is "ongoing virtually day and night," though he stopped short of saying when the service will roll out. The news came during a session to discuss the company's results for its fiscal fourth quarter, which ended June 30.

The beta test for the new debit card, dubbed Affirm Debit Plus, is expected to wrap up this month, Levchin added, though he stopped short of saying when it will become commercially available.

The company clearly has high hopes for the tech-driven card, with Levchin indicating Affirm's goal to make it the "top-of-wallet primary transacting device." He said he has been testing the card himself with daily coffee purchases, and indicated there is still "lots of cool stuff to add" to the product, without mentioning specifics. Already, Levchin told the

AFFIRM'S STEADY ASCENT

(Gross merchandise volume, in billions)



Note: Affirm's fourth quarter ends June 30 of each year Source: Affirm analysts, the product's features are "very close to being indistinguishable from magic."

San Francisco-based Affirm has investigated, and tried, card products before. It first indicated in February it would introduce later in the year a debit-like card, then called the Affirm Card. The company also offers a Visa-branded card product, called Affirm Anywhere.

Referring to the Amazon test, Levchin said Affirm is "working hard to make sure [it] is successful. We want to deliver the best service." The Amazon deal, which was announced in August, has made Affirm "the undisputed [buy now, pay later] provider to the enterprises," Levchin said.

But he stressed the importance to Amazon and other commerce giants Affirm hopes to serve of "treating customers right, without charging late fees, without gotchas in the fine print."

Levchin also made clear that success with Amazon will help clinch Affirm's ambitions to work with more of these giants. Already, the company's contract with Canada-based commerce platform Shopify Inc. has helped swelled its active merchant count to 29,000 from 5,700 at the end of June 2020, according to data released last month. Meanwhile, its active consumer count has nearly doubled to 7.1 million.

For the quarter, Affirm reported \$2.48 billion in gross merchandise volume, a 106% increase year-over-year. Revenue grew 71%, to \$262 million. The results in part reflect prior acquisitions, such as the \$300-million deal Affirm made in April to buy Returnly Technologies Inc.

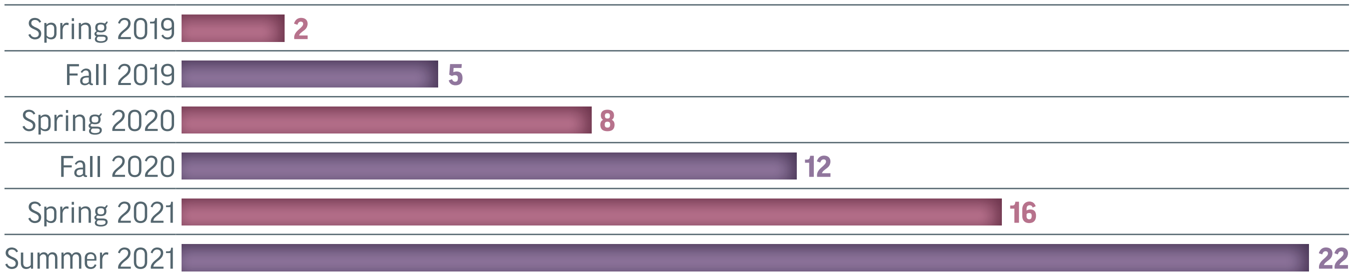
—John Stewart

MASTERCARD EXPANDS ITS OPEN-BANKING REACH

Mastercard Inc. has strengthened its hand in open banking, reaching an agreement to acquire European open-banking platform provider Aiia. Terms of the deal were not disclosed.

The acquisition is expected especially to bolster Mastercard's position as a provider of account-verification services in Europe. Mastercard established a presence in the business in the

OPEN BANKING'S FAST GROWTH (Accounts Using the FDX API, in millions)



Source: Financial Data Exchange

United Kingdom and Poland in 2019 through its partnership with Token.

This latest deal also complements Mastercard's 2020 acquisition of open-banking platform Finicity, which gave the card network a foothold in the U.S. market for the service. Open-banking services allow financial-services providers to verify account ownership and funding to enable functions such as funds transfers. Players in the market are increasingly relying on application programming interfacess to standardize the service (chart).

Aiia has connections to more than 2,700 banks across Europe, and processes more than 10 million bank log-ins and more than 1 million account-to-account payments every month for large banks and e-commerce payment gateways. Aiia's customer list includes banks, challenger banks, fintechs, accounting-system providers, and payment companies.

"Finicity is principally a U.S. open-banking business, while Aiia is principally a European business, so it's strengthening Mastercard's open-banking proposition in its second-largest set of markets," Eric Grover, principal at Minden, Nev.-based consultancy Intrepid Ventures and a close observer of the European payments market, says about the Aiia deal by email.

Once the deal closes, Mastercard expects to leverage Aiia's connectivity in Europe to deliver the credit decisioning and credit-scoring applications of Finicity to European clients. At the same time, the connectivity of Finicity in the U.S. will help deliver the account-information services and payment applications of Aiia to U.S. clients, which Mastercard says will give users easier, faster, and safer access to open-banking services globally.

Aiia provides a direct connection to banks through a single API that allows users to develop and launch new digital solutions. Industry groups such as the Financial Data Exchange have developed APIs to replace an older, cruder method of account access known as "screen scraping."

"The value of open banking comes through empowering consumers and businesses to use their own data to obtain financial-services solutions simply, securely, and quickly. The addition of Aiia anchors our European open-banking efforts and allows us to continue to meet our customers where they are," Craig Vosburg, chief product officer for Mastercard, said in a prepared statement.

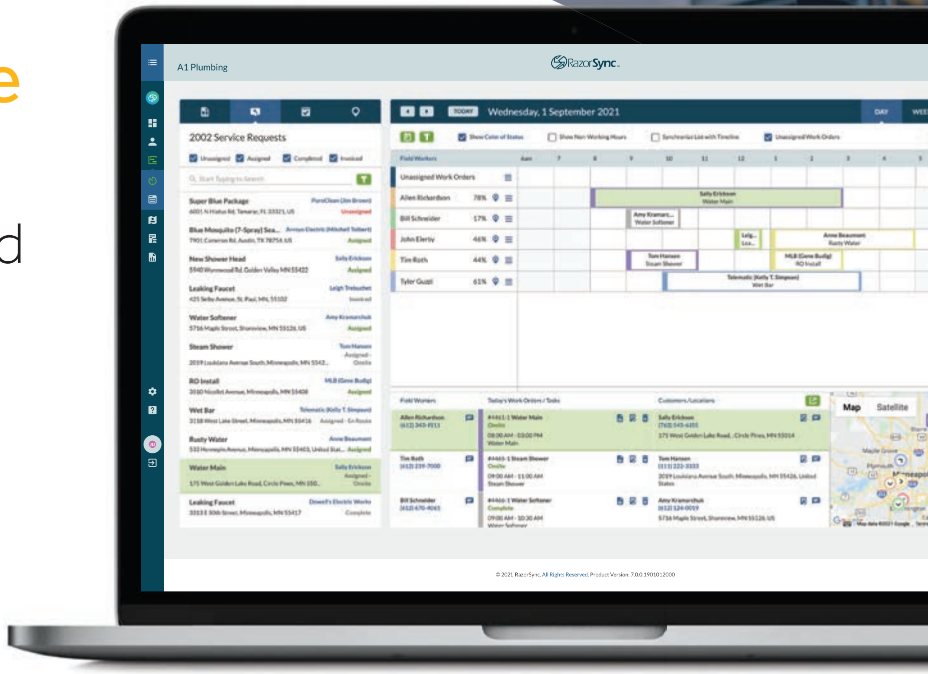
"As open banking continues to ignite innovation, we're committed to providing a unique set of technology platforms, data connectivity, and infrastructure combined with data-privacy and security principles," Vosburg continues. "This will help fintechs and financial institutions innovate, gather feedback, and scale faster and more effectively than ever to power smarter, more meaningful experiences."

Like Mastercard, Visa Inc. has been staking out a claim in opening banking, particularly in Europe. In June, Visa acquired Tink AB for $2.15 billion, five months after abandoning its attempts to acquire Plaid Inc., a major open-banking player in the U.S. market.

Visa's and Mastercard's acquisitions of open-banking technology have led to speculation that the networks are concerned open banking will siphon off transaction volume by putting consumers at the center of where and how their data is used to access credit, manage personal finances, digital wallets, and payments services.

"Certainly, open banking or open-banking payments ... threaten Mastercard's traditional retail payments franchise," Grover says. "Could it materially undermine traditional retail payments? I think that's not likely, but it could chip away, especially if giant e-wallets, platforms, and merchants entice consumers to use it."

—Peter Lucas


A1 Plumbing
RazorSync
2002 Service Requests
Wednesday, 1 September 2021

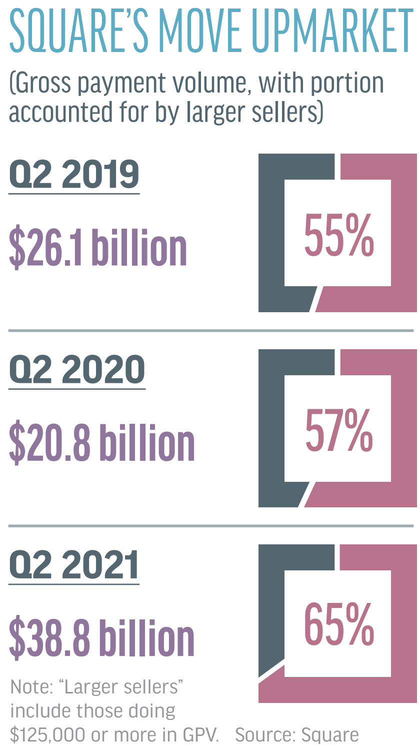
SQUARE: NOT JUST FOR LITTLE SELLERS ANY MORE

Looking to move further upmarket from the small sellers it started with, Square Inc. last month announced it is launching its Square Register point-of-sale system in Canada.

Square is promoting the technology, which includes a screen facing the customer as well as one for the merchant, as suited to a time when customers and sellers alike want to maintain distance from each other. It's also pricing Register at $899 Canadian, compared to $799 for the U.S. market, at a time when the exchange rate would indicate a higher price in Canada.

Square has been active in the Canadian market for nine years and says its base of larger merchants—the target market for Register—has grown by an average annual rate of 44% over the past five years in that country.

The roster of active sellers in this category, which includes multi-location merchants, has expanded by more than 50% since the start of the pandemic, Square adds. The company did not release actual figures.



Square introduced Register four years ago with its launch in the United States, and now, with the Canadian introduction, offers the system in four countries, including the United Kingdom and Australia in addition to the U.S. and Canada.

Square positions the system, which enables card and mobile payments, as easy to set up in a matter of minutes "out of the box." The dual-screen product works with Square software enabling such functions as invoicing, e-commerce, and appointments.

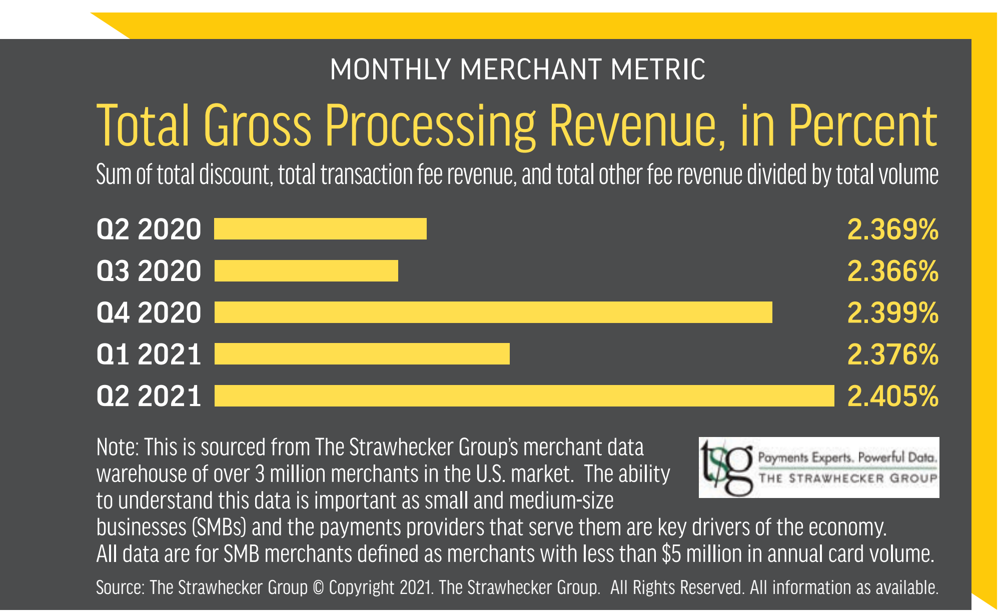
"Businesses are ditching clunky payment machines and legacy technology because they want fast, reliable, secure, and intuitive hardware that looks professional," says Alyssa Henry, executive vice president at San Francisco-based Square, in a statement.

But as it moves into more geographies, the technology could also accelerate the company's ambition to move toward larger sellers, which can generate bigger transaction volumes.

This is a direction Square has been moving in for some time. It reported in August merchants accounting for more than $125,000 in annual gross payment volume made up 65% of the company's dollar volume, compared to 57% a year earlier (chart). Sellers doing half a million or more accounted for 35% of Square's volume, up from 26% in the same period last year.

That tendency toward bigger merchants, though, could run into stiff competition in Canada, experts say. "In terms of competitiveness, there are quite a few players serving the Canadian market that all vie for their share," says Trevor Forbes, director of market intelligence at The Strawhecker Group, an Omaha-based research firm.

—John Stewart



HOW THE PANDEMIC PUT FRAUD ON STEROIDS

Merchants' cost of fraud has risen since the onset of the Covid-19 pandemic. Each $1 in fraud costs retailers in the United States $3.60 in total expenses, compared to $3.13 pre-pandemic, according to the latest LexisNexis Risk Solutions' "True Cost of Fraud" study for e-commerce and retail merchants.

U.S. e-commerce merchants have been hit with the highest fraud costs, losing $3.90 for each dollar in fraud losses, compared to $3.13 pre-pandemic. Of those costs, 47% is related to replacing and or redistributing lost goods.

In addition to the overall rising cost of fraud, U.S. merchants are experiencing higher fraud costs in the mobile channel. In 2021, the cost to retailers from a fraudulent transaction made with a mobile device has risen 27%, compared to just 8% in 2020. E-commerce merchants are seeing a 39% increase in the cost of fraudulent transactions made with a mobile device, up from 5% in 2020.

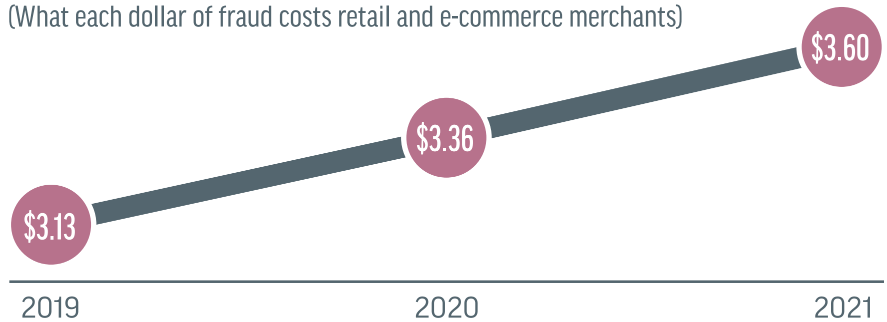
"This continues a trend based on fraud involving more mobile transactions, increased bot/cyberattacks and synthetic identities, which have been significantly heightened during the Covid-19 pandemic," the report says.

As mobile devices are being used to initiate fraudulent transactions, the distribution of fraud by mobile-payment method among U.S. retail and e-commerce merchants has shifted from browsers to mobile apps and contactless forms, including text-to-pay/bill-to-mobile.

So far in 2021, mobile apps have accounted for 47% of fraud losses by mobile payment method for retailers, up from 38% in 2020, and 48% for e-commerce merchants, up from 36% in 2020. At the same time, text-to-pay and bill-to-mobile payments options are accounting for 28% of fraud losses by mobile-payment method for retailers, up from 12% in 2020, and 19% for e-commerce merchants, up from 3% in 2020.

FRAUD'S TOTAL COST

(What each dollar of fraud costs retail and e-commerce merchants)



Source: Lexis-Nexis True Cost of Fraud study

Not only is fraud costing merchants more, sellers are seeing a higher number of attempted and successful fraudulent transactions. In 2021, U.S. retailers have seen an average of 1,740 fraud attacks per month, up from 1,515 per month in 2020, a 15% increase.

Of the total, slightly more than half, or 872, have been successful, a 20% increase from 2020. Successful monthly attacks in 2020 totaled 727, or slightly less than half the total monthly attacks.

Brick-and-mortar retailers that generate more than 30% of their transaction volume online are incurring 1,916 attacks per month. By comparison, retailers that generate less than 30% of their volume online experience 890 fraud attacks per month, on average.

The number of fraud attacks from international criminal rings is also on the rise. Attacks originating outside the U.S. have represented 24% of total fraud attacks experienced by U.S retailers so far in 2021, compared to 13% in 2020. E-commerce merchants are seeing 29% of fraud attacks originate outside the U.S. so far in 2021, compared to 16% in 2020.

Among mid-to-large U.S. e-commerce merchants with 40% or more of their fraud costs coming from attacks originating outside the U.S., 40% are more likely to have difficulty distinguishing bots from legitimate customers. And 30% are likely to have difficulty balancing fraud detection and customer friction with mobile transactions, according to the report.

LexisNexis Risk Solutions recommends merchants take a multi-layered-solution approach to fraud detection, including integration of cybersecurity operations with fraud prevention, cybersecurity alerts, social-media intelligence, rules-based fraud-detection strategies, artificial intelligence, and machine learning and crowdsourcing models.

"Single-point protection is no longer enough and results in single point of failure," the report says. "A multilayered, strong authentication defense approach is suggested." DT

—Peter Lucas

THE ROOT OF QUANTUM MYSTERY

BY GIDEON SAMID
gideon@bitmint.com

RANDOM MEANS without order. Strange that disorder serves as the foundation for the most comprehensive order of nature: modern physics.

Physics today asserts that, concerning the microcosmos, what happens next is totally unpredictable per individual event. Only the behavior of a group of events is subject to prediction. Matter behaves like a flipped coin. We are totally clueless what it will show on the next flip, but pretty certain that, over many flips, close to half will be heads and close to half will be tails.

This built-in ignorance is the key to achieving a level playing field in cybersecurity. It implies that the dumbest guesser of a dice toss will be as accurate over time as the smartest, best equipped, and most powerful agent. Today, cyber empires dominate with security not shared by the rest of us. They wish to keep this advantage, but technology can't be stopped. Justice is here—and spreading.

Randomness is often counter intuitive. If you flip a perfect coin 100 times and it comes up heads each time, then most will argue that the odds are for heads on the 101st flip. A few will consult their intuition and say, since the coin is balanced, then it is time for tails. Mathematically, the outcome of the next flip is totally divorced from the history of the flips, so the odds are still 50/50. Another counter-intuitive conclusion: Every oddity of outcome is associated with a number of flips that will make this odd combination as highly likely as one desires. Go figure!

Quantum computers observe the microcosmic outcomes of given initial conditions. While each outcome is in doubt, the group behavior of repeat trials is very indicative. By contrast, standard computers, so called Turing machines, are deterministic. They crank out the right answer every time they are used.

If you prepare a microcosmic coin in method A, and read the result of the flip with an A-type reader, then you will read it the way it was prepared. If you read it with method B, then the reading is random. This simple fact is the basis of secure key exchange.

The sender prepares some n bits (coins) in method A and n bits in method B, randomly chosen. The recipient of the bits randomly selects method A or method B to check each bit. Then the transmitter and the recipient communicate to find out with which bits both used the same method. For those bits, the readings of both the recipient and the transmitter are the same, and these bits then become a new securely shared key. Any eavesdropper handling these bits will destroy the delicate flipping status, and will be discovered.

A greater shock to randomness thinking was delivered by John Stewart Bell, who showed that coordinated randomness is observed between two events that are so far from each other that even light (information) cannot deliver a coordinated response. In some mysterious way, randomness—disorder, unpredictability—behaves the same over two remotely positioned situations. This phenomenon, known as entanglement, promises to deliver perfect secrecy to any communicating partners.

Minority offerings of digital money (e.g. BitMint) are based on the power of randomness. They rely on the bold premise that microcosmic events behave like a perfect coin, or perfect dice, exhibiting pattern-free sequences. Compare this to Bitcoin and Elliptic Curves, which rely on assumed (unproven) mathematical difficulty. All cryptocurrencies so based will evaporate the day some unsuspected math prodigy simplifies that difficulty. By contrast, to hack randomness-based money, you must replace the current tenets of physics. Good luck! DT

THREE KEYS TO CRYPTO ACCEPTANCE

BY BEN JACKSON
bjackson@ipa.org

WHEN THE ENIGMATIC SATOSHI NAKAMOTO launched Bitcoin in 2009, it seemed that the U.S. dollar and other currencies would have a new competitor. However, radical forecasts of digital currencies becoming the coin of the realm have not come to pass.

Will Bitcoin and other cryptocurrencies take their place alongside cash and the major card brands at merchant points of sale? The answer may vary from merchant to merchant, but it will depend on several factors, including consumer demand, connectivity, and consistency of value.

The first prerequisite, of course, is consumer demand. Will enough consumers want to use cryptocurrencies to motivate merchants to offer the option? In the big picture, adoption of cryptocurrencies remains low.

As *Digital Transactions* reported earlier this year, approximately 14% of U.S. adults own cryptocurrency, according to an estimate by cryptocurrency exchange Gemini. Coinbase, a company that helps customers transact with cryptocurrencies, reports 68 million users worldwide, which is not a large number in the grand scheme of things.

A second limiter is how individuals view their cryptocurrencies. Descriptions have switched from “cryptocurrency” to “crypto asset.” Individuals have heard too many stories about the $10,000 pizza from people who used Bitcoin as a currency. A crypto journalist told me she views cryptocurrencies now as a store of value more than a way to spend.

Nonetheless, since cryptocurrency holders will want to use that value some day, merchants may want to offer ways for people to spend it. But they need to proceed with caution.

Connectivity is a crucial issue for merchants. As things stand now, merchants have three operational hurdles to clear before they can make any cryptocurrency a payment option. First, they need to set up a way to accept cryptocurrency at the point of sale and online. This requires a different procedure from accepting a card transaction.

Second, they need to set up the ability to store the revenue that they receive in this form. Third, they need to repeat this process for every cryptocurrency they want to accept, because cryptocurrency wallets generally are not interoperable.

Some retailers have already sorted out these issues. Online retailer Overstock.com announced in 2014 it would begin accepting Bitcoin. As *Digital Transactions* has reported, efforts by PayPal, Mastercard, and Visa may simplify this process for other merchants by adding the ability to accept crypto payments through their networks.

While that solves the problem of being able to accept cryptocurrencies, merchants still need to be able to pay suppliers, vendors, and other providers for operational costs. If the landlord of the store or the utility company keeping the lights on does not accept crypto, then the opportunity costs of cryptocurrencies may dissuade some merchants from accepting them.

Finally, before cryptocurrencies become widely accepted, it seems they will need to demonstrate more consistency in their value. Merchants face an issue in accepting cryptocurrencies in that it introduces what is essentially foreign-exchange risk into every transaction.

When the price of the currencies can radically change with one tweet by Elon Musk, the merchant’s risk of accepting cryptocurrencies is high. No one wants to find that they have sold products at a loss because the markets have moved suddenly. Predictability of income is crucial for a business.

The future of crypto at the point of sale will be anything but a straight line. Companies or currencies that are able to resolve all of these issues—without pulling a slight of hand that converts the crypto into some other currency at the time of the transaction—will emerge as the winners of the race to broader acceptance. DT

HERE COMES STADIUM PAY

Sports stadiums are finding the benefits of going cashless—and loving it.

BY **PETER LUCAS**

REMEMBER WHEN GETTING A BEER AND A HOT DOG in the stands during a sporting event meant passing a $20 bill down the row and having your food, beverage and change passed back? It was part of the game experience.

In 2021, this fan experience is becoming a quaint memory as sports stadiums in professional, college, and even less-organized leagues are moving to cashless payments.

In September, for example, Square Inc. announced an ambitious deployment of its hardware and commerce software at SoFi Stadium, home of the National Football League's Los Angeles Rams and Los Angeles Chargers. The deployment includes more than 1,000 Square Register and Square Terminal units in what is said to be the NFL's largest venue.

With the move toward digital payments at multiple venues, fans can place orders from their seats through the team's mobile app or by scanning a QR code on the back of the seat in front of them. They can pay via their mobile wallet. Once the order is placed and paid for, fans can even be notified when their order will be ready for pickup or have it delivered to their seat.

Fans preferring to purchase food and beverages from a concession stand can enter their order into a kiosk at one station, then pick up the order at the next. Even in-stand vendors are being equipped with handheld POS terminals.

WARP SPEED

While many stadiums had been moving toward cashless payments prior to Covid-19's arrival, the pandemic accelerated the trend at warp speed. Many teams used the 2020 season to install cashless systems in anticipation of the return of fans during the 2021 season.

"Covid accelerated three to five years' worth of cashless adoption into six months," says Kevin Anderson, chief strategy officer at Los Angeles-based Appetize Technologies Inc., which provides cashless point-of-sale

technology to Major League Baseball, minor-league baseball, and professional soccer teams.

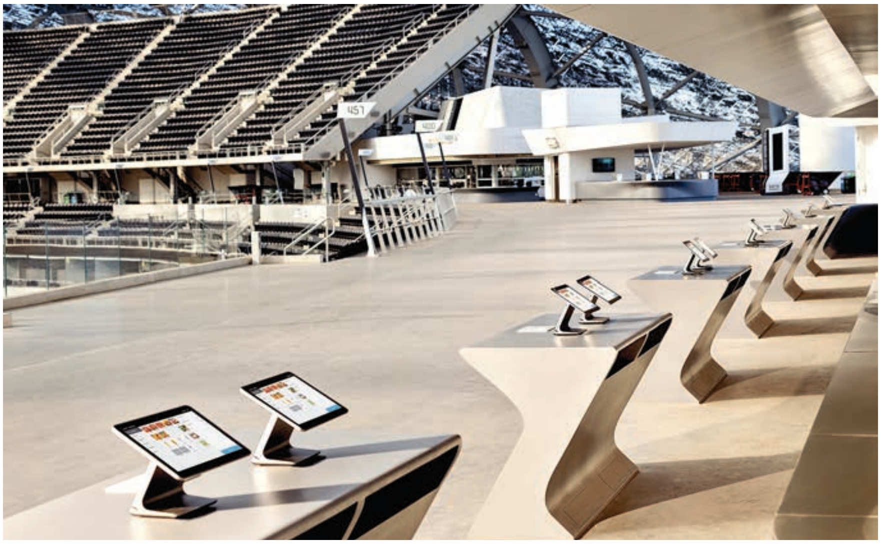
Many sports stadiums are adopting cashless technology as a way to improve the fan experience. Contactless payments shave up to 50% off transaction times versus cash transactions, Anderson says, which translates into shorter wait times at concession stands.

That's significant because waiting at a concession stand is a pet peeve for fans as it takes time away from watching the game. "Cashless concessions play a role in fans watching more baseball," says David Cromwell, vice president of operations for Major League Baseball's Chicago Cubs, which went completely cashless for the 2021 season at the club's home stadium, Wrigley Field. "Our guests at the ballpark are on board with the technology."

Fans attending Cubs games can place orders through the Major League Baseball mobile app, which also stores game tickets. Once the app is open, fans can locate the concession stand nearest to their seat, place an order, pay, and receive an estimated time the order will be ready. "This removes a lot of friction on the front end when ordering," Cromwell says.

Fans can also place orders by scanning a QR code near concession stands or on the back of the seat in front of them using their mobile phone. Fans placing orders this way can opt to have orders delivered to their seat, because the QR code automatically locates where the fan is sitting.

Another factor driving adoption of cashless POS technology at sports stadiums is that the arenas have the Wi-Fi and mobile-network infrastructure to support it. "Most pro sports stadiums have made the investment to support mobile devices," says Anthony Perez, executive vice president for sports entertainment at Shift4 Payments LLC, Allentown, Pa.


Square devices at Los Angeles's SoFi Stadium: Part of the cashless tide in sports arenas.

Prior to joining Shift4, Perez served as chief executive of POS solutions provider VenueNext, which Shift4 acquired in March for $72 million. VenueNext was created in 2004 by the San Francisco 49ers as the team was building Levi's Stadium, which went fully cashless for the 2021 NFL season. The 49ers eventually spun off VenueNext as a standalone business.

Shortly after Shift4's acquisition of VenueNext, Taylor Lauber, chief strategy officer for Shift4, said early indications were that 90% of volume at the locations serviced by VenueNext was coming through its applications, compared to 10% before the pandemic.

COLLEGES ARE NEXT

An added benefit of cashless- and mobile-ordering technology is that once fans try it, they continue to use it. Venues serviced by VenueNext that were getting 40% to 50% of their in-stadium orders from mobile devices pre-Covid have kept or increased those volumes as pandemic-related restrictions on fan attendance eased, Perez says.

"We offered mobile ordering before cashless POS solutions and there were a lot of venues that were big on it," says Perez. "As restrictions for fan attendance eased, they've kept that volume."

Another driver is that the technology now has a proven track record. Prior to the pandemic, many professional and collegiate teams were hesitant to move to a cashless environment for fear of alienating cash-paying customers.

"Teams that were reluctant to put cashless technology into their venue now have the technology to do it," says Geoff Johnson, a general manager at payments processor Fiserv Inc.'s Bypass unit. "Consumers are showing that they will embrace cashless in sports stadiums because they have come to expect it outside those venues."

At Fiserv arena, home of the National Basketball Association's Milwaukee Bucks, orders initiated through mobile devices during this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20 YEARS

year's NBA finals totaled 8% to 10% of order volume per game, compared to about 1% prior, Johnson says. "We also see higher order values with cashless than we do when consumers pay in cash," Johnson adds. "We are even seeing more mobile ordering in NCAA stadiums."

While college stadiums and arenas are making the move to cashless POS technology, many still lack the infrastructure to support it, Perez adds. Two stumbling blocks are a wait-and-see attitude regarding acceptance of cashless technology and questions about whether it is better to go entirely cashless all at once or create a hybrid environment that supports cash and digital purchases, according to Johnson.

"Collegiate venues still lag the pros when it comes to cashless installations, but we expect to see a lot of movement toward the technology the next couple of years, especially among Tier 1 teams," Johnson says.

SMARTER ABOUT DATA

But there is more to contactless technology than improving fan convenience. Stadium operators can see significant operational savings from the elimination of cash and can gather transaction data that helps them better manage orders during peak periods and identify best-selling items, which helps with inventory management.

The biggest operational costs tied to cash are the counting, securing, and transporting of it to the bank after each game. Counting the cash requires supervisors to ensure employees counting the money do not pocket any of it, a.k.a. shrinkage. Next, the cash must be securely stored and an armored-car service hired.

While cash-acceptance costs vary by venue, cashless POS technology greatly reduces the complexities of taking cash. "Cash acceptance can be cumbersome and going cashless has definitely brought operating efficiencies," says the Cubs' Cromwell.

For the time being, the Cubs are focusing on how to reinvest the operational savings from going cashless into creating a better fan experience, as opposed to applying those savings straight to the bottom line, Cromwell adds.

One metric that can help determine operational savings is the reduction in shrinkage. Loss from shrinkage averages about 3%, says Moon Jawad, chief strategy officer for the San Francisco 49ers. Levi's stadium has 1,000 cash registers in the stadium, from which cash previously had to be collected.

Among the benefits sports venues claim from going cashless, the one that reportedly has the most untapped potential is how to use the transaction data to increase customer service and loyalty.

The 49ers, for example, are using transaction data to learn about peak ordering periods during games. In football, those periods are 15 minutes before kickoff and the 15 minutes during half time. Such information can help concessions operators better manage the flow of orders. Should orders during peak periods exceed the kitchen's capacity, messages can be sent to fans providing accurate pick-up times.

For now, the 49ers are not looking to parse data down to the individual level to create promotions that encourage loyalty and return visits. Instead, many teams are taking it slow on that front until they have more first-hand experience with how fans are responding to, and making use of, the technology.

"We want to be smart. Right now, we are looking at broader uses of data, such as transaction times during peak periods," Jawad says.

NEW 'GROUND RULES'

If cashless POS can make it in pro sports venues, which are located in markets that attract a large fan base, how far downstream can the technology go?

The Lafayette, Ind., Aviators, one of three amateur baseball teams operated by National Sports Services, went completely cashless for the 2021 season. The team, which did not play in 2020 because of the pandemic, opened a new stadium for the 2021 season. New York City-based The OLB Group Inc. provides the stadium's cashless POS technology.

"With the team moving into a new stadium during Covid, we felt it was time to reset the ground rules" when it came to in-stadium purchases, says Bill Davidson, chairman of the Layfette Aviators. The Aviators enable fans who prefer to pay by cash to insert bills into a reverse ATM inside the venue. The machine dispenses a prepaid debit card for use inside the stadium.

One reason National Sports Services chose its Layfette franchise to go cashless was that nearby Purdue University had been testing cashless POS at some of it sports venues. As a result, Aviators management felt citizens in the Lafayette area would be accustomed to the technology. National Sports Services operates two other amateur baseball teams in Johnstown, Pa., and Spartanburg, S.C., both of which offer cashless payment options in addition to cash acceptance.

So far, Davidson says, "The response from fans has been favorable."

Play ball. DT

DEBIT CARD PRICING AT FULL BOIL

Ten years on, the Fed is mulling changes to its interpretation of the Durbin Amendment's debit-routing rules. It's not likely to make anyone happy.

BY JOHN STEWART

OF THE MANY CONSEQUENCES of the Covid-19 pandemic, perhaps the biggest one for the payments business is how it has thrown into stark relief the long-festering issue of how debit card transactions are routed and priced. As a result, the big questions for the industry now are, how will regulators change the rules for transaction routing and will the existing limit on interchange pricing be lowered.

Indeed, the Durbin Amendment of 2010—which many observers thought had settled these matters—has done no such thing. The law, part of the massive Dodd-Frank Act, is now undergoing reexamination as the Federal Reserve looks at underscoring its routing rules for Regulation II, the Fed regulation that implements Durbin and that turns 10 years old this month.

In the meantime, nobody is happy. Merchants complain they're still overpaying for debit transactions all these years later. Many banks are scrambling to keep up with the latest authentication technology. And the nation's electronic funds-transfer networks—the entities that made debit cards a going proposition a generation ago—are struggling to attract a bigger share of volume.

The upshot, some experts say, is a complicated picture whose contours the Fed may struggle to sort out. "The point is, it's just a mess," says Bob Steen, chief executive of Mechanicsville, Iowa-based Bridge Community Bank.

DURBIN'S CHOICE

For now, at least, the Fed is focusing on the routing requirements it set a decade ago for all U.S. banks that issue debit cards. This is the regulation that reflects the Durbin requirement that each transaction offer merchants a choice of at least two "unaffiliated" networks.

The idea is to control transaction pricing by giving merchants the option of a less-expensive network. But merchants complain it hasn't worked out that way. With the rise of e-commerce—particularly in response to the Covid pandemic—many issuers have automatically routed online transactions to Visa or Mastercard on the grounds that the alternative EFT networks can't handle PINless debit.

That may have been true a decade ago, but the EFTs have caught up, observers say. "They developed dual-message capability so they can be used in digital channels," notes Sarah Grotta, director of the debit and alternative products advisory service at Marlborough, Mass.-based Mercator Advisory Group.

"Dual message" refers to the separation of authorization from clearing, as contrasted with the single-message capability EFTs like Shazam, NYCE, and Pulse pioneered, originally for ATM transactions.

Still, observers say, many issuers continue to route debit transactions for e-commerce to the dual-message networks of the two big national systems. This, merchants contend, vitiates their Durbin rights to network choice.

Some observers blame issuers whose technical capabilities have lagged behind the EFT networks' adjustment to PINless debit. "You have a handful of banks that are dragging the whole industry down," contends Steve Mott, principal at the payments consultancy BetterBuyDesign.

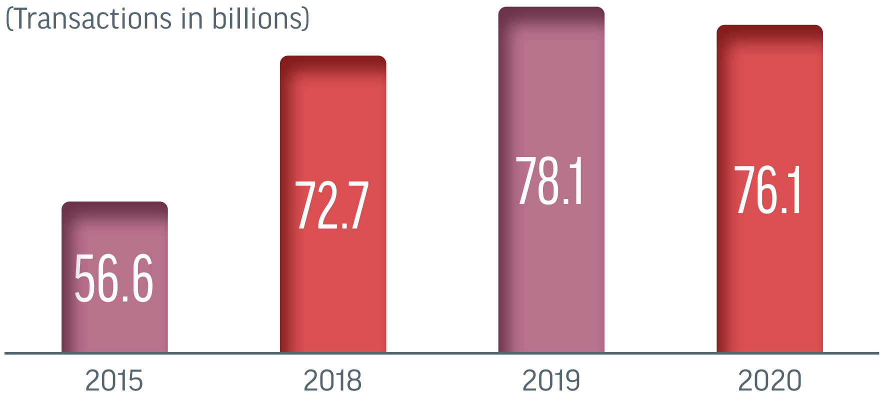
Advocates for the issuers say there are important differences among networks that merchants are ignoring and regulation should account for. "When Durbin was passed, card-not-present wasn't much of an issue, so they're trying to force the Durbin Amendment to accommodate that," says Jeff Tassey, chairman of the Electronic Payments Coalition, a Washington, D.C.-based trade group for payments networks.

MORE INVESTIGATIONS

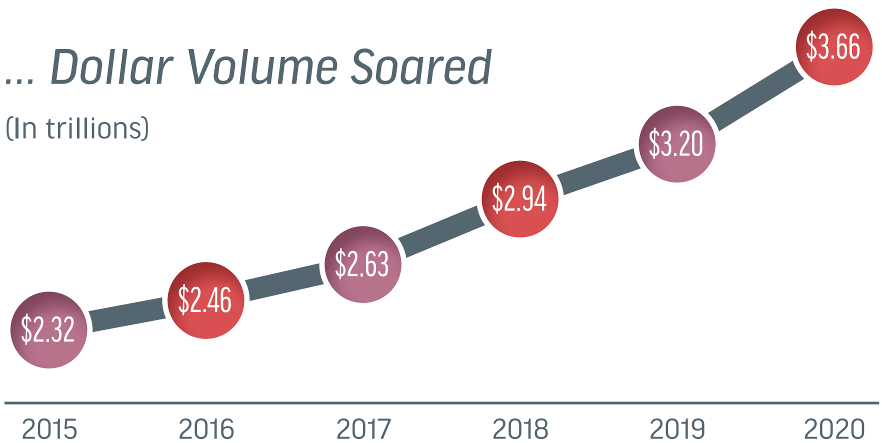
The debit-routing issue has already attracted the attention of federal agencies besides the Fed. News emerged in March that the Department of Justice is probing routing practices at Visa Inc. "We believe Visa's U.S. debit practices are in compliance with applicable laws. Visa is cooperating with the Department

THE PANDEMIC EFFECT

As the Pandemic Stunted Debit's Growth ...



... Dollar Volume Soared



Source: 2021 Pulse Debit Issuer Study. Research covers select issuers each year. The 2021 study covered 48 issuers accounting for 40% of U.S. debit transactions in 2020.

of Justice," a Visa spokesperson told *Digital Transactions News* at the time.

The DoJ inquiry followed a Federal Trade Commission investigation into debit-network routing practices at Visa. The network confirmed that probe in November 2019 as part of a filing with the Securities & Exchange Commission. The FTC investigation reportedly is focused on whether Visa is blocking merchants from sending mobile-wallet and contactless transactions to other networks.

Merchants and merchant advocates contend the routing issue goes beyond the PINless debit matter and includes alleged efforts by Visa and Mastercard to use technologies such as tokenization to steer transactions to their own systems. Tokenization veils the primary account number on a card in an effort to thwart fraud.

But the Durbin Amendment—and hence the Fed's enabling regulation—also mandates a cap on debit card interchange, restricting it to 21 cents per transaction, plus 0.05% of the transaction value and another penny for what the Fed calls a "fraud-prevention adjustment."

Unlike the routing rules, the cap applies only to what big issuers can collect, those with $10 billion or more in assets. As with credit cards, merchants pay interchange fees on debit transactions.

Merchants have complained for years the cap is too high when viewed in the context of issuer costs. And indeed, the Fed's own studies seem to bear this out. The latest one, which covers such expenses as authorization, clearing, settlement, fraud prevention and rewards programs, showed a total per-transaction cost of 11.6 cents per transaction—just about a dime below the cap.

'NOT WITHOUT CONTROVERSY'

But the Fed, which took industry comments all summer on its routing clarification, is silent on the fraught matter of interchange. Some observers argue the regulator simply doesn't see regulation of interchange as a matter for industry comment.

"The Fed recognizes [interchange] is going to be not without controversy no matter what they do. I'm sure that's weighing on their minds," says Paul Tomasofsky, senior vice president for merchant payments at North American Banking Co. and formerly executive director of the Debit Network Alliance, a trade group for debit networks.

Indeed, Tomasofsky argues the Fed's debit proposal should have been more specific in several respects. "By keeping it at that 30,000-foot level, you don't really solve the problem," he notes.

But there's nothing preventing the Fed from returning to the interchange question later. And for now, the routing clarification may suit merchants that lack the clout of the big chains. "The big merchants don't like [debit] pricing, but they can negotiate routing," points out Bridge Community Bank's Steen. "Small merchants can't do that." DT

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THE BNPL PHENOMENON

As buy now, pay later payments continue to garner consumer and merchant attention, what is driving the trend? And does it have staying power?

BY KEVIN WOODWARD

BUY NOW, PAY LATER SERVICES MAY HAVE GOTTEN A HUGE BOOST from the boom in e-commerce sales because of the Covid-19 pandemic, but as these effects begin to dissipate, BNPL shows no sign of retreat.

The very opposite is happening. More merchants are adding BNPL as a payment option. And BNPL is spreading beyond apparel and general retail to travel, home furnishings, pets, and more. And consumers continue to try it.

In one example, 12.8% of consumers surveyed by DealAid, a Toronto-based online shopping tool, said they used BNPL during the 2020 holiday-shopping period, with 13.7% indicating they intended to use it in 2021. Their average spend also is expected to increase to $279 for the same period this year, up from $260 last year.

Buy now, pay later typically splits a transaction into four equal payments, usually at no interest, though some providers assess interest and may offer longer payment terms.

Here's a rundown of what's happened just in the past year: Visa Inc.'s integrated code for BNPL launched; Amazon.com Inc. signed Affirm Inc. to provide a BNPL option on its site; Discover Network invested in Sezzle Inc.; a new player, Zilch Ltd., from the United Kingdom, entered the U.S. market; and commerce platform Shopify Inc. made Affirm available to its merchants. Apple Inc. has even been rumored to be considering a BNPL option. This is just a sample of the BNPL activity. There are no signs it is slowing down.

In the past year, the biggest change is the number of providers, coupled with how quickly consolidation happens, according to Sheridan Trent, research analyst at The Strawhecker Group. Strawhecker is an Omaha, Neb.-based payments advisory firm.

Affirm acquired rival PayBright Inc. in December and Alliance Data Systems Inc., long known for private-label credit card programs, purchased Lon Inc., which did business as Bread. And in August, Square Inc. said it would shell out $29 billion for Afterpay Ltd.

Investors also like BNPL prospects. Klarna AB solicited $1 billion in funding this spring. It says more than 250,000 merchants offer Klarna and it has 90 million active customers.

'CONSUMERS LOVE IT'

How big could BNPL become? Very big. The installment-payment option for online and in-store payments could reach $1 trillion in U.S. volume by 2025, or between 10 and 15 times the current level, according to a report released by CBInsights, a New York City-based financial-services research firm.

Though BNPL is a relatively new payment option, it is maturing quickly, Trent says. New players need to have some infrastructure or something unique to distinguish themselves, she says.

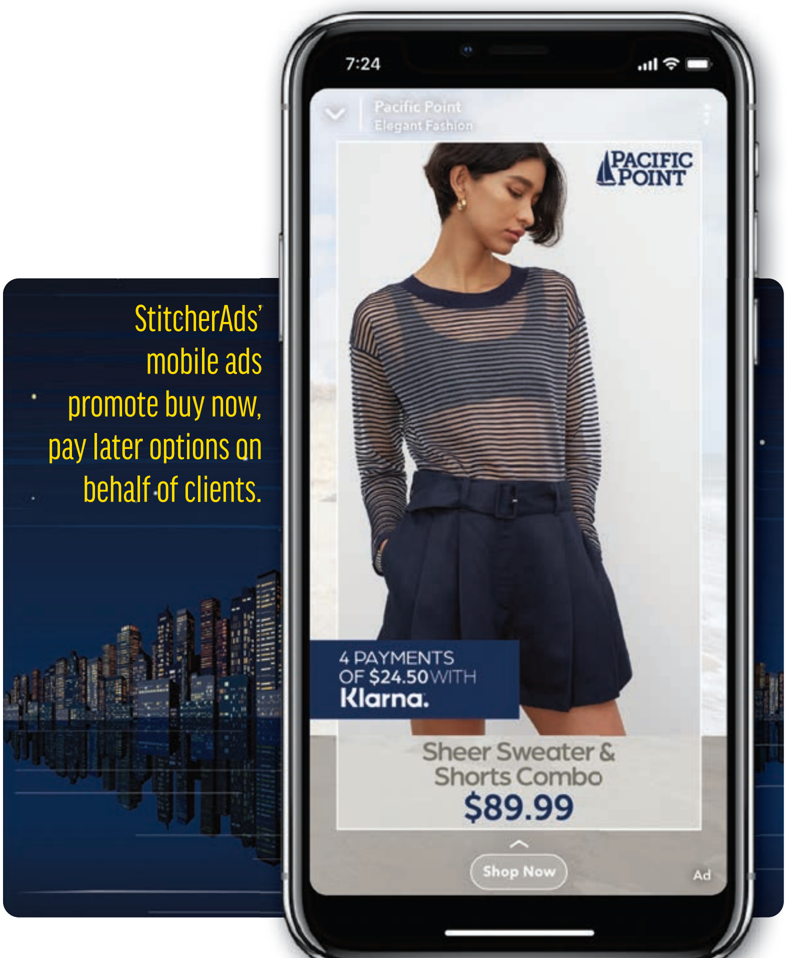
That's where incumbents, such as PayPal Holdings Inc., may have an edge. Its Pay in 4 product launched in 2020, and already has processed more than $3.5 billion in total payment volume, with more than $1.5 billion of that in the second quarter alone, says Greg Lisiewski, PayPal's vice president of global pay later. "More than 7 million consumers have transacted more than 20 million times with our buy now, pay later product," Lisiewski says.

"PayPal is an interesting case," Trent says. In 2008, PayPal acquired BillMeLater, a similar BNPL service that extended credit lines, and later rebranded it as PayPal Credit.

"As with anything, timing is everything, and BNPL met the perfect timing with the pandemic as consumers wanted to spread out purchases into predictable payments, while merchants sought new ways to convert sales," Lisiewski says. "Once that habituation was created, consumers became very comfortable with this way to pay and now expect it wherever they shop."

Others echo that. "Consumers love it because it's completely free when they pay on time, and unlike traditional credit products, they can never revolve a payment or fall into extended debt," says Zahir Khoja, general manager of Afterpay North America. Square's acquisition of Afterpay is expected to close in the first quarter of 2022.

"Afterpay also is a clear win for merchants," Khoja adds, "as they can offer their customers payment flexibility without requiring them to enter into a traditional loan or pay interest."



StitcherAds' mobile ads promote buy now, pay later options on behalf of clients.

Merchants are adding the payment option fast. As various BNPL providers tout the number of merchants coming onboard—Afterpay counts approximately 100,000 globally and PayPal says 650,000 merchants have customers that use its BNPL service—the ways to capture the attention of consumers is evolving.

FINE-TUNING BNPL

One key area is how BNPL providers reach consumers. "All retailers want access to this demographic," says Conor Ryan, chief information officer and cofounder of StitcherAds. StitcherAds specializes in advertising programs on four social media networks. Its ads for retailers include a product and can promote a BNPL option.

"We sit at the point of convergence," Ryan says, "where we enable the retailer to automatically communicate the buy now, pay later installment options in their ads." Of StitcherAds' four offices, two are in the United States, with one is Ireland and another in London.

Retailers are scrambling to get their products in front of consumers. That's especially important as the value of instant gratification has increased. A consumer may use Google to search for a restaurant that offers a vindaloo curry dish, learn one is a quarter-mile away, order the dish, and walk over to get it, Ryan says. "That kind of instant gratification has been enabled by technology."

These kinds of expectations are bubbling into other purchasing behaviors.

It's something StitcherAds is trying to achieve in its ads for retailers to get to frictionless buying. A Google search may produce a retailer's Web page that could include a BNPL option. A consumer may be able to determine from the product page that he can afford the purchase spread over four installments. Can the consumer afford that day's installment amount? If the answer is yes, "I [can] worry about the … the next installment in two-week's time," Ryan says.

Like so many matters pertaining to e-commerce, personalization is key in BNPL advertising. StitcherAds can fine-tune the presentation of an ad to the point of distinguishing whether a consumer has used a BNPL option, which is especially beneficial if a retailer offers more than one such option.

"We're being extra specific in our audience segmentation," Ryan says, "where somebody who previously paid with Afterpay on the site, they would see the Afterpay installment option and vice versa for a Klarna customer."

ONE IS NOT ENOUGH

In the long run, advertising may prove vital to the success of a BNPL provider, suggests Dan Perlin, managing director of RBC Capital Markets' coverage of payments processing and IT services. RBC Capital Markets is the equity research arm of the Royal Bank of Canada, Toronto.

"Whoever has the best advertising and lead-generation algorithm will be the one that can drive continued incrementality," Perlin says. The good news for the business is that Perlin suspects many retailers may want more than one BNPL provider. "I don't think retailers will want five of these things on their landing pages, but they may want two of them. Exclusivity is not where this goes in five years."

The BNPL payment option may evolve and perform like a store card traditionally has, with the credit add-ons, he says. "My view of BNPL as an overarching start is, it is a good substitute product for private-label credit," Perlin says.

The logic behind that point of view starts with acknowledging that traditional private-label credit is not too dissimilar from general purpose credit, which can be used at any merchant, and not just one particular store. With the private-label option, the retailer creates a cycle where it goes after the consumer who has an affinity to that store, enjoys the loyalty program, and may not have good enough credit for a general-purpose card, he says.

"The point being, [private-label credit] drove incrementality and had a marketing and lead-generation angle to it," Perlin says. "The BNPL providers are saying a lot of the same things." With BNPL, he says, merchants can increase basket size and get SKU-level data. "It's all about lead generation for the merchant," he adds.

It's not surprising merchants are using BNPL to target consumers with a specific affinity or product ambition, he says. What BNPL brings to bear that private-label card programs do not is ubiquity. Purchases made with a BNPL option are spread across the retail spectrum with an improved consumer interface, Perlin says.

BNPL provides an opportunity to open the purchase funnel, expanding the ways different consumers can complete transactions. Longer term, lead generation and advertising will grow in importance, Perlin says. "They will have to be very sophisticated with their advertising. That level of sophistication will ultimately start to steer the consumer."

As an example, Afterpay in August launched Afterpay Ads, a suite of products to help brands reach high-intent and loyal shoppers in the Afterpay network. Merchants can place ads in the Afterpay app.

As for Square's pending Afterpay acquisition, Perlin says it is a competitive necessity. "They needed something that would enable them to connect the seller and Cash App ecosystem," he says. In September, Square took the first step with the debut of Cash App Pay, a service that enables consumers to pay merchants in person and online using their Cash App balances.

'A SUBSCRIPTION LIFESTYLE'

BNPL providers are banking on younger consumers who may sidestep traditional credit products. "Generation Z and Millennials are increasingly credit averse—wary of high interest and revolving debt cycles—and favor debit cards," Afterpay's Khoja says. "They want to use their own money instead of turning to expensive loans or credit cards, but still want and need the flexibility of being able to pay over time afforded by traditional credit."

Already, consumers expect to have BNPL options when they shop. "Additionally, younger consumers like Millennials and Gen Z are used to a subscription lifestyle, where they pay $10 a month to access their music or $15 a month to access movies," PayPal's Lisiewski says. "BNPL is very similar in that each payment is a fixed amount over a fixed period of time, so younger shoppers are accustomed to this way to pay."

Though PayPal doesn't disclose how its users split Pay in 4 transactions between credit, debit, and bank account, Afterpay says nearly 90% of its transactions are made with debit cards globally. Consumers currently cannot use a PayPal balance for Pay in 4 repayments.

BNPL providers also expect younger consumers as they age to continue to favor the payment method. "It's the preferred way to pay for Gen Z and Millennials, and as this generation matures and their spending power grows, so will the use of BNPL as a primary form of payment," Khoja says.

"Considering that BNPL has been around in a digital form for more than 10 years already—and longer if you consider non-digital forms of buy now, pay later programs—there is a long road ahead for pay-later offerings," Lisiewski says. "This is especially true when you consider companies that are adding BNPL to their core competency, as we are at PayPal. We are a payment processor that offers pay-later solutions. We don't charge merchants for that service as it is built into our processing contract with the merchant."

But will BNPL eat into traditional credit card transactions?

"The BNPL solution can very much survive and live freely in the wild with revolving credit," Perlin says. "There may be some cannibalization, but that will be more prevalent around private label at least in the early days."

The upshot is that buy now, pay later is now a fixture of the payments industry, Trent says. In a Strawhecker survey from earlier this year, the 60% to 70% who said they had used a BNPL service also said they used credit cards, she says. "A lot of them said they were using credit cards concurrently with BNPL. There's been a real gravitation to it for consumers," she adds.

"You can already see a lot of specialization," now, Trent says, recounting how her veterinarian offers it as an option and travel companies have adopted it. DT

Younger consumers 'want to use their own money instead of turning to expensive loans or credit cards, but still want and need the flexibility of being able to pay over time.'

Zahir Khoja, general manager, Afterpay North America

PUTTING CASH IN THE PAST

The demands of modern business have virtually dictated that companies not only should, but must, use digital payments.

BY DAVE GLASER
Dave Glaser is the president and chief operating officer of Dwolla, Des Moines, Iowa.

WITH THE ONSET OF THE COVID-19 PANDEMIC, business operations were forced to shift online practically overnight. Work-from-home became the new normal, which created contactless environments for communication and workflows. Payments quickly followed suit in this contact-free, digitized framework. In fact, according to Statista, the value of cashless payments will reach nearly $200 billion by 2023.

As businesses have quickly adapted to digitized operations, payment methods such as paper checks and cash—still commonly used in real estate, health care, education, and government transactions—are becoming a thing of the past. However, with 1.8 million stimulus relief checks being sent last year, there is still much room for improvement.

With the swift adoption of digital payments, businesses will see long-lasting impacts from the multitude of benefits they offer. Not only do digital methods of moving money cost less, they are more efficient and improve an organization's overall resiliency.

No longer can businesses rely on simply upgrading their legacy payment systems. Instead, they need modern payment technology in today's evolving business-to-business landscape. The most appealing and scalable technology must offer flexibility to customers with the various payment options and respond promptly to changes in the industry.

THE CASE FOR DIGITAL PAYMENTS

As we prepare for the future in an increasingly digitized world, data and analytics companies, such as GlobalData, predict that some countries will lead the way into a truly cashless society. In fact, the firm believes the United Kingdom, Finland, Sweden, China, South Korea, and Australia have the most potential to be the leaders in truly cashless payments in the next decade.

As a result of this transition, banks are continuing to slow down


DIGITAL TRANSACTIONS
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their building of brick-and-mortar branches to make the shift in going fully digital and speeding up transaction times.

Overall, payments play a vital role in helping companies deliver optimal internal and user experiences, whether the business is growing or its customer demands are evolving. Thinking through the different opportunities, there are three fundamental reasons why your business should use digital payments to support and enable growth:

> 'The Internet, cloud computing, and API-based applications have opened up a world of possibilities for more traditional businesses to embrace digital payments beyond just cards.'


Glaser

1. Tailoring Payments to Suit Your Needs

Organizations need solutions that grant customers the ability to easily move funds and the flexibility to shift money across numerous payment rails. With real-time payments, businesses reap the benefits of sending and receiving money within seconds, aiding companies whether they are in a time-dependent or emergency situation.

Some 146 financial institutions already participate in the The Clearing House Payments Co.'s Real Time Payments (RTP) Network, which reaches 70% of demand-deposit accounts (DDAs) in the United States. In 2020, the U.S. logged 1.2 Million RTP transactions, ranking it the ninth-largest market for real-time payments.

Another digital-payment channel that offers expected and dependable connections for transferring funds between various bank accounts is the ACH network. In the first quarter of 2021, the total volume in transfers increased 11.2% from the first quarter one of 2020, rounding out at 7.1 billion payments worth $17.3 trillion. ACH transactions enable businesses to initiate disbursements quickly for substantial payouts.

The flexibility of accessing a variety of payment networks offers different advantages, but tailoring payments according to your specific business needs, accounting for things like transfer speeds, costs, and support, remains an essential advantage to many businesses and their customers.

2. Enhancing Data Transparency

Digital payments are lauded for providing greater transparency, allowing organizations to add and track contextual business information in real-time. An example of this is when information that leads back to operations, such as invoice numbers, can be sent with the transaction instead of being stowed away in separate systems that require manual updates. With modern technology, businesses can automatically send notifications of a transaction's success back to the sender and know immediately if a payment fails.

By utilizing these insights, organizations gain visibility into real-time cash flow, allowing them to anticipate and report spending with high-level confidence.

3. Bolstering the Customer Experience

As digital communications pervade the business landscape with both positive and negative feedback, organizations are more focused on the customer experience than ever before. Decisions increasingly revolve around customers' wants and needs to warrant higher shareholder value. In fact, many businesses are taking an outside-in approach to shift their perspective and see their company through their customers' eyes.

By allowing individuals to send and receive payments instantaneously, customer satisfaction is almost guaranteed. Through the elimination of paper processes and competitive pricing, customers can sit back and trust that their payments will go through faster and more seamlessly than ever.

And digital payments offer convenience not only for customers but also for businesses. Consumers will have a faster payment experience, while businesses are able to have greater control over cash flow. This creates a win-win situation for both parties.

BUSINESS GROWTH

At the core of every business infrastructure is the objective to scale. As organizations continue to develop cutting-edge products, boost competitive customer advantages, and adapt new technologies to propel success, payment platforms should not be a burden to progress.

Companies must have the ability to transition seamlessly into higher processing levels. A real-life example of this is the recent housing market boom, which required real-estate businesses to scale their capabilities to support the surge in mortgage payments and closing costs.

While some technologies can present challenges that your business must overcome, digital payments make the process easier. It is now as simple as connecting a bank account within seconds to start moving money in a seamless way that is more affordable than credit cards.

This ability to move money quickly and effectively allows businesses to centralize their focus on managing growth and preparing for the future, while still ensuring their customers are happy. Furthermore, digital payments enable businesses to advance their own goals and unlock potential for future opportunities.

More fundamentally, the Internet, cloud computing, and API-based applications have opened up a world of possibilities for more traditional businesses to embrace digital payments beyond just cards.

Now companies can deliver customizable solutions that fit the specific needs of their customers, no matter their preferred payment method or geographical location. Taking advantage of the ACH and real-time payments networks for lower costs, lower fraud, faster clearing, and optimal operational efficiencies will prove to be a competitive differentiator.

With their unique and flexible abilities to create scalable, reliable, and electronic business models, digital payments are the future of business transactions. DT

DEBRANDING GAS STATIONS: WHAT COMES NEXT?

Gas stations that are not EMV-compliant face the possibility of losing their contract with a petroleum brand or having to pay steep fines. For owners that de-brand, there are options.

BY **LORI GRIBOSKI**

Lori Griboski is vice president of sales at Petroleum Card Services, Paysafe.

THE IMPLEMENTATION OF NEW RULES shifting the liability for non-EMV-enabled card payments to gas stations is already having a significant impact on the industry.

It has only been a few months since petroleum merchants began taking financial responsibility for fraud that occurs at pumps that don't require chip-and-pin EMV verification. Yet, many of the long-term consequences—particularly for those that are yet to install new payment terminals—are becoming clear.

One of these consequences is that the rate of gas stations de-branding is increasing.

This can be a confusing, and often worrying, time for gas-station owners. After all, no longer being associated with a major brand can have serious financial implications. But it can also mean thinking through the many aspects of running a gas station operation, perhaps for the first time.

When operating under a partnership with a brand, much of the nuts-and-bolts detail of running a business is overseen by the brand, so it is understandable that newly independent gas stations have a lot of questions and are looking for answers. The good news is that gas stations that find themselves in this situation have options, and there are specialists in the petroleum industry that they can turn to.

THE ONLY CHOICE

But first, let's look at why gas stations de-branding. Typically, gas stations have long-term contracts with major petroleum brands. There are good reasons for this. These include increased consumer recognition and trust, and sometimes more economical access to fuel.

However, the introduction of the EMV liability shift left both parties considering their options when the gas station has yet to convert its at-pump

SAVVY SOLUTIONS FOR SMALL BUSINESSES AND THE ISOs THAT SUPPORT THEM

By John Newton,
Vice President,
Strategic Partnerships,
First American
by Deluxe

Root. Crux. Nitty-gritty. No matter how you say it, there are essential elements to running a business. But small business owners often get caught up in the day-to-day minutia which, despite their best efforts, can derail their success. That's where First American by Deluxe can help. Our payment technology and business solutions are designed to help your merchants pay, get paid, optimize and grow.

GAINING A COMPETITIVE ADVANTAGE

Small business owners cannot be expected to be an expert in all of the disciplines required to run their business. Nor can they be expected to have all the resources they need in-house. Knowing this, First American provides people-centric, tech-forward solutions that reduce, if not eliminate, everyday hassles so both you and your merchants can focus on running your business.

- Payment solutions designed for almost any vertical, including restaurants, retail, medical offices, financial services, health/beauty, education, and entertainment. If you have a need, we'll design a solution.
- Modern technology such as mobile, contactless, ecommerce, hosted payment pages, white labeling options and system agnostic equipment, each constructed to serve your payment needs today *and tomorrow.*
- Business solutions like our comprehensive HR/Payroll program that integrates payroll, HR and tax systems into a single platform, so merchants can focus their energy on what's important, people not paperwork.

SUPPORTING YOUR SMBs

As an ISO, it's your privilege to grow your portfolio, while creating opportunities for your merchants to compete and to thrive. To do both requires an understanding of the marketplace—consumers, competition, opportunities—and a payment technology partner that's as committed to achieving your goals as you are.

You're on the front line. You know what merchants need to succeed. And First American knows what you need: powerful, secure technology solutions that will grow in tandem with your ISO; competitive pricing and an easy way for your merchants to expand operations; real-time data to help inform business decisions; and marketing support to make it easier for you and your merchants to run your businesses. Just ask Lisa Coyle, co-founder of 360 Payments.

"First American has worked diligently to both identify and create customized solutions for us. The underwriting program they put together for our automotive shops allows accounts achieving a set criteria to automatically pass through underwriting, making it simple for us to get deals approved quickly. Their willingness to listen and to understand our needs has made a world of difference for our ISO's success."

CHOOSING THE RIGHT PAYMENT PARTNER

Speed and convenience are important in a competitive, technology-driven environment, but you can't forget about service. Many payment processors will promise you the moon, but deliver something far less celestial, so finding a partner who's both an adviser and an advocate is essential to your ISO's success.

First American, like the successful small businesses you support, has built a well-earned reputation on one-to-one relationships. You are more than a MID to us, and we work to earn your business every day. From access to everyone on our team—the CEO to Operations, Underwriting to Marketing, Sales to Customer Service—to flexible, scalable programs designed with your unique goals in mind, we will create a roadmap to fuel your success and deliver a superior experience 24/7.

We can empower you to serve your market better than you do today. Ready to get started?

FIRST AMERICAN by deluxe

First American Payment Systems (First American by Deluxe®) is a leading payment technology company that provides powerful in-store, online and mobile payment solutions paired with the latest in payment security and backed by superior customer service. www.first-american.net

‘Even where gas stations haven’t so far seen a spike in fraud costs post the liability shift, it is inevitable that this will happen.’

payments authorization to chip-and-PIN. Many brands simply do not want to be liable for at-pump fraud, and this discomfort is only going to grow worse with fraudsters increasingly targeting these vendors.

The result is that many brands are strongly considering terminating the contracts they have with gas-station owners that haven’t installed chip-and-PIN terminals. The grounds for this action are that the owners are in breach of the contracts’ terms and conditions.

Even where they haven’t ended their relationships altogether with gas stations that are yet to implement EMV-enabled at-pump payments, it is becoming increasingly common for brands to charge a monthly non-compliance fee. In many cases, this fee is increasing every month.

With the cost of non-compliance escalating—but the industry remaining backlogged by a lack of technicians and months of hardware orders that haven’t been fulfilled—gas stations’ only choice is to pay the fees or consider an alternative future separate from the brand.

Gas stations that are de-branding may be thinking for the first time about how they accept payments, as brands often manage the partnerships with payments providers directly. This, coupled with the ongoing headache of navigating the at-pump EMV requirements, means partnering with a payments provider. Increasingly, this is going to be key to running a successful business once the de-branding has been completed.

Payments companies that specialize in the petroleum industry can provide support and advice to gas-station owners to navigate through a complex landscape. And there are other questions gas stations will need to answer once they have de-branded. Most notably, this includes where they will now buy their gas. But again, payments providers with deep experience in the sector can also offer support through their extensive partnerships throughout the industry.

There are payments companies that are experts in merchant services for gas stations that can take a significant amount of stress from the shoulders of owners. These owners should look especially for companies that have ongoing partnerships with other services, such as technicians that can reduce much of the worry surrounding de-branding.

THE INEVITABLE FRAUD

But it’s a mistake to think de-branding means owners don’t have to become EMV-compliant. Although the reason gas stations may be considering de-branding is to avoid the heavy fees brands are charging for not being compliant, this shouldn’t be viewed as an alternative solution to the issue of at-pump fraud liability.

As we have already noted, fraudsters are increasingly targeting gas stations that don’t have EMV-enabled payment terminals at their pumps. So even where gas stations haven’t so far seen a spike in fraud costs post the liability shift, it is inevitable that this will happen.

And while it is true that there remain delays in the supply chain for gas stations that are trying to replace their existing terminals to become compliant, that isn’t a reason not to take immediate action. Payments specialists within the petroleum industry can provide options to gas stations that are looking for temporary solutions or ones that are less costly than full replacement of all at-pump payment terminals.

While de-branding is sure to be a stressful time for some gas stations, it is important to know that there are experts to help navigate through these uncharted waters. But it’s critical to engage with the right payments partner.

For gas stations that are in the process of de-branding— or are strongly considering de-branding in the near future—there are plenty of options for how to move forward and success stories to emulate. Reaching out to a payments industry leader in the sector is the start of that journey. DT

WHEN ISOs AND ISVs CONVERGE

Perhaps the most significant fintech trend is the convergence of ISOs and software developers. Both have much to gain by adding the value provided by the other.

Over the past decade, we've watched as the worlds of payments and software became intertwined. Recently the lines between both worlds have blurred further, as some adventurous ISOs have moved into the software development world, and some ISVs have fully embraced payments as part of their go-to-market strategy. It's a win-win for both sides.

WHY ISVs ARE EMBRACING FINTECH

Software companies enjoy some very compelling benefits of fully embracing payment integrations. There's an opportunity to build more recurring revenue. ISVs who haven't monetized payments are leaving a considerable amount of recurring revenue on the table. In fact, payments revenue can eclipse monthly SaaS revenue for some software companies.

Another benefit centers on the transition to omnichannel commerce. Many software companies have had to pivot to accommodate merchants' and customers' ever-increasing interest in accepting payments across various channels. By selecting a payment partner with a complete stack of offerings, ISVs can gain full commerce payment capabilities.

With the right payments partner, software companies can add payments data to the already bountiful volume of customer data that's collected, priceless for decision-making, new features and upsell opportunities.

SOFTWARE DEVELOPMENT GIVES ISOs A LOT TO CELEBRATE

On the other side, next-generation ISOs have identified several benefits of aligning with software companies. Whether by partnering with a software company or building/acquiring the software outright, ISOs can reach merchants who would otherwise be unaware of their existence and services.

Another benefit is stickiness. Merchants are often willing to change payment providers while chasing better rates, but are hesitant to switch software providers since their businesses are closely tied to the software.

ISOs who've embraced software typically earn more lucrative merchant accounts. Indeed, merchants investing in some software packages can reveal a level of operational maturity and stability associated with a higher, more consistent processing volume.

There's also a better upsell opportunity for ISOs turned ISVs. A merchant relationship can start with payments but grow into related products and services such as payroll, invoicing and more. Additionally, upsell opportunities can be staged (required information is only requested as needed) to ease merchants into the process.

ISOs, ISVs AND ACQUISITIONS

When pursuing a payments integration, ISVs should seek to align themselves with a fintech partner who provides transparency, fast and simple API integration, full commerce enablement, dedicated support and the possibility of white labeling the payments piece of the solution.

ISOs and other payment providers may consider building software or, more realistically, acquiring a software company. This trend of software company acquisition has been occurring in the retail and restaurant verticals with considerable success for the payment companies involved. There's no reason to think it can't or won't happen on a large scale across other niche markets—especially those with high ticket averages and recurring payments.

With so many benefits to both ISVs and ISOs, it's safe to assume that the lines between software and payments will continue to blur in the coming years. The only question is, will your company join in on the opportunity or miss out?

Choose your vendors wisely.

endpoint

HOW ISOs CAN LEVERAGE VENDOR RELATIONSHIPS

The pandemic has taught ISOs many lessons—including how to get the most out of their suppliers.

BY **BRIANNA MORIARTY**

Brianna Moriarty is the partner development manager at Star Micronics, Somerset, N.J.

LEVERAGING SALES in highly competitive retail, restaurant, commercial and other prime industry segments can be challenging, especially given the ongoing impacts of economic disruptions in effect today.

As businesses struggle to regain pre-pandemic commerce levels, setbacks have forced many to pivot to mobile, virtual, and contactless technologies to accommodate online and curbside pickup and delivery technology, opening new vendor sales opportunities for independent sales organizations (ISOs).

Forging relationships with the right vendor partners can elevate ISO service offerings to a new level by helping businesses overcome persistent sales hurdles. For optimum results, vendor partners need the bandwidth to support and deliver a broad spectrum of value-added solutions.

Here's a review of what ISOs should be looking for in their vendor relationships to ensure a successful fit.

INNOVATIVE SOLUTIONS

Hardware and software solutions that served customers prior to the pandemic may fall short in meeting customer expectations today. Take a moment to review your current offerings to determine where service and/or product gaps exist, then develop strategies to best fill them.

An April 2021 Federal Reserve study revealed that, during the first year of the pandemic, permanent closure of U.S. businesses exceeded annual historical levels by 200,000. To weather this cycle, innovative commerce strategies were deployed to salvage businesses in nearly every sector of the economy.

Still, many businesses are on the brink of collapse as the economic fallout continues. Innovative solutions that reinforce expanded sales channels will continue to bring much-needed relief to businesses in various stages of economic recovery.

Technology offerings from your vendors should include a comprehensive variety of solutions to meet evolving needs. Not only is innovative software necessary, but the accessories needed to support them are also essential. Think kiosk and tablet stands to help navigate labor shortages, payment processing solutions to better serve busy customers, and even health and safety products to keep both staff and customers protected post-pandemic.

Vendors that constantly innovate equip ISOs with tremendous flexibility to target end-user needs no matter the state of the industry—not to mention the opportunity to make more money per sale.

SPONSORED CONTENT

AGILE FINANCIAL SYSTEMS UNVEILS REVOLUTIONARY, INNOVATIVE PRODUCT SUITE

APEX family of products designed to help businesses compete and grow in the marketplace

By Dustin Siner
Chief Revenue Officer

Southlake, Texas based Agile Financial Systems (AFS) is a high growth financial technology company founded in 2017. Backed by an executive team with over 100 years of combined industry experience, the organization's mission is to *revolutionize the financial technology industry through innovative, all-encompassing payment solutions,* all while maintaining superior service. AFS currently supports over 6000 clients and has enjoyed 50%+ YOY growth since inception. To further aid the company's explosive growth, AFS released its proprietary APEX suite of products earlier this month. AFS developed the APEX suite of products to modernize financial technology through cloud-based solutions emphasizing omni-channel payments, consumer agility, data security, and feature-rich solutions.

"The APEX platform is the pinnacle of financial technology," said Dustin Siner, the AFS Chief Revenue Officer. "APEX completely integrates turnkey mobile, countertop terminal, point of sale, and ecommerce platforms with a full library of API's. Whether taking advantage of innovative, out-of-the-box solutions or integrating through API, APEX allows merchants and software developers alike to process transactions from anywhere their consumers look to buy through a fully integrated solution."

In addition to empowering innovative financial technology features for software developers, the APEXConnect API library brings that code to life through mobile, countertop, and full cash register solutions in APEXNow, and enables e-commerce and call center payments through the APEX Gateway.

APEXNow is the AFS solution for terminal, mobile app and MPOS solutions. Supported through Pax A and E series devices, merchants can leverage features that support restaurant quick service (including menus, kitchen printer support, pay at the table, and other elements), inventory management, profitability reporting, and more. The devices support credit, debit, gift, loyalty, and fully compliant cash discount functionality.

APEX Gateway is an AFS proprietary gateway solution, offering a modern virtual terminal supporting all credit card transaction types, along with a hosted payment page with cash discounting options for e-commerce merchants. The APEX Gateway is Level 1 PCI compliant, securely enabling businesses to help increase revenue and efficiency—all in one single cloud-based platform.

APEXConnect is a feature-rich library of API's for payment facilitators, SAAS or software providers to be able to integrate feature-rich (and fully customizable?) financial technology. API features include instant merchant boarding, the ability to automatically split payments across multiple parties at the transaction level, process merchant settlement onto debit cards, inventory management, gift/loyalty and more.

"By leveraging the Apex platform, a business owner can take advantage of existing APEXNow products, integrate those products into a software developer's business management solution, operate ecommerce through the APEX Gateway, all while enjoying consolidated reporting in real time to manage their business," Dustin Siner said. "APEX allows businesses to meet consumers where they're ready to purchase products, all while maximizing business efficiencies."

AFS
AGILE FINANCIAL SYSTEMS

Agile Financial Systems (AFS) is an innovative financial technology solution provider based in Southlake, TX with the goal to provide omni-channel services and financial payment solutions to a variety of business owners. To learn about visit go-afs.com.

When selecting vendor partners, compare how effectively individual competitors embrace developing fintech technologies and the accessories that support them.

A vendor whose solutions are built to service Web applications for brick and mortar, e-commerce, online ordering, and everything in between is generally better positioned to support revenue-generating opportunities in the future.

In the current sphere of fintech-industry leaders, Heartland, Square, Shopify, Uber Eats, Vend, Zuza, and hundreds of other leading-edge companies each serve respective and concurrent roles in the economy.

As new players emerge, ISO vendor partners with the experience and foresight to integrate empowering commerce capabilities will further help businesses withstand market pressures.

Reputable vendor partners' value-added services capitalize on every opportunity to increase sales. This includes independent software vendor (ISV) applications and hardware accessories, such as cash drawers and state-of-the-art receipt printers with cloud capabilities to manage mobile, card-not-present, in-store, and in-the-field transactions simultaneously.

For many ISOs, aligning with the right vendor partners provides the leverage to become a one-stop shop for end users, preventing attrition created when valued customers must search elsewhere for additional point-of-sale and payment accessories. Well-chosen vendor partners ensure that more pieces of the commerce journey are acquired directly through your ISO.

Another vendor-partner benefit is increased earnings potential, since more sales commissions can be generated through expanded value-added offerings.

SUPPORT AND INTEGRATIONS

In commerce, every second matters. When selecting a vendor partner, it is important not to overlook the value of partnering with vendors that are qualified to support your ISO operation and your customers should anything go wrong with equipment.

To ensure uninterrupted business continuity, system and equipment malfunctions or failures require immediate remediation. With 24/7 access to fully trained vendor support, your ISO and your clients are better protected and able to perform in today's fast-paced commerce channels.

Another indicator of a strong vendor candidate, referenced earlier, is systems-integration capabilities. Regardless of which POS or business management software your clients currently use, vendor partners must have the capacity to integrate multiple systems. End users should never have to worry about accessories not integrating with their existing software.

Equally important, when payments integration is built-in, vendor partners can provide ISO end-user solutions that protect revenue channels and simplify transaction processes through seamless connectivity to the most convenient forms of payment.

Whether your customers send receipts and invoices digitally or in printed form, POS systems, peripherals, and cloud services that support thermal, impact, portable, and kiosk printers with advanced promotional and loyalty features also generate revenue.

Your vendor partner should be focused on best-in-class solutions for a broad range of business applications. The vendor you ultimately choose should have the foundational strength and expertise to support future fintech trends.

With the right vendors in your back pocket, your ISO operation can stay on top of the latest payment trends, improve sales, and build a more profitable portfolio, all while creating a rewarding end-user experience that is simple for your customers to navigate.

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Our commitment to your success is a reflection of who we are.

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At Humboldt Merchant Services, we are committed to helping our partners and their merchants succeed. After all, we know that your success is our success. That's why we help you grow your portfolio with industry-best payment solutions for retail, ecommerce, and specialty merchants. All while giving you anytime access to our secure, online Sales Partner Portal so you can keep tabs on your merchants' activity and your profitability.

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