DIGITAL TRANSACTIONS®

Trends in the Electronic Exchange of Value

ACQUIRERS AND THE CCCA

The unknown ingredient in Congress's effort to remake credit card processing

Volume Twenty-one, Number One • DigitalTransactions.net • January 2024

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the gimlet eye

HOW DO YOU DEFINE SUCCESS?

You might think a fledgling payments network that launched in July with 35 participating financial institutions and within less than six months had multiplied that number nearly tenfold could be considered at least a tentative success.

Granted, there's a long way to go for the Federal Reserve's FedNow real-time payments platform, the network referred to above. The Fed said last month it had 331 lenders operating on FedNow (see our lead story in the "Trends & Tactics" section on page 6), but after all there are somewhere around 9,000 financial institutions in the United States.

The Wall Street Journal last month jumped on that discrepancy to highlight several weaknesses in the Fed's real-time ambitions. After all, Fed officials, some of them quoted by the *Journal*, themselves have pointed out that it will take years before real-time payments become a routine for everyday Americans.

Bank executives quoted in the article referred to the "complex, time-consuming, and expensive" behind-the-scenes work banks must put in to make real-time payments a reality for customers. On top of this work comes further complexity, with the need to adopt or develop "user-experience software" and "fraud controls."

Then there's the investment, amounting to more than $1 billion, some of the nation's biggest financial institutions have already poured into building the Real Time Payments network operated by a bank-owned company, The Clearing House Payments Co. The fruits of that investment are such that banks backing FedNow must reckon with RTP, a service offered by The Clearing House Payments Co. RTP launched in 2017, and claimed some 483 client banks onboard as of the middle of last month. Yet, some of TCH's backers are also investing in FedNow.

But there's another way to look at all this investment in competing systems. For all of the talk of expense, time-to-fruition, and double investment, there's a long history of development of multiple platforms for U.S. payments processing. In the middle of the 1980s, for example, there were somewhere around 300 networks moving debit card transactions, first for ATMs and then, soon, for direct debit at the point of sale. Needless to say, that business has since rationalized.

In credit cards, there are four major networks moving transactions, with the private-label systems of major merchants arguably constituting yet more networks.

Also, as it turns out, there's significant cross-over in bank participation in FedNow and RTP. As of mid-December, some 137 of FedNow's participating 331 banks and credit unions had also signed up for RTP, according to TCH. Banks participating jointly in FedNow and RTP will benefit from their experience with the latter system—and that can redound to the benefit of FedNow.

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FEDNOW'S RISING ADOPTION BUOYS ITS BIGGEST RIVAL

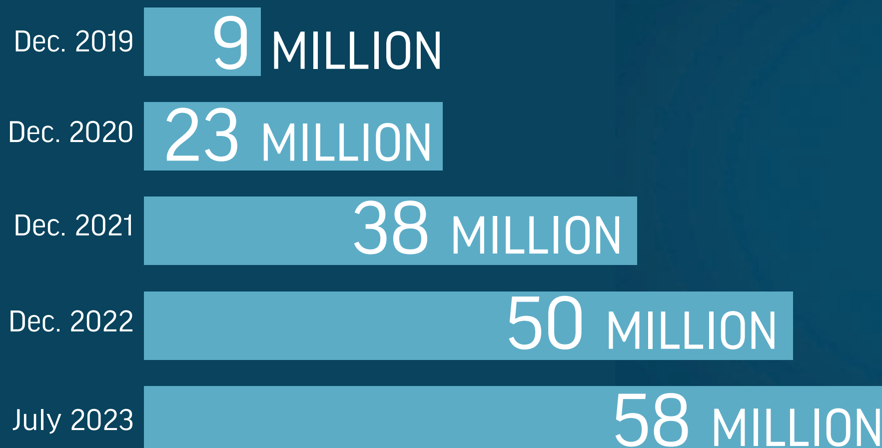
A big movement among financial institutions to join the Federal Reserve's FedNow real-time payments network appears to be benefiting its biggest competitor.

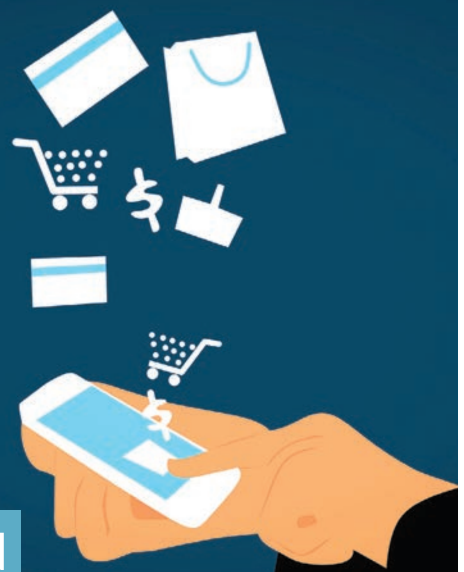
"Ever since FedNow launched, we've seen a surge of interest in real-time payments," says a spokesman for the Real Time Payments network, operated by The Clearing House Payments Co. The RTP network has added 135 participants in the second half of the year alone, he says, bringing the current total to 483.

The Federal Reserve reported in mid-December that some 331 institutions were sending or receiving transactions on FedNow, which launched in July last year with 35 participants. The much-anticipated commercial launch followed years of development work that came after the Fed announced in the late summer of 2019 it would develop a real-time payments platform.

But many participants appear to be interested in using both FedNow and its biggest rival, RTP. Of the 331 banks and credit unions that had signed on to FedNow by mid-December, 137 were participants in RTP, according to TCH's figures. "We've seen a lot of overlap," says the TCH spokesman.

New York City-based TCH, which launched RTP in 2017, has for years stood as the nation's most prominent national provider of real-time transfers. TCH is owned jointly by 22 of North America's largest banks, including Bank of America, Capital One, Citibank, JPMorgan Chase, and Wells Fargo. Its real-time network





Source: The Clearing House

is now processing 25 million transactions monthly, according to TCH.

Many of these banks have benefited from the experience they've had with RTP, the TCH spokesman says, another factor that he says accounts for at least some of the overlap among participants in RTP and FedNow. "The institutions that have joined RTP, they've done the homework," he notes, adding that once these banks have gained experience with RTP, "it's not a heavy lift" to connect to FedNow.

But for the time being, at least, TCH can claim a significant advantage, even with FedNow having started commercial operation, the TCH spokesman says, as attracting smaller participants could be a harder and slower mission. The vast number of smaller banks, he adds, "is a long tail."

The Fed's key advantage, however, is its longstanding connections to "thousands" of banks, a fact the regulator pointed to in its Thursday announcement. "These are still early days for the FedNow service, and we are pleased with the robust level of adoption over the first few months as we transition from launch phase to standard operations," said Ken Montgomery, FedNow program executive and also first vice president of the Federal Reserve Bank of Boston, in a statement.

If that remains true, TCH expects this awakening of interest in real-time payments to benefit RTP, as well.

—John Stewart

SOCIAL MEDIA INFLUENCERS, THE CCCA, AND TURNING UP THE HEAT

The Electronic Payments Coalition has opened a new front in its battle to prevent passage of the Credit Card Competition Act.

It's recruiting social-media influencers to join its cause. In June, the EPC put out a memo on the new tactic as part of its "Hands Off My Rewards" campaign to prevent passage of the CCCA, which would look to control credit card acceptance costs by requiring processors to offer a wider choice of networks.

Social-media influencers are persons who have established themselves as experts in a particular field and share their knowledge with other consumers through one or more social channels, such as TikTok, X (formerly Twitter), Instagram, and Facebook.

They are typically compensated for their work through sponsored posts, affiliate marketing, brand partnerships, official network monetization programs, merchandising, or direct donations.

The memo was sent to social-media influencers who have indicated they do not want to lose their credit card rewards and current fraud protection, the EPC says.

The EPC's strategy of turning to influencers to help shape public opinion about the CCCA, a move the group hopes will in turn influence legislators, is a clear indication the payments industry will not stand by quietly while proponents of the CCCA make their case for passage of the bill, some payments experts say.

"Unlike 2010, when the Durbin Amendment was introduced, the EPC has been much more vigorous in its opposition [to] the CCCA," says Eric Grover, proprietor of the payments consultancy Intrepid Ventures. Grover opposes the bill. "This stance is long overdue," he adds. "In 2010, the payments industry was very complacent. Had the industry been this aggressive in its opposition to Durbin in 2010, the outcome may have been different."

Among other restrictions, the Durbin Amendment capped interchange fees large banks can charge for debit card transactions. The Fed in October proposed a downward revision of the cap.

In its latest memo, the EPC outlines what it considers to be key messaging points, such as the idea that, if passed, the CCCA would put credit card rewards at risk. The memo also advises influences to avoid using the term "swipe fees."

"The CCCA will not lower prices for consumers the same way the Richmond Fed said similar debit card legislation would ten years ago," an EPC spokesperson says by email. "The

CCCA will force card transactions to run on untested networks and is opposed by consumer groups, community banks, credit unions, and labor unions because it is a flawed policy which has never had a committee hearing or stood up to real questioning."

The Merchants Payment Coalition, which supports the bill, takes issue with the EPC's latest tactic. "It's not flattering [that] the EPC has to pay people to agree with them," says Doug Kantor, an executive committee member at the MPC and general counsel for the National Association of Convenience Stores.

Kantor adds that, by establishing guidelines for influencers on messaging about the CCCA, the EPC is using a communications channel where misinformation is often spread.

"With many people getting their information about important issues from social media today, influencers are a way to spread misinformation that hasn't been vetted and misinformation seems to be a central part of the card-industry playbook," Kantor says. The MPC says it does not engage influencers for its lobbying efforts.

Nevertheless, the effort to affect policy through social media is a bold and creative strategy for the EPC, as the association can pitch its message to consumers, some observers say. "If consumers are engaged in an issue, they are a powerful political force. Give the EPC credit, they are really bringing it," says Grover.

The EPC added last month it has surpassed 1.1 million letters received from constituents and sent to lawmakers.

—Peter Lucas

HOW 3-D SECURE USE DRIVES DOWN CNP FRAUD RATES

Merchants and financial institutions that use 3-D Secure to help vet online transactions in markets that require its use see fraud rates that are three to six times lower than for all card-not-present transactions. That's one finding from a Outseer-sponsored report completed by the research and consulting firm Datos Insights.

Released late last year, the report also found that while U.S. CNP fraud losses, estimated to hit $9.2 billion in 2023, are projected to increase to $12.87 billion by 2026, use of the advanced online fraud-prevention service is weak.

3-D Secure transaction volume was up 20.5% from the first half of 2022 to the first half of 2023 in the Americas, compared with 29.8% growth in Asia-Pacific and 27.1% in the Europe, Middle East, and Africa region, according to Outseer data.

3-D Secure is a standard developed by EMVCo to counter online fraud. A recent update to it provides a software-development kit to make it easier to apply 3-D Secure to traditional and nontraditional channels and devices.

The Outseer report interviewed fraud executives at 20 financial institutions, including those in Australia, Canada, Germany, the United Kingdom, and the United States. 3-D Secure is not required by regulators or card networks in Canada or the United States.

As might be expected, then, 3-D Secure use in North America is low, averaging 2.7% of all CNP transactions, "yet fraud rates on

GLOBAL RETAIL E-COMMERCE SALES

(Historical and projected, in billions)

*Projection. Source: Statista

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3DS-protected transactions are nearly six times higher than for all CNP transactions," the report says.

"This is largely because the majority of merchants in unregulated markets send only high-risk transactions across the 3DS rails, which in turn prompts issuers to employ more draconian authorization strategies, which also adversely impact authorization rates," the report adds.

The inverse is true in regulated markets, Datos Insights says, "in which 25% to 50% of CNP transactions are protected by 3DS, and fraud rates are three times to six times lower than for all CNP transactions."

"The data is clear: invoking 3DS has a significant impact on CNP performance. In the UK, when 3DS is used to protect CNP transactions, card authorization rises to an impressive 90 [to] 96% versus a mere 70 [to] 75% authorization rate without 3DS," Julie Conroy, Datos Insights chief insights officer, says in a statement.

Among North American financial institutions canvassed for the report, 70% believe 3DS to be as effective or more effective at fraud detection than their other CNP tools. Though many North American issuers would welcome greater use of 3-D Secure, with some saying they'd favor a government or card-brand mandate, others are less open to that method.

As one Canadian bank executive told Datos Insights, "The card brands need to work with merchants to get them to adopt and use 3DS more. While mandates have worked in other markets, I don't think it's going to happen in North America."

—Kevin Woodward

AFTER GOLDMAN, WILL ANY ISSUER WANT THE APPLE CARD?

Apple Inc. may be looking for a new bank to issue its Apple Card, but the big question is whether any potential candidate will want to take it on, some observers say.

Late last year, Apple was understood to be taking the initiative in finding a replacement for Goldman Sachs Group, which has issued Apple's credit card since the product's splashy launch in 2019.

Before, it had been white-shoe lender Goldman that was reportedly looking for an exit from its agreement to back the Silicon Valley giant's card and its more recently issued buy now, pay later service, Apple Pay Later. "Apple is shopping for a more aggressive lender. This will be a long-term relationship," says Brian Riley, co-head of payments at the research and advisory firm Javelin Strategy & Research.

All eyes have been on Goldman as it sent signals it was ready to bail on its Apple deal as losses piled up on a consumer business observers say the Wall Street firm was not geared to manage. Now, Apple has sent a proposal to Goldman outlining a

plan to exit from its contract within the next 12 to 15 months, according to *The Wall Street Journal*. The deal had been extended only a year ago to 2029.

Apple and Goldman did not respond to a request for comment.

Candidates to replace Goldman could include American Express Co. and the private-label card issuer Synchrony Bank, according to the Journal story. Goldman held talks with AmEx this summer, as *Digital Transactions News* reported in early July. A Synchrony spokesperson said the company "cannot comment on rumor or speculation."

With Apple apparently taking a more active role in finding a new issuer, the technology giant may find potential partners reluctant to take on a major credit product in an environment characterized by a rising cost of money. Apple is a "demanding" partner, Riley points out. "They want it their way. They don't worry about your risk," he says.

That risk could be substantial, Riley notes. "Every indicator says that [writeoffs and delinquencies] are up," he says. "Household budgets are under stress." As a result, he adds, "it will probably cost Goldman Sachs a good deal of money to get out" of its deal with Apple.

The timing for a portfolio sale is bad in other ways, as well, Riley notes, as credit card delinquency rates steadily climb. The rate rose to 2.98% in the third quarter from 2.08% a year earlier, according to the Federal Reserve Bank of St. Louis. "Everybody's expecting a credit storm," Riley says. "This is probably the worst time to be selling a credit card portfolio."

—John Stewart

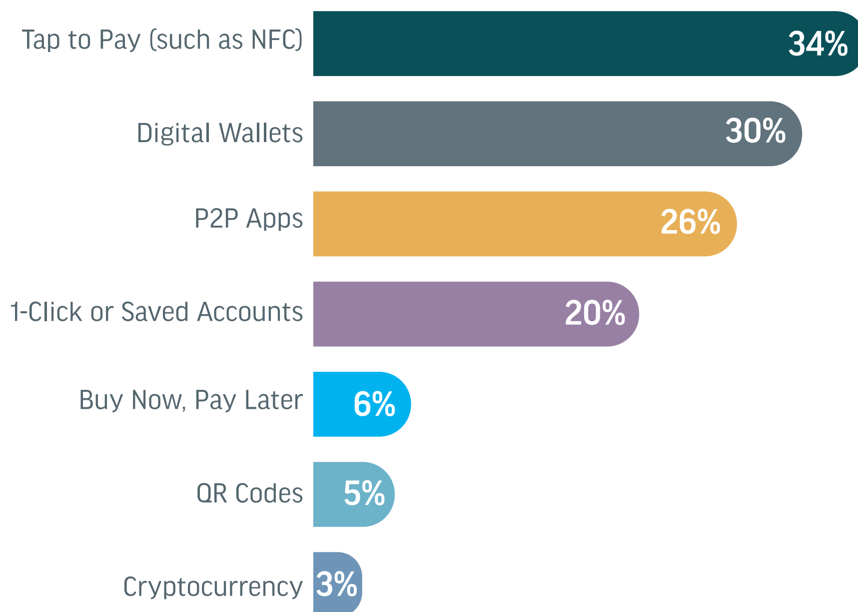
PAYMENT APPS ARE MAKING STEADY STRIDES WITH CONSUMERS

Roughly a decade after Apple Pay and other digital wallets burst into the U.S. payments market, the apps seem to be well on their way toward mass adoption, according to consumer-survey results released late last year by the Electronic Transactions Association and the consulting and research firm TSG.

In line with rising interest in wallets, tap-to-pay, or contactless, payment technology is also gaining steam, along with peer-to-peer payments apps, according to the research, which is included in the ETA/TSG report. The report is otherwise concerned with holiday-season spending and is entitled "2023 Consumer

SOME NEWER METHODS ARE CATCHING ON FASTER THAN OTHERS

(Consumers who said they had used each method "frequently")



Note: "Frequently" is understood to mean more often than "occasionally" or "once or twice."
Source: TSG and the Electronic Transactions Associaton

Holiday Spending Study." The study is the latest in a series released each year since 2020.

Of the 1,005 consumers the ETA and TSG surveyed in late October, 30% said they used the wallet apps "frequently," second only to the 34% registered by "tap-to-pay," a contactless technology that can also be used with cards. Some 79% had used wallets at least once, up 14 percentage points from 2022. Overall, tap-to-pay came in a close second, with 78% having tried the technology at least once, up 11 percentage points.

When it comes to frequent use, P2P apps came in third, with 26% citing that payment method. Some 78% had tried one of the apps at least once, up 8 percentage points. Popular apps in this category include PayPal Holdings Inc.'s Venmo and Early Warning Services' Zelle.

Buy now, pay later ranks near the bottom, with just 6% citing frequent use and 64% indicating they had never used the product, which allows consumers to split purchases into near-term installments, typically at no interest. Some 36% had tried BNPL at least once in the past year, unchanged from 2022, a possible sign that BNPL is cooling off after a torrid run in the wake of the pandemic.

Consumers continue to be cool toward cryptocurrency, with just 3% having used it frequently and 82% having never used it. Eighteen percent had tried digital currency at least once, up 2 points.

QR codes, on the other hand, are registering strongly among consumers. While just 5% indicated they use the codes frequently, 50% have tried them at least once, up 18 percentage points from a year ago, the biggest gain among the seven payment methods surveyed.

Among wallets, the researchers asked consumers how "confident" they felt if they left the house without a physical wallet but could use any of several named digital alternatives. Some one-third of Apple Pay users indicated confidence, up 10 points, the biggest gain among the surveyed wallets.

The most popular wallet, PayPal, sustained a one-year drop in confidence, from 64% to 58%. Two other

major wallets also lost ground on this measure, with Google Pay down from 25% to 21% and Amazon Pay slipping from 14% to 12%.

But the study found gains for most of the P2P apps studied, with Venmo (41% using, up from 34%) taking over the lead from Block Inc.'s Cash App (38%, down from 41%). Zelle shot up from 24% to 33%, while Apple Pay Cash rose to 17% from 11%. The number of non-users dropped from 33% to 26%.

For buy now, pay later, the most popular app is PayPal Credit, though at 14% of users it by no means dominates the market. Affirm (13%, up from 10%), Afterpay (12%, down from 13%) and Klarna (12%, no change) follow closely behind.

Among all consumers surveyed, ease of use, at 29%, was the top determinant of which app to adopt, though it's followed closely by the one that offers the "best deal" (28%) and the app that is seen to be the "most secure" (24%).

—John Stewart

MONTHLY MERCHANT METRIC

Oct'23 (Trailing-3 Months) Account Attrition and Growth

This is sourced from The Strawhecker Group's merchant datawarehouse of over 3M merchants in the U.S. market. The ability to understand this data is important as SMB merchants and the payments providers that serve them are key drivers of the economy.

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

Metric Definitions: (Only use definitions related to an individual month's release)
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

Beginning	100.0%
Account Attrition	-22.0%
New Accounts Added	16.0%
Ending	94.1%

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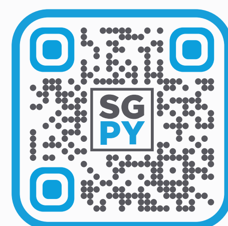

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HOW AI ESCROW IS CREATING GLOBAL TRUST

BY
GIDEON
SAMID
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WHAT COMES FIRST, the payment or the service, the money or the merchandise? It is best when they happen simultaneously, but this is not always possible. The seller says, "Pay me now and trust me to deliver later." The buyer says, "Deliver now, and trust me to pay later."

If payor and payee are acquainted and have a shared history, they also may have trust, and then the transaction is less of a problem. In many trades, this dilemma is resolved by paying half before, and half after. Other solutions are based on a pay-as-you-go plan, but when payor and payee are mutual strangers, suspicions emerge.

If the deal is substantial and mutually advantageous, the parties go for an expensive escrow solution, where typically a law firm holds the payment until it is satisfied that the delivery of the purchased service or merchandise took place. But the overhead and expense of a full-fledged escrow account makes it impractical for small transactions. Alas, small transactions are the majority.

Our world is so village-like in cyberspace that myriad opportunities to connect commercially are awaiting us, ready to pump prosperity on a global scale. There are some organizational solutions. Fiverr, for example, connects buyers and suppliers from all around the globe and plays a conflict-resolution role. Typically, credit card companies offer some simple conflict-resolution interventions, and indeed some card users take the quality of this conflict-resolution service into account.

But none of this is sufficient when we enter the digital-money world, where payor and payee may transact without the umbrella of a custodian network that charges an arm and a leg. Here, the new solution to the question of trust and transactional conflict resolution is based on the computing power that changes life everywhere else: artificial intelligence, or AI.

Conversational AI packages are already well developed. They are being adjusted to run effective conversations between buyer and seller, and to clarify issues in conflict. Parties with a public footprint are analyzed for trustworthiness and credibility. The detailed dialogues with the parties are AI-processed to prepare a case summary that includes all relevant information. If the summary leads to a clear answer, the AI conflict-resolution package declares that.

But if the case is questionable, the plan is for the summary to be submitted to paid "judges" randomly selected from a given list. The identities of the conflicting parties are hidden from the judges, who give an action recommendation accompanied by a self-measure of confidence that indicates the degree to which they are at peace with their decision. This "wisdom of crowds" is then reduced to a case decision. Over time, the AI package will learn from the crowd and will not need them.

The parties agree *a priori* to abide by the decision of the AI package. The buyer then passes the funds in digital coins to the AI operator, which in turn disposes of the funds according to the conflict-resolution verdict, subtracting a pre-agreed service fee.

Such automated escrow services allow for two complete strangers to do business with a global reach. They would not be confined to some network's rules, nor surrender metadata to a powerful collector. This emerging capability would lift payment into the role of a powerful peace agency.

History teaches that commerce between societies is a precursor for peace. Strangers that connect over the LeVeL payment protocol will connect on a human level soon enough. BitMint money is designed for this purpose. BitMint and other developers are rushing to develop this particular AI capability, untouched by the concern that AI could subjugate humanity. DT

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DIGITAL TRANSACTIONS
Trends in the Electronic Exchange of Value

REGULATORS OPEN THE FLOODGATES

BY BEN JACKSON
bjackson@pa.org

PAYMENTS AND BANKING regulators have released a flood of proposed regulations—with more to come—that could reshape the industry and the way consumers access it.

Government-relations teams across the financial-services industry have been hard at work trying to digest what all of these rules could mean for their businesses and the industry. A recap of the rules that have come out since November reveals the complexity of the proposed changes.

On Oct. 25, the Federal Reserve said it would take another look at debit interchange. On Nov. 14, it published a proposed rule that would reduce the interchange paid on debit cards and set up an automatic review cycle, with no public comment going forward. Comments are due by Feb. 12. I covered this in detail in my last column, so I will not spend too much time on it here. But this one could reshape the profitability—and thus the availability—of financial products. This is the first time the board has revisited the debit-interchange fee cap since it was first put in place in 2011.

On Oct. 31, the Consumer Financial Protection Bureau published its proposed rule on open banking. The rule would require banks, credit unions, and other financial-services companies to share account and transaction data with consumers and authorized third parties. It would also require data providers to create developer interfaces to make it easier for third parties to get access to data. Providers are worried about liability for breaches, and the possibility that some companies could become credit bureaus under provisions of the rule. Comments were due Dec. 29.

Then the CFPB released a rule on Nov. 14 that would bring under its supervision large technology companies that offer payment products and handle more than 5 million transactions per year. The Bureau's stated goals are to make sure these companies are obeying consumer-protection laws and to level the playing field with banks. The CFPB estimates that the rule would bring 17 companies under its supervision, but the rule would affect any companies that reach its thresholds, so these 17 would just be a start. Comments are due on Jan. 8.

As if these were not enough, the regulators included in their regulatory agenda two rules concerning overdraft and insufficient funds that could add to the pile in the New Year. Of course, the agenda does not limit what issues they may take up. It just identifies what the agencies have planned.

The big question is why regulators are jamming all these regulations in at once. The proposed rules would have overlapping effects and could lead to unintended consequences. Industry members have even suggested to me that some of the provisions in these rules should be broken out into separate rulemakings to make sure that they are addressed properly.

One theory is that regulators are trying to get rules in place before the next election cycle to protect the new rules from the Congressional Review Act if control of the government changes. A less charitable one is that regulators released this flood of rules around the holidays to hamper the industry's ability to respond effectively.

Whatever the reason, we already live in times that are not conducive to good policymaking. Regulators should not exacerbate this fact by releasing proposed rules in a way that hampers public comment. They should consider extending the comment period on the rules that are still outstanding. And they should look for ways to further engage with stakeholders to ensure the final rules achieve the goals of protecting consumers and the safety and soundness of the industry. DT

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IMPOSTER SCAMS: P2P'S GROWING PROBLEM

Peer to peer payments networks are wrestling with the fallout triggered when users send money to a scammer. Solutions won't be easy.

BY PETER LUCAS

IN THE WORLD of digital payments, there's a scam born every minute. The latest scam is conning consumers to send money via a peer-to-peer payment network to a criminal posing as a trusted entity, such as a charity, a government agency, or a friend.

Regardless of whom the criminal is impersonating, the goal of the outreach—which can occur via email, text, or even a phone call—is to get the victim to feel enough affinity with the imposter to authorize a payment from his bank account to the scammer's account. By the time the victim realizes he has been scammed, there is nothing the network can do to make the situation right because the victim authorized the payment.

Also, because the victim's account data was not compromised by the criminal, the monetary loss to the consumer cannot be classified as fraud. In the credit and debit card world, by contrast, fraud opens the door for the victim to be reimbursed.

Such scams, known as imposter scams, are posing a growing problem for P2P networks as criminals are increasingly using these systems as a conduit to receive funds from duped consumers. The problem is also forcing the networks to step up their efforts to educate consumers about scams.

In at least one case, a network has acted to reimburse consumers who have been scammed to prevent the erosion of consumer confidence in the network. Zelle, the peer-to-peer payment network operated by Early Warning Services LLC has been issuing refunds since June to consumers duped by imposter scams.

Zelle's decision to make these reimbursements represents a major about-face for the network. It had previously maintained to lawmakers it was unreasonable to require financial institutions in the network

to refund money to consumers who authorized a payment, even if they were tricked by scammers.

"Imposter scams tend to be under-reported because of the psychological barrier of being a victim," says Suzanne Sando, senior analyst, fraud and security, for Javelin Strategy and Research. "Zelle reimbursing consumers victimized by imposter scams is an important precedent that can't be overstated, because it takes the mental load off consumers that have been scammed and shows that no one should be blaming the victim for falling prey to an imposter scam."

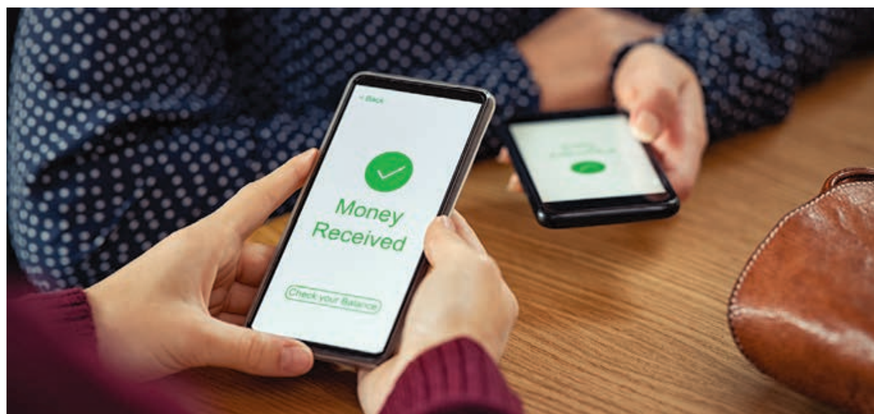
Not surprisingly, the threat of regulators or Congress imposing their own set of safeguards around P2P scams most likely played a big role in Zelle's decision to reimburse scam victims, payment experts say.

'A LEVEL OF TRUST'

In 2023, Cash App and Venmo, the peer-to-peer payment services from Block Inc. and PayPal Holdings Inc., respectively, came under scrutiny from four U.S. senators, including Sen. Elizabeth Warren (D-Mass.), a member of the Senate Committee on Banking, Housing, and Urban Affairs, over their fraud-protection efforts.

The inquiry was based on letters the senators had received from consumers about P2P fraud and scams. The information requested from Cash App and Venmo followed a 2022 request by Warren and seven other senators for information from Early Warning regarding fraud and scams on Zelle.

"The threat of regulation can be enough to force self-imposed accountability among the P2P networks to get ahead of any potential regulation," says Cleber Martins, head of payment intelligence and risk solutions for ACI Worldwide. "The United States lags other countries when it comes to the regulation of real-time payments."



That lag can seem stark. In June 2023, the United Kingdom, for example, published the Payment System Regulator, a policy statement that created a reimbursement requirement for imposter scams, also known as app or push-payment fraud, that take place over real-time payments networks. The policy requires the sending and receiving networks to evenly split the cost of the reimbursement to the consumer.

"Canada and Brazil are moving in the same direction when it comes to accountability," Martins adds.

The move toward reimbursing victims is considered by some payment experts as necessary for maintaining consumer confidence in P2P networks, since imposter scams have provided criminals a way of beating a P2P network's fraud defenses. And the advent of faster payments only makes the problem more acute.

"With imposter scams, [the idea of] keeping the bad guys out of the network or a consumer's account is moot, because the scam convinces the consumer to authorize the payment, which removes the need for the criminal to breach the network," Martins says. "As real-time payments become more common, these types of scams are going to become a bigger problem."

Finding a way to circumvent a P2P network's fraud defenses may be the challenge for fraudsters. The reward is the immediate receipt of funds in their account.

"The payoff [for criminals] is strong because of the speed at which they can get cash or cash equivalents. There is also a level of anonymity to it, as you don't have someone using a stolen credit card at a physical location," says TJ Horan, vice president of product management for the credit-scoring company Fair Isaac Corp (FICO). "In addition, it's possible to drive most of the activity from low-cost international locations."

Horan adds that a recent FICO survey reveals 55% of consumers surveyed believe that real-time payments are more secure than credit card transactions, and that 75% feel there are sufficient security checks.

"This invokes a level of trust with P2P payments that makes it easy for criminals to exploit," Horan says. "Scammers have therefore been able to use technology to engage potential victims across multiple digital

channels. Once the victim is engaged, the scammer has a much higher likelihood of extracting the funds."

MAKING THINGS 'RIGHT'

Early Warning is keeping mum about how Zelle determines whether a consumer has fallen prey to an imposter scam. The network does not want to tip off criminals about the consumer protections it has put in place, which could provide a road map for beating the network's defenses.

"Fraud is dynamic, and scams that persuade consumers to send money to a legitimate account controlled by a criminal are becoming more common," says an Early Warning spokesperson. "We evolved our policy to stay ahead of the changing landscape when it comes to scams."

Regardless of how fraudsters ply their trade, the key for networks lies in preventing consumers from falling prey to imposter scams. That key, everyone agrees, is education. In November, Zelle unveiled S.A.F.E. Squad, a consumer-education campaign about imposter scams.

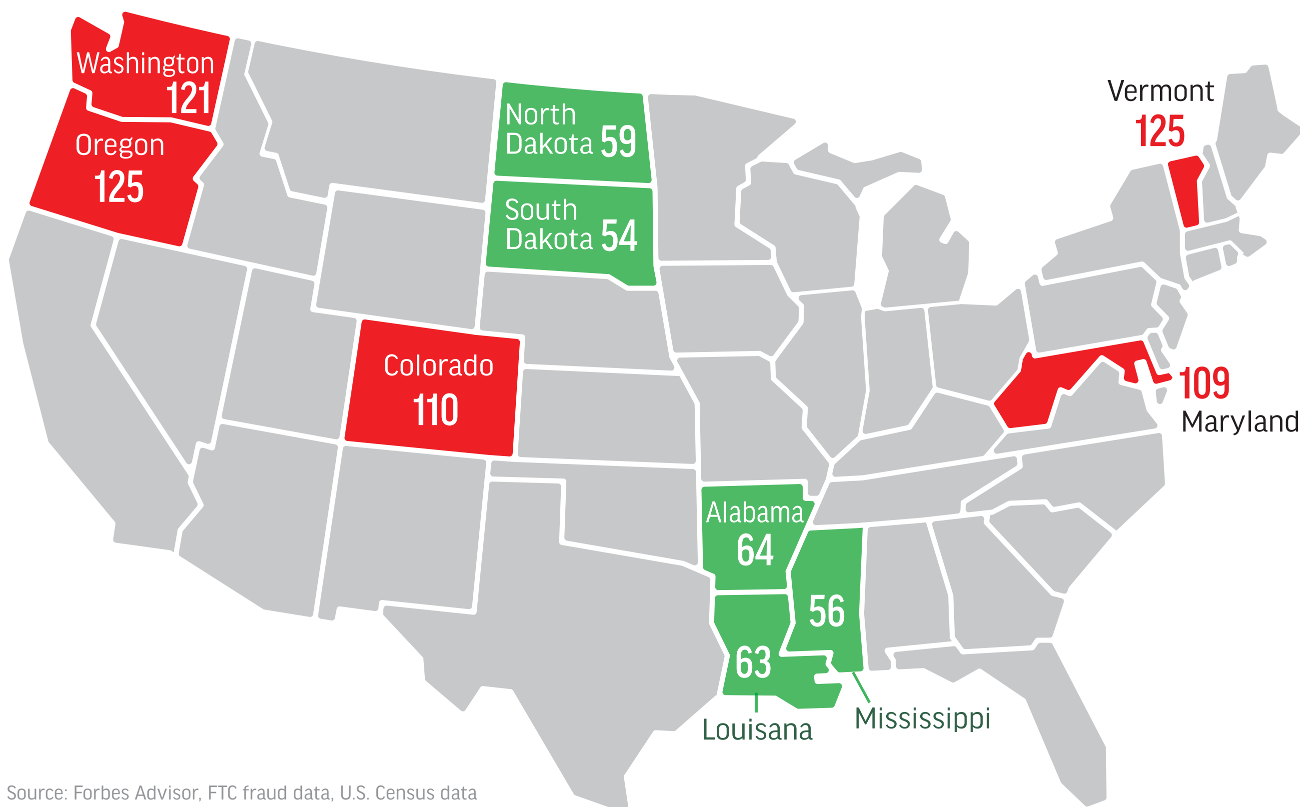
The campaign includes videos and educational materials that show consumers how to protect themselves, as well as quizzes to help test their knowledge about spotting imposter scams. The campaign, developed in conjunction with Vox Media Inc., will be syndicated across Vox's media properties.

In addition, Zelle has formed partnerships with myriad consumer organizations, including the Better Business Bureau, the National Council on Aging, and the Cybercrime Support Network, to educate consumers about scams. "There is a misnomer that imposter scams aren't eligible for reimbursement while fraud is, and we are working to clear that up," the Early Warning spokesperson says.

While Venmo, the P2P network operated PayPal Holdings Inc., has embarked on a consumer-education campaign about imposter scams, it has additional safeguards that can prevent a consumer from hitting the send button in response to what may be a scam.

STATE OF PLAY

(States with the highest and lowest imposter fraud complaints)



Source: Forbes Advisor, FTC fraud data, U.S. Census data

Venmo's tools include pop-up windows and push notifications that ask a consumer if she knows and trusts the recipient to which she is sending money. One such tool is an automatic flag, a push notification which is sent when the network has reason to believe a consumer may be transacting with a suspect party. One criterion Venmo uses for an automatic flag is whether the sender and recipient have transacted before or share friends on Venmo.

Venmo would not comment on its reimbursement policy, but the network said each disputed transaction is reviewed according to its unique circumstances. Many of the network's educational materials direct customers impacted by a scam to reach out to a customer-service agent. The information is also outlined in Venmo's user agreement.

"As a fintech, we take a different approach to fraud and scams, which is why we have protections other P2P networks don't," says a Venmo spokesperson. "Our goal is to make things right for the customer."

CashApp did not respond to interview requests.

'A STANDARD DEFINITION'

One issue dogging the P2P networks when it comes to imposter scams is there is no standard industry definition of just what constitutes an imposter scam. That makes it harder to gauge how successful a P2P network is in fighting the scams, says Javelin's Sando.

"Does a romance scam qualify as an imposter scam because the money was sent over a P2P network?" Sando asks. "Without a standard definition, the extent of the problems caused by imposter scams will ebb and flow."

Romance scams occur when a criminal creates fake profiles on dating sites and apps or contacts a consumer through a social-media site such as Instagram or Facebook and strikes up a relationship with a consumer before conning him into sending money.

Going forward, payment experts agree it's likely that all P2P networks will adopt a reimbursement policy for imposter scams or other types of scams. The challenge, says FICO's Horan, will be standardizing the reimbursement and claim process.

"In these instances, customers have been fooled into parting with their money, which can make it challenging to decipher a legitimate fraud victim from simple regret, [or] pseudo buyer's remorse by the consumer," Horan says.

Payment experts also say that as imposter scams become more prevalent, P2P networks and financial institutions will upgrade their fraud defenses to identify suspicious transactions and accounts by using advanced analytics to monitor not just the sender's account, but the recipient's account. "Monitoring both sides of the transaction is important in the defense against scams," says Horan.

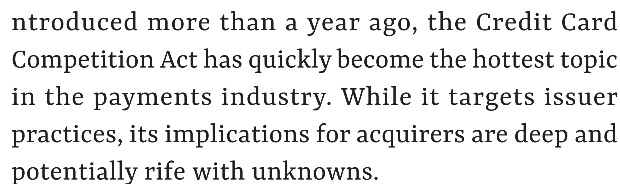
That will require better sharing of information between the financial institutions involved in the transaction, adds Martins. Such information can include account-behavior attributes that signal the account is being used to receive money as part of a scam or fraud.

"The steps taken to address imposter scams are a good start, but more needs to be done," says Martins. "All the P2P networks need to acknowledge the problem and their responsibility, because if they don't, regulators will step in." DT

ACQUIRERS AND THE CCCA

THE CREDIT CARD COMPETITION ACT, IF IT BECOMES LAW, WILL LIKELY HAVE UNINTENDED CONSEQUENCES FOR THE BUSINESSES THAT SIGN UP MERCHANTS FOR PAYMENT PROCESSING. NOT ALL OF THEM ARE GOOD.

By Kevin Woodward



Introduced more than a year ago, the Credit Card Competition Act has quickly become the hottest topic in the payments industry. While it targets issuer practices, its implications for acquirers are deep and potentially rife with unknowns.

The CCCA seeks to ratchet down card-acceptance costs for merchants by requiring that sellers have a choice of at least two unaffiliated networks for transaction routing. If one is Mastercard Inc., the other cannot be Visa Inc., and vice versa.

The bill, which applies to credit card issuers with more than $100 billion in assets, proposes that this choice will inject more competition into credit card processing.

Whether it will do that is unknown. What is known is that the bill, originally introduced in 2022, has sparked a pitched battle between interest groups representing merchants and credit card issuers. Neither its proponents nor opponents have been willing to concede anything, so the fight has continued into 2024.

Co-sponsored by Richard Durbin, D-Ill., and Roger Marshall, R-Kan., the bill differs from the Illinois senator's decade-old debit card legislation in that it lacks price caps or other interchange controls. It shares with that earlier legislation

BASNETT: "FOR ACQUIRERS, THERE COULD BE TECHNOLOGY IMPACTS."

the routing stipulation. Currently, merchants use only one network to process their credit card transactions.

While proponents argue this will mean competition and potentially lower credit card processing costs for merchants, opponents say consumers will probably see little benefit, but may see their favorite points programs dry up.

These may be the talking points in the very public debate about the CCCA, but it's acquirers that will likely have to do a lot of the work implementing the measure, should it be approved.

What would that mean for acquirers and the constellation of other service providers that directly attend to merchants' payments needs? The answer is the impact would be immense on the technical, legal, and sales fronts.

SHIFTING COSTS

Uncertainty about the impact is, well, certain."If it passes, there is the unknown," says Glenn Grossman, director of research at Cornerstone Advisors, a Scottsdale, Ariz.-based banking-services firm. "Who are these other networks that will route transactions?"

The issue, as Grossman, a former Bank of America Corp. and FICO executive, sees it, starts with networks even before acquirers ("Who Will Route Transactions?" September). He argues such a network doesn't exist. Not only that, the standards such networks would have to adhere to do not exist.

With acquirers, others argue the impact will be minimal. "We do not anticipate that there will be a substantial impact on acquirers," says Ashley Reeve Basnett, managing member at law firm Reeve Basnett LLC. "For acquirers, there could be technology impacts where they have to provide software updates, downloads, development and programming for terminal software. The biggest impact will be on the issuers. The issuers will lose substantial funds as a result of a reduction in interchange."

Still others see the bill having significant impact on acquirers.

"The passage of the Credit Card Competition Act could significantly impact acquirers by necessitating changes in their processing systems to accommodate multiple credit card routing options," says Phillip Parker, founder and principal of CardPaymentOptions.com, an Austin, Texas-based merchant account review site.

"This would likely require substantial modifications in both hardware and software, as well as potential adjustments in operational procedures and compliance measures," Parker adds.

The costs of configuring acquirer services to the CCCA, which would likely have its rules written by the Federal Reserve or other federal financial agency, would be staggering, Grossman says.

One of the largest costs would be developing the technology. "It will require a technology change, since more of the software is homegrown," Grossman says. "It won't happen overnight. It could take years."

While debit routing has been around for many years, creating new credit card transaction routing options would be a major task. For example, while credit card brands generally publish their rules online, the debit networks—viewed as possible contenders to operate a second credit card routing option—do not, Grossman says.

That could contribute to confusion about how fraud protection is handled, especially if the new

networks lack the resources to make the same investments that Visa, Mastercard, Discover, and American Express have, he says.

"Today a lot of fraud detection happens in the middle," Grossman adds. "The front is the acquirer and the issuer at the other end. If you break that up, you can't get a single view of the transaction. Where would you get that? The front end? The issuer could be doing more fraud detection. No matter where it's done, it's shifting costs."

Incidentally, neither AmEx nor Discover cards would be subject to the CCCA, a summary on Durbin's Web site says, since in these cases the network also is the card issuer.

'STICKY FEES'

Acquirers also would have technical challenges setting up their systems to accommodate the CCCA's likely requirements, sources say.

"Requiring two credit card routing options would directly impact acquirers' technical services, necessitating the development or integration of specialized software capable of handling multiple routing paths," Parker says. "This change would not only involve software upgrades but also potentially require hardware enhancements to ensure correct and efficient processing of transactions through different routing options."

And, while the debit-routing changes required by the Durbin Amendment may provide some insight for acquirers if they transition to dual-credit routing, credit card transactions have their unique challenges and characteristics, Parker adds.

Acquirers already support multiple networks, which could mean a moderate strain on the technology stack, says Nilesh Vaidya, executive vice president at Capgemini, a New York City-based consulting firm.

"However, to navigate this landscape effectively, acquirers will need to incorporate network-specific rules and generate tailored reports," Vaidya says. "It is also important to realize that many acquirers continue to operate using legacy technologies. This presents an opportunity for newer product companies to take advantage by differentiating themselves and offering additional services."

Aside from the technology impact, Vaidya says the CCCA could increase costs for acquirers, impact rewards programs, and may entice acquirers to wait before reducing fees.

"The smaller merchants may experience sticky fees," Vaidya says. "Hence, this situation might prompt these merchants to pivot towards alternative payment methods such as account-to-account or QR-code based payments. Such a shift to [account-to-account] payments could further disrupt the conventional cards business model."

'THE REAL WINNERS'

The acquiring industry is no stranger to adapting, whether it is because of disruption from a new competitor or sales model or a change in regulations.

"One result of that has been consolidation, something the CCCA might further. As the acquiring business consolidates, we can expect fewer intermediaries in the value chain," Vaidya says.

GROSSMAN: "WHO ARE THESE OTHER NETWORKS THAT WILL ROUTE TRANSACTIONS?"

"The advent of digital technologies will gradually replace certain functions performed by agents and [independent software vendors], exerting downward pressure on the revenue of these intermediaries. Some acquirers may opt to enhance their digital platforms, and showcase an innovative business model to adapt and thrive."

What might the CCCA mean for acquiring revenue models? "That is a really good question," Grossman says. "If you ask Marshall and Durbin, they would probably say no impact." Would acquirers be dragged along with issuers if revenues were compressed because of the CCCA? "Maybe, maybe not," Grossman says.

The biggest issue would be managing merchants that use a blended rate. Merchant pricing under the CCCA might not show much impact. For example, merchants with a blended rate now pay the same for a credit or debit card transaction, though debit card interchange is regulated and could go lower than its current 21-cent rate. That could be the case in the future. Merchants on a cost-plus model, where they pay the interchange and a set fee, might fare better.

Accommodating both debit and credit rules could mean even more complicated pricing charts, Grossman says, who says a covered/not-covered pricing chart might be one development.

Diving deeper, the CCCA may present a boost in the short term for sales agents, independent software vendors, and other referral partners, says Jay Reeve, a managing member at Reeve Basnett.

"In the short-term, many agents, ISVs and other referral partners may be the real winners if the CCCA becomes law," Reeve says. "Lowering interchange costs will directly benefit merchants that are on a 'cost-plus' pricing model with their acquirer, but merchants paying a fixed rate for payment processing will not see any benefit. Those cost savings will go into the pockets of the acquirers, agents, ISVs, and other referral partners."

There could be further impact, suggests CardPaymentOptions' Parker. "The adoption of the CCCA could lead to a re-evaluation of existing revenue-share models with agents, ISVs, and other referral partners. Changes in transaction fees, processing costs, and the competitive landscape might necessitate renegotiating terms to align with the new financial realities and regulatory requirements brought about by the CCCA," he says.

As Basnett says, "Advocates for the CCCA believe that the reduction in interchange fees will create lower costs for the consumer. With that being said, the CCCA does not require merchants to pass along the savings to the consumer. We believe that the merchants will more than likely not pass along the savings to the consumer. Instead, the consumer will likely feel no real positive impact by the CCCA.

"Consumers may actually be negatively impacted by the CCCA. Like with the Durbin Amendment, banks will look for ways to make up for the loss caused by the lowered interchange. If the CCCA becomes law, banks will likely cut credit card rewards programs," she adds.

VAIDYA: "THE CCCA COULD INCREASE COSTS FOR ACQUIRERS, IMPACT REWARDS AND MAY ENTICE ACQUIRERS TO WAIT BEFORE REDUCING FEES."

PARKER: "THE ADOPTION OF THE CCCA COULD LEAD TO A RE-EVALUATION OF EXISTING REVENUE-SHARE MODELS WITH AGENTS, ISVS, AND OTHER REFERRAL PARTNERS."

'MAJOR RETOOLING'

Another acquiring impact would be the revision of merchant-account contracts.

"It will require wholesale re-writing of hundreds of millions of contracts," says Piret Loone, chief business officer and general counsel of Link Money, a San Francisco-based open-banking platform. "This is far from costless and will be borne by issuers and merchants, and to some extent consumers, as the costs are passed down."

"Eventually," Loone continues, "there will also be a redistribution of revenue, so credit card loyalty programs, especially Visa and Mastercard's lucrative co-branded cards with major airlines, might be at risk or would require major retooling."

Most observers say near-term passage of the CCCA is unlikely—though Grossman notes 2024 is an election year and "the messaging plays well in a political year—but should that happen, the impact will probably be strewn over time.

First, no networks have come forward to champion their value as another credit card network. Putting that together, and figuring out how it will handle fraud, chargebacks, authorizations, and a host of other elements will take time.

"The point-of-sale process for the consumer is expected to remain largely unchanged despite shifts within the industry," Vaidya says. "New networks will need substantial investments to accommodate and support the processing scale. They might strategically focus on specific segments such as commercial cards or other high-value, low-transaction-volume segments. These shifts in the industry structure will drive contractual changes across the board."

Grossman foresees smaller issuers being potentially discriminated against by merchants that don't want to pay the higher interchange they could assess. What if the vaunted price competition materializes, but merchants continue to collect a 3% surcharge fee? "What if your interchange goes down but you're still surcharging at 3%? Now, you're making money."

'POLITICAL DYNAMICS'

The unknowns of the CCCA may remain even if the bill doesn't advance. Another unknown is just how it would be implemented. Which rules and procedures would the payments industry be obliged to follow?

The Credit Card Competition Act, as written, would probably be modified should it advance into regulation.

"Predicting the likelihood and timeframe of the CCCA becoming law is challenging due to the complexities of the legislative process and the influence of various stakeholders," says Parker.

"The passage of such legislation depends on political dynamics, lobbying efforts, and the legislative agenda, making it difficult to ascertain if or when it might become law," he adds. "If it does become law, it will likely be modified under significant influence from the banking industry." ■

DIGITAL EXPERIENCE, STRATEGIC ADVANTAGE

Are you considering the advantages of digital card issuing? You can be sure your competitors are.

BY **JERI SCHEEL**

Jeri Scheel is senior director, digital strategy, at Fiserv Inc.

PEOPLE ARE PERMANENTLY anchored to their mobile devices today. The average American spends more than five hours on their device each day, checking their phone on average 96 times, or approximately once every 10 minutes.

The concept of digital is an extension of who we are, and it has been suggested—only half-jokingly—that Maslow's Hierarchy of Needs should be updated to include "Wi-fi" alongside "food" and "shelter".

It's not hard to see why. We can now go into our Spotify app, find practically any song that has ever been recorded, and start listening to it in a matter of seconds. Or order and receive food via DoorDash, GrubHub, or Uber Eats. So it is understandable that few people have much tolerance any longer for experiences that take days to complete.

Given we are constantly digitally connected, the idea that we must stare longingly out of the window at our mailbox for a new card to arrive seven to 10 days after an interruption in card usage is incredibly frustrating and archaic.

Fiserv research has found that cards are the most preferred form of payment for all purchase categories—from meals at a restaurant, to purchasing event tickets to shopping at a grocery store. Consumers also perceive cards as the fastest and most convenient form of payment.

Little wonder, then, that reliance on payment cards means cardholders are highly receptive to using mobile and digital capabilities to obtain a new card. The same Fiserv research shows that 59% of debit card users expressed interest in receiving a new card directly on their smart phones and internet-enabled devices, rather than enduring the seemingly inter-

minable wait for the card to arrive via mail.

PUSH TO DIGITAL

The appeal of digital issuance is obvious when we examine a day in the life of a typical cardholder. They open a new account or report a card as lost or stolen. They intend to use their debit card when they visit the grocery store, fill their vehicle with gas, and make online purchases.

With digital issuance, cardholders receive a text message directing them to a Web page where they can view their new digital card, push to Apple Pay or Google Pay, set their PIN, register for online banking and /or download their mobile-banking app.

Once the cardholder pushes their card to the wallet, either through the Web or an app, they are ready to begin transacting—and are spared a great deal of stress and inconvenience waiting for a physical card to arrive in the mail.

In an alternative scenario, a cardholder is traveling and realizes their card is missing. They call to report their card lost immediately but, as they are traveling, they are unable to receive an instantly issued card. However, instead, they can go into their mobile-banking app and view their new digitally issued card. They push that card to their preferred wallet. Or, if they do not have the mobile-banking app downloaded, they can click on the text message to get started.

Merchants are increasingly pushing for more segments to become more comfortable with digital card experiences, as well. These are cases where one has to store a card with a particular merchant to pick up groceries curbside or check out with the digital wallet.

Creating willingness among consumers is all about giving them the information they need when they need it, and reducing or eliminating the need to make a call or to step into a location. Issuers should be constantly identifying service experiences with the highest volume, and work to push these to the digital domain. Cardholders want convenience and ease of use. Retention of the relationship will be driven by how easy it is to manage that for the consumer.

Here are three things issuers should be thinking about now.

1. Think about modernization of the experience not as an opportunity to contain expenses in terms of reducing head count, but as a way to be more deliberate about allocating those resources to more impactful activities. These actions include taking your valued staff away from tasks that require no innate intelligence and focusing human involvement on creating the type of experience that engages and retains customers or members.

Scheel

Scheel: "Digital issuance enables contactless payments while creating a memorable digital experience that enhances brand loyalty."

THREE CONSIDERATIONS

It can be overwhelming for a lot of issuers, especially if they have not prioritized their technology stack recently, to support the new digital paradigm. But some potentially difficult decisions need to be made to compete with the digital experiences that fintechs, retailers, and other institutions are bringing to fruition. Inaction could create a share-of-wallet and market-share challenge.

2. Understand who your competition is—and that it is no longer (solely) restricted to the other financial institutions in your peer group. In terms of digital experiences, it is everything else consumers are doing on their device. How quickly they can make a purchase on Amazon? Or download the Nordstrom app, pick out a new outfit, and pick it up curbside in moments, with about 10 seconds of human interaction total.

3. Focus on infrastructure. The first step is to enable all cards for digital wallets. If tokenization is not enabled, you have short-circuited the engagement opportunity with your cardholder. There are so many experiences that start with the secure tokenized capabilities now in the app. The ability to add your card to a DoorDash purchase and use the Buy with Apple Pay button is predicated on the fact a card is eligible to be put into Apple Wallet or into Google Pay.

By offering digital cards, issuers can strengthen cardholder relationships and enhance loyalty by creating and delivering a simple, convenient and—most important of all—familiar payments experience. As the demand for touch-free transactions grows, digital issuance enables contactless payments while creating a memorable digital experience that enhances brand loyalty.

Consumers demand solutions that align with their fast-paced lifestyles. With digital issuing eliminating the wait for plastic to arrive, they feel empowered. DT

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Where mobile phones fall short

endpoint

HERE'S WHY COTS IS A MYTH

It's a positive, hopeful one. But, for the time being, a myth just the same.

BY **CLIFF GRAY**

Cliff Gray is a senior associate at TSG

THE LANDSCAPE OF payments technology is rapidly evolving in many directions, serving previously unserviceable merchant environments and supporting electronic payments where they were once unsupportable. It's easy to dismiss the role mobile technology plays in this revolution. These phones-in-name-only pack all the power of a computer into a handheld device, while eliminating power cords, modems, and network cables.

Customer Off-The-Shelf (COTS) technology suggests that a merchant can purchase an Android or Apple device from a retailer of their choice, then use that device as a point-of-sale terminal. Even considering today's rapidly evolving payments technology, that's a bold assumption. Beyond violating numerous acquiring and PCI data-security regulations, such an implementation poses significant security challenges.

Modern POS devices are bastions of virtual and physical security. Housings, for example, are tamper proof. The simple act of removing a screw holding the case together will cause the operating software to self-destruct, rendering the device useless. The operating system itself, embedded firmware like network handlers and encryption tools, and installed software all incorporate multiple layers of security to protect sensitive cardholder data. These devices must meet rigorous standards from banks, processors, and network brands.

Overseeing it all, PCI and the EMV standards safeguard merchants against sensitive data compromise. Even more important, they protect those same merchants from themselves, so they can remain focused on their business.

Practically speaking, therein lies the first half of the problem: POS is all these devices do. They're excellent at securing and obfuscating sensitive data while performing transactions, but they aren't designed to assimilate third-party software packages and functionality. In fact, security strategies demand that no such capability be supported. You don't build a fortress around a henhouse only to let the fox stroll right in.

The other half of the problem is that phones do everything except payments. For roughly the same price as a POS device, a modern phone does everything a phone is supposed to do, and a great deal more. A wide array of functionality comes as standard equipment, plus the ability to easily download and install software from a

vast catalog of options and providers. This describes the underlying false promise of COTS, that merchants can use their devices as they've always seen fit, with payment acceptance as just another app they can download.

PRIMARY CONCERN

The merchant economy must be able to accept payments securely. Sellers need protection from themselves as much as from hackers and charlatans. This is the primary concern throughout the industry, and typically tops the cost side of an enterprise's balance sheet.

Manufacturers, banks, and independent software vendors spend significant capital certifying POS devices and deploying them securely. Any product strategy that undermines trust in the device executing the specified tasks, solely for the sake of customer convenience, deserves to be regarded as a myth.

Ingenico and Verifone, the dominant POS device makers in North America, are well on their way to embracing the mobile revolution. They and others now deploy Android-based terminal devices in multiple form factors. Square and Clover have developed next-gen offerings built on Android, and they consistently invest in complementary mobile functionality.

In these cases, however, the end devices that accept the transaction are "hardened," designed to defend against physical attack, while handcuffing the operating system to fend off digital assaults. Third-party applications cannot be downloaded or installed. From a data-security standpoint, these devices are no different from the proprietary platforms that still dominate the marketplace. They just happen to use a different operating system.

There is reason for optimism, however. EMV technologies represent huge steps in the right direction, providing proven security frameworks worldwide. Universal tokenization, a core tenet of EMV, will eventually render a cardholder's account number valueless.

And it's important to showcase the experience of the Android development community, highlighting its decision to adopt the tokenization model right from the beginning. (Alongside iOS, for that matter—both Google Pay and Apple Pay incorporate EMV tokens.)

SIGNS OF PROGRESS

One obvious hurdle remains. Magnetic stripes, which contain the consumer's unencrypted Primary Account Number (PAN), are required as fallback to EMV in the United States, the only country where this is still the case. This hobbles POS product evolution, much less merchant environments, with obsolete, brutally insecure credentials.

Mag-swipe data is the catalyst behind the semi-integrated revolution. You need only look to the European Union, most of Asia, or many other regions where EMV-only infrastructures result in card-fraud numbers that are a fraction of those in the U.S.

PIN debit will be difficult as well. Two-factor authentication with a secured PIN is a challenge in any mobile environment. Protected-memory environments can frighten even the most seasoned developers. PIN-on-Glass will eventually prove viable in many cases but must overcome accessibility design issues.

Signs of progress include Mastercard's plan to retire the magstripe. Visa has implemented a penalty fee for card-swipe transactions but has yet to announce hard dates to sunset the swipe altogether.

Once in-the-clear swipe data is removed from payment ecosystems, the U.S. will finally benefit from the global EMV strategy, leveraging secure communications and tokenization to eliminate major fraud vectors. When card numbers are replaced by tokens throughout, a 3-year-old Pixel 5 will be as secure as anything else.

Nobody would question that mobile payments are here, and could largely replace legacy POS platforms in many use cases. The question is, how long before you can buy a POS terminal at the Apple Store? DT

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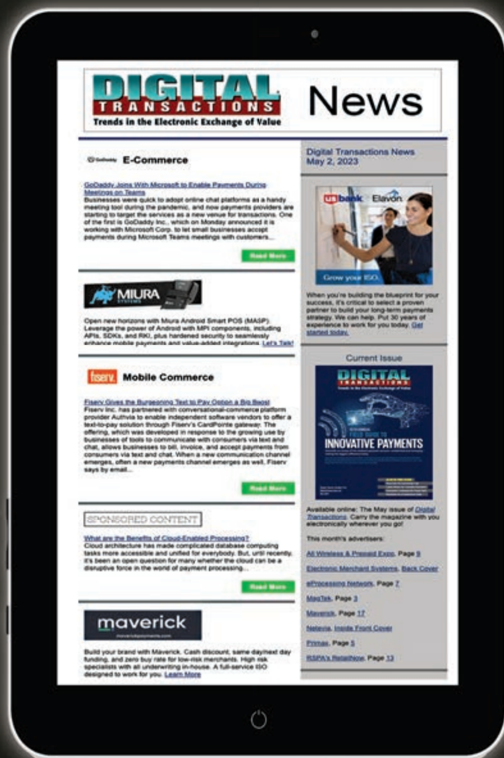

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