DIGITAL TRANSACTIONS

Trends in the Electronic Exchange of Value

WHAT'S IN Cap One's *Wallet?*

How the big bank's $35-bllion bid for Discover has the potential to reshape payments.

Volume Twenty-one, Number Four • DigitalTransactions.net • April 2024

ALSO IN THIS ISSUE:

- A New Way for Nuvei
- The Persistence of Signatures
- AI Is Reshaping Bill Payments
- Don't Pass on Passkeys

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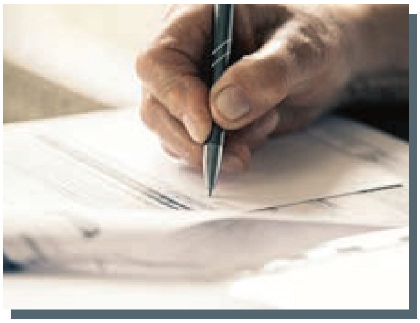

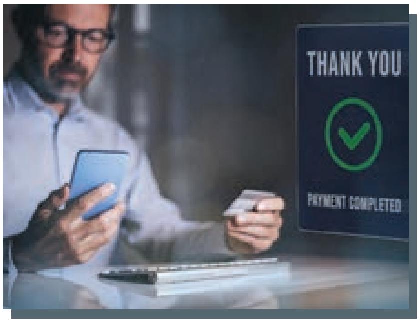

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the gimlet eye

THE CFPB TARGETS MOBILE WALLETS

THE CONSUMER FINANCIAL Protection Bureau is at it again. If you develop or manage mobile-payment apps, you might want to pay attention. The agency's proposed rules, aimed at so-called larger participants, may ensnare you, even if you're only a fraction of the size of, say, Google or Apple.

The agency released its proposed rule on mobile wallets back in November, and comments on it closed Jan. 8. But that doesn't mean the proposal isn't still stirring up discussion as lawmakers, payments experts, and technology firms wrestle with its implications.

The rule, whose main purpose is to define those so-called larger participants in the market for general-use payments apps—the entities the agency would then regulate—proposes a size cut-off at 5 million transactions per year. That's 13,700 transactions per day, a number you don't have to be Amazon to reach (the proposal does exclude any entity that can be defined as a small business according to Small Business Administration criteria).

The rule is crucial because the CFPB would regulate wallets developed by these so-called larger participants, much as it oversees products and services from big companies operating in other fields of financial services.

But if you're not so sure you want the CFPB looking over your shoulder every time you process a wallet transaction, there are parties signaling caution about the agency's proposal. These skeptics include members of Congress. That became evident last month when a hearing on the proposed rule, held by the House of Representatives' Subcommittee on Digital Assets, Financial Technology, and Inclusion, provoked multiple questions from lawmakers about the CFPB's definition of larger participants.

The proposed rule has also raised concerns in the payments industry about how the regulator will wield its authority with the companies that develop digital wallets. These include behemoths such as Apple Inc., Alphabet Inc.'s Google unit, Block Inc.'s Cash App, and PayPal Holdings Inc.'s Venmo app as well as its own PayPal wallet, all of which easily meet any definition of "larger participant."

Risks can stem from the specter of over-regulation as well as from rules that bear little or no relationship to how well a company manages its payments business, observers say.

We agree. In this sense, size isn't necessarily the most important criterion. Some expert observers propose more relevant criteria. "We encourage the CFPB to let the regulatory profile be tailored to the risk profile of the entity," Scott Talbott, executive vice president at the Electronic Transactions Association, told us recently. The ETA is a Washington, D.C.-based trade group for the payments industry.

Wise words. The CFPB, not to mention the entire regulatory complex, would do well to heed them.

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AN ACTIVE YEAR HELPS BOOST RESULTS FOR CANADA'S NUVEI

The big Montreal-based processor Nuvei Corp. has had a busy year since its headline acquisition early in 2023 of Atlanta-based Paya Holdings Inc., and last month things got even busier.

The Montreal-based company confirmed it had created a "special committee" of independent directors to review "expressions of interest" regarding offers to take the company private, as well as other "strategic alternatives."

One of those expressions apparently came from private-equity firm Advent international Corp., which made a bid to purchase Nuvei, according to the *Wall Street Journal*. Nuvei, which went public in September 2020, had by March seen its share price plunge 80% from a September 2021 high of $137.

Nuvei said no decision had been made whether to pursue a deal to take the company private or maintain the status quo.

The company, known until 2018 as Pivotal Payments, reported it processed $61.8 billion in payments volume in its December quarter, up 53% year-over-year. So-called organic growth—growth generated aside from recent acquisitions—registered 19%, to $47.9 billion. For all of 2023, the company processed $203 billion in volume, a 59% increase, with organic growth of 23% to $156.5 billion.

The processing results reflect the full integration of Paya, one of Nuvei's largest deals, and its moves to penetrate legalized gaming markets. But its other headline tactics over the past 12 months have also played a role or are expected to pay off soon.

In one of its most recent moves, the company agreed to offer a Cash App integration with Block Inc. to enable Nuvei merchants to offer Cash App Pay for e-commerce transactions. The move comes as Block seeks out more outlets for its popular payments app.

In January, Nuvei bulked up in e-commerce through an agreement with Adobe Commerce that involves support for more than 680 alternative payment methods. Nuvei said it would offer the application programming interface to make the integration possible.

But the $1.3-billion deal for Atlanta-based Paya ranks as Nuvei's most ambitious move over the past year. The deal brought to Nuvei talent and other strengths in processing for health care, education, and local government markets, including utilities.

It also brought significant volume in automated clearing house payments, which accounted for 15% of Paya's revenue. Revenue from business-to-business, government, and independent software vendor markets—sources influenced by the Paya deal—accounted for 18% of Nuvei's December-quarter revenue.

The busy year brought Nuvei's 2023 revenue to $1.19 billion, up 41% over 2022, with a reported 9% increase in organic revenue.

—Peter Lucas and John Stewart

A NUVEI SNAPSHOT

Total Volume (in billions)	
2022	$128
2023	$203
Revenue (in millions)	
2022	$843
2023	$1,190
Net Income (Loss) (in millions)	
2022	$62
2023	($1)

Note: Nuvei's acquisition of Paya closed Feb. 22, 2023. Source: The company

BLOCKBUSTER DEALS ASIDE, M&A IS SLOWING DOWN

The news that Capital One Financial Corp. is looking to acquire Discover Financial Services stunned the payments industry (see page 26). But even if the $35.3-billion deal closes in the coming months, it will represent a notable exception in the middle of a continuing slowdown in merger-and-acquisition activity in the payments industry.

Indeed, the deal count in payments, as measured by the number of announcements, has slumped from a recent high of 132 in 2021 to 114 in 2022 and just 71 last year, according to statistics kept by the Omaha, Neb.-based payments-consulting firm TSG.

The firm reported in March its latest charting of M&A in payments. The year is young yet, but the number of M&A announcements in February was five, no change from February 2023, while the seven deals announced in January fell three short of the same month last year.

Recent exceptions include not only the stunning Cap One-Discover announcement but also Payroc's bid for Sterling Card Payment Solutions and Cantaloupe's $4.75-billion deal for Cheq Lifestyle Technology. The latter transaction brings Cantaloupe into the hotly competitive market for ticket and food sales at sports stadiums.

Several factors can account for the slowdown in deals. One is the steady rise over the past year in the Federal Funds rate. It stood at 4.57% a year ago but steadily climbed in succeeding months, reaching its current rate, 5.33%, late in July.

The Fed Funds rate typically acts as a benchmark for bank loan rates. Another factor, according to some experts, is unrealistic valuations by sellers. These either discourage buyers or lead to prolonged negotiations.

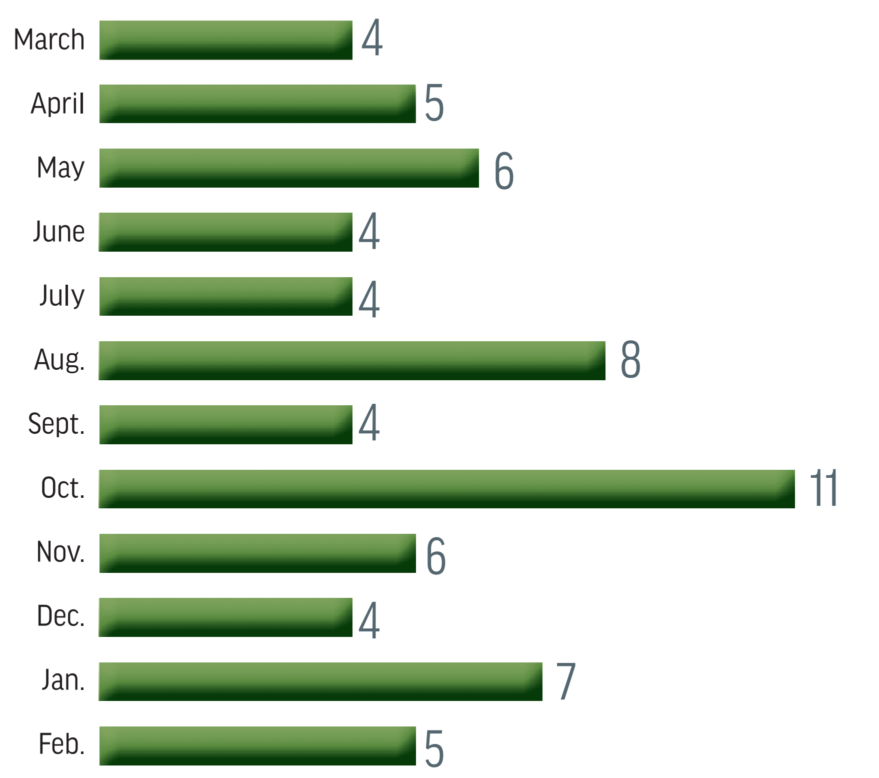
TSG's report indicates more potential deals could emerge as the coming months unfold, but the outlook at mid-March was that the deal count for the first quarter would "likely" fall short of the 19 seen in the same period last year. One hopeful note, the report says, is that "interest in M&A opportunities continues to be apparent for the payments industry."

"M&A activity stagnates [in recent weeks] across the payments industry as new deal announcements come to a halt. Starting this year with some steady activity, M&A deals have since decelerated following the later part of February," notes the report.

—John Stewart

M&A'S ANEMIC COURSE

(Announced payments-industry deals, March 2023 through February 2024)



Source: TSG's TransactionWatch

SQUARE EYES ISOS AS BLOCK PUMPS CASH APP AS 'YOUR NEW BANK'

Block Inc. posted double-digit increases in net income for its December quarter and for 2023, but its co-founder and chief executive says the company has work to do. "Across the board, we've been going through an exercise in how we work so we can move faster," Jack Dorsey told equity analysts on a late February call to discuss Block's December-quarter results.

He cited a series of areas where he is pushing improvement at the San Francisco-based payments-technology company. These include moving faster to reach food-and-beverage clients for Square, the company's point-of-sale product line. "We've been doing a reorganization of Square," he noted, without adding detail. "That will eliminate a lot of issues we've had in the past."

He didn't list the issues, but said part of the work at Square could include a move to work with independent sales organizations, or ISOs, the entities that sell payments-acceptance to sellers on behalf of banks and processors.

"We're definitely open to this," he said. "We tried this when we first started the company, but it wasn't that effective."

Dorsey took over direct supervision of Square in September following an outage that knocked out service for hours for an unspecified number of merchants. Square reported $53.5 billion in gross payment volume for the quarter, down $2.2 billion from the September quarter but up 10% year-over-year.

One other coming improvement is a rationalization of apps, Dorsey said. "Right now, we have four or five apps in the App Store. It's pretty confusing," he said. "We're going back to one app called Square."

As for Block's other division, Cash App, the company is moving to position the mobile wallet as a substitute for "your bank," Dorsey said. The foundation of this strategy, he added, is trust. "We want people to see Cash App as something they can trust with the full deposit of their paycheck," Dorsey said.

The app has reached 2 million active paycheck depositors so far, noted chief financial officer Amrita Ahuja on the call. It claims 3 million active users overall as of December, up fully 50% from September, and $2.5 billion in quarterly gross payment volume.

One change in strategy with the app, though, is that "we are no longer focused on moving internationally now. The focus is on the U.S.," Dorsey said, though he didn't cite numbers for how many users of the app live overseas.

With the app's growth, it has become a key factor in distributing Block's buy now, pay later service, which is based on Afterpay, a BNPL platform for which the company shelled out $29 billion in 2021. Here, Cash App Card is vital at the point of sale, Dorsey said. For Cash App as a whole, "this will be a year of tighter integration," he noted, citing the Afterpay integration as an example.

From a standing start two years ago, BNPL is now contributing 17% of Cash App's gross profit, according to numbers Block released Thursday. The app's financial services account for 38%, and instant deposit 29%,

MONTHLY MERCHANT METRIC

This is sourced from The Strawhecker Group's merchant datawarehouse of over 4M 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 Households defined as households with **less than $5M in annual card volume.**

Date	Account Attrition %	Volume Gross Attrition %	Net Revenue Gross Attrition %
Q4'23	-22.4%	-13.2%	-18.9%

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
Volume Gross Attrition % - Total volume of attrited accounts from given period of prior year divided by total portfolio volume from same period of the prior year
Net Revenue Gross Attrition % - Total net revenue of attrited accounts from given period of prior year divided by total portfolio net revenue from same period of the prior year

with other services, including Cash App's Bitcoin wallet, accounting for the balance.

For the quarter, Block recorded a 24% year-over-year increase in revenue, to $5.77 billion. This number includes $2.52 billion in revenue from Bitcoin trading, up 38%. For the year, revenue grew 25%, to $21.9 billion. Revenue from Bitcoin accounted for 43% of the total.

Block recorded net income of $157.8 million for the quarter, versus a $117.6 million net loss in the 2022 final quarter. For the year, the net loss totaled $21 million, down from $553 million in 2022.

—John Stewart

GOOD NEWS FOR CARD ISSUERS: THEY RANK HIGHEST IN BNPL SATISFACTION

Credit card issuers claimed the top three slots in J.D. Power's second annual buy now, pay later satisfaction study, with American Express Co.'s Plan It topping the list. JPMorgan Chase's My Chase Plan and Citibank's Citi Flex Pay rounded out the top three.

Plan It, which AmEx launched in 2017, earned a satisfaction score of 695 out of 1,000 points, while My Chase Plan and Citi Flex Pay posted scores of 686 and 676, respectively. By comparison, high-profile, non-card issuer BNPL brands such as Klarna AB, Sezzle, and Affirm Holdings Inc. all posted satisfaction scores below the average of 634.

PayPal Holdings Inc.'s PayPal Pay In 4 was the highest-ranking BNPL offering from a non-card issuer, ranking fourth. Overall, customer satisfaction with BNPL providers increased 16 percentage points year-over-year, JD Power says.

Reasons consumers give for higher satisfaction with BNPL loans offered through card issuers include easy account review, security, and reasonableness of terms, according to Power's report.

"Card-issuer plans generally receive higher satisfaction scores than other plans across all six satisfaction dimensions–customer support; making purchases where I want; perks for making purchases; reasonableness of terms; reviewing and managing account digitally; and security of account information," Miles Tullo, managing director of banking and payments at J.D. Power says by email.

"The largest gaps," he adds, "are in customer support, reviewing and managing my account digitally, and security of account information."

By comparison, Tullo says, non-card-issuing BNPL providers post lower satisfaction scores across most performance indicators. "Klarna and Affirm receive below-average scores across most of the dimensions," Tullo says.

"They are increasing acceptance with merchants," he says, "but need to make improvements to attract and retain additional consumer customers, particularly as more BNPL plans launch with strong existing acceptance."

The top three key performance indicators with the most influence on customer satisfaction are ease of choosing repayment options, ease of managing payments, and ease of reviewing purchases and transactions. "These indicators are met between 53% and 62% of the time, suggesting that many providers have room to improve on account-management functions," the report says.

Financially healthy consumers, which represent 21% of BNPL users, give BNPL providers the highest overall satisfaction score, at 731, while financially vulnerable consumers, which account for 32% of BNPL usage, give providers a notably lower score, at 593.

"Financially healthy consumers are more likely to find BNPL terms reasonable than other consumers because they are likely less concerned about missing a payment and therefore using BNPL to budget/spread out repayment," Tullo says.

By contrast, financially vulnerable consumers tend to be less satisfied with repayment terms and their BNPL plan's digital account-management experience, Tullo adds.

Increasing consumer satisfaction with BNPL loans increases the likelihood users will take out another loan from the same BNPL provider. Some 48% of consumers say they definitely will reuse the same brand, up 4 percentage points from 2023, the study says.

—Peter Lucas

THE COMING SHIFT IN PAYMENTS AUTHENTICATION

BY
GIDEON SAMID
gideon@bitmint.com

FOR MANY RESTAURANTS, interchange fees are the third expense category after food and labor. Issuers pull some savvy tricks in the form of rewards cards, which consumers are drawn to and merchants can't reject, though they face higher fees to carry the burden of the rewards. For quite a few merchants, this may loom as a crisis.

Putting tactics aside, the cost of payments authentication has been inching up, despite the ready availability of online tools. The reason is that the requirement to verify the personal identity of an online player is becoming more challenging, and more costly. While technology gives the security side a nice toolbox, it also helps the identity thieves, offering fraud options beyond what was available even very recently.

The security industry developed sophisticated means to assert the identity of an online identity claimant. These include photos, voice signature—and, at great cost, the means to distinguish between a person and an imposter. Now, though, comes the technology of artificial intelligence, giving fraudsters the tools to fake looks, voice, and behavior.

For many years, the biological signature was hailed as the knockout blow against fraudsters. The fingerprint is unique, the iris is unique, the palm is unique—it's a slam dunk! Not so fast. What online security software does is to compare a fingerprint reading with a stored signature. The software cannot tell whether what is billed as a "reading signature" is indeed fresh from the person's thumb or replayed by a fraudster. So, back to square one.

Projecting this trend forward, the cost of authentication is going up, and the rate of both positive and negative mistakes is mounting, too. The more this goes on, the greater is the pressure for a fundamental change in the business of payment authentication.

So, ignore the payor. Focus on the payment—the digital coin.

What is so powerful about the idea of a digital coin is the notion of identity. A physical coin has a clear material identity. Digital money in its classic form is nothing but a number in a particular storage location, no identity. The emergent digital money is made of cyber coins bearing a unique identity.

This identity aspect applies to a wide variety of coin options. A bitcoin coin is unique and a BitMint coin is unique, though these two crypto coins are vastly different. When a coin has an identity, its transfer from a payor to a payee can be verified without any clue who the payor and payee are.

Any viable digital coin has built-in protection against double spending. This is a subtle but fundamental aspect. In today's payment climate, the payor does not pass money directly to the payee. The payor is passing his credentials, which, when verified, okay the account-to-account payment. When these payment credentials are stolen, they can be used for fraud over and over again.

There is no equivalent to this pattern with coin authentication. The high cost of payor-identity authentication is due to the prevailing fraud canvas, now so augmented with the flood of AI tools. Card issuers will have to pass this cost to merchants, so at some point even very conservative merchants will turn to direct digital coin payment. At BitMint, we get calls from merchants who were once intimidated by our digital money technology, but now are much more interested.

The credit card was a remarkable payment innovation that had a long and very profitable ride. Its presence will be felt for years to come. But a new paradigm is coming. It's only awaiting bold pioneers to lead the way. DT

RISK AND OPPORTUNITY FOR CAP ONE AND DISCOVER

THE PLANNED ACQUISITION of Discover Financial Services by Capital One Financial Corp. will reshape the competitive landscape for consumer deposit accounts in the United States.

Digital Transactions reported earlier that Capital One has already announced its intention to move its entire debit portfolio to the Discover Network once the deal closes. This will make Capital One's deposit portfolio much more profitable and allow the bank to offer a more competitive product at the same time.

The Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 sets a limit on the interchange that banks can charge for debit and prepaid transactions. But three-party networks, where the network and the bank were both owned by one entity, are exempt from the cap. The two networks that qualify are American Express in New York and Discover Financial Services in Sen. Durbin's home state of Illinois.

Discover offers a checking account with a debit card that pays 1% cash back on purchases up to $3,000. No other major bank offers that. The lure of debit card rewards, which have been gone for a long time, may help Capital One win customers.

There are two other possible areas of disruption from this deal. The first area lies in fintech. In a LinkedIn post, fintech attorney Brian Axell notes that Capital One might be

BY BEN JACKSON
bjackson@pa.org

able to offer the same three-party network to fintechs, thus shaking up the third-party-issuer and banking-as-a-service markets.

The second market that could be disrupted is prepaid cards.

Back in 2010, I was surprised that Discover did not make a bigger play for the prepaid card market. It had done work in campus cards and other prepaid cards, but usually with other banks as issuers. That made those card programs subject to Durbin's interchange restrictions because adding an outside bank put them in a four-party network.

At the time, Discover's leadership was not keen on issuing prepaid cards directly from Discover Bank, and successive leadership teams did not alter that position.

While Discover may have missed an opportunity to take the lead, particularly in the general-purpose reloadable prepaid card market, Capital One might not. It could offer prepaid cards as turn-down products for some potential customers. And it might also offer prepaid cards as companions to its credit card and bank-account products for budgeting or teaching kids about money.

The deal has drawn bipartisan opposition from lawmakers, but even if it is completed, risks remain for the combined company.

Discover has made a name for itself with U.S.-based, live-agent customer service and virtual, direct-to-consumer banking.

Capital One has been promoting chatbots and upscale cafes to customers.

Discover has consistently ranked near the top of customer-satisfaction surveys by J.D. Power and WalletHub. While Capital One has fared well, it slots below Discover. Customers concerned about how they will be treated by Capital One may leave, or just change the card at the top of their wallets. Capital One may need to invest in more marketing in the short term, and customer service in the long term, to maintain that customer base.

Also, while Discover cardholders like their cards, Capital One will still need to overcome the perception that its new debit cards will have a lower acceptance rate than Visa- and MasterCard-branded cards. Could that prompt customers to leave? It is hard to tell, but it opens a marketing approach for competitors.

If approved, this deal will reshape the consumer-financial services landscape—but only if the new company can use the tools it bought to keep current customers while winning new ones. DT

acquiring

A SIGNATURE HABIT

Long unneeded in a credit card transaction, the signature at the point of sale still exists. Why?

BY KEVIN WOODWARD

MORE THAN SIX years ago, the requirement that credit card transactions made at the point of sale be completed with a signature was lifted by the four U.S. card brands. But today, many consumers are still presented with a receipt or a screen to sign for a credit card transaction, especially if a tip is expected.

In 2018, Mastercard Inc. was the first to eliminate its signature rule for transactions made with its U.S. and Canadian credit and debit cards, having announced the change in 2017. American Express Co., Discover Financial Services, and Visa Inc. soon followed.

Also in 2018, Mastercard said issuers globally no longer would be required to include a signature panel on the back of Mastercard products. Famously, the Apple Card, released in 2019, eschews a signature panel, along with card-verification codes and expiration dates, on the physical card.

When the United States embarked on its EMV chip migration more than 10 years ago, the birthplace of the credit card opted to use chip-and-signature instead of adopting chip-and-PIN. At the time, even most debit card transactions used signature verification. Rather than potentially confuse consumers, the U.S. credit card industry stuck with signatures, though with chip technology signatures were more a formality.

"The signature requirement for credit card transactions dates back to the beginning of credit cards," says Brian Riley, co-head of payments and director of credit and risk advisory at Javelin Strategy & Research, a unit of Livonia, Mich.-based Escalent.

"Back around 2017-2018," he continues, "the requirement tended to be outdated, as fraud-management systems developed, the CVV code matured, online purchasing surged with card-not-present transactions, and the U.S. market caught up with the rest of the world on EMV chips as an authentication tool."


Rogatinsky

Rogatinsky: “The reality is, signature means nothing.”

‘A SUITABLE MOVE’

The U.S. EMV conversion was no easy transition. Issuers had to adopt more costly cards. Merchants needed new point-of-sale terminals for chip cards and had to overhaul training for their employees. Consumers had to adapt to dipping a credit card into a point-of-sale device instead of sliding it through a magnetic-stripe reader.

Simultaneously converting to chip technology and asking consumers to commit another PIN to memory was too much. The financial industry itself seemed hesitant over two conversions at once, determining consumers might not deal well with a two-scale adjustment, says Ted Rossman, senior industry analyst at Bankrate, a consumer financial-services site.

Signatures today typically are not part of low-value or high-traffic transactions, such as those at transit stations, in fast-food restaurants, or while driving on a tollway. But there are instances where some entity—usually a merchant eager to offer an opportunity to add a gratuity or concerned about potential chargebacks—retains the signature step.

“There are still some good reasons to have a signature requirement,” Riley says. “While you might not need a receipt for a $15 meal at a McDonald’s, the signature line makes sense when you have to add a tip to a $150 restaurant check.”

“Similarly,” he continues, “some stores want that signature to acknowledge the transaction, such as when the card may be used to purchase a $3,000 refrigerator. But for low-risk transactions, such as a dry cleaner, where fraud is low, and the transaction is less than $50, there is little practical use for the signature.”

Others see vanishing value in signatures generally at the point of sale.

“There is little benefit to the use of signatures in today’s world,” says Ian Holmes, director and global lead for enterprise fraud solutions at SAS Institute Inc., a Cary, N.C.-based analytics-software developer.

“Although signatures may offer some benefit in a dispute process, the administrative cost is only overcome in large-value disputes,” he adds. “Excluding the need for signatures for any transaction under $100 is likely a suitable industry move.”

BIG HOLDOUTS

To Holmes’s point, think about the growth in contactless payments during and since the Covid 19 pandemic. Most of these are low-value transactions and do not require signatures.

It’s for large transactions where merchants may consider a signature valuable, especially if there is a transaction dispute.

At eCFO Solutions LLC, a Fort Lauderdale, Fla.-based accounting-services firm, one client—a plumbing contractor—always collects signatures on receipts, says Ben Rogatinsky, eCFO’s founder and chief executive. The client’s typical ticket could range from $10,000 to $20,000, he says.

In one instance, a customer disputed a transaction. Even with a signed authorization, the credit card issuer backed the cardholder, Rogatinsky says. “The burden of proof is entirely on the vendor that they did what they were supposed to do,” he says. “The reality is, signature means nothing.”

Chargebacks are a big merchant concern, says Bankrate’s Rossman. That’s especially so with online transactions. “That’s grown a lot in the e-commerce era,” Rossman says. Some of that activity could be so-called friendly fraud, where legitimate customers turn to the dispute process because they may not be aware of other options to remedy their dissatisfaction.

For example, some consumers perform an act called "showrooming"—they order multiple versions or sizes of shoes or clothing to try at home, only to return the disfavored ones. In these instances, if the consumer is unsure of how to return them, she may turn to a chargeback, Rossman says.

"Sometimes it feels [as if] the dispute-resolution process is slanted a bit toward the consumer," he says. "So, merchants want signatures. But that doesn't really help online at all."

Restaurants and similar service categories are a big holdout for signatures on the POS receipt.

"I agree that, for the U.S. service industries, the preference of a paper receipt for signature often facilitates the easy provision of gratuities [from] the consumer," Holmes says. "That said, adding tips through POS terminals directly has become increasingly common. Many chain restaurants also have apps that offer digital payment, where gratuities can be readily added."

'MUSCLE MEMORY'

Indeed, the tipping culture has grown in recent years. Anecdotal posts on Reddit, an online social network, include tipping requests at a do-it-yourself dog wash, in retail stores, and at a package-shipping store.

"When you think about the push for increased tipping, at locations we never would have tipped for 10 years ago, there is a good business case for the signature to be required on a tipping-eligible transaction," Riley says.

"Things may evolve to where the merchant might not require the signature," he continues, "but for my personal preference, I like to see the transaction on paper or a screen if it is for any amount other than the contractual purchase."

Granted, for many consumers signing a receipt, even if the signature is gibberish—as Riley notes, sales clerks were not qualified to be handwriting experts—is little impediment to making a purchase. One day, though, signatures may be even less of a thought.

The days of carrying a physical card could be numbered, suggests Holmes. As mobile-device use becomes more common, issuers will want instant provisioning to them—something Apple Card, for example, already does—and the expectation may be that the smart phone or wearable is the payment device.

Inertia in payments is a quantifiable factor. The U.S. payment card industry debuted contactless credit and debit cards in the mid-2000s, but consumers didn't really begin to make contactless payments, and many merchants did not have the equipment to accept them, until the recent pandemic, when everyone wanted a transaction with minimal touch.

"People have muscle memory in payments," Riley says. "They whip out a card, transact and settle, and move on a terminal, with a wave, or in any variation of acceptance. In 10 years, the merchant operating policy might not require anything at all. Or think about Amazon's palm technology. I used it recently in Whole Foods, and it took the card-not-present transaction to a new level."

"That's one of the fun things about payments," Riley says. "Behavior develops, technology makes things possible, and both sides of the transaction benefit for the payments ecosystem." DT


Holmes

Holmes: The days of carrying a physical card could be numbered.

FIVE WAYS AI WILL IMPROVE BILL PAYMENTS

Artificial intelligence, once the stuff of science fiction, is coming fast to the business of bill payments. Here's why—and how.

BY STEVE KRAMER

Steve Kramer is vice president, product at PayNearMe.

I RECENTLY TURNED on my smart speaker and enjoyed a music playlist curated just for my tastes and listening habits. When I scrolled through social media, I received customized shopping suggestions based on recent searches, and a store where I shop sent me a direct message offering some coupons for items and brands I frequently purchase.

Welcome to the world of artificial intelligence.

Consumers are getting accustomed to this type of personalized treatment—except that it is largely absent in one of their most frequent activities: paying bills. Why shouldn't bill payments rise to the same level of personalization and helpfulness as these other activities?

Short answer: It's coming. Forward-thinking billers will have the opportunity to work with their payment providers to elevate their services through AI and machine learning (ML). They recognize that when the payment experience is better tailored and streamlined to remove friction, customers are more likely to pay independently and on time, while feeling more positive about the company behind the bill.

Here are five ways AI and ML are already transforming the bill-payment process:

1. Personalized payment experiences

Imagine opening your bill-payment site to see a customized interface, adapted to your payment behaviors and preferences. AI and ML can use previous data to learn each customer's preferences, including common payment types and channels, and then deliver those options with appropriate engagement communication during each interaction.

For instance, the customer could see a payment screen that includes a list of their most successfully used payment types, prioritized by recent use. They might see a pop-up message suggesting a repayment plan if they were late on their last payment. The can just click to accept and make the payment.

These convenient offerings reduce the time and effort needed to pay bills. They also make the customer feel "seen" and known, which builds loyalty.

2. Fraud protection

AI can analyze enormous sets of payments data and flag unusual events and possible threats. This is true not just in the biller's database but across the payment provider's entire data lake.

If an issue is detected, AI tools can alert the payments platform so the provider can tighten security and initiate protective authentication measures across all of its clients. This protects customers from having to deal with fraudulent payments or, even worse, identity theft. This can be a huge customer-satisfaction win.

3. Self-service support

A surprising number of people—10% in a recent bill-payment survey—regularly call customer service to pay their bills. Others call to have simple questions answered. For some of these customers, these are just longstanding habits they don't want to change, while others may be intimidated by self-pay or have run into self-service problems in the past.

Generative AI can help by being a human-like assistant to walk them through making a payment or to answer their questions. The AI agent sends a message to customers waiting in the queue, asking how it can help them. If they want help paying their bill, the virtual agent sends a personalized payment link and even walks them through the process. If


Kramer

Kramer: “AI for bill payments has too many advantages to ignore.”

the customer has a question about payment or is encountering a problem— say, with a payment type that isn’t working—it can offer step-by-step instructions to resolve the issue or send them a helpful link.

Customers who have completed self-pay once are more likely to do so in the future, reducing their dependence on live agents and saving the biller money.

4. Proactive outreach

AI-generated support doesn’t only react to customer needs. It also can help companies anticipate common customer issues and reach out proactively. It could be as simple as a heads-up about an upcoming payment or a personalized tip based on customers’ usage and patterns. Maybe a customer is a great candidate for autopay or would be better off using a different payment method for the type and state of their loan.

Payments-platform providers can also merge internal and external data to identify trends and predict potential problems with payments and enable billers to proactively reach out and offer help to ensure timely payment.

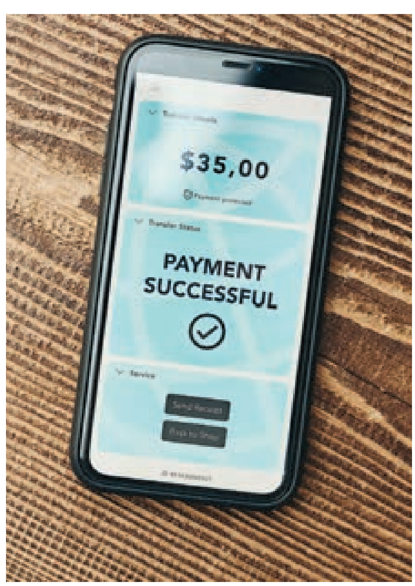
For instance, AI can be trained to identify at-risk borrowers based on a change in their payment behavior, or even a change in regional factors like a natural disaster or a major labor strike. Billers can then engage with impacted customers and suggest alternative payment schedules that may keep them from defaulting.

The beauty of machine learning is that it’s always learning. That means the more data it ingests, the smarter these types of recommendations become.

5. Protection for customers’ financial health

When businesses gain AI-powered insights into their customers’ payment behaviors, they can better determine how to help those customers avoid defaults, fees, and credit hits.

AI models can track patterns of payment behavior over time to identify the best times and channels for engaging often-delinquent customers before their bill is due. The technology also can help organizations determine payment options that best suit at-risk consumers.



A delinquency-prediction dashboard powered by AI can keep the organization informed and prepared to take preemptive action.

AI BEHIND THE SCENES

This is just the tip of the iceberg in terms of AI’s eventual impact on bill payment. Many more advances will occur behind the scenes, supporting and protecting customers even if they never see it.

To realize these gains, billers should work closely with a payments provider that is focused on AI/ML expansion and has a skilled data-science team in place. AI can be an advantage when it draws from a substantial pool of data, and its algorithms are properly designed and tested to prevent bias.

Consumers are ready for AI and all the personalization and convenience it will bring to bill payment. Now it’s up to billers to make it happen—not just to make bill payment easier for customers, but to tap into the endless insights and opportunities AI will provide their business.

It’s an exciting new world, and we’re just getting started. DT

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TIME TO EMBRACE FEDNOW'S REQUEST FOR PAYMENT

The RFP is emerging as one of the most important features of real-time payments platforms. Here's how to implement it.

BY ABHISHEK VEERAGHANTA

Abhishek Veeraghanta is founder and chief executive of Pidgin.

REQUEST FOR PAYMENT (RFP) isn't a novel concept in banking or payments, but it will drive a lot of innovation over the next decade. Many institutions will rely on RFP functionality in the new FedNow service as their primary mechanism for real-time payments because it's a data-rich, low-risk way to enable fast payments.

The next few years will see many changes as financial institutions develop internal processes and procedures for handling RFPs. To support greater consistency and adoption of the right operational processes, the FedNow Service is built on the ISO 20022 standard, which helps drive industrywide standardization. As more institutions align with the standard, the easier it becomes for everyone to take full advantage of real-time payments.

Integrating real-time payments into the banking ecosystem will put everyone on a fresh learning curve. Right now, the curve feels steep, and everyone is eager to implement best practices, even though not every institution has real-world experience with FedNow and RFPs.

The purpose of this article is to cover RFP best practices as they stand today and how your institution can incorporate them into your payment operations.

A QUICK PRIMER

In many industries, "RFP" stands for "request for proposal." For banks operating on the FedNow service and other faster-payments rails, it means "request for payment."

When a customer (the requestor) wants to submit an RFP to another entity (the recipient) using FedNow, there is a straightforward, three-step process to follow:

1. The requestor supplies the originating institution with the following details:

a. Identifying information for the recipient;
b. Identifying information for the requestor, including contact information.

2. The originating institution formats the message with:
   a. A reference number. This number is fixed throughout the RFP process and will be associated with the payment.
   b. Amount requested: This can be a fixed or flexible amount.
   c. Requested execution date for the payment: Essentially, the due date for the RFP.
   d. Expiration date: This limits how long an RFP can linger with the recipient without a response.
   e. Description: Provides details of the product, service, or transaction the RFP is connected to.
3. The originating institution can include some optional details, such as:
   a. An amount modification permitted indicator: This can allow the recipient to pay more or less than the requested amount, depending on the conditions of the transaction. For instance, a recipient may want to pay extra on a loan or credit card statement.
   b. An early payment permitted indicator: A business could offer discounts for early payment, or a recipient may want to pay early based on a unique situation.
   c. Remittance details: Requestors can include extra information such as ISO 20022 data, an invoice number, or a hyperlink to an itemized invoice.
   d. Status codes: Using FedNow, institutions can allow requestors and recipients to view the payment status, including when it was received, shown, accepted, rejected, and completed.

The rich formatting options of the RFP interface allow institutions to embed value-added options for their account holders. This is especially relevant for commercial-banking customers who need to reconcile lots of payments and manage cash flow.

BENEFITS AND USE CASES

Consumers already use some "instant" payment vehicles, even if they offer only the appearance of immediacy, because companies such as Venmo and Block front the money for the recipient until the automated


Veeraghanta

Veeraghanta: “Many institutions will rely on RFP functionality in the new FedNow service as their primary mechanism for real-time payments.”

clearing house transfer clears. Commercial customers still operate under the constraints of ACH transfers, paper checks, and wire transfers.

The power of real-time payments will unlock exciting possibilities for many businesses and the consumers who transact with them.

For example, a large property-management company may process thousands of rent payments monthly. It needs to distribute them across hundreds of property owners. This might require three separate ACH transactions, resulting in a two-week delay between the first of the month and when the property owner sees the payment in its bank account. Real-time payments could compress that time down to a day or two.

The robust data capabilities of real-time payments and the RFP protocol also mean that businesses will have a much easier time reconciling invoices, managing receivables/payables, and projecting cash flow.

The standardization of the data is a boon to all parties. Transferring and analyzing real-time payments data generated through the ISO 20022 standard will enable better insights to institutions and customers alike.

ENROLLING REQUESTORS AND RECIPIENTS

Banks can enable real-time payments and RFPs for retail and business accounts. Most requestors are likely to be businesses, and most recipients are likely to be consumers.

If a bank is going to offer RFP-sending capability to its customers, it will need a standard information-capture form to populate the RFP message fields. Banks will also need to verify recipient accounts using a zero-dollar RFP transaction.

Think of the RFP mechanism as a robust feature set that should be integrated into mobile- and online-banking interfaces. Users may not need access to every feature, but they need to manage RFPs, including accepting or rejecting, paying, modifying, reporting fraud, and sorting them.

The interface for end-users is the responsibility of the bank or the vendor providing online and mobile banking. The Federal Reserve states explicitly it is not developing the user experience/user interface for institutions.

RESPONDING TO RFPS

When recipients sees an RFP in their account interface, they can respond in multiple ways:

- Pay the amount requested
- Pay more or less (if permitted)
- Decline to pay

A recipient that chooses to decline the RFP can provide pre-written reasons or a brief description of why the RFP was declined:

- Already paid
- Unrecognized sender
- Order canceled
- Duplicate payment
- Narrative (also known as “Other”)
- Unspecified

As you build out the interface for real-time payments and RFPs, you’re going to discover new possibilities to improve the experience. Invite your customers to participate in this process. Include a button that lets them easily write feedback on the interface. This will help guide you in how to make it better.

Don’t worry if the first few iterations aren’t fully polished. It’s critical that you set expectations for your staff and account holders. This is a new process. You’re committed to continuous improvement, not perfection.

ARE YOU READY?

At FedNow’s launch last summer, 35 banks went live with the service. By early February, that number had grown to 470, it is certain to continue growing. The next months and years will be filled with integrations, exciting product developments, and ongoing market education.

Incorporating real-time payments and RFPs into your product suite paves the way for dramatic changes in how your institution and your customers move money. Financial institutions that begin moving toward this new paradigm will gain a competitive advantage that’s tough to beat. DT

WHAT'S IN

Cap One's Wallet?

Its blockbuster bid for Discover could position Capital One to compete not only with the largest credit and debit card issuers, but also with networks like Visa, Mastercard, and AmEx.

BY PETER LUCAS

Capital One Financial Corp.'s bombshell announcement in February that it is offering to acquire Discover Financial Services in all-stock deal valued at $35.3 billion was one of the biggest wow moments the payments industry has seen in years, if not more than a decade.

As news of the deal swept the industry, it was immediately clear the combination, if approved by regulators, could transform the payments industry in ways not seen in years.

For starters, there's the network advantage. The acquisition not only of the Discover network but also of its big debit network, Pulse, would give Cap One a huge operating-cost advantage and revenue boost through increased economies of scale.

McLean, Va.-based Cap One plans to increase volume on the Discover network by adding more than 25 million debit and credit card holders, along with $175 billion in credit and debit volume, by 2027.

"The possibility of driving Capital One's existing transaction volume through the Discover and Pulse networks introduces efficiencies of scale that will strengthen these networks and make them much more competitive relative to Visa and Mastercard," says Beth Robertson, managing director, for Keynova Group, a Wilmington, Del.-based competitive-intelligence firm for the financial-services industry.

The planned increase in network volume, along with organic network growth, will not only make Riverwoods, Ill.-based Discover a more competitive network, it could vault Discover ahead of American Express Co. among the four major card networks, something Discover has not able to achieve on its own during its nearly 40 years in operation.

Adding *Scale*

A more competitive Discover could bring downward pressure on the network fees merchants pay, including interchange, should Capital One decide to compete on price for additional network volume. Such a scenario could force other card networks to lower fees they charge merchants.

"Discover has generally offered services at a lower price point than the other networks, so they are likely to influence downward pressure on the other networks' interchange fees," Robertson adds.

Visa, Mastercard, and AmEx did not respond to inquiries from Digital Transactions for this story.

Not to be overlooked is that owning its own network would give Cap One a larger cut of cardholder fees, observers point out.

"Acquiring Discover not only adds scale to Capital One, which matters for payments networks, it gives Capital One access to both sides of the network revenue stream," says Brian Graham, cofounder and partner at Klaros Group LLC, a Beallsville, Maryland-based advisory and investment firm for financial-services providers.

Cardholder rewards is another area where the deal could shake up the payments landscape. Stacking its Capital One Shopping app—which automatically searches for online coupons, better prices, and rewards at over 30,000 retailers—on top of Discover's cash-back rewards, could allow Cap One to create an extremely potent and cost-effective customer acquisition tool.

Cap One could use that value proposition as an entrée to selling other banking products to consumers, such as depository accounts and loans, to deepen cardholder relationships. Rewards could even be extended to Capital One and Discover debit cards, a perk that fell away from nearly all debit cards after the passage of the Durbin Amendment.

Other areas the deal could affect include Cap One's desire to increase its global card business. Discover is a global card brand and network, and it owns Diner's Club, which remains a viable card and network brand outside the United States. Discover acquired Diners in 2008.

Yet another implication of the deal is that it can open the door for the merged entity to become a major player in prepaid cards, which Cap One could use to reach low-to-moderate-income consumers with high-risk credit profiles.

Cap One could use prepaid cards to help consumers rehabilitate their credit score or to provide low-risk alternative to a debit card, suggests Ben Jackson, chief operating officer at the Innovative Payments Association (Jackson expands on this theme in his "Payments 3.0" column on page 12).

The Perception *Gap*

As with any merger or acquisition, determining the impact of the deal is tough, especially if its impact is as potentially far-reaching as that of a Capital One/Discover combination. The principals in the deal have revealed little about their vision for the new company beyond what they told analysts in February when the acquisition was announced.

Putting the deal in perspective requires focusing on its main elements: the impact on the card businesses of Cap One and Discover and on the Discover network; the impact on the principals' respective debit businesses and on the Pulse network; and the question of whether regulators will approve or scotch the massive deal.

When it comes to Cap One's credit card business, chairman and chief executive Richard Fairbank told analysts when the deal was announced that being a card issuer with its own network is the "holy grail." By this, he meant it allows an issuer

Riley: "This deal can bring more competition, especially among large issuers [and competing networks] that want to protect their share."

to deal directly with merchants and also have a comprehensive relationship with both merchants and cardholders for credit and debit acceptance.

A key benefit of that scenario is that Cap One can negotiate lower network fees with merchants, which can expand merchant acceptance for Discover. Fairbank acknowledges that the perception of lesser merchant acceptance for Discover compared to Visa and Mastercard has been a hindrance to Discover's growth, even though Discover has achieved parity with its two rival networks in the United States when it comes to merchant acceptance.

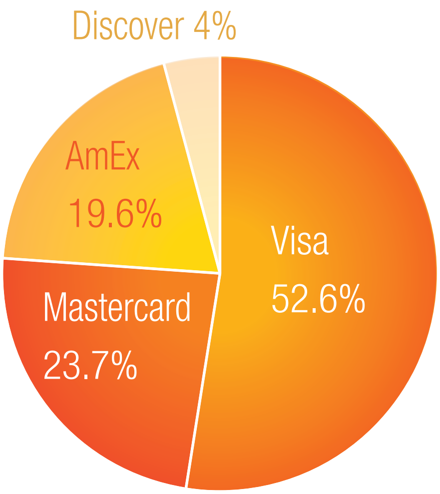
While reality is different from perception, Fairbank acknowledges that overcoming consumer perception can be tough, which is why he said Capital One intends to invest in the Discover network's brand and credibility with merchants to close the so-called perception gap.

"A more competitive Discover can be a counterweight to the Visa and Mastercard duopoly," says Matthew Goodman, founder of Totavia, a Pasadena, Calif.-based fintech consultancy. "Building a payment network from scratch is costly and almost unrealistic today. In Discover, Capital One gets a readymade network it can grow."

Challenging the Visa and Mastercard network duopoly could force both global networks to be more price-competitive when negotiating network fees with merchants. "But I don't expect Visa and Mastercard to lose money over this," Goodman adds.

DISCOVER'S MODEST SLICE

(Share of total purchase volume in 2021)



Source: SEC filings

'The Next ***Frontier***'

Some observers point out the deal could also prompt Visa and Mastercard to lower what they charge Cap One to issue cards on their respective networks. An estimated 59% of Cap One's cards are issued on the Mastercard network and 41% on the Visa network, according to payments experts.

But there's far from agreement on this point. The potential of losing a large chunk of those cards to Discover may have little or no effect in prompting Mastercard and Visa to cut fees to Cap One and dissuade it from shifting cards to Discover.

"There will be some loss of network volume from Capital One shifting cards to Discover, but Visa and Mastercard will deal with it, because they work with many players that do things they don't like," says Eric Grover, principal at the payments advisory Intrepid Ventures.

While Fairbank lost no time announcing the bank's intention to move all of its debit cards to the Pulse network, Cap One has stayed silent on what portion of its credit card portfolio it plans to move to Discover. Payments experts doubt Cap One will move the bulk of its credit card portfolio, given the card issuer's long affiliation with Mastercard and Visa.

Fairbank indicated as much when he told analysts that, while it is not unusual for companies in the payments business to be competitors and partners, "Visa and Mastercard will be important partners as they can help add value for our customers."

Cap One had credit card purchase volume of $606 billion in 2023. The company reportedly had about 44 million cardholders in 2022. A more recent number was not immediately available.

Another way Cap One can grow volume on the Discover network is to extend its Capital One Shopping app to existing and new Discover cardholders.

While payments experts say Discover's cash-back rebate generates fierce brand loyalty among

Discover cardholders, adding another rewards program can increase spending among existing cardholders and attract new cardholders to the Discover brand, they argue.

The Capital One Shopping app, which is also available to non-Capital One cardholders, helps shoppers find the lowest price on items at more than 30,000 retail Web sites. It also searches for applicable coupon codes, and allows shoppers to earn Capital One Shopping Credits. The shopping credits can be redeemed for gift cards at such merchants as eBay or Walmart.

The app also compares shipping costs with different retailers. If the app finds a merchant charging a lower shipping fee for the same item, it will show the difference and provide a link to the lower-cost merchant. Consumers can also create a Watchlist that sends them alerts when an item they want to purchase drops in price.

"Having a rewards program like Capital One Shopping helps issuers connect with cardholders wherever they are during the shopping journey and keep their card top of wallet," says Jordan Glazier, founder and chief executive at Wildfire Systems, a San Diego-based white-label loyalty-rewards platform provider.

"Capital One Shopping has become a centerpiece for customer acquisition and provides a strong point of differentiation," Glazier adds. "Discover has defined its value proposition with cash back, but it lacks an online-shopping component. Capital One Shopping would be a great fit for Discover's value proposition as value-added services are the next frontier of competition in payments."

There would be no cost to Capital One to extend the rewards program to Discover cardholders, as merchants pay the issuer a commission when users make a purchase. As a result, Capital One's rewards program is a profit center, as it uses the commissions from merchants to fund rewards as opposed to interchange, Glazier says.

"Every issuer and payment network we talk to lists value-added services as a top priority to hedge against revenue pressure and to help with customer acquisition," Glazier adds. "Given Capital One's history of innovation, it can breathe new life into Discover through value-added services."

The 'Unwanted *Stepchild*'

One other area where Capital One's acquisition of Discover potentially benefits the card issuer is that owning Discover will put it in prime position to pick up new volume should the Credit Card Competition Act pass.

The CCCA would require financial institutions with $100 billion or more in assets to enable at least one network other than Visa or Mastercard for credit card transaction processing. While banks would choose which networks to enable, merchants would choose which network to use. Proponents of the legislation contend that, given a choice of networks, merchants will opt to route transactions over the lower-cost system.

As owner of the Discover network, it's only natural Capital One would make Discover the alternative network on their Visa- and Mastercard-branded cards if the CCCA passes, payments experts say.

"Owning the Discover network is a great hedge for Capital One, should the CCCA pass, because they will own an alternative network that can be leverage to break up the Visa and Mastercard duopoly," says Dave Grossman, founder at YourBestCreditCards.com, which helps consumers find suitable rewards cards.

Arguably the biggest question mark in the deal is what Cap One plans to do with Diners Club, which Discover acquired in 2008 from Citigroup for

Jackson: "Whether regulatory approval around this deal will be a public debate or a technical discussion will have a lot of influence on how this deal plays out."

$165 million. Since acquiring Diners in the 1990s, Citi had tried to breathe new life into the travel and entertainment brand, with mixed results.

“The Diners brand could be revived, but it would require a bold move on Capital One’s part,” Grossman says. “The question is whether the payoff from such a move [would] justify the cost.”

Some payments experts have described Diners as an “unwanted stepchild,’ an asset Capital One had to take to make the deal. “There are assets that come with an acquisition that don’t necessarily make sense to keep, but are the part of the deal nonetheless. It may be better for Capital One to sunset the brand,” says Totavi’s Goodman.

‘We Will ***Complain***’

For all the what-ifs surrounding Cap One’s credit card business in light of the potential acquisition of Discover, the potential benefits on the debit side of the business are more straightforward. The reason is simple: A provision in the Durbin Amendment exempts debit issuers that also own a network from the regulation’s interchange caps.

The exemption results from how the Federal Reserve Bank defines a payments network. In light of Durbin, the Fed defines a payments network as one that routes transactions to a third-party rather than to itself. Under that interpretation, not only Discover but also American Express do not meet the definition of a payments network.

For Cap One, the big advantage of the exemption is that interchange fees on the Pulse network, once the deal with Discover is consummated, don’t have to be capped.

Pulse serves more than 3,000 financial institutions, down from a high of more than 4,500 when Discover acquired the network in 2005. Industry consolidation is the culprit for the reduction, a Pulse spokesperson says.

Even so, Pulse’s transaction volume continues to grow. During the fourth quarter of 2023, the network saw transactions increase 19% year-over-year. Indeed, debit transaction volume grew each quarter in 2023 on a year-over-year basis. The low-water mark was a 9% increase in the first quarter.

Cap One’s debit portfolio reportedly generated $65 billion in volume in 2022, according to Intrepid Ventures’ Grover. “Capital One’s debit business is pretty small compared to the big boys, like Chase,” Grover says. “Nevertheless, Capital One should see an enormous lift from debit-interchange revenue.”

But Cap One’s exemption is sure to rankle larger debit card issuers. When asked during an interview on CNBC about whether the exemption created an unfair advantage for Cap One, JP Morgan Chase & Co. chairman and chief executive Jamie Dimon agreed it would.

“Of course I have a problem with that [exemption], why should [Capital One] be able to price debit differently than we price debit because of a law that was passed,” Dimon said. “If we think it’s unfair, we will complain [to regulators].”

While the potential new revenue stream and operating efficiencies from owning Pulse are sure to bolster Cap One’s balance sheet, they also create the opportunity to add value to the bank’s debit portfolio by helping subsidize rewards. Prior to the passage of Durbin, debit rewards were quite common. They went away after the law was passed because debit issuers claimed the caps limited the financial resources to offer rewards.

“Durbin killed off debit rewards, which has essentially made debit cards uninteresting to consumers,” says Grossman. “Why not take some of the revenues [from Pulse] and use them to fund additional benefits that increase the value proposition for cardholders?”

Grover: “Capital One should see an enormous lift from debit-interchange revenue.”

Regulatory *Angst*

One of the thorniest questions surrounding Cap One's bid to acquire Discover is whether the deal will be approved by regulators.

Already, Sens. Elizabeth Warren (D-Mass.), who sits on the Senate Banking, Housing, and Urban Affairs committee, and Josh Hawley (R-Mo.) have called on regulators to block the deal, arguing it would be anti-competitive and harmful to consumers.

That senators from both sides of the aisle immediately raised concerns about the deal suggests it may not be a slam dunk for regulators to sign off on it, says IPA's Jackson.

Most payments experts, however, counter the deal actually helps foster competition by making Discover a more competitive network with Visa, Mastercard, and AmEx, something it struggled to achieve on its own. After all, Discover has been a distant fourth-place network since its launch in 1985.

"This deal can bring more competition, especially among large issuers [and competing networks] that want to protect their share," says Brian Riley, director of credit and co-head for payments at Javelin Strategy and Research. "The question for regulators will be what boundaries, if any, need to be put in place to make the deal fly."

Still, payments experts acknowledge that anything can happen in a regulatory environment, especially during a presidential election year, when politics take center stage.

"Whether regulatory approval around this deal will be a public debate or a technical discussion will have a lot of influence on how this deal plays out from a regulatory standpoint," Jackson says.

For now, Cap One has strengthened its hand considerably. What the big bank actually does with Discover's assets, should the deal clear its approval hurdles, will be closely watched. And no wonder, as the impact on the payments industry from the deal will play out for years to come. DT

The next step in cybersecurity

endpoint

GET SET FOR THE PASSAGE TO PASSKEYS

The technology promises to thwart cyberthieves while simplifying authentication for consumers.

BY **QUINTIN STEPHEN**

Quintin Stephen is the global business lead/director for the Authentication Division of Giesecke+Devrient (G+D).

IN THE EVER-EVOLVING landscape of online transactions, the banking and transaction experience is undergoing transformative shifts, focusing on regulatory compliance and fraud reduction, while creating optimal experiences for merchants and their customers.

As the United States is the second-largest country in the world, and generates the most revenue in the e-commerce market, consumers will continue to choose to make purchases predominantly online. That means the payment experience has to align with the cybersecurity standards needed to protect consumer credentials. Luckily, banks are now moving in this direction through the use of passkeys.

Passkey authentication is essentially a modern, passwordless authentication system. It works as a real pair of keys that significantly improves security for banks. In fact, it allows end-user customers to create a strong and secure connection between a digital platform and a personal device in order to log into their accounts using cryptographic keys instead of classic passwords.

Passkeys are functionally replacing the username-and-password combination. However, they operate from a customer's experience in just the same way as you would unlock your iPhone with face ID/touch ID biometrics or with a PIN. This method of authentication holds significant value for merchants, banks, and consumers alike, and continues to gain traction as a powerful tool in limiting fraudulent activity.

A FAVORED CHOICE

In the pre-digital era, security measures were straightforward, with consumers able to withdraw money, make transfers, and make online purchases with minimal identification, often relying on signatures or passwords. However, with the emergence of device-bound passkeys, user authentication of accounts is linked to a specific device, such as an iPhone or Android phone, where only the individual in sole possession of that device can perform that action.

While today's digital age has made the consumer banking journey convenient through banking apps, plenty of cybersecurity risks still exist. This is especially true with some multifactor authentication (MFA) implementations that are currently in use.

MFA methods like one-time passwords (OTP) and SMS OTP were once introduced to mitigate risks, but they present various challenges for both customers and banks. These challenges include a clunky user experience, interception from attackers through fake Web sites, hidden costs for banks that have to deal with fraudulent activity, and a lack of control that compromises the user experience.

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- Provide a seamless payment experience across online, in-store, and mobile channels.
- Empower merchants with flexible processing through proprietary apps and gateways.

Diverse POS Products

- Choose from a robust lineup, including countertop devices, card readers, terminals, mobile apps, and more.
- Offer the Curv POS with no upfront cost to merchants.

Seamless Integration

- Streamline business operations by integrating with accounting, inventory management, and CRM platforms.
- Enhance efficiency and focus on business growth.

Wholesale Processor Advantage

- Enjoy a direct wholesale relationship with bank sponsorships.
- Receive competitive bonuses without a required monthly minimum.

White Glove Support and One Call Resolution

- Access personalized assistance with one-call resolutions.
- Enjoy 24/7 support with a commitment to answering within 15 seconds.

Dual Pricing Program

- Pass on acceptance costs to customers with our compliant program.
- No extra transaction fees, offering extra flexibility to our partners.

Free Terminal Program

- Merchants pay a monthly subscription instead of upfront costs.
- Start accepting payments in as little as 24 hours without upfront fees.

Your Success, Our Commitment

At Payarc, success is not just a goal; it's a commitment. We provide comprehensive tools and support covering omnichannel solutions, versatile POS products, seamless integration, better commission splits, white-glove support, upfront bonuses, and a free terminal program – ensuring every aspect of your business is covered.

Enable Payments in the Digital Real with SaaS Product Options

Elevate your brick-and-mortar merchant solutions to software products using Payarc's line of SaaS options. Payarc offers cloud-based applications across different sectors. Our support ensures a successful journey in SaaS sales:

Mentorship: Learn from seasoned professionals for insights and effective problem-solving.

Technical Mastery: Understand our SaaS products to articulate their benefits convincingly.

Specialization: Excel in a niche that interests you, becoming an invaluable asset in your sales efforts.

At Payarc, we empower our sales teams for success in the dynamic world of SaaS.

Meet Us in Person!

Excited about the prospect of a face-to-face meeting? Catch us at these events:

Northeast Acquirers Association

- Platinum Sponsor
- Photobooth
- April 3 & 4

TRANSACT powered by ETA

- Gold Sponsor
- Headshot Studio & Relaxation Lounge
- April 17 - 19

SEAA Southeast Acquirers Association

- Flamingo Sponsor
- Closing Reception
- June 10-12

Ready to explore the opportunities with Payarc? Contact us today to kickstart your journey to elevated merchant services.

Your gateway to superior merchant services is just a call away! Schedule a call now.

With consumers and regulators demanding the highest security standards, banks have repeatedly faced pressure to enhance security measures. As a result, passkeys have begun to emerge as a favored choice.

At the same time, consumers in at least some recent surveys have been expressing a preference for biometric authentication through passkeys, in large part due to online commerce increasing year-over-year. This was especially the case during this past holiday shopping season, when consumers set a new record for e-commerce, spending $222.1 billion from Nov. 1 to Dec. 31.

Eliminating passwords from the authentication process entirely is certainly gaining momentum. Multi-device passkeys, as well as device-bound passkeys based on FIDO (Fast Identity Online) standards, have created a secure and convenient alternative to passwords just over the last 12 months.

More recently, the world's largest e-commerce platform, Amazon.com, rolled out passkey support on browsers and mobile-shopping apps. This effort has offered consumers an easier and safer way to sign in to their accounts. By eliminating the need to enter usernames or passwords—and by enabling users to seamlessly switch between devices—this feature has become increasingly valuable as consumers engage in online shopping across various channels.

As a secure and convenient approach, device-bound passkeys offer phishing-resistant, device-bound authentication, in which users that simply touch a thumb or glance at a camera for a two-factor authentication experience will feel as if they've offered just one factor. This not only enhances security during the online-shopping experience, it also ensures the process is as seamless and stress-free as possible for consumers.

SECURE AND CONTROLLED

Looking ahead, true passwordless authentication should go beyond simple biometric authentication on the device. It should include device binding, providing regulatory-compliant two-factor authentication in one step. This advance holds immense promise for both consumers and financial institutions.

Balancing security and convenience based on transaction value, and leveraging biometrics discreetly for lower-value transactions, will support an adaptive approach that becomes especially crucial when transaction volumes soar.

At the same time, the implementation of OEM-independent biometrics to restrict access to authorized account holders on shared devices ensures a secure and controlled banking experience. This is essential when shared devices are common in households.

While passkeys represent a significant step forward, the potential of biometric-powered, passwordless authentication is vast, especially in the financial sector.

Meanwhile, merchants are especially intrigued about the fact that technology now exists that allows the use of secure passkeys that aren't tied to a specific device. This is accomplished by associating passkeys with authentication technologies, offering even greater user flexibility and accessibility.

BEACON OF HOPE

The shift from passwords to passkeys emerges as a beacon of hope in the realm of online security. Through continued exploration and adoption of this transformative trend, merchants, banks, and consumers can be empowered with the knowledge they need to navigate this paradigm shift confidently.

Passkeys represent a leap forward in the ongoing quest for a safer, more secure digital landscape. By embracing passkeys, banks, merchants, and consumers alike can ensure a secure and seamless online banking and purchasing experience, with enhanced cybersecurity.

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