DIGITAL TRANSACTIONS®

Trends in the Electronic Exchange of Value

PAYMENTS UNDER TRUMP

The new President's second term will mold the digital payments business in unpredictable ways. Here's what to expect (we think).

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contents

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the gimlet eye

YOU CAN'T MAKE THIS UP

YOU'VE GOT TO hand it to the Consumer Financial Protection Bureau. They don't miss a trick—though many in the payments industry would argue there are at least some cases the bureau should take a pass on. Maybe because there's no trick in the first place.

Take the case of Google Inc. The Silicon Valley tech giant is one of the CFPB's most recent targets in a case that has many scratching their heads. It must have the top brass at Google puzzled. At any rate, the company is firing back. It sued the bureau last month following a move by the CFPB to assert federal supervision of the company's Google Pay wallet, citing what Google says is "a small number of unsubstantiated consumer complaints."

In the suit, filed in U.S. District Court in Washington, D.C., the same day the CFPB acted, the tech giant argues the case targets a payment service Google no longer offers in the U.S. market. The CFPB dismisses this contention, asserting it maintains supervisory authority regardless of whether a product has been discontinued.

Google shut down Google Pay in America in June, but a separate product, Google Wallet, remains available in the U.S. market. It stores, in digital form, payment cards, boarding passes, and other items commonly found in physical wallets.

Google Pay emerged in 2018 as the result of a combination of a former Google Wallet app, launched iin 2011, and Android Pay, a contactless-payment capability introduced in 2015. The current Google Wallet debuted on Android smart phones in July 2022.

Google, a unit of Alphabet Inc., maintains that the CFPB's supervisory authority in this case is "burdensome," given the small number of complaints. At the same time, the CFPB has set what the company views as a "low bar" for its standard of consumer risk.

Now comes the bureau's "clincher." Google's decision to remove Google Pay from the U.S. market does not exempt the tech giant from supervision, the CFPB argues. That contention, understandably, baffles some observers. "It does not make sense," said Cliff Gray when we called him to ask about the case. Cliff is principal at the payments consultancy Gray Consulting Ventures. But the decision to target Google nonetheless "does not surprise me," he adds. "The CFPB has been chomping at the bit, and Google's a wide-open target."

Now, as experts have said for years, digital wallets are generally a more secure product than physical ones, a point federal watchdogs maybe ought to consider. "Consumers pick an e-wallet that makes the most sense to them," Gray says, "and now you have this government agency saying you can't do this."

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HAS THE CCCA REACHED THE END OF THE ROAD?

The odds are against passage of the Credit Card Competition Act any time soon.

Prospects that the bill might advance received a major blow late in November as Sen. Thom Tillis said during a Senate Judiciary Committee hearing about credit card swipe fees the bill "is not going to pass" in the current Congress.

Meanwhile, while a spokesperson for Sen. Richard Durbin, a co-sponsor of the bill, said by email late in November the Illinois Senator would push for passage of the bill in the remaining time, she was non-committal about whether Durbin or his co-sponsor, Sen. Roger Marshall, plans to reintroduce the proposal in the next Congress, which was set be seated Jan. 3.

"We will circle back after the 119th Congress begins. Senator Marshall has been an important ally in introducing the bill the last two Congresses," the spokesperson said when asked about prospects for reintroducing the bill in the new Congress.

Sen. Marshall's office did not respond to inquiries about the future of the CCCA.

Originally introduced in 2022, the legislation 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. Proponents see the bill as a bid to reduce merchants' card-acceptance costs by increasing network competition.

But the makeup of the new Congress isn't the only factor affecting the bill's prospects. Observers are also citing the change in administration as a major event likely to keep the CCCA from being reintroduced (for more on the Trump administration's impact on payments, see page 22).

"I don't see the CCCA going anywhere," says Eric Cohen, chief executive and founder of Merchant Advocate, a Colts Neck, N.J.-based consultancy focused on helping merchants reduce their card-processing costs. "Republicans will have control of Congress, and they are not as inclined to add more regulation and tend to let businesses be."

Processors express the same sentiments. "Under a Trump administration, the dynamics change," Michael Seaman, chief executive at Swipesum, a Clayton, Mo.-based processor, says by email. "Historically, Republicans prioritize deregulation to promote free-market principles, which makes passing the CCCA nearly impossible. With deregulation expected to dominate the agenda [of the next administration], the bill's passage will demand unified support and a carefully crafted strategy."

A strategy that enables the bill to come to a vote will require incorporating lessons learned from prior failures to advance the bill, according to Seaman.

Durbin: Time to give up on the Credit Card Competition Act?

The bill's failure to get a vote "doesn't mean the fight is over," Seaman says. "The bill will evolve, incorporating lessons learned from [the last] session, and will be reintroduced in the next Congress."

Some members of the Senate Judiciary Committee in November urged representatives of Visa Inc. and Mastercard Inc. and members of the merchant community to negotiate a settlement of their decades-old battle over credit card swipe fees before Congress takes action, but the prospects for that happening are slim.

"Large merchants can and do negotiate rates, but I don't see that happening for small merchants," Cohen says. "There are some points in the CCCA that are valid and should be looked at, but I don't see anything occurring with it in the next 12 [to] 24 months."

—Peter Lucas

DIEBOLD NIXDORF'S WINDOWS 11 ATMS SIGNAL THE NEXT ERA

ATM makers are preparing for the next software evolution for cash-dispensing and deposit machines, as evidenced by Diebold Nixdorf Inc.'s implementation of the Microsoft Windows 11 operating system on devices managed by two banks in Central Asia. Other makers, such as Hyosung Americas, are readying their systems to support Windows 11.

The migration to Windows 11 is important to maintain security, especially as Microsoft in October will end support for Windows 10. Diebold Nixdorf says the Windows 11 installation is the first on ATMs. Windows 11 is expected to be supported through October 2034, it says. Diebold Nixdorf is using the Windows 11 IoT Enterprises LTSC 2024 version on its machines.

"Financial Institutions and ATM deployers will face mandatory changes to their self-service channel in the next few years," says Joe Myers, Diebold Nixdorf 's executive vice president of global banking, via email. "A mix of payment card industry (PCI) compliance requirements, technology shifts, and supplier support may necessitate new software and hardware components. The move to Windows 11 will allow financial institutions to effectively meet these regulatory-compliance standards."

Competitor Hyosung Americas also is eyeing the end of support for Windows 10.

"There are multiple versions of Windows 10 available in the commercial space," says William Budde, Hyosung Americas vice president of banking strategy and solutions. "The version of Windows 10 commonly used on ATMs in the U.S. is called 'Windows 10 LTSB 2016.'

"This version was launched in 2016, as the name implies, and Microsoft has announced that they will no longer support this version as of October 2026, meaning that general fixes and security patches, among other things, will no longer be made available. To maintain a secure environment, financial institutions will need to update the operating system on their ATMs before that date to ensure uninterrupted support."

There are no special interface changes needed because of the ATM migration to Windows 11 because the user interface often can be the same from Windows 10 to 11. "Each financial institution builds its brand and offerings at the ATM specific to its relationship with its customers. At first glance, the same bank running an ATM on Windows 10 looks identical to another ATM at the same bank running Windows 11," Myers says. Hyosung Americas is a unit of South Korea-based Hyosung TNS Inc.

At NCR Atleos Corp., multiple choices are in place for ATM operators choosing to use Windows 10. "And we are making new higher performance processors available for Windows 10 which will be supported until 2032," says Joe Gallagher, NCR Atleos senior vice president of product, via email. "For those who choose to adopt Windows 11, we of course will support that choice with new processors."

He says more and more ATM operators are using its ATM-as-a-service product, which alleviates their need to be concerned about processors and operating systems because NCR Atleos takes care of all that.

North Canton, Ohio-based Diebold Nixdorf also includes its Vynamic Connection Points 7 software, which is designed to make managing the ATM easier to do. It uses the operating system's built-in Web browser instead of a third-party or proprietary one, Myers says.

As in the PC space, a new Microsoft operating system may require a newer processor. Diebold Nixdorf's Intel Alder Lake chip, the 12th generation from Intel (it's up to 14 generations now), is compatible with Windows 11 IoT Enterprises LTSC 2024.

"When updating to a newer operating system, it is necessary to verify the compatibility of the PC core to ensure that it is modern enough to run the new OS," Budde says. "In general, if a financial institution is upgrading from the Windows 10 LTSB 2016 version, that version is old enough that an updated PC core will likely be required to support Windows 11." Support for that version ends in October 2026, he says, with other Windows 10 versions also having longer support periods.

Irving, Texas-based Hyosung America is wrapping up software updates necessary to support Windows 11, Budde adds, and has added the latest family of PC cores to its hardware. He notes that there are other versions of Windows 10 that will have support beyond 2025.

—Kevin Woodward

VISA DIRECT DEFINES REAL TIME AS ONE MINUTE—OR LESS

Visa Inc.'s move to speed up its Visa Direct service to no more than one minute, starting in April, is likely to cement the global card network's place in the payments industry's steady movement toward real-time transfers, some observers say.

The network, which announced the move last month, says it will represent even faster service for a business-to-business, business-to-consumer, and peer-to-peer payments service it launched 11 years ago and that generated 9.5 billion transactions in the year ended Sept. 30.

Visa Direct transactions have typically been completed in 30 minutes or less, though recent tests have indicated 90% of transactions are posted in less than a minute, and 97% are posted in less than two minutes, according to an email from a Visa spokesperson. Funds are deposited to bank accounts connected to eligible debit cards.

"The rule change will ensure that the entire ecosystem works towards a post time that delivers on the real-time expectations of consumers," the spokesperson adds. He says issuers and processors were informed of the move in September to allow time for system changes.

A dramatically faster Visa Direct service comes as networks such as the Federal Reserve's FedNow system, launched in July 2023, along with a competing platform started seven years ago by some of the nations biggest banks, have raised awareness among businesses and consumers about real-time payments availability.

"Doing [transfers] in one minute really does make [Visa] a participant in the instant-payments movement," notes Steve Mott, proprietor of payments consultancy Better Buy Design. "They've moved into this sector in a material way."

Mastercard Inc. which offers a competing service called Mastercard

Send, did not respond to a request for comment on Visa's move.

Visa in its announcement cites a broad range of consumer applications for the speeded-up service, including splitting bills with friends, receiving insurance payouts, and earned-wage access. The network, which does not disclose U.S. volume figures for Visa Direct, says the service accesses 99% of U.S. bank accounts, along with more than 11 billion "endpoints" globally, including cards, accounts, and digital wallets.


Mott

Mott: "[Visa has] moved into [instant payments] in a material way.

The decision to quicken what was already a reasonably quick payments service indicates Visa's determination to make sure its core product can compete with real-time money-movement systems, Mott says. "They're not going to be left behind on cards," he notes.

—John Stewart

ZELLE ENLISTS STAR POWER IN A FRAUD AWARENESS CAMPAIGN

Zelle, the peer-to-peer payments service from Early Warning Services LLC, will put the detective powers of its S.A.F.E. Squad to work again with the help of actor Christina Ricci in a new education campaign on fraud and scams. This is the second year of the campaign and of Ricci's participation.

This year's focus is on more complex crimes, such as those using artificial intelligence. The two episodes set for this season tackle crimes such as phishing emails, with the first titled "The Star Phish" about a phishing threat, and the second called "One Sick Puppy," which shows how criminals use AI to impersonate a legitimate seller to defraud a victim.

"The new S.A.F.E. Squad campaign comes as Americans are facing an increasing threat of scams and fraud from tech-savvy financial criminals. By teaming up with Christina Ricci, we hope to use her celebrity to help educate as many people as possible about payment safety during the holiday season and beyond," Andrea Gilman, Zelle's chief marketing officer, says via email. "Making financial education more entertaining and engaging has proven to be an effective awareness-building strategy. In fact, we were able to reach over 40 million American consumers last year as a result of our education efforts."

The message might be getting through to many consumers, as Gilman says while Zelle volume increased 28% from 2022 to 2023, "we saw a nearly 50% decrease in reports of fraud and scam payments. Last year, we processed 99.95% of payments without a report of fraud or scams, making Zelle one of the safest ways for consumers to pay people they know and trust."

A ZELLE SNAPSHOT

(First half of 2024, with year-over-year change)

Volume: $481 billion, up 28%

Transactions: 1.7 billion, up 27%

User base: 143 million, up 13.5%

Among the top fraud-prevention tips are for consumers to avoid phishing emails and scams, use multifactor authentication to boost the security of online services, and be aware that criminals often use pressure to act urgently, a tactic consumers should consider a red flag.

Gilman says Zelle sent 700 million in-app alerts in 2023 to warn users of possible scams and has consumer-education campaigns running with the Better Business Bureau, the National Council on Aging, Utilities United Against Scams, and Vox Media, which produced the S.A.F.E. Squad video. The series is available on a special page on Vox.com and on Vox's YouTube channel.

Zelle is available as a standalone app, though many consumers use it via a participating bank's app. Many of these financial institutions—more than 2,200 banks and credit unions are on the Zelle network—also have their own education programs.

—Kevin Woodward

BITCOIN: COMMUNISM TRIES AGAIN

BY
GIDEON SAMID
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IN THE YEAR 1848, a short publication called "The Communist Manifesto" soon swept up millions in a kind of religious devotion, raving about the end of oppressive governments, declaring a world order where power is vested not in the ruling elite but in the roaring voice of the industrial crowds.

In the year 2008, a short publication called "Bitcoin: A Peer-to-Peer Electronic Cash System" soon swept up millions in a kind of religious devotion, raving about the end of oppressive governments, declaring a world order where power is vested not in the ruling elite but in the roaring voice of the paying crowds.

We know what happened the first time around. The toppled governments were replaced by equally oppressive sorts. The naive aim to change human nature and erase the difference between hard workers and freeloaders collapsed under the hammer of reality. The high-minded, unrealistic idealism of communism is being taken care of by the age-old Biblical vision of social responsibility.

Now, the Satoshi Nakamoto round is coming on strong, promising the rule of the crowd via control of the money that runs the world. Alas, Bitcoin is a dynamic beast. As quantum computers progress, Bitcoin will have to adapt and redefine itself. Who will lead the way? The crowds? Not a chance. An anonymous, unelected cabal will rewrite the code, and reroute the money.

The clear benefactors of Bitcoin are the criminal element and international terrorists. The "crowds" are investing in Bitcoin not directly, which is Bitcoin's claim to fame, but indirectly, relying on off-shore, incorporated financial intermediaries that do not enjoy FDIC protection. Unmindful of the increased risk, so many "crowd investors" are shifting more and more of their retirement assets to the new, soaring rocket: Bitcoin.

We have lost the belief in a solid foundation on which we stand, but which is not us. Human value in cyberspace is reduced to a count of "likes." When the value of a stock climbs, it reflects an expectation that smart, resourceful people will build something new to advance society. Alas, here comes Bitcoin, sucking off investment dollars with no expectation of any innovation momentum, no industrial ingenuity, no novel products expected ahead.

Bitcoin attracts investors because they believe that, much as they buy this stand-for-nothing-coin today, so will the investors of tomorrow. A price momentum that is based on nothing external, only on its own motion, is not sustainable. Investment companies that dismiss Bitcoin as a ruse still offer it to investors—because the crowd demands it. It is like the Biblical golden calf that Moses's brother built because the Israelites had no patience to wait for Moses to develop his life "operating system."

Communism collapsed, and now people return to the imperfections of capitalism. If we are lucky, Bitcoin will collapse before it sucks in the lion's share of the world's monetary resources. The day after is what we at BitMint are preparing ourselves for.

When alchemy, an earlier version of this high-minded craze, collapsed, it gave rise to chemistry, which has served us well ever since. When Bitcoin is discredited, it will give rise to a solid Wealth Coin—a digital coin that reflects the wealth of humanity, the worldly assets that sustain life on earth.

The best representation of the sum total of the wealth of human society is through a coin that is a hybrid of all national currencies, reflecting their relative strengths. I have described this vision in Elsevier's *2024 Handbook of Digital Currency*: "How Digital Currencies Will Cascade up to a Global Stable Currency: The Fundamental Framework for the Money of the Future." DT

THE COMPLICATIONS OF TRUMP 2.0

BY BEN JACKSON
bjackson@pa.org

DON'T START LAYING off your compliance and government-relations teams just yet.

After the Republican sweep of the White House and Congress, the payments industry seems to think its regulatory problems are solved. With the Congressional Review Act to eliminate present regulations, campaign promises for deregulation, and calls to "delete" the Consumer Financial Protection Bureau, life looks like it will get a lot easier.

But does anybody believe it is that simple?

Let's examine these and a few other factors that suggest the industry should recalibrate its expectations and strategies.

First, the Congressional Review Act is a tool by which Congress can void a regulation and prevent a substantially similar one from being proposed in the future. The Open Banking Rule that implements section 1033 of the Dodd-Frank Act has been discussed as a candidate for this treatment.

Although the CRA has been successfully used in the past, it has a tight timeline. Congress has 60 legislative days (days when Congress is in session) from the time the rule is delivered to repeal it.

Keep in mind the new Congress will be especially busy. At the same time, the financial-services industry probably is not the only one that would like to see recent rules taken off the books.

To have a rule removed, the industry must convince a Representative to take up the rule, push a repeal through, and get it all done very quickly.

A further complication is that the CRA might not be the last word. For example, the open-banking rule is required under previous law. So, the question is whether the CRA can in effect overturn a section of previous law. Is it legislation through deregulation?

Now, about "deleting" the CFPB. That makes for a nice sound bite, but will it happen? It didn't under the first Trump term. In fact, the Republican administration may find the CFPB is a worthwhile agency.

For example, in the first three years of the first Trump administration, the CFPB filed 69 enforcement actions (and an additional 48 in 2020). Compare that to 67 enforcement actions in the first three years of the Biden administration.

Members of the administration also have experience with the Bureau. U.S. Attorney General nominee Pam Bondi worked with the CFPB in 2015 as the Florida attorney general to get a $27.7-million judgement against a foreclosure-relief company.

Also, the CFPB has claimed authority to regulate big tech companies. Big tech has had critics on both sides of the aisle, and they may want to take advantage of this.

One last consideration for compliance going forward is the economy, particularly the intersection of inflation, tariffs, and credit card fees.

Fighting inflation is going to be a critical consideration for the new Congress and Administration. In September, then-candidate Trump said in a campaign rally that he wanted to cap credit card interest rates at 10%. That may still come to pass if he sees it as a way to control inflation, particularly since it has support from far-left Democrats.

And while, to my knowledge, it hasn't been discussed, it is not hard to imagine merchants seeing this as an opportunity to push interchange caps. The case could be made that rate caps would offset tariffs. If that seems far-fetched, ask yourself how much the Trump properties pay in card fees each year.

So, instead of popping champagne, the industry should be planning campaigns to protect its interests in the new political landscape. Companies need to identify what the new legislators and regulators have on their agenda and work out how they will address concerns both individually and as an industry. DT

JUST WHAT THE DOCTOR ORDERED

Some intrepid acquirers are taking on health-care payments, despite a daunting complex of consumers, health care professionals, multiple organizations, and regulations. They're finding success.

BY **KEVIN WOODWARD**

FOR MOST INDIVIDUALS, a co-pay made for a doctor visit or diagnostic exam is what first comes to mind when thinking about health-care payments. For acquirers, however, these consumer-facing payments are but one piece of the health-care payments prize.

Like any business, health-care practices have vendors to pay and patients who pay them. There are collection policies and adaptation to new ways to pay, such as with direct debit online or real-time payment services.

Health-care payments have their own special needs beyond speedy and secure payment acceptance.

"Health-care entities face several unique payment challenges," says Dr. Avi Israeli, cofounder and dental implantologist at Sage Dental in Wall, N.J. "One key need is the ability to manage both patient payments and insurance claims efficiently. Billing can involve complex scenarios, like co-pays, deductibles, and varying reimbursement rates, which create confusion for patients and increase administrative work for providers."

While some health-care practitioners may still need point-of-sale terminals with contactless capability or even one not using a dial-up connection, many have more sophisticated needs. One driver is that 66% of providers, according to a "2023 Trends in Healthcare Report" from J.P. Morgan Healthcare Payments, are prioritizing an increase in online, automated, and self-service payments.

"Due to unexpected and typically larger balances, health-care entities need to offer flexible, long-term, possibly alternative payment options to patients," says Nicole Miller, chief operating officer at Nordis Technologies. Nordis is a Coral Springs, Fla.-based enterprise software provider specializing in customer communications management technology.

"Research shows that patients want to pay medical debt," Miller adds. "They just need options to extend without the high cost of typical credit usage. Clear and concise billing adjudicated with insurance benefits with integrated payment links is key to capturing the payments."

At J.P. Morgan Healthcare Payments, a tailored approach is employed for health-care payments, says Jeff Lin, global head. The goal is to simplify payments for this segment, Lin says, not so much on the clinical side but administratively, where payments are very complex.

For example, many payments companies' clients sell a product or service with the transaction reconciling that day or soon after. In health care, though, a service may not be fully reconciled for weeks. This is "the unique thing about health care versus other industries where you are buying a product," Lin says. "With health care, the bill may show up 60 to 90 days after the services are delivered."

EMBEDDED FINANCE

So how can payments companies help? Integration is the key word.

"Payment companies can help simplify the payment-acceptance process by offering integrated systems that handle both insurance and patient payments in one platform," Sage Dental's Israeli says. "They can provide tools for real-time verification of insurance coverage, reduce paperwork, and allow patients to set up payment plans for outstanding balances."

"These systems should be simple and secure," he adds, "ensuring smooth transactions while protecting sensitive patient data." In addition to conventional consumer lending providers, Israeli's practice also accepts Affirm Inc., an installment-payments provider often associated with retail transactions.

One avenue for that diversity of payments lies with independent software vendors, particularly developers with programs for specialized fields of health care. Not only can they fulfill the operational needs of a practice or clinic, but also provide payment processing functions and broader financial tools.

"Critical to the effectiveness of ISVs are embedded-finance solutions, which can significantly reduce administrative burdens for providers," Lin says. "With embedded finance, ISVs help providers to optimize administrative workflows with integrated billing and payment processing, and improved revenue-cycle management. ISVs and embedded finance enhance operational efficiency and allow health-care organizations to redirect resources towards patient care."

Nordis Technologies' Miller has a similar view about the value of additional payments and financial services. "ISVs are critical to the patient experience in providing the clarity of statements, the linkage to insurance benefits, and allowing for built in payments that are simple to execute," she says.

THE BAD DEBT CHALLENGE

Acquirers can help these clients. They can "provide low-cost, no-cost payment-plan models or alternative consumer pay options that allow the health-care entity to receive payment and the patient/consumer to pay over time without high-cost interest and debt," Miller says. She cites a 2023 Mastercard survey that found 14% of adults and 23% of Millennials prioritize bills that are easiest to pay, regardless of other factors.


Israeli

Israeli: "The sales process in health care is unique, often involving multiple stakeholders who need to evaluate the technology and compliance features."

Some health-care organizations have turned to electronic health records vendors for payment services, says Pete Heydt, president of Durham, N.C.-based PatientPay LLC, a health-care payment-services provider. This hasn't always worked out well, he says.

"These vendors tout AI-powered solutions for payment, yet they haven't been able to deliver faster payments or even increased payments at less cost," Heydt says. "In 2025, we'll see these vendors start to accept that they can't be everything to everyone. This will open the door to integrations with independent software vendors that offer best-in-breed solutions, like those that incorporate predictive analytics and behavioral science along with the needed features and functions for success to drive consumer engagement."

Medical offices are businesses with unique--and complex--payments needs that independent software vendors may be particularly well-suited to satisfy, some practitioners say.

While there is some interest in real-time payments, most health-care practices are challenged by patient bad debt, Lin says. Providers want to ensure payments are made at all, regardless of timing, he says. That's where services such as automated payment reminders via email and text can help, as well as flexible, automated payment plans, he says.

And, because many consumers are well-accustomed to online bill payments for such obligations as mortgages and utilities, electronic statements and online payments can be easily incorporated into health care.

As a practitioner, Israeli says customized payment services that are scalable and compliant with industry standards are vital. "They offer reporting tools that are more detailed, help practices handle cash flow, and also facilitate various payment methods, ranging from credit cards to digital wallets. Regulatory compliance, with HIPAA in particular, mandating stringent rules on the privacy of patients' data is very essential," he says.

Reaching health-care providers, and helping them understand how payment services can help them, takes more than a cold call or referral. It usually is a multi-step process.


Lin

Lin: "With health care, the bill may show up 60 to 90 days after the services are delivered."

"The sales process in health care is unique, often involving multiple stakeholders who need to evaluate the technology and compliance features before making decisions," Israeli says.

'TRUST AND CREDIBILITY'

As acquirers have learned, knowing how a prospective client operates is essential to knowing which payment services might solve at least some of their issues.

"The sales process for health-care providers often involves addressing a multi-tiered decision-making structure, including administrators, [information technology] departments, and clinical staff," says Millie Hoffman, director of product management at RXNT, an Annapolis, Md.-based health-care software and technology provider.

"Providers value proven case studies and [return-on-investment] data that demonstrate how a payment solution can enhance patient satisfaction and reduce administrative workload. Building trust through knowledge of healthcare-specific challenges and regulations is essential for success in this market," Hoffmann says.

The depth of regulation and complex nature of health care also make the sales process different, Lin says. "Potential partners must have a deep understanding of health-care operations, regulatory requirements, and the unique needs of providers. Building trust and credibility is paramount, as health-care organizations prioritize partnerships with vendors who demonstrate expertise and a commitment to compliance and security." DT

THE DIGITAL EVOLUTION OF DEBIT POS AND ATM CARDS

Digital payments on debit are rising inexorably, but that doesn't mean banks can't leverage their strengths in ATM deployment.

BY **JOEL STANTON**

Joel Stanton is president at FSG Insights.

DEBIT CARDS ARE incredibly versatile. What started as a device for initiating transactions at ATMs has morphed into a tool for in-store and online purchases, bill payments, money transfers, mobile-wallet funding, and, still, a few ATM transactions.

The Durbin Amendment mandates that debit cards participate in at least two unaffiliated payment networks. Financial institutions select these networks based on which providers are best able to support their cardholders' needs across this spectrum of use cases. As consumer behavior evolves, migrating away from cash and toward electronic payments, banks and credit unions are placing ever greater emphasis on networks' point-of-sale capabilities and economics.

To detail this change, FSG Insights analyzed data on how consumers use their checking accounts. We have a proprietary panel that tracks tens of thousands of U.S. consumers' DDA activity every month, supporting both time-series analysis as well as segmentation by demographic profiles and usage patterns.

This article examines trends in debit POS and ATM usage over the past six years, from 2018 through the third quarter of 2024. By understanding the dynamics underpinning these changes, financial institutions of all sizes will be better positioned to navigate this important component of the consumer-banking relationship.

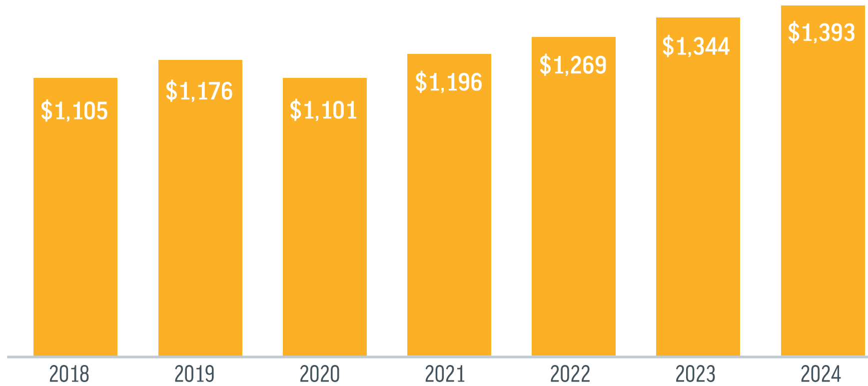
DEBIT CARD SPENDING

One of the most telling indicators of changing financial habits is the average monthly spend per active debit card (Figure 1). From 2018 to 2024, there has been a significant increase in average debit spend, rising from $1,105 to $1,393 per card per month – up 26% over these six years.

Consumers have increased their spending via debit every year, except in 2020, when there was a noticeable decrease due to the COVID-19 pandemic and associated lockdowns. From 2021 onward, there have been steady year-over-year increases as debit continues to gain an ever-greater share of consumers' wallets. Today, 45% of all debit card spend is card-not-present, and 7% is initiated by a mobile phone (where the debit card has been pre-loaded as the default payment method).

FIGURE 1

AVERAGE MONTHLY SPEND BY DEBIT CARD



Analysis based on a national sample of DDAs. Only includes active debit cards. 2024 data is through Q3.
Source: FSG Insights

DEBIT CARD REVENUE

Growing debit use not only reflects consumer payment preferences, it also drives greater non-interest income for financial institutions.

Debit card issuers with $10 billion in assets or greater are covered by an interchange cap determined by the Federal Reserve. Debit card spending by customers of these banks and credit unions represents approximately 64% of total industry debit spend. Smaller financial institutions are exempt from the interchange cap. The interchange income these issuers receive is directly influenced by their choice of networks.

A recent study estimated the debit interchange income received by these two segments of debit card issuers, as shown in Figure 2.

As we enter a period of declining interest rates, putting pressure on net interest margins, financial institutions will likely focus even more on their debit portfolios. Leading issuers optimize their card base across the full lifecycle of penetration, activation, and usage. They track their processor and network performance to ensure competitiveness, and they actively manage fraud while investing in superior digital experiences.

ATM CASH WITHDRAWALS

Within their checking accounts, financial institutions' primary focus is on optimizing debit card spending. Active debit card holders conduct more than 30 POS transactions per month. By contrast, consumers perform ATM withdrawals at the rate of less than one per month. Moreover, every POS purchase generates revenue for a financial institution, while every ATM transaction is an expense.

Nevertheless, consumers continue to use cash, and ATMs are a convenient mechanism for dispensing this cash. The question for every financial institution, therefore, is how to best meet this demand.

Broadly, banks can choose from one of four strategies to provide ATM access to their customers (see Figure 3).

At one end of the spectrum, banks can deploy their own ATMs, placing terminals inside branches to support migration away from tellers and also off-premise to provide additional, convenient cash access. Each of the largest banks owns and operates thousands of ATMs, providing extensive fee-free options for customers (and,

FIGURE 2

ISSUER DEBIT INTERCHANGE REVENUE

Interchange revenue per active debit card per year

Source: 2024 Debit Issuer Study, commissioned by Pulse

FIGURE 3

OPTIONS FOR ATM CASH ACCESS

1. FI deploys its own branded ATMs, offering on-us transactions
2. FI brands third-party ATMs, to offer quasi-on-us transactions (surcharge fee)
3. FI participates in a surcharge-free network (e.g. Allpoint)
4. FI offers ATM surcharge reimbursements when customers perform off-us cash withdrawals

indirectly, providing an incentive for consumers to choose to bank with these FIs).

Purchasing and operating ATMs is a high fixed-cost, low marginal-cost proposition. As more customers use a particular ATM, the cost per transaction steadily declines.

Conversely, banks and credit unions with (relatively) small customer bases do not have sufficient scale to achieve competitive per-transaction economics. Alternatively, many digital banks have large customer bases, but these are distributed nationwide, and therefore they lack customer density in any specific geographic location.

For these small-base FIs, another approach to meeting their customers' ATM cash-access needs is to use surcharge-free networks, such as Allpoint and MoneyPass, or to offer surcharge reimbursement.

ATM SURCHARGE REIMBURSEMENT

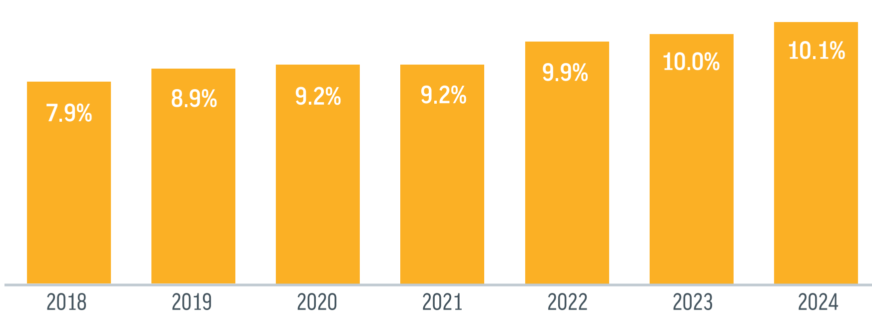
According to Bankrate, in 2024, the average ATM surcharge fee is $3.19. For financial institutions, the most "pro-consumer" strategy is to offer surcharge reimbursement. Rather than try to deploy ATMs across the country, a bank can simply say "use any ATM that you want, and we will reimburse the surcharge fee."

Costly? Yes. Convenient? Yes. But is it more costly than deploying ATMs that will rarely be used? And do consumers place a premium on this convenience, seeking banks or accounts that offer this feature?

Today, the fees on 10.1% of all surcharged ATM transactions are reimbursed (see Figure 4). At an industry level, this percentage has been slowly ticking upward, largely as a result of the growth of digital challenger banks.

FIGURE 4

PERCENTAGE OF ALL SURCHARGED ATM TRANSACTIONS THAT ARE REIMBURSED



Note: Analysis based on a national sample of DDAs. Percentage calculated as the number of reimbursed transactions divided by the total surcharged ATM transactions on a per-year basis. 2024 data is through Q3. Source: FSG Insights

There is a significant difference in reimbursement strategy between large and small financial institutions. Small FIs consistently offer higher reimbursement rates than large FIs, and the gap has only widened in recent years (see Figure 5). In 2018 there was a six-point differential, whereas now the differential has grown to be more than nine percentage points. In fact, following a small uptick for large FIs in 2020, the surcharge reimbursement rate is only slightly higher now (6.0%) than it was in 2018 (5.2%), whereas the reimbursement rate for small FIs has increased notably, from 11.4% in 2018 to 15.3% in 2024.

The difference in reimbursement rates between large and small FIs suggests diverging strategies in managing ATM networks and customer relationships. Small FIs typically have far fewer ATMs, so by offering reimbursements for ATM surcharges they are able to somewhat level the competitive playing field.

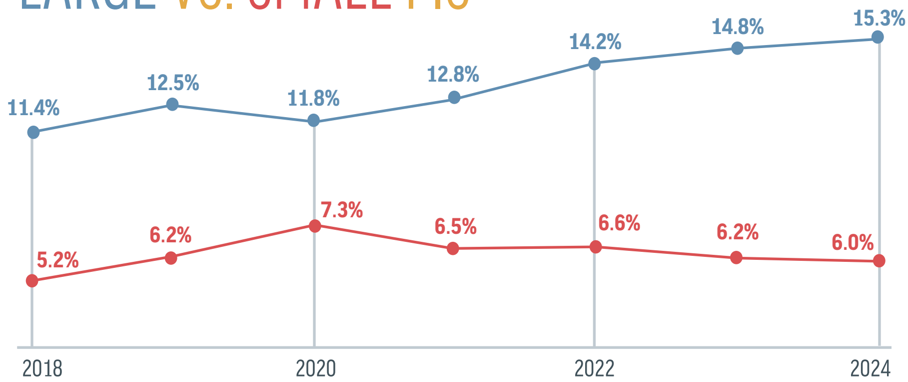
CONCLUSION

The decreasing use of ATMs, coupled with the growth in debit card spending, paints a picture of a rapidly digitizing financial ecosystem. However, the persistence of cash usage, albeit at lower levels, and the increasing focus on ATM-fee reimbursements demonstrate the ongoing importance of ATM services and the need for a balanced approach.

For all FIs, staying ahead of these trends is crucial. Understanding the shifting dynamics of how consumers interact with their money—both digitally and in cash—across different types of situations will be key to meeting future needs and challenges in the evolving world of retail banking. As consumer preferences continue to change and competitive pressures mount, innovation, adaptability, and a nuanced understanding of diverse customer needs will be critical factors in determining future success. DT

FIGURE 5

SURCHARGED REIMBURSEMENT RATES, LARGE VS. SMALL FIS



Note: Analysis based on a national sample of DDAs. Percentage calculated as the number of reimbursed transactions divided by total surcharged ATM transactions on a per-year basis. 2024 data is through Q3. Large FIs are defined as the 10 largest debit card issuers, based on spend volume; Small FIs are all others. Source: FSG Insights

PAYMENTS UNDER TRUMP

The new President's second term will mold the digital payments business in unpredictable ways. Here's what to expect (we think).

BY JOHN STEWART

Normally, a U.S. President taking office for the second time would embark on a term whose contours shouldn't be too hard to predict. After all, we saw what he did, and what happened, in the first term. But there's nothing conventional, politically or otherwise, about Donald Trump, who this month takes office for the second time following a convincing victory in the November presidential election.

While policy regarding payments would stay in flux for some time in any incoming administration, let alone one under the mercurial incoming president, signs are emerging that could presage significant moves under Trump to slash regulations and unleash the animal spirits of the world's largest payments industry.

These moves are likely to include reining in activists at the Consumer Financial Protection Bureau and the Federal Trade Commission, which recently introduced a requirement simplifying cancellation of services for consumers (box, page tk), observers say.

'Delete CFPB'

And such actions could become even more radical, as a tweet last month from billionaire businessman and close Trump adviser Elon Musk indicated. "Delete CFPB," the terse message read, referring to a federal agency that came into being in 2008 when the country was reeling from a historically deep financial crisis.

Already, close observers say the Trump administration is likely to adopt a more skeptical eye toward efforts in Congress to enact bills such as the Credit Card Competition Act, which seeks to exert more pressure on card interchange rates by requiring a choice for merchants that includes at least one network that isn't Mastercard or Visa.

The CCCA stood on shaky ground even before the November election, which cost Democrats their majority in the House of Representatives in addition to the presidency.

"The bill creates a political challenge," notes Scott Talbott, an executive vice president at the Electronic Transactions Association, a Washington, D.C.-based group that represents the payments industry. "It continues to face an uphill climb."

Or, as one long-term payments consultant, who attended Senate hearings in November on the bill, says: "What is happening is the regulatory world is figuring out whether the consumer is worthy of all the protection that the regulatory environment provides them."

"In general, this [new] administration is going to be very regulatory hostile," observes Patricia Hewitt, principal at PG Research and Advisory Services and an unsuccessful Democratic candidate from Georgia this year for the U.S. House of Representatives.

'A Populist Strain'

What "regulatory hostile" will look like will unfold as the new administration settles in. What is clear is the list of regulations, again mostly from the Biden-era CFPB, will likely become an early target for modification or reversal. Many of these have become rules only this year, including regulations concerning consumer data rights and open banking, as well as measures targeting payments apps like Apple Pay and PayPal.

Observers also expect Rohit Chopra, the bureau's aggressive director, will either resign or be replaced. Among some payments experts, at least, the betting is

Grover: “This isn’t Phil Gramm’s Republican party.”

he won’t leave of his own accord. But who will replace him is far less clear as the new administration settles in. The CFPB refused to comment for this article.

“People are policy,” notes the ETA’s Talbott. “we’re watching very closely who Trump will appoint. We expect him or her to be less aggressive than Chopra but more aggressive than Trump.”

Others are expecting a much tamer bureau. “It will be kneecapped,” predicts Hewitt. “It will stop doing data analysis. All that will be shut down. It will just get buried and lost. The CFPB has done a lot in 15 years. So now who protects the consumer?”

Meanwhile, a flurry of rulemaking in 2024 will leave a more or less sticky legacy the payments business will have to reckon with whether Chopra stays or goes. Lame duck or not, the CFPB director “seems to be moving forward with new rules,” notes Ben Jackson, chief operating officer at the Innovative Payments Association, a trade association for the payments industry, and author of the Payments 3.0 column in Digital Transactions.

Some of the more potent of these new rules—including strictures for payments apps and regulations governing data rights for the burgeoning activity in open banking—will impact rapidly developing areas promising high growth for the payments industry.

‘A Bipartisan Suspicion’

But observers like Jackson aren’t so sure new management at the bureau will be notably less likely to police the industry than was Chopra. “The industry needs to be careful because there’s a populist strain in the new administration,” he says, adding, under Trump, there is “a lot of suspicion towards big tech. That’s been a bipartisan suspicion.”

That means industry representatives will have to be careful “not to stir up agencies” by assuming they will relax scrutiny, Jackson says.

Talbott at the ETA underscores that point. “We’ve seen a more populist approach from the president-elect since his first term,” he notes. An example cited by other observers is the backing offered for the CCCA by vice president-elect J.D. Vance.

The bill, which has so far fallen short of the votes required to pass, is not a measure likely to attract the support of traditional conservatives, but there’s little

WHAT THEY’RE FIGHTING OVER

U.S. Credit Card Transaction Volume (in trillions)

2018	$3.7
2019	$4.0
2020	$3.8
2021	$4.2
2022	$5.0
2023	$5.6

Source: Clearly Payments

Hewitt: “You’ll see promotion of crypto, and there will be less rules around it.”

A BUSY YEAR FOR AN ACTIVIST REGULATOR

(Final rules from the CFPB in 2024 that affect the payments industry)

DATE	FINAL RULES FROM THE CFPB	
3/5	Credit Card Penalty Fees Final Rule	$8 cap on late fees for large issuers, later revoked
5/22	Use of Digital User Accounts to Access Buy Now, Pay Later Loans	Defines BNPL lenders as card issuers for purposes of Reg Z
6/5	Required Rulemaking on Personal Financial Data Rights; Industry Standard-Setting	Consumer data rights under section 1033 of the Consumer Financial Protection Act
10/22	Required Rulemaking on Personal Financial Data Rights	Required rulemaking under under CFPA section 1033
11/21	Defining Larger Participants of a Market for General-Use Digital Consumer Payment Applications	Sets authority for CFPB to supervise and examine "larger participants" in market for payments apps

Source: CFPB

that is traditional about the second time around for the new administration.

Introduced in 2022 by Senators Richard Durbin, D-Ill., and Roger Marshall, R-Kan., the CCCA has struggled as just enough Republicans eye its design with suspicion. Now, observers are wondering how much longer that point of view will prevail.

"This isn't Phil Gramm's Republican party," observes Eric Grover, head of the payments advisory Intrepid Ventures, referring to a free-market economist and long-time Texas legislator who left the Senate in 2002.

Crypto's Momentum

One constituency expressing cautious hope with the onset of a new administration is the backers of digital currency. "There is an opportunity for [cryptocurrency] to break out, finally," says Cliff Gray, proprietor of Gray Consulting Ventures, a payments advisory. This sentiment goes far beyond the apparent backing of Musk, who has installed himself as one of Trump's closest advisors.

Bitcoin, for example, has been on a tear, crashing through the $100,000 mark in value this fall, though solid numbers on actual usage of the coin to buy things prove elusive. Enthusiasts like Gray, however, foresee wider adoption by users and merchants alike as forces in the administration turn a skeptical eye toward established bureaucracies in all industries, payments included.

Digital currency systems are likely to be seen in contrast to the long-stablished card networks, in particular, some observers argue. "Trump and his administration don't like Visa, but they like crypto," Gray contends, summing up the situation.

And backers aren't deterred by the voices of established financial bosses like JPMorgan Chase & Co. chief executive Jamie Dimon, who once threatened to fire any Chase trader found dealing in Bitcoin. "Crypto has matured a lot," argues Gray, who sees a growing constituency among users and potential users that could appeal to the new president.

Gray isn't alone in his expectations for digital currency under Trump. "He's courted the crypto industry. He needed their financial support and banking support," argues Hewitt. But digital coins for payments is of less interest to the new administration than crypto as an asset, she argues. "You'll see promotion of crypto, and there will be less rules around it," she predicts.

'A Volatile Mix'

All in all, some observers predict the tension between a traditional liberty-minded approach among some in the new administration and the newer, more pugnacious populism among others will make for an unpredictable interplay when it comes to policy.

"I think we'll have a somewhat volatile mix of two currents," says Grover. "I don't think that populist strain is going to go away, but there's going to be more laissez-faire folks in the administration."

That could make for some rocky times, especially as Trump works to assert himself, as many say he inevitably will. And, as Grover and others note, "I don't think Trump has a strong ideological compass." DT

Jackson: "A lot of suspicion towards big tech."

Reckoning With Click to Cancel

Consumers irked by the difficulty of unenrolling from some subscription services will get relief May 14, when merchants must be compliant with the Federal Trade Commission's revised Negative Option Rule, otherwise known as click to cancel.

Merchants, however, have a lot of work to do between now and then.

The rule, finalized in October, mandates that unsubscribing must be as quick and easy as the enrollment process. It also spells out that consumers must know what they are signing up for and that sellers must be able to show that consumers knew what they agreed to before enrolling in a subscription plan. The rule was proposed in March 2023.

"The FTC's revised Negative Option Rule is a wake-up call for businesses to rethink their approach to user data privacy and transparency," says Sam Peters, chief product officer at ISMS.online, a U.K.-based compliance-management service.

"With the May 14, 2025, compliance deadline fast approaching, organizations must act swiftly to align with the new requirements," he says. "While the timeline is tight, it does highlight the importance of prioritizing consumer rights and trust, and makes this an opportunity for organizations to strengthen compliance practices whilst also enhancing customer trust."

The 120-day window between the rule's effective date, Jan. 14, and its compliance date, May 14, will give businesses time to "align their subscription and cancellation process with the new requirements," says Michael Seaman, chief executive at St. Louis-based payments provider Swipesum. "While this timeframe is generally reasonable, some businesses may remain unaware of the new rule."

One big concern in recurring payments is churn, the turnover rate of subscribers falling off their lists. One way to counter a potential increase in the churn rate is with proactive messaging.

"It's also important to point out that organizations should ensure they offer proactive notifications of upcoming renewals and consistent, multichannel messaging to meet these new requirements, but also so they reinforce trust and demonstrate a commitment to meeting regulatory and consumer expectations," Peters says.

"Those organizations that focus on clarity and transparency in their messaging and use simple, consumer-friendly language to ensure customers understand their rights and options will be in a much stronger position than those that don't, which could also mean a competitive advantage in the market," he adds.

Practical help for merchants can come from subscription-services companies like Recurly Inc. and Chargebee, Seaman says. These companies have published content and resources to guide business through compliance, he says, "but the burden is ultimately on the merchant."

It is unlikely the rule will be rescinded, Seaman says, It has already faced a number of challenges.

The NCTA, an association for the Internet and television industry, along with the Interactive Advertising Bureau and the Electronic Security Association, filed a lawsuit against the FTC in October to stop the rule, though there was no further court action as of December.

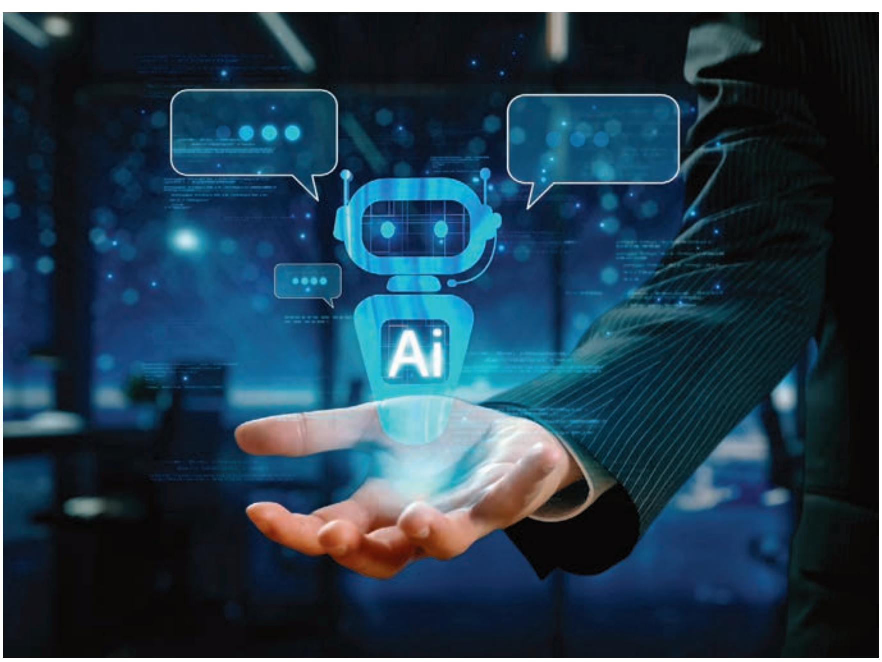
"Everyone knows those are some of the hardest services to cancel, customer experience is poor, and overcharges are ridiculous. This [rule] is a good thing," Seaman says.

—Kevin Woodward

HOW AI IS TRANSFORMING PAYMENTS

With advances in artificial intelligence, developing more and better payments apps efficiently is no longer a pipe dream.

BY **PETER LUCAS**



WHETHER THEY'RE automating repetitive tasks or predicting market trends and consumer behavior, payments companies are embracing artificial intelligence.

A key driver, especially in the back office, is the technology's ability to automate repetitive tasks, improve fraud detection, optimize payment processing, and gather insights from large data sets—all while reducing the risk of human error, especially for data entry.

Despite those advantages, businesses tend to have a love-hate relationship with AI. At first, it is not uncommon to treat the technology skeptically because of concerns it will eliminate jobs and have a potential bias in algorithms used to analyze data that could lead to unfair outcomes. Then there's the cost of deploying and maintaining the technology.

Over time, observers say, that skepticism fades, prompting businesses to cautiously deploy the technology in the back office. Eventually, users come to accept it and look for new uses outside the back office.

The payments industry is no exception. Several key players have initially deployed the technology behind the scenes, such as for fraud detection on the network and to evaluate weaknesses in financial institutions' fraud-detection systems.

In this regard, Mastercard Inc. is using generative AI, which creates content based on large data sets, to generate synthetic transaction data that mimic fraud and can then be used to hone fraud-detection models.

More broadly, 41% of financial institutions are implementing AI in fraud detection and case management, which reflects a "fundamental shift" in how payments are processed, secured, and optimized, even if most of that is not seen by end users, says Gilles Ubaghs, strategic advisor in commercial banking and payments for the advisory service Datos Insights.

Winter Haven, Fla.-based SouthState Bank, for example, has incorporated AI into a chatbot that has reduced document search times from seven minutes to 32 seconds, according to Ubaghs.

Other back-office uses include customer authentication and the ability to automatically schedule, trigger, execute, and monitor workflows across a platform.

"While consumers may focus on front-end interactions, the data shows that back-office and mid-office capabilities are the initial focus for AI deployments," Ubaghs says. "This suggests that the most impactful changes might be occurring in areas consumers never directly see, but significantly benefit from through improved security, efficiency, and reliability."

OPERATING EFFICIENCIES

What makes AI an attractive tool for fighting fraud is its ability to analyze patterns across millions of transactions in real time and spot anomalies that a human analyst would overlook.

In 2023, Mastercard says, it harnessed AI to protect more than 125 billion payment transactions for banks, financial institutions, governments and consumers. In the first six months of the year Mastercard declined more than 100 million fraudulent transactions before they could impact the cardholder, the merchant, and the card issuer.

"AI's predictive analytics can foresee potential issues and optimize processes in real time, which is invaluable for keeping payments secure and efficient," says Greg Ulrich, Mastercard's chief AI and data officer. "Plus, AI's ability to learn and adapt over time means it keeps getting better and better, making it a reliable and scalable solution for the payments industry."

AI also helps streamline payment processes by automating such tasks as chargeback management and transaction routing, Ulrich adds.

Small and mid-size businesses can also benefit from AI, advocates say. Use cases include automated invoice recognition and expense categorization, according to BILL, a financial-operations platform for small and midsize businesses. A recent survey by the company reveals that 85% of small and mid-size businesses want AI.

"AI adds value in these particular use cases by helping businesses maximize use of their data to make real-time decisions, increase efficiency, and reduce risks of fraud," says Mary Kay Bowman, executive vice president and general manager of payments and financial services for BILL. "When we think about AI, we need to focus on practical innovations that can simplify day-to-day activities right away without a big investment."

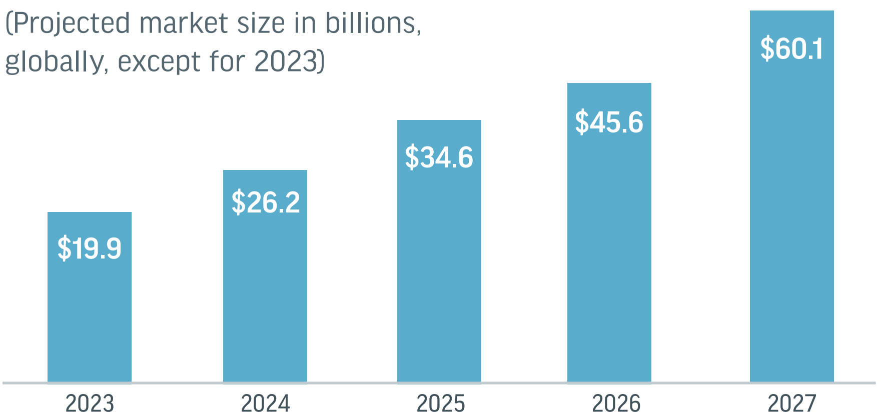
One promising form of AI is Generative AI, which learns how to create new content based on data the system has been trained on. Generative AI is supposed to get smarter as new information is provided and as human handlers refine the output.

Business sectors McKinsey feels could see the most financial benefit from generative AI include banking, where the technology could deliver value equal to an additional $200 billion to $340 billion annually if all use cases were fully implemented.

AI's operating efficiencies are expected to create a robust market for the technology. A recent study by management consulting firm Bain & Co. predicts the market for AI-related hardware and software will grow 40% to 55% annually and reach between $780 billion and $990 billion by 2027. While fluctuations in supply and demand are to be expected, Bain predicts the technology's upward trajectory is here to stay.

AI'S SURGE IN BANKING

(Projected market size in billions, globally, except for 2023)



Source: Precedence Research

In banking alone, the market is expected to grow from $19.9 billion in 2023 to $34.6 billion this year, according to Precedence Research, a 74% leap (chart).

GROWING IN COMFORT

With AI having proven itself in the back office and all signs pointing to increased adoption, payments companies are looking to expand AI into customer-facing applications beyond customer-service chatbots.

Potential use cases include account-to-account bank transfers, peer-to-peer and bill payments for consumers, and business-to-business and business-to-consumer payments for businesses.

"AI in banking has been used for call trees and virtual servicing for a while now, but one of the next-level applications is using AI to take orders for more types of payments transactions," says Jeff Bucher, senior product strategy manager for Alkami Technology Inc.

Initiating payments verbally or using predetermined models based on incoming bills, invoices, and the need to move money to others is the logical next step for AI in customer-facing apps at payments companies, Bucher adds.

AI can also be leveraged to provide a more personalized customer experience, such as suggesting specific payment actions based on that individual's history. "With multiple payment channels and unique features for many of them, AI-based decisioning can support in picking the most efficient and least expensive method for each payment request," Bucher adds.

On the B2B side, AI can develop better customer experiences through auto matching businesses and suppliers, auto populating invoices, syncing accounting systems with bill payment platforms, detecting potential fraud, and providing payment or funding choices for customers, Bowman adds.

BILL recently introduced Sync Assist, an AI-powered feature that enables small and mid-sized businesses to automatically synchronize their financial data between the BILL platform and their accounting software. The synchronization allows businesses to transfer bills, payments, and other financial information between the two systems.

"We are applying AI to more use cases to further simplify and personalize the [small-business] customer experience on our platform," Bowman says.

As consumers become more comfortable interacting with AI-based apps, payments providers are expected to accelerate their adoption of the technology. About 62% of mid-size-to-large companies are expected to be using generative AI for banking and payments within the next 12 months, according to Datos Insights' Ubaghs.

In addition, 50% of banks that are in the early stages of adopting AI report minimal impact from the technology on their business. Within the next three years, however, 90% of banks that have deployed AI expect to see at least moderate impact on cash management, according to Datos.

"That's a significant indicator of growing acceptance and expectation in understanding AI's potential, even as organizations work to fully grasp its capabilities," Ubaghs adds.

Consumers overall may be growing in comfort with the technology, but that level of comfort varies by generation. "Younger consumers and businesses tend, on the whole, to be more open to this techology," says Ubaghs.

'LEARNING ON THE JOB'

There is also a learning curve for companies. Some are learning how best to utilize AI on the go before refining its use cases, says Mastercard's Ulrich.

"Success hinges on proving not just technical efficacy, but commercial viability," he says. "Overcoming this requires investment in AI education and training for employees, as well as collaboration with AI experts and technology providers."

Meanwhile, payment companies can expect to make mistakes. "Everyone is learning on the job with AI, including those in digital banking," says Alkami's Bucher. "The rise in capabilities and applications for AI means that more is possible and there is a race happening to roll out as many use cases as possible. This will inevitably bring mistakes and challenges, but over time an equilibrium will be achieved with experience."

That equilibrium will require a clear strategy for rolling out the technology, as well as employee education and training and collaboration with AI experts and technology providers to ensure the right infrastructure and governance are in place to support AI initiatives, according to Ulrich.

"Fostering a culture of innovation and experimentation can help organizations adapt to, and fully leverage, AI technologies," he says. DT

AI IS REVOLUTIONIZING PAYMENTS SECURITY

With a constant threat of fraud, it's past time to harness this technology.

BY GEOFF KEATING

Geoff Keating is vice president, product management, at Basware.

IN AN ERA when financial fraud is becoming increasingly sophisticated and prevalent, accounts payable departments find themselves on the front lines of a digital battlefield.

With global losses from fraud schemes reaching a staggering $485.6 billion last year, the severity of financial losses and reputational damage is enough to keep chief financial officers up at night.

AP departments oversee the tracking, approval, and processing of invoice payments to and from suppliers, so it's up to them to understand the risks of financial fraud and how to identify and prevent potential scams.

Enter AI, a potent ally that, when combined with training and investment, can fortify AP departments and transform fraud detection into an efficient process.

The sheer volume of invoices and data that AP departments process makes it challenging to scrutinize every single detail on every single invoice, especially if the majority of work is being done by human analysts.

Understanding common fraud schemes confronting audit processes is the first stage for CFOs and AP departments. Here are some of the more prevalent schemes:

1. Vendor Impersonation Scams

In these scams, which are among the most common, criminals pose as legitimate vendors, often through phishing emails or fake Web sites, to deceive AP departments into changing payment details to fraudulent accounts.

2. Mischaracterized payments

Here, fraudulent expenses are considered as legitimate business costs. This can be done by employees and external parties to mask unauthorized transactions, making them harder to detect during audits.

3. Duplicate Payments

Suppliers submit duplicate invoices for the same service or product, leading to double payments.

Worryingly, fraudsters are now using AI to enhance the sophistication of their scams. For example, fraudsters are using AI to analyze and manipulate speeches made by CEOs and trusted individuals to convince staff and customers to transfer payments. It's also being used for data manipulation to subtly alter documents to make it harder for people to identify anomalies.

While AI has played a role in increasing the sophistication of financial fraud, companies are using the same technology for data analysis and pattern detection to help identify suspicious activity.

Historically, detecting fraud has been a reactive process for many businesses, often triggered only after a significant financial loss. Human analysts would then be brought in to sift through payment data to determine what occurred and where.

'A MASSIVE RELIEF'

Today, that process simply isn't feasible. AI-powered fraud detection is an essential part of the solution with its ability to scrutinize millions of invoices and transactions to identify anomalies and fraudulent patterns. This is particularly important with the different formats of payments, from PDFs to email invoices, which produce inconsistencies within datasets.

These AI algorithms can also continuously learn and adapt based on vast amounts of training data and historical patterns of fraudulent behavior, helping them to flag high-risk transactions and anomalies quickly and giving AP teams a chance to respond faster.

By analyzing historical transactional data, these algorithms can establish a baseline of normal behavior. Any deviation from this baseline, such as irregular vendor activities or unusual invoice patterns, can trigger alerts for further investigation.

This approach enables businesses to identify and mitigate fraudulent activities before they escalate, minimizing financial losses and reputational damage. Unlike manual review methods prone to human error and oversight, AI algorithms can scrutinize every transaction with precision and consistency.

The impact on CFOs and AP departments can be huge. Investment in AI-driven fraud prevention has helped Basware protect an estimated $1 million from every $1 billion spent, for example.

Fostering a culture of accountability and ethical conduct within the organization is equally important. By promoting transparency and emphasizing the significance of reporting suspicious activities, businesses can encourage employees to serve as guardians of financial integrity.

Training on data security and implementing effective whistleblower policies will enable personnel to stay vigilant and report potential instances of fraud without hesitation. This holistic approach, combining advanced fraud-detection systems with a culture of ethical behavior, can significantly enhance the security and stability of an organization's financial landscape.

There should always be a human touch from AP departments. But the hours and financial losses that AI can help save can be a massive relief, and more accurate.

ALL HANDS ON DECK

The scale of the issue is enough to get business leaders beyond finance involved. Basware research found that 56% are planning to send their CFOs to a fraud-prevention course this year. Education and training ensure staff is up to date on the latest trends and threats.

Some 70% are planning on ramping up their anti-fraud and financial-crime budgets. Investment is the first step, but it's crucial that the investment is spent where it can have the greatest return on investment. In this case, AI-powered fraud technologies are where businesses can typically find the best ROI.

Encouragingly, the research found that 62% of CEOs are planning to use AI to fight fraud this year, showing that many CEOs are aligned on the need for AI to root out fraudulent activity.

With a rising tide of fraud, AP teams must bolster their defenses, combining fraud-prevention training and investment, and, crucially, adopting AI-powered solutions. AI's ability to enhance detection and offer real-time monitoring and predictive analytics greatly improves efficiency and accuracy in dealing with fraud, helping to protect businesses from the next threat. DT

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