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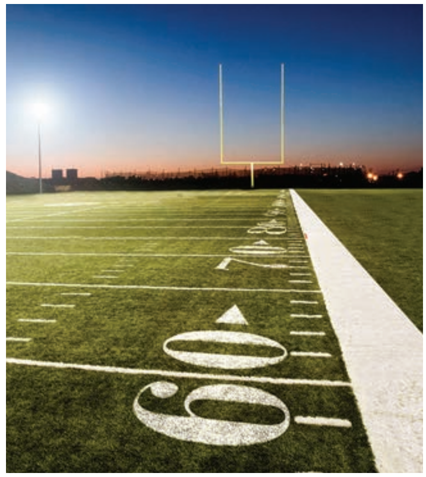
Grasping for profits and battling customer attrition, ISOs have reached a critical juncture. How much can funding offers help?



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Editor's Letter

ED MCKINLEY
Editor

(Almost) Everything Turns Gray

IDEAS THAT SEEM BLACK AND WHITE AT FIRST GLANCE USUALLY turn gray upon closer examination. What am I talking about? I'm looking back on the introduction of Apple Pay.

Initial reaction to Apple Inc.'s Near Field Communication-based mobile wallet seemed overwhelming. Forever after, we could view the world as B.A.P. (Before Apple Pay) and A.A.P. (After Apple Pay).

A month or so later, Apple Pay still seemed really important but not all-powerful. (Black and white were turning gray.)

And here's an example of why. At first, everybody insisted Apple Pay had single-handedly rescued Near Field Communication, or NFC, from irrelevancy.

But it wasn't long before some of the same lucid commentators were blasting Apple Pay for damaging NFC.

The experts changed their position because merchants had begun choosing sides. Some retailers wanted to accept Apple Pay, and others wanted to boycott it in favor of using the CurrentC wallet under development by the Merchant Customer Exchange, or MCX.

After all, some of those same retailers had banded together to form the MCX and thus had a stake in its success. Proponents wanted the public to accept CurrentC and thus help MCX'ers reduce their transaction fees.

Then the MCX backlash against Apple Pay produced its own backlash. Apple fans felt insulted at the very thought of a merchant rejecting an iPhone payment.

And while merchants and Apple aficionados were trading backlashes, another phenomenon was transpiring.

The heated reception that Apple Pay had touched off throughout the payments industry began to cool.

For me, the cooling process brought to mind another instance of black and white turning gray.

Some readers may recall the lyrics from a song called "Just One of Those Things." The tune's often associated with Frank Sinatra.

As it turns out, a line or two of the song's lyrics might have provided us with some guidance when Apple Pay came out.

Here they are: "We´d have been aware that our love affair was too hot not to cool down."

Yes, that's true, and it's really just another way of saying that nearly everything that's black and white soon seem gray. **ISO**

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Perspectives FROM OUR ADVISORY BOARD

What event or trend that emerged in 2014 will have the most influence on the American acquiring industry?

Don Singer
EZCheck

An established trend that is rapidly accelerating is the evolution of non-traditional payment methods and ways to deliver them.

This is easy to see recently with the release of Apple Pay. But it gets much more complicated and interesting beyond that.

To get started, consider the following: Square, PayPal, Google Checkout (now defunct), and Bill Me Later (now PayPal Credit). Then add into the mix any mobile pay system or device.

To keep going along the line of complexity, throw a column into the mix representing single-use cards and prepaid cards.

And while those combinations can be disrupting to traditional electronic payment methods, it doesn't stop there!

To really make it confusing, don't forget to add in all forms and versions of Bitcoin. While admittedly full of problems, it hasn't gone away and doesn't appear likely to anytime soon.

Xavier Ayala
oneSOURCE Business Advisors

This year, fraud and data breaches put the payments industry and retailers on notice, impacting tens-of-millions of consumers.

High-profile breaches like Target and Home Depot, plus financial behemoth JP Morgan Chase, have ignited a huge interest among retailers in employing tokenization, EMV, NFC and data security standards.

Consumer confidence and trust is being swayed to adopt products like PayPal, Apple Pay, and LoopPay in a careful balance between convenience and security.

The breaches and relentless attacks have increased the resolve of the card networks, issuers. acquirers and merchants to thwart these threats before sales and consumer confidence further erode.

EMV chip payment cards are gaining support. Visa took a huge stride mid-year in the CNP space by launching its Visa Checkout service for online retailers, leveraging its adoption as a trusted brand. POS equipment manufacturers like VeriFone and Ingenico will also find it easier to deploy PIN and Chip solutions to SMBs.

Abe Maghaguian
Atlantic-Pacific Processing Systems

Mobile technology by far had the biggest impact in the industry, with the age of Square, smartphones and tablet transaction processing.

POS companies also followed the trend by not only becoming more affordable, smaller and portable, but also wireless and cloud based.

In the loyalty/discount and marketing space, companies found niches in mobile technology that created numerous additional cross-selling opportunities for ISOs and MSPs because of their ability to connect merchants with their customers, provide real revenue, add solutions and improve reporting capabilities.

PSPs have started to gain huge significance in 2014, and the trend is showing that they will only get more influential as we move into 2015.

Lastly, a consolidation trend has started in 2014 through acquisitions and mergers throughout the industry; we've now seen multiple ISO/MSPs either being sold or merged, starting with the processors either fully or partially acquiring portions of ISO/MSPs, and also opening the door for capital firms.

Some View Vending Machines As The Next Frontier For ISOs

Collecting a share of digital payments from soda and snack machines can seem like the antidote to a competitive merchant-services market, but nobody's saying it will be easy for ISOs and agents to pioneer a whole new field of endeavor. **BY JEFFREY GREEN**

ISOs frustrated by an apparent lack of opportunities to grow revenue in a saturated point-of-sale terminal market need not resort to flipping a coin to choose their best route. The coin, though, represents a hint at a good place to start.

Increasingly, processors, gateway providers and ISOs have begun targeting vending-machine operators, encouraging them to add card and mobile electronic-payment acceptance. Those organizations patient enough to go through the relationship-building process and to invest in the education necessary to understand the vending market and to devise the right tactics could over time potentially reap financial rewards, various insiders tell *ISO&Agent*.

Challenges arise, however, as vending-machine operators are not like traditional retailers. Unlike retail POS terminals, for example, vending machines tend to move around a lot—up to 10 times each during their operational existence—thus requiring constant attention. Wireless and other connectivity issues and getting to know an assortment of new market players also pose potential complications, observers say.

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> "Mobile payment is going to be a way to accelerate cashless payment on vending machines.
>
> -Rinaldo Spinella, Apriva

Indeed, ISOs venturing into vending face considerable upfront costs and continuous work to build and retain relationships, says Stacey Finley Tappin, senior vice president of North America sales and marketing communications at Scottsdale, Ariz.-based Apriva, whose tokenized Apriva Vend product provides ePayments gateway services for vending operators. "It takes lot of investment up front if an ISO wants to get into this," she says. "It's not an easy market; it's complicated."

Just as ISOs have to build their knowledge of vending, vending operators are should learn the payments industry. ISOs thus can serve not just as ePayment service providers, but also as advisors, much as they were when many traditional merchants still were accepting primarily cash and checks and knew little about card acceptance, not to mention interchange and discount rates.

New Frontier For Payments

The vending market essentially represents a new frontier for ePayments, as the vast majority of machines accept only cash, thus providing considerable opportunity for ISOs. In 2013, overall revenues from vending totaled $19.69 billion, according to the National Automated Merchandising Association (NAMA), citing annual research data from Automatic Merchandiser magazine. However, only 10% of the 4.85 million vending machines had cashless readers last year. That's not many statistically but still a significant increase from the 4% that did only two years earlier.

To one observer, such growth in cashless-payment acceptance, including cards and contactless mobile transactions, represents progress. "The main thing is we really have moved that thing forward quite a bit," Mike Kasavana, NAMA endowed professor at Michigan State University, tells *ISO&Agent*. "But on the opportunity side, there's still lots of machines that are not accepting electronic payments that should be."

ISOs could find willing customers, as ePayment acceptance can generate potential growth in vending machine sales volume, according to NAMA, citing 2013-14 data from USA Technologies Inc.'s Cashless Knowledge Base. During a recent 12-month period after installing cashless vending, the company found total monthly vending transactions increased by 22.8%, with no decline in cash-sales volume.

"It's not cannibalizing cash but actually represents new business because so many people don't carry cash today," Kasavana says. "It's a lot easier to make sales with ePayments than with limited currency or coin."

USA Technologies, whose chief competitors include San Francisco-based Cantaloupe Systems and Crane Payment Innovations of Malvern, Pa., represents an ISO that has succeeded in targeting the vending market. Though it considers itself a "payment services provider," the company, which also is based in Malvern, primarily sells payment-processing services for Atlanta-based Elavon, Mike Lawlor, USA Technologies' senior vice president for sales and business development, said in an *ISO&Agent* interview. Conversely, various ISOs are out selling USA Technologies' products to vending machine, laundry and kiosk operators, including wireless services and card-acceptance hardware that connects back to the company for processing and reconciliation into the operators' accounts.

"There is money to be made for them," Lawlor said in reference to ISOs. "We're just at the tip of the iceberg with these new market opportunities."

As of June 30, USA Technologies' ePort service connected to 266,000 machines, handling some 170 million transactions totaling $300 million during the fiscal year. Some 86% of the company's connections come from traditional vending customers, Dave DeMedio, USA Technologies chief financial officer, noted during a recent fiscal fourth quarter earnings call with analysts.

"The margins in vending are so slim that I can't see anywhere to get involved in those transactions."

-Mike Kasavana, Michigan State University

Pricing plays an important role when targeting the vending market. Because many vending operators are not familiar with ePayment acceptance, they want pricing to be simple, industry insiders agree.

USA Technologies, for example, charges a flat percentage rate, which equates to about 5.5% to 6% on an average $1.50 transaction. The rate varies by market, and it goes down as the debit or credit card transaction amount rises, Lawlor says, noting USA Technologies provides an aggregated processing service across customers' multiple payment-acceptance locations, similar to the concept San Francisco-based Square Inc. has adopted.

The company expects its license and transaction-fee revenue to grow to $44 million to $47 million in the current fiscal year, which would represent 24% to 31% year-over-year growth, DeMedio said on the earnings call.

Volume Counts In Vending

For its part, Apriva has negotiated a 2.2% plus 2 cents interchange rate with Visa, though what vending machine operators pay ISOs as their fee is somewhat higher, Tappin says. Her colleague, Rinaldo Spinella, Apriva executive vice president of strategic accounts, estimates the typical discount fee on an average $1.50 transaction is 9.6 cents.

"It takes lot of investment up front if an ISO wants to get into vending. It's not an easy market."

-Stacy Tappin, Apriva

As such, ISOs will require considerable volume to make vending a viable target market, Tappin said, noting the low end in the range of machines such organizations are willing to take on initially can vary. "Some channels have 50 to 100 machines, and they're happy because they're making a little money there and learning the market," she says. "Some say they don't won't want to touch the market with less than 1,000 machines."

ISOs may choose to sell processing services solely, or they also can sell hardware for ePayment-acceptance providers, many of which differ from retail POS terminal manufacturers. They also may support add-on services, such as loyalty and rewards programs.

USA Technologies, for example, supports payment acceptance and a rewards program through Softcard, the Near Field Communication-based mobile wallet backed by T-Mobile, Verizon and AT&T and formerly known as Isis. The company says its NFC footprint of 150,000 locations represents 70% of its installed vending-machine base.

Through the Softcard Fifth Purchase Free program, participants receive a free vending transaction after making four Softcard purchases at some 85,000 participating NFC-enabled vending locations. Through June, USA Technologies had handled about 500,000 Softcard mobile-payment transactions, representing nearly 100,000 reward purchases, Steve Herbert, the company's chairman and CEO, noted during the quarterly earnings call in September.

Mobile-based payment also is helping to boost average ticket size, Herbert

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Apriva's Spinella agrees that mobile will play a big role in converting more vending machines to ePayment acceptance because of market pressure. "Mobile payment is going to be a way to accelerate cashless payment on vending machines because everyone loves to use their phone for everything now," he says.

No Quick Shift To EMV For Vending

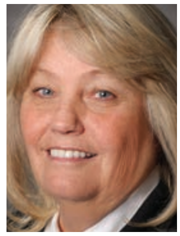
Many observers expect NFC acceptance to run parallel to that of EMV cards as merchants look to meet liability-shift deadlines that take effect next October. But they don't believe vending operators will move quickly to add EMV card readers because of the relative low risk of their small-ticket transactions.

"I don't think EMV is as much a motivator as Apple Pay would be," Kasavana says.

Because vending represents a market of unattended machines, one might think ATM ISOs have an advantage over organizations specializing in retail POS terminal support. That may not be the case, however.

Apriva, for example, has an ISO partner selling its gateway service to vending operators that also manages ATMs. And while it may have a leg up in that it's used to managing unattended machines, the sales channels are a bit different, according to Tappin. As such, she wouldn't advise ISOs with no ATM relationships to shy away from vending.

Donna Embry, a senior vice president at Payment Alliance International, sees some basic advantages for ATM ISOs, which similarly use route managers to keep up with machine monitoring and are used to the hand-on relations necessary with vending maintenance. Moreover, ATM ISOs can use vending to help expand their distribution of ATMs because such machines ideally should be deployed in or near certain vending areas, she says.



To succeed in vending, ATM ISOs should learn the market's language and acronyms.

-Donna Embry, Payment Alliance International

As more companies encourage ISOs to help sell ePayment acceptance, not everyone believes it's a viable market for all resellers. NAMA's Kasavana, for example, says no one he has talked with sees a role for ISOs in the vending market.

"The margins in vending are so slim that I really can't see anywhere there's a place for anyone to get involved in the middle of those transactions," he says.

But that is not preventing ISOs from trying. USA Technologies' Lawlor says his company is seeing growing interest among local and regional ISOs to help sell the company's ePayment services. "Because ISOs are local, it seems a good match to target those, and it's actually been very successful," he says. "It's still a small amount, but its growing."

Asked what it would take for an ISO to succeed in selling ePayment services to vending operators, Payment Alliance's Embry suggested, as did others *ISO&Agent* spoke with, that they learn the market's specific language and acronyms. Embry also suggested they join or attend NAMA shows and walk the floor to meet the operators directly and learn their pain points.

Vending offers ISOs a vast new potential opportunity to grow revenue. It's a special market, however, that will require new methods and tactics for success, plus a lot of patience. **ISO**

Crooks Find Ways Around EMV

BY DAVID HEUN

Fraudsters are quickly developing a way to sidestep EMV-chip security ahead of the U.S. card networks' October 2015 deadline for adopting the technology.

Instead of printing cloned cards, which EMV technology is designed to thwart, crooks create artificial identities to open credit cards with banks, then use that account to its maximum limit.

The method, known as synthetic identity fraud, is a looming danger for banks and mobile network operators because it tends to increase dramatically once chip-based cards go mainstream, said Stephen Coggeshall, chief analytics and science officer for ID Analytics, a unit of Tempe, Ariz.-based LifeLock.

About 2% of all applications, either for credit cards, loans, cell phones or financial services, are synthetic fraud, according to recent research from ID Analytics.

"We were surprised to see this number, as it was a little more than we expected," Coggeshall said. With billions of applications filled out annually around the globe, it means that "tens of millions of synthetic attempts occur each year," he added.

It's an issue in the U.S. now, but we will see it increase in size and severity as we migrate to EMV," said Julie Conroy, senior analyst t with Aite Group. **ISO**

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Shattering the glass ceiling

Janet Yellen's appointment and actions as head of the Federal Reserve Board are re-creating expectations for women in the financial services industry. **BY VICTORIA FINKLE**

Bloomberg News

Janet Yellen seems like an unlikely revolutionary.

In her nine months as head of the Federal Reserve Board, Yellen—the first woman to chair the central bank in its 100-year history—has largely charted the same course as her predecessor and seems more interested in continuity than radical changes.

But Yellen's ascension is still likely to have a significant and long-lasting impact on women in the financial services industry, both from her direct influence and the message her role sends to others. Here are four key insights into why Yellen's success at the Fed matters and what it means for other women.

Yellen has become an important role model for women in finance.

One of the most enduring effects Yellen's appointment could have on the industry would be to attract more women into economics and finance.

Studies have shown that young women respond to having role models in their selected fields—and Yellen's new position as the most influential central banker in the world should certainly give her increased visibility, even outside of the banking industry.

"It sends a huge signal that no job should be closed to women in financial services," said Sheila Bair, the former head of the Federal Deposit Insurance Corp.

Yellen's trajectory seems to have been set early on, despite a paucity of potential female role models in economics at the time.

The Brooklyn native was valedictorian of her high school class in 1963 and was voted "class scholar" in her yearbook. She then graduated summa cum laude from Brown University, before completing her PhD in economics at Yale University in 1971, where she was the only woman in her class.

While her innate talents are clearly at the root of her success, there's hope that her rise, and greater discussion of her story, could spur younger women to increase their participation in math and related fields.

"Here you have a woman in the most important policy position in America in which mathematics is very relevant," said former congressman Barney Frank. "She's a first-rate economist, and you can't be a first-rate economist if you can't do the math."

For now, the crucial pipeline of women studying economics and finance remains slack. Women are underrepresented among MBA graduates, and they earn just one-third of economics PhDs and an even smaller portion of finance PhDs.

"It's still mysterious to me why economics and finance attract so few women," said Alice Rivlin, a senior fellow at the Brookings Institution, and the first woman to serve as vice chair at the Fed (she served for three years starting in June 1996). "When I was in graduate school there were hardly any women. I would have sort of expected that to have changed in two generations, but it hasn't changed as much as I expected. Having a woman lead the Fed will help."

Yellen's appointment underscores that gender disparities in the industry persist, particularly in positions of leadership.

Not Many Women In Top Spots

Despite significant and ongoing progress, there remains a dearth of women in the top spots across the financial services industry.

No woman has ever led one of the country's megabanks, served as Treasury secretary, or chaired the banking committee in either the House or the Senate.

An analysis by the New York Times last year found that while women made up more than half of the employees at Citigroup, JPMorgan Chase and Bank of America, they accounted for just 4%, 17%, and 36%, respectively, of the companies' senior management committees.

Women accounted for just over a third of the employees at Goldman Sachs and Morgan Stanley, but made up only 13% of the senior management committees at each company.

Yellen, who declined to be interviewed for this story, acknowledged last spring that efforts to bring more women into the field are still lacking.

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> "Women occupy two of the most powerful positions in the Federal Reserve System."
> - John Dearie, Financial Services Forum

"In my own profession, there has been a gradual increase in the share of women in economics, but women still remain underrepresented at the highest levels in academia, in government and in business," Yellen, 68, said at a Capitol Hill reception in her honor, calling the benefits of greater female participation "clear and substantial."

It's worth noting, however, that although Yellen is the first woman to lead the central bank, the Federal Reserve System has been a leader in promoting women to top positions. Yellen was the fourth woman appointed to the Board of Governors when she joined in 1994, and Lael Brainard, confirmed earlier this year, is the ninth.

"Janet Yellen leading the Fed is not an accident or an anomaly, in my view, but rather the culmination of a conscious and deliberate program to recruit and advance qualified women," said Diane Schumaker-Krieg, global head of research at Wells Fargo. "The organization has been at the vanguard of advancing women to positions of leadership throughout the system for quite some time."

Yellen previously led the Federal Reserve Bank of San Francisco, and women have run (or are currently running) Fed banks in Boston, Cleveland and Kansas City. Observers noted that women are also well represented further down the leadership structure of the central bank system, particularly in the supervision and examination divisions.

Sarah Dahlgren, for example, serves

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as head of supervision at the New York Fed, which oversees some of the country's biggest financial firms.

"It's significant that you now have two of the most powerful positions in the Federal Reserve System—the chair of the Board of Governors as well as the head of supervision at the New York Reserve Bank—both occupied by women for the first time," said John Dearie, executive vice president at the Financial Services Forum.

In addition to Dahlgren, women serve as heads of supervision at another four of the 12 district banks, and the deputy director of the bank supervision and regulation division at the Fed Board in Washington is also a woman.

Yellen's succession was still a struggle in some ways.

Despite her many professional successes—including more than a decade at the Fed and more than three years as the Fed's No. 2—Yellen's appointment to lead the Fed was not a foregone conclusion when former chairman Ben Bernanke announced he would step down at the end of his term in February 2014. That could serve as a warning to other women in the industry.

"She was the most qualified person for the job," said Christina Romer, a professor at the University of California at Berkeley and former chair of the Council of Economic Advisers. Given that, the decision to choose Yellen "was closer than it should have been."

> "It sends a huge signal that no job should be closed to women in financial services."
> - Sheila Bair, FDIC, on Yellen's appointment to head the Federal Reserve

Summers In The Running For Post

Yellen was always viewed as occupying a spot on the shortlist for Bernanke's replacement, but her candidacy was temporarily overshadowed by chatter that President Obama was considering his economic advisor Larry Summers, a former Treasury secretary and Harvard economist.

"The issue was that presidents, senators, higher officials don't stop being human beings," said Frank. "Barack Obama went through hell in the early days of his presidency. He obviously felt very grateful to the handful of people who helped him through that, and one of them was Larry Summers."

Considering Summers for the job was particularly galling to some because of comments he made as president of Harvard that were perceived as questioning women's natural abilities in math and science.

Yellen was reportedly unaffected by the political firestorm, including rumors that she wasn't up to the task. In fact, she did very little advocating on her own behalf for the role.

That appearance of complacency may have frustrated some of her colleagues, but supporters came to the aid of the unassuming academic in droves, publicly and privately.

"It would have been a slap in the face to women for her not to get the job," said Heidi Hartmann, president of the Institute for Women's Policy Research, who helped organize a letter of support signed by more than 500 economists. "Obama has really, for all practical purposes, been a good feminist, and it was quite distressing that this was going on when there was an incredibly qualified woman right there that the banking community was already expecting to be appointed."

> "Here you have a woman in the most important policy position in America..."
> - Barney Frank, former Congressman

At the same time, Joseph Stiglitz, who taught Yellen at Yale and later shared the Nobel Prize with economist George Akerlof, Yellen's husband, penned a pointed New York Times op-ed piece strongly in her favor, while dozens of lawmakers signaled their backing for her, and the liberal blog The Daily Kos organized a petition with more than 130,000 signatures.

Ultimately, Yellen's quiet fortitude and unflappability during the deliberation process paid off, and Summers pulled his name from consideration following what some considered a left-wing backlash.

"The way in which Janet handled the whole thing really raised my already high opinion of her," said Richard Fisher, president of the Dallas Fed, in a profile of Yellen that *Time* magazine published in January. "She was steady and even-handed, and she didn't overreact."

A Difficult Road To Power

The incidents surrounding her path to the position can serve as reminders of the difficult balancing act women face when advocating for more power or responsibility.

Research suggests that they often underestimate their own abilities and lack the confidence needed to take career risks. But when they do speak up, they can quickly be labeled as pushy—or worse.

As for Yellen, her success (or failure) at the Federal Reserve will help shape the economy, and the lives of women all over the country, for years to come.

And no one said it would be easy. Yellen inherited a host of challenges when she took office.

She began with the process of managing the tapering of the Fed's massive quantitative easing program and must decide when it will be safe to raise interest rates without sending the economy stumbling. She also has to put her stamp on instituting several unfinished pieces of the Dodd-Frank Act.

In navigating those upcoming policy debates, Yellen will need to draw on her demonstrated abilities to communicate effectively and foster cooperation.

"She's just a uniquely talented person at building consensus and listening to people," says Romer. "Anybody watching the Fed these days knows that it's a really tough time, because there's such a big difference of opinion about whether bubbles are developing and inflation is about to take off. You need a consensus builder and a strong intellectual leader to try and get the Fed to not fracture—and to also figure out what's the right path."

Bringing Female Skills Into Play

While neither skill is exclusively female, the ability to listen and establish consensus are some of the core strengths that experts suggest female leaders can bring to the boardroom.

The banking industry will be watching carefully to see how hard Yellen comes down on the largest institutions, as the regulator works to resolve ongoing debates over capital standards and the best way to wind down the most complex financial institutions in a future crisis, among other issues.

"There have been some tough rules that have come out under her chairmanship, and most people look to the power that she has given Fed Gov. Daniel Tarullo as an example of her willingness to be fairly aggressive on bank regulatory actions," says Edward Mills, a policy analyst at FBR Capital Markets.

"It's still mysterious to me why economics and finance attract so few women."

- Alice Rivlin, Brookings Institution

Meanwhile, schisms among members of the central bank's monetary policy arm, the Federal Open Market Committee, have already begun to surface. Yellen has so far been tasked with carrying out many of the policies launched under Bernanke to rescue the country from the financial crisis and the ensuing recession. But as the recovery continues, she will be forced to draw increasingly from her own playbook. Already policy hawks are calling for higher interest rates to head off fears of inflation, while doves like Yellen worry more about unemployment.

"Yellen believes that the economic challenges are more structural, due to demographic and skills mismatches. So she's likely to stay accommodative for longer than Bernanke, even though they were both architects of the same policy," says Jason Ware, market strategist at Albion Financial Group. "Eventually there's going to be a fork in the road between how they behave."

Charles Plosser, president of the Philadelphia Fed, and Dallas' Fisher both dissented on the committee's vote in September to keep interest rates low for a "considerable time" after bond purchases end.

"One dissent is okay, even two is manageable, but once you get to three and four, you're going to get questions from business leaders and analysts and investors as to where things are going," says Ware. "Deep divisions cause dislocations in the market."

The decision to choose Yellen to head the fed "was closer than it should have been."

- Christina Romer, University of California at Berkeley

Yellen's decision about when to raise rates is likely to be closely tied to her concerns about unemployment and wages — long-time priorities for the central banker. She even voiced her desire to help struggling Americans during her first speech as Fed chair in March, which has helped set the tone for her reign thus far. "When the Federal Reserve's policies are effective, they improve the welfare of everyone who benefits from a stronger economy, most of all those who have been hit hardest by the recession and the slow recovery," she told attendees at a community reinvestment conference in Chicago.

Some saw the speech as important, not just because of how her focus could help female workers, who are more likely to have low-wage or part-time jobs, but because of where she gave it. "It's symbolic when this is the first foray that a Fed chair makes out into the world, instead of speaking first to a bankers association or visiting Wall Street," says Hartmann.

Still, how much she works with—and even pushes back on—her opponents will have profound effects on the economy and the struggling workers she has pledged to help.

And even though continuity has been her hallmark so far, how she handles what comes after the challenges that preceded her into office is bound to set her apart. "The test will be a true crisis or when the time comes to pivot away from the policies of the last several years," says Mills.

Yellen's rise to the top of the world's most powerful central bank is historic, but her legacy is still being defined. **ISO**

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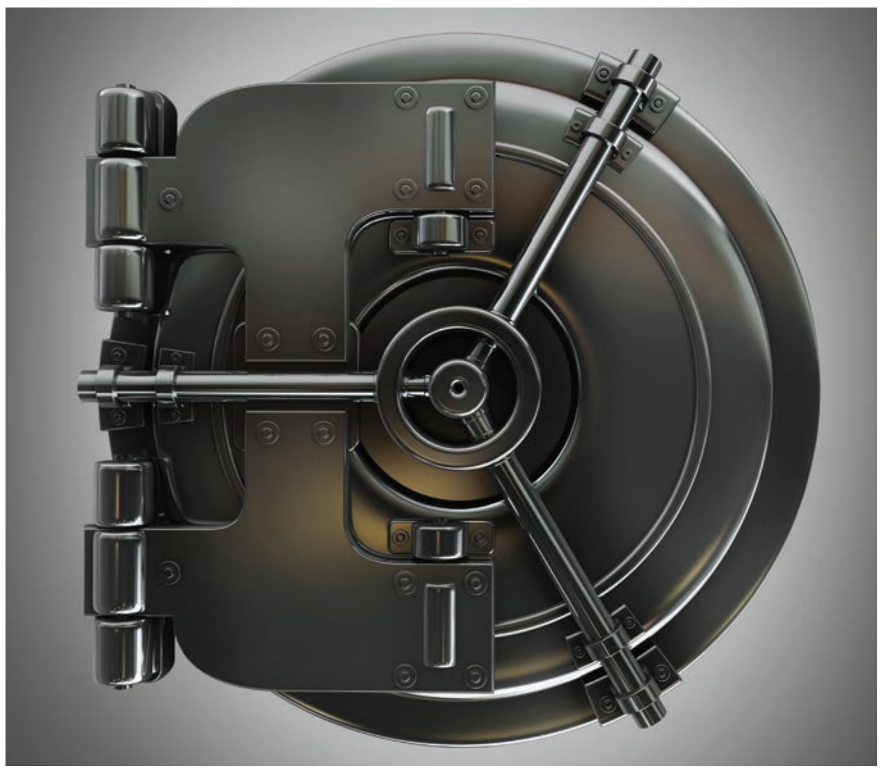
PCI: Every Which Way

ISOs are trying everything from a helping hand to a swift kick in the pants to persuade small businesses to get serious about data security. **BY CHERYL WINOKUR MUNK**



The continuing spate of high-profile data breaches against large retailers and renewed calls to action by card brands, the White House and Congress have finally helped spread the word among smaller merchants about the need to ramp up their defenses against would-be data thieves. But many small businesses continue to suffer from It-Can't-Happen-to-Me Syndrome and some ISOs and agents are taking greater pains to offer preventative care.

There's no magic pill to make merchants to pay closer attention to data security, but ISOs should continue to press upon small merchants that data breaches are their problem.

"For every big breach, there are thousands of small merchants getting hit that don't make the news," said Jim Bibles, vice president of business development at Aperia Solutions Inc. in Dallas, which provides compliance and risk management software for the payments industry.

"As an industry, I don't think we've been really good at getting that message down to them," said Bibles, who has developed and operated risk-based compliance programs for a number of Fortune 500 companies.

Clearly, data security is a broad subject and there are many fine points ISOs need to get across to merchants.

As a starting point, it may help for ISOs to imagine themselves in the merchants' situation and be mindful not to burden harried business owners with a laundry list of initiatives all at once.

"What's the most important thing that they need to do right now? Get them focused on that," said Susan Matt, chief executive of ThoughtKey Inc., a payments industry consulting firm in Atlanta.

Then move on to the next few things in "digestible, simple steps," she urged acquirers.

Another tip for ISOs is to stick to the facts, not try to scare merchants with messages of doom and gloom. Tell them, for instance, what percentage of breaches occur each year and what percentage of merchants were businesses of their size.

"People can't argue with facts," said Matt. "Now you've got their attention to take the next step."

It's no secret that many small merchants remain sorely unprepared when it comes to data security. Indeed, a recent study by ControlScan, an Atlanta-based security and compliance firm, shows that the vast majority (71%) of Level 4 merchants continue to think they are at little-to-no risk for data compromise. What's more, should a breach occur, 64% have no formal incident response plan and are therefore unprepared to address the situation quickly and properly, the study found.

> "For every big breach, thousands of small merchants get hit but don't make the news."
> - Jim Bibles, Aperia Solutions Inc.

The Rising Cost Of Fraud

The cost of fraud is on the rise, making it imperative for ISOs to help merchants take data security seriously. What's more, merchants are also losing a significantly higher percentage of revenue to fraud this year, according to data from the 2014 LexisNexis True Cost of Fraud Study.

Some ISOs may feel hampered by a lack of bandwidth or skills to keep up with the latest security and technology trends. To help in this effort, many have hired security consultants to work with their merchant base, which can help get the right message across and keep merchants focused on the task.

To help small businesses with their data security needs, ISOs have to understand the makeup of their merchant portfolio.

Many ISOs may not realize how many of their merchants face a significant business risk, said Chris Bucolo, senior manager of security consulting at ControlScan, which works with ISOs to provide security to merchants.

Bucolo suggested ISOs divide their merchant base into categories, first concentrating on merchants more likely to be breached—such as those who employ POS systems. Then engage in a campaign to teach those high-risk merchants about the latest security recommendations and help put them in place. "It becomes a client retention process as well because you don't want someone else to teach them how to do that," said Bucolo.

ISOs should also understand how their customers are processing and what software systems they use. If an ISO isn't keeping good data in that area, it's important to get started because using outdated or obsolete systems puts merchants at risk, said Bibles of Aperia Solutions.

If an ISO doesn't know what software merchants are using, he or she won't be able to help them avoid known threats, he said.

Follow A Well-Ordered List

After taking all the necessary steps with high-risk merchants, ISOs should continue to move down their list, according to risk-profile, making sure they appropriately tailor their marketing pitch, Bibles said.

POS merchants, for instance, are especially vulnerable to data compromise if the systems aren't properly installed, sources advised.

Exposure for mom-and-pop stores, meanwhile, tends to relate to protecting their terminals from data skimmers.

Likewise, e-commerce merchants require a different level of education and security, given how much more vulnerable they are expected to become once EMV adoption intensifies. (The Payments Security Task Force recently published a forecast estimating that least

47% of U.S. merchant terminals will be enabled for EMV chip technology by the end of 2015.)

Even with all the publicity surrounding the switch to EMV, many merchants still don't know a lot about the changeover and are interested in learning more, signaling an opportunity for ISOs to step in and provide a valuable service.

According to a recent report by Visa Inc., 55% of merchants not yet chip-card enabled said they would like more information on the impending switchover.

ISOs also have an opportunity to help dispel the myth that if merchants deploy the latest technology they will be somehow magically secure.

For instance, there's a tendency to think that EMV will solve all security problems for brick-and-mortar merchants, but even with the greater security protections EMV affords, data can be intercepted at another point in the process, said Ed Mastrangelo, senior director of payment acceptance at Merchant Warehouse, a Boston-based ISO and payments technology provider.

Once the data gets into the payment system it still should be secured through a combination of encryption and tokenization, he said.

Even Apple's Not Foolproof

Apple's new and highly publicized smartphone, which uses tokenization and other measures to make in-store transactions more secure, is a positive development, but merchants still need to learn that nothing is foolproof.

"With all these new payments and cool innovative things that are coming, you still need [additional] security," Mastrangelo said.

> "Get merchants focused on the most important thing they need to do right now for security."
> - Susan Matt, ThoughtKey Inc.

Another commonly held notion that ISOs need to dispel is that as long as merchants conform to guidelines set by the PCI Security Standards Council, they're home free.

PCI compliance is certainly a step in the right direction, but it's ultimately a baseline and doesn't guarantee a merchant won't be breached, Mastrangelo said.

To be sure, even getting to the minimum level of compliance required by the PCI standards is a challenge for many smaller merchants.

It may provide some relief to merchants that The PCI Security Council has a new general manager who wants to make the standards easier to obey, but at least for the foreseeable future merchants will continue to need a lot of hand-holding from ISOs.

For one thing, the standards change from time to time, and requirements to remain PCI compliant change. Also, certain applications fall out of compliance—like Windows XP for instance—and keeping up with those changes is not high on the priority list of most merchants.

Those are two areas where proactive ISOs can provide a much-needed service to their customers.

To encourage merchants to become serious about PCI standards, some ISOs are taking the carrot approach by offering credits for good behavior while others are imposing differentiated fees as a stick to prod merchants to comply.

> "With all these cool innovative things that are coming, you still need security."
> - Ed Mastrangelo, Merchant Warehouse

TransFirst, a payment processor in Omaha, Neb., for instance, makes it mandatory for all merchants to participate in its PCI program, but the fee for the program is higher for merchants who don't meet the minimum level of security expectations.

At first the dollar difference wasn't enough to make merchants care, so the company raised the differential, and compliance rates rose dramatically as a result, said Craig A. Tieken, vice president of product and integrations at TransFirst.

Plant PCI-Related Thoughts

To help merchants comply with the ongoing PCI requirements, TransFirst reminds them a month in advance of any action the merchants should take.

If a merchant fails to take the follow-up action, TransFirst sends another reminder every month thereafter. As soon as the merchant fails to comply, the differential goes back to the higher fee until the merchant complies again, Tieken said.

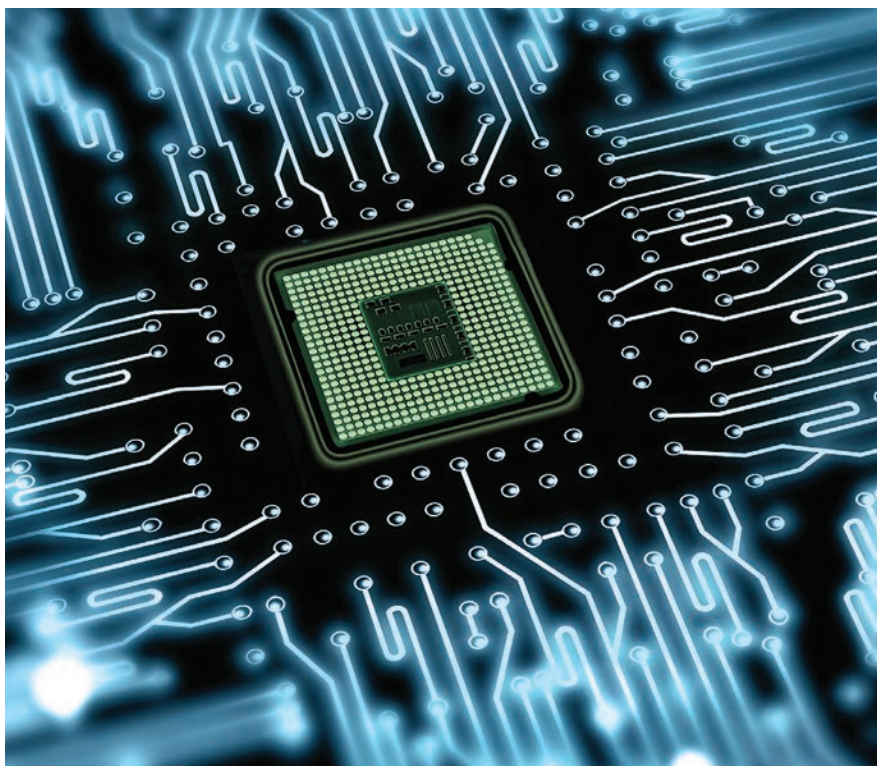
TransFirst hasn't booted out any merchants for failing to comply with PCI and doesn't anticipate doing so, but other ISOs have chosen to make their punitive fee so high that merchants leave on their own.

It's a tough call to drive them away because merchant accounts aren't easy to come by, but ultimately an ISO might decide it's for the best.

"Until all ISOs take a hard line and refuse to work with merchants who aren't PCI compliant, there will continue to be merchants who fall through the cracks," said Bibles of Aperia Solutions. **ISO**

Coping With Milestones

Rampant change is reshaping the payments industry, and ISOs have plenty to learn just to keep pace and to keep their clients informed. BY DAVID HEUN



The payments landscape may have changed more in the past few months than it has in the previous decade, with Apple Pay, PayPal, Amazon, MCX, NFC, EMV and HCE all taking on major roles.

It's left ISOs so uncertain of which way the trade's winds would blow next, that many of them have had to sit on the sidelines and wait for a clearer picture.

What ISOs were left with makes for a virtual puzzle of acronyms and brand names representing new technology, payment systems and initiatives.

The critical question now is, will ISOs be prepared to explain the new landscape and intelligently guide their merchant clients through it? No doubt, there's a learning curve for all who provide merchant services.

Of course, the transition to EMV chip-based cards at the point of sale to put a damper on card-present fraud is less than a year away from the card brands' liability shift timeline in October of 2015. That's a fairly easy scenario for ISOs to explain to merchants. If those merchants can't accept EMV smart cards by that date to replace the less secure magnetic-stripe technology, they become liable for any costs resulting from a any fraud that occurs.

But there's more to the EMV upgrade mix at the point of sale than simply obtaining an EMV card reader and the necessary software to accept such transactions.

Near Field Communication technology for contactless transactions at the POS has always been a part of the EMV story, especially with the card brands recommending that merchants add that technology at the same time they prepare for EMV card acceptance.

NFC got a boost when Apple Inc. finally joined the payments fray on Sept. 9 by announcing its Apple Pay mobile pay system. Months before Apple Pay became reality, NFC was riding a new high behind host card emulation, or HCE, a technology that essentially allows an application to bypass the secure element on a mobile phone handset to initiate an NFC transaction.

HCE opened a pathway to contactless mobile payments for many merchants who did not have a relationship with a mobile network operator to obtain access to a secure element.

But Apple Pay reeled that back to the basics by relying on an NFC antenna in

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the new iPhone 6 models and an NFC reader at the merchant terminal. It also uses the iPhone TouchID fingerprint scanner as part of the cardholder authorization process, and tokenization of card data that never touches the merchant system and is stored on the secure element of the phone handset.

"Apple Pay creates an additional incentive for merchants to consider NFC as they upgrade infrastructure for EMV," said industry expert Kevin Grieve, partner at Strategy&, formerly Booz & Co.

Some acquirers are already telling their merchants that if they still have non-EMV terminals, those units essentially will become "unsupported" when the card brand's liability shift timeline hits.

"On the long tail, they are telling these merchants to go with the least expensive solution to comply," Grieve said.

Those key industry factors in the U.S. come into play at the same time other major developments are unfolding, with Amazon revealing a mobile wallet, the merchant-driven Merchant Customer Exchange, or MCX, announcing its CurrentC mobile wallet, and e-Bay Inc. splitting off PayPal to allow it to be more competitive on its own in the fast-changing mobile payments space.

> "Apple Pay creates an incentive for merchants to consider NFC when they upgrade for EMV."
> - Kevin Grieve, Strategy&, formerly Booz & Co.

"From the ISOs' and agents' perspective, they are going go have to be able to offer the pros and cons to their clients of what the next needed upgrade is," Grieve said. "Whoever their customer is, these agents will have to articulate an opinion on the process."

That will include some education around why the merchant should upgrade and what is driving the upgrade. Merchants will need to understand what it all means for security and the liability shift, and whether their customers should accept contactless payments. In addition, they'll have to show their customers where to leave an EMV card in a reader, or how to engage an NFC contactless payment through a proximity transfer protocol, Grieve noted.

ISOs Introduce Payment Methods

The flood of recent developments is extremely important for merchant acquirers because they know they are on the front lines when new payment types seek merchant acceptance, said Richard Crone, chief executive of San Carlos, Calif.-based payments consulting firm Crone Consulting LLC.

"No matter what scheme takes hold, the acquirers have to leverage their existing relationships and network connectivity," Crone said.

Acquirers and processors, often representing the acquiring bank, handle many aspects of the payment network, from point of sale hardware and software integrations to the payment gateway connections for merchants.

"There are a lot of moving parts and for MCX, and especially Apple. It is more complicated by bringing in the mobile element," Crone said.

Acquirers and processors will also have to understand changes in interchange when working with their merchants.

That is definitely the case with Apple Pay, as Apple was reportedly able to negotiate the lower card-present rates for Apple Pay mobile transactions based on the tokenization and biometric authentication security in play.

Even though the introduction of Apple Pay cleared up Apple's intentions in payments, it will take some time for merchants and consumers alike to reveal any sort of adoption pattern.

But that extra time may come in

handy for acquirers and processors moving to put payment gateways and other network rail connections in place to accept new payment methods.

First Data, Global Payments, U.S. Bank, and others in acquiring and processing need that time to respond to "whatever it is that gets decided amidst all of these changes," said Paul Martaus, owner of Mountain Home, Ark.-based Martaus & Associates Inc. "It may seem like these companies have unlimited resources to do this, but they don't."

All of the major processors have likely been talking to the card brands, MCX, Apple, Amazon and others all along, but their preparation won't automatically translate to merchant or consumer adoption, Martaus said.

"Many companies have been waiting for Apple to define their piece of the payments puzzle before they define their own," he maintained.

Apple Becomes A Payments Player

Because Visa, MasterCard and American Express joined Apple Pay, and Discover was moving in that direction, most every player in payments will perceive Apple as now wielding influence in the industry, Martaus said.

It is telling, however, that Apple did not go out and form its own payments network, instead opting to bring banks and card brands on board from the start.

"It was a 'pay to play' move," Grieve said of the interchange break Apple negotiated with the banks. "Will they ask for more if Apple Pay takes off?" Grieve asks rhetorically. "It is really unclear how much value they can extract over time."

One thing has remained clear amidst all of the changes and the accompanying uncertainty. Manufacturers of payments hardware continue to deal with a fragmented marketplace, one that makes it harder for their sales agents not only to get the correct equipment in the hands of their merchant clients, but to get it there in a timely manner.

> "No matter what scheme takes hold, acquirers have to leverage their existing relationships."
> - Richard Crone, Crone Consulting LLC, on new methods of payment

As such, a POS terminal maker like Ingenico Group has to wait longer for its ISOs, processors and sales agents dealing with smaller merchants to get products into the market, said Thierry Denis, president of Ingenico North America.

"It is a long cycle, and ISOs generally buy smaller quantities from you," Denis said. "But they are buying every month."

Under that scenario, Ingenico looks to add ISOs to its portfolio every month, Denis said. "It basically increases your revenue and does it steadily because by adding people to our portfolio, they are switching to Ingenico as a general provider."

Ingenico has been getting upbeat signals from its ISOs since the Apple announcement, Denis said. "It is surprising, but even in the small merchant arena, among the ISOs and processors, each is saying now they will have to change from the basic POS models they tend to sell, to contactless models that have NFC."

ISOs may find that EMV and mobile payments will go into cruise control now, with the market more clearly defined.

No Longer Waiting For Apple

Even the executives at PayPal, the online payments giant that has significant change of its own about to take place after emerging from the shadow of eBay Inc., understand what it means to have Apple operating in the payments world.

"Everyone was waiting for Apple to join the ecosystem, and they were the last major mobile phone manufacturer to finally put their toe into mobile payments," said PayPal spokesman Anuj Nayar. "The fact that they are here now is great, as it completes the ecosystem."

Apple has "a huge, loyal customer base" that will drive media attention to it and drive awareness of mobile payments across the board, Nayar said. "And that's a good thing for the industry." **ISO**

Card Brands Lower Canadian Rates

BY DAVID HEUN

As this issue of *ISO&Agent* went to press, the card networks were coming under pressure to reduce rates in a number of countries, providing ammunition for retailers seeking similar cost adjustments in the U.S.

After years of pressing the card brands to lower rates, the Canadian government this week announced Visa and MasterCard would cut interchange to 1.5% in a five-year standard taking effect in April 2015.

"I think from a policy perspective, we watch pretty closely what happens in other countries," said Douglas Kantor, a lawyer who has represented the National Association of Convenience Stores in the swipe-fee antitrust case in the U.S. against the major card brands. "The big anomaly between U.S. interchange rates and overseas rates definitely strikes us as showing what a big problem the major card networks' operations are here."

The ongoing antitrust suit pitting U.S. retailers against Visa and MasterCard will not change interchange rates directly, and many retailers say the $5.7 billion settlement of the swipe-fee complaints is not sufficient, **ISO**

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Making The Right Choice

Some clients prefer merchant cash advances and others opt for loans. It's the ISO's job to help merchants make the appropriate decision. **BY AUTUMN CAFIERO GIUSTI**

Many merchants need to borrow money for their businesses, especially with bank loans harder to come by in the wake of the Great Recession. But not all merchants want to pay off their debts in the same fashion.

ISOs and lenders are recognizing that business lending is not a one-size-fits-all proposition, and they have come to rely on both merchant cash advances and merchant loans to fit the needs of different types of businesses.

"They all want money, but you have to make sure the criteria works for them as well as the funding companies," said Michael Steinberg, who works in Miami Beach, Fla., as an independent liaison between cash advance companies and ISOs.

Merchant cash advances withdraw a percentage of a business' daily processing volume, meaning that the payment amount varies from day to day, whereas business loans require that merchants make fixed payments.

A merchant who earns the same dollar amount on a regular basis tends to be the best candidate for fixed loans. Merchants that bring in more business on the weekends, such as those in retail or hospitality, might be better suited for a cash advance.

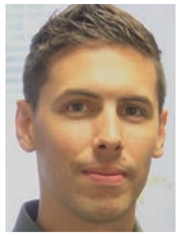
Steinberg said he typically lays out the different lending programs and the lets the merchant decide which one provides the best fit.

"You have to make sure that money is going to come back to you, so you've got to put them in a position where they're comfortable making the payments," he said.

Assisting a merchant that was stuck in the wrong kind of loan yielded new business for Turnkey Processing in Meriden, Conn.

The merchant had been paying more than $3,000 a month in NSF fees on a fixed loan from another merchant cash advance provider. Every time a payment bounced, the merchant incurred a $30 NSF charge, and the business was averaging 100 charges each month.

Turnkey, which has its own in-house lending program, was able to board the merchant by restructuring the loan as a cash advance. "He's become a good customer of ours. We've saved him a tremendous amount of money on those NSFs," said Turnkey CEO



A merchant was paying $3,000 a month in NSF fees on a loan. We saved him money with an advance.

- Steven Martorelli, Turnkey Processing

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Steven Martorelli.

Cash flow and credit profile tend to steer the funding approach, said Mike Fox, vice president of sales for Group ISO Merchant Services in Irvine, Calif.

Lenders will usually pair a merchant with a cash advance if the business' credit is below average. If the merchant has an above average credit score, the lender will offer a business loan, he said.

Fox said he always tries to help merchants qualify for a business loan first because it gives the business more time to repay. Loans also tend to produce lower commissions for salespeople, and therefore mean a lower overall payback amount for the merchant.

"It's our job as salespeople to pick out what's best for the merchant, not best for our pockets," Fox said.

Longer Terms And Lower Rates

Some ISOs select a funding approach based on their own lending preferences and observations.

Loans seem preferable to cash advances for Ferne Glemby, president and owner of CardPlus Payment Systems LLC in Westwood, N.J. Glemby used to rely more on cash advances because they were fast and easy, but now she looks to other forms of financing, such as business-to-business lending, that allow merchants to get an extended loan term at a much lower rate. "I try to save them money because that's what's going to make a stronger business," she said.

Darrin Ginsberg, founder and CEO of Super G Funding LLC, a lending company in Newport Beach, Calif., also favors loans with fixed daily payments as opposed to taking a percentage of his clients' daily credit card sales because the returns are more predictable.

"If you take a percentage of daily sales, and those sales are better than anticipated, you get paid off faster with a better return. But if they are slower than anticipated, your return is significantly reduced," he says.

> "It's our job as salespeople to pick what's best for the merchant, not what's best for our pockets."
> - Mike Fox, Group ISO Merchant Services

Ginsberg says there's also a great deal of interest in business loans from merchants that don't accept credit cards, and therefore wouldn't be able to repay a cash advance through daily processing.

Flexibility Of Cash Advances

Other ISOs find cash advances more flexible than loans. Ocean Equity Group, a hybrid ISO and merchant cash advance company, does not offer fixed loans. CEO Ed Zinner says that lenders are subject to laws that can raise the cost of doing business. Some states cap the interest rate a lender can charge on a loan.

"When you involve regulations and constraints on what you can charge, I don't know if you can get enough to cover your costs," he said.

U.S. Merchant Systems in Fremont, Calif., offers about four cash advances to every loan it sells, with the reason being that merchants prefer the flexibility of an advance to the rigidity of a business loan, said regional sales director Jeremy Abel. There are also fewer qualifications for obtaining a cash advance.

There are some benefits to loans that Abel takes into consideration. For example, a business loan can provide 30% more funding than a cash advance would. There's also more flexibility on rate because the loan takes into account the business' overall stability and expenses.

"We don't want to get a merchant into a situation where an advance or a business loan is going to hurt them," Abel said.

In A Merchant's Best Interest

There may be advantages and disadvantages to selling each type of funding, but industry members say merchants tend to be happiest with whichever option puts their needs first.

Ginsberg of Super G Funding says some ISOs that offer cash advances do not always look out for their clients' best interests.

"If an ISO can place a loan with a vendor that pays a 5% commission or a 12% commission, most ISOs are going to push the client to the lender that pays the 12% commission, regardless of whether it is a worse deal for the client," he said.

Mercury Payments in Durango, Colo., leaves much of the decision up to third-party vendors who work closely with merchants to install their point-of-sale systems.

"By being there on site with the merchant, they know what is better suited for the merchant," said Earl McGee, vice president of merchant operations and protection who runs Mercury Payments' merchant financing program.

If a merchant needs money for a new store, a cash advance might be the best option because there's no way to know what the merchant's cash flow will be at that new location.

But for a hardware or software upgrade that won't affect cash flow, a loan tends to work better, according to McGee.

"We've had great success with both types of programs and continue to see growth," he said.

Martorelli of Turnkey talks to clients to get a feel for which loan type they prefer. "If you establish yourself as a consultant–someone who generally wants to put a business' best interest before them–then either program will help with retention," he said. **ISO**

STAYING IN THE GAME

By promoting merchant cash advances, ISOs can turn a profit and retain clients.

BY AUTUMN CAFIERO GIUSTI


C.J. Burton

The power of an email blast offering merchant cash advances came as a shock to Kevin Frisch, owner of Banquest Payment Systems, a Lakewood, N.J.-based ISO. He was inundated with more calls and email messages than he could handle.

"The response was overwhelming. We were blown away," Frisch told *ISO&Agent*.

With fewer banks lending to small merchants these days, alternative business lending is in demand more than ever. It's even attracted investment from Wall Street hedge funds and venture capitalists.

All that translates into a welcome money-making opportunity for ISOs struggling to find additional revenue streams as merchant acquiring becomes more competitive.

"Alternative lending is skyrocketing, and I think you're going to see more and more of it in the coming years," says Darrin Ginsberg, founder and CEO of Super G Funding LLC, a Newport Beach, Calif.-based lending company.

Of the ISOs and agents interviewed for this article, most consider merchant cash advance a highly profitable product and a valuable retention tool. Some ISOs have even started taking a hybrid approach to their business, focusing on lending as well as merchant acquiring.

But cash advances can become a costly proposition for ISOs and merchants alike. ISOs can earn more by putting up some or all of the money needed to fund advances, but they should have a lot of cash on hand to pull off that kind of venture.

For merchants, cash advances have come under scrutiny for high interest rates and short repayment periods, making it difficult for some businesses to pay off the debt.

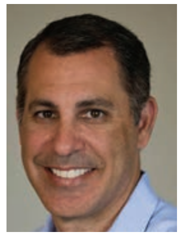
"It's expensive money for the merchants," said Michael Steinberg, who works in Miami Beach, Fla., as an independent liaison between merchant cash advance companies and ISOs.

In spite of the risks, ISOs point to several advantages of selling merchant cash advance.

Frisch said the income Banquest takes in from a cash advance far exceeds what the ISO can make on any merchant account. "It's beyond comparison," he said.

Because setting up a cash advance requires asking merchants questions about how their business works, Banquest has forged a much stronger bond with its borrower clients than it would through just a merchant-services account alone.

"They will never call you to discuss their rates. They're yours," Frisch said.



"Alternative lending is skyrocketing, and you're going to see more of it in the coming years."

-Darrin Ginsberg, Super G Funding

Small-Business Funding Void

Based on his day-to-day interactions with ISOs and merchant cash advance companies, Steinberg said the cash advance business is strong right now because banks are not lending money to small businesses.

Without cash advances helping small merchants, Steinberg believes a substantial number of them would stagnate or even go out of business. "I know that in the long run, I have helped way more businesses than I have hurt," he reported.

Jeremy Abel, regional sales director for U.S. Merchant Systems in Fremont, Calif., said he has witnessed cash advance rescue a struggling business.

One of his agent's clients, a stereo equipment business, was facing the prospect of having to close its doors after facing a steep decline in business right before one of its busiest times of the year.

The business had moved to a new building, but its customers didn't know about the new location. Some dedicated customers had started to think the store had closed.

Abel helped the agent set up the business with a cash advance that funded marketing for the new store. "The amount we got him was good enough to keep him in business," Abel noted.

"It doesn't hurt my feelings when I get a check for $1,700 for providing merchant cash advances."

- Michael Noel, independent agent

ISOs Cite Pros, Cons Of Advances

Cash advances can help ISOs boost revenues greatly, but some acquirers have mixed feelings about them.

Independent agent Michael Noel of Glastonbury, Conn., has been in the payments business for 25 years, but he is a relative newcomer to selling merchant cash advance.

He resisted for a long time because he felt like it took advantage of mer-

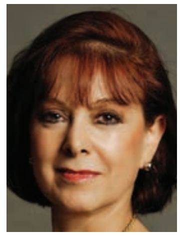
chants. But his clients begged for it, and he started losing customers to competitors because he didn't offer it.

So this past year, Noel took the leap into the cash advance world, and he admits that there's a lot of money to be made.

"It doesn't hurt my feelings when I get a check for $1,700 for doing this," says Noel.

Getting involved was a challenging decision for Noel nonetheless, and he remains conflicted. "It seems like the money is too easy," he said.

But Noel insisted the most compelling reason for providing cash advances, beyond the money, has been account retention. "I felt I needed to get involved," he said.



"I've had good experiences, and I've had good experiences with merchant cash advance."

- Frene Glemby, CardPlus Payment Systems

Cash advances came as a last resort for Ferne Glemby, president and owner of CardPlus Payment Systems LLC in Westwood N.J.

"I've had good experiences, and I've had very bad experiences," she says.

In 2007, she had a longtime client who owned two major restaurants in Manhattan and wanted to expand to California. Glemby set him up with nearly $1 million in funding to help with the expansion.

After about a year in business, it started to become clear that this new restaurant concept didn't translate to the California market. And at the same time, the national economy collapsed into recession.

The one-two punch cost him not only his California restaurant, but also one of his longstanding Manhattan locations. And after 10 years of providing service, Glemby lost a customer.

"I made a lot of money. None of it felt good after that," she says.

Assessing Risk Of Advances

Making money through merchant cash advance requires some risk and knowhow on the part of the ISOs, observers said.

When a local hair salon saw an opportunity to expand its business by acquiring the space next door, the timing wasn't in the business' favor. Money was tight, and the salon was still paying off a previous merchant cash advance.

Despite the odds, the salon contacted its merchant services provider, Turnkey Processing, about getting another advance.

"We decided to take that risk and funded them for a lot more than what they'd be eligible for under anyone else's guidelines," said Steven Martorelli, CEO of Meriden, Conn.-based Turnkey, which has its own in-house lending program.

Within three months, the business' revenues tripled, and they were able to pay off the loan sooner than originally expected.

Knowing your clients can be key to approving them or rejecting them for cash advances, and it can become a slippery slope for merchants to use an advance to catch up on bills, Martorelli noted.

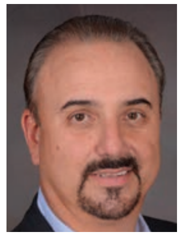
"An exploitative cash advance can bleed a business until it dies, and that's what you want to avoid as a merchant, and more importantly as a lender," he said.

Merchants that can obtain additional inventory to improve their profit margins make the best candidates for merchant cash advances, according to Mike Fox, vice president of sales for Group ISO Merchant Services in Irvine, Calif.

In one example, Group ISO works with a liquor store that had the opportunity to stock up on their inventory right before the holiday shopping season.

Without a cash advance, they wouldn't be able to purchase the inventory on their own.

"When we gave them the opportunity, their profit margins went from 20% to 60% for the holiday season," Fox said.



"If we don't split funds with a merchant cash advance company, we could end up losing business."

- Mike Peters, TransFirst

Cash Advances For ISOs, Too

Like the merchants they serve, sometimes ISOs and agentsneed to borrow money. That's why Super G Funding LLC has found a niche lending money directly to ISOs.

ISOs that borrow from Super G typically use that money to pay for products, services and projects that will help grow their business, such as opening a new office, hiring more agents and, in some cases, funding cash advances for their own merchant clients.

Super G Funding founder Darrin Ginsberg said it can be highly profitable for ISOs to sell cash advances, with commissions ranging from 5% to 12% on average. "On a 100,000 loan, that's a $12,000 commission. It takes a lot longer for an ISO making $100 off a merchant account to make $12,000," Ginsberg says.

Ocean Equity Group is one of Super G's success stories. Ocean Equity, based in Virginia Beach, Va., operates as a hybrid ISO and merchant cash advance business.

The company got its start by focusing on merchant services. But through borrowing from Super G, the company was able to increase its client portfolio to focus on cash advances.

Funding advances can become expensive, though. Ocean Equity Group CEO Ed Zinner said that he expects to forgo about 25% of the loan amount, on average. "If you can come out of it with a 12% to 15% profit, then you're doing well," he said.

Relief From Pressures Of Acquiring

More ISOs are looking to cash advance sales to ease some pressure from the highly competitive acquiring arena, it appears that trend is only picking up steam.

Zinner started shifting his focus to cash advance because the cost of merchant acquiring doubled from when he started out, and merchant attrition rates were reaching 20%. "If you're losing 200 merchants a year and have 1,000 total accounts, you've got to write another 200 just to stay even," he says.

Cash advance has been an important retention tool for TransFirst LLC, a processing company in Hauppauge, N.Y. TransFirst doesn't offer its own lending program, but instead receives numerous weekly calls from merchant cash advance companies looking to split funding with them.

The deals yield no profits and few merchant referrals for TransFirst. But executive Mike Peters sees offering cash advance as a necessity.

"If one of our clients or merchants does in fact go to this company for a loan, and we don't split funds, we could end up losing that business to another processor," said Mike Peters, senior vice president of commercial services sales for TransFirst.

Merchants can feel a lot more comfortable working with someone they already know.

Frisch of Banquest Payment Systems said his clients have been grateful that his company offers a service that they can't get from their bank or from anywhere else.

"Their banks are not helping them, and if you come through with a significant-size loan when they're in a crunch, they love you," he says. **ISO**

"The response to merchant cash advances was overwhelming. We were blown away."

- Kevin Frisch, Banquest Payment Systems

Weathering A Tech Revolution

Apple Pay seems likely to touch off such profound change that legions of salespeople will find themselves unequipped for the transition, an ISO CEO says. **BY ED MCKINLEY**

Apple Pay appears poised to foment a technology revolution that could force acquirers to rewrite the job descriptions of their salespeople, says a prominent ISO chief executive.

The new payment system from Apple Inc. makes it imperative that ISOs and agents become technology advisors—not just salespeople, according to Jared Isaacman, CEO of Allentown, Pa.-based Harbortouch.

"The ISOs and sales personnel of our industry can't just talk to merchants about credit card processing rates," Isaacman said. "They have to talk about point of sale technology…and mobile loyalty and mobile rewards."

For several years, the payments industry has anticipated the dawn of the mobile payments era, as evidenced by tech acquisitions and major investments by Google Wallet, Softcard (formerly Isis) and PayPal, Isaacman said.

But until the Apple Pay announcement, no one seemed able to say exactly when mobile would gain momentum. Some even argued that cards with magnetic stripes still worked well enough, meaning that the old system wasn't broken.

"But it's not about it being broken or not," Isaacman said. "It's about it being better." Becoming better means improving the consumer experience and tying in loyalty and rewards, he noted.

Many in the industry have been waiting for Apple to make its move into mobile payments to bring those improvements to the masses. Until now, the public has been either uniformed or unimpressed with the idea of paying with their phones, but Apple can change that, Isaacman said.

"Apple has the power to shift consumer behavior," he said, referring to phones and computers. "They've done it before in a big way."

And it appears that Apple's also changing the behavior of the payments industry. As Apple prepared to enter the industry, it persuaded established companies to sign on as partners.

"Have you ever heard of any of the card issuers like Bank of America and Chase going out of their way to rebate interchange just to ensure that they're able to participate in a payment method? That's unheard of," Isaacman said.

Besides those discounts, Apple has pried loose advertising dollars from major retailers, he noted.

What The Concessions May Bring

What the industry will receive for those concessions goes far beyond the Near Field Communication technology that Apple is including in its phones to facilitate mobile payments, he continued.

Apple Pay enables consumers to use a thumbprint to complete a transaction, which has implications for card-present and card-not-present purchases. And the apps will tie to mobile rewards.

"NFC is not just Apple Pay," Isaacman said. "The magic of Apple Pay that is going to change the consumer experience—what's going to make people want to use it over and over again—is not going to be the NFC. It's going to be the in-app functionality."

But someone has to alert merchants to those capabilities and help them adopt and adapt.

"That's not something that happens on its own," Isaacman said. "The sales personnel of the industry are going to have to explain how that works. How do you generate campaigns at your business to drive customers in? How do you analyze this customer data that you now have available because of what Apple Pay brings you?"

To conveny all that, ISOs and agents will have to become a lot smarter about mobile payments, he said.

Meanwhile, Isaacman said he finds Apple Pay exciting as a consumer, an Apple fan and the CEO of a company that's part of the "great process" that's taking place.

Confidentiality agreements prevented him from providing many details about how Harbortouch collaborated with Apple in the Apple Pay launch, but he acknowledged that some of his software developers spent time preparing in Apple's California offices. In addition, 40 or 50 of the more than 100,000 Harbortouch merchants participated in tests of Apple Pay.

The Apple Pay launch aside, Isaacman also said his company has been preparing

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for a tech revolution for some time.

"It was obvious for the last couple of years that the old ISO way of doing things by knocking on doors, mailing postcards and sending emails to say, 'I'll lower your rates,' was becoming a dying method of doing business," he said.

His company embraced the transition six years ago when it developed point of sale systems and changed its name from United Bank Card, which conjures images of plastic cards, to Harbortouch, which is intended to suggest technology.

Meanwhile, the company hasn't abandoned its core business of processing cards but instead uses technology to attract merchants to its processing.

Apple Pay represents a "gargantuan leap" in technology, and Harbortouch expects to introduce Apple Pay-related products. Those products, which Isaacman declined to describe, will demonstrate that working with Apple in advance of the Apple Pay introduction put Harbortouch ahead of many companies, he said.

Some ISOs Won't Make Transition

Does that mean that ISOs working with Harbortouch are well-grounded in the new technology? "We analyze our ISO partners constantly," Isaacman said. "We look at thousands of ISOs. We have a lot that partner with Harbortouch that focus on technology. Technology is the tool to get the core competency of credit card processing."

Then, too, a "good chuck" hold onto the "lingering terminal world" business model of 30 years ago, he said.

Isaacman sends the old-fashioned ISOs letters, email messages and pop-up alerts, while also admonishing them at meetings about "how scary that is" to remain committed to the past.

Of that latter group, some will change and some won't, he predicted. For those who make the transition to a more tech-oriented industry, rewards will follow.

"It's a very exciting time for those that embrace it," Isaacman said. "This is certainly not a time to relax." **ISO**

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How And When To Place A Value On An ISO's Merchant Portfolio

THERE ARE MANY REASONS YOU MAY WANT to know what your portfolio of merchants is worth. Some ISOs and agents are just curious, and others have specific reasons for needing to know.

Let's examine the process of valuing your portfolio and explore a number of reasons wanting to do so.

First, choose a professional to give you a valuation opinion. A number of companies and individuals perform that service in the bankcard industry.

Use an appraiser familiar with the bankcard world, given that portfolios are valued based upon sales prices in the industry.

I have seen appraisals by valuation experts from outside the industry that severely undervalued portfolios because the "experts" did not know what metrics were used when portfolios are bought and sold in our industry.

That brings up the issue of what is being valued and the valuation methodology. There are many ways to value a business.

One method is the expected discounted cash flow method where the future cash flows of the business are discounted to present value to determine a value.

Another way is to look at public companies' stock value and use that benchmark to extrapolate a value for a company. But that only works for large companies.

I am talking about valuing the typical agent or ISO portfolio that could range from a few thousand dollars of monthly residuals up to a few hundred thousand dollars per month of residuals. For the most part, those portfolios sell on the open market for a value that is a multiple of the average monthly residuals paid to the agent or ISO.

To me, that is the most accurate value one can place on these portfolios. The value is the amount a reasonable buyer would pay for the portfolio to a willing seller in the open market.

So the valuation provides a range as to the expected value that the portfolio would sell on the open market. That "arm's length transaction" type of valuation is generally favored by the courts and others that rely on a valuation of a portfolio.

Experts from outside the industry may severely undervalue portfolios because they don't know what metrics acquirers use when they buy and sell residuals.

To that end, you can expect the person valuing the portfolio to request from you many of the same things that a typical potential buyer would want to see. That includes, the monthly residual reports for the portfolio and the agreement(s) under which the residuals are paid.

The expert reviews the documents to derive an average monthly residual amount to use in the valuation.

The next thing is to determine the appropriate multiple of the monthly residual to use to ascertain a value, which is usually expressed as a range, rather than one specific number.

The expert also looks for risk factors in the portfolio that could change the multiple.

The result of all that work is typically an expert report on the value of the business. The expert provides the client with a written explanation of the value of the portfolio, expressed as a range—not a specific number—and an explanation of how the portfolio value was determined.

Now you know what your portfolio is worth but why would you need to know that other than for the sake of curiosity?

One of the reasons I have been asked to perform valuation reports is for tax-planning. People want to know how much their business is worth so that they can determine how to pass it on to their heirs with a minimum amount of taxes due on the transfer.

Most of my clients earn more than 95% of their revenue from the monthly residuals they receive generated from their merchant accounts. So if you know the value of the residuals, in essence you know the value of the business.

Once you know the value of the business, you can design ways to try to reduce any potential tax bill when bequeathing it to your heirs.

Multiple owners can use that same value to plan how to address the situation if one the owners passes away or become disabled.

Many acquiring businesses have two main owners who each own 50% of the company. If one of them is unable to help run the business, the other owner is faced with having to work with and operate the business with the other owner's family or heirs, which most people want to avoid.

So, in their corporate documents they provide for one owner to be able to buy out the other should one become disabled or die.

To fund such a buyout, it is important to know the value of the asset. Valuing the company gives the owners

the information they need to prepare for such an eventuality.

That usually takes the form of life insurance on the owners that is used to fund the buyout. By getting a proper valuation the owners are able to get the right amount of insurance to fund an orderly buy out.

One of the most common reasons for valuation reports is divorce cases. In a divorce case, one of the most contentious areas is money and how much the marital asserts are worth.

To that end, valuation reports and testimony in court by an expert witness who understands valuation can become critical to determine who gets what in the divorce.

Appraisers using other methods to value an ISO or agent portfolio may severely under- or over-value what the portfolio could fetch on the open market. Getting an appraisal based on methods typically used in the bankcard industry can be a game changer for a seller in such a case.

Another time to get a valuation of your portfolio is when you are going to sell it on the open market. By doing so, you will have a better idea of what to expect to be paid at the end of the sale process.

If you receive some sort of lowball offer, you will be in a position to counter with a more reasonable amount. Getting a valuation before you sell can make sure that you get all you can in a sale and that you don't get shortchanged.

ISOs should place a value on a portfolio when they decide to sell, if they're settling a divorce, when a partner dies or just because they're curious. Whatever the motivation, it pays to get a valuation by an expert who's well-grounded in the acquiring industry.

And finally, another use for such valuations is in the context of litigation, most typically when agents are sued for moving merchants—the term for leaving an ISO and taking along some of the accounts.

In legal cases, the law generally holds that to prove damages the plaintiff must prove in a non-speculative manner the value of what it has lost.

To that end, if a sales agent has moved a number of merchants to another processor in violation of a non-solicitation provision, the plaintiff should prove the value of those merchants. And what better way to do so than to show what the plaintiff could have sold those merchants for out on the open market.

Be it just for the sake of curiosity, or due the fact you are in a contentious lawsuit, there are many reasons to find out exactly what your company is worth.

But make sure that you use someone who has experience in our industry. And don't be afraid to ask about their qualifications, the number of times they have performed valuations and whether or not they have qualified as an expert witness in court.

By hiring someone with the right credentials you can ensure you engage an appraiser who can accurately value your business. **ISO**

Paul Rianda specializes in providing legal advice to the bankcard industry. Reach him at paul@riandalaw.com.

Apple's Quick Development Pace Scares Retailers

BY DAVID HEUN

Apple's habit of frequent tech updates doesn't reassure merchants accustomed to consistency when it comes to accepting transactions.

"I talked to a major retailer not long ago who said he is still waiting to see what happens because he doesn't want to make a bad decision about what to invest in," said Richard Mader, retailer consultant and president of Bernville, Pa.-based Mader International Consulting.

While the EMV transition and industry-wide focus on security have made point of sale upgrades inevitable, many merchants have seen technology change so fast in the past five years they fear investing millions of dollars in an upgrade now, because something better may surface soon afterward, Mader said.

However, there's a strong case for NFC. In a recent report, Javelin Strategy & Research reinforces the theory that NFC is worth the investment, particularly since the card brands made NFC contactless capabilities at the terminal a recommended part of the EMV liability shift in October 2015.

Calling NFC "the payment standard of the future," Javelin said Apple Pay, coupled with momentum for the technology globally, makes NFC a solid proposition. The introduction of host card emulation, which makes NFC possible through applications while bypassing the secure element in a mobile handset, also opens doors previously blocked to merchants by mobile network operators, Javelin said.

"Since the Apple announcement, we have talked to major terminal vendors Verifone and Ingenico and they say that almost all of their systems are now NFC-enabled," said Mary Monahan, head of mobile for Javelin.

Before Apple burst into the payments landscape in early September, the number of NFC-enabled terminals being sold hovered between 70% and 80%, she said.

Now, wallet providers embracing NFC represent an impressive list that would equate to consumer and merchant adoption over time, Monahan said. **ISO**

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Adding ISO-Related Features

Apriva is incorporating analytics and management tools into its software, and it's also providing a portal where merchants can get to know their clientele. **BY DAVID HEUN**

Apriva has added data analytics and business management tools to its payments software for bank and merchant-services clients, along with a Web portal where merchants can review consumer behavior.

The portal, called AprivaPay Plus, provides ISOs and branded partners with data on activation date, customer location, state, city, end user activity, credit card transactions processed, device types, operating system versions and other insights.

ISOs cannot find that type of detailed information in any other payment gateway software, said Ben Hurley, director of mobile products for Apriva.

AprivaPay Plus focuses on payment acceptance through mobile card readers on smartphones and tablets, but will also connect with a digital currency gateway and universal POS application to handle upgrades of the EMV-enabled terminals that the Scottsdale, Ariz.-based company announced recently.

Works With Android And Apple

The payments software will be compatible with Android devices as well as Apple's iPhone 6 and iOS8, allowing Apriva to route new Apple Pay payments if their clients choose to accept those Near Field Communication transactions, Hurley said.

Apple unveiled its Apple Pay mobile pay system Sept. 9.

The current flurry of activity in payments security and mobile payments technology provides perfect timing for the AprivaPay Plus announcement, said Angela Angelovska-Wilson, a financial services and banking lawyer at Reed Smith LLP.

"These companies that are going to help the smaller merchants be able to take and process all of the different types of payments will be doing very well," Angelovska-Wilson said in a phone interview conducted recently with *ISO&Agent*.

Before the Apple announcement, companies like Apriva could not be certain which way the payments winds were going to blow in the U.S., Angelovska-Wilson said.

"No one could agree in the U.S. market on mobile pay, as there were so many options with the card brands and startups," she noted.

As such, Apple comes into a maturing market, Angelovska-Wilson said. In turn, "the software and IT developers of mobile payments acceptance will be very busy over the next couple of years."

Apriva has been preparing for just such an onslaught of mobile payment transactions that many observers believe are likely to occur as the U.S. shifts to EMV terminals and NFC readers at the point of sale as well as the mobile POS, Hurley said.

"When you think of the cost of a traditional terminal and payment network, it is expensive," he said. "AprivaPay Plus fits on a bring-your-own-device model and it downloads onto a standard smartphone, so many people have access to it."

Software, Not Hardware For Apriva

Apriva does not provide mobile card readers, preferring to remain a software developer as opposed to a payments hardware provider, Hurley said.

"We integrate and certify our encryption keys with third-party companies that provide readers for our large customers [banks and processors]," he said.

Clients using AprivaPay Plus will have access to detailed information on their brand's user base, including demographics, geo-location, user engagement statistics, device information and marketing data, according to the company.

The software connects to a merchant Web portal with online tools for merchants to manage inventory, and analyze sales and generate reports, Hurley noted.

"Managers and employees can now use the portal to bring data into their accounting systems and back-office activities to review mobile payment activity and better understand consumer behavior," he said. **ISO**

Apple Pay Advances The Cause Of NFC And EMV Technology

MANY OF US IN THE PAYMENTS INDUSTRY embraced Apple's headlong dive into mobile commerce. Some of the steps Apple is taking seem like bold affirmations of recent innovation in the market.

For example, its decision to integrate NFC chips into its Apple Pay services—which are embedded in the iPhone 6 and Apple Watch devices—as a way to facilitate 'tap-and-go' payments may propel that technology to greater mass adoption among merchants.

In addition, Apple announced it would support EMV. While not as glitzy or visually appealing as NFC tap-and-go payments, the integration of EMV into Apple Pay indicates that the inevitable may be upon us shortly.

Bill Nichols

After years of conjecture, speculation and prognostication, the rollout of EMV in the U.S. is steadily moving forward. The card brands have not only implied it, they have said outright that EMV is coming—and to be ready.

Apple's move reinforces that belief, so the time has come for acquirers to ensure their infrastructure and business practices facilitate the transition to EMV and support NFC as well.

It makes sense to follow Apple's lead and support that technology. The challenge is how to do that in a non-disruptive manner, in ways that preserve the flexibility to support multiple—and even future—standards, and with minimal cost.

Merchants hesitate to disrupt operations or jeopardize sales and efficiency i to adopt new technology. Payment service providers must overcome the inertia of the legacy way of doing things, such as relying on a network of made-for-purpose terminals that would most likely inhibit the adoption of new technology.

Merchants should update endpoint capabilities, and there are readily available options to make it happen.

One such method to carry merchants forward is to rely on cloud-based architecture to handle the complexities of differing payment presentation methods, acceptance options and processor requirements.

Through those offerings, providers are finding benefits that include better security and reliability, superior flexibility, and ease of delivering new features and services.

For providers and merchants facing the introduction of NFC and EMV—and its potential for disruption—the prospect of using new tech to ease the integration could not come at a better time.

The superiority of a cloud architecture for payments is predicated on a reliable and flexible gateway that can act as intermediary between thousands upon thousands of terminals and data centers that manage authentication and processing.

Cloud-based services and the cloud itself have matured in stability, reliability and security. That's true in payments and mobile commerce where the security of sensitive financial and transactional data is paramount.

The cloud provides universal access to the best technology, not only for processing payments but also for securing transactions. Gateways can virtually exist anywhere—and everywhere—through the sophisticated diversity and replication practices of cloud platform providers. That virtual existence delivers reliability and security that is difficult, if not impossible, to attain in dedicated on-premise gateways. Cloud-based payment gateways deliver a cost-effective and flexible alternative.

A good gateway can support virtually any type of payment acceptance endpoint, including all types and makes of legacy dial, IP, and wireless terminals, smartphones, and even browser-based endpoints, such as flip phones, and computer terminals for e-commerce.

An effective gateway should process multiple transaction types, including EMV chip-and-pin and chip-and-signature payments—depending on the geography, NFC payments, QR codes, and card swipe, which can originate from legacy terminals or through magnetic stripe readers connected to audio jacks on smartphones and tablets.

Cloud-based architecture generally lends itself to open and flexible models, but that flexibility has to remain within the bounds of security.

Responsibility for endpoint security and compliance is shared between terminal providers and merchants, but security of sensitive data in flight is provided by the gateway. Hosting the gateway in the cloud provides the reliability and flexibility to deliver effective and secure transactions. All data, including card numbers and personal details, are encrypted and secure.

While a flexible and secure gateway is critical, all the system intelligence actually resides in the cloud—or the secure data center that serves as the brains of the operations. Cloud environments exceed PCI security mandates and seamlessly manage EMV and NFC.

The cloud offers state-of the-art security. Using the cloud, acquirers and merchants can comply with industry standards and adopt new technology whenever it makes business sense. **ISO**

Bill Nichols is president and CEO of AnywhereCommerce.

Preparing For The Inevitable

Ingenico is combining its EMV experience with Apple Pay's momentum to get ready for America's chip-card conversion. **BY DAVID HEUN**

Ingenico Group is using its experience in EMV-chip terminal upgrades and new momentum from Apple Pay to position itself for the U.S. conversion to smart-card technology.

The French terminal maker has seen a significant bump in requests for Near Field Communication configurations on EMV terminals to accept Apple's new mobile payment system, said Thierry Denis, president of Ingenico North America. The U.S. card networks are pushing most companies to accept EMV-chip cards, which improve security over magnetic-stripe cards, by October 2015.

EMV Shift Benefits Ingenico In U.S.

The heightened interest in NFC has helped Ingenico, considered the top terminal provider globally, improve its standing in the U.S., which is dominated by competitor VeriFone Systems Inc.

"We had a vision to double our market share in the U.S. by the end of 2015, but we are there already and our third-quarter statistics will bear that out," Denis said. "Progression in the U.S. is very quick for us now."

Ingenico's U.S. market share stands at roughly 30%, or double what it was two years ago, but still about half that of VeriFone, said Gil Luria, analyst with Los Angeles-based Wedbush Securities.

"Ingenico has a great emerging-markets business, including in China, and that is where most of their growth is coming from," Luria said. "They are in good shape because the EMV cycle in the U.S. market just adds on top of that."

Even before Apple's Sept. 9 announcement of the iPhone 6 and Apple Watch's NFC payment capabilities, Ingenico was seeing strong progress in merchants' upgrades to EMV technology, Denis said.

After the card networks' 2015 deadline, fraud liability shifts to the entity not capable of handling EMV transactions. Those that miss the deadline can still accept magnetic-stripe cards.

"Some who were not decided yet about how to approach EMV are now in a hurry and want NFC," Denis said. "But the portion of merchants not wanting EMV at all was really becoming very small."

Ingenico's efforts to sell EMV hardware received a boost when the U.S. payments industry came to an agreement on how to route EMV debit transactions to comply with the Durbin amendment, which requires that merchants have a choice of routing options.

Merchants also won't have to change anything on their terminals to accept Apple Pay transactions, Denis said.

"Apple Pay's advantage is that it is using the traditional payments infrastructure, and we have confirmed that for our customers that they won't need anything else," Denis added. "We will have it ready, and all you have to do is turn it on."

U.S. Bancorp's payment processing unit, Elavon, announced this week it will deploy Ingenico EMV terminals to its merchant clients in the hospitality, health care and education sectors in addition to retail.

Ingenico also plans to use its Roam subsidiary to capture more mobile point of sale interest in the U.S. The company will also benefit from its upcoming acquisition of online payments provider GlobalCollect, Denis said. Ingenico began the process in July of acquiring Global Collect for $1.2 billion.

"We are very different now," Denis said. "We are gaining market share in very different segments."

Similar Product, Different Markets

Its rival VeriFone has been focused on providing terminal technology in the petroleum and taxi cab sectors. But the two companies remain similar in their product offerings, even if they target different segments, Luria said.

Competition between Ingenico and VeriFone may stabilize, with both dominating certain markets because Equinox has faded as a No. 3 competitor, he said.

Toronto-based NBS Payment Solutions acquired all of the assets of Equinox Payments earlier this year, but the company plans to continue to operate under the Equinox name.

"Pax Technology in China is probably considered the No. 3 terminal maker in the world, but it's a distant third, with Ingenico and VeriFone being much larger," Luria said.

Pax Technology and Spire Payments in the U.K. have made cases for themselves as the No. 3 terminal providers behind the major manufacturers. **ISO**

Apple Pay Won't Bring The End Of The Plastic Credit Card Era

THE DEBUT OF APPLE PAY HAS FAR-reaching implications for the future of the U.S. payments system and has cast a bright light onto murky mobile wallet payments. Some may even wonder if Apple Pay is poised to eclipse plastic card payments.

As the digital payment era unfolds, we can take a moment to look at the pre-Apple Pay world—as measured in an August 2013 survey of 4,200 households by Phoenix Marketing International. There are several reasons why the end of plastic payment cards is nowhere in sight.

First, only a small percentage of merchant terminals (estimated at no more than 5%) currently accept near-field communication payments, in which two devices placed at close range perform transactions via a wireless connection.

Moreover, a significant portion of consumers are wary about the security of NFC transactions. Twenty-two percent of smartphone owners who have not used a mobile payments app said that "tapping a phone against a merchant terminal" was a major security concern.

While smartphones are on the rise, they are not yet ubiquitous: 65% of households currently own one. That leaves more than a third of households for whom mobile wallets, in general, are currently not an option.

Apple Pay's impact will also be limited by the fact that Android phones are more prevalent; less than half of smartphone owners have an iPhone. And nearly half of smartphone owners say they are unlikely to use a smartphone application for in-store payments.

Among users who have yet to use a mobile payment app, 48% said that they were uninterested in using one, 38% were neutral, and just 14% said that they would be likely to adopt it.

Lastly, while Apple enjoys a strong reputation, some Americans may not be willing to trust them to facilitate their transactions. Last year, 22% of smartphone owners indicated they would consider a mobile payment from Apple. A similar number (17%) said they would go with Google, but banks (72%) and PayPal (41%) were far more popular picks.

A high percentage of consumers still use paper checks to pay bills online. When it comes to payments, old habits die hard.

The Apple Pay announcement heralds the likelihood of substantial increases in NFC-ready terminals. Because it coincides with current merchant investments in EMV-compatible terminals, merchants are more likely to make sure the upgrades include NFC compatibility.

And Apple Pay's fingerprint identification and tokenization technology will help reduce consumer NFC security concerns. Nevertheless, there is still a long way to go before it achieves scale.

Apple Pay brings credibility to NFC and demonstrates NFC's viability. That leaves the door open for other NFC wallets, such as Softcard and Google—and for entrants to increase the competition.

But note that NFC technology is 20 years old. It may be deemphasized in favor of newer technology.

History suggests that plastic payment cards will remain viable for a long time, even as use of digital cards escalates over the next decade or two. Look at the bill payments industry: while the incidence of online bill pay is high, research shows that it will never reach 100%.

A high percentage of people who pay bills online still pay some of them using paper checks. When it comes to payments, old habits die hard. **ISO**

Greg Weed is director of card performance research for Phoenix Marketing International.

Roam Preps For Future Of Tablets

BY JOHN ADAMS

As the mobile point of sale market matures, more merchants will switch from smartphones to tablets, which Roam's Scott Holt said requires device-specific changes in design and technology.

"The hardware designed for smartphones does not always work well for a tablet," said Holt, a vice president at Ingenico, the terminal manufacturer which develops and markets Roam's mobile point of sale products.

Roam has redesigned its mobile POS technology and user interface to match the mobile POS app to the merchant's computing device.

"These are all native products that are designed for iOS and Android in all form factors. Whether it's a tablet, a smartphone, a 'phablet,' etc., it's all native architecture," Holt said.

Roam's new version, called ROAMpay X5, supports iOS and Android operating systems and accepts mag stripe, EMV chip and PIN, and EMV chip and signature. The company is offering the system on a white label basis, and is targeting ISOs, acquirers, banks and telecoms that sell mPOS to merchants. **ISO**

Taking A Broader View

Barry McCarthy's varied responsibilities at First Data provide a first-hand look at many of the pressures at work in the payments sphere. BY JOHN ADAMS

Barry McCarthy has a number of new jobs First Data, giving him a wide view of the pressures facing payment processors in a world where massive volumes of plastic card swipes are no longer enough to ward off the competition.

"The payments landscape is moving rapidly, and if you're a processor you have to evolve from moving dollars from point A to point B to a solutions provider that's focused on supporting the growth of businesses," said McCarthy, the president of financial services for First Data.

McCarthy's a longtime First Data employee who, along with a number of other executives at the company, recently assumed new roles as the processor adjusts to the growth of mobile commerce, new payment forms, and the rapid ascent of nimble competitors.

The company also faced financial challenges in the recent past, and got some help this year in the form of a Kohlberg Kravis Roberts & Co.-led debt restructuring (KKR, a private-equity firm, bought First Data in 2007).

First Data hired former JPMorgan Chase COO Frank Bisignano to become its CEO in 2013 and named him chairman as well in March of this year.

Bisignano will oversee the business diversification that's part of First Data's recovery strategy, which McCarthy and the other new and recently promoted executives will execute.

"We have advantages that we can use. We have a large card-issuing base, large prepaid card base, a large number of merchants and a debit network that we can combine to develop new products," McCarthy said. "And we see [a lot] of data through processing. That can build risk models and other products to help our clients run their businesses."

After his promotion, McCarthy now leads First Data's Star Network, the company's PIN debit network. He's also in charge of other First Data programs such as TeleCheck, Money Network and Prepaid Solutions. He plans to use those programs to launch merchant services.

First Data is busy planning the rollout of new security and business management tools that surround the transaction itself.

While accepting and moving payments are still part of the company's plans, First Data hopes to shore up merchant relationships by acting as a more diverse and flexible partner.

"For example, we'll soon have a solution that gives consumers more control over their cards, such as turning it on and off based on time of day or zip code, etc.," McCarthy said. "What you'll see is a transition from having transactions going on in the background to also providing innovation and forward-looking solutions."

First Data has been laying ground work for that diversification strategy for about a year. The company's Clover Station tablet point of sale system, which First Data acquired last year, offers a number of other services, such as data-driven security and marketing, consumer feedback and digital gift cards.

Clover Station's technology is driven by open architecture, a developer-friendly and interoperable programming model which McCarthy said creates opportunities to add features that can reside on the tablet along with payments.

"It's far more than just a credit card terminal," he said. "Because it has an open app environment, it allows Clover to operate like an app store."

First Data is also using its credentialing capabilities to gain a favorable position with emerging mobile wallet schemes. It provides tokenization for Apple Pay, which was launched Oct. 20; and handles provisioning for Google Wallet.

First Data is also pursuing in-app payments via its e-commerce product, Payeezy, which lets merchants and their app developers build iOS apps accepting Apple Pay for physical goods and service purchases. Developers the Payeezy software development kit (SDK) and supporting documentation needed to build the app. This SDK also provides the tools to be able to accept Apple Pay in their iOS apps.

"We were an early collaborator with Apple on Apple Pay," McCarthy said. The role positions First Data to provide services tied to Apple Pay, he said. "There were a lot of folks in the ecosystem that participated after the fact, but we were in early." ISO

Guest Column BY RANDY VANDERHOOF

Sharp Increase In Data Fraud Nudges ATM Owners To EMV

ATMS ARE AN IMPORTANT COMPONENT of the move to EMV chip payment technology in the U.S.

In the past, ATM owners in general didn't have much incentive to move to EMV chip technology for fraud prevention.

ATMs' always-online authorization, coupled with the use of a PIN, and relatively stronger security, have historically resulted in lower levels of fraud compared to the retail point of sale.

Today, the industry is finding there is more of an incentive with the rapid increases in ATM fraud rates from magnetic stripe skimming, combined with PIN capture via shoulder-surfing, pinhole cameras and false fronts.

Additionally, MasterCard and Visa have published fraud liability shift dates that directly apply to ATM owners.

Some debit networks, too, have instituted liability shift dates; ask the network(s) supported about their policies.

If ATM owners do not change to chip technology by the designated dates, they could risk taking on additional fraud liability.

For those reasons, many ATM owners are now starting to plan or are in the midst of ATM transition plans and implementation.

There are many considerations and requirements for EMV transition at the ATM. In this article, we will look at three of the major considerations.

Upgrade or Replace?

One of the first steps in the ATM transition to EMV is to take a detailed inventory of your current ATM fleet.

Begin by determining the makes and models of ATMs and the firmware/software in use on those ATMs. With this information, you can decide whether you can upgrade current ATMs, or if you will need to replace them.

Crooks are combining mag stripe skimming with PIN capture via shoulder-surfing, pinhole cameras and false fronts.

Upgrade: Some terminals in the field today have equipment (such as chip readers) and software upgrades available so that the ATM can be made EMV compliant.

If upgrading ATMs, be sure to allow time in the project schedule for getting budget approval and for ordering and installing the required new parts or devices.

Replace: Other terminals in the field are older and EMV-related parts cannot be obtained, or the cost to upgrade to the required components is too expensive compared to the cost of replacing the ATM.

If your ATMs fall into that category, they will be need to be replaced with models that support EMV.

When replacing an ATM, you should also think about physical changes needed in the immediate surrounding area.

For example, replacing through-the-wall ATMs may mean remodeling at the branch in order to accommodate terminals with different dimensions. It's important to plan for such changes in your project plan and budget.

ATM owners have an opportunity during EMV transition to re-evaluate the supported types of ATMs (manufacturers and models), and the number and location of ATMs in the network.

For every unique ATM type an acquirer supports, there are direct costs (e.g., equipment purchase price, third-party service agreements, vendor maintenance agreements and certifications) as well as associated costs (e.g., a test lab with representative terminals, in-house expertise, development that is specific to each terminal make and model).

When evaluating those costs, institutions may determine that the cost of replacing some terminals is offset by the savings realized by supporting fewer terminal types.

Certification, Testing and Approval

Testing and certification is a critical step in EMV transition and can be a lengthy process.

Currently, American Express, Discover, MasterCard and Visa require that ATMs accepting chip cards must have:

- EMV Level 1 Approved Card Reader ("interface module (IFM)" or "hardware")
- EMV Level 2 Approved Application Kernel ("software")

ATM owners are responsible for multiple levels of certifications.

Note that the certifications the payment networks require are designed to test functions that are important to those networks and to ensure that EMV data is handled correctly by the terminal and the network as per the network's specification.

Those certifications will not cover all types of testing that an ATM owner, acquirer or issuer will need to perform.

Regression testing, new feature testing, specific EMV testing, performance testing, volume testing and stress testing may be needed before certifying with a payment network.

Certify the exact ATM configuration and software that will be used in production; therefore, internal testing should be completed before initiating formal certification with the networks.

It is likely that ATM vendors have already obtained all EMV approvals, and that the network certifications will be completed by the ATM processor.

Customer Experience

Customer experience is another critical aspect of the EMV transition, and ATM providers should first consider if/how the ATM experience will change for:

- Customers using a magnetic stripe card versus those using a chip card
- On-us customers versus off-us customers; and whether ATM transactions will be acquired as EMV transactions for all cardholders (including on-us) or just off-us cardholders
- Customers using a motorized card reader versus a dip card reader

If there is a low volume of chip cardholders transacting on the ATM fleet, you may want to work with the application providers to limit customer experience impacts to those customers using a chip card while not chaning anything for magnetic stripe card users.

By adopting that strategy initially, the customer base will not be impacted until they are issued chip cards.

Once you determine that the impact on chip cardholders is no longer acceptable, a different approach may be needed.

For ATM owners with motorized card readers in their ATM fleet, that approach will be transparent with regards to how the card is managed throughout the customer's session, because the card stays in the ATM device as long as necessary to communicate with the embedded chip.

ATM owners with dip card readers in their ATM fleet may use one of two options:

ATM owner-operators should work with vendors, processors and card brands to smooth the transition to EMV chip cards.

1. The dip card reader can be configured to 'clamp down' (i.e. hold onto the card) at initial card insertion.

If the reader detects that the card is a chip card, the reader will continue to hold the card until the transaction is complete.

If the reader does not detect a chip, the card will be released so that it may be withdrawn and the magnetic stripe data can be read to begin the transaction.

2. An alternate approach for dip readers is the "double dip" method.

That approach allows all customers to dip and remove the card, enabling the application to read the magnetic stripe data to determine if the card being used is a chip card (via the Service Code).

Customers using chip cards are then prompted to re-insert their card. At that point, the dip card reader will 'clamp down' (i.e., hold on to the card) for the duration of the transaction.

Customers will then need to be notified when to remove their card.

EMV Switch Requires Planning

Switching to EMV is a large and challenging project. Every ATM owner and operator will undoubtedly have unique needs.

To comply and avoid taking on additional fraud liability, ATM owners and operators should begin planning their transition as soon as possible.

I encourage each ATM owner-operator to work closely with vendors, processors and payment network representatives to ensure a smooth transition to EMV. **ISO**

Randy Vanderhoof serves as director of the EMV Migration Forum. This guest column was excerpted from the EMV Migration Forum white paper, "Implementing EMV at the ATM: Requirements and Recommendations for the U.S. ATM Community." It's available at http://www.emv-connection.com/implementing-emv-at-the-atm-requirements-and-recommendations-for-the-u-s-atm-community/.

GoDaddy Brings Merchants Online

BY DAVID HEUN

Seeking to help its clients benefit from consumers who increasingly shop online or through mobile devices, GoDaddy Operating Co. LLC has launched its online store product for small businesses.

GoDaddy Online Store is part of the Scottsdale, Ariz.-based online domain registrar's strategy to allow merchants to expand their business with an e-commerce presence.

The product helps small businesses build a customized Web store, GoDaddy said in a press release.

GoDaddy handles site construction and coding, while the merchant supplies store name, product descriptions and prices.

The built-in processing tool allows merchants to accept payments from multiple sources, including PayPal and all major credit cards, GoDaddy said.

"Over one million small business owners want to build an e-commerce site every year, but don't always have affordable, easy-to-use and effective tools," said Raj Mukherjee, GoDaddy's general manager of presence and commerce. **ISO**

Looking For More ISOs

Here's a collection of vendors with products that acquirers could promote to their merchant clients for profits, differentiation and retention. **BY ED MCKINLEY**

ISOs and agents are perpetually seeking new value-added products and services that can generate profit and foster differentiation, and three possibilities have come to light recently.

Verifi wants more ISOs to promote its Cardholder Dispute Resolution Network; Forte is searching for more ISOs to sell its automated clearing house and card services; and CARD.com may soon take on more ISOs to promote its prepaid cards .

CARD.com, a three-year-old provider of prepaid rechargeable cards, is using a few ISOs for distribution and may take on more, says Ben Katz, the company's CEO.

"We're certainly interested in the opportunity to get to know more ISOs--and particularly more-upscale ISOs," Katz said. He would prefer to add ISOs to the mix gradually as his company learns the acquiring channel.

Larger ISOs would make the most attractive partners, Katz said. He's also seeking mobile-oriented ISOs because 86% of the CARD.com signups come through smartphones.

As for customers, small retail or restaurant chains might have more potential than single-location businesses, he maintained.

In some cases the company could set up electronic tablets at the point of sale for shoppers to use to order the prepaid cards.

Thus far, the company has sold cards online and through a mobile app, relying on word-of-mouth, promotions by co-branding partners and paid ads on Google and Facebook.

"We want to service the 90 million Americans right in the middle of the economy," he said. Its customers, who earn annual income of $30,000 to $75,000, aren't rich enough to qualify for free checking and might occasionally bounce a check.

Forte Seeks More ISOs and Agents

Forte Payment Systems, which got its start in 1998 as ACH Direct, has a small sales staff to handle inbound business and to concentrate on its specialty verticals, like governmental bodies and agencies, but most of its merchants sign on through ISOs and software companies, said Jeff Thorness, the company's CEO.

He started the firm as an ACH tech company, and it performs almost all functions on that side of the business, including authorization, settlement and funding. On the credit card side, it operates a gateway and does its own underwriting but relies on processors for front-end authorization of transactions.

It's looking for additional ISOs and can handle ACH and cards for them, Thorness said. "We love ISOs, and we love to partner with people," Thorness said.

Since changing its name to Forte in March of last year, the company has been upgrading its virtual terminal, reporting and analytics, and APIs, he said.

Its new approach to tokenization, called Forte.js, works for cards and ACH while complying with Payment Card Industry data security standards and minimizing PCI scope because the merchant never touches unencrypted data, Thorness said

Forte Checkout, another offering, works with or without a wallet, either retaining and tokenizing data or calling upon consumers to re-enter information on subsequent visits to the site. It's for cards and ACH, Thorness said.

A "Kickstart" promotion is offering new developers or merchants free processing worth $100,000, Thorness said.

Verifi Wants More Distribution

Verifi, which was launched nine years ago, began working with ISOs and other resellers two years ago to promote one of its products, the Cardholder Dispute Resolution Network, or CDRN, said Tony Wootton, senior vice president and chief revenue officer.

"Our focus is managing chargebacks, and our flagship product is focused on mitigating chargeback risk," Wootton said.

Disgruntled consumers contact the card issuer when they want their funds back, Wootton said. They seldom approach the merchant, he added.

That phone call or online chat sends an automated impulse to Verifi, which then alerts the merchant to the problem by posting them to a computer portal.

That gives the merchant the opportunity to refund the customer directly or allow the chargeback to go through the system and fight it later. Merchants can have the system customized to fall in line with rules they specify. **ISO**

Another Holiday (Fraud) Season?

Merchants and acquirers have reason to hope this year's shopping season doesn't give rise to as many data breachs as last year's. **BY DAVID HEUN**

Merchants hope this year's holiday shopping season goes better than last year's, when high profile data breaches stole the headlines.

And they should feel optimistic, if MasterCard vice president of emerging payments Oliver Manahan is right.

Major improvements have come in data security over the past year, said Manahan, noting that even as major breaches continue to occur, they don't automatically result in a massive increase in dollars lost through fraudulent transactions.

"As we get into this holiday season, we are absolutely further ahead with security from where we were 12 months ago," Manahan said. "The EMV migration is underway now, and there are more cards in the market and more merchants with EMV devices in the market."

But Nick Holland, senior analyst and payments expert for Javelin Strategy & Research, seems more bearish with EMV, saying at a mobile payments conference in Chicago that with EMV the U.S. remains "woefully unprepared for next year in most respects."

Holland cited recent Javelin research that reveals only 1.5% of an estimated 1.2 billion U.S. payment cards have an EMV chip and only 10% of merchant terminals are EMV-enabled. He also said small businesses aren't close to being prepared, with many of them holding back because fraud losses have decreased.

Such slow progress also speaks to the fact that even if a merchant has an "EMV ready" terminal, it may not have all of the chip readers and other hardware to accept transactions.

Bank of America signaled key movement in chip-based card issuing with its announcement that it was sending EMV debit cards to its customers.

In the upcoming months, the numbers of cards and terminals prepared for EMV will only increase, Manahan said. "It is still just small steps, but we are going in the right direction of higher security."

The small steps will have to become larger steps quickly as the card brands' move away from magnetic-stripe technology with an EMV liability shift of October 2015. At that time, the party unable to handle EMV transactions will bear fraud costs.

Mag Stripes Still Prevail

EMV's progress aside, the upcoming holiday season will be one of the last when magnetic-stripe cards initiate the majority of U.S. transactions.

And that, ultimately, could prove problematic, even as more EMV chip cards are issued, Catherine Johnston, president and chief executive of ACT Canada, a non-profit payments association, told attendees at the Chicago conference.

EMV cards will continue to have mag-stripes as a backup or for when EMV is not in available, she said.

Canada converted to EMV a few years ago, but discovered that mag-stripes on the EMV cards were still being skimmed and the data was later used to commit fraud in the U.S., Johnston said.

Canada's Interac debit network plans to eliminate mag-stripe next year, she noted.

MasterCard and others in the U.S. payments industry are watching to see what other countries do with mag-stripes.

"We believe that in some future date that we would be removing the magnetic stripe and it would make sense at that time," Manahan said. "We obviously are not going to do it next year when there remains a reasonable percentage of mag-stripe cards and devices in market."

Removing the mag-stripe for good is "years out," he said. "We are certainly entertaining those ideas and everyone has that concept in mind, but it will happen in the future when a very high percentage of cards and terminals and ATMs globally are EMV."

Beyond EMV, businesses and issuers are more aggressively deploying layers of payment fraud intelligence in their networks, helping them spot suspicious card activity, halt transactions and issue new cards as needed, Manahan said.

"There's always a lot of conjecture as to what the criminals might be up to with access to so many accounts [after retail or bank breaches], but obviously if you are in the criminal element there is some sort of eye toward the financial gain in it," Manahan added.

Because a spike in dollars lost through

fraudulent transactions doesn't automatically occur after large breaches, how the criminals intend to reap that financial gain represents a "moving target" for law-enforcement officials and security vendors, Manahan said.

Cases Up, But The Take Is Down

Recent Javelin studies indicate that the number of fraud incidents may be on the rise, but the amount of money hackers are able steal through fraudulent purchases is decreasing.

If criminals intend to create fake payment cards and make transactions, the payments security industry has done "a pretty good job of locking that down, so maybe data breaches have become less valuable," Manahan said.

Card data security may get a boost this season if consumers adopt Apple Inc.'s new mobile pay system, observers noted.

This season is the first for new iPhones with the option to make contactless Near Field Communication payments through Apple Pay, Manahan said.

"It is absolutely secure, as all contactless transactions carry some form of dynamic data, so you are already better [protected] than the static data on the magnetic stripe," he said.

Apple Pay will also deploy a unique token for each transaction, leaving payment credentials off of networks or merchant systems. "The data will have less value [to hackers] that way," Manahan maintained.

MasterCard worked with Apple to become engaged in "all aspects of the payment" and remains confident that Apple Pay will prove itself a secure product and will show it can deliver a good customer experience, he said. **ISO**

Faster's Not Necessarily Better When Installing A POS System

WE ALL HAVE A VERY PLUG-AND-PLAY mentality when it comes to electronic devices. The faster I can plug in my device or get through an installation and get back to work, the better.

I'm not just talking about seething over a 30-minute iOS update, or cursing the coffee maker when it takes too long. Does the following thought process sound familiar?

"The faster I can install this new POS system for this merchant, the better."

Well, with POS systems, faster isn't always better.

On occasion, POS systems aren't properly configured right out of the box, which can lead to devastating malware being uploaded onto the merchant system. In other cases, the POS device itself may be missing crucial security patches.

The bottom line is, you can't just plug a POS system in a merchant environment without taking certain precautions.

So how do you compensate for a not-so-secure POS system before you install it in a cardholder data environment? Whether you are installing POS systems for your merchants, or simply advising them on good security practices, here are three important topics to consider.

1) Vendor-Supplied Patches

POS systems age pretty quickly. At least, their security does. Every second after a released update isn't installed, the system falls further and further from security and compliance.

Chances are if a merchant is running an old POS system, it's riddled with vulnerabilities. Maybe they missed a few security patches along the way. Or maybe it's no longer supported by the manufacturer.

Even if you installed a new POS system for your merchants every week (a ridiculous idea, I know), their security wouldn't be foolproof. Technology advances so rapidly that by the time you unwrapped the system and plugged it in, a new update may be waiting to be installed.

That's why updates are so important to maintaining point-of-sale security. I recommend going to the POS manufacturer website to discover the most recent patches and updates for the device right before you install it. Who knows what new security updates may have been pushed?

2) Environment Testing

Secure POS systems can become immediately infected if placed in an insecure merchant environment. That's why you should ensure the merchant's payment processing environment is tested for vulnerabilities immediately before and after POS installation.

The best way to test for system weakness is through a vulnerability scan offered by an approved scanning vendor, but it's not enough just to scan and find problems. The problems must be fixed. Ensure the merchant remediates its vulnerabilities before installing the POS.

Avoid the "install now and scan later" mentality. Many vendors, installers, and merchants fall into the trap of assuming the most recent vulnerability scan covers any problems…even if it was conducted weeks before.

The problem with that assumption is that hackers constantly scan the Internet for holes.

And as soon as they find those holes, they exploit them.

Not patching holes immediately before installation could mean the security of that shiny new POS system was doomed from the beginning.

Making sure the merchant resolves any issues it finds in their vulnerability scan immediately before installing technology will save a lot of heartache in the long run. It may even prvent a crippling data breach.

3) Merchants Take Responsibility

Many merchants believe security is being taken care of by someone else (whether it's their IT guy or their processor) and therefore it's not their problem. They may even think their agent or POS installer takes liability if something goes wrong. As you well know, that is completely false.

It is always the merchant's responsibility to make sure a POS system is secure, fully patched, and devoid of known vulnerabilities. That means it's also the merchant's responsibility to pay for any breaches that result from an insecure POS system.

The good news is, you can help them stay secure along the way. As their agent, it's imperative you help merchants understand the importance of POS security. Your secure installation process will help them improve their security posture, and perhaps even keep them from a data breach.

Technical assistance available

If you need help with POS configuration, vulnerability scanning or security patch installation, contact the POS manufacturer or your PCI partner, who will be happy to help you secure your dmerchant's POS. **ISO**

Matt Brown is a director of business development at SecurityMetrics, and he helps acquirers customize merchant PCI programs. Reach him at mattb@security-metrics.com.

A Secondary Concern

For many fo the tech giants entering the payments field, transactions come second to data collection and analysis. BY ED MCKINLEY

Handling transactions seems secondary for the tech giants now entering the payments industry, says Diane Offereins, Discover Financial Services executive vice president—payments.

Apple Inc., for example, is introducing Apple Pay primarily to sell more smartphones and other computing devices, Offereins suggested in a presentation at the Electronic transactions Association Strategic Leadership Forum.

Google Inc. also harbors secondary designs on the payments business. Its forays into payments, which have yet to gain traction, were designed to further one of the company's goals of selling advertising, she said.

The Merchant Customer Exchange, or MCX, counts the nation's largest merchants among its members. It intends to launch a mobile payments wallet to lower its interchange fees and enable it to control the data it gathers.

Amazon Inc., another aspirant to the payments business, wants to promote commerce and enhance its position as a small-business marketplace. For them, payments constitute completing the purchase chain, she said.

PayPal dominates online payments and wants to expand that business even more, Offereins told attendees. At the same time, PayPal continues to work at expanding its offline business.

All of those companies—as well as players such as Softcard (formerly Isis), Square and LevelUp—sometimes seem threatening to established payments companies. But all could become collaborators instead of competitors, she maintained.

Don't Beat Them—Join them

The challenge for established firms lies in finding ways to help the newcomers operate in the industry, Offereins said.

"Trying to keep competitors out forces them to work around you," she warned.

Apple Pay, in particular, presents opportunities because Apple built its entry into payments world by working closely with the industry's large, established players.

The collaboration seems likely to help popularize mobile payments and bring Near Field Communication into the mainstream, she noted.

If Apple Pay gains enough momentum, it could also set de facto industry standards for mobile payments, Offereins said.

Apple has also designed Apple Pay to guard against hackers, Offereins said. "Security is the main problem Apple is solving," she said.

Security has come to the forefront lately because of data breaches that are costing merchants money and undermining public trust in payments. But even that problem can present opportunities and help the industry achieve its goals.

For example, the Target breach during the holiday spending season last year convinced many merchants of the need to switch to EMV-chip cards, Offereins said.

And EMV brings with it other technologies, such as contactless, she noted.

Stronger focus on EMV and other aspects of security, such as tokenization, also require ISOs to become more familiar with technology so that they can present it to merchants, Offereins maintained. "You, the acquirers, have to make sense of that landscape for your customers," she advised.

Payments Fading Into Background

It's a changing landscape because the convergence of mobile capability, biometrics and location-based technology may make payments disappear into the background, Offereins said.

If payments become a smaller part of the decision merchants make when choosing processors, ISOs and agents should respond by becoming consultants instead of salespeople, she said. ISOs and agents can work with tech companies to do the "heavy lifting" that will finally bring about the long-awaited new era of payments, she said.

"I don't think there's ever been a better time to be in payments" Offereins said. " The smartest will survive and thrive." ISO

Using Host Card Emulation Tech, Industry Simplifies The Complex

EVER SINCE GOOGLE ANNOUNCED THE availability of Host Card Emulation (HCE) in the latest version of Android, the discussion in the world of mobile payments has taken an interesting turn.

Companies that were previously forced to work with an overly complex technology and large and lengthy integration projects are suddenly in position to compete.

More and more, banks look to their mobile banking apps as the preferred low-cost, high-touch channel of interaction with customers. They are adding functions, such as remote check deposit and mobile transfers, making those apps more convenient for users.

So, why not enable the apps for secure proximity transactions anywhere, using digital versions of the payment cards consumers already have in their wallets? And why not combine payment with merchant loyalty, promotions and offers to create a compelling and rewarding customer experience for merchants, too? Merchants clearly see the mobile wave and are building apps that will create entirely new in-store experiences with payment a necessary component.

HCE allows for hosting payment and other digital card accounts in the cloud, rather than a "secure element" hardware device inside the mobile phone. Supported by Visa and MasterCard, HCE allows consumer mobile payment capabilities at physical merchants using NFC and other technology, such as QR Code and Bar Code, while still retaining the desirable "card present" transaction status.

HCE combined with proximity tokenization gives banks the option to deploy mobile payments however they see fit. No more struggling with the owners of secure elements, SIM cards and mobile device coverage—or lack thereof. With HCE, banks can deploy mobile payment services across multiple mobile operator networks, providing the scale needed for a successful mass deployment adoption in a country, or even across borders.

HCE allows banks to add payment functions to a banking app and roll it out seamlessly to users in a simple app update. That way banks make their apps even more indispensible while maintaining control over their customer relationships, data and how their credentials are used.

The rollout of mobile payments also becomes simpler by removing the secure element hardware value chain and overhead services to operate it. That provides banks the potential to reduce cost and speed up deployment of mobile payment services.

With HCE banks also get scale, enabling them to form partnerships, beyond their own mobile banking app, for payment. And they should. With 102 billion app downloads last year and hundreds of millions of apps available, smart banks should enable multiple apps instead of competing with all of them.

Merchants can be enabled for payment with a bank's credential in their own mobile app leveraging HCE and APIs. Banks gain the opportunity to be "top of wallet" in multiple apps, spreading their brand across multiple partners and powerful apps.

HCE may represent as great an opportunity for merchants as for banks. Mobile apps are as important to merchants as they are to banks as a means of communication to the consumer and a way to combat showrooming. If merchants can enable these apps for payment, they could control the shopping experience of their customers from beginning to end using their smart phones.

HCE-powered apps can also integrate merchant loyalty, promotions and offers more easily with payments. And leveraging bank-issued credentials or their own prepaid or stored-value cards, HCE means mobile commerce with card-present interchange rates at physical stores.

HCE is a huge opportunity for all stakeholders, but it is not without challenges—security and customer experience being two primary considerations. The lack of a hardware-based secure element on-device has to be compensated with strong software-based security to protect card data, even if in tokenized form. That includes security of issuing server, provisioning of card data over the air and on-device security software. On-device security that combines with an always-on and convenient and easy customer experience will receive more and more attention as HCE solutions are developed. HCE solutions will likely add device "fingerprint" and transaction location data to their risk assessment tools.

Although HCE enables apps to communicate directly with the NFC controller bypassing the secure element, apps still need to handle sensitive tokenized card data to perform payments. Banks and merchants will need help incorporating payments industry standards and compliance, Javacard security or obscure terms like "APDU commands" into the infrastructure of their mobile applications.

Ultimately, all these new token-based systems need to be integrated with existing bank systems, risk management models need to be revised and a compelling and convenient customer experience refined. But challenges are here to be overcome and the playing field is wide open and ready for game time. **ISO**

John Kirst is the chief revenue officer of Sequent.

Shaking Up The Global Market

Three giants, namely Alipay, Apple and PayPal, could find themselves in a three-way tussle. **BY JOHN ADAMS**

Three massive companies, Alipay, Apple and PayPal, are traveling on a collision course as they move to shake up the global e-payments market.

China's Alipay is using tech upgrades, partnerships and product launches to nudge closer to the U.S. and European payments markets. Given Alipay's formidable scale—it processed nearly $1 trillion in online payments in 2013—it can certainly compete with PayPal and Apple.

"Payments is a two-sided market—you need a buyer and a seller," said Gareth Lodge, a senior analyst at Celent. "That's why it's so hard to launch a new payment type, because it's hard to attract one side without the other."

Apple and PayPal are already butting heads following the announcement of Apple Pay. And Alipay has launched ePass, a service that integrates Alipay with U.S. retailers. Alipay also rebranded its business as Ant Financial Services group as part of its deeper push into financial services. Alipay and Alipay Wallet will remain major business lines of Ant Financial Services.

Alibaba—the company that created Alipay in 2004 and still maintains an affiliate relationship with it—went public about a month ago, and Alipay has been bulking up its mobile payment technology. It added fingerprint scanning from Nok Nok Labs, which helps Alipay Wallet comply with FIDO standards. Alipay also worked with Stripe, an American company that powers e-commerce payments.

Apple and PayPal are just as active. Today, Apple launched its newest iPhones in China, where it has reportedly been laying the groundwork for mobile wallet acceptance. And eBay affirmed its timeline for spinning off PayPal, which should give the payments unit opportunities to expand.

> "PayPal is by far the most popular digital wallet around the world and is in many countries."
> - Gil Luria, Wedbush Securities

Any designs Alipay has on the U.S or European market will meet stiff competition from PayPal, Apple and others with established market share and brand recognition, experts say. Alipay did not make an executive available for an interview by deadline.

"PayPal is by far the most popular digital wallet around the world and is in many countries," said Gil Luria, an analyst at Wedbush Securities. "One country where it is not popular is China. And Alipay is incredibly popular in China but has very few users outside of China."

Like Alipay, PayPal and Apple are making moves to expand worldwide. Apple's partners are already preparing to accept its mobile wallet outside the U.S., while PayPal's split from eBay is expected to give it more flexibility to expand. PayPal will also maintain a relationship with eBay after the split.

"Given the size of Alipay and PayPal … and their very close relationships with their respective merchandise platforms, Alibaba and eBay, there is so much opportunity for them to run into each other," Michael Misasi, a senior analyst at Mercator Advisory Group. Some suggest that Alibaba might buy eBay to gain entry into the U.S. market for Alipay, but "I don't think that's going to happen," Misasi said.

The problem for all three companies in head-to-head competition is entrenchment. PayPal and Apple are both established brands in the west, making it hard for Alipay; and the Chinese government has been cool to PayPal, suggesting it would be hard for either PayPal or Apple to penetrate the Chinese market, Luria said.

"And not only is PayPal popular in the U.S., there are many other companies that are powerful in the digital wallet space, like Amazon, Google and Visa," Luria said. Other companies, such as Monitise and Gemalto, are pursuing business in China, but are providers for local initiatives and are not processing payments. **ISO**

Ready To Borrow

Merchants aren't alone isseeking credit these days.
Banks report that the nation's consumers want to borrow, too, BY ALAN KLINE

Bankers feel overwhelmed by new regulations and are frustrated that interest rates have stayed near zero for six years now, but at least one thing has them smiling: customers are borrowing again.

In nearly every category—the exception being home equity lending—banks reported modest to strong loan growth through the first half of this year as consumer spending increased and businesses accelerated expansion plans.

There are pockets of distress but, overall, senior bank executives are optimistic that the momentum will continue through the remainder of 2014 and into 2015. Dennis Klaeser, the chief financial officer at Talmer Bancorp in Troy, Mich., says that loan demand in the company's Midwestern markets is "as strong as it's ever been," thanks primarily to a rebounding manufacturing sector. Talmer, founded in 2010 to roll up troubled banks, has seen demand pick up noticeably in such Rust Belt cities as Cleveland and Youngstown, Ohio, and it's even hiring lenders in Detroit, Klaeser said at RBC Capital Markets' financial institutions conference in Boston this fall.

Some Fear Concentration Of Risk

Lending is strong enough in some areas that regulators are raising concerns about concentration risk. Oil and gas exploration is booming right now, but in its most recent quarterly report on lending trends, the Office of the Comptroller of the Currency cautioned banks against loading up on loans in the energy sector.

Another worry is that there are still too many lenders chasing too few quality loans, resulting in some banks loosening loan terms to win business. And some high-quality business borrowers simply don't need loans. Scott Kisting, the chairman and CEO of AmericanWest Bank in Spokane, Wash., said he knows of one company that recently built a $54 million factory without borrowing a penny. "A lot of people aren't borrowing money because they hoarded cash" in the years following the financial crisis, Kisting said at the RBC conference.

Still, loan data from the Federal Deposit Insurance Corp. shows good reason for optimism. In recent years, much of the loan growth banks were reporting came from stealing market share from competitors that had scaled back lending or exited certain sectors entirely. This year may well go down as the turning point when total loan demand finally rebounded.

Between June 30, 2010 and June 30, 2013, banks' net loans increased by an average of just 2% a year, according to the FDIC data. Between June 30, 2013 and June 30, 2014, net loans climbed 5.3%, to $8 trillion—the largest year-over-year increase since 2007.

Commercial and industrial lending has been a bright spot for banks in recent years and continues to drive overall loan growth. In the second quarter, C&I loans on banks' books increased 10% year over year, to $1.66 trillion, in part because of increased demand in such industries as energy and health care. Dan Rollins, the CEO at BancorpSouth in Gulfport, Miss., said his company posted the strongest loan growth numbers in its history during the second quarter.

Small-Business Loans Growing

Small-business lending accelerated noticeably in the second quarter. According to FDIC data, total small-business loans increased by 3.4% year over year, to $298 billion—the highest total in four years.

But even though the dollar volume is up, small-business loans—defined as those under $1 million—as a percentage of total loans has been shrinking. Since mid-2010, the percentage of small-business loans to total domestic commercial and industrial loans has fallen from 31% to 21% at June 30, according to FDIC data. That suggests banks are focusing on larger credits.

In commercial real estate, multifamily lending continues to be the key driver of growth, but construction lending is making a modest comeback. Total construction and development loans for the second quarter increased 10% from a year earlier, to $223 billion, marking the first year-over-year increase since 2008. ISO

Consumers Ready To Enlist In A War Against Data Fraud

FOR SOME TIME NOW, I'VE BEEN USING the mobile alerting capabilities offered by my bank and card issuers. The reassurance from knowing that I'll be notified via text message of typical and not-so-typical transactions puts my mind at ease and gives me a sense of playing a part in the fraud prevention game.

And it looks like others globally are willing to put some "skin in the game" when it comes to the fight against fraud, a good move as mobile devices become a target for fraudsters.

According to the ACI Worldwide global consumer fraud survey data reported in the recent Aite Group research report, *Global Consumers: Concerned and Willing to Engage in the Battle Against Fraud*, more than three quarters (77%) of global consumers are "very interested" in being contacted about suspicious activity on their cards or accounts via a phone call, email or text message, and nearly three quarters (73%) of global consumers prefer that their bank not post transactions to their card until they respond to a fraud alert.

Those numbers tell me that the consumer thinks about the impact of fraud and is willing to work with his or her bank or issuer to protecting their information and money.

The survey also explored consumer adoption of mobile wallets–typically associated as an app of sorts that contains banking, payment and customer loyalty information like rewards programs. With the proliferation of banks and retailers offering mobile wallets, adoption rates vary widely by geography.

According to the survey, mobile wallet adoption rates top out at 72% and 44% in China and Russia respectively, however more than a third of respondents in China (34%) and Russia (43%) don't have confidence in the protocols invoked to protect account information on a mobile device. When thinking about those contrasting data points, do those who maintain banking and/or payment data in their mobile devices do so for the sake of convenience regardless of the potential security implications? As those countries exhibit high mobile growth rates, one might assume so.

The U.S. is the only country of 20 surveyed where 100% of consumers said they believe mobile devices are "somewhat secure."

Conversely, respondents from Canada have the lowest mobile wallet adoption rates at 4%, with Germany, the UK and the U.S. tied for next place at 6%. While they aren't necessarily embracing mobile wallets, consumer trust in the banks' ability to protect personal data on the mobile device in those countries is mixed. Canadians have lowered their complete trust from 55% in 2012 to 45% in 2014, while trust has grown in the U.S. from 32% to 44%, the UK from 25% to 44% and Germany 24% to 37%. It's worth noting that the U.S. is the only country where 100% of the consumer respondents think data on mobile devices is "somewhat secure." All other 19 countries in the survey have some number of consumers who were either unsure or did not feel mobile devices were secure.

Consumer perception of fraud risks varied greatly as well. "Using my phone or tablet to shop and pay bills" ranked on the lower end of the risk spectrum at only 5% while "theft by a computer hacker" presented the highest fraud risk at 31%. I guess consumers don't see a correlation between hackers and malware and browsers and apps on a phone. While not a pervasive fraud issue today, the mobile channel is still ripe for fraudsters and there are various ways to get into your handheld computers, eh, I mean mobile devices. And given the amount of personal and financial data contained on a device today, why wouldn't they be a target?

Maybe it's time to start looking into fraud alerting capabilities at your bank or issuer. **ISO**

Michael Grillo is senior product marketing manager at ACI Worldwide.

Consumers Can Tip Electronically

Is Tip.ly's new mobile gratuity app a gratuitous product, or can it provide the tipping point for mobile payments?

Tipl.ly's targeting the embarrassment consumers may sometimes experience when they don't have enough cash to tip someone.

Its mobile app asks cash-strapped consumers to snap a photo of a service worker and upload it to Tip.ly with the desired tip amount.

To claim the tip, the worker goes online within 14 days and enrolls by linking a bank account and uploading a photo to match the one the consumer snapped earlier. **ISO**

ACH Payments

Visionaries and Q&A

ACH Remains Relevant After All These Years

A SUPPLEMENT TO

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PRODUCED BY SOURCEMEDIA MARKETING SOLUTIONS GROUP

Forte

Forte Payment Systems is a leading provider of innovative and dynamic electronic payments solutions for ever-changing, omni-channel needs. They offer scalable enterprise-class solutions through an optimized suite of comprehensive payment services including credit card processing, ACH/eCheck origination and fraud prevention. Forte serves growing organizations of all sizes by reducing transaction costs, mitigating risk and increasing efficiencies with thoughtful, consistent care.

Jeff Thorness, CEO

1. **What is ACH payment processing?**
ACH payment processing is a method of paying electronically using the ACH network, or the Automated Clearing House, in the US. NACHA and the Federal Reserve work together to oversee the payments, which are processed from bank to bank, to ensure they adhere to strict guidelines and regulations.

2. **How does ACH payment work?**
ACH payments can take the form of both debits and credits, which are pushed electronically as a funds transfer. A typical example might be one where a merchant that accepts rent payments online accepts an online ACH payment from their customer, a tenant, who enters their bank account information through a secure online payment portal to pay their rent. This ACH payment is processed according to NACHA guidelines, and the funds are transferred out of the tenant's bank account and deposited into the merchant's account.

3. **What benefits are included in ACH payment processing?**
ACH payments can bring many benefits to merchants. For merchants, ACH payments are heavily regulated for security and less expensive than credit card processing. Fraud prevention services like check verification and NSF recovery can be added for additional protection. It may also be easier to get approval for certain small businesses to accept ACH payments than credit cards, which makes it a more appealing option for some merchants. ACH payments can also reduce administration and operating expenses and speed up funds availability, compared to paper checks.

4. **Does ACH payment allow merchants to process ACH payments through a virtual terminal?**
ACH payment processing with Forte comes with access to our cloud-based virtual terminal, where merchants can manage their transactions and access reports in real-time from all of their payment channels.

5. **What are the benefits of ACH compared to credit cards?**
ACH is significantly more cost effective than credit cards, with lower processing fees and costs. Maintenance of an ACH processing account is also less expensive than that of a credit card account. ACH payments enable merchants to easily process recurring payments, which allows for membership and subscription services. In fact, it is the preferred method for setting up recurring payments.

6. **Is the ACH payment process similar to the traditional paper check process?**
In some ways, yes. ACH payments are processed in batches, which is similar to the way traditional paper checks are processed. Paper checks would normally be accepted over the course of a day and gathered together for one large deposit at the bank. The Federal Reserve is involved in the process of clearing paper checks, and it still is involved in the process of clearing ACH payments. Customers present ACH payments using their bank account information, presenting an "electronic check" in the fashion that they would have presented a paper check in the past. This information is gathered at the point of sale, no matter what channel this may be: online, mobile, over the phone, or at a physical POS. Both types of payments also take several days to process, as funds move between the several different banks and the Federal

Reserve. ACH payments do move more quickly, however, as many processors have next day funding available for some merchants. Paper checks take even longer, as the processing cannot begin until checks are deposited at the merchant's bank. ACH payments can begin processing the moment they are entered into the system.

7. **How is ACH fraud avoided?**
ACH fraud can be avoided by using a secure processor that encrypts sensitive payment data once it is entered into an online system. In addition, merchants can add a check verification service like Forte Verify, which ensures that bank accounts are open and valid at the point of capture. Check verification services like these help eliminate potential fraud before payments are accepted by denying payment transactions right at the point of sale, easing the responsibilities and worries of merchants and their employees. For non-sufficient funds and returned items, adding a service like Forte Check Recovery can also help avoid fraud. This tool re-attempts collection on bad checks for merchants using a smart re-presentment technology that selects the most opportune time to try and re-post the bad check. If the amount is collected, the merchant will receive 100% of the face value of the check, plus 50% of any NSF fee that they had to pay at their bank for the returned item. Both Forte Verify and Forte Check Recovery can be added together to an ACH processing package.

8. **Is ACH processing quickly becoming the new standard for recurring payments?**
ACH is the preferred method for recurring payments for a number of reasons. More customers have bank accounts than credit cards; this means merchants are more likely to collect funds from customers using ACH payments. Additionally, once customers set up a recurring payment which their bank account, they are more likely to pay and retain those services with the merchant. For these reasons, it's beneficial for merchants to use ACH for recurring payments instead of credit cards.

9. **What is the time frame for processing an ACH?**
An ACH payment can take anywhere from one to four days, depending on the funding a merchant is approved for by their underwriter.

10. **What are the online ACH payment processing features?**
Online ACH payment processing is an unparalleled convenience for both merchants and consumers. Processing online is quick and easy, first of all. Merchants and customers simply need to type in the transaction and account information, click, and process. Additionally, online ACH payments are securely processed using methods like end-to-end encryption and tokenization. Online payments can also be managed and reported in real-time using cloud services, which gives merchants much more control and, at the same time, flexibility, in their daily operations and payment solutions.

The Changing Face of ACH

With updates, ACH remains a viable payments contender

The ACH Network supports more than 20% of all electronic payments in the U.S., moving almost $39 trillion a year in nearly 22 billion electronic financial transactions. Synonymous with Social Security and government benefits, direct deposit, and electronic bill payments, ACH is a secure and reliable mainstay of the U.S. payments system.

ACH is also evolving to meet the needs of both consumers and business. But like any evolution, things take time to change.

Here are some of the important trends in ACH.

CONTINUED ON A6

Priority Payment Systems

Priority Payments Systems is a third party payment processor with divisions dedicated to merchant acquiring and business services that include card brand and institutional partnerships, B2B, supplier enablement, community banking, merger and acquisitions. We are the industry source for payment technologies, competitive prices and premier customer service and support that makes payment card processing simpler, faster, smarter and more efficient.

Clint Blaylock, General Manager Financial Services

What benefits are included in ACH Payment Processing?

- Lower costs per transaction than alternative payment options
- No hassle payments from your customers
- Recurring payments in addition to single payments
- Batch payment capability
- Easy control and management of customer risk
- Secure bill-pay online or over the phone
- Allows for fast direct receipt of funds from a checking account
- Saves time and cost of invoicing and potential collection calls
- Can make file changes on the fly avoiding time and labor costs

Does ACH Payment allow merchants to process ACH Payments through a virtual terminal?

Yes. An ACH Payment Solution allows you to make and accept payments from any computer with Internet access using multi-factor authentication. The ACH platform will process the transaction and delivers it to the ODFI (Originating Depository Financial Institution) securely which moves the information to the Federal Reserve (the ACH Network) and then distributes the ACH items to the customer's bank (RDFI) (Receiving Depository Financial Institution). Real time reporting provided by the ACH Solution allows the merchant to track and analyze any and all ACH transactions.

Can ACH Payment simplify the payment process for merchants in any industry?

Yes. ACH provides a payment solution for any merchant in any industry to automatically transfer funds between banks for secure, efficient deposit. Paying invoices are industry agnostic using an ACH solution. ACH is an appropriate solution for payroll as well. For example, it eliminates the time and hassles associated with paper checks and significantly reduces costs. Because ACH payments are transmitted electronically they are authorized faster and the transaction is simplified. A merchant can save money while improving customer service and increasing profits.

How is ACH Fraud avoided?

- Identify risky customers with simple risk checklist
- Carry out banking activities from a stand-alone and locked-down computer with no email or browsing allowed
- ACH solution should have MFA (multi-factor authentication) for all users with multiple ID, password or specific question entry points
- Maintain detailed reports and archive transaction information
- Detect fraudulent transactions quicker with built-in solution monitoring controls
- Recommend customers initiate ACH under dual control, with transaction originator and separate transaction authorizer
- Install spyware detection programs. Use ACH solution with positive pay safeguards confirming "real payments"
- ACH Solutions should have SOC (Service Organization Control) certification - 3rd party auditors review ACH operational controls

What are the online ACH Payment Processing Features?

- Options-Flexible payment choices, easy corrections (change files on the fly), simple file uploads, transaction automation
- Real Time Reporting - Customized reports, total access to transaction history, 7 years of archived data file uploads
- Platform with a smooth and comprehensive graphic user interface
- Solution that monitors, measures and mitigates with complete list of checks of balances to protect the merchant
- Use fraud screening - obtain real time verification that account numbers are valid and there are funds in the account
- Savings in transactions, quicker NSF alerts, overall time/labor savings versus physical checks

IF YOU'D LIKE TO KNOW MORE, PLEASE CONTACT US:

tel: 866.859.0555 web: www.prioritypaymentsystems.com

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Hope for Real-time Payments

There's a lot of interest in faster payments: A recent Federal Reserve study found that 69% of consumer payers and 75% of business payers prefer instant or one-hour payment speed.

While just about everyone in the industry agrees that faster payments are needed, when is unclear. Although the Federal Reserve has put a 10-year horizon on faster payments, a recent survey by ACI Worldwide found that many in the financial industry optimistically believe that real-time payments will become a reality in the next two years.

"There's no doubt that we need faster payments," says Sean Rodriguez, senior vice president of Payment Industry Relations on behalf of the Federal Reserve System. "There's wide support and the Federal Reserve envisions making faster payments happen."

Nancy Atkinson, senior analyst at Aite Group, notes that although the Federal Reserve is serious about getting faster payments up and running in the U.S., doing so within 10 years is a stretch. She predicts that it will take until 2030 for broad adoption.

"Unless the Federal Reserve takes on faster payments as a mandate, the business case just isn't there for banks to want to change." Atkinson points to wire transfer remittance information as an example of an idea with much promise that didn't take off because it was optional. The Federal Reserve mandated that banks receive wire transfer remittance information but originating that information optional. Few banks opted in.

Although it's unlikely that ACH will move to real-time payments, same-day ACH would be a boon for retailers, explains Sandra Horn, principle product marketing manager for ACI Worldwide. "Merchants could leverage ACH as an alternative to the credit card rails for same-day availability without interchange fees."

ACH May Not Be Right for the Job

Nacha—The Electronic Payments Association® is working toward a toward a phased implementation approach that will move the ACH network from next-day settlement to same-day payment processing, says Jan Estep, president and CEO of Nacha. Of the network, Estep says, "This would be available for virtually any transaction and provide greater certainty about fund availability, thereby improving the efficiency of hourly payroll disbursements and last-day tax or bill payments. All of this provides a solid foundation on which to build other innovative services."

Another organization that is stepping up to the task of faster payments is The Clearing House (TCH), the private sector ACH operator that processes about half of all commercial ACH volume in the U.S. TCH announced in

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October that it would undertake a multi-year effort to build a real-time payment system.

It may be that the ACH may not be the right infrastructure to enable real-time payments. Atkinson questions whether combining ACH and wire into a single system will do the job or if the industry needs an entirely new network.

"In the U.S. we do have a payments infrastructure that makes it difficult for us to toss it and start over, but I wonder if starting over is the right approach," she says.

"Unless the Federal Reserve takes on faster payments as a mandate, the business case just isn't there for banks to want to change."

Move to ISO 20022 Standard

In October, Nacha announced it will allow businesses to transmit ISO 20022 remittance messages through the ACH network. It's a good move, says Horn, since ISO 20022 allows transactions to carry more information and provide a full view into the payment value chain.

Atkinson agrees that adopting ISO 20022 is important since the standard is gaining global momentum. "The ACH needs to strengthen its cross-border capabilities and ISO 20022 is a step in that direction," says Atkinson.


Nancy Atkinson


Sandra Horn


Sean Rodriguez

Business Adoption Falters

While ACH is very well accepted by consumers, businesses have been slow to adopt ACH for business-to-business transactions, even with the Extensible Markup Language (XML) Remittance Program launched in May 2013.

"The opportunity for ACH lies in business to business transactions. Although much of the invoice and remittance information that businesses need has been added to the ACH records, it's a slow migration process and some businesses are still reluctant to move to ACH," says Horn.

Australia's New Payments Platform (NPP) will allow payments to be made between payer and payee in almost real-time even if they have accounts at different financial institutions.

"Australia has brought a broad community together to accommodate both business to business and business to consumer payments rather than add business to business payments as an afterthought," says Horn. She notes that one of the biggest uphill battles faced by SEPA (Single Euro Payments Area) was due to a lack of corporate constituents involved from the start.

The good news, says Horn, is that the Federal Reserve is taking a lesson from countries such as Australia and taking an inclusive view of the payments system.

The Next Steps

"The U.S. ACH system is a model that other countries are trying to emulate," says Atkinson. "ACH is an important payment mechanism because it can carry payments and remittance information together. However, ACH will have to continue to adapt in order to remain viable and strengthen its position in the payments ecosystem."

Horn agrees, but warns that no matter how the ACH evolves or even if a new system is created, change makes it a target for fraud. "U.K. financial institutions saw a big uptick in fraud as a result of their Faster Payments Service (FPS)," she notes. However, fraud concerns should not stop the move to faster payments. Instead, says Horn, the industry must anticipate that fraud will rise in the early days and be ready to close any loopholes as soon as they occur. ■

ACH Payments

Visionaries and Q&A

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PROFILE ROCKIN' BANKER

New Life, Old Memories

A retired banking executive works out his sorrow over his wife's death through his now full-time absorption in recording CDs. **BY ANDREW MARTON**

Nick Binkley was a banker for more than 30 years, but when he hears about CDs, he's rarely thinking about certificates of deposit.

As a veteran musician, the maker of three commercially available recordings, and owner of his own label, CDs have long served as the "compact disc" conveyance of his musical alter ego — the melodious ying to his 9-to-5 bankerly yang.

Binkley, 68, is a former vice chairman of Security Pacific Bank and Bank of America. As he breaks the last of his ties to the industry (he retired this year as a board member at Union Bank and its UnionBanCal parent) he is looking forward to promoting and performing cuts from his latest CD, "100 Parts of Heart."

Not Alone In His Love Of Music

Plenty of figures in finance have melded a deep love of music into their careers. Alan Greenspan studied clarinet at Julliard before transferring schools and majoring in economics; an old jazz band buddy who later practiced law with Richard Nixon is credited with putting Greenspan on a path as a presidential adviser. James Wolfensohn, who once played cello at Carnegie Hall, often attended local music performances during his travels as president of the World Bank, as a way of understanding different cultures he encountered in his work.

The psychic benefits of a lifelong immersion in music also have relevance in commercial banking, according to Binkley, who says that jamming with other musicians gave him a deep understanding of body language and other nonverbal cues, which made him a better, more empathetic listener in his banking job.

"100 Parts of Heart" contains his most poignant collection of songs since his 1996 debut CD, "Pin Stripe Brain." It's mainly dedicated to the memory of Binkley's spouse, Diana Padelford Binkley, who died unexpectedly in 2003. Not surprisingly, a thick air of lamentation suffuses the album's 14 songs, especially "Rosalee," whose constant refrain, "I can feel you looking down upon me... Rosalee... I can tell you are near," is Binkley's most stark grasping for his late wife.

"'Rosalee' says I will always love my wife forever, through everything, even death," says Binkley, who released "100 Parts of Heart" on his PSB Records label and will devote the proceeds to the Diana Foundation, which he created in her memory to focus on improving pain management therapy for women.

For Binkley, the album has been part of a much valued, even vital, healing process. "These songs clearly help me deal with this loss," he said. "They are about a continuing of life."

But it is the strait-laced business of banking that has long served as Binkley's primary musical inspiration, as evidenced by "Pin Stripe Brain" and his 1999 follow-up, "Let the Boy Jam."

"The world of banking has never been a hang-loose, locker-room sort of environment," Binkley said. "It is banking, with serious, strict rules of behavior. I write about the corporate world [in a way] that others wouldn't write because they aren't being informed by that as their source."

A Break From The Daily Routine

Music, Binkley says, "provided a creative outlet for me, and a lot of relief from the day-to-day grind." With his business pursuits letting up, he has more time for music now. He's also putting the final touches on "Free to Rock," a rockumentary he's involved with. Narrated by Kiefer Sutherland and featuring musicians and politicians, it shows how rock 'n'roll contributed to the end of the Cold War and the collapse of the Soviet Union.

Binkley says he likes being freer to nurture his passion, though he appreciates the demanding role that music played in his life when he was a banker. "As an artist your gift can be an all-consuming curse. You must pursue it, whether you are ultimately successful at the art or not," he says. "But for those who can rein it in, and use the creative outlet constructively in their workaday lives, it is a clear blessing." **ISO**

Crooks Test Their Stolen Cards To Increase The Resale Value

WE THINK OF CARD FRAUD AS HURTING just the merchant who accepts the card—but when one merchant accepts payment from a stolen card it hurts other merchants, too.

It's because criminals who sell stolen credit cards perform quality control using bots, and stopping bots can help get to the root of the cause.

After a breach, stolen cards trickle out to dozens of retail level card-shops where fraudsters can purchase card details in a convenient, modern e-commerce experience.

Tested stolen cards sell for up to $40, compared with as little as 30 cents for an untested stolen card.

Stolen-card vendors test their cards before selling them because a tested and known-good card from a vendor with a reputation for quality can sell for as much as $20 or $40. Untested cards from vendors without a reputation go for as little as 30 cents.

They test their stolen cards by making small purchases on high-volume websites. That avoids using up the available credit and tripping fraud detection.

With millions of cards stolen in a single data breach, criminals must use bots to test their cards. Testing a million cards by hand would take too long. But with botnets available to rent for as little as $2 an hour for 10,000 nodes, crooks can test a hundred thousand cards in less time than it takes to grab another cup of coffee.

Fraudsters have turned to abusing merchants' websites to test their cards. That's possible because e-commerce sites aren't designed to stop the botnets criminals use.

Automated interaction with websites used to be no more annoying than spam. Almost everybody has interacted with a CAPTCHA (Completely Automated Public Turing test to tell Computers and Humans Apart). They're those annoying squiggles meant to be deciphered by humans but not by robots.

Once the criminals have tested their stolen cards, they can sell them with the fraudsters' seal of approval. Bad guys trade on their reputation like the rest of us, and they can't lie about what cards are working.

In economic terms, a website that allows criminals to test cards is creating an externality. Their insecure posture lets criminals sell cards for higher prices, leading to greater incentives to steal and sell cards.

Without testing, the vendors of stolen cards can't guarantee quality. Online merchants can protect themselves against this kind of fraud by having anti-automation measures on their websites. Many options exist, from CAPTCHAs, to IP reputation, to behavior analysis, to more modern approaches like real-time polymorphism. **ISO**

Timothy Peacock is a threat researcher at Shape Security.

Apple And Samsung Join ETA

BY ED MCKINLEY

Apple and Samsung joined the Electronic Transactions Association this fall, furthering the acquiring industry trade group's efforts to welcome technology companies as members.

The independent sales organizations that formed the ETA want tech firms to join so that companies from both camps—acquiring and technology—can cooperate in bringing payments innovation to merchants, according to Jason Oxman, ETA's chief executive.

Tech companies are joining because they recognize the value of working with acquirers, Oxman said in an interview during a break in the action at the Western States Acquirers Association recent annual conference in San Diego.

"They want to use the ISO channel to reach merchants," he said, noting that ISOs have worked for years to build payments relationships with small and medium-sized retailers and restaurants.

Tech company executives know they can't reach all of the nation's 8 million merchants on their own, Oxman maintained.

Tech companies such as Google, Amazon, Softcard, AT&T and Verizon have already joined the trade association, he said.

ISOs also benefit from relationships with tech companies because the ISOs are searching for value-added services they can offer to merchants. **ISO**

EMV: Imperfect But Promisng

Chip cards won't frighten away every hacker, and mag stripes will still adorn EMV cards for some time. But the future still looks brighter. **BY DAVID HEUN**

The recent exploits of Signature Systems terminals, used by Jimmy John's restaurants and other clients, shows that the point of sale remains a key target for hackers. And the addition of EMV-chip technology won't frighten them away.

A stark reminder of that threat came at the Black Hat conference in Las Vegas in August, when researchers at U.K.-based MWR InfoSecurity demonstrated how to breach an EMV mobile card reader to steal account data and the cardholder's PIN.

That would allow hackers to create a cloned card that they could use for magnetic-stripe transactions at terminals that do not require EMV.

EMV-chip cards are meant to resist counterfeiting, but they typically include a magnetic stripe to remain compatible with older payment systems.

The United States is making the transition to EMV cards, and the card networks have set a deadline of October 2015 for most companies.

Under the new method of attack, however, hackers use rogue EMV cards to install malware on the device, enabling them to copy details of every card it processes.

The attacker would return later with another card to extract the information, the researchers said.

Researchers at Black Hat noted that, to date, no one has hacked EMV devices. But if researchers could do it, so could hackers, they reasoned.

Any payment system that includes digital data will have vulnerabilities, said Julie Conroy, senior analyst and fraud expert with Boston-based Aite Group.

However, fraudsters have not put much energy into the type of exploit the researchers demonstrated, Conroy said.

"We've haven't seen a big incentive for criminals to spend the time and effort to try to break EMV because the U.S. remains such a rich and easy target as long as it depends on mag stripe," Conroy maintained.

The methods revealed at Black Hat capitalized on vulnerabilities in the device that the industry could address with a security patch, Conroy said.

"It will be important for merchants to be diligent in uploading these patches to all of their devices that touch payment card data," she said.

Reports of weaknesses in EMV hardware should not discourage U.S. merchants from preparations for adopting the technology, said Jacob A. Ansari, a Payment Card Industry forensic investigator at 403 Labs, the security and compliance division for Sikich LLP.

"There are a handful of attacks that focus on EMV transactions or the infrastructure that supports EMV, but it's hardly all doom and gloom," Ansari said. "There may be imperfections or security vulnerabilities, but using EMV would probably drastically reduce card-present fraud in the U.S."

> "There may be vulnerabilities, but using EMV would drastically reduce card-present fraud."
> - Jacob A. Ansari, 403 Labs

Acquirers and merchants must remember that using an EMV card does not mean all card data is protected from interception, said Al Pascual, security and fraud senior analyst for Javelin Strategy & Research.

"It only means that the EMV card itself cannot be cloned and used to commit fraud at an EMV terminal," Pascual said.

Hackers cannot emulate the dynamic data used for authenticating chip-card transactions, he said, but any static data can be reproduced on mag-stripe cards.

That said, as EMV spreads in the U.S., locations where only mag-stripe cards can be used will become few and far between, Pascual said, adding that. "Card breaches at the POS will become less relevant of a threat." **ISO**

Friction's Worse Than Fraud

By piling on layers of security, bankers are making friction a bigger problem than the crooks its intended to thwart, experts say. **BY BAILEY REUTZEL**

The payments industry has turned its attention inward, focusing on securing its technology from fraudsters without driving off customers.

Many of the issues stem from the fast pace of launching services to serve tech-savvy millennial customers. "Banks are under pressure to launch new things very fast but then think, 'How do I secure this?'" said Uri Rivner, vice president of business development and cyber security at BioCatch, a fraud detection provider that presented during FinovateFall in New York. Companies usually launch first then secure, he said, during a separate interview at the show.

But with the year's many high-profile data breaches, the industry is more aware of its role in making payments secure.

"Consumers are tired of their security being compromised even by big retail giants due to aging technology like mag stripe. Financial institutions are tired of fighting these breaches, which keep arising every day," said Deva Annamalai, a banking technologist in Salt Lake City. "This shows a renewed interest in the field of advanced authentication, biometrics and alternate methods of validating identity."

Machines Track Human Quirks

BioCatch's cognitive biometrics technology observes consumer behavior in online and mobile banking to decide whether a user is who they say they are or a fraudster. BioCatch examines the way people move their mouse to click on a login box, whether they usually backspace while typing their password and how they set down their handheld device. The company can also detect how quickly a consumer types different parts of a password. In one example, a user with a 15-character password types the first five characters and the last five characters in about 1.4 seconds, but takes about 3.9 seconds to type the middle five.

The company, which was launched in 2013, works only with banks, but plans to test its fraud prevention platform with several e-commerce retailers this year.

"Fraud is no longer the biggest problem," Rivner said. "Friction is the biggest problem because banks are piling on extra security layers on the consumer."

NICE Systems is also working to use biometrics without adding steps for the consumer. It is using audio-based biometrics to identify customers who connect to their call center without asking them to verify information. NICE uses voice to identify customers within 10 seconds.

"Organizations spend a lot of time and money asking authentication questions to combat social engineering and stolen consumer data and this has a negative impact on the customer experience," said Matthew Storm, director of innovation and solutions at NICE, in an email. With biometrics "agents can provide excellent service, and the technology is the security mechanism in the background to provide protection."

Other companies add a few steps to incorporate biometric authentication.

Hoyos Labs scans a user's face and iris to log them into accounts.

EyeLock also uses iris scanning. The firm has developed a small device that consumers use to scan their iris to unlock computers or individual apps on their computers.

AnchorID, which is also keen to eliminate the username/password process, offers biometrics as a backup. Consumers download the AnchorID mobile app and receive a new username to use on websites that accept AnchorID for login. The consumer then enters the username but leaves the password box empty. When the consumer pushes the login button, a message arrives on the smartphone asking whether they are trying to login and the user pushes 'yes' or 'no.' Other forms of authentication can be added, such as voice or iris biometrics.

No Bitcoin Presenters At Show

While many in the payments industry are talking about how Bitcoin technology can enhance security, no cryptocurrency-related startup presented during FinovateFall.

Last year, Bitcoin dominated the discussion in the industry, but the hype is subsiding as real businesses start working on protocol-level approaches, said Dave Birch, a payments expert at Consult Hyperion. **ISO**

Not Yet Sold On Mobile Pay

Providers' conflicting messages have left consumers feeling unmoved by the possibilities of paying with mobile devices. BY BAILEY REUTZEL

Because of the conflicting messages from providers of mobile payments, consumers are not yet sold on the possibility that they can use apps to replace their plastic cards.

"Shoppers are not convinced of the need or benefit of mobile; there's still some reluctance there," said Tom Neri, executive vice president of financial services at GfK, a market and consumer information provider. "It does seem that the industry getting on board and unifying and communicating consistently about the benefits is going to be required."

Too Many Voices Spout Messages

U.S. consumers hesitate to adopt mobile payments because of the oversaturation of companies in the business, all of them touting different benefits.

For example, said Neri, CVS and Rite Aid said they wouldn't take Apple Pay, the NFC-based mobile payment system for iPhone users. In the process they shut off other NFC wallets, but they remained committed to the Merchant Customer Exchange's CurrentC wallet, which is still in testing. Merchant Customer Exchange, or MCX, is a retailer-backed group developing a QR code-based mobile wallet called CurrentC.

"Because of competition and protecting their own turf…retailers want control of their customers…that could be detrimental to the rolling out of mobile payments in a more substantial way," Neri said.

According to new research from GfK, U.S. consumers still lag behind citizens of other countries in their use of mobile payments. In the past six months, 33% of U.S. shoppers reported making a mobile payment, both online and in-store. Of those surveyed, 76% said their last mobile payment was made online and 24% said their last was made in-store.

While the U.S. is catching up to the global average of 25% in-store mobile payments, the country lags behind many others, including Poland at 40% and Australia and Japan at 41%, according to the research.

Thirty-three percent of shoppers agree that paying with a mobile device is faster, and 29% agree that having all their payment methods in one place on the mobile device is a major convenience. While those benefits have been discussed extensively, experts are trying to shift the focus to mobile's enhanced security.

Apple pushed the security conversation forward with its launch of Apple Pay, which not only uses Touch ID fingerprint biometrics for authentication but also uses tokenization, replicating consumer card credentials and assigning each account a randomly generated number in the cloud.

But not everyone is convinced of Apple Pay's benefits. Banks and merchants have been discussing how the Apple brand might distract consumers from their own brands, while Apple takes a piece of banks' interchange revenue.

Consumers' fears about mobile payment security have also been a roadblock for adoption, with 57% of shoppers surveyed by GfK saying they were worried about the safety of their personal information.

Millennials Take Some Control

Millennials will be the main drivers of mobile payment adoption, Neri said, and within the younger demographics, that worry is subsiding. In Gen Z (under 18), 38% and within Gen Y (ages 18-34), 34% think mobile payments are more secure than other payments methods. Forty-eight percent of Gen Z and 33% of Gen Y think their mobile payments are 100% secure.

But Gen Yers, 67% are concerned about their personal information when making a mobile payment.

And the older millennial generation, Gen X, encompassing consumers aged 35-55, seem to care more about security and in turn are more hesitant to use a mobile device to pay. "There's still a lot of spend to capture within Gen X," Neri said.

Most consumers are using their mobile devices to pay only once a month or less, even in countries where mobile payments are much more ubiquitous. In North America, 57% of shoppers said they use their mobile device once a month or less. In Western Europe that number was 58% and in Asia Pacific and Asia Central, 43% of shoppers use their mobile device once a month or less for payment. ISO

Contemplating The 'BitLicense'

A regulator in the state of New York wants to oversee cryptocurrencies without submitting them to money-transmitter rules. **BY BAILEY REUTZEL**

The New York Department of Financial Services appears likely to institute an on-ramp for new Bitcoin businesses—and possibly any other kind of money transmitting startups—as a way for them to launch their businesses without the burden of costly licensing requirements.

Nearly a year ago, Benjamin Lawsky, superintendent of the New York Department of Financial Services, introduced the concept of a "BitLicense" as a way to regulate Bitcoin businesses without shoehorning them into money-transmitter rules. Since then, his view has evolved to treat the BitLicense process as a way to modernize regulation for all payment startups.

"My gut feeling is to treat them the same," he said in an interview after a speech at the Money2020 conference in Las Vegas. Lawsky emphasized that the department plans to be fair when allowing non- cryptocurrency payment startups to have the same on-ramp developed for digital currency companies.

The proposed Transitional BitLicense would allow some startups to work within a more flexible framework for a time, based on factors such as the nature and scope of the business, its transaction volume and whether it is registered with the Financial Crimes Enforcement Network.

"There's a fascinating collision between two very different things...the very tightly regulated world of banking is colliding with the largely unregulated world of innovation," Lawsky said.

The idea of an on-ramp for startups was initiated by the Bitcoin community late last year as Fincen's regulatory guidance and Lawsky's probes rocked the fledgling industry. Over the course of the year, most banks determined Bitcoin businesses too risky to keep as clients, and dropped their accounts. Many digital currency companies were also rejected for state money transmitter licenses.

Many in the industry called for an on-ramp, although some brushed aside the idea, thinking the legacy players, such as PayPal, would fight back against it because those companies didn't have that luxury when they started.

"That was before my time," said Lawsky. The department has changed processes in Licensed Financial Services, the entity that reviews money transmitter (MT) applications. The department was receivingf complaints that application review was taking too long, Lawsky said.

The technology startups use to apply for an MT license would change before the nine-month review process was over, he said, and when the company updated its application six months in, it would get sent to the back of the line to begin another nine-month review. The NYDFS cleaned up the process and the system works more efficiently today, with amended applications keeping their spot in line.

When a startup gets a Transitional BitLicense, it will have to go through tailored examinations. The NYDFS is also considering appointing a small group of expert examiners to deal with startups, including Bitcoin-related companies.

While those companies might not need all 48 state money transmitter licenses to operate in New York right away, they will still be required to meet standards for consumer protection, anti-money laundering and capital. The companies might be able to use outside vendors for compliance instead of having internal compliance officers, said Lawsky.

During the question and answer session, the superintendent also acknowledged that asking Bitcoin businesses "to verify a recipient may be a fool's errand." That seems in sharp contrast with some of Lawsky's past statements that exchanges or wallet services should know both the sender and the recipient no matter how small the transaction may be.

The newly proposed concepts are far different then the attitude of the first BitLicense proposal, which was seen as strict. Many Bitcoin companies "mistakenly assumed [the proposal] was a 'take it or leave it' kind of thing," Lawsky said. But developing fair regulation is an iterative process, and even after the BitLicense becomes law, "we don't mind correcting where appropriate" if the new requirements have unintended consequences, he said. **ISO**

The Long Road To Adoption

Even after making a deal with MasterCard, Zwipe seems far from mass-acceptance of its finger-print authenticated contactless cards. BY BAILEY REUTZEL

Even after forming a partnership with MasterCard, Zwipe has a long journey ahead before its contactless cards with finger-print authentication see mass adoption. But the high-tech cards have the potential to suppress fraud and deter security breaches beyond what traditional EMV-chip cards can do.

EMV cards are designed to deter counterfeiting, but they leave open certain loopholes for fraudsters to exploit. Notably, EMV cards don't add security for card-not-present payments, but they are also vulnerable to other exploits. In many cases, EMV cards are also used with a PIN to prevent the misuse of stolen cards.

After the U.K. migrated to EMV chip-and-PIN, lost/stolen fraud decreased, but between 2011 and 2013 those rates rose as fraudsters found ways to skim and capture PIN numbers, said Julie Conroy, an analyst with the Aite Group.

"Other countries as they've gone to EMV, if they use chip-and-PIN, it initially addressed lost/stolen fraud but then those numbers went right back up," she said.

The addition of a biometric sensor could reduce this type of skimming fraud, Conroy said. "It's a bit more effective than a PIN that is a static four-digit data element."

MasterCard plans to launch a card with Zwipe in the U.K. in early 2015. Consumers won't have to input their PIN at the point of sale when using a card that has a fingerprint sensor authentication.

"The merchant will have quicker transactions so smaller cues and higher turnover," said Kim Humbortad, CEO and founder of Zwipe. The biometric card stands to benefit the whole value chain because "it combines a security level that's higher than traditional PIN codes with a simpler process than PIN codes."

And because Zwipe isn't disrupting the existing value chain, the company might have an easier time partnering with legacy players.

Zwipe has run successful pilots with two banks, SparebankenDIN in Norway and Getin Bank in Poland. SparebankenDIN will use Zwipe's technology for its credit cards and Getin Bank will use it for its debit card portfolio.

"Zwipe has worked with financial institutions in pilots; a lot of people are working on [biometrics] tech but getting the consumer feedback for us is critical," said Bob Reany, head of authentication services at MasterCard. "Around security you can create a lot of cool stuff that no one will use ."

Both MasterCard and Zwipe gave a nod to Apple for being the wedge in the biometrics market. Apple's mobile payment system, Apple Pay, uses Apple's TouchID fingerprint scanner for authentication.

Five years ago, consumers associated fingerprint scanning with criminal activity and thought the process was a bit Orwellian, said Reany.

The biometric cards could also provide enough security to eliminate the limits placed on contactless payments, Hombortad said. "That's the goal for MasterCard to use contactless for all amounts," he said.

The security of the cards also rides on the fact that consumer biometric data and information are stored on the chip in the card itself.

Data breaches have dominated the payments industry's attention for the past year. Most of those breaches had to do with fraudsters breaking into big central databases so they could get massive amounts of credentials. "Putting the information on individual cards and phones, you destroy that model for fraudsters," Reany said.

But the main hurdle biometric cards face is cost. High-tech cards are much more expensive than traditional cards.

Zwipe, which has offices in Oslo, Norway and Colorado, would not disclose the price of the cards. MasterCard would not disclose a range of card prices. MasterCard works with a number of biometric technology providers, including voice and facial recognition providers.

Previously, MasterCard had worked with NagraID to develop a card with a digital one-time code generator for card not present transactions. NagraID was acquired by Oberthur Technologies in August.

"I haven't seen that solution get much traction other than with high net worth individuals…where there's more risk," and so the users don't mind spending more on the card, Conroy said. ISO

A Bank's Growing Pains

First Republic Bank saw its stock price fall as the institution approached the size where enhanced regulatory requirements kicked in. BY VICTORIA FINKLE

Growing up can be hard to do under the Dodd-Frank Act.

First Republic Bank saw its stock plummet more than 15% after it posted second-quarter earnings recently, in part because it was due to reach a key Dodd-Frank threshold of $50 billion of assets by next year. The milestone means that the bank will officially be considered "systemically important," triggering a number of enhanced regulations with which it must comply, including Federal Reserve Board-graded stress tests and greater risk management requirements.

"It's a case study in what happens to a bank when it hits that level," said Edward Mills, an analyst at FBR Capital Markets.

The San Francisco bank's disclosure—and its market impact—illustrate the growing debate in Washington, four years after the enactment of the financial reform law, over whether $50 billion is the right cut-off for determining that a bank is a threat to the economy. There's virtually no chance that Congress will address the issue this year, but it's a discussion that lawmakers, industry officials and regulators seems likely to keep having as Dodd-Frank moves closer to being fully implemented.

Daniel Tarullo, a Federal Reserve Board governor, kicked off the latest discussion this spring when he raised questions about the cut-off, bringing

the issue more widespread attention.

"The key question is whether $50 billion is the right line to have drawn," he said in a speech. "Experience to date suggests to me, at least, that the line might better be drawn at a higher asset level—$100 billion, perhaps. Requirements such as resolution planning and the quite elaborate requirements of our supervisory stress testing process do not seem to me to be necessary for banks between $50 billion and $100 billion in assets."

The Fed official wasn't the first to raise concerns about the Dodd-Frank threshold, but he's given supporters of a change a significant boost in their efforts.

A bill by Rep. Blaine Luetkemeyer, R-Mo., to do away with the current threshold and instead give regulators more discretion to determine which institutions threaten the financial system now has 57 bipartisan co-sponsors. Members of the Senate Banking Committee began to explore the issue at a recent subcommittee hearing.

The Bipartisan Policy Center has also renewed its call to raise the threshold to $250 billion and give regulators more flexibility in making SIFI determinations, first laid out in a policy paper in April.

"Nobody believes a $52 billion community or regional bank that's just over the SIFI threshold poses more of a systemic threat, and all the extra regulatory costs, than a similar bank that's just below the $50 billion threshold," said Aaron Klein, director of BPC's Financial Regulatory Reform Initiative.

$50 Billion Bar Deemed Arbitrary

The biggest problem with the $50 billion bar, critics say, is that it's arbitrary and creates perverse incentives for institutions approaching the cutoff. It's also un-indexed, which could raise new problems going forward as the economy and banks continue to grow in size.

"Having a hard and fast line is a bit problematic. It's hard to imagine a $48 billion bank acquiring a $2 billion bank across the river and suddenly finding themselves designated as systemic," said Klein. "It creates a big kink in the curve—by having such large costs at a sharp threshold, you create a strong disincentive for what otherwise could be sensible growth and acquisitions."

Jim Herbert, chairman and chief executive of First Republic, discussed some of the new burdens the bank faces during an earnings call, noting that the additional expenses would translate to an increase in the bank's efficiency ratio, a key performance metric of costs relative to revenue.

"As you all know, institutions with over $50 billion in assets are required to operate under significantly heightened regulatory and compliance standards," Herbert said on the earnings call. "This includes initiatives to enhance systems and procedures in many areas such as enterprise risk management, [Bank Secrecy Act/ Anti-Money Laundering], capital and liquidity stress testing, compliance, resolution planning, and the still-pending liquidity coverage ratio."

He stressed to analysts that the bank's pace in meeting the new requirements played a big role in the additional cost projections relative to earlier earnings reports.

"I think that the real question here is not so much what changed in the overall needs, but our speed with which we decided to get at it," he said. "The other thing that happens is that the regulators do not wait until you are $50 billion to impose some of this guidance on you."

A spokesman for First Republic declined to comment further.

Still, analysts' reactions to the news were mixed, with many highlighting the likely rise in expenses in their write-ups to clients.

"There's no getting around it: a higher regulatory cost burden as [First Republic] approaches the $50 [billion] asset threshold would materially dampen near-term [earnings per share] power," said Erika Najarian, a Bank of America analyst, in a note.

> "A $52 billion bank just over the threshold doesn't pose more of a threat than one just below."
> - Aaron Klein, BPC's Financial Regulatory Reform Initiative

Another key question for those concerned about the SIFI threshold is how it sets up large community banks, such as First Republic, against the real industry behemoths, like JPMorgan Chase and Bank of America, both of which have more than $2 trillion in assets.

Benefits Worth The Costs?

Complying with the enhanced prudential standards under Dodd-Frank is costly—and the costs are proportionally bigger for banks just hitting the $50 billion mark. That raises the question for some of whether the benefits are similarly proportional.

"Some of the fixed costs of Dodd-Frank, like living wills, were higher than expected and not commensurate with the benefits of covering small institutions," said Klein. "The smaller the bank, the less systemically significant the bank is, and the less benefit you'd get for regulating it as a SIFI."

Moreover, some argue that the threshold could discourage growth for banks nearing the $50 billion mark, potentially undercutting the financial reform law's efforts at distributing some of the market power away from a handful of the largest players.

"We're getting closer to the final implementation of Dodd-Frank rules, and we now know that for banks with $250 billion in assets and above there is a desire to focus on their core businesses and probably give up market share and exit certain businesses," said Mills. "But you need someone else to pick up that market share or enter into those business lines, and to the extent you're not facilitating—and even inhibiting—the building of that bench behind the biggest banks, you're unable to accomplish your goals." **ISO**

Hinting At Marriage

Apple and Alipay are leading the industry to believe that the two companies might work in tandem in both of their home markets and beyond. **BY JOHN ADAMS**

The "marriage" that Apple's CEO and Alibaba's founder are hinting at could create a mobile wallet with a global reach that well exceeds that of most banks, telcos and other mobile-wallet developers active in either company's home market.

The two technology giants can address each other's needs almost perfectly: Apple has launched a mobile wallet in the U.S. but needs to establish itself in China, where Alibaba's Alipay affiliate has a strong footing; and Alipay needs a way to reach consumers in the U.S., where one million people have already signed up for Apple Pay.

"Alibaba is the most prominent tech company in China and has a lot of weight and a lock on the Chinese e-commerce consumer, and Apple is the most popular technology brand in the west," said Gil Luria, an analyst at Wedbush Securities.

Apple CEO Tim Cook and Alibaba founder Jack Ma hinted that they were in talks, but the companies have not announced any formal partnership. "It could be that Apple wants access to China to sell more iPhones or to open an Apple store [in China]," Luria said. Cook told investors that the ultimate goal of Apple Pay is to sell more iPhones; its latest iPhone models was launched in China on Oct. 16.

"Everybody is trying to gain access to the Chinese economy with its potential for enormous growth," said Richard Crone, a payments consultant. "Binding the two with a common payment platform could go a long way to opening up both markets."

Another need Alipay can address for Apple is the small range of payment options currently available in Apple Pay. Apple has enrolled over 500 banks to support its mobile wallet, but these issuers are going live gradually; Apple Pay also does not support payments from Discover cards and PayPal accounts.

Rival mobile wallets typically offer some form of prepaid account for consumers who don't have a card from a participating bank. The U.S. wireless carriers' Softcard wallet is linked to Amex's Serve prepaid platform and Google Wallet launched with a virtual prepaid Google card, but Apple doesn't have anything comparable. Alipay, which is similar to PayPal, could become a default payment option for Apple Pay consumers whose bank or credit union doesn't participate.

"Apple's all about making it easier for the consumer. If the consumer can add other payment types besides credit cards, such as Alipay, it will open more markets for Apple," said Ralph Dangelmaier, CEO of BlueSnap, which provides consulting and payments-related services for merchants.

If Apple can provide cross-border access for Alipay, it would put pressure on PayPal, which has also had trouble bringing its payments business to China. PayPal did not comment, and Apple and Alibaba did not return requests for comment.

"Alibaba with Alipay and eBay with PayPal are 'twins' from different countries that are now competing internationally," said Mary Monahan, an executive vice president and research director of mobile for Javelin Strategy & Research.

PayPal has had a turbulent relationship with Apple. The eBay unit supports payments for Apple's iTunes store, but is absent from Apple Pay and has made several moves to cast Apple Pay as a competitor. But PayPal is in the process of separating from eBay, which should open opportunities for partnerships that have been unavailable to it as part of an e-commerce company.

"Alibaba definitely threatens PayPal/eBay," Monahan said. "When PayPal spins off from eBay, it will be a different animal, less of a threat to the Alibabas of the world and a more likely partner."

Any collaboration between Apple and Alipay would not be a slam dunk, however, since the companies could face pushback from regulators due to their sizes, Crone said.

Even so, the companies have a huge opportunity to work together and rattle the payment providers in each market.

"When two gorillas get together they can wreak some havoc…the payments acceptance market may be globalized, but the issuance is regionalized," Crone said. "The world just got a lot smaller. Alibaba (which is affiliated with Alipay) may not be well known now, but if it puts its brand together with Apple, there are a lot of synergies." **ISO**

MOBILE PAYMENTS

VISIONARIES AND Q&A

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eProcessing Network (ePN) specializes in secure, real-time transaction processing services, solutions & support for all SMBs. ePN is certified to process electronic payments through all major credit card, check/ACH and gift card/loyalty processors, selling exclusively through the ISO/Reseller sales channels. ePN is PCI/PA-DSS compliant.

By Steve Sotis, President, eProcessing Network

1. **How can ISOs help merchants prepare for Mobile?**
   By staying abreast of new technologies and transaction payment trends, ISOs can help the merchant understand the benefits of accepting mobile as a way to better serve their customers. Whether the transaction is a point of interaction with their customer (in-store), in-line at the checkout counter, or on the road, knowing how to match trends with a merchant's business processes will give the ISO office the advantage over providers who simply run business the old-fashioned way at the counter.

2. **Will mobile payments add to ISO profitability?**
   By selling mobile to the merchant, ISOs can add to the monthly residual income via the quoted discount rate for the mobile service. But for an ISO to have longevity with merchants, they need to offer a full array of solutions and services. As a leader in payments processing for over 17 years, eProcessing Network partners with ISOs to offer a comprehensive range of solutions and services that help them position their brand in the marketplace. ePN's professional support and resources such as training, marketing tools, reporting and exceptional support are provided for ISOs to help build and increase their business.

3. **What does an ISO need to do to offer mobile payment capabilities to a merchant?**
   ISOs need to investigate reputable mobile service providers that offer additional value-added services, helping enhance the merchant's overall mobile product experience. Since merchants need more than just mobile payment acceptance to run their business, ISOs can help the merchant manage their back office more effectively by offering accounting software solutions, inventory tracking & reporting, customer data solutions, text messaging and other services that help the merchant run their business as easily as possible.

4. **What merchants appear most likely to want mobile payments?**
   Typically, seasonal merchants that follow the festival, fair, flea market and boutique circuits are prime candidates for mobile processing. But retailers looking to offer checkout at the point of interaction within their store or process transactions via their mobile app also have a stake in the game. Most merchants understand the importance of having a mobile presence in their market, but don't often know how to incorporate mobile into their business strategy. ISOs that understand the merchant's needs and can partner with them to help them transact successfully in their business environment, are primed to be enjoy longevity.

5. **How much income potential does mobile have for ISOs?**
   That depends on the ISO sales model, how they bundle other services and of course how competitive the ISO's pricing is to the merchant. It's important for ISOs to understand their customer's needs and what the pricing strategy is of other competitors, both demographically and industry-wide. With micro-merchant providers like Square, PayPal and Intuit Go Payments to name a few, impacting the processing arena, ISOs need to re-evaluate pricing models to be more competitive, but also help merchants understand how bundled pricing will be of best value to help manage their entire business, and not just the transaction.

6. **Do the rates stay the same – are there additional fees for mobile transactions?**
   Typically, the rates to process a mobile payment are the same as in-store retail. It's important for ISOs to be upfront and talk through the pricing structure for both swiped and keyed rates, in addition to any other costs or fees involved. ISOs can help merchants realize what their potential costs will be based on how they accept the payment, and let them know what they can expect

to see on their monthly statement, to help minimize confusion and reduce dissatisfaction for the ISO/Agent.

7. **Do mobile payments speed up transaction times compared to calling to authorize transactions?**
   Mobile and Terminal swipe or keyed rate transactions are always faster than calling a processor for a voice authorization, let alone better priced. And when the merchant uses a reliable and secure, cloud-based payment provider like ePN, they know that the transaction will be instantaneous and the customer data remain uncompromised.

8. **How quickly is mobile spreading?**
   Mobile payments are growing everyday and with the advent of Apple Pay, it will further gain traction. With mobile commerce growing at an annual rate of 33% over the next three years (Forrester Research), merchants are feeling the pressure to have a mobile presence, but struggle to understand how that really plays out within their business model. ISOs that can help the merchant understand how to easily integrate mobile into their everyday processes can help them realize future potential and expand their customer reach.

9. **Can ISOs use mobile payments to start conversations with merchants?**
   Mobile is an excellent conversation starter with existing merchants, in order to avoid going in with a rate-reduction conversation. When the merchant understands that low pricing doesn't always mean the best value, but how a full-service processor can provide the infrastructure needed to support them, it can help the merchant make an educated decision. And if a merchant believes that the ISO is their trusted partner, helping to anticipate trends and methods to keep their customer base growing, they will be more willing to look at the whole picture.

10. **Are mobile payments a way of bringing the smallest merchants into the card acceptance realm?**
    Yes, by utilizing their existing smart phones or Tablets, merchants can easily accept credit card payments with little to no start-up costs. Utilizing mobile technologies is a much more attractive prospect than having to buy some of the very expensive, point-of-sale systems or regular countertop POS terminals. And when processing through a secure payment gateway provider like eProcessing Network, even the smallest merchants will have access to the synchronized tools for inventory management, accounting processes, and financial reporting that help manage the entire business. ■

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TEACH Your Merchants Well

Mention 'mobile payments' to the average consumer and you no longer get a blank stare. Even prior to the media coverage of Apple Pay, a surprisingly high percentage of consumers recognized that digital wallets and mobile payments could replace other payment methods, according to Thrive Analytics.

Not only are consumers aware of mobile payments, but they have the device at the ready. According to Pew Research, 90% of U.S. adults have a mobile phone, 58% have a smartphone and 42% have a tablet.

Indeed, mobile payments are finally starting to gain critical mass. In 2012, there were more than 250 million mobile payments made using mobile wallet applications and at least 205 million person-to-person or monthly transfer payments, according to the 2013 Federal Reserve Payments Study. Another Federal Reserve survey conducted in December 2013 found that 17% of smartphone owners used their phone to make a purchase at a retail store in the past 12 months.

ISO and Agent as Educator

As mobile payments become more mainstream, perhaps the greatest value that ISOs and agents bring to a digital payment landscape is to educate merchants on the possibilities of mobile payments, say industry experts.

Andy Schmidt, research director at CEB TowerGroup, believes that ISOs and agents should serve as a guide to banks and merchants, especially for those smaller players without the resources of large banks and retailers. "ISOs and agents can help local merchants get ready for mobile payments," he says, adding that doing so will help preserve local economies. "ISOs are uniquely positioned to help merchants navigate these choppy waters," says Schmidt. Thad Peterson, senior analyst with Aite Group, agrees with Schmidt. Peterson notes that about one-fifth of the merchant population is unaware that their current point of sale terminals are likely already NFC-enabled. "ISOs can educate merchants on the capabilities of their terminals and what they can and cannot do with them," says Peterson.

Making Shopping Fun

But ISOs need to do more than just educate about point of sale capabilities. In addition, they should help their merchant customers understand the economics of mobile payments, the risks, and the opportunities, say Schmidt and Peterson. Adds 451 Research Mobility Team Senior Analyst Jordan McKee, "ISOs should make sure that merchants recognize that mobile payments isn't just about acceptance at the point of sale, but about what you can do beyond the transaction as an opportunity for broader commerce."

McKee sees mobile payments as an opportunity to make shopping fun and a way to increase customer lifetime value. "Merchants should be paying attention to chances to engage customers through relevant offers," says McKee.

The data supports the theory that consumers want to use their mobile devices for more than just transactions. In an Accenture survey of 4,000 smartphone users, respondents said they would be more likely to use their mobile device to pay if they could track receipts (60%), manage their personal finances (56%) or view and manage reward points (51%).

In the Yankee Group's June 2014 U.S. Consumer Survey, smartphone users are most interested in using reward programs to collect and redeem points, followed by using mobile apps for shopping/coupons/reviews and using mobile coupons at point of sale.

"Mobile payments have the potential to deliver highly enhanced customer experiences," agrees Peterson. For example, when Lord & Taylor SnipSnap app users get within 500 meters of the department store, they get a text message on their mobile device for a mystery coupon worth between 15% and 25% off their purchase.

The Apple Impact

The launch of Apple Pay has dominated the media and Schmidt predicts that Apple Pay will give a boost to competitive mobile payment schemes such as Google Wallet and PayPal. "The expected success of Apple Pay will increase transactions for everyone," says Schmidt.

McKee concurs, calling Apple Pay an indicator that the concept of mobile payments has legs. "Apple Pay has gotten the ball rolling and we'll now see more of a concerted industry effort toward mobile payments."

"How can you not accept Apple Pay?" Schmidt asks rhetorically, noting that based on spending volume, Apple users are one of the most attractive demographics. Depending on the study, Apple users spend from twice as much to as four times as much as Android users.

The Apple Pay versus Google Wallet question is especially acute for those higher-end merchants such as Abercrombie and Fitch, notes Peterson. "From a branding perspective, it's important that upscale merchants accept Apple Pay since more of their customer base likely has iPhones," he says.

Getting to Acceptance

The biggest hurdle for mobile payment acceptance isn't the actual technology but acceptance. If consumers are forced to use a different mobile wallet depending on the retailer, adoption will stall, notes Schmidt. "You swipe a card the exact same way no matter where you shop," he reasons. "Consumers wonder why they can't make a mobile payment the same way every time."

Andy Schmidt

Jordan McKee

Thad Peterson

Consumers are also confused about who is responsible if there are mobile payment errors. In a recent case, Bank of America double charged about 1,000 Apple Pay transactions. The bank stepped up to handle the issue, notes Schmidt, but the snafu highlights how easily consumers can get confused. "You go through Apple Pay but it's your bank's card. This brings a new dimension to customer service."

In light of some well-publicized retail data breaches, consumers are also much more aware of mobile security risks. ISOs also have a role to play in helping merchants invest in solutions that have a strong reputation around security, says McKee.

Bottom Line

For ISOs and agents, McKee offers the following advice. "Look at mobile payments not as a credit card surrogate but as part of a broader commerce opportunity."

But while mobile payments are picking up steam, adoption won't happen overnight, warns Peterson. "Penetration of NFC terminals is relatively small. The number of iPhones is still relatively low compared to the installed base of smartphones. It will take two to three years before we see any scale in proximity payments," predicts Peterson. ■

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Your Merchants Need Help With In-App Customer Care

Consumers throughout the United States are embracing online shopping. In fact, they're shifting a significant portion of their purchases from brick-and-mortar retail stores to the web at an ever-increasing pace.

But a second wave of change is already well underway. Consumers have less time, have become more price-conscious and have access to more information than ever before–and all of that combined is changing buying behavior.

As a result, consumers are shifting a healthy portion of their online purchases from the web to smartphones and tablets.

Shopping via mobile device is becoming more commonplace than ever before, and one out of 10 shoppers already prefer mobile apps exclusively for their online shopping.

Mobile shopping has arrived, and new mobile payments functionality–like Apple Pay–is poised to help strengthen the mobile shopping tide even more.

But there's a looming problem that ISOs may be able to address by helping merchants improve their mobile shopping apps.

In a recently completed retail mobile shopping survey, we found one major issue with mobile buying behavior–customer care.

Mobile shopping isn't perfect. Altogether, 16% (one in six) of consumers said they struggle with mobile shopping apps at least half the time, and 38% of respondents said they are disappointed with the inability to get help within a mobile app

Consumers have high expectations for customer care when shopping via mobile device, and if those expectations aren't met, they'll often choose to abandon the experience (and their carts) entirely.

Retailers work long and hard to create mobile shopping apps, only to have shoppers stall at the point of purchase or click away in frustration.

When consumers struggle in a retail app, 51% abandon the cart and close the app–causing lost potential revenue for retailers and acquirers–and some 20% will stop using that particular app entirely.

Furthermore, 55% of consumers say they struggle with apps at least 20% of the time.

There is a latent dissatisfaction with mobile apps as a result.

And If retailers fail to address that problem, it will soon put a damper on mobile shopping revenue growth and will erode customer loyalty, regardless of how enticing mobile payments might be.

Fortunately, consumers have told us exactly what needs to be done to remedy the situation.

For one thing, consumers want in-app customer care. In fact, more than 90% of shoppers said it would be helpful to have customer care automatically provided within an app to help complete a task or goal.

For those retailers who solve the problem, consumers indicate a strong willingness to reward them with more purchases, higher loyalty and lower costs.

ISOs that contribute to the remedy will earn their merchants' loyalty and keep the relationship vital.

Otherwise, less-than-ideal experiences with apps, where shoppers struggle within an app and can't get the help they need, are likely putting a damper on mobile shopping revenue growth and customer loyalty for your merchants' companies.

Your customers have invested too much time and too many resources to develop a mobile app, only to have a large fraction of its shoppers stall at the point of purchase or click away in frustration.

With minimal cost and effort acquirers and merchants can add in-app mobile care to complete the shopping experience, delight customers and achieve the full potential of your clients' mobile investment. **ISO**

John Hibel serves as the director of marketing at Contact Solutions.

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