DIGITAL TRANSACTIONS®

Trends in the Electronic Exchange of Value

Billions of Tokens

Network tokens have been around for a decade, and in that time they've fundamentally changed the payments industry. Here's what's next.

Volume Twenty-two, Number Three • DigitalTransactions.net • March 2025

ALSO IN THIS ISSUE:

A New CEO at Fiserv
Managing High-Risk Merchants
Realism About Real Time
Be Smart About Surcharging

ISVs have unique challenges and opportunities.

Celero Fusion simplifies payment processing so you can focus on what you do best – building and selling exceptional software.

Learn more about our tailored solutions, quick setup, and white-glove support.

contents

MARCH 2025 • VOLUME 22, NUMBER 3

Billions of Tokens 20

In the 10 years since its debut, network tokenization has changed the payments industry, improving the security and versatility of digital payments.

THE GIMLET EYE The Genius of POS Development 2

TRENDS & TACTICS 4

Fiserv Finds a Successor As CEO Bisignano Takes His Leave
Michael Lyons is stepping in from PNC Financial as the processor reports solid results.

The Key to Real Time Growth? Full Send-And-Receive Utility
Banks are starting to understand what really energizes growth for instant transfers.

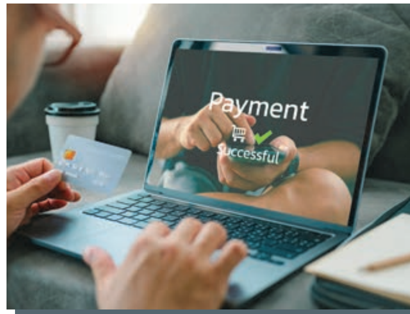
The CFPB Is Defanged—But for How Long?
President Trump fired Rohit Chopra and installed Russell Vought as temporary boss of the activist regulator.

How AI Is Getting a Foothold in Payments
A new study from Nvidia indicates the technology's progress may be swifter than many thought.

Plus, Security Notes shows how tokenization forms money's road to cyberspace, and Payments 3.0 wonders whether the states will step in with their own mini-CFPBs.

ACQUIRING 14

Managing High-Risk Merchants
It can be a delicate balancing act for acquirers, but it remains the case that the ones that perform proper due diligence can thrive.



STRATEGIES 26

How Smart Merchants Use Surcharging to Boost Profits
Merchants are fed up with the cost of credit card acceptance. Surcharging is a smart alternative—if it's done strategically.

NETWORKS 17

Why Merchants Can't Afford to Ignore Instant Payments
For card funding and other uses, real-time money movement is fast turning into a must-have.

ENDPOINT 30

Payments Markets Sort Out the Winners
Networks thrive or fail depending on how well they serve multiple constituencies.

Cover Photo: Adobe Stock AI

Digital Transactions (USPS 024-247) is published monthly by Boland Hill Media LLC, 800 Roosevelt Road, Building B, Suite 212, Glen Ellyn, IL, 60137. Periodicals Postage Paid at Glen Ellyn, IL, and at additional mailing offices. POSTMASTER: Send address changes to Digital Transactions, P.O. Box 493, Northbrook, IL 60065-3553.

the gimlet eye

THE GENIUS OF POS DEVELOPMENT

GLOBAL PAYMENTS INC. last month began showcasing a point-of-sale payment technology it called its Genius platform. The big processor said the technology is a revamp of a previous product and would roll out domestically in May as a common brand, with an international rollout late this year

That Genius brand name struck us as vaguely familiar, but we couldn't put our finger on it. So we began doing a bit of research in our own archives. That effort yielded an interesting story—and showed how short our memory is. Still, a brief history of this product might be of some interest to payments nerds.

In 2013, a company called Merchant Warehouse launched a product suite it called its Genius POS platform. A fair number of our readers may recall Merchant Warehouse and its leader, Henry Helgeson. Two years later, Merchant Warehouse rebranded itself as Cayan, a name perhaps a few more of our readers might recognize.

Well, in 2017 the big processor TSYS coveted that technology enough to lay out a cool $1.05 billion to acquire Cayan. Perhaps yet more readers will recall TSYS. The Genius platform finally arrived at Global in 2019 when that company bought TSYS.

And now the platform has attracted a "very positive" reception from clients in the early going, Cameron Bready, Global's CEO, told equity analysts during an earnings call last month. Global in September had already said it would position more than a dozen point-of-sale products and services under its Genius brand.

"We're bringing a replatformed Genius to market" for retail and restaurants, Bready said during that call, adding these services are where the company is "investing the most."

With the rollout, merchants and independent sales organizations "may not require new hardware or software" to adopt Genius, Bready added. "We didn't invent Genius de novo," he said. "It's anchored in solutions we have in the market today."

The product suite represents technology for both restaurants and general retail, altogether representing as many as 16 POS platforms, Bready estimated.

Altogether, initiatives like Genius represent an important strategy for Global, executives on the call were careful to point out. "We see value in relationships beyond core [payments] acceptance," noted Bob Cortopassi, president and chief operating officer.

It's interesting how platforms evolve and can form the foundation of payments strategies. But the history of Genius, we think, is particularly interesting. Helgeson, by the way, wound up as CEO of the processor Bluesnap.

Payments technologies don't typically follow such a circuitous path, though the best of them, of course, are likely to survive and thrive. We'll see now how the reborn Genius fares under the management of Global.

John Stewart, Editor | john@digitaltransactions.net

MARCH 2025 • VOL. 22, NO. 3

DIGITAL TRANSACTIONS
Trends in the Electronic Exchange of Value

PUBLISHER Robert A. Jenisch

EDITOR-IN-CHIEF John Stewart

SENIOR EDITOR, DIGITAL
Kevin Woodward

CORRESPONDENTS
Jim Daly, Peter Lucas

ART DIRECTOR/PRODUCTION EDITOR
Elizabeth Novak

EDITORIAL ADVISORY BOARD
Eula L. Adams
John Elliott
Alex W. "Pete" Hart
Former Chief Executive Officer, Mastercard International
William F. Keenan
President, De Novo Corp.
Dr. Gideon Samid
Chief Technology Officer, AGS Encryptions Ltd.

DIRECTOR OF ADVERTISING
Robert A. Jenisch, 630-547-2887
bob@digitaltransactions.net

ADVERTISING SALES REPRESENTATIVES
Robert Mitchell, 630-547-2887, x7
bmitchell@digitaltransactions.net
Rob Akert, 630-547-2887, x6
rakert@digitaltransactions.net

Digital Transactions, Digital Transactions News, and DigitalTransactions.net are publications of Boland Hill Media LLC, 800 Roosevelt Road, Suite B212, Glen Ellyn, IL 60137

John Stewart, Managing Director
Robert A. Jenisch, Managing Director

For advertising information, call 630-547-2887. To subscribe or give us a change of address, go to www.digitaltransactions.net and click on "Subscriber Care" or call 630-547-2887.

The views expressed in this publication are not necessarily those of the editors or of the members of the Editorial Advisory Board. The publisher makes reasonable efforts to ensure the timeliness and accuracy of its content, but is not engaged in any way in offering professional services related to financial, legal, accounting, tax, or other matters. Readers should seek professional counsel regarding such matters. All content herein is copyright © 2025 Boland Hill Media LLC. No part may be reproduced without the express written permission of the publisher. Subscription prices: $59/year for subscribers in the United States; $69/year for Canadian subscribers. All other subscribers, $119/year, payable in U.S. currency.

DATACAP SOLVES PAYMENTS PROBLEMS

Solutions for any Point of Sale, ISO/Acquirer or PayFac Regardless of Operating System, Payment Processor or Industry Vertical

PROCESSOR-AGNOSTIC

MULTI-OEM DEVICE OPTIONS

WHITE-LABEL PLATFORM

OMNICHANNEL / UNIFIED COMMERCE

REMOTE DEVICE MANAGEMENT

CONSOLIDATED REPORTING

Choose from dozens of plug & play payment devices from leading OEMs

Datacap delivers industry-standard, modular embedded payments solutions for POS providers, ISO/Acquirers and PayFacs to meet the needs of merchants in any market. With instant access to dozens of turn-key, EMV-ready devices from leading OEMs, virtually all payment processors, real-time, consolidated reporting, various platform management/merchant onboarding tools and a white-label-ready payments & gift card platform, Datacap is your go-to payments partner of choice.

Let's talk payments!

sales@dcap.com | datacapsystems.com

datacap systems, inc.

FISERV FINDS A SUCCESSOR AS CEO BISIGNANO TAKES HIS LEAVE

Fiserv Inc. late in January announced Michael P. Lyons will take over as chief executive at Fiserv Inc., replacing Frank Bisginano. Lyons, who is also taking on the office of president at the Milwaukee-based company, arrives from PNC Financial Services Group, a Fiserv client, where he was president and a key player in the bank's mergers-and-acquisitions strategy.

Bisignano in December accepted a nomination by the incoming Trump Administration to take on the role of Commissioner of the Social Security Administration. He assured equity analysts at the time that he had formed a succession plan and intended to run Fiserv at least until February. The company's announcement in January refers to Lyons as "CEO-elect," and says Bisignano is prepared to continue as CEO and chairman until June 30, though he may leave earlier if confirmed sooner by the U.S. Senate.

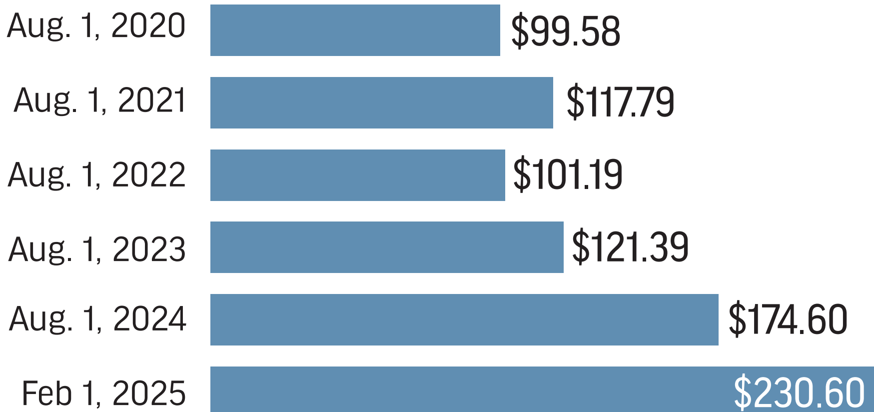
Speaking for Fiserv's board, lead independent director Doyle R. Simons in a statement called Lyons "the right choice to guide Fiserv into the next chapter of unrivaled innovation and service to financial institutions, businesses, and communities around the world and continue to drive shareholder value." Simons will become non-executive chairman of the board when Lyons assumes the office of CEO, according to Fiserv's announcement.

Observers note that Bisignano's performance at the helm of Fiserv sets a high bar for his successor. "You can't quibble with Fiserv's stock performance," says Eric Grover, principal at the consulting service Intrepid Ventures. "It's performed better than most of its peers. In his four and half years and change at the helm, it's up a whopping 110%." Bisignano took over as CEO in July 2020, a year after Fiserv's $22-billion, all-stock acquisition of First Data Corp., where Bisignano had been serving in the same role.

As president, Lyons ran all of PNC's lines of business, according to Fiserv's announcement, and also played a role in major deals such as the bank's acquisition in 2021 of BBVA USA. He also serves as chairman of Early Warning Services LLC, the owner and operator of

AN UPWARD TRAJECTORY

(Fiserv's share price since Frank Bisignano became CEO)



Source: Yahoo!Finance

A NEW DIRECT PROCESSOR

Cygma®, Electronic Payments' wholly-owned processor, is a new frontend authorization network and backend clearing platform that maximizes your revenue potential!

Same-Day Funding	Later Funding Cutoff Times	Early Residuals
Lower Rates & Interchange Optimization	Support for More Terminals, POS & Gateways	Huge Bonus Potential—Win up to $100K!

Plus, more verticals—smoke & vape, CBD, adult retail & entertainment, MOTO guns & ammo, and more!

WHY PARTNER WITH ANYONE ELSE?

Cut out the middlemen and expand with a direct processor!

RESIDUALS.COM

keith@electronicpayments.com | 631-591-7679

the Zelle peer-to-peer payments system and the Paze e-commerce payments platform. PNC is one of seven major banks that own Early Warning.

Lyons joined PNC in October of 2011 and became president in February last year, according to his LinkedIn profile. In a statement, Bisignano praised Lyons as "an exceptional leader" and as someone he is well-acquainted with as a key executive at a client institution.

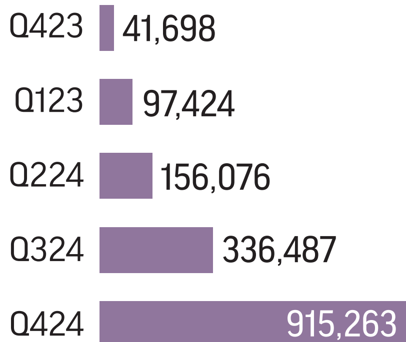
Now Lyons has big shoes to fill at Fiserv, observers note, given the company's growth since Bisignano's arrival nearly six years ago. For the 12 months ended Sept. 30, 2024, Fiserv logged $20.12 billion in revenue, up 24% from the intake in 2021. Much of this growth has been driven by acquisitions. Lyons's "paramount challenges," says Grover, will include "boosting organic growth, which has to include a broader and deeper presence overseas, and realizing synergies across Fiserv's portfolio of related processing and network businesses."

— John Stewart

THE KEY TO REAL TIME GROWTH? FULL SEND-AND-RECEIVE UTILITY

Despite many financial institutions lagging behind in adoption of full send-and-receive capabilities for real-time payments, that trend is expected to reverse itself this year, says a report from Q2 Holdings Inc., a provider of digital-banking solutions.

As more financial institutions add full send/receive capabilities for real-time money movement, they will unlock the potential latent in these payments, especially in the business-to-business space, the report says.



Just 22% of financial institutions currently offer full send-and-receive capabilities over the Real Time Payments network operated by The Clearing House Payments Co., while 4% offer full send-and-receive capabilities on the the Federal Reserve's FedNow, according to statistics from Datos Insights cited in the report.

That situation may turn around significantly in the coming year as real-time payments adoption is expected to undergo high growth after initial flat growth.

In 2025, 56% of financial institutions plan to add send-and-receive capabilities over the RTP network, and 48% of financial institutions say they plan to do likewise on the FedNow network, the report says. The Q2 report is based on data from the company's PrecisionLender's database of 2024 commercial lending, economic data from public sources, and industry research.

In addition, financial institutions plan to bulk up their send capabilities for real-time payments. "Research shows that many financial institutions have plans to offer send capabilities within the next two years," says Debbie Smart, senior product marketer for Q2, in an email message to Digital Transactions. "Datos Insights reports that 56% of financial institutions plan to add send services on RTP, and 83% on FedNow, in that timeframe. My own conversations with bankers support that likelihood."

Smart says a Q2 poll of attendees during an August 2024 webinar revealed that 44% of the 114 attendees were either already sending, or had plans to begin sending, real-time payments by the end of 2025.

"The true value of the instant-payments ecosystem for B2B payments is the ability for payment information, such as invoices, to travel with the payment on the payment rail rather than needing to be sent separately via email or postal mail," Smart says. "This is an important capability in terms of streamlining accounts receivable/

3 EASY WAYS TO MAKE MORE MONEY

Simple changes to earn a better residual with SignaPay

Let's face it, as salespeople, our goal is to sell more to make more. That's why SignaPay makes it easy to earn a better residual in 3 easy ways. Beyond that, we as your full-service ISO, we provide all the tools you need to sell your merchants a better product.

SELL PAYLO

The leading compliant Dual Pricing program not only earns you up to 3 times more in residuals, but gives your merchants the confidence and trust in a program backed by the major card brands.

GET PAID YOUR WAY

When you become a SignaPay Partner, you unlock access to build your residual payout how you want it to be. Earn more through bonuses or a higher revenue split. The choice is yours!

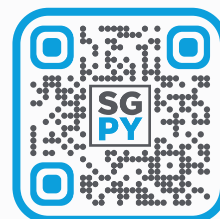
SELL MORE VERTICALS

From Online Retail, to CBD Shops and more, we accepts merchants of all kinds, big and small, old and new.

Plus many more ways to earn more...

$1,000 ACTIVATION BONUS • BUSINESS LOANS • RESIDUAL PURCHASES • MARKETING TOOLS & SUPPORT
FREE TERMINALS • 90% RESIDUAL SPLITS • ONLINE E-APP • ONE-CLICK APPROVALS • 24/7 SUPPORT

SIGNAPAY | PAYLO



Sign up today.

877-231-6609 | partners@signapay.com | signapay.com

accounts payable processes and creating efficiency for the business."

To meet B2B customers' demands for efficiency and a better payments experience, financial institutions must focus on integrated solutions and instant payment capabilities, the report concludes. "Many businesses, especially small and medium-sized businesses, have shown a propensity to move their accounts when their financial institution doesn't provide the digital tools they value," Smart says.

Further, offering only send or receive capabilities for real-time payments severely limits B2B customers from taking full advantage of real-time payments, Q2 argues. "If financial institutions only provide the ability to receive instant payments, their business customers can't fully take advantage of this crucial capability," says Smart. "It's also important for financial institutions to have capabilities on both [The RTP and FedNow] networks so their customers aren't limited to using instant payments with only the businesses on the same network."

Offering the full set of instant payments services allows financial institutions to be more competitive in the small-business market, Smart adds.

—Peter Lucas

THE CFPB IS DEFANGED—BUT FOR HOW LONG?

A subdued Consumer Financial Protection Bureau is likely to emerge in the wake of the order issued over a weekend last month to close its offices for the week and have employees work remotely during that period.

Acting CFPB director Russell Vought, director of the United States Office of Management and Budget, issued the order to CFPB employees. Vought was appointed acting director when President Trump fired former director Rohit Chopra on Feb 1.

Following that action, two senior officials at the CFPB, Assistant Director for the Office of Enforcement Eric Halperin and Assistant Director for Supervision Policy Lorelei Salas, resigned.

Now, a less active CFPB is seen as a positive for the payments industry, according to some observers. "Russell Vought's initial actions signal at a minimum that the agency will be reined in," Eric Grover, principal at Intrepid Ventures, says by email. "A CFPB that hews narrowly to enforcing existing law will be good for the payments industry. Chopra's absolutist CFPB was nakedly political and hostile to the payments and financial-services industries."

Launched in 2011, the CFPB was created in response to the financial crisis of 2008. It was meant to serve as a watchdog to prevent unfair or deceptive practices by financial institutions and provide consumers with information needed to make informed decisions about financial services, such as credit cards and mortgages.

While Vought's order raised concerns among CFPB supporters that his move is the first step toward eliminating the agency, odds of that happening are long. That order would have to come from Congress, which voted to create the agency. Nevertheless, the CFPB's director can determine what actions the agency takes. "I think it's unlikely that Congress in the near term will eliminate the CFPB," Grover says. "However, Vought and whoever Trump nominates and Congress approves as permanent director are likely to curb the CFPB."

A reined-in CFPB: Will it stay that way?

In the wake of Vought's order, the National Treasury Employees Union, which represents CFPB employees, filed a pair of lawsuits challenging it. One lawsuit requested the court block the Department of Government Efficiency from accessing employee information, the other sought to block Vought's order.

Although it is not a cabinet-level department within the United States government, DOGE was formed by President Trump to reduce federal spending, cut regulations, and modernize the government's technology. The agency is headed

by businessman Elon Musk, who is serving in the role of special government employee. Musk was not required to undergo Senate confirmation hearings to be appointed to the position.

A less active CFPB is expected to be welcomed by the financial-services industry which has been critical of the agency since its inception. "In the last four years, the CFPB has viewed itself, not Congress, as the policymaker. It's been paternalistic, political, and hostile to the industry it regulated," Grover says. "That recipe wasn't good for anybody and certainly isn't appropriate for a regulator."

—Peter Lucas

HOW AI IS GETTING A FOOTHOLD IN PAYMENTS

A new report from Nvidia Corp. sheds some light on how quickly and broadly the financial-services industry has picked up on using artificial-intelligence tools.

In its latest "State of AI in Financial Services" report, released last month, Nvidia found that 60% of more than 600 global financial-services professionals say their organizations employed generative AI or were considering it for use in the customer experience, such as for chatbots, virtual assistants, and to assist agents. That number was 25% in 2023.

Some 53% are using generative AI—which can create something new rather than solve for just a specific issue—to help with report generation and analysis and investment research, compared with 27% in 2023. And, what is especially pertinent to entities in merchant services, 32% last year either were using or were evaluating the technology for pricing, risk management, and underwriting, up from 13% in 2023.

"There's been a noticeable shift toward leveraging AI for creating competitive advantages, improving customer experiences, and enhancing employee productivity," the report says. "These areas have seen increased focus as companies strive to harness AI, not just for cost savings, but as a catalyst for transformation and growth…This suggests a strategic realignment toward revenue-generating activities and the exploration of new markets through AI."

Three findings stood out for Kevin Levitt, Nvidia's global director of finance. The first is the myth that return on investment in AI is unproven. He points to the finding that 98% of management respondents say they will increase their AI infrastructure spending in 2025, while 50% fewer companies in 2024 said they didn't have an AI budget compared to 2023.

"These firms would not be investing at the scale they are unless they were observing meaningful ROI," Levitt says. Nvidia offers a suite of AI products and services to many industries, including financial services.

Another observation is that the barrier to success with AI tools is falling faster than expected, Levitt says. "The percentage of respondents saying these are barriers fell by close to half compared to 2023," he says. The third notable result is the continued use of generative AI and how quickly its adoption continues to grow on a year-over-year basis.

Within the acquiring segment of financial services, Levitt says the use cases for AI might involve how to optimally route transactions to increase approval rates. AI could help with discerning the type of transaction and who is transacting, among other factors, and route the transaction to gain the highest approval rates, he says.

— Kevin Woodward

MONTHLY MERCHANT METRIC

Total Same Store Sales YOY Growth %

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 merchants defined as merchants with **less than $5M in annual card volume.**

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

Same Store Sales YOY Growth % - Annual volume change/growth of retained (non-attrited merchants with positive revenue and volume) accounts for given period divided by total portfolio volume from same period of the prior year.

Note: Previous metric included all active merchants, those with positive revenue, whereas the new metric shown only includes merchants with postive revenue and volume.

Period	Growth
Q4'23	0.23%
Q1'24	0.07%
Q2'24	-0.25%
Q3'24	-0.43%
Q4'24	0.60%

This report is based upon information we consider reliable, but its accuracy and completeness cannot be guaranteed. Information provided is not all inclusive. All information listed is as available. For internal use only. Reproducing or allowing reproduction or dissemination of any portion of this report externally for any purpose is strictly prohibited and may violate the intellectual property rights of The Strawhecker Group.

TOKENIZATION: MONEY'S ROAD TO CYBERSPACE

BY
GIDEON SAMID
gideon@bitmint.com

AS HUMAN CIVILIZATION migrates to cyberspace, we run into a big problem. Unlike the migration of the Israelites from Egypt to the promised land—where they took along all their belongings (however few they had)—cyberspace migration does not allow us to carry along our material assets. The gatekeepers are quite adamant about it. So what do we do?

We tokenize!

Tokenization is a means to refer to our non-digital assets with digital expression. Tokenization in full force is carried out via randomization. A pebble you hold in your hands is materially different from the next pebble, though they are generally quite similar. The difference is in minute variances in shape, little protrusions, tiny dents, and colorization.

The material world is variety rich, and, by contrast, the digital realm is variety finite. There are only 32 distinct bit strings comprising 5 bits. If more variety is needed, then more bits must be lined up. There are 33,554,432 distinct strings when 25 bits are lined up. The greater the variety, the more difficult it is to guess or say, the more difficult it is to fake and cheat. There is only one Mount Everest that is as high as the Everest, is located where the Everest is located, and has the shape of the Everest. Alas, a bit string that represents the Everest can be duplicated easily, if one can guess the bit identities.

If the identities of the bits we use to represent non-digital entities are determined by a formula, then a hacker can be smart enough to use the same formula and generate a fake identity. Our common solution for this today is to use a formula, an algorithm smarter than the hacker. It works as long as smarter hackers don't attack us. John von Neumann, the greatest mathematician of the 20th century, said: "If you use an algorithm to manufacture randomness then you understand neither algorithms nor randomness." We need to do better.

Cyberspace security is a mathematical battlefield. The best mathematician wins. We cannot defeat a single smart mathematician with a thousand not-so-smart mathematicians. This alarming risk moves us to non-algorithmic tokenization. We can do this by extracting tokenization from the very material entities not allowed in cyberspace. A new technology called "The Rock of Randomness" uses a lamp of matter carefully constructed from selected polymers infused with a variety of metal atoms, amounting to a source of randomness that is immunized against advanced mathematical insight, and that protects our tokens from an attacker smarter than we are.

Tokenization technology is advancing fast. We already use it to generate digital money with material-like identity, allowing cash-like payment from payor to payee and not going through an overriding control (whether centralized or decentralized). Cash-like payment relieves central computation load and exploits phones as computers. Tokenization 2.0 is now ready to achieve high-resolution money-flow tracking. No more need for Elon Musk to raid the bureaucracy—tokenized money cannot be camouflaged. The tokenized bitstrings are already transformed into "digital spaces," which are being shaped to become AI-ready and Internet-of-Things compliant.

The more we rely on tokenized entities, the more vulnerable we are to glitches, mistakes, electromagnetic warfare, and ill-randomized production. Recovery plans are increasingly necessary, and that is why, at BitMint, we built a cyber-chemistry recovery vault. Tokenized data are kept in a nano-chemical structure, which is immunized against cyber warfare.

Paper money abstracted metal coins. It freed the world from the limitations of the Middle Ages and ushered in the Renaissance. Tokenization is a similar step in abstraction. What a new, yet unimaginable, world awaits us! DT

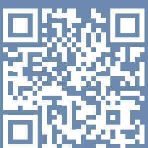
Merchant Acquiring Made Easy with Client-Centered Solutions

At **Merrick Bank**, our clients are at the center of everything we do. When you partner with us, **you'll have a team of experts** available to create a specialized program and help you along the way.

- **Top Merchant Acquirer in the U.S.**
- **25+ Years in the Industry**
- **Trusted & Reliable Partnership**

We're ready to deliver solutions designed around you!

Contact us today to set up an appointment with us at
NEAA in Atlantic City, NJ.



merrickbankacquiring.com/contact

Merrick Bank®
Merchant Acquiring

GET SET FOR THE MINI CFPBs

BY BEN JACKSON

bjackson@pa.org

WILL THE STATES step into a regulatory gap left by the new Trump administration?

In February, acting Consumer Financial Protection Bureau director Russell Vought, director of the United States Office of Management and Budget, ordered the Bureau to close for a week and two senior officials resigned. The Department of Government Efficiency has also set its sights on closing the Bureau.

Perhaps recognizing what was coming, about a week before the inauguration, the CFPB (under its previous director) encouraged states to prepare to take the lead on consumer financial protection.

On Jan. 14, the Bureau released "Strengthening State-Level Consumer Protections Promoting Consumer Protection Federalism." The report provides recommendations to states on ways to strengthen their laws and protect financial consumers.

The suggestions include:

- Banning abusive practices in state law;
- Ensuring Attorneys General have authority to investigate and make consumers whole;
- Removing requirements that plaintiffs prove individual monetary harm;
- Banning "junk fees;"
- Protecting individual data.

Some states have enacted laws and have created their own versions of the CFPB, so in many places these recommendations may already be in place. In others, new legislation and regulation may be required to accomplish these things.

Now, the problem for the payments industry is that, in a world where federal regulation cannot be used as a guidepost, compliance teams are stuck with sorting out consumer-protection laws across 50 states.

If history is any guide, these recommendations will not fall on deaf ears. The Bureau was originally designed to be immune from politics by placing its funding outside federal appropriations, giving the director a five-year term, and limiting the removal of a director to times when an administration could find cause for removal. While the Supreme Court found that its funding was Constitutional, in a separate case, it ruled that the director serves at the pleasure of the president and can be removed without cause.

Once it was clear that the first Trump administration could remove the CFPB director at will, many states moved to fill what they perceived to be a regulatory gap.

For example, in 2018, the attorney general of New Jersey announced a new head of its Division of Consumer Affairs, which, it said in a release, was built "to fill the void left by the Trump Administration's pullback of the Consumer Financial Protection Bureau (CFPB), fulfilling one of Governor Murphy's promises to create a 'state-level CFPB' in New Jersey."

Then, in 2019, the New York Department of Financial Services created the Consumer Protection and Financial Enforcement Division, which combined the state's previously separate Enforcement and Financial Frauds and Consumer Protection divisions.

Not to be outdone, in September 2020, California Governor Gavin Newsome signed a bill that created the Department of Financial Protection and Innovation. In a press release, California State Senator Bob Wieckowski said the bill filled a void left by then President Trump's "weakening the federal bureau."

This means companies need to pay more attention to what is happening in the states where they do business.

As of this writing, the CFPB remains closed, but companies should keep two things in mind. First, until they are changed, federal regulations will remain on the books, and another agency may enforce them. Second, if states launch their own efforts, companies will need to create a new compliance strategy for that reality.

Companies will also need to decide whether to roll out different products in different states, try to build products compliant in multiple states, or avoid doing business in certain states.

And providers will need to be flexible to cope with the regulatory chaos that they face in the near term. DT

PRIORITY

Unlock opportunity
with your new payments and banking partner.

Make a move to Priority to streamline your commerce network. Our personalized financial toolset gives your organization the speed, security, visibility, and control to build long-term financial success.

Connect with us at ETA Transact and NEAA

MERCHANT SERVICES

PAYABLES

BANKING & TREASURY SOLUTIONS

PRIORITY COMMERCE ENGINE

MANAGING HIGH-RISK MERCHANTS

It can be a delicate balancing act for acquirers, but it remains the case that the ones that perform proper due diligence can thrive.

BY **PETER LUCAS**

WHETHER IT IS the sale of subscription-based services, nutraceuticals, cryptocurrency, or vaping products, there is no shortage of opportunities for acquirers to service high-risk merchants.

And now one trend helping to fuel the expansion of the high-risk category is the legalization by several states of iGaming and sports betting and the sale of recreational cannabis.

Despite the expanding pool of high-risk merchants, however, many acquirers are not in a position to service these sellers, as they lack specialized risk-management and fraud-detection systems, as well as strict customer-verification processes, to properly manage them.

Servicing high-risk sellers properly starts with vetting the merchant's business to gauge the just how much risk is involved. It continues with regular audits to spot red flags that can signal excessive chargebacks or fraud, as well as signs the business is coming under financial stress.

"Whether or not an acquirer handles high-risk merchants depends on their risk appetite and risk-management capabilities, which go hand-in-hand," says David Mattei, a strategic advisor for Datos Insights. "The high-risk merchant category is a specialized market, which is why there are some acquirers that simply won't touch it."

For acquirers willing to play in the high-risk merchant space, it can be a lucrative business. High-risk merchants bear higher-than-average fees to reflect the risk the acquirer takes on. But merchants must generate sales, and will pay higher fees out of the need to offer the kind of payments options consumers expect, such as credit cards and digital wallets.

When it comes to merchant vetting, acquirers should put in the time to understand the merchant's business and the potential risks around it, payments experts say. Considerations can include such factors as vulnerability to fraud, return and refund policies that can lead to excessive chargebacks, and the financial health of the merchant and its owners.

Understanding these risks helps acquirers determine whether they can put a strategy in place to mitigate them. "Understanding what creates potential risk around a merchant account is the key to managing it at an acceptable level," says Don Apgar, director of merchant payments for Javelin Strategy & Research. "There are a lot of reputable merchants in [the high-risk] category, but if an acquirer doesn't have the resources or time to properly monitor high-risk merchants, they should stay away."

'A BETTER JOB'

Not all acquirers playing in the high-risk merchant space have the resources to scrutinize every detail of a high-risk merchant's business, but they do have options that can help them navigate these dangerous waters. One option is to partner with independent sales organizations to work closely with high-risk merchants prior to the application process. An ISO can work with a high-risk merchant to clarify its return and refund policies prior to applying for a merchant account, for example.

"One role ISOs are playing for acquirers is providing merchants guidance on ways to align their business to meet customer expectations and reduce the potential for chargebacks," Apgar says. "ISOs, independent software vendors, and agents are doing a better job of providing this type of guidance to high-risk merchants so they can accept cards, versus having acquirers write them off from the start."

With subscription services, one area acquirers should closely scrutinize is how difficult it is to cancel a subscription. "A lot of subscription-based merchants will bounce the customer around in the hope he will eventually find it so difficult to cancel, he stops trying," says Adam Ennamli, chief risk and security officer for Edmonton, Alberta, Canada-based General Bank of Canada.

Giving consumers the runaround, observers say, is also common to providers of travel insurance, which covers such unexpected events as lost or stolen luggage, emergency medical expenses, and accidental death. While such insurance policies can provide travelers peace of mind, collecting on a claim can be difficult. As a result, it's recommended that acquirers look at the number of claims filed against claims paid before signing this type of merchant, Ennamli says.

"This type of insurance was never really tested from a claims standpoint before it began to roll out, so it can be tough to get a claim paid," Ennamli adds.

THE PAYOFF FROM PAYFACS

Signing new merchants through a payment facilitator is another way acquirers can vet and monitor high-risk merchants. The benefit of working with a payfac is that it signs merchants through a master merchant account it holds with the acquirer. This makes the payfac responsible for underwriting and onboarding merchants, assessing a merchant's risk, and ensuring the merchant's compliance with legal and financial regulations.

In addition, many payfacs will provide an advisory service that can help merchants operate their business, which provides them with deeper insights into the merchant's risk level. "Payfacs can see things in a merchant's business at a level acquirers and ISOs can't," says Deana Rich, co-chief executive and co-founder of Infinicept, a Denver-based payfac. "Providing business-advisory services also helps prevent merchants from tripping over their own toes."

Insights payfacs can have into a sub-merchant's business include whether the merchant accepts orders that exceed current inventory levels, transaction velocity at certain times of the day—which can indicate a fraud attack—as well as the frequency and nature of customer complaints and the merchant's creditworthiness.

"Payfacs know the vertical markets their merchants serve so they can spot when merchant behavior or consumer behavior [on the merchant's e-commerce site] begins to slide in the wrong direction," says Rich.

Other best practices used by payfacs include tiered underwriting and risk-based monitoring to manage and mitigate associated risks, according to Jonathan D. Hancock, head of product and innovation for The ai Corp. Ltd., a provider of fraud-prevention and processing services to retail and fleet-fueling merchants.

"Payfacs' specialized expertise in specific industry verticals further strengthens their ability to manage risks," says Hancock.

MONITORING PROGRAMS

E-commerce remains a high-risk merchant segment because transactions are conducted in a card-not-present environment. When taking on e-commerce clients, acquirers should be careful to determine whether the merchant uses affiliate marketers and how thoroughly it monitors the affiliates.

Affiliate marketers promote products or services on an e-commerce merchant's behalf and are paid a commission when a consumer makes a purchase using the affiliate's unique links. An important to question get answered about merchants that use affiliate marketers is whether they have, or are willing to, shut down an affiliate that engages in such practices as click fraud or creating fake leads and sales to earn commissions.

Affiliate click fraud occurs when the affiliate artificially generates clicks on its link, typically through the use of bots. The practice is considered fraudulent. "Merchants need to understand the harm an affiliate that runs wild can do to the products they sell, the customer experience, and their business," adds Infinicept's Rich.

Merchants that create bad customer experiences attract the wrong kind of attention from the card networks. "The networks don't want merchants in their ecosystem that reflect poorly on their brand," says Javelin's Apgar. "That's why it's important for acquirers to keep the ecosystem clean."

THE PATH OF CREDIT CARD FRAUD

(U.S. reports by year)

Year	Reports
2019	277,739
2020	399,721
2021	395,391
2022	448,459
2023	425,977
2024	326,617*

*Through the first three quarters
Source: Federal Trade Commission

While acquirers are taking more steps to vet and manage high-risk merchants, the card networks are continually changing and implementing new rules to help manage merchant risk. These rules include enhanced monitoring for cryptocurrency merchants, additional due diligence for subscription/recurring-billing merchants, stricter requirements for adult content platforms, including mandatory age and content verification, and additional authentication measures for high-ticket remote transactions, according to Datos Insights.

"The card networks maintain stringent monitoring programs to track fraud ratios and identify high-risk merchants early and hold merchants and acquirers with excessive fraud and chargebacks accountable, potentially imposing fines and conducting on-site audits," Hancock says.

Other compliance standards include enhanced monitoring requirements for merchants with high refund rates, more stringent requirements around transaction descriptors to reduce customer confusion, enhanced know-your-customer and due-diligence requirements for digital-goods merchants, and compliance programs specific for buy-now-pay-later merchants.

New network rules and regulations "are continuously evaluated and released via bulletins" and require implementation by the acquirer "to maintain compliance and ensure secure high-risk merchant services," adds Hancock.

'A BALANCING ACT'

While some high-risk merchant categories can pose more risk than others, the decision on whether to sign a merchant depends on the acquirer's risk tolerance.

Research by Datos Insights found that acquiring banks are reluctant to take on high-risk merchant segments that could expose them to regulatory or reputational risk, while non-bank acquirers are willing to take on more risk because they have frameworks in place that can mitigate risk.

"Which [merchant] categories are avoided depends on the risk appetite of the acquirer," says Ron van Wezel, a strategic advisor for Datos Insights. "Acquirers should balance the additional risk of taking on a new merchant against the business benefits. Risk is a cost of doing business. However, our research found only a few organizations managed risk that way."

Building a tiered portfolio of low-, medium-, and high-risk merchants can help acquirers balance their risk. "It comes to managing chunks of risk and what portion of the acquirer's portfolio is allocated to high risk," says General Bank of Canada's Ennamli. "When the cost of monitoring a merchant exceeds profits, it's best to drop that merchant."

Lastly, acquirers should always be on the lookout for changes in management or ownership at the merchant, as that can be a catalyst for changes to the business that can open the door to increased chargebacks and fraud. For example, a change in ownership may usher in less consumer-friendly return and refund policies or lower-quality products or services.

"New ownership or management can raise red flags," Ennamli says. "Acquiring for high-risk merchants is a balancing act, and acquirers that know how to strike that balance can be extremely profitable." DT

WHY MERCHANTS CAN'T AFFORD TO IGNORE INSTANT PAYMENTS

For card funding and other uses, real-time money movement is fast turning into a must-have.

BY **CHERYL GURZ**

Cheryl Gurz is vice president, RTP Product Management, at The Clearing House Payments Co.

FOR YEARS, MERCHANTS have accepted a frustrating truth. After making a sale and accepting a card payment, they often wait days—sometimes longer—to actually receive their money as it is transferred from the card acquirer to the merchant's bank account.

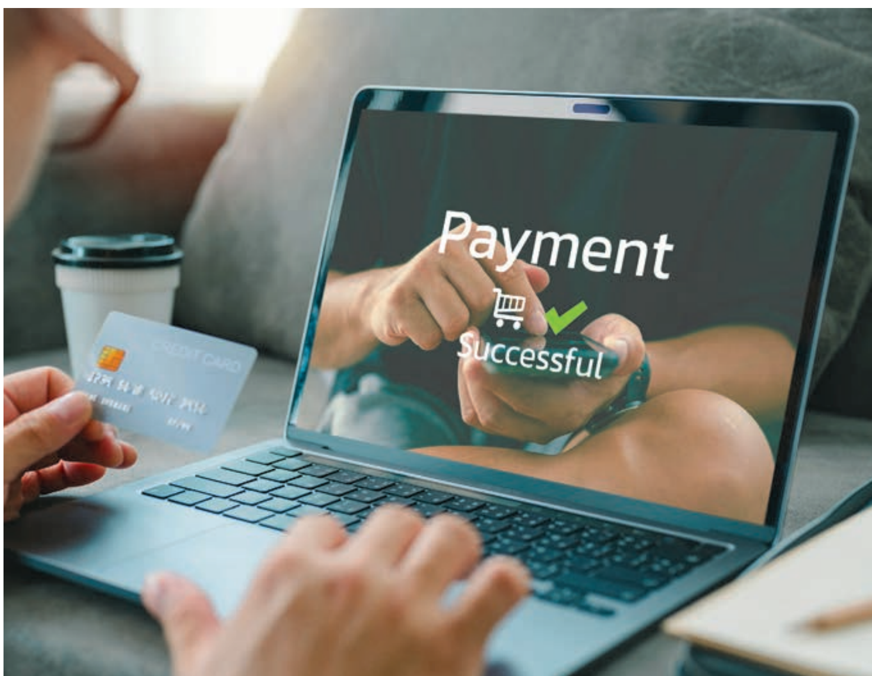
Traditional payment methods used for merchant payouts, such as the automated clearinghouse and wire transfers, come with built-in delays and uncertainty, creating cash-flow headaches and making it harder for merchants to manage their daily business operations.

But what if merchants could receive their payouts in real time? Enter instant payments.

With instant payments, a business can access its funds immediately, eliminating payout delays and gaining real-time visibility into its cash flow. Equipped with payment confirmation, enhanced-messaging capabilities, and safe and secure money movement, instant payments provide a user with a level of transparency and efficiency not offered by other payment options. Even better, a business owner doesn't need to wait for traditional banking hours or worry about processing times — instant payments move money 24/7, 365 days a year.

Merchants are taking notice. In 2024, merchant payouts accounted for 14% of instant payments on the RTP network, signaling a shift toward faster, more efficient transactions.

How exactly can merchants leverage instant payments to transform their business? Beyond its instant availability, real-time payments can help merchants improve cash-flow management, reduce costly errors, and even unlock new revenue and customer-retention opportunities.



Merchants should take notice of these important ways instant payments can bring their business a competitive advantage.

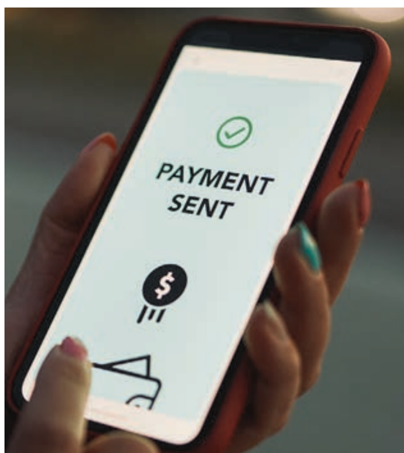
IMPROVED CASH FLOW MANAGEMENT

Without precise control and visibility over when a payment is sent and received, merchants are unable to efficiently manage their cash flows. Instant payments allow merchants to make payments and receive deposits 24/7, meaning that they can pay bills or purchase inventory outside of normal business hours.

Small and medium-sized businesses often cite having access to payment options outside of normal banking hours as a key feature they need to run their business efficiently.

Merchants can improve how they manage their working capital when they gain access to their funds immediately. For instance, imagine a customer paid a small business $10,000 via credit card through a traditional payment rail on the Saturday after Thanksgiving. The merchant may not gain access to those funds until Monday at the earliest.

However, with instant payments



through its merchant acquirer, the merchant can receive payouts immediately. It's an essential difference. The merchant now has immediate access to the capital needed to pay employees, suppliers, utilities, and other bills after normal banking hours, over the weekend, or on holidays.

Instant payments also eliminate credit holds and reduce the risk of paying late fees for various financial obligations. Alternatively, if a merchant has already fulfilled these obligations, it has the ability to fund an investment account one or two days earlier.

With greater visibility into cash flows, merchants and merchant settlement providers can make more accurate cash forecasting assessments and free up funds to maximize working capital. When merchants receive funds immediately, they have greater control, predictability, and flexibility over their cash management to better support their business needs.

FEWER ERROR-INDUCED DELAYS

Thanks to the real-time nature of instant payments, merchants no longer need to face the potential delays associated with detecting inaccuracies hours or days after a transaction has been made. Errors aren't uncommon. Some of the most frequent transaction issues include bank-account information changes and total settlement-amount discrepancies. In fact, merchants entering incorrect details is one of the top three causes of transaction errors.

However, with instant payments, merchant processors can detect and correct these issues the same day the transaction was made, ensuring a more seamless payment experience and eliminating the risk of locking up needed cash flow.

All business owners across the U.S. understand the importance of cash flow and the need for fast funding to keep their enterprises running.

Gurz

Gurz: "Long gone are the days when merchants need to wait for their money to be paid out, causing financial strain and stress."

Unfortunately, through traditional payment methods, the payout from a batch of credit card transactions can take days to be deposited into their accounts.

Business owners know this delay prevents them from investing in new areas of their business or having complete control over their cash-flow planning. By opting for instant payout services, which are available 24/7, for credit card settlement deposits, merchants know that their funds will be available when needed.

Instant payments also have the ability to provide a better overall customer experience. As consumers and small businesses increasingly expect instant access to their funds, businesses can also provide this service to customers as a more efficient way to disburse refunds and help improve the customer experience.

For merchants, new offerings and instant refunds aid in meeting customers' expectations in this modern, 24/7 economy and build better customer relationships.

IMPLEMENTING INSTANT PAYMENTS

The immediate payment confirmation, irrevocability, 24/7 availability, and messaging capabilities of instant payments provide business owners with the peace of mind that their payment was received. Instant payments have become table stakes across industries, and businesses need them to have better cash-flow predictability, eliminate back-office costs, and improve the customer experience.

Long gone are the days when merchants need to wait for their money to be paid out, causing financial strain and stress when it comes to paying bills and ordering supplies on time. By gaining access to their funds instantly, merchants can then focus on new business opportunities and better serving their customers.

Merchants can start implementing instant payments for payouts by speaking with their banks and merchant acquirers to request instant-payments capabilities and ensure their financial institution meets their organizations' overall objectives, payment strategy, and customer needs.

Digital Transactions News

We deliver the **payments industry news** to your email inbox daily!

- We have been delivering the payments industry news to your email inbox every day for 20 years
- Digital Transactions News is packed with news andinformation from the 164.3 billion transactions industry
- Two original stories every issue
- Trending stories, so you know what the industry is reading
- Links to Digital Transactions monthly magazine
- Calendar of events
- Plus "In other News" The most complete listing of announcements from the payment community

Subscribe today at **bolandhill.omeda.com/dtr/**

Billions of Tokens

In the 10 years since its debut, network tokenization has changed the payments industry, improving the security and versatility of digital payments.

BY KEVIN WOODWARD

Apple Pay, the mobile payment service from Apple Inc. that debuted in 2014, could have been a no-go if not for the development of network tokenization.

The mobile phone-based payment service needed a way to secure sensitive payment card data that would work with any U.S. card issuer. The solution was network tokenization. Publicly, work began on a standard in 2013 and the technology was ready for the October 2014 launch of Apple Pay on iPhones.

Today, network tokens extend well beyond the iPhone user base, threading their way into e-commerce transactions and card-present transactions in some use cases. Thanks to the rapid adoption of mobile payments, especially during the Covid-19 pandemic, network tokenization came into its own.

It took six years—from the 2014 launch to 2020—for Visa Inc.'s token volume to reach 1 billion, but just four years later to get to 10 billion. As of February, that figure is 12.6 billion, going up 40% year-over-year, Visa says. Mastercard Inc., too, has seen token use blossom. It took three years to reach 1 billion tokens following Mastercard's 2014 launch of the technology, and now the card network processes 1 billion a week.

'AN AGNOSTIC APPROACH'

Network tokenization is a distinct form, separate from the tokens that acquirers and other providers have long provided to help with compliance with PCI Security Standards Council requirements. It developed as a way to mitigate the risks of providing sensitive card details by "providing additional controls that limit the risk typically associated with compromised, authorized, or fraudulent use of [primary account numbers] both in-store and online," says EMVCo, the standards body overseeing this and other payment standards.

Network tokenization not only has enabled mobile wallets like Apple Pay and Google Pay to thrive, it has also made it easier for consumers and merchant to manage subscription payments and card-on-file payments. In e-commerce, tokens better secure transactions and help reduce the risk for merchants while boosting their conversion rates.

"The real benefit of network tokenization is we are able to provide an agnostic approach," says Jennifer Marriner, Mastercard's executive vice president of global acceptance solutions, and make tokens available in any device, any platform, and any browser. It's a tool that is accessible to all, and for consumers it helps ensure they have the same transaction experience in whatever way they make that transaction, Marriner says.

Given network tokenization's development by three card networks—American Express Co. joined Mastercard and Visa in the task—the decision to stick with a 16-digit format for tokens was an easy one. Discover also provides network tokens for its cards.

"It has the same format as the 16-digit account number," says Mark Nelsen, Visa global head of consumer products. That makes it easy for wallet providers to load a consumer's payment credentials as if the token was like any other 16-digit account number, he says. Today, more than 40% of all Visa transactions are tokenized.

While tokenization had been a known entity, Apple's request for something that could mask payment card data spurred development of network tokenization. Apple came to the card brands to say it wanted to use the iPhone for mobile payments but did not want to store 16-digit account numbers in it, Nelsen says.

A VAST ECOSYSTEM

Network tokenization is quick. Once the consumer enters the card number at a merchant's site or app, it is replaced with a token that is then sent through to the acquirer and then on to the card network, which forwards it to the issuer for an authorization decision. Mere moments pass.

Network tokens can be tied to a specific transaction, created as a one-time stand-in for the actual card number and related data. If a merchant experiences a data breach, consumers will not have much to worry about because the tokens typically could not be reused, since they are associated with, say, an online transaction made at 4:37 p.m. Jan. 2, 2024, using retailer XYZ's mobile app.

A criminal trying to use that token 11 months later would be thwarted and find it unusable. Each token is unique in all aspects. Because these tokens are at the network level, card information can easily be updated.

Tokenization has three main components, says Michelle Kosir, head of product marketing at NMI, a Schaumburg, Ill.-based payments and gateway provider. There's the tokenization engine, which is responsible for generating unique tokens and managing their lifecycle and ensuring they remain closely integrated with payment-processing services.

The token vault is the highly secure database that maintains the mapping between tokens and their corresponding original card data, "safeguarding this information against unauthorized access," Kosir says.

The third component is the payment-ecosystem integration. This ability "allows the use of tokens across different payment environments, ensuring secure and smooth processing while preserving data integrity throughout the transaction journey," she says.

The tokenization ecosystem is vast. It includes merchants, payment networks, token service providers, digital wallet providers, financial institutions that issue credit and debit cards, and issuer processors like Fiserv Inc., says Patrick Davie, Fiserv head of card services.

"Merchants and digital-wallet providers like Apple, Samsung, and Google interface with the token-service providers to provision unique tokens for the credit, debit, or private-label cards issued by the financial institution," Davie says. "The token is stored either at the merchant or in the digital wallet, and when the cardholder presents their digital wallet for payment or elects to store their card on file at a merchant it is actually using the specific provisioned token for payment instead of the real card number."

"The payment network acquires the transaction and interfaces with the [token service provider], who swaps out the token received from the merchant to the real card number to the issuer processor for authorization," Davie continues. "The issuer processor replies with an approval or denial back to the payment network, who interfaces with the TSP to swap the real card number back to the token prior to replying to the merchant."

With this as the foundation, network tokenization use is still growing. Mastercard has set a goal of tokenizing all its card numbers for online transactions globally by 2030, a move that could make obsolete the need for physical card numbers, passwords, and one-time codes for online purchases. Visa is similarly invested in the benefits of network tokenization, but has not issued a similar goal date.

Marriner: The next step in tokens will be identity.

PERSONALIZED COMMERCE

For all the things it can do, network tokenization cannot solve all the fraud problems in payments.

"Tokenization is not going to prevent some of the social-engineering type of fraudsters," Marriner says. "There are still phishing attacks." Phishing emails attempt to dupe recipients into clicking what appears to be a legitimate link to trick them into divulging information. "It can't help directly with that," she says. But fraudsters target the weakest link, and tokenization does a lot to boost digital-payment security.

"Tokenization is great for securing stored card data, but it's not a catch-all solution for fraud prevention," Kosir says. "This payment technology primarily addresses the security of stored card data, but is limited in protecting against methods like phishing attacks or account takeovers, which typically occur when credentials are stolen during the initial data-entry phase. Additionally, while tokenization safeguards data through anonymization, it does not authenticate the cardholder's identity."

NMI added support for network tokenization earlier this year with the aim of reducing operational costs by lowering interchange fees, increasing acceptance rates, and minimizing chargebacks, Kosir says.

Tokenization could be especially helpful as criminals adopt artificial-intelligence capabilities to make their attacks harder to identity or to counter.

"With hackers utilizing new technologies like AI to try to access data, companies need to operate on the mindset that it's not if they'll suffer a breach, it's when," says Brent Johnson, chief information security officer at Bluefin Payment Systems LLC, an Atlanta-based payments and security technology provider.

"If hackers compromise a system and the data is tokenized, all they will be able to see is the randomly generated token, which is useless to them," he continues. "This is all the more important today as organizations are looking to store more customer data, like [personally identifiable information], to create more personalized commerce experiences."

IDENTITY IS NEXT

Network tokenization hasn't necessarily steered fraudsters to other payment channels, says Maanas Godugunur, senior director of fraud and identity at LexisNexis Risk Solutions, an Atlanta-based risk management provider,

TRANSACT®
POWERED BY ETA
APRIL 2-4 • 2025 • LAS VEGAS

BUSINESS PAYS OFF HERE.

THREE DAYS.
COUNTLESS OPPORTUNITIES.
INFINITE ROI.

TRANSACT is more than an industry event — it's the heart of payments that brings together 3,000 decision-makers under one electrifying roof in Las Vegas.

We're talking C-suite fintech leaders, payment processing pioneers, ISO visionaries and more, all ready to do business. In between handshakes and contract signatures, you'll explore the next big ideas with trailblazing speakers and solutions on the vibrant show floor.

Every hour brings a new opportunity, whether you're closing deals, discovering tomorrow's tech or building lasting relationships. Your most profitable year yet starts at TRANSACT.

REGISTER NOW
TRANSACTshow.com

because criminals always move to where customers go. "As the adoption of digital wallets and tokenization grows, fraudsters identify and exploit vulnerabilities," Godugunur says.

In the years to come, network tokenization likely will extend beyond protecting necessary payment data and could include other data, like the personally identifiable information Johnson mentions.

"Payment security will always be a key use case of tokenization, but the use of tokenization is evolving to help businesses create a more connected, personalized omnichannel customer experience for consumers, made possible through the increased amount of tokenized customer data businesses are storing," Bluefin's Johnson says.

Visa's Nelsen also sees more utility as tokenization evolves. "The way we see it is historically the payment token was given to merchants and has just been used for payments," he says, but it could be used to add personalization preferences for consumers. "You could share personal preferences, and we can put that into the token itself," he says. For example, a token could hold an individual's preference for hotel chains when used at an online travel site or a list of hotels like ones the individual has previously booked.

At Mastercard, Marriner says the next step in tokens will be identity. Tokens could be used for consent and data and asset management, she says.

A WIDENING HORIZON

Kosir says tokenization will become more integrated into the broader payments ecosystem. "We see it playing a bigger role in omnichannel commerce, subscription billing for software providers, and digital-wallet solutions," she says. "As this technology evolves beyond conventional credit-card usage to encompass areas such as bank transfers, loyalty programs, and even blockchain applications, tokenization's role in bolstering transaction security and

Nelsen: "You could share personal preferences, and we can put that into the token itself."

Kosir: Tokenization is "limited in protecting against methods like phishing attacks or account takeovers."

offering flexible payment solutions will only intensify."

Other potential uses include Web-push provisioning, which allows cardholders to provision tokens directly from Web interfaces without app downloads, says Lisa Hrabosky, vice president of bank and network partnerships at Marqeta Inc., an issuing platform.

And there are yet other use cases, such as in-store and with alternative payments methods, like QR codes. There's an opportunity to integrate tokens with emerging payment models that could involve subscription services, wearables, and Internet of Things payments, along with improving interoperability across platforms and devices.

And at Milwaukee-based Fiserv, Davie says time will help expand the possibilities. "As payments continue to evolve, the use of tokenization will likely increase as well. It's hard to ignore the importance of tokenization of sensitive card data," Davie says.

"With time, the use of digital wallets, mobile payments, virtual or digital cards will increase, and so will the need for tokenization," he continues. "Also, combining tokenization with existing fraud-prevention tools using AI or machine learning will benefit merchants and issuers by helping minimize fraud and further strengthen the overall tokenization model."

The utility of tokenization will help increase use of the technology even in areas outside of payments, such as health care.

"In addition to collecting more [personally identifiable information], the rise of telehealth and other online medical services has led companies to collect and store more protected health information (PHI) within their systems as well," says Johnson. "Given the sensitivity of PII and PHI, it's critical that this data is tokenized so it is not accessible to hackers in the event of a breach."

"Overall," Johnson adds, "using tokenized data to enhance the customer experience to meet customers' unique needs is the next evolution of how companies will use tokenization." DT

LEARN MORE

Unlock Your Potential with MRC Education!

Enhance your skills in payments and fraud prevention with our eLearning courses.

Explore the MRC Education catalog today! MRC Members enjoy **50% off** and access to **complimentary Essentials Courses.**

merchantriskcouncil.org

HOW SMART MERCHANTS USE SURCHARGING TO BOOST PROFITS

Merchants are fed up with the cost of credit card acceptance. Surcharging is a smart alternative—if it's done strategically.

BY **CLIFF GRAY**

Cliff Gray is principal at Gray Consulting.

IN TODAY'S BUSINESS environment, merchants face increasing operational costs, fluctuating market conditions, and evolving consumer behaviors. As credit card usage continues to grow, so do the associated processing fees, which can significantly cut into profit margins.

While my article last month in *Digital Transactions*, "How to Surcharge Like a Pro," explored how to implement surcharging within regulations, this article focuses on why surcharging is not just a cost-recovery tool. Indeed, it's a strategic advantage for merchants looking to maintain profitability, transparency, and competitiveness.

PROTECTING PROFIT MARGINS

For many merchants, payment acceptance is already one of their largest operational costs. It keeps climbing, squeezing margins even further. Worse, the built-in obfuscation of interchange pricing makes it nearly impossible to track the actual cost. Three months of identical sales can produce three different fee summaries.

How is a merchant supposed to cut costs when the target keeps moving?

Surcharging offers a viable solution. It allows merchants to shift the cost of credit card transactions back to the consumer, preserving margins without increasing base prices across all customers. And it does this while making merchants' cost of acceptance far more predictable.

If you're seeking validation of the flat-pricing model, look no farther than Stripe or Square. Both of these companies built their strategies on a simple premise—make the ongoing cost predictable, and you win the sale. Never mind that a transaction fee of 2.9% plus 30 cents isn't exactly a bargain.

When merchants counter the rising cost of acceptance by raising their prices, they risk pricing themselves out of the market. But that's not inevitable. Merchants that astutely implement surcharging can maintain financial stability while continuing to offer competitive pricing.

Smart surcharging is all about clarity, confidence, and consumer choice. A common misconception about surcharging is that it negatively impacts the customer experience. However, when it's conveyed effectively, surcharging can enhance price transparency.

Rather than embedding processing fees into overall pricing—where customers may not realize they are indirectly paying higher costs—surcharging clearly itemizes credit card fees at the point of sale. This allows customers to make informed choices about their preferred payment methods.

By distinguishing between credit card payments and alternative options, such as debit cards, automated clearing house, account-to-account transfers, or cash, businesses provide customers with flexibility while also demonstrating the real cost of card acceptance. Many consumers appreciate this transparency, particularly in high-ticket transactions where processing fees can be substantial.

LOWER-COST PAYMENT METHODS

For merchants, the goal is not necessarily to penalize credit card users, but to create a payment ecosystem that balances cost efficiency and customer convenience.

When a surcharge is applied, customers are more likely to consider alternative payment methods that do not carry the additional fee. This is particularly relevant in sectors such as health care, home services, and business-to-business transactions, where the ticket size is higher and the difference in fees can be significant.

Many businesses that implement surcharging see an increase in ACH

Co-Branded E-Mail Marketing

Here's how it works

You select the part of *Digital Transactions*' subscribers you want to reach, sorted how you need it, by function, location, or title. Just ISOs? No problem. Just executives on the East Coast? No sweat. Just CEOs? No worries. Or choose our entire circulation base. It's up to you! You give us your HTML creative. We create both a text version and a Web version of the e-mail deployment. After the deployment, we track deliveries, opens and clicks, and give you all the stats.

Get the Results You Need

It's really that easy!

To get started, contact Bob Jenisch today.
877-658-0418 | bob@digitaltransactions.com

payments or debit card usage, both of which have lower processing costs. This shift not only reduces overall fees but also diversifies the payment mix, making the business less reliant on costly credit card transactions.

Not only that, but for merchants offering recurring services such as subscriptions or financing plans, encouraging lower-cost methods can lead to more predictable cash flow and reduced processing expenses over time.

MAINTAINING COMPETITIVE PRICING

In highly competitive markets, pricing is often a key differentiator. Without surcharging, merchants are left with two primary options when dealing with rising processing costs: either absorb the fees, which erodes profit margins, or increase prices for all customers, which can reduce competitiveness.

Surcharging allows businesses to maintain their advertised pricing while only passing fees to those who choose to pay with credit cards. This approach ensures that customers who pay with lower-cost methods are not subsidizing the expenses of those who use credit cards. It also saves merchants from having to raise prices across the board, a move that could make them less attractive compared to competitors.

For example, a business that sells high-end electronics or services that cater to both cash-paying and credit card-paying customers can implement a surcharge to recoup processing fees without altering its base pricing strategy.

This ensures that customers who prefer to use credit cards for rewards or financing benefits do so at their own expense rather than at the business's cost.

CAPITALIZING ON CREDIT TRENDS

Credit card usage continues to rise as consumers take advantage of rewards programs, installment plans, and cashback incentives. While these features benefit consumers, they come at a cost to merchants who must cover the interchange fees.

But there's an alternative. Rather than viewing credit card acceptance as an unavoidable expense, merchants that surcharge strategically can turn it into an opportunity.

By incorporating surcharging into their pricing model, businesses can continue accepting credit cards without sacrificing profitability. This approach is especially effective in industries such as travel, luxury goods, and online services, where customers expect credit card options and are often less price-sensitive.

In these cases, surcharging allows merchants to maintain revenue while catering to a credit-reliant customer base.

CONCLUSION

Surcharging is more than just a method for offsetting processing fees. It is a strategic tool that helps businesses protect their margins, improve pricing transparency, encourage cost-effective payment methods, and remain competitive in price-sensitive markets.

As consumer behavior continues to evolve and credit card usage remains prevalent, merchants that leverage surcharging effectively will be well-positioned to maintain profitability without resorting to broad price increases.

As with any pricing strategy, proper execution and compliance with regulatory guidelines are essential. But for many merchants, the benefits of surcharging far outweigh the risks. When done right, surcharging is not just about covering costs. It's about making smarter financial decisions that sustain long-term success. DT

Gray

Gray: "For many merchants, the benefits of surcharging far outweigh the risks."

Seamless, Secure, and Reliable

PAYMENTS FOR RESTAURANTS

DynaFlex II Go is ready for
- Pay-at-the-Table
- Line Busting
- Curbside Pickup
- Delivery

Built into full enclosure partner solutions for
- Unattended
- Countertop
- Rugged Mobile

Simplified integration with
APIs, SDKs, and Magensa Cloud Services

More versatility & flexibility
DynaFlex II Go is part of the Dyna Device family - shared EMV Common Kernel

Accepting
Apple Pay® and Google Pay™
EMV Contactless
EMV Contact Chip
Magstripe
Tokens
QR Codes
Apple VAS
Google SmartTap

Learn More About
MagTek's
DynaFlex II Go

DynaFlex II Go

MAGTEK®
SECURITY FROM THE INSIDE

562-546-6400

sales@magtek.com

www.magtek.com

Governments need not apply.

endpoint

PAYMENTS MARKETS SORT OUT THE WINNERS

Networks thrive or fail depending on how well they serve multiple constituencies.

BY **ERIC GROVER**

Eric Grover is principal at Intrepid Ventures

AN EVOLVING PATCHWORK of more than 1,000 payment networks serves consumers, businesses, banks, and the economy. People take the reliability, convenience, security, and continued improvement of these systems for granted.

Unless existing systems aren't adequately serving consumers, businesses, and/or banks, they're difficult to displace. Once payment systems reach network critical mass, they're durable.

Still, new payment systems continually challenge established players, forcing them to up their game. That's good for the industry. Challengers join the ranks of established payment systems or even displace them.

Challengers compete by being more convenient, faster, offering better economics to users by being cheaper or by offering richer benefits, being more secure, leveraging powerful existing platforms and distribution, or enjoying political and regulatory favor.

Nevertheless, notwithstanding proposed superior features, most challengers fail to reach critical mass. Whatever's better isn't better enough.

Launched with fanfare in 2000 as a giant-slayer, Debitman tried to best American Express, Discover, Mastercard, and Visa by being cheaper for merchants and offering merchant issuance. The model failed. Revolution Money, too, tried to take on established networks by being less expensive and more secure. It didn't pan out.

Even challengers backed by firms with enormous reach and resources often fail. Supported by 75 of America's largest retailers, MCX's CurrentC garnered headlines. After disappointing trials, it shut down in 2016.

Following unsuccessful pilots, mobile-network titans AT&T, T-Mobile, and Verizon shuttered Softcard in 2015. Canadian mobile network operator's payment system, Suretap, was discontinued, also in 2016, due to low adoption and competition from other mobile-payment solutions.

Launched in 2011, French MNO Buyster never caught on. UK MNOs shut down their payments joint venture, Weve, in 2015 for lack of adoption. In 2003, MNOs Vodafone, Orange, Telefónica, and Deutsche Telekom's T-Mobile, with First Data, attempted to build a payment network called Simpay. It never found a path to commercial relevance.

Conceived by Natwest in 1990, distributed stored-value payment system Mondex was acquired by Mastercard in 1996, giving it, in theory, global distribution. However, as existing systems worked well and were habit, and as positive authorizations became the norm, Mondex didn't solve a burning problem. It finally died in 2008.

BEYOND THE BIG PROCESSORS: WHAT ISOS REALLY NEED TO THRIVE

Being an ISO is a balancing act. Between closing deals, staying on top of evolving payment technology, and ensuring merchants get the support they need, there's hardly time to deal with the inefficiencies of a slow-moving processor. Yet, too often, ISOs find themselves working with providers who offer plenty on paper but fail to deliver when it matters most.

The two questions every ISO should ask are simple: 1. Does your processor genuinely invest in your success? And 2. Does it treat your merchants with the same level of care and responsiveness that you would?

For many, the answer is a frustrating "no." We've seen it time and again—big processors prioritize volume over relationships, leaving ISOs to deal with unreliable merchant support, sluggish approvals, delayed equipment deployments, limited training, and little to no sales assistance. When your processor doesn't have your back, it's nearly impossible to focus on what truly matters: growing your business.

At SignaPay, we're changing that. We've built an ISO program designed around one goal—helping ISOs win.

FASTER SUPPORT, MORE DEALS

Time is money, and every delay in support or equipment deployment means a lost opportunity. That's why we prioritize speed and efficiency in everything we do. At SignaPay, 95% of orders ship the same day, meaning your merchants get up and running fast. When support is needed, ISOs aren't stuck on hold—our average wait time is just 65 seconds. And when merchants have an issue, we resolve it quickly, with most customer inquiries handled in under seven minutes.

Beyond fast service, we make approvals easy. With access to multiple sponsor banks, even high-risk accounts—like CBD businesses—can be placed smoothly. ISOs should never have to fight to get an account approved or worry about losing merchants due to unnecessary red tape.

TOOLS TO BUILD AND SCALE YOUR BUSINESS

Growth isn't just about signing new merchants—it's about having the right tools and resources to scale effectively. That's why SignaPay goes beyond processing to provide ISOs with technology education, hands-on sales support, and marketing tools designed to generate leads and convert prospects. Our new training platform, EmpowerU, is built to give sales agents the knowledge and confidence they need to succeed in the field.

For ISOs looking to take their business to the next level, we offer more than just advice. Strong business plans deserve financial backing, and we're here to provide funding for ISOs ready to expand. Whether it's technology investment, training, or working capital, we ensure our partners have the resources they need to grow.

A BIG YEAR AHEAD

As we look ahead to 2025, our focus remains on making life easier for ISOs. Faster application approvals, a brand-new in-house omni-channel gateway, and a free CRM to help manage deals and onboard merchants are just a few of the advancements we're rolling out. And with the expansion of PayLo—our true dual pricing solution—to Clover products, ISOs will have even more options to offer their merchants.

Big processors might have name recognition, but they don't offer the hands-on support, innovation, and real business investment that ISOs need to thrive. That's why SignaPay does things differently. We're not just another payment processor—we're your partner in growth.

We're dedicated to helping ISO/Agent Partners sell top-tier products and services. For merchants, we provide tailored solutions for all business needs. Empowering Others Through Payments means we tailor payment solutions for your business success, letting you focus on growth.

Advocates contend central bank digital currencies will improve payment efficiency and financial inclusion, and are critical for the national welfare. Thus far, however, they've had little impact. Initial CBDCs failed.

In 1993, the Bank of Finland launched a smart-card-anchored retail CBDC called Avant. By 1995, 500,000 Avant cards had been issued by a subsidiary of the central bank. It competed with physical cash and debit cards. The plug was pulled in 2006.

In 2014, Ecuador passed legislation authorizing the central bank to issue a retail CBDC. The dinero electrónico was a dollar CBDC distributed by the state MNO. A lack of trust in the central bank and its flawed distribution model sank the dinero electrónico in 2018.

Evangelists now argue cryptocurrencies will disrupt reigning payment systems. However, cryptocurrencies backed by electronic bits and algorithms have yet to find mainstream licit payments use cases and a path to network critical mass. More than half of the more than 24,000 cryptocurrencies launched have failed, costing speculators dearly.

Dollar-backed stablecoins may be the most interesting challenger payment systems. Supply has surged since 2021. Dollar stablecoins could be compelling for consumers and businesses in countries with debased and untrustworthy national currencies, and for cross-border payments.

Before they reach network critical mass, individual payment networks are fragile. The entire payment system, however, is rarely fragile. Competitive payment-system markets self-correct as resources are continually reallocated from inferior to stronger networks.

Failures are the market policing itself. Flagging payment networks may be acquired or shut down. Diners Club and the UK debit network Switch were acquired by Discover and Mastercard, respectively.

The Dutch PIN, Irish Laser, and Finnish Pankkikortti debit schemes were shuttered. They offered nothing global networks Mastercard and Visa didn't. EBay's own payments joint venture with Wells Fargo, Billpoint, was displaced by PayPal, which users found more compelling.

Policymakers worry about failures and system resiliency. Jostling between challenger and incumbent payment networks is healthy for the system, if not for weaker and complacent networks.

In "Antifragile: Things That Gain From Disorder," philosopher and risk manager Nassim Nicolas Taleb contended some systems are "antifragile," becoming stronger and more resilient when stressed. Our muscles and immune systems are examples. Competitive payment-network markets to a large degree are antifragile. When stressed, they improve.

Few, if any, private-sector payment systems are too big to fail. While it's hard to imagine America's largest retail payment system going belly-up, if Visa actually ceased operating, a host of competitors would be champing at the bit to scoop up its credit, debit, and credit-push payments.

Payment-system crises in the modern era have been caused when governments enjoyed monopolies on the currency—and abused them. Argentina, Venezuela and Zimbabwe are grim and vivid examples.

The Zimbabwean dollar experienced the 21st century's first hyperinflation. In November 2008, the inflation rate yoy peaked at 89.7 sextillion percent. The economy collapsed. Argentina's peso has suffered multiple severe debasements. In March 2024, it's annual inflation rate hit 289%. Economist Steve Hanke estimates Venezuela's hyperinflation crested at 165,400% in February 2019.

What maximizes value is competition between payment systems, innovation from incumbents and a stream of challengers, and the market purging weaker players and rewarding stronger ones. DT

ADVERTISER INDEX

Digital Transactions Pages 19, 27
630-547-2887 www.digitaltransactions.net

Celero Inside Front Cover
844-423-5376 www.celerocommerce.com

Datacap Page 3
215-997-8989 www.datacapsystems.com

Electronic Payments Page 5
631-591-7679 www.RESIDUALS.com

MagTek Back Cover
562-546-6400 www.magtek.com

Maverick Inside Back Cover
800-464-9777 www.maverickpayments.com

Merchant Risk Council Page 25
www.merchantriskcouncil.org

Merrick Bank Page 11
562-546-6400 www.merrickbank.com

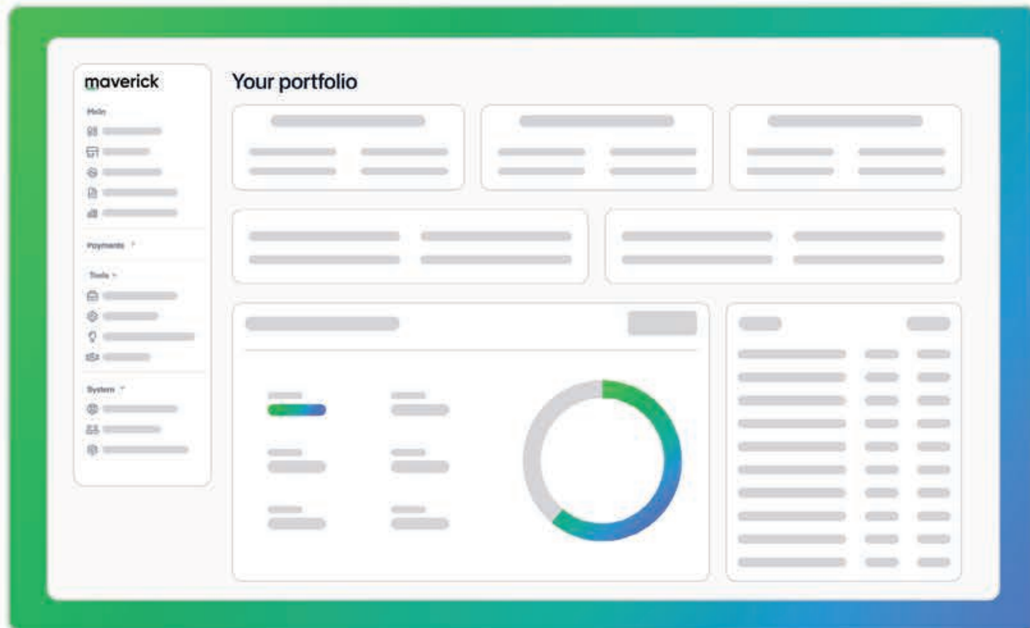
NEAA Page 29
www.northeastacquirers.com

Priority Tech Holdings Page 13
401-921-6111 www.prioritycommerce.com

SignaPay Pages 7, 31
877-231-6609 www.signapay.com

Transact 25 ETA Page 23
www.transactshow.com

Maximize your profitability with a one-stop payment platform.



Privately owned for over 20 years, Maverick takes a nimble, hands-on approach to drive scalable growth for our ISO and ISV partners. Our white label tech stack, complete with a partner and merchant-facing dashboard, makes monetizing payments under your brand effortless. With your back office operations fully managed by our in-house experts, we empower you to go to market quickly without risks or distractions.

- ✓ Proprietary gateway and ACH
- ✓ Full white labeling and custom pricing
- ✓ Niche merchant vertical acceptance
- ✓ Built-in fraud and chargeback tools
- ✓ Residual management and unlimited sub users
- ✓ Digital onboarding and in-house support
- ✓ Enable ISVs to manage their UI with APIs
- ✓ Lucrative rev sharing and bonus programs

Ready to grow? Let's talk!

800.464.9777 | maverickpayments.com

Seamless, Secure, and Reliable

PAYMENTS FOR RESTAURANTS

DynaFlex II Go is ready for

- Pay-at-the-Table
- Line Busting
- Curbside Pickup
- Delivery

Built into full enclosure partner solutions for

- Unattended
- Countertop
- Rugged Mobile

Simplified integration with
APIs, SDKs, and Magensa Cloud Services

More versatility & flexibility
DynaFlex II Go is part of the Dyna Device family - shared EMV Common Kernel

Accepting
Apple Pay® and Google Pay™
EMV Contactless
EMV Contact Chip
Magstripe
Tokens
QR Codes
Apple VAS
Google SmartTap

Learn More About
MagTek's
DynaFlex II Go

DynaFlex II Go

MAGTEK®
SECURITY FROM THE INSIDE

562-546-6400

sales@magtek.com

www.magtek.com