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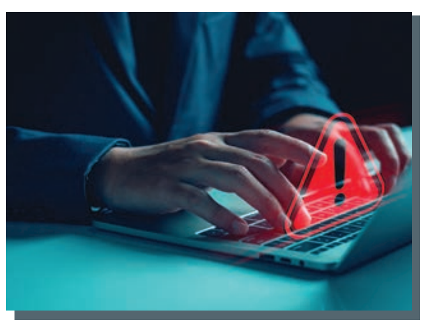

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the gimlet eye

THE LESSON FROM GPR CARDS

AS THE PAYMENTS business attracts headlines for such innovations as open banking and account-to-account transfers—and rightly so—it's easy to forget what's going on with some fundamental services that keep finding new uses. That's a pity, since focusing on such products is a useful reminder of the industry's ingenuity.

Take, for example, general-purpose reloadable (GPR) prepaid cards. As it turns out, they keep serving new needs even as the industry widens the market for them. Audiences as diverse as the underbanked population and frequent business travelers are adopting the products for their convenience and, for some, as alternatives or complements to bank accounts.

The products also constitute a quite healthy market. GPR cards accounted for a total load value of $234 billion worldwide last year, a figure that's growing at a compounded annual rate of 7%, according to recent research from Javelin Strategy & Research. The total prepaid card market, including GPR cards, is expected to generate $14.4 trillion in volume globally by 2032, up from $2.5 trillion in 2022, according to estimates and forecasts from Allied Market Research.

That kind of growth has researchers pinpointing the best products in the GPR market. As it turns out, the Serve Cash Back Card earned a first-place finish late this summer in Javelin's inaugural effort at ranking the products. The results sorted out 10 major GPR card programs, with the Target Circle Card coming in second and the PayPal Prepaid Card third.

InComm Payments distributes the Serve Card after acquiring the program in 2018 for undisclosed terms from American Express Co., which remains the issuer. AmEx in 2010 had acquired Revolution Money, the original platform for the product, renaming it Serve.

Serve managed to finish on top even though it didn't come in first "in any single category," because of "consistent top-three rankings across all categories," according to Javelin. It says it evaluated contenders on 51 criteria and in three categories—ongoing experience, cost, and additional benefits and features.

So what makes GPR cards worth paying attention to, let alone ranking? Their importance lies in their appeal to consumers looking for card products that can help them stick to a budget, Javelin says. "These cards serve as an important entry point for consumers who are shut out of traditional credit and debit card programs and also serve as a source of additional account access for those looking to budget their regular spending," Jordan Hirschfield, director of prepaid payments at Javelin, said in a statement.

The point isn't so much GPR cards as it is the ability to pinpoint unmet market needs. Those needs are out there. Those who satisfy them will flourish.

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THE CFPB REVIEWS CASH BACK AT THE POINT OF SALE

Retailers providing cash-back services at the point of sale fill a void for many consumers who may live in so-called banking deserts, the Consumer Financial Protection Bureau says in a recent report on the service. Some, however, charge a fee for that access, among other banking hurdles.

The Cash-back Fees report, issued late in August, says its sample of eight retailers—only Dollar General, Dollar Tree Inc., and Kroger Co. charge cash-back fees—found that they annually collect more than $90 million in these fees.

"The CFPB also estimates that the marginal cost to merchants for processing each transaction may be a few pennies, compared to the much higher fees charged by these retailers to consumers. While there may be other costs related to cash handling, these are generally reduced by the provision of cash back, as it reduces merchants' cash on hand," the report says.

The five other retailers in the report—Albertsons Brand, Walmart, Target, Walgreens, and CVS—charge no cash-back fees.

Dollar General charges between $1 and $2.50, dependent on the amount and other variables, for a maximum of $40 in cash, according to the report. Dollar Tree, which includes the Family Dollar and Dollar Tree brands, assesses a $1.50 fee at Family Dollar and $1 at Dollar Tree, with a $50 maximum on cash back.

Kroger, which has numerous brands, charges 50 cents for less than $100 and $3.50 for more than $100, with a maximum of $300 in cash. Its Harris Teeter brand charges 75 cents and $3, correspondingly, with a maximum of $200 cash back. The other five retailers in the report have maximum cash-back amounts ranging from $20 to $200.

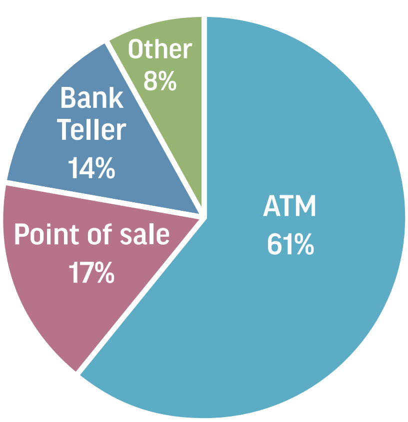
Consumers use a debit card or prepaid card to access cash back at the point of sale. The CFPB estimates the additional merchant cost of a debit card cash-bank transaction on a $20 payment with $10 in cash back at 33 cents for the transaction alone and 5 cents for the cash-back portion at a national discount chain and 33 cents and 1 cent for the same transaction at a national grocery store.

Getting cash from a bank account or prepaid card is mostly done at an ATM, with that accounting for 61% of cash access for the combined years of 2017 to 2022, according to the CFPB. Next highest was at the retail point-of-sale at 17%, followed by bank teller, 14%, and other, 8%.

Among the key findings, besides the $90 million in fees, are that three retailers charge a fee, that these cash-back fees are levied on low, pre-set cash-withdrawal amounts, and that consumers with lower incomes or fewer banking choices may be more likely to encounter cash-back fees.

A merchant group, however, says the issue lies more with the banking

WHERE CONSUMERS GET CASH BACK



Note: Instances of cash back from a bank account or a prepaid card. Source: CFPB industry. “The source of these issues is the banking industry charging retailers excessive fees to accept debit cards,” says Doug Kantor, general counsel of the National Association of Convenience Stores.

The CFPB points out that banks have abandoned these towns, Kantor says. Retailers are serving these consumers and “getting hit with fees. That’s a real cost to those retailers,” he says. The focus should be on banks creating the problem rather than retailers, which are caught in the middle, says Kantor, an executive committee member of the Merchants Payment Coalition.

The CFPB’s review also points out that offering cash back at the point-of-sale has benefits for merchants, including attracting new shoppers and potentially reducing the merchant’s cash-handling costs.

The CFPB’s concern is centered on the availability of banking services.

“[I]n many parts of the country, people can struggle to find easy and free access to their own cash. In our discussions with elected officials from small towns and rural areas, they’ve described the impact of the last bank branch closing or how services degraded after a bank merger,” Rohit Chopra, CFPB director, says in a note about the report.

“We heard how people in these communities encounter high fees to withdraw cash, small businesses struggle to make change in cash transactions, and there are fewer safe places to make cash deposits,” Chopra’s note continues.

Chopra says while digital payments continue to grow, access to cash is critical, and retailers are stepping in to fill a void left by the banking system. “The CFPB will be working to ensure that consumers and businesses across the country can have a free option to access their own money,” he says

—Kevin Woodward

THE FEDS’ REWARDS PROBE ENSNARES CO-BRANDED AIRLINE CARDS

The U.S. Department of Transportation is looking into airline rewards programs with an eye on protecting consumers from potential unfair, deceptive, or anticompetitive practices, the department says. Many consumers use cobranded airline credit cards to earn points in these programs, though the DOT’s focus is on rewards, not on card-issuing practices.

Four air carriers—American Airlines, Delta Air Lines, Southwest Airlines, and United Airlines—were ordered to provide records and reports about their rewards programs, practices, and policies. The DOT says its focus is on “ways consumers participating in airline rewards programs are impacted by the devaluation of earned rewards, hidden or dynamic pricing, extra fees, and reduced competition and choice.”

In addition to earning points for travel, consumers also can earn rewards points when booking hotels and cars via an airline’s site. Using an airline’s cobranded credit card also is popular. Citibank issues the American Airlines card while JPMorgan Chase Bank issues the United and Southwest credit cards. American Express Co. issues Delta’s card.

A report from TD Securities, a subsidiary of TD Bank, says in a May report that the cobranded card program for one unidentified airline contributed $6.8 billion to the air carrier’s 2023 revenue.

“Consumers who are members of the airline loyalty programs and hold the airline’s credit card are the most loyal customers. They generally go out of their way to keep flying on the airline and tend to purchase premium economy or business class tickets. Airlines reward loyalty based on dollars spent on the airline as well as miles flown,” TD Securities says.

“These programs bring real value to consumers, with families often counting on airline rewards to fund a vacation or to pay for a trip to visit loved ones. But unlike a traditional savings account, these rewards are controlled by a company that can unilaterally change their value. Our goal is to ensure consumers are getting the value that was promised to them, which means validating that these programs are transparent and fair,” U.S. Transportation Secretary Pete Buttigieg says in a statement.

Southwest, according to a NerdWallet analysis this summer, has a rewards-point valuation of 1.5 cents, the same as in 2022, but down from 1.6 cents in 2021. Delta's SkyMiles' valuation was 1.2 cents in 2023, down from 1.5 cents in 2022 and from 1.3 cents in 2021.

The DOT is specifically looking into the valuation of earned rewards. It wants the four airlines to describe each change they've made to their rewards programs over the past six years, how these changes affected existing points and status, and the options offered to members to avoid losing any value or benefits they had already earned.

It also wants to know how pricing practices may shroud the true dollar value of rewards and the practices related to dynamic pricing. Descriptions of each fee associated with a rewards program also must be disclosed. Lastly, the DOT wants documentation on how rewards programs have been integrated and managed following a merger.

—Kevin Woodward

VISA READIES TO LAUNCH ACCOUNT-TO-ACCOUNT PAYMENTS IN EUROPE

Visa Inc. announced last month it will launch account-to-account (A2A) payment capabilities in the United Kingdom in early 2025. The move will allow U.K. consumers paying bills to do so directly from their bank account, as opposed to paying by check, cash, or card.

Visa's plans for the service, called Visa A2A, include supporting product subscriptions and services including digital streaming, gym memberships, and food boxes.

The addition of A2A payments capabilities hands Visa a competitive edge, as A2A payments are a popular payment method outside the United States, says Trevor Forbes, director of engagement strategy at the payments consultancy and research service TSG.

"A2A is already popular in certain markets overseas," Forbes says by email. "Adding A2A gives Visa greater involvement in this trend and it gives greater choice in payment options for users from a well-trusted brand."

The growing popularity of A2A payments is being driven by a number of factors, including a trend toward open banking and government-backed initiatives. In the case of the latter, a classic example is taking place in Brazil, where the central bank established the Pix A2A system, Forbes adds.

As part of its A2A service, Visa will offer a formal dispute-resolution process that provides U.K. consumers with a way to check transactions. In addition, the use of new authentication technologies, such as biometrics, could help reduce unauthorized payments, observers say. U.K. consumers will also be able to set up and manage payment permissions and set limits on the amount of A2A transaction amounts.

Visa developed Visa A2A in partnership with several U.K. fintechs, including Moneyhub, Yaspa, real-time payment provider Banked Ltd., embedded-payments provider Modulr Finance Ltd., and open-banking technology providers Salt Edge Ltd. and Vyne Technologies Ltd.

The latest thrust into A2A payments indicates Visa is evolving its network capabilities to support more than just card-based payments, observers note.

"Visa is moving beyond [being a card network] as A2A evolves," says Thad Peterson, a strategic advisor for the research and consultancy firm Datos Insights. "If Visa is going

MONTHLY MERCHANT METRIC

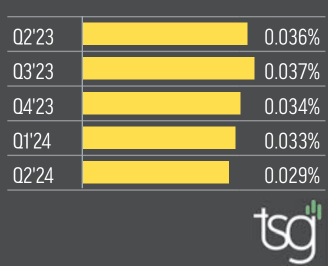
Chargebacks Transactions %

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.** For all industries including Higher Risk.

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

Chargebacks Transactions % of Transactions - Chargeback number divided by bankcard + OptBlue transactions



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to be a true payments network, the operative word being 'payments,' it makes sense for it to explore payments beyond cards."

While A2A payments are popular outside the United States, it is unlikely that Visa will introduce its A2A service in the U.S. market any time soon, observers say.

One reason is that the U.S. is a very card-centric economy by comparison to nations where card networks are


Peterson

Peterson: "It makes sense for [Visa] to explore payments beyond cards."

less developed. "Other countries don't have as established a card infrastructure as the U.S.," Peterson says. "While new technologies, such as A2A payments, transcend card-based networks [in other countries], the card infrastructure in the U.S. is way ahead of the curve, so we are kind of stuck with what we have."

Another reason may be that Visa seems to be focused on expanding A2A payments outside the U.S. and beyond the U.K., Forbes adds.

—Peter Lucas

ADYEN ROLLS OUT 'INTELLIGENT ROUTING' FOR DEBIT

Adyen NV early last month began launching what it calls an intelligent-routing service for debit cards that's intended to reduce merchants' debit-acceptance costs and increase authorizations for purchases.

The service, which enables Adyen to choose which network to route transactions over, was developed primarily in response to the Federal Reserve's 2023 statement reinforcing its earlier mandate that all debit cards issued in the United States carry the brands of least two unaffiliated networks. Amsterdam-based Adyen saw its North American revenue climb 30% in the first half, compared to the same period last year (chart).

The Federal Reserve's decision came as a part of an amendment to Regulation II, also known as the Durbin Amendment, which caps interchange fees charged by debit card issuers. Late last year, the Federal Reserve's Board of Governors announced it would revisit the debit-fee cap.

During Adyen's recently concluded pilot with 20 large merchants, including eBay Inc. and fitness chain 24 Hour Fitness USA LLC, participating merchants saw acceptance costs decline by 26% and authorization rates increase 0.22%, on average.

To determine which network it should select to route a debit transaction, Adyen uses artificial intelligence, which weighs global and local data, to select the lowest-cost network that will yield the highest authorization rate. Merchants can use Adyen's routing service for in-store and e-commerce transactions. No additional coding is required by merchants to implement the service.

"Looking at the short and long term, payment data is going to be a key differentiator to make businesses optimize their revenue streams, not only by reducing cost of payments but by actually making payments become a key revenue driver for businesses,"

ADYEN'S NORTH AMERICAN GEYSER

(Net revenue in millions, first half of each year)

Source: Adyen

Trevor Nies, senior vice president and global head of digital at Adyen, says by email.

Another factor fueling the development of the new service is the increased use of debit cards. During 2023, about one-third of all payments were made using debit cards, according to the Federal Reserve's annual Diary of Consumer Payment Choice report. In addition, data from Adyen's platform, which excludes cash as a payment method, revealed that debit transactions accounted for 58% of all U.S. transactions in June.

"Competition between networks leads to lower costs for businesses, but also increased complexity, and an opportunity to optimize for higher performance as well as cost," Nies adds. "We're also in a time where business leaders are facing pressure to increase efficiency due to challenging operating circumstances, from supply-chain challenges to high inflation. Effective implementation of payments technology that enables organizations to boost revenue and cut costs is especially important now."

—Peter Lucas

WHERE MONEY GOES, ATTENTION FLOWS

BY
GIDEON SAMID
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MONEY IS TRADITIONALLY defined as a medium of exchange, unit of measurement, and store of value, which is true. But this definition hides the underlying attribute of currency. Money, currency, is the riverbed that guides where the river flows. Where money goes, attention flows.

Society moves forward by paying attention to positive and constructive matters, and by avoiding the pitfalls of paying attention to negative and destructive matters. It is the primary aim of human society to direct societal attention to serve its interests. Alas, attention is abstract and unmeasurable. Attention, like water, spreads and spills in all directions, some good, some bad. If you want water to flow in a given path, you dig a riverbed, and there the water goes. It's the same with attention, based on the underlying attribute of money: where money goes, attention flows.

Society will direct its attention to the positive and away from the negative by throwing money into positive aims and away from negative ones. Yes, attention is abstract. But money is specific. And, indeed, attention is hard to measure. But money is plainly countable. To direct societal attention towards the good and worthy, society needs to direct money to the same.

"You don't solve problems by throwing money at them," a wise man said. True, money *per se* does not solve problems. But money attracts attention, and attention solves problems.

When President Kennedy charted a vision for going to the moon, he budgeted NASA for that aim. Attention followed, and the moon was conquered. When Covid-19 massacred humanity, the U.S. government gave the pharmaceutical industry an open check—and Covid was harnessed.

The best way to stop war and violence is to defund the war machines. It always works!

When politicians shouted in the streets, "Defund the police!" they meant defund the abusive element in police work. They had not read my book, *Tethered Money*, which shows how to surgically defund an operation.

Can a society put money where its mouth is? That is the big story behind the digital-money revolution. Digital money is tetherable to well-defined causes and objectives. With nondigital money, once you pass it to the payee, you, the payor, lose control over it. The payee decides, regardless of prior promises. You can sue a non-compliant payee, but the money is gone any way.

You need a means to stop misdirection of money *before* it is misdirected. Only digital money offers this option. Digital money has a cyber identity. A cyber identity can be cryptographically managed. A required cryptographic key is left in the hands of the payor long after the payment takes place. The technology and the particulars are explained in *Tethered Money*.

What is important to realize is that this principle is universal, no matter what the societal problem you are dealing with is. The way to solve it is to direct human attention to the challenge. And the way to marshal human attention towards a large or small societal issue is to allocate funds for the purpose. The promise of the new form of payment—digital payment—is that society can cybermove money to better manage its challenges, a capability that pre-digital money lacks.

Central banks and parliaments around the world, the U.S. government included, are now wrestling with the question of how to design a CBDC (central bank digital currency). It's tempting to build a CBDC as a surveillance tool. But no, the guiding principle should be to build digital-money operations as a means to direct attention towards society's most important challenges. Always remember, where money goes, attention follows! DT

HUMANITY AND THE WAR ON GIFT CARD FRAUD

BY BEN JACKSON

bjackson@pa.org

ONE MORNING, I was checking out at a grocery store when I saw the store manager rush out of her office. "Who has the big gift card purchase?" she asked, hurrying down the row of cash registers.

She had gotten a call alerting her to a fraudulent transaction and asking her not to let it go through. Even though my purchase was complete, I lingered to watch how this would play out, partially out of curiosity and partially out of concern. More on that later.

Fraudulent attacks on gift cards take on multiple forms. We hear about people who were convinced to buy gift cards as part of a scam, known as victim-assisted fraud. Fraudsters also try to use package tampering to steal funds loaded onto gift cards.

While these stories are terrible, they don't represent the reality of gift cards for gift givers or recipients.

Each holiday season, the National Retail Federation surveys consumers about gifts they would like to receive and ones they are planning to give. Gift cards are consistently at or near the top of both lists. In 2023, 55% of consumers said they wanted to receive a gift card. The NRF said it expected U.S. gift card spending during the 2023 holiday season to reach $29.3 billion.

So, though gift card fraud is a problem, clearly industry efforts to mitigate the problem must be working, because consumer confidence in and desire for gift cards remain high.

Fraudsters look for any way they can compromise cards. So issuers must continually improve security on all fronts, including packaging, transaction monitoring, and education for customers and employees.

Since the Innovative Payments Association focuses on open-loop cards, I asked the Retail Gift Card Association about this topic.

As scams evolve, the RGCA's efforts evolve as well, with a focus on educating consumers about gift card tampering. The organization has partnered with government agencies to share insights and strengthen the fight against fraud, said Kim Sobasky, a spokesperson for the RGCA, in a message.

Fraud-mitigation methods have paid off, but there is no one solution to the problem of gift card fraud.

Back to the grocery store. The manager could not stop the sale, but that may have been for the best. From what I was able to gather from eavesdropping, this was probably a case of someone using a stolen credit or debit card to buy gift cards. Stopping the criminal in store may have been dangerous.

But the store and the back office had the transaction records, which means they likely could block those cards. We can all take a little comfort from the idea of a frustrated criminal trying to use blocked gift cards.

Now, if the buyer had been trying to buy gift cards because they had been convinced a family member was in trouble, the manager might have been able to help. But it's tough to convince people they are being scammed.

FBI agents have recounted stories to me where they have met with victims to explain how they are being swindled, only to find out that victims continued to send criminals money, even after the meeting.

Additional laws or monitoring systems will not prevent people from caring about their family members—and would we want a world where they could? This is the human part of the problem, where we need people to look out for one another and discuss when something seems off.

Fraud prevention is a team effort. We know that criminals work together. So the industry, law enforcement, and shoppers must do the same. DT

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BRINGING DIGITAL PAYMENTS TO RURAL AMERICA

Small-town merchants present unique challenges. Processors that can meet those needs will reap a bountiful harvest.

BY **AUSTIN MAC NAB**
Austin Mac Nab is chief executive and cofounder of VizyPay.

OWNING A SMALL BUSINESS in rural America comes with a lot of benefits, like a strong sense of community, loyal customers, lower costs of doing business, and less competition. However, a small-business owner in rural America also faces a fair share of challenges.

Despite these challenges, small and medium-size businesses (SMBs) play a pivotal role in the fabric of America's economy. The nearly 33 million SMBs account for 99.9% of U.S. firms. And the majority of small businesses are run by one to four employees. So while these companies might be categorized as small, their impact and hard work is anything but.

Still, challenges like low-speed internet, smaller operational budgets, and presence in banking deserts can hinder the growth potential and scalability of SMBs in provincial regions.

That's where payment processors come in. Processors bringing digital-payment technologies to small businesses in rural America are playing a vital role in the long-term viability of these local businesses.

A "2022 Small Business Credit Survey" found that making use of technology was one of the top five challenges small businesses face. This is not surprising when you consider that 17% of Americans in rural areas lack access to broadband Internet services, according to the Federal Communications Commission's "Broadband Deployment Report."

Without high-speed Internet, operating a business in 2024 creates many barriers and obstacles for entrepreneurs. It can limit them to revenue strictly coming through in-person purchases, as opposed to offerings through online sales. Not only that, but managing inventory and operating point-of-sale terminals becomes difficult while operating on low-speed Internet.

Thankfully, resources like the United States Department of Agriculture's ReConnect Program are working to expand broadband digital access and technical support to rural small businesses. However, the problem remains: To succeed, small merchants need alternative solutions that fit the needs of their businesses.

BANKING DESERTS

One of the factors payment processors need to consider is the budgets these SMBs are working with. Usually, the cost of new technology disproportionately affects small businesses in countryside areas more than it does the urban, larger businesses.

These rural SMBs have much smaller budgets and, frankly, don't need the shiny bells and whistles that many payment processors upcharge for. Rather, what these merchants are looking for is simplified, easily integrated, user-friendly options.

Lastly, many small businesses rely on cash as their main source of payment. But they live in banking deserts where in-person financial services are miles and miles away. Thankfully, banks and financial institutions are recognizing this challenge and are adapting digital or online-banking offerings to ease some pain points.

For example, 73% of banks now offer services like automated clearing house payments, payment tracking, wire transfers, and history searches in digital formats to allow small businesses to operate seamlessly wherever they're located.

Small-business owners are recognizing these struggles and identifying ways to improve their situation, ways that will ultimately grow and support their business.

For example, a Visa Inc. survey in 2023 found that 51% of small businesses plan to go cashless by 2025. If that's the case, the struggles of operating in a banking desert would greatly diminish. And, at the same time, demand for digital-payment solutions would increase.

TAILORED TECH

So, how can payment processors deliver technology and services to rural America?

There is no one-size-fits-all

approach when running a business, so merchants need solutions that will easily integrate with their pre-existing management styles. An ideal payment processor looking to reach small businesses in rural areas needs to have the flexibility to tailor its offerings to each merchant.

Not every business in a rural region requires or desires the most advanced technologies that are typically used by large urban businesses. But, offering all-inclusive—and customizable—technology platforms can help streamline operations for businesses in rural America.

With these platforms, necessary tracking of items like payroll, inventory, reporting, and even customer loyalty-programs can be managed in one place, under one operator, and can significantly increase efficiency. It can also be used strictly for payment processing—it's completely dependent on the merchant's needs and wishes as communicated to its payment processor.

Another way to make digital-payment solutions a viable option is to consider whether a merchant needs services on a month-to-month basis. Being locked into long-term contracts wouldn't be suitable for some. And lower monthly rates and no long-term commitments make digital-payment solutions more of a possibility for businesses with smaller budgets.

Fintechs can also make digital-payment solutions helpful to rural merchants by ensuring there are multiple payment methods available to customers. It can be tricky to know which payment methods to offer at a business. Sorting out cash, credit, debit, mobile, and contactless payment options, payment-service providers (PSPs) can help a small business determine which combination will be ideal for their customer base.

A 2024 study by the Federal Reserve Bank of Atlanta found that, for in-person purchases, three-quarters of consumers prefer to use a card and one in five prefer using cash.

On a national scale, U.S. Mintel's 2023 report found that Gen Z consumers by far prefer using debit cards and cash over credit cards, even though credit cards remain the number one payment preference overall. According to the report, this trend with the younger generation "suggests a future where consumers alternate between an array of physical and digital payments rather than simply choosing between debit and credit."

Business owners might also need multiple POS terminal options. It's up to the payment processor to deliver the equipment they need to succeed. This can include a standalone desktop terminal, multiple wireless handheld terminals, or compact credit card readers. An a la carte approach to payment methods gives merchants the ability to work with a PSP in a way that works best for them.


Mac Nab

Mac Nab: "SMBs have much smaller budgets and, frankly, don't need the shiny bells and whistles that many payment processors upcharge for."

EQUITY AND INCLUSION

Of course, delivering digital-payment solutions to businesses in rural America wouldn't be possible if there weren't people to bring the technology to them. A vital part of advancing these rural businesses is to meet them where they are and offer boots-on-the-ground support.

Recognizing that many businesses already operate in banking deserts, PSPs need to offer in-person, hands-on assistance to set their merchants up for success with their new technology.

Payments platforms may forget, when they expand into rural areas, that some merchants are tech-averse and need additional support when they take on new systems. In some instances, they might have just gotten used to high-speed Internet, so moving operations to an online platform can take some time to adjust.

Bringing digital payment solutions to rural America is more than finding new sales opportunities for payment processors. It's about giving these businesses equity and inclusion with their urban counterparts.

Through a hands-on approach and diverse and customizable options, payment providers can present all businesses with the same opportunities for growth, scalability, sand innovation, no matter where they're located or what challenges they face. DT

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In today's rapidly evolving financial landscape, integrating artificial intelligence (AI) is essential. The FinTech industry has seen dramatic changes, spurred by digitalization and the COVID-19 pandemic. At Payarc, we recognize the critical role AI plays in transforming payment processing, enhancing security, and driving growth. Let's explore how AI can elevate your business and why Payarc is your ideal partner.

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AI's ability to analyze vast data sets enables real-time decision-making, fraud detection, transaction approvals, and compliance. A study by Publicis Sapient found that **87% of consumers who have used Generative AI believe it can significantly improve their experience.** Additionally, the Economist Intelligence Unit reports that **86% of financial services executives plan to increase their AI investments through 2025.**

of consumers believe AI can improve their experience.

87%

86%

of executives plan to increase investments in AI.

Key Benefits of AI Technologies

Personalized Services

AI enhances revenues by offering tailored services to customers and employees, improving the overall customer experience and enabling more informed decision-making.

Uncovering New Opportunities

AI processes large data sets to uncover insights and opportunities that might otherwise be overlooked.

Cost Reduction

AI optimizes operations, reduces errors, and enhances efficiency, leading to cost savings and improved customer satisfaction.

Driving Growth by Reducing Risk

AI minimizes risk and optimizes processes, especially in high-volume areas like payment processing and compliance.

Why Payarc is Your AI Partner

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Real-time fraud prevention, risk assessment, and merchant underwriting powered by AI to fortify your business against threats.

Business Intelligence & Predictive Analysis

AI-driven predictive analytics forecast payment trends and merchant behaviors, empowering informed decision-making.

Operational Monitoring Services

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Payarc is collaborating with Amazon Web Services (AWS) to enhance business intelligence for its clientele. By leveraging AWS machine learning, generative AI, analytics, security, and business intelligence technologies, Payarc aims to redefine financial data analysis in the payment industry.

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ACCOUNTING FOR ACCOUNT-TO-ACCOUNT

Driven in part by the rise of open banking and real-time technology, account-to-account payments are poised to disrupt the legacy card networks.

BY **PETER LUCAS**

WHEN IT COMES to what makes a payment option attractive to consumers and merchants, account-to-account payments have the key ingredients: real-time transfer of funds, convenience, and a lower cost of acceptance than credit cards.

Given those characteristics, it's not surprising that account-to-account (often abbreviated as A2A) payments are rapidly growing across the payment-industry landscape.

A2A payment volume is expected to grow 19% annually to more than $200 billion in 2027, when it will represent about a 5% share of digital commerce in the United States, according to management-consulting firm McKinsey & Co.

The number of consumers using A2A payments is also exploding. Some 3.7 billion consumers are expected to use A2A payments by 2029, up from 1.8 billion in 2024, according to Juniper Research.

In its simplest terms, A2A payments transfer funds from one bank account to another bank account, such as from a consumer's account to a merchant's account, without the use of a token, such as a check or card.

Popular consumer applications for A2A payments include bill payment, rent, loans, and recurring and peer-to-peer (P2P) payments. Bill payment is among the most popular of these.

Among consumers who say they have used their bank account to pay for a purchase, 33% have done so to pay bills multiple times per month, according to Carat Insights, a payments-industry report produced by the Milwaukee-based processor Fiserv Inc.

Consumer awareness of the payment method is rising fast. Some 78% of consumers surveyed in 2024 said they are aware they can pay with their bank account, compared to 61% in 2023.

Peer-to-peer payments have helped A2A gain traction globally, but a bigger opportunity for expansion lies in tapping into consumer-to-merchant payments, as well as payments from businesses to consumers, experts say.

"A2A payments are mostly used for high-value transactions and peer-to-peer payments, but have yet to fully penetrate the broader market, especially among small and medium-size businesses," says Kate Hampton, chief strategy officer for payments provider NMI LLC.

Among consumers who say they have used their bank account to pay for a purchase, 33% have done so to pay bills multiple times per month.

'A KEY DRIVER'

Indeed, only about 5% of the possible scenarios for A2A are being activated, according to Booshan Rengachari, founder and chief executive at Finzly Inc., a provider of real-time payments, online banking, and financial-services technology.

As real-time payments become more commonplace, the market share for A2A should expand, Rengachari says, since real-time payment capabilities help remove any perceived friction.

For consumers, features such as real-time balances, instant notifications, and simple authentication processes make A2A payment an attractive option at the point-of-sale for consumers, adds NMI's Hampton.

For merchants, a lower cost of acceptance is the primary attraction. Merchants pay a flat rate to accept an A2A payment, typically in the range of 40 cents to 50 cents. By comparison, the same transaction on a credit card could cost merchants between 2.5% and 3% of the sale on average, according to payments experts.

"By bypassing intermediaries like credit card networks, [merchants] can significantly reduce processing costs, making A2A payments particularly attractive for high-value transactions or industries with tight margins," Hampton says. "This cost-effectiveness is a key driver behind their adoption."

Despite the growth opportunity for A2A payments among small and mid-size businesses, adoption hurdles exist, some of them formidable. These lie largely in three areas: the somewhat forbidding nature of the technology, security questions, and government regulation, Hampton adds.

OPEN BANKING'S ROLE

On the technology front, A2A providers have some work to do. They need to provide solutions that are easy to integrate, cost-effective to operate, and compatible with existing payment platforms, observers say. Specifically, a simplified onboarding process and compatibility with business-management systems are keys to broader adoption among merchants, Hampton says.

When it comes to security, observers say A2A payment providers need to address consumers concerns about fraud protection, something the card networks routinely tout to consumers as an advantage. Little has been done in the area of fraud detection and prevention for A2A payments, according to payment experts.

"While A2A payments allow merchants to verify funds in the account before the transaction is completed, which reduces the risk to merchants, consumers want to see fraud and chargeback protections" such as those they are accustomed to on credit and debit cards, says Nilesh Viadya, global industry head of banking and wealth management for Capgemini.

When it comes to regulation, governments and regulatory agencies must ensure A2A payments are secure and easy to implement, such as through open banking, which reduces the barrier to entry for smaller businesses, Hamilton adds.

Open-banking technology plays a key role in A2A payments by enabling the direct transfer of money from one bank account to another. As a result, consumers and businesses can link their bank accounts to third parties that offer payment services.

For example, Mastercard's open banking technology powers J.P. Morgan Payments' Pay-by-Bank offering. The solution gives merchants the ability to allow their customers to pay directly from their bank account using traditional automated clearing house banking rails.

In addition, open banking gives consumers more control over their financial data by offering solutions that allow them to grant and revoke access to their account data as needed. "This transparency and control build consumer trust and confidence, leading to greater adoption," says Peter Reynolds, executive vice president for real time payments at Mastercard.

Another barrier to adoption is that countries with high rates of credit and debit card penetration, such as the U.S. and the United Kingdom, have been slower to adopt A2A payments.

"While new technologies, such as A2A payments, transcend card-based networks [in other countries], the card infrastructure in the U.S. is way ahead of the curve, so we are kind of stuck with what we have," says Thad Peterson, a strategic advisor for Datos Insights.

A THREAT

The good news is that many of the barriers to broader A2A adoption are beginning to fall. Visa Inc. for example, is preparing to roll out an A2A payment system in the United Kingdom in 2025.

U.K. consumers will be able to pay for product subscriptions and services including digital streaming, gym memberships, and food boxes directly from their bank account, as opposed to paying by check, cash, or card.

Visa plans to expand its A2A payment capabilities to the Nordic region, followed by other European countries.

"Given that A2A payment adoption, infrastructure, and demand differs in markets across the globe, we'll determine further global rollout based on individual market demand and needs," says Mehret Habteab, senior vice president of product and solutions for Visa Europe.

One driver behind Visa's planned rollout of A2A payments in the U.K. is that A2A payment volume in that country increased 15% year-over-year in 2023 to $4.89 trillion (£3.7 trillion).

That's a lot of potential volume flowing away from the Visa and Mastercard networks. It's no surprise then that Visa and Mastercard have taken a strong interest in A2A payments, as they threaten existing network card volume.

A2A payments could cannibalize 15% to 25% of future card transaction volume growth, according to Capgemini's 2024 World Payments report. In addition, 77% of respondents say debit and prepaid cards would be most impacted by A2A payments, while 23% expect significant loss of credit card volume as A2A payments grow.

"Visa and Mastercard are adopting A2A payments because they understand that payment option will eat into their business and revenues," Rengachari says. "As real-time payments become more commonplace, A2A payments will eventually challenge debit cards."

'A SIGNIFICANT AMOUNT'

While the threat to debit card volume is a motivating factor for Visa and Mastercard to be on the leading edge of A2A technology, Capgemini's Viadya notes that the card networks have a history of pursuing alternative payment options to protect their respective empires. "It's better for Visa and Mastercard to support the payment options consumers want," Viadya adds.

In addition to the loss of network volume—and the network fees associated with those transactions—credit

Peterson: "The card infrastructure in the U.S. is way ahead of the curve, so we are kind of stuck with what we have."

The biggest obstacle [to A2A], however, is that the user experience in the U.S. has yet to meet consumers' expectations.

and debit card issuers stand to lose interchange revenue if the growth of A2A payments is such that they begin cannibalizing not only card transactions, but the interest income on credit card balances that are rolled over month-to-month.

The financial impact to card issuers from such a loss of volume could be painful, according to payments experts.

"Think of the impact on e-commerce as a profit base for the card networks. In the U.S. alone, retail e-commerce sales for 2024 are expected to reach $1.37 trillion, up 10.6% from 2023," says Kristine Demareski, global head of payments practice at professional services provider Genpact, which advises clients in the banking industry. "With interchange fees between 1% [and] 3% on average, that is a significant [amount] for financial institutions."

But supporting A2A payments can help Visa and Mastercard to offset lost card volume and help soften the blow to card issuers' revenues. It can also open the door for the networks to capture large corporate and government payments typically routed now through the automated clearinghouse, Viadya adds.

"For Mastercard, it's all about providing choice. We want people and businesses to pay and get paid in whatever way works best for them, whether that be cards or account to account," says Peter Reynolds, executive vice president for real-time payments at Mastercard.

Reynolds adds that Mastercard has supported alternative payment technologies, such as open banking and real time payments, through collaboration with central banks, financial institutions, and retailers. The goal, he says, is to promote payment innovation, financial inclusion, and economic growth.

HURDLES

Despite the cost and speed benefits A2A payments offer merchants, several hurdles remain to growing A2A volume in the U.S. market. These include consumer concerns about the potential for fraud and the absence of chargeback protections, not to mention giving up the opportunity to earn rewards, according to payments experts.

The biggest obstacle, however, is that the user experience for A2A payments in the U.S. has yet

to meet consumers' expectations, Demareski says.

"Until the user experience meets or exceeds the ease and ubiquity of making purchases with a credit or debit card, [A2A payments] won't take off," Demareski says.

"It has to compete with features that are as convenient and fast as tapping your card or digital wallet, as financially rewarding, with points and cash-back offers, and as risk-free as it is for cardholders to dispute a potentially fraudulent charge," he says.

While adoption of A2A payments at checkout has been slow to catch on, especially in the U.S., awareness is spreading among sellers and consumers. That's prompting some merchants to embrace the technology. As a result, availability is expanding, albeit unevenly.

"Businesses are making account-to-account payments available across the buying experiences they enable for customers, whether that means shopping in-app, in-store, or leveraging loyalty programs to accrue incentives and rewards," says Charles Williams, vice president of alternative payment acceptance for Fiserv.

"A consumers become more comfortable with open banking, and real-time payment innovation progresses," he adds, "merchant interest in providing customers with the ability to pay with their bank account will also grow." DT

No Pausing for PayPal's Chriss

Alex Chriss took over as CEO a year ago and wasted no time shaking things up. Now he's on a tear to spark growth.

BY KEVIN WOODWARD

There's no doubt Alex Chriss, PayPal Holdings Inc.'s chief executive and president since September 2023, has taken fully to heart his charge to boost the online and wallet powerhouse into even higher levels of growth and sales.

Just over a month after moving into the job that his predecessor Dan Schulman held for eight years, Chriss, on his first earnings call outlined how profit growth will come from every niche of the company.

That call was in November. A cadre of new executives joined him later that month to head PayPal's small-business and financial-services efforts, its consumer groups and marketing, and its human resources.

After the 2023 holiday period passed, Chriss, 46 when hired by PayPal, took to the stage earlier this year to outline PayPal's 2024 ambitions. He has announced several new PayPal products or partnerships through the year so far.

The list is long. Starting in October, PayPal made good on a promise that came under Schulman's watch to enable its credit and debit cards to be added to Apple Pay. In November came the new executive team and then, in January, a slew of updates outlining some major 2024 initiatives, including the company's Fastlane guest checkout service and improved promotional offers, such as cash back.

In February, there was more on the company's branded-checkout push. In March, Tap to Pay on iPhone was added for Venmo Business profiles and U.S. Zettle POS users. After April arrived, the PayPal and Venmo wallets joined Visa+, the card brand's interoperable peer-to-peer service, and the Xoom money-transfer service enabled customers to send funds in the USD stablecoin.

In July, Chriss returned to touting Fastlane, and in August PayPal said the checkout service would be available to merchants using Adyen's payments platform. It also announced that month it had made it simpler for Fiserv merchants to connect to PayPal and Venmo.

The list doesn't stop there. PayPal also says it will use upcoming Apple Inc. APIs to access the secure element on iPhones used in Europe. Apple, which has long sequestered control of the secure-element data vault on its NFC iPhones from non-Apple developers, also announced it would make the same APIs available to U.S. developers and those in six other nations.

"We are also looking forward to launching even more ways for consumers to use PayPal any time, any place with NFC technology, starting in Europe," Chriss said this summer. "Expect to see more from us in the coming quarters to enable and incentivize our customers to use PayPal online and in person." The company did not respond to a request for an interview with Chriss for this story.

In September, PayPal launched PayPal Everywhere, a new rewards program focused on the PayPal Debit Mastercard. And it began processing U.S. transactions for the Shopify Gateway through its PayPal Complete Payments, a service for marketplaces and platforms with multiple developer tools.

Chriss: Pushing to reignite growth at PayPal.

‘Signficant Strides’

That’s a whirlwind of initiatives for a short 12 months. But are all these moves paying off? One objective way to tell is by the numbers.

Chriss, who by September had completed four full quarters at PayPal—though the company’s third-quarter results were not available at publication—has seen PayPal’s 2024 first- and second-quarter 2024 revenue and net income increase compared to the 2023 periods.

First-quarter 2024 revenue and net income were 10% and 11.7% greater, respectively, and second-quarter revenue and net income this year were 8.2% and 13% greater, respectively.

That’s not all through sales growth. PayPal had layoffs of 9%, or approximately 2,500 employees, in January and shed up to 85 positions in Ireland, the technology news service TechCrunch reported in June.

Subjectively, opinions are generally favorable, though none of the decisions made under Chriss so far are certain to boost PayPal to the top of the online arena and keep it there. PayPal did not make Chriss available for an interview for this story.

“Overall, he is off to a good start but has a long way to go,” says Tony DeSanctis, senior director in Cornerstone Advisors’ payments practice. “Chriss is making the changes necessary to move PayPal back into a leadership role in digital payments.”

Chriss’s actions have won plaudits from at least some observers. “Since Alex Chriss took over as CEO, PayPal has made significant strides in streamlining operations and driving profitability,” says Sidharth Ramsinghaney, director of corporate strategy and operations at Twilio Inc., a San Francisco-based customer-engagement platform.

“His focus on reducing costs and enhancing efficiency has already started to bear fruit,” Ramsinghaney continues, “as evidenced by the positive market response and improved financial performance. I was personally betting on increased shareholder perception reflected in its stock price, but the overall industry is lagging.”

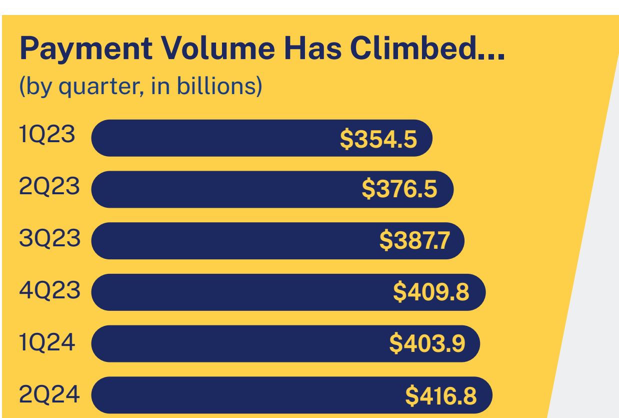
In the 12 months from mid-September 2023 to mid-September 2024, the closing price for PayPal’s shares increased 9.2%, going from $64.21 on Sept. 10, 2023, to $70.1 on Sept. 8, 2024. While that’s good growth, the shares are still nowhere near PayPal’s three-year peak of $278.11 on Sept. 19, 2021.

‘Behind the Curve’

One impression is that Schulman’s focus, in contrast with Chriss’s, was on user growth, says Christopher Miller, lead analyst of emerging payments at Javelin Strategy & Research.

His colleague Don Apgar, director of Javelin’s merchant-payments practice, says Chriss may be retrenching, tapping the strong suits held by PayPal. “Think about what PayPal was like 20 years ago,” Apgar says. It was hard to get a merchant e-commerce account back then and PayPal made that easier, but there hasn’t been much innovation by it since then, he says.

But Fastlane, the splashy new checkout service, is different. “You look at Fastlane and that’s a way now for PayPal to come to merchants and say that’s a way to add value,” Apgar says. “You have to add services that benefit the merchant.”



Source: PayPal

Fastlane arrives as competition among online-checkout services intensifies. Paze, a bank-backed online-checkout service from Early Warning Services LLC that comes preloaded with up to 150 million credit and debit cards from eight issuers (with more likely in the works), is launching and poses a formidable rivalry for online-checkout dominance.

Getting online merchants to add another payment option on their checkout pages can be a challenge, though Apgar suggests PayPal may have an advantage. "Because PayPal already is merchant-facing as a brand, they don't have the same hill to climb as Paze does," he says.

Though it goes unsaid, there's a reason Chriss was brought in to help PayPal, which under Schulman concentrated on such initiatives as a so-called super app, a tech wonder that might have been more popular in places like China than in the U.S., observers say. Schulman backed the idea as a way to get more growth out of existing and new products.

"PayPal has been behind the curve. Its focus on building a super app for consumers left it missing the opportunity with its primary customers, which are the merchants," DeSanctis says.

Fastlane is a prime example of the new emphasis, adds DeSanctis. "PayPal is trying to catch up to Shopify and other checkout solutions in the market that have surpassed PayPal in terms of ease of use and merchant value," he says, speaking prior to PayPal's Shopify processing tie-in announcement.

Now, Fastlane could have an impact on the checkout speed and conversion rates of participating merchants, Ramsinghaney says. "By partnering with Adyen to offer Fastlane, PayPal is not only improving checkout speed and conversion rates for merchants but also reinforcing its position as a leader in digital payments. This strategic move is likely to drive higher adoption rates and customer satisfaction," he says.

'*Incremental* Positives'

Even equity analysts are noticing Chriss's actions, though not without some concern.

"We are fans of new CEO Alex Chriss and think new initiatives are incremental positives," says a July industry report from William Blair & Co. LLC, noting Fastlane and another initiative, PayPal Complete Payments, as well a new small-business technology integrations, among other services.

Still, many hurdles remain for PayPal. "However, as we survey the fintech landscape, we view more challenges than upside drivers," notes the Blair report.

Another Blair report, specifically a research note on PayPal from July, is sunnier. Here, Blair says PayPal is in "an enviable position as first mover in e-commerce, boasting a two-sided network and improving conversion rates, owing to innovative guest checkout technology, Fastlane, in our view."

Now, PayPal is once again prepping for in-store PayPal acceptance, in which contactless payments and Apple Pay are strong. In September, as part of its push for the PayPal Debit Mastercard, PayPal launched a TV ad campaign featuring actor Will Ferrell touting the ability to pay everywhere, including in a store, with the card.

PayPal is not new to the effort of trying to build up its in-store channel. In the second quarter, U.S. e-commerce sales, which PayPal is most associated with, accounted for 16% of all U.S. retail sales, according to the U.S. Census Bureau.

To build its presence in-store, and in addition to the PayPal debit card and its new rewards program, PayPal is making Venmo, another of its peer-to-peer payments services, more business-friendly with Tap to Pay on iPhone for business customers, and secured for Venmo a coveted spot on eBay Inc.'s checkout pages.

"Venmo is another opportunity for PayPal to double down on its existing business," Apgar says.

Miller: "I see a guy who knows how to run a business, which is different than someone who runs a perpetual business machine."

‘A Lower Cost Rail’

In-store transactions today consist of more than dipping a card. The popularity of contactless payments—both those made with a traditional chip-equipped credit or debit card and mobile wallets—is growing, and that could be an issue for PayPal, William Blair suggests in a report.

The report remains guarded about PayPal’s ability “to drive meaningful card present and Venmo monetization, particularly given the rise of competing contactless payments and Apple Pay, which we see as increasingly ubiquitous.”

Apple Pay is available not only with the iPhone mobile wallet, but also as an e-commerce checkout option. That, the growth of contactless payments—Visa says 50% of its U.S. face-to-face transactions are now tap-to-pay—and competitiveness from other payment-services providers like Adyen and Stripe are challenges for PayPal, the report says.

PayPal could look to use access to the secure element, which holds valuable and sensitive user and payment data in iPhones, to help with its PayPal everywhere claim. But caution is necessary with that, Miller says. “It’s unclear the extent to which Apple [will] open its [intellectual property].” Will it be full access or partial, just enough to appease regulators? he asks.

PayPal also may bolster its position with more P2P payment activity. Its connection to the Visa+ interoperable platform could entice more users, just as it might with PayPal and Venmo competitors.

“Creating a collective P2P solution presents some risk to becoming one of many in the Visa+ ecosystem, though there is little profit in the P2P space,” DeSanctis says. “The opportunity here may be the ability to grow and leverage Venmo for merchant acceptance.”

“Despite [Venmo] losing Amazon, big merchants like Starbucks, McDonalds, and eBay are accepting and promoting it as a lower-cost rail [for] traditional card transactions,” he adds. Amazon.com Inc. dropped Venmo as a payment option in 2023 after just a year a year, but in September added PayPal as a checkout option on Buy with Prime orders on merchants’ Web sites.

‘Hard Stuff’

By focusing on its strengths, PayPal could fare well, though none of its actions this year under Chriss’s leadership guarantee that.

“PayPal’s ability to anticipate and respond to market trends is a key factor in its sustained success,” Ramsinghaney says. “With the strategic initiatives currently under way, PayPal is well-positioned for continued growth and success. Chriss’s focus on efficiency, innovation, and customer-centric solutions will likely drive the company forward, enabling it to maintain its competitive edge.”

DeSanctis says PayPal’s success now, under Chriss, will depend on its ability to catch up with merchant clients. “PayPal certainly has the scale and opportunity to turn this around, but it will take some time,” he says.

“PayPal’s significant market share gives it a greater ability to overcome the challenges than it otherwise would [have],” adds DeSanctis. “Overall, it has a good chance to maintain a key position in the market. While no one player will win in the space, PayPal is in the driver’s seat to be one of the winners in the space.”

PayPal, however, now has an enthusiastic leader who has yet to pause.

“I see a guy who knows how to run a business, which is different than someone who runs a perpetual business machine,” Javelin’s Miller says.

“The thing we’ve seen happen over the last year, [it] seems to me [that] was recognized and [he] is going to do the things to keep a successful business running,” Miller adds. “The business of running a business that makes money year-over-year is hard stuff. You grind out a margin.”

DeSanctis: “Overall, [Chriss] is off to a good start but has a long way to go.”

MODERN FRAUD FIGHTING REQUIRES A GLOBAL APPROACH

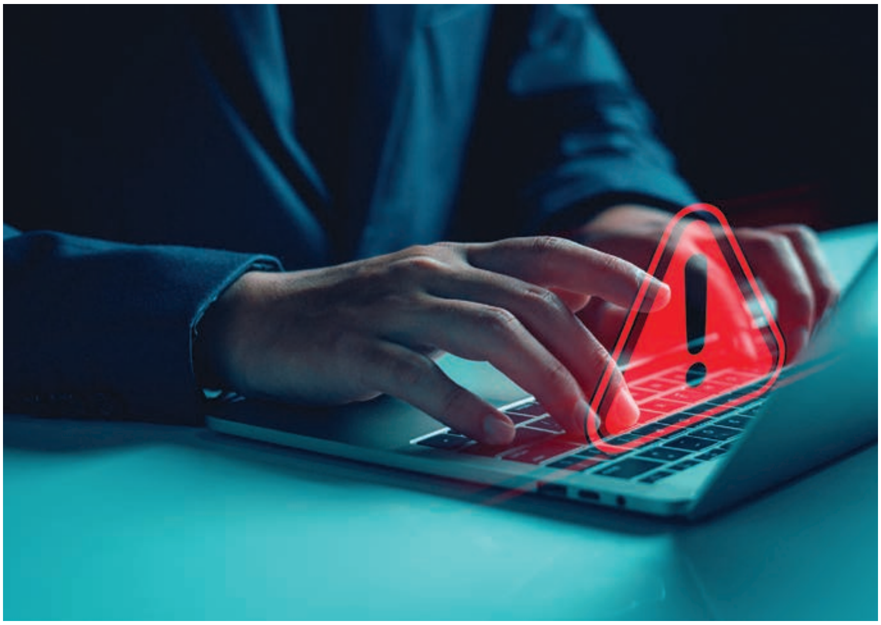
If fraud prevention remains tied to single regions, online payment losses will continue to mount.

BY JEFF HALLENBACK

Jeff Hallenback is head of payments at Forter.

THE GLOBAL FINANCIAL ecosystem has become incredibly interconnected with the growth of e-commerce, where global sales approached the $6-trillion mark in 2023. Fueled by new payment methods and categories like mobile and social commerce, online shoppers have direct access to a seemingly infinite array of digital marketplaces.

This has created a global stage for fraudsters to lift products and funds. Merchants are working diligently to root out fraud and accommodate legitimate users, but global e-commerce losses are staggering, and were projected to reach $48 billion in 2023. Clearly, this needs to change. Everyone in the fraud-prevention orbit—merchants, financial institutions, regulators, and technology providers—must look beyond their four walls.



That's partly because of a surge in cross-border transactions, which are expected to grow by an exorbitant 108% by 2028. In this prevention campaign, national borders are rendered moot. The fight requires coalitions specifically built to stop online fraud carried out from all corners of the globe. Collaboration will beget stronger, actionable insights—and can help defenders get ahead of rising threats.

Let's review the widening scope of today's fraud landscape. This will help explain why this issue demands unity among defenders across every continent and industry group. I believe this is the secret for more meaningful change.

FRAUD HAS GONE GLOBAL

Simply put, fraud is no longer local. Bad actors in the Asia-Pacific or Europe, Middle East, and Africa regions can easily target prominent U.S. retailers, and, through virtual private networks (VPNs), obfuscate their location. This is just one method, but it means prevention must adapt to new standards.

Cultural variability is also a driving force. Fraudsters can exploit different norms and practices related to purchasing behavior to deceive businesses and consumers. Businesses may then over-rotate on fraud controls and thus block valid transactions, presenting a greater need for strong identity intelligence.

This variability also means that a successful fraud-prevention framework in one nation may not translate seamlessly to another, fragmenting a company's global approach. Fraud fighters can't use the assumptions they have about U.S. consumers, for example, to judge the legitimacy of customers elsewhere.

VPN use in the United States is relatively uncommon for most shoppers, and, when used, can be a sign of potential fraud. By contrast, VPN use in other regions, such as China, is more common among legitimate customers. What's considered atypical in one country may be status quo in another. Understanding these nuances is critical to avoid turning away good customers.

Payment diversity is also a factor in fraud's global expansion, as shoppers pay differently depending on where they live. While payment-method flexibility (credit, debit, digital wallets, cryptocurrency, buy now, pay later, and so on) is helpful for consumers, it creates more channels that fraud fighters must analyze. For example, the rise of open banking and account-based payments is very attractive to bad actors. Whenever there is an immediate funds transfer, fraudsters take notice.

REGULATORY ANOMALIES

Determined to get ahead of these patterns, regulators around the globe are often quick to issue stringent mandates. While these may curb more "macro" impacts of fraud, they can create new obstacles that hamper merchants' ability to operate and scale. These regulatory anomalies can be difficult for businesses—especially multinational ones—to grapple with. It can even lead to merchants avoiding doing business in a particular region altogether.

In India and China, for instance, data-localization requirements mean personal payment data must be stored domestically. As a result, many businesses cannot leverage their central data to make more informed fraud decisions. Merchants in India are also prohibited from storing card data, making subscription business models difficult to manage. Consumers must re-enter their information for every charge, which creates a lot of friction, especially for monthly subscriptions.

Meanwhile, in Australia, the nation's self-regulatory body, AusPayNet, sets a standard fraud-rate threshold regardless of the type of business, so high-risk businesses often must choose between leveraging two-factor authentication on every transaction or avoiding doing business there altogether. While it's simpler to impose this regulation, such a blunt instrument has made it incredibly difficult for businesses to operate in the region.

We've also seen fraud-specific carve-outs in some of the world's leading privacy regulations (the General Data Protection Regulation in the European Union and the California Consumer Privacy Act in the United States). However, continued evolution is necessary to create a more level playing field where, more broadly, data remains secure and retailers can freely operate.

Future regulation must be impressionable and iterative, much like the EU's Payment Services Directive, or PSD2. This rule built upon its first release, extended requirements to third-party payment providers, and implemented new security mandates. Although its passage and implementation took

Hallenback: "Broader information-sharing consortiums are the first step and the future of our collective defense."

years, this effort demonstrates a commitment to iteration (especially with PSD3 on the horizon now), which is a promising sign for Europe's future.

REGULATION THAT RESONATES

Again, for principal regulation to resonate, industry stakeholders must enter the fray much earlier on. Retailers, for instance, can lean on their respective industry bodies to both obtain effective intel and elevate their voices. Meanwhile, regulators around the world should pay heed to merchant feedback and guidance.

Luckily, a more collaborative mindset is already taking hold, thanks to the emergence of data consortiums that include financial institutions, marketplace operators, independent software vendors, payment-service providers, system integrators, consultancies, and more. I'm also seeing important fraud-prevention organizations expand their horizons and ask what being "global" truly means.

Take, for instance, the Merchant Risk Council and the Merchant Advisory Group, two prominent bodies that are looking to expand into APAC and EMEA to help broaden the scope of their impact. And CIFAS, the U.K.-based fraud-prevention association, has created a strong model that can be replicated in other jurisdictions. It connects both sectors and opens up greater access to data used for fraud prevention.

This activity and coordination can push the industry closer to directives that truly transcend borders.

SERVING THE PUBLIC INTEREST

As part of these holistic efforts, every entity must make a commitment to better serve the public interest. The more industry embraces collaboration, the more visibility it will acquire, driving safe and meaningful change (including regulation).

Broader information-sharing consortiums are the first step and the future of our collective defense, facilitating important conversations and setting new global agendas that will, we can hope, keep fraud at bay. DT

MERCHANTS: CONTROL YOUR PAYMENTS DESTINY

Tokenization is the key to reducing the risks posed by an ever-rising flood of data breaches.

BY TIM BARNETT

Tim Barnett is chief information officer at Bluefin.

MASTERCARD RECENTLY unveiled plans to eliminate manual card entry for online transactions in Europe by 2030, marking another milestone for tokenization in payment processes. This change aims to not only bolster payment security, but also further streamline and enhance the customer experience across devices.

As global payment brands lead the charge in tokenization, it is more pressing than ever for U.S. merchants to evaluate their own payment systems. In particular, working to secure ownership of payment tokens will minimize hassles for merchants as they navigate the payments landscape.

By owning payment tokens, merchants can mitigate risks from data breaches and ensure compliance with security regulations, all while enhancing their ability to adapt and respond to customer demands.

Many of us remember when the adoption of chip-and-PIN technology or contactless payments marked a new frontier. Now, tokenization promises to offer even greater ease for customers, especially online, where 23% of retail transactions are projected to take place by 2027.

This shift to tokens is sorely needed. Recent estimates indicate merchants globally stand to lose $91 billion to online payment fraud by 2028, due to the growth of e-commerce and use of artificial intelligence to carry out cyberattacks.

In response, Mastercard and Visa have forged ahead with replacing traditional 16-digit card numbers—also called primary account numbers (PANs)—with a randomly generated token. In a data breach or fraud attack, these tokens are unusable to hackers.

TOKENS EQUAL CONTROL

But while the movement toward tokenization is essential, it also presents new challenges for merchants. They must own their payment tokens to assert control over their payment processes.

Many merchants may work with large payment processors that offer tokenization at no additional cost. The issue is, the processors typically control payment tokens, which poses a challenge if merchants need to switch providers.

By prioritizing a solution that enables token ownership and portability, merchants can prepare for evolutions in the payments landscape, regulatory shifts, and even potential investment opportunities. Here's how that works:

THE TOP 2 DIGITAL FRAUD SCHEMES OF 2024 THAT EVERY BUSINESS SHOULD KNOW

Online fraud schemes are on the rise across the globe.

In fact, data breaches reached an all-time high last year, with an increase of 78% year-over-year between 2022 and 2023*, and that threat continues to escalate as fraudsters find new ways to beat digital security solutions.

"There's a lot of chatter on the dark web among bad actors, all scheming to get around fraud rules," says Sunny Thakkar, Sr. Director of Product Fraud, Disputes & Authentication at Worldpay. "They are all putting their heads together to discover how they can get around it. That's how new trends come up."

"And they come up quick," notes Thakkar.

Once confined to large companies, small businesses and nonprofits today are often targeted specifically because they tend to have little to no fraud protection in place.

To protect your business, the first step is to understand today's most prevalent fraud schemes.

TOP 2 FRAUD SCHEMES

1. Bot or Enumeration Attacks

Also known as "Carding," the scheme works like this:

- Fraudsters purchase stolen card data on the dark web
- Then, they create a digital script on a merchant's website to test each card to make sure it's active
- The script automatically runs thousands of card transactions in just minutesIf a card is accepted, the fraudster knows the card is good and uses it for larger transactions in the future

2. Account Takeover

The second fraud scheme quickly gaining traction in 2024 is account takeover:

- A bad actor buys a list of stolen email addresses and passwords from the dark web
- The fraudster then uses this information to log into accounts and steal additional personal data stored on the accounts like credit card information
- If a consumer uses the same login to access multiple accounts, the fraudster then tries the consumer's other accounts to steal even more personal data, like rewards and loyalty points
- The theft continues until the bad actor has essentially taken over all the consumer's accounts

IMPACT TO BUSINESSES

These schemes, especially bot attacks, can have devastating consequences to businesses.

"It's pretty impactful," says Thakkar. "If a merchant usually processes 15 – 20 credit card transactions each day, and then all of a sudden, thousands and thousands of transactions per minute are fraudulently processed, there can be a significant amount of fees. Sometimes the fees exceed the merchant's total revenue for an entire year."

At the same time, major credit card companies are cracking down on businesses that suffer data breaches, charging fines and even revoking the business' right to process their cards.

HOW TO PROTECT YOUR BUSINESS

There are a variety of fraud protection solutions available. Look for a provider that:

- Incorporates sophisticated machine learning into their fraud protection services
- Offers easy to install and easy to implement solutions
- Requires little to no technical expertise on behalf of the merchant

Please visit www.worldpay.com/en/payments/fraud-and-protect to learn more about how Worldpay can help you protect your business.

*Identity Theft Resource Center, Data Breach 2023 Annual Report

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1. Maintain control of cardholder experience

Customers want maximum convenience in online transactions, so many prefer to have merchants store their card information for future transactions. For merchants, that means determining how to manage and secure this sensitive data.

One option is to adopt an orchestration layer, which sits between the front-end system and payment processing back-end. When a transaction occurs, a provider receives data from the merchant and forwards the transaction to the processor. For each PAN processed, the provider produces a token.

Let's say a retail chain wants to expand its operations with a new e-commerce platform. If the merchant has employed a third-party provider or orchestration layer with multi-processor support, payment tokens will remain functional on any new payment processor, so the customer experience is never disrupted.

2. Monitor regulatory compliance

A robust tokenization solution is also essential for ensuring compliance with changing industry regulations. The Payment Card Industry Data Security Standard (PCI DSS) is continuously enhanced to keep pace with evolving theft attempts, so your business must keep pace as well.

By comparison to a bespoke solution, a PCI/DSS validated service provider ensures you have the essential resources and guidance needed to stay compliant.

Also, while some providers may limit their tokenization to card-not-present transactions—like e-commerce or mail order and telephone order—a more versatile solution can also protect card payments secured by point-to-point encryption (P2PE). This provides omnichannel tokenization for both online and in-person transactions.

3. Drive continued value for your business

Business leaders know that data is king, and payment data is no exception. True control of your enterprise, and in many cases its valuation, requires consistent access to payments-processing data.

A large payment processor likely owns essential transactional data and can limit its portability, leading to processor lock-in. Relying on a third-party tokenization provider, however, allows you to migrate and detokenize tokens as needed, whether it's to transition to a new processor or gain access to transaction information.

For potential investors or acquirers, this highlights your business's capacity to swiftly distill customer insights, making you far more attractive from a strategic perspective as well.

4. Adapt to future changes

To grasp the growing importance of tokenization, look no further than its adoption by top payments processors. Mastercard reports that tokenization now secures 25% of all e-commerce transactions globally. Visa recently issued its 10 billionth payment token, and processes around 29% of its transactions using tokens.

It's likely that the value of traditional payment instruments, like physical credit cards, will diminish. Consumers will continue to demand more accessible and convenient payment options across multiple devices. Yet, one constant will remain: hackers targeting the weakest point in the security chain.

Selecting a tokenization solution with data portability is a proactive approach: its flexibility keeps you well-equipped to protect customer information even as payment processes and technology continue to evolve.

Token ownership is a winning scenario for merchants and customers. Customers win when merchants provide enhanced protection to safeguard sensitive payment details, while enabling a seamless checkout experience. Merchants win when essential data remains portable and at their disposal, rather than locked and restricted at a single payment vendor.

Still, let's not forget the overarching goal of tokenization—to make data worthless to cybercriminals. You can't prevent every breach. But taking control of your payment tokens enables you to robustly protect customer data, even amidst changes in the payments landscape. DT

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