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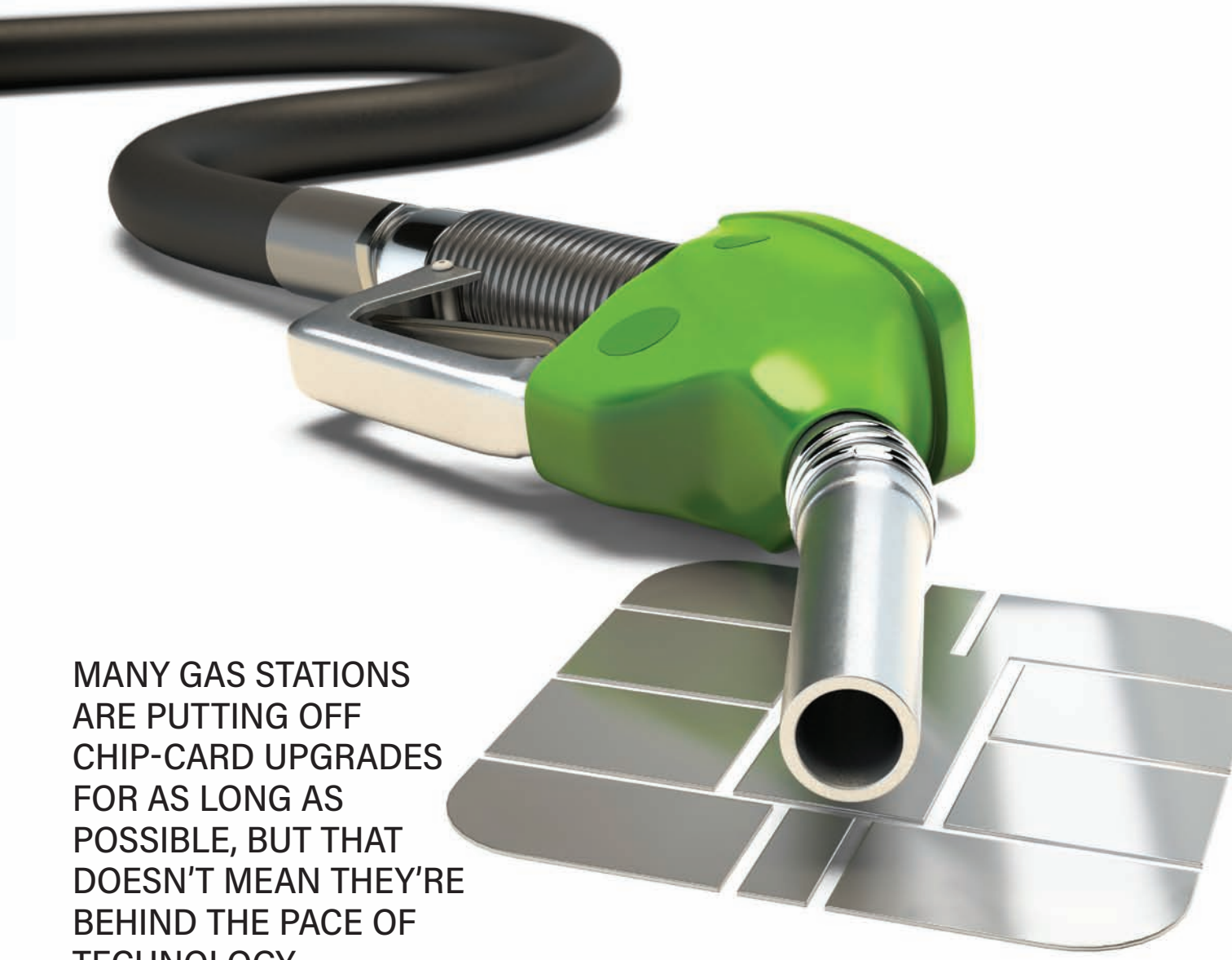

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Editor's Letter

Daniel Wolfe
Editor

The EMV Goalposts Move Again

THIS OCTOBER WAS SUPPOSED TO BE THE DEADLINE FOR U.S. GAS stations to accept EMV card payments at the pump, but late last year that deadline got pushed to October 2020. It's understood that upgrading gas pumps is a costly and complex process, which is why they originally had a 2017 deadline when other retailers faced a 2015 deadline.

So what's happening in the meantime?

Some gas stations are moving ahead with EMV upgrades, even if it means ripping pumps out of concrete and installing new hardware underground. Others are looking ahead to alternatives that could provide a similar security guarantee without the disruption.

Mobile wallets are, of course, playing a key role here, but so are internet-connected cars and other new technologies.

Gas station payments have a long road ahead, with many interesting stops along the way. And other retailers may be interested in some of the innovations that are coming to the pum. **ISO**

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*U.S. Department of Commerce, 'Top 10 International Markets: 2015 Visitation and Spending'

Ignoring the EMV Deadline

The EMV deadline was always optional, as long as merchants were willing to take on additional fraud risk. For one merchant, another upgrade took priority. **BY DAVID HEUN**

As a large furniture retailer in South Florida, City Furniture had to decide whether to move quickly to upgrade terminals and avoid the October 2015 EMV chip card liability shift, or stay on track with a process it was already engaged in for a mobile point of sale system in its showrooms.

It chose the latter, and now considers itself future proof and in a position to give customers an improved payment experience through an Ingenico mobile POS card reader and iPad-based payment system.

"At the time of the huge EMV push, we allowed the liability to shift to us as the merchant because we weren't going to be forced into the deadline, knowing we had this mobile development forthcoming," said Steve Wilder, chief financial and information officer for City Furniture.

"We weren't going to be forced into the deadline, knowing we had this mobile development forthcoming," said Steve Widler, chief financial and information officer of City Furniture.

City Furniture was able to get its back-end system partner IBM to sit down at a conference table with Apple Inc. in Cupertino more than a year ago to help design the best way for iPads to communicate with IBM equipment, Wilder said.

It uses the upgraded Ingenico RP750X mobile POS.

Many retailers likely felt the same pressure to either shift solely to EMV or hold out for something more robust, with some experimenting with mobile wallet apps and others simply trying to determine whether Near Field Communication or some other mobile technology made more sense.

The decision actually gets simpler with time, said Thad Peterson, senior analyst with Boston-based Aite Group.

"Every day that goes by, it gets easier to implement EMV as it gets more standardized and there are more solutions around to accommodate it," Peterson said.

Many hardware vendors also saw the EMV shift as a way to introduce other new technologies as part of a single hardware upgrade.

Thus, a merchant that wanted to support mobile wallets with NFC or QR codes would be able to get EMV card acceptance as part of the same deployment.

City Furniture's journey points to how "old school" the furniture industry can be in its payments and back-office networks if a retailer chooses to stick with legacy equipment, Peterson added.

"It's also an indication of the chal-

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lenges retailers face with omnicommerce," he said. "A new system can be elegant in the store, but it has to be linked very closely to what is going on with their online presence."

For City Furniture, it was far more important to take a big step away from its current system and make the conversion to something future-proof than to simply have EMV bolted on, Wilder said.

"We wanted to move away from the green [POS] screen and dragging the customer back to a desk to be able to get information and for them to be able to pay," he said.

The Ingenico reader and Bluetooth-connected iPad will allow that, being small enough for sales staff to move around the showroom floor and accept magstripe, EMV, PIN debit and NFC tap-and-pay.

City Furniture will run up to 90 applications in communicating with back-office IBM equipment and MobileFirst apps, and is in a position to advance its omnichannel presence through Ingenico Group's mPOS EMV software development kit and decryption web service.

Of critical importance is that the Ingenico software will allow the 15 City Furniture and 12 Ashley Furniture showrooms in South Florida to accept and decrypt the company's private label finance cards and gift cards.

"We knew we didn't want a bulky one-pound sled [tablet] for this project," said Chad Simpson, business and research analyst at City Furniture.

"Those get set down, and employees forget about using them. That would have been a complete failure for us," Simpson said.

Rather, the company sought to "knock people's socks off" with how sleek the operation was and how easy it was to initiate and accept payments in the store, Simpson said.

"We did not take any steps back in this process," Simpson said. "We are taking all payment types now, and previously we only took magstripe credit and debit."

Ultimately, City Furniture concludes it was in the right place at the right time. IBM and Apple, two fierce competitors, came together to work with the retailer, and not long afterward Ingenico released its mobile POS card reader and SDK.

City Furniture finally received its EMV certification in the summer of 2016. "The timing just worked in our favor. We were very fortunate," Wilder said." **ISO**

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Banking on Surveillance Tech

As technology companies do more with payment card data, banks must decide whether to welcome the practice or stand in its way. **BY PENNY CROSMAN**

Google's tracking of credit card purchases and linking them to users' online profiles and search patterns raises a number of knotty questions for banks.

The tech giant says it just wants to show advertisers that the ads they placed led to sales, and there's no reason to doubt the company's intention. But if consumers understood that their card transaction data was being sold to Google, would they sanction this? Or would they ask the banks and card issuers that collect and store their transaction data to think carefully and perhaps ask their consent before passing this information over to third parties?

These questions are relevant to banks because they are complicit in the march toward "surveillance capitalism" — a

world where consumers' every move is recorded without their knowledge and the information is monetized.

Although it is seldom talked about, some banks sell customer data to third parties. Banks also feed customer data to data aggregators such as Yodlee, which anonymize and sell that information to third parties such as hedge funds. The hedge funds use it to predict company performance and make trading decisions. Mastercard and Visa also sell card transaction data to third parties.

Most banks have a vested interest in making sure customer data is not misused in any way, since they incur a lot of the costs of fraud, such as card reissuance and credit monitoring, said Al Raymond, specialist leader, privacy and data protection at Deloitte and former head of U.S. privacy at TD Bank.

"They want to stay close to the data, as the ounce of surveillance prevention more than outweighs the pound of cure," Raymond said. "Staying close to the customer is a very real, and recent goal, since large banks are trying to fight off the threat from smaller, nimbler fintech players that are chipping away at bank customers, particularly the millennial segment."

U.S. banks can't sell raw consumer data to third parties unless they provide the customer with a notice and an opportunity to opt out. In some states, customers have to opt in. They can sell anonymized data, with all personally identifiable information stripped out or hashed. Companies often use such data sets to come up with rules they can apply to their customer base, such as: a 42-year-old living on the Upper West Side of Manhattan is likely to purchase certain items at a particular time of day.

But even anonymized data raises at least three privacy issues.

1. Anonymized data can be de-anonymized

In a report published in April, Stanford and Princeton researchers de-

scribed how they linked de-identified web browsing histories to social media profiles using only publicly available data.

"This was a case study in how much people share on the internet without even realizing it and how uniquely identifiable that is," said Jessica Su, computer science Ph.D. student at Stanford University and an author of the report. "We believe that the set of things that are recommended to somebody or the set of websites somebody uses on the internet very much uniquely identify them."

The team asked Twitter users to donate their browsing histories and then looked at the links they clicked on while visiting Twitter. They mapped the newsfeeds to the browsing histories, and where there were many similarities they made a match. They successfully identified people around 70% of the time. If they had used the time stamps on the browsing histories and Twitter posts, that rate would probably have been much higher, Su said.

Su said she isn't concerned that Google or any other large company would take advantage of this ability to identify people, and thus know that the individual who bought a pink cardigan from Jcrew.com at 6:45 a.m. on June 7 was me.

Companies like Google and Facebook "usually have clear policies on what they can do with user data. When I was at Microsoft research, there were very strict controls on what could be done with so-called personally identifiable data. The moral of this story is that a lot of information is personally identifiable."

Aggregate information used to find patterns and formulas is far more valuable than the activities of individuals, said Boris Segalis, co-chair, data protection, privacy and cybersecurity at Norton Rose Fulbright, a New York City-based law firm,

"They don't care that you bought the cardigan," Segalis said. "That's low-value information."

What Su does worry about is "the sketchiest small companies," she said.

"If somebody releases some data set that's very private and sensitive but anonymous, and somebody else goes and de-anonymizes it using statistical methods, that could be pretty bad."

Stuart Lacey, founder and CEO of the data privacy technology company Trunomi, is alarmed about companies'

being able to connect these dots.

"The extent to which this is being done and what we're just finding out now is a gulf that will be filled with alligators and surprises," he said. "I don't think many people realize just how much is being done."

2. Even if it remains anonymized, consumers don't know how their data is being used

Do consumers have the right to know where their data is being sent even if it's anonymized?

"That's a question of policy," Segalis said. "You can certainly have the view that you don't want someone in the commercial space to figure out your shopping patterns. Ultimately you as a consumer generate that data, even if it's not associated with you."

On the other hand, the use of more and better data and analytics could benefit customers' as well as companies, Segalis argued.

"It could be annoying that someone can predict your shopping patterns," he said. "But the same data analytics tools are used to predict traffic patterns and make driving safer, to help with pharmacological research. … It's probably hard to stop data because it drives so much business today."

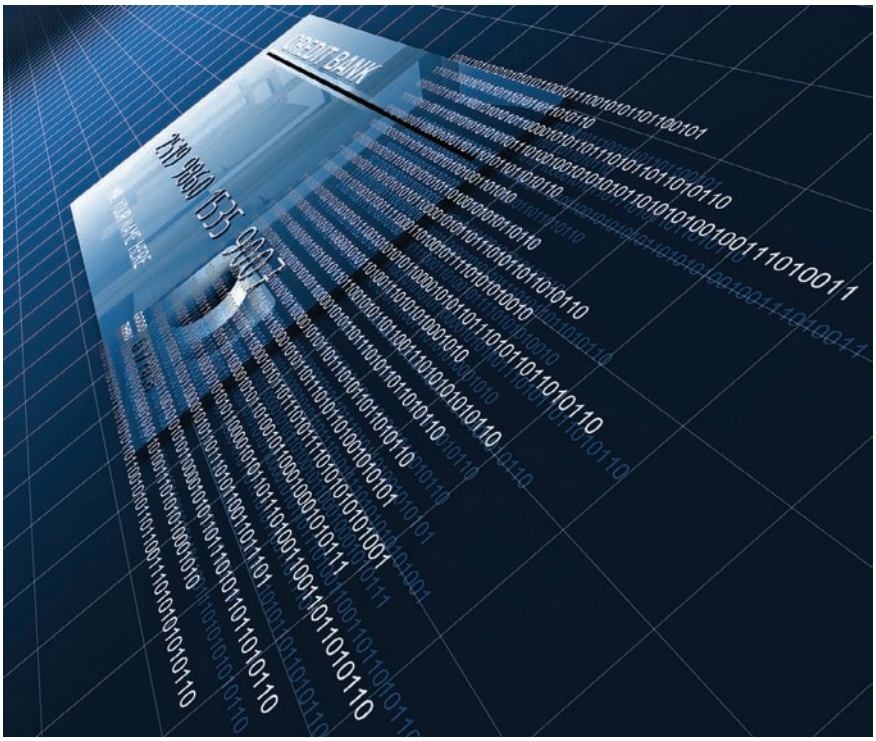
3. If you try to explain to consumers how their data is being used, they probably won't read the explanation.

Banks have to provide privacy notices that disclose what they do with customer data, but often the useful information is buried in legalese.

Lacey pointed out that Apple's iTunes agreement runs 3,600 words on 27 pages. "No one reads it," he said.

He's in favor of using a consent widget that would clearly state what information is being shared with whom for how long. (The European Union's General Data Protection Regulationcalls this "informed consent.")

"That's the way the customers and the banks we talk to see this going — judicious and appropriate, measured use of data," Lacey said.



He points to Twitter's new privacy policy and the consent form it pushed to users recently, as a good example.

"They had eight clean sentences with little sliders beside every one," he said. "It was well run, they asked relevant questions, they explained it in understandable language and I opted out of everything."

He wonders, however, how many among Twitter's 328 million monthly users bothered to look at the consent agreement.

"People become so blinded by, 'Yes, just get me on my Twitter, I just need to share this thing,' " he said.

Segalis also bemoaned ultralong privacy notices. "They try to describe everything a company does on that piece of paper because of plaintiffs' lawyers and consumer advocacy groups," he said. "It's easier for them to be super detailed than to think about it like Twitter thought about it."

The worst-case scenario

Lacey paints a dark picture of the future if data continues to be shared thoughtlessly.

"The more a few parties have more information about any one thing and they can control the flow of relevancy of information and what you see, what you do, it starts to become a little Orwellian," he said.

One day the pink cardigan I buy from J. Crew will have a near-field communication chip in it, Lacey said. The chip will be designed to be read by my washing machine, which will warn me not to put it in with certain other fabrics.

"That seems like a good use case," he said. But NFC-enabled clothing will become an identifier that can be used to locate people.

"Now we've got a whole mechanism for mass surveillance globally and now, all these companies will be trading off that information to not just figure out who you are and what you buy, but

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locate you and figure out your habits," Lacey said.

"What I worry about is we're not taking anywhere near enough time to understand the way in which we're collecting data about people, what it's being used for, and by whom for what reason," Lacey said.

Not everyone shares this dire view.

"My experience in working with legitimate, large companies, is they have chief privacy officers and they try to do the right thing," Segalis said. "They use this data for their own purposes, because in many cases it opens opportunities and makes them more profitable. I don't think we can roll that back."

But Lacey said he sees the EU's data protection regulation as a gift that could guide companies back to the light, "like Luke in 'Star Wars,' when he's balancing on the ship and you don't know if he's going to go bad or good. Suddenly, if guided the right way, you can make good choices and the result can be quite compelling." **ISO**

MERCHANT ATTRITION IS A BIG PROBLEM Ð CAN BIG DATA HELP?

Using good, old-fashioned customer service and consultation to cut down on merchant attrition has been part of the acquiring playbook for years. But that playbook is long overdue for an update.

A newer concept is to compile important data prior to any real problems to get a better handle on what merchant clients think of their payments services. The major card brands, at one time or another, have introduced programs to help their acquiring banks and independent sales organizations cut down on merchant attrition. And processors have teamed up with software providers to do the same.

Attrition is an ongoing problem that costs merchant acquirers $2 billion a year in losses, plus another $1 billion per year spent to replace the merchants they have lost, according to a report from Womply Insights and Goldman Sachs Equity last year.

Looking ahead, there are new data tools and merchant management dashboards to help acquirers attempt to lower the national average of 12% to 15% attrition rates, or give some hope to those facing 25% to 30% turnover in their portfolios. But new tools can go unused in an industry that has traditionally failed to address client concerns quickly and understand the ramifications of losing an account.

Some ªold-school playersº continue to feel that things are just fine if one or two merchants leave their portfolios at any given time, said Paul Martaus, a merchant acquirer consultant and researcher for Martaus & Associates.

ªThese are hot-button issues with me because we have always called this the need for basic business fundamentals,º Martaus said. ªThey are making millions of dollars from these merchants, so just call them up and talk to them if they had called with a complaint. They have their addresses and phone numbers.º

Exaggerating the problem, acquirers now face change at every turn, including new technology, new competitors and new pricing dynamics. Juggling those issues makes it more difficult to focus on the critical task of keeping the clients you have.

ªThese guys are facing disruptors like Square and others that they never faced before,º Martaus added. ªSquare never really put an emphasis on profitability in terms of merchant services, but they are offering other programs like cash lending that gets undivided attention from merchants.º

Acquirers that focus more on attracting new clients than on keeping the ones they have are losing out on the potential of predictive analytics that can identify pain points in their merchant relationships, said Rajesh Kamath, head of financial services solutions and incubation at Incedo Inc., a technology services firm specializing in data analysis and management for large acquiring banks.

ªSome say price is the only factor in attrition, but we ask if that is really true by looking at what kind of data the banks are collecting in their card practice and looking at those models to find predictors of action,º Kamath said.

After that, it is a matter of determining if the bank could be doing more with data analysis, particularly from social media channels.

ªIt is good to find out if the merchant is saying anything that would help us realize this merchant is likely to leave,º Kamath added. ªSocial media tracking analysis is happening in other industries, but not so much in payments yet.º

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Growing Pains of Pot Payments

The hazy legality of marijuana is making it hard for legal dispensaries to accept traditional payments. But that doesn't mean it has to be a cash-only business. **BY SARAH WYNN**

Though recreational pot is legal in a number of U.S. states, big banks don't want to work with cannabis sellers. And that is unlikely to change anytime soon.

Part of the issue is regulation — most banks are averse to marijuana's hazy legal footing — but a growing number of workarounds can help make these businesses less cash-based. The problem is these workarounds aren't as seamless as simply paying by credit or debit card at any other store.

"We're in a grey area and everybody will have to deal with that," said Eveline Dang, vice president at Cannapay, a vendor to the legal cannabis industry. "In terms of service providers, it's our job to provide merchants with the right tools and systems and solutions that they will use to make sure they use them properly to be compliant in every way possible."

Cannapay is part of an emerging category of providers implementing creative ways to make cannabis payments seem more digital than they actually are. The options include cashless ATMs (which initiate transfers when a customer inserts a debit card) and e-checks.

The drawback of these systems is that point of sale technology isn't designed to interact with them, making implementation often seem like assembling a massive jigsaw puzzle.

"POS systems typically are the core of the business with merchant payments, but now the way that POS systems and payment systems work is that it's like a work around solution," Dang said.

When a customer makes a purchase, it isn't directly connected to a payment system. So the merchant has to go into the POS system and manually confirm that the payment was completed. Since most banks don't work with dispensaries, the merchants have to write out their transactions to avoid discrepancies.

Starbuds, a marijuana store in Denver — where there are 158 active licensed marijuana stores alone — primarily deals in cash, according to Chris McCullough, the store's vice president of operations.

"At this point the industry has kind of gotten used to it," McCullough said. "Of course we would enjoy to have credit card systems or a way to process them in an easier fashion."

Starbuds has an ATM in its store, and McCullough said this is a less

expensive alternative to the more inventive workarounds (it is not a client of Cannapay).

A cashless ATM that accepts credit cards may seem similar to the normal credit card payment process, but such systems categorize the transaction as a cash advance — and charge fees accordingly — because even if the money moves digitally, it's not considered a direct payment to the merchant. And if a bank is willing to work with a legal dispensary, it would likely categorize the merchant as high-risk, and adjust its pricing to reflect that.

"Right now there's just not any credit card systems that are exactly what you find in retail," McCullough said. "There's either an extremely high fee on the back end or it's one of those cashless ATM systems."

To address the security risk of handling cash, Starbuds has armed guards at each store and cameras covering the area, and McCullough said this system has prevented any issues with handling cash.

McCullough predicts the status quo will change eventually as pot banking restrictions loosen, and as vendors work to provide a more clear benefit to the customer.

Other payments companies working with the legal cannabis industry include Baker, which provides an e-commerce ordering process but requires in-person payments; Global Payout, which supports a closed-loop payment card; and Tokken, which uses a blockchain to provide recordkeeping for legal marijuana sales.

But even in more mature markets for legalized marijuana, such as Amsterdam, there's a stigma to being in this business and merchants typically find themselves obscuring the nature of their businesses when talking to banks.

In the U.S., Dang predicts smaller banks will be the most willing to work with cannabis sellers.

"I do see that trend since we do have some relationships with smaller banks, local and regional banks, and I do see them showing interest," Dang said. **ISO**

Driving Toward a Cashless Society

The early use cases for in-car payments establish a roadmap for future innovation.

BY SARAH WYNN

So far, the use cases for digital payments from connected cars seem too specific to spark a widespread shift in consumer habits. But connected cars may yet prove to be drivers of change.

The current use cases are fuel payments, parking payments and ordering ahead for coffee. These may seem like small categories, but they also represent some of the lingering examples where technology has struggled to replace cash.

"We expect cash to continue to decline, but it will not go away in 5-10 years," said Dominic Venturo, chief innovation officer at U.S. Bank.

In the short term, the payments industry can keep chipping away at these niche use cases.

"While digital transactions are becoming increasingly mainstream, and the more devices can securely communicate with each other – such as a car to a gas pump or a dishwasher to a computer when the detergent is low – the more we will see cash use subside," Venturo said. "There a number of reasons why we need cash less than in the past."

One such example is Jaguar's pact with Shell to support digital fuel payments from within the car.

Shell announced in February that Jaguar will be rolling out 2018 models armed with a new app,"Fill Up & Go," that interacts with Shell gas pumps. U.K. drivers have been using the app since July 2015, and drivers in the U.S. will have the opportunity to use the app in

the manufacturer's 2018 F-PACE, XE and XF models.

"As the world slowly moves towards becoming a cashless, autonomous society, retailers like Shell need to accommodate those customers who no longer use cash," said Stuart Blyde, Shell's senior innovation manager.

However, these changes won't be happening at full speed, due in part to concerns about safety and driver distractions.

With the new models, drivers can install the Shell app and drive up to any pump at a Shell service station, then use the vehicle's touchscreen to decide how much gas to buy with Apple Pay or PayPal.

This entire process must take place while the car is parked, said Peter Virk, Jaguar Land Rover's director of connected car and future technology. Virk emphasizes that this restriction makes the process safer than if it were handled through a smartphone app.

"Our technology allows users to put their phone away out of sight and use it via the touchscreen in the car, because as the car becomes more connected to the Internet of Things we will always be guided by what is appropriate and safe to do while driving," Virk said.

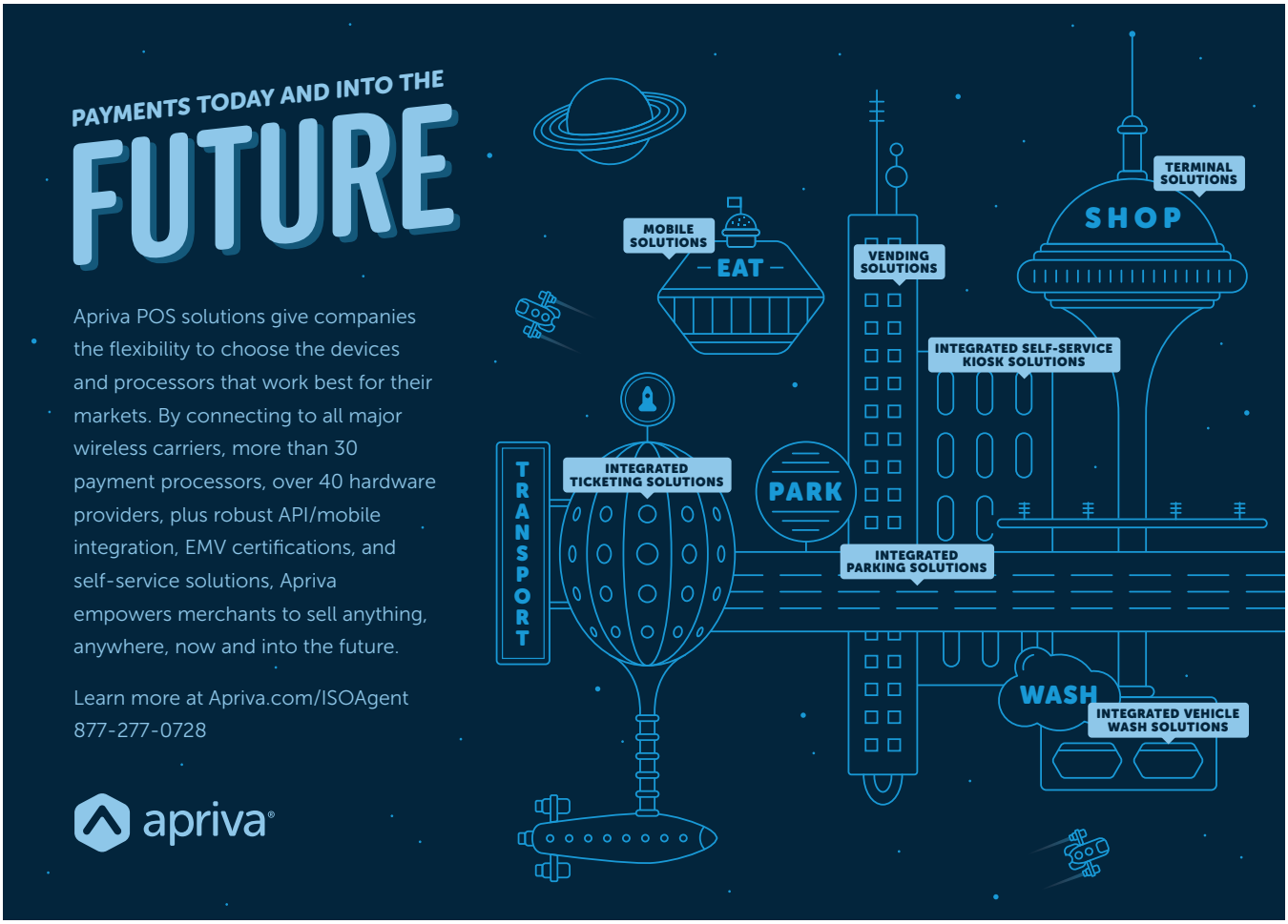
Apple Pay and PayPal use tokenization to keep driver's financial information secure, so that a stolen car doesn't automatically equate to a stolen credit or debit card, U.S. Bank's Venturo noted.

But does this mean in the future, the U.S. will be completely cashless?

According to a 2016 Pew Research study, 24% of Americans said they don't use cash during a typical week. Separately, 24% stick strictly to cash in a given week and 51% use both.

Retailers now want be part of an environment where they can tell what customers want and how they want to pay, Virk wrote in an email.

"In a connected world the customer is making decisions and transacting in a different way, so retailers have to join this connected world and ensure their services are offered digitally," he said. **ISO**



Do Stores Overpay for Loyalty?

Loyalty programs are a vital part of keeping shoppers coming back to a particular brand. But not all consumers need that extra incentive. **BY JOHN ADAMS**

Charging what people are willing to pay is an exact science, claims First Insight's Jim Shea, who contends the loyalty programs and price perks that merchants offer aren't always necessary.

"Not all consumers are the same. One may be willing to pay full price, but the other may want 30% off," said Shea, the chief commercial officer of First Insight, a Pittsburgh-based customer data and analytics company, which recently added a new client, vineyard vines, a Stamford, Conn.-based clothing retailer.

First Insight uses online social engagement tools to gather product pricing and sentiment data, then feeds that information into predictive models to enable merchants to make decisions such as design, buying and pricing.

One of the concepts it considers is price elasticity, or the price point at which consumers will no longer buy a product. Pricing is obviously a big part of marketing, and it also feeds into merchant-funded reward programs, which are often considered complementary to mobile wallets and other new digital payment options.

Whatever the form, loyalty and rewards have the effect of lowering the price of products. It may not always be necessary to lower prices to the same extent — or at all — to get consumers to buy, according to Shea.

"The retailer doesn't know which one is consumer A, who wants the discount, or consumer B, who doesn't. So they offer the discount across the board," Shea said. "They're sacrificing for a consumer who didn't require the loyalty."

By analyzing how consumers talk on social media or respond to email campaigns and other marketing, retailers can determine which discounts would be most effective for which customers, Shea said.

This analysis can not only inform pricing and discounts, but also serve to improve supply chains and bring more precision to brick-and-mortar merchants that are challenged by Amazon's growing dominance.

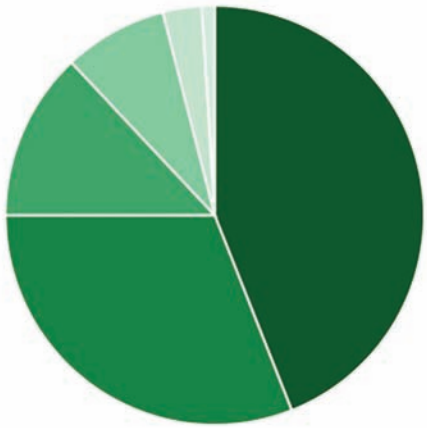
"You can collect feedback that can determine what price the market is willing to pay," Shea said. "Retail is at a tipping point, you read stories every week about retailers going bankrupt and closing stores while Amazon grows. Brands are really struggling for relevancy."

There is a risk in the loyalty-reduction strategy, and First Insight is not attempting to get rid of programs, but more to right size them.

"The incentive business has gotten really big," said Michael Moeser, director of payments at Javelin Strategy & Research. "You don't want to incent someone that's going to go to the store anyway."

Loyalty programs on the rise

Companies are increasing loyalty investments, or at least holding the line



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But there is a potential pitfall to a strategy that looks for opportunities to remove discounts or loyalty programs, according to Moeser, who said in today's market there's almost an expectation of some form of discount, coupon or merchant loyalty program.

"There's a leap of faith that a store owner has to take...customers tend to be fickle," Moeser said.

Vineyard vines did not make an executive available for an interview. In a release, the company did express a desire for improving "full-price" sales.

"We validated the ROI of the First Insight solution through measuring a direct increase in online conversions and full-price sales. Ultimately First Insight is helping us deliver on two of our corporate goals; building great relationships with our customers and driving profitable sales," said Mike Gaumer, president of vineyard vines, in the release.

David's Bridal, one of First Insight's longer-term clients, uses First Insight to reduce merchant funded rewards.

The retailer reports it has benefited from the technology's ability to improve speed to market and test new clothing styles.

"I am a huge proponent of mixed-methods analysis, using techniques that provide both quantitative and qualitative information," said Mark Chrystal, senior vice president and chief supply officer of David's Bridal, in an interview.

These methods, including First Insight, help the retailer understand not only what happened, but why it happened, Chrystal said. "Putting this into context, the quantitative data collected through First Insight allows us to understand how customers ranked our products, and the prices they would be willing to pay. Then, the qualitative customer feedback on each style allows us to understand why they were ranked the way they were."

Chrystal said David's Bridal has initiated a project to study price elasticity. "Our Rewards program is squarely part of that study. However, we don't expect to have implementable results until the middle of next year," he said.

"As part of this broader study, we have been developing price elasticity models for all of our coupons, promotions and markdown price changes since late last year." **ISO**

SHOULD STORES MIX LOYALTY WITH APPLE PAY AND OTHER WALLETS?

One of the biggest goals of mobile payments has been connecting the consumer transaction with a store's loyalty program to leverage data for customized offers, but many quick-service restaurants have struggled to make that happen.

Mobile marketing specialists like LevelUp and Punchh are making headway by linking purchase data from transactions with loyalty and rewards programs, but the two companies are split on how they use Near Field Communications-powered mobile payments, underscoring an ongoing dilemma.

Punchh is betting that NFC—still not widely available at most merchant locations years after its introduction—will eventually become ubiquitous, and it hopes to get an edge with clients with a direct connection to Apple Pay, enabling consumers who pay via NFC in stores to simultaneously earn and redeem restaurant loyalty program points.

Walgreens customers have been able to earn loyalty points using Apple Pay since 2015, and last year Kohl's enabled its app users to earn points when paying with Apple Pay, but Punchh is an early mover in the restaurant industry, said Shyam Rao, Punchh's CEO.

"Restaurant loyalty has been broken for a long time, but now a customer can walk into a restaurant, pay with Apple Pay and simultaneously get loyalty points and offers on the spot, creating a smooth, multi-channel loyalty experience for customers paying online, in-app or in stores," Rao said.

Punchh plans to add Android Pay to its restaurant loyalty platform and is currently in discussions with Google about enabling its NFC payment service by the end of the year, the company said.

LevelUp hasn't been as enthusiastic about NFC so far. The Boston-based company emphasizes in-app payments, and its platform drives consumers at participating restaurants to link their card for payment online or inside the app in stores or when ordering ahead. Consumers can also choose Chase Pay.

Though LevelUp "future-proofed" its service by including Near Field Communication payments capabilities into its solution, the company still sees relatively little demand for NFC payments, according to Alex Shuck, the company's director of marketing and analytics.

But LevelUp is keeping its options open in case NFC takes off. In a blog post this month, LevelUp announced a beta test of "omnichannel support" for Apple Pay, describing a one-touch approach to pay with NFC and earn loyalty points available to some merchants.

Punchh spent months testing its integrated Apple Pay approach with merchants, and chains including Smashburger, Quiznos and MOD Pizza plan to launch it later this year, according to Rao. Several of Punchh's 85 other restaurants are considering adding the integrated Apple Pay approach, but not all will do so, he concedes. "A lot of restaurants just don't have the NFC hardware enabled yet, but we think they will get there eventually," Rao said.

For customers at restaurants using Punchh's platform with the new Apple Pay approach, those who already have the restaurant's app will be prompted to pay via Apple Pay through the wallet, simultaneously earning loyalty points with options to redeem offers. New customers will receive a screen prompt within Apple Pay to join the loyalty program directly, according to Rao.

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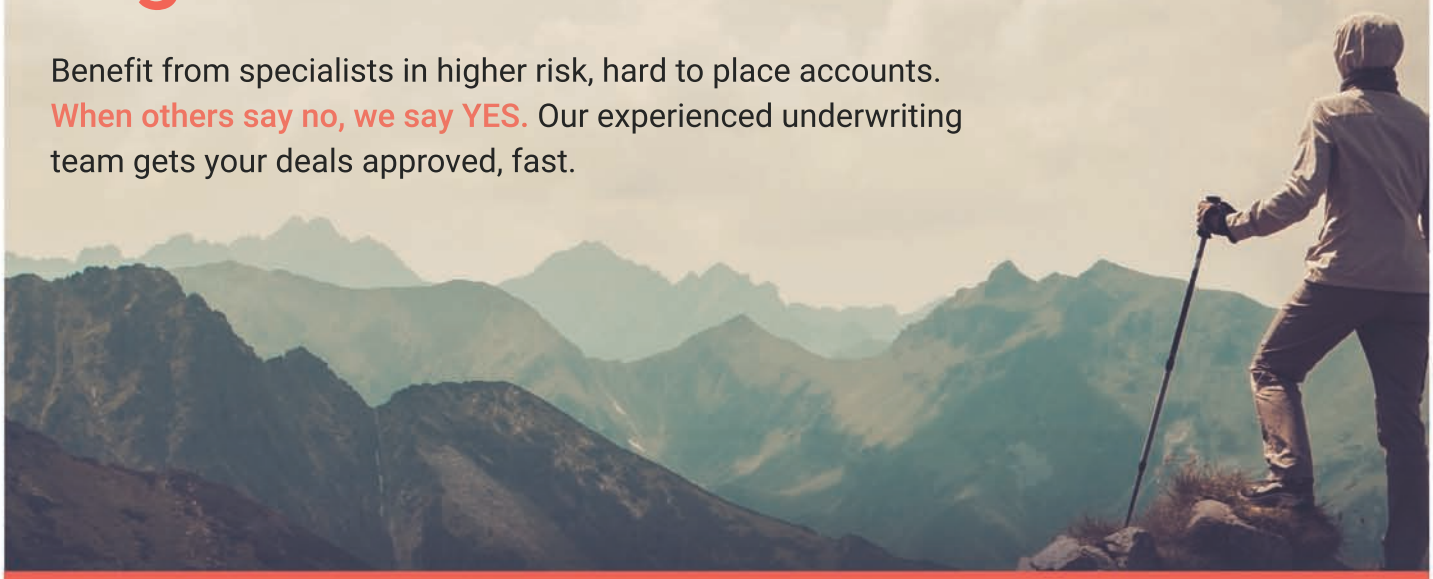

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Speeding Past EMV

MANY GAS STATIONS ARE PUTTING OFF **CHIP-CARD UPGRADES** FOR AS LONG AS POSSIBLE, BUT THAT DOESN'T MEAN THEY'RE BEHIND THE PACE OF TECHNOLOGY

By Cheryl Winokur Munk
Illustration by Ryan Etter

Unattended gas pumps would seem to be the perfect use case for EMV's anti-counterfeiting security, but many gas station owners are putting off their upgrades for as long as possible due to hardships that other retail categories don't face.

Because of the various challenges to make EMV payments at the pump a reality, Visa and Mastercard agreed back in late November 2016 to postpone the liability shift for domestic card payments by three years to Oct. 1, 2020. For many gas stations—most of which are independently owned—the switchover isn't as seamless as plugging in a new terminal.

"There isn't a lot of movement right now based on the pushback of the deadline and the relatively low level of fraud occurring at the pump. There's a wait-and-see mentality," says Marci Gagnon, vice president of business development and operations at AVATAS Payment Solutions, a unit of Cayan that focuses on the energy and service industries.

Three years seems like a long time, but it's really not with all that has to be done—especially for gas stations that have older pumps. Replacing these could require significant work from a regulatory, environmental and construction perspective. "It's really not a lot of time when you consider all the steps and processes it may take to implement the new technology," she says.

A fractured fuel industry

There were 152,995 total retail fueling sites in the United States in 2013, the last year measured by the now-defunct National Petroleum News' Market-Facts. Convenience stores account for roughly 80 percent of the motor fuels purchased in the U.S., and only a tiny fraction of these stores are owned by the major oil companies. This means the bulk of the stations are independently owned, according to data from NACS, the association for convenience and fuel retailing.

Given this landscape, it's not surprising that gas stations are at inconsistent stages of EMV adoption. The process is akin to what happened in the broader retail industry, with large-scale merchants paving the way for EMV ahead of smaller businesses.

But we are starting to see a trickle of movement.

In June, Gilbarco Veeder-Root announced what it says is the first EMV gas pump transaction to be successfully processed in the U.S. at a 49 Fuels site in North Carolina. Gilbarco has also publicly announced an agreement with a number of other retailers to upgrade their pumps to support EMV.

Many gas stations are in the process of testing and certification, while others are holding off a bit to make multiple upgrades at once. Pumps last about 15 years, so they want to incorporate as much new technology as possible in one rollout, according to Randy Vanderhoof, executive director of the Secure Technology Alliance. Gas stations are also adopting encryption technology and mobile wallet acceptance. "It will be more expensive to go back in and update those systems later," Vanderhoof says.

Meanwhile, none of the small and mid-size independent gas stations seem to be very concerned about EMV compliance today, according to George Csahiouni, co-founder and managing director of TransMerit Merchant Services, an ISO. "They know that it's going to be something that they need to deal with down the road, but the business owners are kicking the can down the road," he says.

Fuel for thought

Certainly, there are hurdles to rolling out EMV, which is one of the reasons the card brands agreed to extend the liability shift deadline. For many gas retailers, there's no sense of urgency, given that fraud rates at fuel pumps are relatively low—approximately 1.3 percent of total U.S. payment fraud, according to Visa data.

That—contrasted against with the steep cost of upgrading—is a major sticking point. In 2014, widely published figures estimate the cost of upgrading an individual pump to EMV to be between $6,000 and $10,000. For gas stations, it's a big challenge to implement EMV because the pumps themselves may need to be ripped out of the concrete to replace not only the hardware but the older wiring.

Legacy slow-speed wires can't support EMV transactions, even if the pump itself could be more easily updated or retrofitted. The cost of upgrading would then be compounded by the loss of business during the upgrade process.

"To me, this is more of a business

> "If you're a fuel station that has high fraud rates... eventually you will convert."
> -Jack Jania, SVP of strategic alliances, Gemalto

issue than it is a technical issue. How expensive is it going to be to upgrade, and if I don't upgrade, what will my fraud costs look like?" says Jack Jania, senior vice president of strategic alliances for Gemalto, an international digital security company based in Paris.

Jania expects the corporate-owned stations will shift to EMV first, but whether or not most meet the new deadline remains to be seen. The bigger companies have more resources and the technical know-how as well as the financial wherewithal to do this.

"It's no different than a mom-and-pop laundromat trying to convert to EMV. They don't have all the resources that bigger companies do," he says. "If you're a fuel station that has high fraud rates, the financial liability is such that eventually you will convert."

To justify the expense and hassle, some gas stations are looking for other options that allow customers to pay securely. One of the technologies being explored is handling payments in the center of the island, as opposed to at the pump itself, according to Gagnon of AVATAS. Another possibility is for gas stations to require customers to pay for their fuel in the store, though that's not such a consumer-friendly option. Even mobile payments, which more gas stations are deploying, don't replace the need to implement EMV. Roughly 40 million people a day buy gas, according to NACS, and not everyone is willing to use a smartphone instead of a card, Gagnon says.

Creative solutions

Wayne Fueling Systems has introduced a technology called Wayne Connect, which bypasses the need to rip out the stations' existing wires in the ground to provide high-speed connectivity needed for EMV. A high-speed router in the store handles the heavy lifting at the point of sale, while in-dispenser switch transmits data across the station's existing wiring.

The technology has been in use for seven years in Canada. In the U.S., it's currently being used to run marketing and media promotions at the dispenser, but it could also be a viable solution for gas stations with newer pumps that don't want to rip up concrete and install new cables.

"It's a way to overcome significant cost to get EMV at your site," says Tim Weston, technology solutions manager at Wayne Fueling Systems of Austin, Texas.

Wayne is also looking at wireless options for EMV payments. However, wireless technology presents security and reliability challenges, and a workable solution may not be available until later in the year, Weston says. While Wayne Connect meets the high-speed needs of many gas stations, "it's another choice that will be on the market," he says.

Gas stations have other options. They can choose to retrofit fewer pumps, given growing consumer demand for connected cars and mobile pay-at-the-pump options. Shell, for example, announced in February that Jaguar will be rolling

out 2018 models armed with a new app, "Fill Up & Go," that interacts with Shell gas pumps. P97 has introduced technology called PetroZone, which currently works with the 2017 Honda Accord and will eventually expand to other connected cars, according to Don Frieden, chairman, chief executive and president of P97.

P97's technology can also be used with a mobile phone. Consumers drive up to a participating gas station and launch ChasePay or a payment app from a participating oil brand. Consumers will eventually be able to pay using other consumer-facing apps as well, Frieden says.

ExxonMobil's Speedpass is another mobile pay-at-the-pump option on the market. It allows customers to pay securely with any major credit card, debit card, ExxonMobil Personal Cards, checking account, Apple Pay or Samsung Pay. Customers can also pay for gas using an Apple Watch.

Cumberland Farms, meanwhile, offers a SmartPay app that allows customers to save on gas and earn rewards by funding purchases from a linked bank account.

Despite the growing number of connected car and mobile pay-at-the-pump options, P97's Frieden recommends that gas stations retrofit at least a few of their pumps because not every customer will want to pay this way. Regardless, gas stations should try to find a way to save money on the EMV conversion. "Time and money is really the issue," he says.

The road ahead

Now that Mastercard and Visa have postponed the liability shift, gas stations have some wiggle room to determine their next steps.

In the interim, ISOs need to work with their customer base to help identify the best technology and acceptance features, says Jania of Gemalto, the digital security company. ISOs should be encouraging gas stations to think about complementary payment options such as contactless, QR codes and Bluetooth Low Energy. "If you're going to go through the expense of upgrading your pumps, you may as well future-proof them by adding other forms of acceptance beyond contact chip EMV," he says.

Worldpay has been getting a lot of inquiries from gas stations about what they should be doing, says Chris Francis, vice president of market development at payment processor Worldpay US. Ultimately, some retailers will opt take their chances and not switch over—at least initially, Francis predicts. Some retailers in rural areas may choose to turn off pay-at-the-pump if they feel customers will accept it because it's too expensive to justify switching over to EMV. "It's a competitive decision they have to make," he says.

One important thing ISOs need to know when talking to their clients is that the liability shift delay only applies to domestic card use. If a customer uses a non-U.S. chip card and it's read as a mag stripe by the gas pump and turns out to be counterfeit, the liability will shift this October from the non-U.S. card issuer to the gas pump operator's acquirer, a Visa spokeswoman explains.

This could be an issue for gas stations close to the Canadian border, though Melanie Gluck, vice president of mobile and e-commerce at Mastercard, says that cross-border transactions are generally a small minority of the volume at gas stations. "There's a lot of traffic that goes over and back, but most people don't fill up right by the border. And people don't routinely go over the border to gas up," she says.

As for gas stations being prepared overall, Gluck says the necessary changes vary by location. When the card brands made the decision to delay the liability shift, it was clear "the ecosystem was not ready," she says.

Whether most retailers will be ready by October 2020 remains to be seen. Gluck says that although the date got postponed, the "vast majority" of gas stations are moving ahead with the multi-year endeavor.

"These are not small projects," she says.

Of course, even in an EMV world, gas stations will have to be vigilant about the security of their pumps, says Dave King, a senior manager with UHY LLP, a national accounting and consulting firm. The possibility of skimming devices compromising the magnetic strip on cards remains an issue. To protect themselves, he advises clients to teach attendants how to inspect their pumps as part of their shift-end checklist.

Gas stations should have a clear response plan if attendants discover a pump has been compromised, such as alerting authorities and flagging any surveillance videos as evidence. "If there's no written plan, attendants may not know what to do," he says. **ISO**

> "People don't fill up right by the border. And people don't routinely go over the border to gas up."
> -Melanie Gluck, VP of mobile and e-commerce, Mastercard

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Network Merchants (NMI)

NMI provides payments enablement technology that empowers ISOs, VARs, ISVs and payment facilitators to offer their own branded payment gateway services, all without having to build and maintain the technology or payment platform themselves. Our omni-channel payment solutions, integrations to hundreds of shopping carts, 150 domestic and international processor connections, along with our transparent branding capabilities, make NMI the partner of choice for ISOs who want to "become the gateway" to their customers.

By Roy Banks, CEO, NMI

What's the difference between a traditional payment gateway and NMI's payments enablement technology?

The biggest difference between working with a traditional payment gateway and using NMI's payments enablement technology is control. When an ISO enters into a reseller agreement with a traditional payment gateway, they give up control over their merchant relationships. This is because the payment gateway owns the contractual relationship with the merchant, which leaves the ISO, who brought the relationship, out of the picture. Also, because the ISO is forced to promote the payment gateway's brand, they lose the opportunity to promote their own brand and service value to their customers.

When an ISO uses NMI's payments enablement technology, they have an entirely different experience. The ISO has total control and ownership over their merchant relationships, as well as the ability to promote and build their brand's equity. NMI is focused on building secure, industry-leading payments technology that ISOs can brand and sell to their merchant customers as their own, all without the burden and expense of building, operating and maintaining the platform. This frees them to do what they do best—provide top-notch payment services to their merchants. This is also a game-changer for ISOs who want to be the gateway themselves, but don't want to shoulder the financial and technological demands that come along with it.

Why would any ISO want to be a reseller of a gateway when they could be the gateway themselves with payments enablement technology?

We ask ourselves this same question everyday. Most ISOs invest a considerable amount of time, money and resources into building their business, so why would they want to resell and help build the brand, and business, of someone else's payment gateway? Especially when that payment gateway is competing against them by selling direct to merchants, and in some cases, even poaching the ISO's merchants. NMI has a long-standing policy that we do not compete with our ISO partners and we do not sell direct to merchants. Instead, we focus on enabling our partners to offer their own branded payment gateway services to their merchants.

What are the benefits of payments enablement technology?

Once again, we don't sell direct to merchants. So unlike working with a traditional payment gateway, using payments enablement technology means you'll never have to worry about us competing against you for merchant or gateway services. This is our commitment to our partners and a long-standing philosophy at NMI. Our focus is on building industry-leading payment technology that enables our ISO partners to promote and sell their own branded payment gateway.

Our ISO partners also benefit from our R&D and unrelenting focus on security and innovation that we continually invest into our payments enablement platform. This in turn empowers our partners to confidently promote their own payment gateway

as being highly secure, reliable and feature rich. Some of the key benefits of the NMI payments enablement platform are its PCI-DSS compliance, geographic redundancy, support for more than 150 processors and integrations to hundreds of shopping carts and third-party solutions.

Another large benefit is having the ability to set the margins for the products and services offered to merchants. Additionally, when it comes time for the merchants to pay, our flexible billing platform helps collect payments. The ISO just needs to decide if they want to debit their merchants directly, or if they want to bundle their services, in which case we can debit their account instead.

Why is branding my payment gateway so important?

Branding your payment gateway provides you with an opportunity to strengthen your merchant relationships and reinforce your own brand. It ultimately allows you to expand your product offering to your merchant customers and eliminates the need to bring a confusing 3rd party into the mix. By doing this, you can differentiate your business, win more merchants and create loyalty across your merchant base.

What branding options are available on the payments enablement platform?

There are only a few gateways out there that offer partial branding options, but in order to be worthy of the name payments enablement, we knew that our technology had to be completely brandable. We recognize that the payment gateway is an extension of the ISO's brand, which is why our branding options cover every aspect of the gateway—from uploading your logo, to changing the color scheme and font to customizing the URL to match your business—we know that these are absolute must-haves. Beyond that, we also provide branding control over the login portal, APIs, billing statements and system-generated emails.

Aside from branding the technology itself, we provide our partners with unbranded marketing collateral that they can easily insert their logo into and change the color schemes on and pass on to current or prospective merchants.

How do I choose the right payment gateway partner for my business?

Not all ISOs are created equal, so it's important to find a payment gateway partner that's the right fit for your business. Maybe you're an ISO who's looking for a partner that enables you to support not only your merchants, but also your sales agents and sub-ISOs. Or maybe you're an ISO whose merchant base is going to need a lot of handholding to get them off the ground. Whatever your pain points are, make sure your partner is able to handle them.

NMI's payments enablement platform for instance, is one of the only platforms out there that is built on a multi-tiered hierarchy, which enables ISOs to manage all of their sales agents or sub-ISOs under one account and also allows merchants to board multiple MIDs on a single gateway account.

In addition, NMI partners are assigned a dedicated Partner Development Manger that is there to help them get up and running and are a resource for anything that comes up along the way. Our Partner Development Managers coupled with our amazing support team and our in-depth training materials, ranging from video tutorials to detailed guides, ensures they have the support and expertise they need to succeed as a payment gateway provider. ■

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Payment Gateways Explained

Inovio is the industry's most intelligent payment gateway – delivering seamless integration and global scalability to business partners of all types and sizes. Since its inception, Inovio has operated on the leading edge of payment technology. How? By forming a network of connections to processors, acquirers, and payment service providers worldwide and by delivering the very latest in state-of-the-art CNP solutions.

By Conal Cunningham, General Manager, Inovio Payments

What is a payment gateway?

A payment gateway is an e-commerce entity that allows merchants to easily and seamlessly connect with their cardholders, as well as with a multitude of MSPs (merchant service providers). Beyond simply enabling payment processing, payment gateways also serve to offer merchants a whole host of value-added services including: connections to storefront POS software, detailed customer reporting, anti-fraud services, solutions for chargeback management, and more.

How does a payment gateway work?

A payment gateway serves as a centralized entity that bridges the multitude of connections necessary to complete a transaction. This includes connections between the cardholder, the merchant, payment processors, and the card associations. Here's how it works: a customer places an order, either directly on the gateway or via the merchant's website or storefront. The gateway encrypts the card, runs business rules, and sends a complex authorization request to the payment processor. Next, the processor connects the merchant's bank to the cardholder's bank to get an authorization. The processor then forwards the authorization details back to the gateway, which runs more business rules, and informs the merchant and customer that the sale is completed.

Why use a payment gateway?

One of the main advantages of payment gateways is how convenient they are – they're able to transform complex technological processes into simple interfaces that are easy to use for both merchants and their customers. In addition to convenience, there are many other reasons for merchants to utilize payment gateways, including: cost (merchants don't have to spend additional dollars to update networks and software), speed (quick transactions help goods/services go from storefront to customer quickly), and opportunity (merchants can start selling on the same day they get their merchant account). Partnering with a payment gateway is also a cost-effective way for merchants to maintain vital data for back office needs such as fulfillment, billing, accounting, and more.

How are transactions kept secure?

Payment gateways are required to remain PCI Level 1 compliant at all times. As part of that compliance process, payment gateways are subject to extremely stringent, in-depth audits. Furthermore, any and all sensitive cardholder data passing through a payment gateway undergoes an encryption process that keeps that data safe and secure from the point of sale (when the customer enters their card information) through to the merchant's MSP and the major card brand networks, and back again.

What should a company look for in choosing a payment gateway?

Merchants can't sell goods/services if their gateway is down. So for starters, they should look for a payment gateway that offers maximum reliability – for instance with a network uptime of 99.99% or more. Usability is also important – in other words, merchants should make sure that the gateway offers services and solutions suited to their specific needs (ecommerce, restaurant, etc.). It's also essential that a gateway offers merchants the security of fully PCI compliant transactions. An easy-to-use interface (for access to reports and so forth) is also important. Other things to consider are whether the gateway has connections to any specific shopping cart software merchants may be interested in and any banks they may do business with.

What merchant account features are offered?
There are a whole host of features a payment gateway can and should be delivering to the merchants it partners with. These include: robust shopping cart functionality, POS solutions and services, in-depth reporting tools, connections to chargeback tools, and more. That being said, many payment gateways are owned by merchant service providers who may limit the account features those gateways can offer merchants. Therefore it behooves a merchant to partner with a payment gateway that is merchant service provider/PSP/ISO agnostic so that the limitation of merchant account features is not a concern.

Does an effective merchant account payment gateway allow a business to quickly configure automatic billing and other value-added services?
Without question. Whether it's automatic billing, subscription processing with recycling, automatic account updaters, upsales, anti-fraud measures, or chargeback management services, any legitimate merchant account payment gateway should be 100% focused on providing merchants with all the tools they need for business success. This includes allowing for seamless connectivity with any and all third-party entities as well as allowing a merchant's customers to pay in any currency. It's all about allowing a merchant to quickly and easily perform transactions in a way that best suits their particular business.

Does a payment gateway support a payment processor and shopping cart?
Yes. A reputable, reliable payment gateway should support as many different payment processors, shopping carts, CRM (consumer resource management) systems, and ERP (enterprise resource planning) software solutions as possible. Again, it's all about providing flexible, customized solutions for merchants that allow them to most easily and effectively grow their businesses.

How does a payment gateway help a business maintain PCI compliance?
A payment gateway allows a business to maintain PCI compliance by shifting the burden of compliance from the merchant to the gateway itself. This is commonly referred to as PCI descoping. In other words, payment gateways assume a merchant's burden for PCI compliance. It's the payment gateway that hosts the card data entry form on a website. Therefore, it is the payment gateway who is responsible for (and expert in) encrypting and tokenizing the cardholder data on that website in a PCI compliant way.

How quickly do merchants get paid?
It is typically a business owner's merchant services provider who dictates when they will receive the funds for their transactions. However, as cash flow is king when it comes to running a business, one of a payment gateway's most important functions is to keep the transaction process flowing properly so that merchants can be paid promptly. Payment gateways also have a responsibility to keep merchants informed as to when and how they will be paid. This should be achieved via detailed yet easy-to-access reports related to transaction batch times and so forth. ■

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Welcome the Integrated Payment Gateway

End-to-end payment platforms create opportunities for ISOs and agents

BY LISA JOYCE

As the payments industry evolves, so do payment gateways. At its most basic, a payment gateway is the technology bridge that connects merchants and payment networks in an online or mobile platform. After capturing the transaction request, the gateway encrypts the payment data and sends it to the acquiring bank. Once the acquiring bank authorizes the transaction, the payment gateway informs the purchaser that the transaction was approved.

But that straight-forward passing of payment information has given way to more sophisticated payment gateways. The new payment gateway is an integrated platform with add-ons such as shopping carts, intelligent routing, and point-of-sale and billing solutions.

For instance, an integrated payment gateway can send notifications to the merchant's order management system. Says Jared Drieling, Business Intelligence Manager for The Strawhecker Group, "Payment gateways are evolving into being able to integrate with the payment throughout the lifecycle of the purchases," Drieling says, adding, "payment gateways offer a layer of technology that can really empower merchants."

And this integration with other business management software turns a payment gateway into a sticky product, notes Drieling. "An integrated payment gateway makes it very difficult for a merchant to jump ship to another payment provider," he explains.

Continued on A8

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"Payment gateways are evolving into being able to integrate with the payment throughout the lifecycle of the purchases."

(Continued from page A6)

Investments Made

According to Aite Group, there is about $5 trillion in retail turnover in the U.S., meaning that there's a lot of money to be made helping merchants process transactions. And the payment gateway industry is evolving as a result. Technavio predicts that the global payment gateways market will grow at a CAGR of close to 17% from 2017 to 2021.[1]

BI Intelligence expects the U.S. online processing market—payment gateways' bread and butter—will grow to $17.5 billion in 2020, mostly due to online shopping.[2]

And Javelin Strategy predicts that while 8% of purchases were made online in 2016, that percentage will rise to 12% by 2020, largely due to consumers ordering online and picking up goods in-store.

To compete and to take a share of the growing payments market, long-time players in the payments space are re-evaluating their business models. Acquirers and processors have incorporated payment gateways to accommodate merchant needs for online payments into their offerings. POS terminal providers such as Verifone are moving "up the stack" to offer a full suite of payment services from the terminal to the actual processing function. Integrated systems providers like Revel Systems are offering enterprise-level software platforms for global retail organizations, says Thad Peterson, Senior Analyst, Aite Group.

And ISOs are increasing the breadth of their product offerings, notes Peterson. For example, Cayan has moved from a traditional ISO role to a full-service, integrated payments processor.

A more competitive market is also forcing providers to push the bar on integration and other capabilities. Leading vendors, including Amazon Payments, CCBill, PayPal, and Stripe continue to invest in innovative technology.

Large acquirers and processors including First Data, Global Payments, and Vantiv are all developing, or have developed gateways, or have acquired payment gateway providers. Drieling highlights the Vantiv acquisition of Litle & Co and First Data acquiring CardConnect as examples.

Although there are still a mix of standalone gateways and integrated platforms, the trend is toward integration, agrees Michael Grillo, Director, Marketing Line Leader for ACI Worldwide. But this trend is putting pressure on ISOs and agents. "ISOs and agents are feeling the squeeze as acquirers, logistics companies, card schemes, banks, POS manufacturers, and others have adapted their offerings with the goal of providing end-to-end payment applications."

Industry Trends Drive Gateway Changes

The innovation in payment gateways is fueled by several industry trends, including global payments, the need for more effective fraud management, and omnichannel commerce.

"Enabling international payments processing and effective fraud management continue to dominate the conversations we have with our partners and prospects," says Grillo. "Merchant demands around payment methods, reporting options, and fraud prevention tools are increasing as providers look to move quickly and take advantage of global ecommerce growth."

Peterson also notes that cross-border commerce can be a challenge for merchants. "Merchants can be constrained by the types of payments they can offer and their ability to effectively process pay-

Continued on A10

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Payworks is the provider of next generation Point of Sale payment gateway technology. Developers of POS solutions for merchants can quickly and cost-efficiently integrate card payment functionality into their applications, and securely process EMV, contactless and mobile wallet transactions at the Point of Sale. Payworks provides its technology to leading acquirers and payment providers in North America, Europe and Africa.

Michael Doron - Managing Director, North America, Payworks Inc.

1. What is a payment gateway

A payment gateway facilitates the payment processing for a business, allowing credit and debit card payment to be accepted. The gateway provides the infrastructure and security needed for the transmission of transactions data, eliminating the need for merchants to integrate a full payment processing platform. Historically payment gateways have only been associated with e-commerce, but as trends continue to move to more omni-channel solutions, we're seeing more integrated Point of Sale solutions backed by modern payment gateways. Also, as we move to more modern payment gateways, it's good to point out that some gateways are domestic only, connecting to just US-based processing platforms and acquirers. Others will be more global in nature, connecting to multiple processing platforms and acquirers throughout multiple geographic regions.

2. Why Use a Payment Gateway?

A payment gateway should ultimately save you time and resources so focus can be placed on core business needs. The right payment gateway will do most of the heavy lifting by reducing payment complexity into understandable processes. Through one provider, ISOs can ensure that their merchants receive secure and reliable transactions processing, settlement, reporting and the ability to integrate with other channels. By choosing the right gateway partner, ISOs warrant their merchants the ability to start selling immediately, rather than waiting months for certifications, which is a great competitive advantage.

3. What should a company look for in choosing a Payment Gateway?

As an ISO, selecting a payment gateway provider to partner with is an important task. Consider factors such as ease of integration and use. The goal of the payment gateway is to make payment acceptance easier, so finding the gateway which can be integrated with ease and speed also one which is compatible with most systems, should be at the top of your list. Selecting a payment gateway which his feature rich is also important. Merchants shouldn't be limited because the gateway doesn't support needed functionalities. It's also important to take into consideration where your clients want to be, domestic or international. Not all payment gateways will support global processing. Choose the payment gateway that offers the tools required for today and tomorrow.

4. Does a Payment Gateway work for card present payments?

There's an increasing number of merchants working with cloud-based and omni-channel solutions. This means we're seeing more integrated platforms on the market which includes both a modern payment gateway and traditional card present solution. Today's payment gateways can accept transactions from multiple entry points which allows merchants to use one platform for all their sales channels regardless if card-not-present or card-present. ISOs should seek out these gateways for their merchants, as these sophisticated systems will support most, if not all, merchant needs and have the capacity to grow alongside the expanding needs of the merchant. ■

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"An integrated payment gateway makes it very difficult for a merchant to jump ship to another payment provider."

(Continued from page A8)

ments around the world," he says

"Omnichannel is very important in the new payments ecosystem," continues Grillo. "More and more brick-and-mortar stores offer both in-store and online sales, as well as buy the option to online and pick up in-store."

The challenge with omnichannel for merchants, says Peterson, is that the merchant has little control over the customer experience. However, an integrated payment gateway can give merchants a holistic picture of customer behavior regardless of the channel the customer chooses.

The merchant challenges can be even more acute for mid-size or small merchants. Although larger merchants may have dedicated technical staff to manage payments, smaller merchants do not have the resources to dedicate to payment processing. They often struggle to stay current with the rapid changes in the industry, says Peterson.

Opportunities for ISOs & Agents

The complexity of the payments ecosystem is challenging for ISOs and agents trying to keep up with the technology. "ISOs must keep pace with evolving merchant needs to integrate mobile POS, mCommerce, ecommerce, and in-store POS transactions," says Grillo.

But that complexity also provides opportunity. "ISOs and agents that can deliver a full solution to merchants—from consolidated reporting to API integration—and the ability to monitor all channels, will empower its merchants to remain agile and profitable in such a competitive landscape," he says.

Drieling is seeing more ISOs and agents offering payment gateways, essentially, he says, becoming more of an ISV or a technology partner. "Connecting the payment gateway to other assets is an opportunity for ISOs and agents," says Drieling.

"At the end of the day, ISOs, ISVs, and merchant service providers (MSPs) are looking for optimal solutions that give them both choice and a competitive edge," says Grillo. "Connecting to an existing modular payment gateway such as a gateway that can "switch on" alternative payment methods as and when needed can help facilitate rapid global expansion when the merchant is ready to pursue a cross-border strategy."

But perhaps the biggest opportunity for ISOs and agents is in the relationship they have with their merchant customers. "The ISO and agent are closer to the merchant than anyone else in the payments ecosystem and should be in a position to provide the online and in-store solutions that merchants want in a way that reduces friction and makes it easier for customers to buy," says Peterson. "For ISOs and agents, the technology is pretty generic so perhaps the only differentiator is the understanding of the merchant's business and the relationship you develop with them."

ISOs and agents also need to think long and hard about whether what they offer to merchants really meets their needs, contends Peterson. "This requires a lot of strategic intelligence," he notes. "I challenge the idea that an ISO or agent can walk into a small retailer, sell them a POS terminal, and walk away. That's just not an effective business model any longer."

Agility is critical, says Grillo. "Within this dynamic environment, ISOs and agents must be flexible and able to adapt quickly," he says. "ISOs and agents should work with their technology partners and industry associations to keep on top of current and emerging merchant trends and stay in tune with the needs of their merchant customer base."

[1] http://www.businesswire.com/news/home/20170307005127/en/Global-Payment-Gateways-Market-Grow-CAGR-17

[2] http://www.businessinsider.com/list-payment-gateway-providers-2016-11?IR=T

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By Ben Goretsky, CEO, USAePay

How are transactions kept secure?

A Payment gateway is a certified, secure payment portal for the merchant and the merchant bank. Payment gateways spend a lot of time and effort to make sure that all transactions and data that pass through it are properly handled and processed. It is because of this time and dedication to processing that makes the payment gateway the best solution in processing transactions. Along with the security and certification benefits, most gateways are very rich in features. Advanced interfaces available in gateways allow merchants to review and manage their transactions in ways that no machine would allow. The features and functionality of the payment gateway will enable the merchant to run an efficient omni-channel solution for payment processing.

What should a company look for choosing a Payment Gateway?

A company should always look for the feature sets that a gateway can provide. Gateway companies have feature sets very similar to each other, Yet, the most important thing many people fail to do when selecting a payment gateway, is spend enough time researching and evaluating gateways. It is important to look at the complete set to see what you are getting with the gateway and what you can or can not do with the gateway (if you can't do it with them directly you may need to pay more to a third party). Some of these features include things like recurring billing, customer database syncing, tokenization, fraud prevention, level III, mobile application, payment forms, invoicing, open-source API, integration to a selection of shopping carts and point of sale solutions. All of these help the merchant meet their processing needs.

Does a Payment Gateway work for card present payments?

It depends on whether the gateway is certified to do card present transactions with the platform(s) it works with. Just like for eCommerce and MOTO, a gateway needs to be certified with a platform for every "industry" including retail (card present). Some gateways are certified and have either mobile applications, desktop applications, or swipe functionality built into the gateway's online interface to accept retail swipes, while others only do eCommerce and CNP transactions.

How does a Payment Gateway help a business manage PCI compliance?

Every payment gateway has to be Level 1 PCI compliant to process and store transactions properly. For merchants, there are different levels of PCI which they can fall into (usually Level 3 or 4). Most gateways will provide features like tokenization, gateway hosted payment forms and secure API kits which will allow the merchant to accept payments the way they need/want to/or from their customer while staying out of "scope" for PCI compliance. If a merchant falls into "scope," then they may become responsible for a higher level of PCI compliance and may need to go through a more rigorous, difficult, and expensive audit for compliance. The gateway's solutions help the merchant stay out of that level. ■

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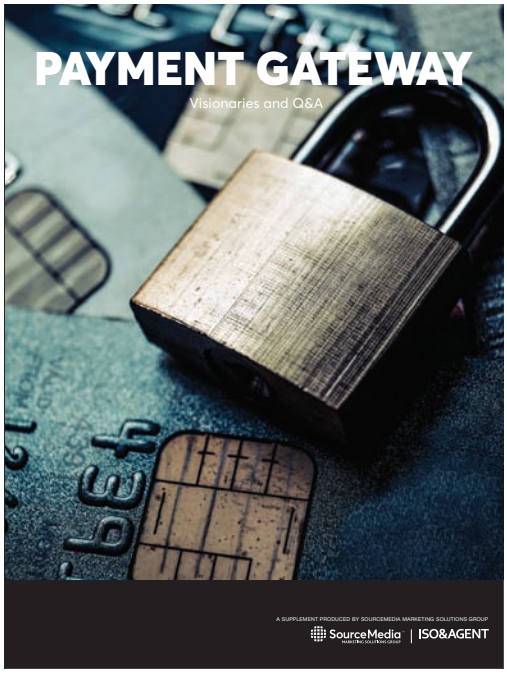

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One Down, 1.4 Million to Go

Gilbarco Veeder-Root recently announced the first EMV gas pump transaction in the U.S. It's progress, but there is still a long road ahead. **BY NICK HOLLAND**

As unattended devices, gas pumps would perhaps benefit most from EMV's anti-counterfeiting tech. They have also been among the most difficult to upgrade, prompting the card networks to give gas stations extra years to get EMV compliant.

But there is progress. Gilbarco Veeder-Root recently announced what it says is the first EMV gas pump transaction to be successfully processed in the U.S. at a 49 Fuels site in North Carolina. This is welcome news, but is it a sign that the rest of the fuel industry is close to adopting EMV?

Many gas stations have the proper hardware in place, but an EMV implementation also requires software integration, certification with card networks, and testing before a location can begin accepting chip-card payments.

Gilbarco expects gas pump EMV payments to quickly begin turning on across the country at the installed base of FlexPay Card Readers in Dispensers (CRINDS) as the software is released for payment networks throughout the year, and as fraud migrates to less secure payment points and security-conscious motorists go to those sites with enhanced security.

"Our customers are looking to enable EMV at the dispenser as soon as possible, to provide the security their customers expect of them, and to get the most of the forecourt EMV hardware investments they've already made," said Mark Williams, Vice President of Marketing, Gilbarco Veeder-Root.

However, with the mandate for EMV readiness at the pump shifted out from 2017 to 2020 and a plethora of newer technologies coming of age, the possibility arises for oil companies to steer towards more modern and considerably less expensive alternatives.

Sticker shock

That gas stations have been reluctant to move from mag stripe to chip is hardly surprising. In 2014, the cost of upgrading an individual pump to EMV readiness was estimated to be between $6,000 and $10,000. With a forecast 143,000 gas stations in the US today and an average of ten pumps per location, the price tag for the transition to EMV at the pump today is in the region of $11 billion to convert over 1.4 million pumps.

On the flipside, with card fraud being squeezed out at the physical point of sale due to EMV, unattended gas pumps are an easy target for counterfeit cards and there are clear patterns of migration. There have been some band-aids to the problem, such as the introduction of Visa Transaction Advisor (VTA) at gas pumps last year which was shown to to reduce fraud chargeback rates by 51% and counterfeit fraud rates by 54%.

However, until mag stripe readers are ripped out and replaced at the pump — a process that may require ripping out and replacing the pump itself — the low hanging fruit for card fraud will remain. Williams sees this as the primary motivation for the transition.

"We continue to hear from many retailers that their consumers' expectations around being able to pay with their chip card continue to increase, and retailers don't want to lose security-conscious customers to competitors who enable EMV at the dispenser before they do," Williams said. "Additionally, as we've seen in other regions, retailers understand that fraud will shift to the least secure sites. These factors will drive continued adoption of EMV technology at the dispenser as the 25% to 30% of the market that already has EMV capable dispensers begin to 'turn on' EMV with the software availability."

Mobile: Alternative or add-on?

Nonetheless, the cost / benefit analysis of EMV at the pump remains problematic for gas retailers.

Consequently, oil companies, automotive manufacturers and payment networks have been working to find alternatives that could not only reduce costs but provide a more convenient experience for the motorist and greater loyalty for the merchant. The current iteration of ExxonMobil's Speedpass+ is a prime example of a mobile app that interacts with gas station equipment via geolocation technology.

Payments are made directly in the app rather than at the pump, according to Bryant Russell, ExxonMobil's U.S. program manager for mobile payment and loyalty. "There's no change from a hardware point of view," Russell said.

While mobile may augment and to some extent replace the need for card transactions at the pump, this doesn't equate to an EMV get-out-of-jail-free card, according to Gilbarco's Williams.

"While we see mobile and connected-car solutions as growth areas for the industry, we don't see them obviating the need for EMV," Williams said. **ISO**

Under the Hood of Speedpass+

ExxonMobil's contactless payment system was introduced 20 years ago. Its newest iteration gives more horespower to loyalty and rewards. **BY NATHAN DICAMILLO**

ExxonMobil's contactless and mobile payment system, Speedpass, is well known as a way to help drivers accelerate the payment process after they fill up on gas. The system's latest updates focus less on the payment process and more on flexibility and rewards.

Speedpass dates back to 1997, when it operated as a wireless keyfob that motorists used to pay for fuel. The latest version, called Speedpass+, is an app-based payment system that debuted in March of last year and now works at 90% of ExxonMobil's more than 11,000 stations nationwide.

ExxonMobil also participates in the multi-merchant Plenti loyalty program, but bringing Plenti rewards to its full network of gas stations was a complicated process.

"Exxon and Mobil stations are supplied by authorized independent branded wholesalers who either operate the stations directly or have a contractual relationship with an independent owner," said Aaron Stryk, a spokesperson for the company. When the company wants to make a change, it has to negotiate that change with every wholesaler.

Despite this complexity, Plenti is integrated into over 90% of ExxonMobil's U.S. network, according to Stryk. On May 15, the company launched a promotion that offers 2,000 Plenti points—worth $20—for three purchases of at least 10 gallons of gas.

Plenti, which is managed by American Express, includes many members such as AT&T, Macy's and Rite Aid; it added its first grocer, Southeastern Grocers LLC, in March. Plenti does not allow two direct competitors to participate in its program, so ExxonMobil will be the only gas station brand in its footprint.

Technology has helped bring ExxonMobil's gas station operators on board with both Speedpass+ and Plenti, said Bryant Russell, ExxonMobil's U.S. program manager for mobile payment and loyalty.

The Speedpass+ application, which is integrated with Plenti, interacts with gas station equipment via geolocation technology that recognizes Speedpass+ users. "There's no change from a hardware point of view," Russell said.

ExxonMobil also supports other high-tech payment options such as the Apple Watch or a Ford vehicle with SYNC 3 technology. "It's incumbent on us to innovate and stay in touch," Russell said.

The Speedpass+ application is designed to minimize any changes in behavior on the part of the customer while still improving the overall payment process, notes Thad Peterson, senior analyst at Aite Group.

"It's removing friction," Peterson says. "It's much easier than using your credit card." **ISO**

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Do Cashless ATMs Help Pot Sales?

One option for legal dispensaries is the cashless ATM, which mimics the process of paying by debit card. But are the fees and the extra steps worth it? **BY SARAH WYNN**

World of Weed's cashless ATM survived only a week at its store in Tacoma, Wash.

The cashless ATM — which simulates a debit card payment by letting consumers initiate a cash withdrawal, then directs those funds to the merchant — is meant to make it easier for legal dispensaries and other high-risk stores to accept card payments.

But for Alden Linn, owner of World of Weed, it became a hassle.

"Having extra devices at the cashwrap took up valuable sales space," Linn wrote in an email. "The time to check out was longer because of the missing integration with the POS. Lastly, the fees being charged at the cashwrap caused pushback from customers."

Without integrating with the store's point of sale systems, the process takes longer than a normal credit or debit card transaction — and the customer is charged a fee of about two dollars for the experience.

The store's website now prominently states that it is "a cash-only establishment."

The Joint, which also has a location in Tacoma, has also experienced some challenges with cashless ATMs, but it hasn't pulled the plug.

"It's kind of a complicated process, there's a lot of steps as an employee, there's a lot of buttons that you have to push," said Eben Shay, an employee at The Joint.

However, Shay noted that more and more of his customers are using the store's month-old cashless ATM, and that The Joint is getting more business because of it.

"It was just more ways to accept money, which just means more business for us," Shay said. "I wouldn't say the majority of the people use the cashless machine, but we have seen an increase week by week."

Neither World of Weed nor The Joint identified the manufacturer of their cashless ATMs.

Cashless ATMs are among the more commonly pitched compromises for high-risk merchants, which can't handle payment cards normally because banks don't want to partner with them.

Sam Ditzion, CEO of Tremont Capital Group, which provides consulting to ATM and payments companies, said the legal pot industry is in a regulatory gray area because of inconsistencies between state and federal laws. Most banks don't have any interest in becoming test cases for this market's legitimacy, particularly since they risk heavy fines and other liabilities.

"It's very stressful and frustrating for these dispensary owners because they need to move a lot of cash around and ... they don't really have a solution that works well," Ditzion said. **ISO**

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Mobile Meets Independent ATMs

As more bank-owned ATMs allow consumers to interact with them via smartphone, independent operators must consider their options for mobile technology. BY JOHN ADAMS

As ATMs on large bank networks increasingly use mobile phones for account access — a trend driven in part by mobile banking — non-bank ATM operators are working to enable the same features to attract mobile-savvy cash users.

Genmega, a Haywood, Calif.-based ATM maker that has about 150,000 machines deployed globally, is currently upgrading its ATMs to include mobile technology and NFC readers, and new machines that come out in 2018 will be equipped with NFC.

"That is where we see the ATM tech going," said Wes Dunn, senior vice president of sales for Genmega. "We're doing NFC in Asia already, so it's not an entirely new technology for us."

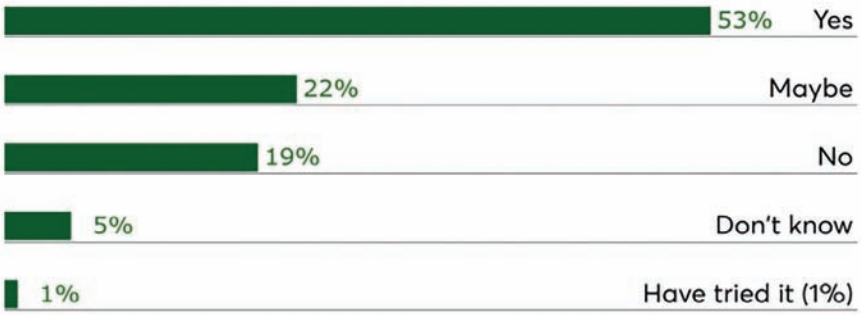
As cash use declines, cash machines have been adding digital features to stay relevant.

The pace of bank adoption of digital ATMs is accelerating, as Bank of America has upgraded about 8,000 ATMs in a year to accommodate mobile access; Wells Fargo has migrated a substantial portion of its ATM fleet; and Barclays is updating its machines.

In recent research on ATMs, Mercator Advisory Group found the growing popularity of mobile banking can be a catalyst for mobile ATM access, allowing the banks to recapture the cash distribution that's lost through cash-back features at the point of sale.

Comfort with mobile ATMs

A majority of those who use ATMs more than once per week are willing to use mobile phones to access machines



Source: Mercator Advisory Group

For the broader ATM industry, this will create a general appetite for mobile ATMs to serve persistent cash needs. Mercator found 21% of consumers spend more than $20 in cash per week, while another 21% spend more than $50 and 18% spend more than $100.

These figures are mostly steady year over year, suggesting long-term demand for both cash and a good mobile-driven user experience at ATMs.

"ATM owners are looking to add new features to their devices," said Zil Bareisis, a senior analyst at Celent, noting the Bank of America upgrade will allow consumers to access ATM services tapping smartphones equipped with Apple Pay, Android Pay and other wallets.

"This is also one way to enable cardless cash withdrawals, a functionality that's increasingly getting more attention for the issuers," Bareisis said.

For ATM providers, that has been consolidation, such as Diebold's acquisition of Wincor Nixdorf.

Genmega, which serves mostly independent ATM deployers and operates in a market with Triton, Hyosung and Hantle, is considering how consumer use of mobile technology melds with ATMs to serve its machines, which as independent ATMs are mostly located in convenience stores, bars, restaurants and supermarkets.

Genmega found that similar to shopping, people are currently using mobile apps more than NFC wallets.

"We're supporting the mobile ATM apps that are out there now, like Paydiant," Dunn said.

"These are not necessarily people using ATM readers, but they are using mobile apps," Dunn added.

Genmega is also upgrading technology for its self-service machines, which are also at the fore of chip card and mobile technology support.

It has built a website for clients that use the company's kiosks, such as Club Control Systems, which automates club access and Genesis Coin, a bitcoin ATM. The site is designed to update as new mobile features and value-adds become available for kiosks.

"Automated kiosks are becoming more prevalent, at order or checkout," Dunn said, adding there's not a lot of information available on new technology for self-service kiosks.

"There may be someone who wants to update to help waitresses in clubs get their order faster and serve faster. This is a way for them to be aware of the kind of technology that's out there," Dunn said.

Cardtronics has also announced it will add FIS Cardless Cash technology to its entire fleet of ATMs over the next two years.

A recent ACI Worldwide survey of 8,000 U.S. consumers suggested that one in four bank customers are open to better and more secure authentication methods, but 40% of consumers haven't considered changing their use of the traditional ATM.

Patchy merchant acceptance of third-party mobile wallets like Apple Pay, Android Pay and Samsung Pay has contributed to an inconsistent consumer experience with mobile wallets, and that's one of the factors slowing their widespread adoption, ACI contends.

FIS is optimistic about its Cardless Cash catching on faster than NFC wallets.

"We see more than 55% of consumers retrying, or reusing Cardless Cash within the first 90 days of using it," said Doug Brown, FIS' senior vice president and general manager of mobile. **ISO**

Merchants Not Ready for TLS

Most merchants are still relying on the 1.0 version of Transport Layer Security, but the PCI council plans to drop support for that version in mid-2018. **BY KATE FITZGERALD**

Plenty of U.S. merchants still working to complete their migration to EMV now have another high-pressure technology hurdle to worry about: Most are still using a core transaction security protocol set to expire in the next 11 months and if they don't take appropriate action they'll be unable to process transactions.

Most merchants are still relying on the 1.0 version of the payment encryption method known as Transport Layer Security (TLS), but hackers have so thoroughly exploited it that the Payment Card Industry is withdrawing support for that version on June 30, 2018, and processors will follow suit immediately.

Switching to one of two more recent supported versions of the encryption protocol—either TLS 1.1 or TLS 1.2—should be relatively simple. But many merchants are held back by their use of older computer hardware and Windows operating systems prior to Windows 7.

Payments technology provider Cayan estimates that about 60% of all merchants are still relying on the older version, TLS 1.0, and potential losses to merchants that don't make the upgrade to newer versions by next year's deadline could run into the billions.

"We've measured our own merchants' exposure and presently about 55% of Cayan merchants are using the older version and will need to make some kind of change within the coming months to avoid losses," said Dom Lachowicz, senior vice president of engineering at Boston-based Cayan.

"About 55% of Cayan merchants are using the older version [of TLS] and will need to make some kind of change within the coming months," said Dom Lachowicz, SVP of engineering at Cayan.

Cayan recently stepped up its program to notify merchants of the need to assess existing systems to make changes in time, according to Lachowicz. Other major payments providers including Elavon and Chase Merchant Services also said they are working closely with merchants to drive awareness.

"We're finding that lots of merchants are going to need to make very substantial changes in their storefront and e-commerce operations to be ready for next July," Lachowicz said.

For large merchants with more complex, integrated POS systems that leverage older, out of date operating systems, necessary upgrades could cost "hundreds to thousands of dollars per lane," Lachowicz said. **ISO**

HIGH RISK MERCHANT

A SUPPLEMENT PRODUCED BY SOURCEMEDIA MARKETING SOLUTIONS GROUP

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DigiPay: Where High Risk and High Rewards Meet

DigiPay Solutions Inc. is an independent payment provider specializing in high-risk, high-volume, card-not-present and business-to-business merchant services. The company works with leading retailers and financial institutions, bringing a heritage of executive management and vertical market expertise to its banking partners and extended family of agents, ISOs and merchants. The San Diego-based company, with regional offices in Salt Lake City, Los Angeles and New York, is a continually evolving payment service provider (PSP) and proprietary technology platform.

"Our growing family includes 31 banking partners and some exclusive channel arrangements," said DigiPay President Mike Ackerman. "We may be new but our PSP just turned 20 years, and we're using our technology and industry knowledge to build a different kind of ISO, with people who share our passion for excellence."

Mike Ackerman, President, DigiPay

How would you describe DigiPay's culture?

Ackerman and business partner Sandy Travers decided to forego outside investment and build DigiPay from the ground up, recruiting team members who shared their values of integrity, intelligence and divergent thinking. The DigiPay family brings a diversified skill set to the rapidly changing payment processing landscape. In addition to curated knowledge of banking and payments, team member proficiencies include consulting with venture capital firms, guiding companies through startup, turnaround and critical growth phases, research, analysis and technical aptitude. The family of associates has helped DigiPay grow organically.

How do you define a high-risk business?

Payment card brands and acquiring banks examine an industry's business models, chargeback ratios, fraud profiles and default rates to assess risk. Industries with higher-than-normal refunds, chargebacks and fraudulent activities create liability, not only for merchants, but for credit card processors that fail to comply with Know Your Customer (KYC) guidelines and regulations.

Each individual processor or acquirer assesses risk differently. A business with poor credit may be turned down by one institution and welcomed by another one. The same is true for vertical markets. For example, industries that market products or services that are not legal in all 50 states, are problematic due to transactional risk in restricted territories and regions.

How do you acquire a high-risk account?

Agents who board high-risk merchants need partners who can help mitigate risk, by providing pre-application support and regulatory compliance and oversight. DigiPay can tap our extended network of service providers to find the best processing fit and optimal revenue opportunity for each of our agents and their merchants. We help agents navigate the high-risk process and address their merchants' needs as they grow their businesses.

DigiPay is unique because we underwrite merchants in-house.. Our underwriters look at many factors when they review prospective merchants, such as business and industry type, years in business, credit history, delivery methods and projected transaction flows. They also visit websites, run background checks and consult other sources to verify a merchant's compliance with FTC regulations and card brand rules. Many businesses get approved quickly and easily once all required items have been met.

DigiPay underwriters work with more than 31 banking partners and direct each high-risk application accordingly. They peruse numerous account documents

to assure each business is compliant, financially sound, and a good credit risk. High-risk merchants require more due diligence during the new account onboarding process. Our underwriters' bank relationships and proven prescreening methods help agents board high-risk and previously declined merchants.

How does DigiPay mitigate chargebacks?

Chargebacks can be an emotionally charged issue for many merchants, but with the right systems in place, managing and defending against them can be a routine part of any merchant's business.

"Maintaining a low chargeback ratio is key to maintaining a healthy merchant account."

Maintaining a low chargeback ratio is key to maintaining a healthy merchant account. Merchants can reduce the risk of chargebacks by offering great products, excellent customer service, clear and concise refund/cancellation policies, and practicing prevention. DigiPay powered by TranZlytics offers merchants human fraud experts with real-time access to a fraud and chargeback management platform that is integrated with chargeback alerts and will intelligently score the risk associated with every transaction, customer, and affiliate marketer.

What is friendly fraud?

While industry best practices can reduce chargeback ratios and help prevent fraudulent transactions, there is no silver bullet against chargebacks, because not all chargebacks are caused by fraud, identity theft or processing errors. The leading cause of chargebacks, according to payments industry statistics, is "friendly fraud."

So-called friendly fraud, also known as chargeback fraud, happens when consumers dispute charges made with their own credit cards, after receiving a product or service. Whether they are dissatisfied with level of service, claim they never received a product, or just want a refund without a return, most friendly fraud begins as legitimate commerce and goes bad after the sale. From a merchant's point of view, there is nothing friendly about this type of fraud.

What is the TranZlytics platform?

TranZlytics uses business intelligence and human expertise to prevent good transactions from being declined. Our transaction analytics can identify good customers based on their transaction history and electronic footprint. For example, the TranZlytics platform uses advanced technologies to analyze ecommerce transaction flows and assign risk scores to affiliates. Affiliates earn commissions by driving traffic to the ecommerce sites. Managing this traffic, by protecting cardholder data and weeding out fraudulent transactions, protects merchants from chargebacks and fraudsters who are becoming increasingly adept at exploiting vulnerabilities.

The TranZlytics platform is engineered to adapt and change in response to the ever-changing threat landscape. Our team of fraud and chargeback experts protects merchant accounts while keeping their processing at the lowest rates. Our tailored "Pro Services" continuously monitor merchant MIDs to optimize interchange rates and react to changes and trends in real time.

Here are some useful suggestions for preventing chargebacks:

1. Provide customers with all possible contact information and good customer service.
2. Customers should agree to return and shipping policies with each transaction.
3. Verify customer billing address, payment card security code, and card-issuing bank
4. Send confirmation e-mails to your customer.
5. When shipping addresses do not match billing addresses, confirm customer details.
6. Display your company name and transaction description on billing statements.

What differentiates DigiPay from other companies in the space?

We do things differently at DigiPay. We are an agile, one-stop-shop where agents can speak to one person regarding several processors. The DigiPay difference is reflected in our two-fold commitment. First, we commit to book every business, every time. Whatever legal business comes our way, high-risk or low-risk, we have a place to book that business. Second, we commit to keeping MIDs live. In the high-risk space, merchant lifecycles can be short. Our TranZlytics platform and dedicated specialists combine human oversight and machine intelligence to expand MID longevity and merchant account portfolios.

If you'd like to know more, please contact us:
300 Carlsbad Village Drive, Suite #302, Carlsbad, California 92008
call: (760) 944-5627 **email:** Mike@DigiPaySolutions.com **visit:** www.digipaysolutions.com

DIGIPAY SOLUTIONS

National Merchants Association: High Risk, Done Right

National Merchants Association is a global merchant advocate and merchant services leader. We are dedicated to helping our merchants and agent partners grow their businesses by generating sales opportunities and maximizing profits. We work to eliminate the unnecessary and unreasonable fees associated with accepting electronic transactions, and provide products and services to help our partners succeed.

Heather Petersen, CEO, National Merchants Association

What is a "high risk" account, and why do some banks turn away "high risk" merchants?

"High risk" can have many different definitions depending on who's defining it. The Card Brands have their list of high risk SIC (Standard Industry Code) codes—which require direct registration—yet the sponsor banks, acquirers, and processors can all have an additional list of SIC codes they deem to be of a higher risk. High risk is ultimately defined by the risk-taking entity and frequently is much greater than the Card Brands' list of high risk merchants. When making decisions on the type of risk that is acceptable, the processor/acquirer/bank may consider reputational risk, financial risk, or other liability measures to determine what will be acceptable within the credit policy.

Because there is always a greater risk for card fraud, identity theft, and chargebacks when customers make card-not-present transactions, merchants in these categories typically face higher processing rates and are deemed high risk by most processors.

Many banks don't understand today's modern businesses, so they tend to lump all high risk businesses together. National Merchants Association is first and foremost a merchant advocacy group and we work hard to not only get merchants of all types approved, but also get them the best processing rates available. We treat every merchant, in every industry, as an individual.

What types of business do you accept?

National Merchants Association has dominated the high risk space for years and the reason is simple…we don't limit ourselves – we're constantly building new markets and boarding merchants in verticals like ecommerce, subscription box services, and more.

We also work with brick and mortar merchants. From restaurants and bars to retail establishments, we have always worked to find our merchants the best rates available, helping to reduce the unnecessary fees associated with accepting credit card payments. We work with merchants of all types, providing unmatched service and support.

How long does it take to get approved?

Getting merchants approved and processing payments as quickly as possible is very important to us.

For applications that have been correctly completed and are submitted with the appropriate documentation, agents and merchants can expect a typical turn around time for approval of just a few hours.

It's not uncommon for us to receive incomplete submissions from agents and/or merchants, and this can definitely delay the process. It's important that merchants work closely with their agents to provide complete and detailed application packets, so we can approve their accounts as quickly as possible!

What is an underwriter looking for when reviewing a merchant account application?

Below are the criteria that the underwriters at National Merchants Association are looking for when reviewing applications:

- *Business Formation* – identification of beneficial ownership cross-referencing with the signor.
- *Business/Product Description* – a clear and complete understanding of what products and/or services are being sold. Onsite inspection/verification of business is also required.
- *MATCH Listing* – ensuring the merchant is not listed in the Terminated Merchant File (TMF).
- *OFAC Listing* – ensuring the merchant is not on listed on the Office of Foreign Assets Control listing of target individuals.
- *Creditworthiness* – credit score pulled on all accounts and checked for liabilities and trade lines.
- *Individual Identity* – verifying the merchant's identity.

The cleaner and more complete an application is, the faster a merchant can start processing payments with National Merchants Association.

What is a chargeback? How can I reduce chargebacks on my merchant account?

In simple terms, a chargeback is the act of reversing a sale, usually due to a dispute from the cardholder.

Sometimes this occurs because the cardholder didn't purchase the product in question (credit card fraud or identity theft).

Other times, the cardholder initiates a chargeback due to dissatisfaction with the product. To help reduce this type of chargeback, it's critical that merchants provide detailed product descriptions, and clear refund / return policies. Customer service contact information should be easy to find on a merchant's website. Likewise, customer service personnel should respond quickly to any refund or exchange requests.

Our proprietary Chargeback Control Platform® (CCP) also helps reduce chargebacks by providing automatic, processor-level refunding of disputed transactions where appropriate. This ensures that any dissatisfied customers are quickly provided with a refund, before their dispute becomes a chargeback.

In addition, many industries suffer from so-called "friendly fraud" where customers intentionally buy a product and then charge it back. Protecting merchants from this type of fraud requires deep expertise in high risk processing, and it's something our NMA team has specialized in for many years.

Why does a processor care what a merchant's chargeback ratio is?

Payment processors are always concerned about chargeback ratios. The higher the number, the higher the risk for both the processor and the merchant. There are regulatory and Card Brand rules regarding permissible levels of chargebacks, so merchants exceeding these thresholds can be "terminated" by their processor in order to protect that processor from additional liabilities.

At NMA, we help our merchants keep their chargeback ratios low by taking a personal, proactive approach through education and best practices, as well as thorough due diligence up front. That's why merchant IDs (MIDs) at NMA typically last over 50% longer than the industry average. Account longevity leads to significantly higher revenues for the merchant and the agent.

What rates can you expect as a high risk merchant?

High risk merchants unfortunately face higher rates due to the greater liability borne by the processor.

Depending on a merchant's business model, the average high risk discount ranges between 3% and 6% with fees ranging between 15 and 25 cents per transaction. By contrast, brick and mortar establishments can range from .10% to 3% and between 5 cents and 15 cents per transaction on average.

Some popular self-service processors, often also known as "aggregators," have a flat rate model where all businesses pay the same rate for their processing. This may sound nice and simple in principle, but the reality is that these processors have to price in the worst possible level of risk – so essentially every business is being treated as "high risk."

At National Merchants Association, we know that not all merchants are the same. Our merchants are assured of the lowest rates available, and we review every account on a quarterly basis to ensure that merchant is still getting the best possible pricing.

How do you get a higher processing volume limit?

The higher the processing volume limit, the greater the risk exposure to the processor. So, the key to a higher processing volume limit is for a merchant to prove that they run a high quality business and have a low chargeback ratio. Earning a higher processing volume limit is essentially a reward for operating a business in a responsible manner.

Merchants that require higher processing volumes can make these requests based on their needs. National Merchants Association's in-house underwriting and risk department examines each request and then makes a judgment based on the merchant's dispute percentage, refund percentage, and whether that merchant has had at least three months of consistent processing volume.

As high risk specialists with multiple banking solutions, we have greater control and flexibility than other processors, and we pass this value on to our merchants and agents.

Does NMA offer a payment gateway?

NMA offers its own gateway, with exceptionally low pricing for merchants using our processing services. Our gateway provides subscription re-billing, mobile payments, QuickBooks integration, automated invoicing via email, and much more. We also integrate with all popular third-party gateways.

If you'd like to know more, please contact us:
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call: (866) 509-7199 **email:** businessdev@nationalmerchants.com **visit:** www.NationalMerchants.com

THE RISK AND REWARD OF HIGH RISK MERCHANTS

ISOs and agents don't need to shy away from these merchant accounts

BY LISA JOYCE

Americans made 33.8 billion credit card transactions in 2015 with a value of $3.16 trillion, up $6.9 billion since 2012, according to the Federal Reserve Payments Study 2016. The number of credit card payments grew at an annual rate of 8%, the highest growth rate of any payment type the Federal Reserve studied.

Credit cards are more popular than ever, so accepting credit cards is obviously critically important for merchants. But for those merchants considered high risk, being able to process and accept credit card payments is challenging. Often these merchants struggle to find a merchant account provider that will do business with them.

For ISOs and agents, high-risk merchants could be a lucrative market and a few providers, including Payment Cloud, Inc., have even specialized in working with high-risk merchants. Other ISOs and agents service a few high-risk niches. However, many ISOs and agents are scared away by the regulatory and financial threat that high-risk businesses present. But with a bit of education and a lot of due diligence, an ISO or agent may want to reconsider reaching out to high risk merchants.

What is a High Risk Merchant?

Whether or not a merchant is high-risk is typically determined by the merchant's industry and their financial history. Certain industries are subject to stringent regulations, whether from the Occupational Safety and Health Administration (OSHA) or the Federal Trade Commission (FTC), and pose a higher regulatory risk. These industries include hazardous waste clean-up firms, eCigarettes, and the adult entertainment industry.

Even those merchants that have perfect credit, no complaints with the Better Business Bureau, and a stellar record of customer satisfaction can be labeled as high risk due to regulatory concerns.

Financial risk may be due to a high level of chargeback's, refunds, and returns; high levels of credit card fraud; companies that have irregular high ticket sales such as furniture stores; and companies with bad or non-existent credit histories or that lack collateral.

A merchant with a chargeback ratio that exceeds 2% is typically considered high risk. A chargeback, regardless of whether the merchant won or lost, contributes to the chargeback ratio.

Continued on B8

The #1 High-Risk Processing Solutions Provider

At Transact Fast, we provide both Domestic and Offshore High-Risk Merchant processing solutions. Our Global Acquiring relationships give us the ability to place any merchant type or risk level and provide those merchants with the ability to acquire and settle their transactions in any currency. We accept startups with no processing history as well as merchants who currently have history but not the best chargeback levels. In addition to the above services, we also have a complete offering of chargeback mitigation tools for merchants that have a history of poorly managing that aspect of their business. These tools help Merchants keep their accounts up and running longer which in turn drives higher commission payouts at the same time as decreasing churn.

Did you know that an average high-risk merchant that processes $100k per month generates over $2,500 per month in residuals?

With our 50/50 Revenue share, that is $1250.00+ per month for an average account paid out to you.

How do I know that you're the right fit for my business?

With over 20 years of combined industry experience, state-of-the-art account management tools and value-added services, we at Transact Fast provide you with everything you need to man-age and grow your business. Therefore, whether you're new Agent in the industry or a multi-year ISO veteran, rest assured that we have the solutions you need to retain healthy and long-lasting merchant accounts.

Why Partner with Transact Fast?

- Best pricing in the Industry
- The Most Domestic & Offshore Acquiring Solutions
- Ability to Acquire and Settle in unlimited amount of currencies
- Fastest approvals in the industry
- Account Termination Management
- Leading Chargeback Mitigation tools and processes
- The most approved volume per Corp
- Dedicated account managers available 24/7

What kind of attention can I expect for my accounts?

We understand that setting up your merchants quickly and accurately is critical to your business. As part of our unique offering, we provide dedicated in-house support teams for all of our agents including sales, account management, and technical support. Our commitment is to do anything and everything to support you and your merchant customers.

Do I Have To Sign An Exclusivity Agreement?

We do not require exclusivity contracts with our ISO/Agent partners. Instead, we provide you the freedom and flexibility you need to succeed. Overall, we're confident in our ability to handle your portfolio, but we realize you need the flexibility to place your business wherever works the best for you.

Have you been hearing about the high-risk industry and are wondering how to get involved but didn't know where to start?

Please contact us at +1 (866) 524-3354 or applications@transactfast.com so we can enable you to become successful in this High Profit Channel!

If you'd like to know more, please contact us:

11451 NW 36th Ave, Miami, FL 33167

call: (866) 524-3354 **email:** applications@transactfast.com **visit:** www.transactfast.com

High Risk Merchant

Continued from B6

There's no standard definition of what constitutes a high-risk merchant, leading processors to individually determine if a business is high risk. "The most conservative processors look at companies that we onboard every day as high risk but that we view as low risk," says Lou Honick, CEO of Host Merchant Services.

From Low Risk to High Risk

Low risk merchants are those that process transactions in person, such as retail merchants and restaurants. About 20% of Host Merchant Services' business is with high-risk merchants.

It didn't start out that way, says Honick. The firm invested in online marketing and began generating a lot of leads from high-risk merchants. Rather than continually turn these leads away, Honick decided to begin working with high risk merchants, first in the web hosting industry.

"Generating leads is expensive, and leads are precious," says Honick. "If merchants are coming to you, you don't want to pass up that business even if you make a smaller percentage of the overall revenue."

Honick's team takes the merchant application and works to get the approval. The key to approvals is working with a variety of bank sponsors, he notes. "Different bank sponsors work with different merchant types in the high-risk space so having a broad selection of partners means you're more likely to monetize the leads you get," says Honick.

That approach is very different than in the low risk space, where ISOs and agents may prefer to develop deep relationships with only one or two partners. "High risk is all about options," notes Honick.

Before Taking the Leap

Shawn Silver, Vice President and Managing Partner for Payment Cloud, has always focused on high-risk merchants. Being able to thrive in the industry requires a keen understanding of the merchants business model, your portfolio, and the regulatory environment those merchants do business in, says Silver. "If you manage your business properly, it's a good business."

But it's also a business ISOs and agents need to do their homework in. Silver recommends that ISOs and agents take a very deep dive into the high-risk business, including consulting with the acquirers they work with and their own legal counsel.

Here are a few common high-risk industries:

- ✓ Antiques & collectibles
- ✓ Debt consolidation
- ✓ Downloadable software
- ✓ Extended warranties
- ✓ Magazine subscriptions
- ✓ Nutraceuticals
- ✓ Pawnshops
- ✓ Remote tech support
- ✓ Self-storage businesses

Silver says that Payment Cloud has not been challenged with finding acquirers to work with. Since Payment Cloud incurs any risk, it's a matter of making the business case to acquirers.

Silver also recommends that ISOs and agents start slowly. "Build your high risk merchant business up over time, learning as you go," he says. "You want to understand the dos and don'ts of the SIC codes you may decide to aggressively pursue."

Within the high-risk merchant market, Honick warns ISOs and agents to be wary. "There are merchants that don't stand a chance of approval due to banking regulations but they will apply to every ISO and agent they can find on Google," he says. "They are desperate, and they will hound you." Some of these currently "untouchable" merchants include cannabidiol (CBD), medical marijuana, and offshore technology support.

But overall, Honick and Silver both believe that there are opportunities for ISOs and agents willing to take the steps necessary to effectively work with merchants that pose greater financial, regulatory, and even reputational risk.

You do need to have the financial wherewithal though to address problems, collaborate with regulatory authorities, and work through proper legal channels, Silver adds.

"Remember, high risk merchant accounts are not the Wild West," says Silver. "If you do right by merchants and have the resources to rectify any problems that occur, it's a win/win situation."

Take Control of Your Chargebacks, High Risk Merchants!

Chargeback Gurus provides a comprehensive approach to help you manage chargebacks and fraud! We use the latest tools and proprietary technology to compile easy-to-read reports combined with our industry expertise to produce an effective plan for risk mitigation. We have helped high-risk profile merchants recover over $150 Million in lost revenue and sustain business growth.

Srii Srinivasan, CEO and Co-Founder, Chargeback Gurus

What is a Chargeback?

Chargeback is a process where the card holder files a dispute with their issuing bank. When a chargeback is initiated by the issuing bank, the acquiring bank notifies the merchant about the customer dispute and the transaction amount is automatically deducted from the merchant's bank account.

How do you Avoid Chargebacks?

E-commerce businesses should consider the following to avoid chargebacks:

1. Offer products and services that creates true value for customers
2. Be honest, transparent, and ethical with your marketing and billing practices
3. Provide excellent customer service with hassle-free returns and exchange policy
4. Ship products on time
5. Ensure customers can easily track your transaction and reach out to you if needed

Why Does a Processor Care what a Chargeback Ratio Is?

The chargeback ratio determines the risk level of your business: the higher your chargeback risk, the lesser your chance of getting a merchant account. Processors usually prefer to work with businesses that offer products and services that provide value and satisfaction for their customers. Having customer satisfaction directly decreases the chance of chargebacks and therefore poses less risks for processers. The tolerance level of a chargeback is 1% for low-risk businesses and it can range anywhere between 2% - 3% for high-risk businesses.

How do you get a Higher Processing Volume Limit?

Higher processing volume can be obtained:

1. If you have a clean processing history with a chargeback threshold of 1% - 3% or less for at least 6 months
2. If you can provide explanation and proof of your need for a higher processing volume to processors

What Rates Can You Expect as a High-Risk Merchant?

The rates for high-risk businesses are based on the following factors:

1. Business risk
2. Type of Merchant Account (Onshore, Offshore)
3. Monthly Processing Volume
4. Average Transaction Amount
5. Type of Billing (Straight Sale or Recurring Billing)
6. Sale Type Internet or MOTO (Mail Order Telephone Order)

The rates can range from 3% – 5% for onshore merchant accounts, and 5% - 12% for offshore merchant accounts in addition to other fees.

If you'd like to know more, please contact us:
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Is Faster ACH Good for Acquirers?

As banks and payment networks work to enable same-day and real-time payments, acquirers are waiting to see how they benefit from this new technology. **BY DAVID HEUN**

Same-day Automated Clearing House transactions exist, in part, as a first step in the faster payments initiatives taking place in the U.S. But are they lucrative enough for acquirers to add to their portfolio?

Even though ACH costs less than credit card interchange, the difference may not be compelling enough to win over merchants that are happy with cards and mobile wallets.

But same-day ACH does have a devoted audience — delivering 13 million transactions in the last three months of 2016 — and a growing interest among government agencies and private businesses.

Indeed, most of that traffic was direct deposit or business-to-business transactions, leaving those in the merchant acquiring business still scratching their heads a bit about which way to approach a less expensive, but potentially riskier, payment option for their clients.

Those who wait out technology trends to see if something better comes along might actually be taking the best approach. Some clearly believe that the growing number of person-to-person

payment networks will overtake same-day ACH, rendering the ACH option redundant.

"Many processors out there are trying to offer very similar solutions, and you have to have something that stands out," Jeremy Epstein, managing director of the technology banking group at The PrivateBank, said during a presentation at the annual Midwest Acquirers Conference in Chicago.

"ACH is not going to be a big revenue driver, it's going to be a small piece of revenue, but there are processors out there losing money because the merchants need ACH and they are not providing it," Epstein said.

For those ISOs and agents willing to add same-day ACH to their portfolio, there is no shortage of companies offering to make it easier for them to onboard merchants.

Because same-day ACH is quickly becoming an integrated solution, it stands out as an ideal service to fill out an acquirer's growing product suite, Epstein said.

"It is less expensive and more cost effective as a fixed fee instead of a percentage of each transaction," Epstein added, noting merchants will find it appealing as transactions shift to ACH because "some consumers want to make an electronic payment, and they don't have a credit card, but have a checking account."

However, getting sales staff motivated to sell something that doesn't bring a lot of revenue into the company coffers, and bump up their own commissions, remains a challenge.

"One of the things we struggle with as a third-party payment processor is finding the sales force out there that wants to sell same-day ACH," said Kim Olszewski, vice president of transaction processing at iStream Financial Services.

A faster ACH product is "a great value-add to your other services, but it is not a huge revenue driver," Olszewski said. As such, iStream encourages its staff to sell ACH alongside credit card products, simply adding between 20 and 30 basis points to the ACH deal.

"You also have to be creative with ACH sales, something different from what others are offering," Olszewski said.

That differentiator could take the form of creating split payment setups between the merchant and a cash advance company; using a limited use account platform; or establishing a prefund settlement account to ease some of the risk of same-day ACH.

And there is plenty of risk — especially in the eyes of those who help businesses and merchants navigate payments risk.

"Same-day ACH is a new product and every time a new product is rolled out, no matter how buttoned-down it seems, fraudsters find a way back in," said David Barnhardt, executive vice president of product at GIACT, a payments risk management software provider.

It is common for fraudsters to use stolen personal credentials to open checking accounts and initiate ACH transfers, and a danger exists for same-day transactions to be processed before a bank is certain the funds exist in an account.

In short, Barnhardt has been a voice in processors' ears reminding them there is little room for error in processing same-day ACH transactions because it doesn't have the same type of authorization and verification process as credit cards. But that alone should not scare processors and acquirers from giving same-day ACH a fair shake.

"The fraud numbers pale in comparison to credit cards, which are much easier to steal [than a checking account linked to ACH]," Barnhardt said. "Credit card losses are in the hundreds of billions, while ACH is in the high hundreds of millions."

The success of same-day ACH may come down to how many consumers want to use it for retail purchases.

It is understood that same-day ACH is a fit for payroll deposits and for businesses to make faster payments to suppliers. And retail merchants may be looking at it more from that standpoint.

However, the Merchant Customer Exchange's failed CurrentC mobile wallet — which relied on ACH as a way to cut costs for merchants — may have left many retailers unsure as to whether ACH has a place at their point of sale. CurrentC never made it past pilot after more than two years of trying, and Chase Pay ultimately bought the technology, presumably to put the loyalty aspects of it into play.

Though same-day ACH will always have its use cases, the authorization and verification methods of P-to-P products like the bank-supported Zelle will put those services in a position to transfer funds faster and potentially safer than ACH, Barnhardt said.

Even though Zelle has had a rocky start in how it handles enrollment, it is considered a turning point for faster payments in banking circles and a system that should jump-start further improvements and even more collaboration amongst banks on the payments front.

"If I am reading the tea leaves correctly, in five years Zelle will be competing with same-day ACH," Barnhardt said. **ISO**

"Every time a new product is rolled out ... fraudsters will find a way back in."

-David Barnhardt, EVP of product, GIACT

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A Shrinking Window for ISOs

The same technologies that threaten ISOs can also aid their success, but it's up to the ISOs to act fast enough to make the most of these opportunities. **BY DAVID HEUN**

Increasingly, the acquiring and ISO business has taken the view that advances in technology that originally looked like threats instead made it easier to sell more products and support more payment types.

Still, the warnings never died down, and innovation in acquiring is lagging behind payments and financial technology advancements. Part of this has to do with the acquirers or independent sales organizations themselves, specifically the individuals leading or working for those companies not making the full-blown effort to become engaged in current technology, said Juan Ortiz, executive vice president of national sales at BluePay Processing LLC.

It's important to change this mindset, Ortiz said during the annual Midwest Ac-

quirers Association conference, because "technology hasn't even started yet."

"This is the time to get involved in something good," Ortiz said. "You have to get on board with technology and obtain as much knowledge as you can. You all have to be on social media and brand yourselves."

Most importantly, Ortiz added, if an employee is not working with a processor or acquirer that is involved with integrated payments and open application programming interfaces, it is vital to find a processor that is.

It's not farfetched to think that an acquiring business caught too far behind the times could end up like Kodak, a company that had knowledge of digital camera advancements but waited too long to pivot, Ortiz said.

Acquirers and ISOs have two roads to travel on the current fintech landscape — one to understand advancing technology themselves, the other to be able to explain it and motivate merchant clients to embrace it, said Doug Small, national sales director for ISOs at Cayan.

"We've invested a lot of resources and time in developing our own technology that is responding to what merchants and businesses need," Small said. "We need to get those outside of our company to understand the technology, and that's a challenge, especially for smaller merchants."

For the most part, large merchants know they need the technology to accept all payments types, Small added, but it is also vital for them to have updated back-office and data recording capabilities.

"Every year, every month, that type of technology is moving down market because smaller merchants are also understanding that this technology can save them time and also give their customers a good experience," Small said. "If their customers want Apple Pay, then it does not take long to get that integrated."

With acquiring and ISO businesses fully engaged in payments and retail industries that are evolving and emerging, the inner workings of those ISOs must change as well.

Companies must make "anticipation skills" a core competency, assembling leaders who are adept at looking ahead and determining where a company must adapt, said Robert Dean, business consultant with Dean Learning & Talent Advisors LLC.

"Statistics show that many 'change' projects fail, but in my experience those that succeed have a sustained business sponsor to motivate the project and a collaborative culture," Dean said.

Virtual collaboration, in which companies use technology to conduct think-tank sessions through outside networks, is becoming a vital tool for those serving clients in emerging technology markets, Dean added.

Technology will continue to advance at a rapid clip, BluePay's Ortiz said.

"It's all about data now fueling artificial intelligence," he added. "Yet, people are still trying to sell one merchant at a time, but the way to do it is through integrated payments, particularly business-to-business."

It was unheard of five years ago in the acquiring business to sell business-to-business payments through credit card processes, Ortiz said. Now, that is common and profitable.

"It comes down to, if you control the data you can control the user experience," he added. **ISO**

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Linking New and Old Technology

Paper checks are hardly fast, but Push Payments and linked2pay are offering a way to link checks and ACH to instant payments. **BY DAVID HEUN**

Seeing a need for virtual and legacy payments worlds to better connect, Push Payments and partner linked2pay developed a real-time payments system that can function as that connective tissue.

In essentially converting ACH and paper check processes into instant digital payments, the companies say they are addressing cash flow problems for businesses and merchants and allowing banks to implement real-time payments through an application interface without requiring a complete makeover of legacy systems.

"They just have to plug in and do the same thing they are doing now, but just getting better 'energy'," said Travis Dulaney, CEO of Push Payments.

Push Payments and linked2pay have worked together since late last year, with Push Payments providing the real-time payments technology and linked2pay providing the "onramp" by handling the registration process for businesses and merchants wanting the upgrade.

The system enables merchants to send a day's or week's card receipts to their bank for instant payment into merchant accounts.

"The impact of a real-time payment is not only a major step in removing friction for merchants in the funding of their card receipts, but also in enabling them to take a more agile approach in running their businesses," said Richard McShirley, chief marketing officer for linked2pay. "Getting paid for card receipts in one second after closing up for the day — that's the ultimate in speeding up cash flow."

[a]It's all about instant funding for these types of companies. On the merhcant side, it's about empowering that channel,[o] said Travis Dulaney, CEO of Push Payments.

This hybrid model is currently finding favor with online companies sending reimbursements, insurance companies paying out claims, stock brokerages making payments and transferring funds, and employers using it for payroll or commission payouts.

"It's all about instant funding for these types of companies," Dulaney said. "On the merchant side, it's about empowering that channel because we built a high-volume transactional process that is very fast and secure."

Push Payments would not disclose its current customer list, saying only that many top fintech and corporate businesses are currently clients or partners. In the coming weeks, it plans to announce new partners and has plans to address requests from independent sales organizations regarding sales and

distribution, Dulaney added.

In its role as a faster payments provider, Dulaney said Push Payments has had a table at most of the faster payments meetings taking place with the Federal Reserve.

"Clearly, moving cash is what it is all about, and banks make a lot of money by holding onto cash, but to compete in today's world they have to stay abreast of innovation," said Russ Schoper, industry analyst at Atlanta, Ga.-based Business Development International Inc. "Real-time payments is important, and there isn't a business out there in the world that wouldn't want to be paid faster."

The funding process at Push Payments and linked2pay is "about as fast as you can get it," Schoper added. "Cash flow is the critical component, so there should be just a huge appeal there. But the banks, they love that float and still like to hold onto money as long as they can."

Obviously, risk assessment comes into play for current payment processes. Many transactions don't clear for at least a few days as security measures scrutinize the payments and banks authorize clearance.

"When faster payments first came out, people were worried that if we were too fast, we couldn't catch fraud," Dulaney said. "That's not right. You actually catch fraud faster."

Linked2pay has a key role in that process, adding its checks and balances during the onboarding process to go along with the security measures Push Payments and the merchants themselves already have in place.

"Holding back payments is the direct result of having a lack of information," McShirley said. "The ability to know people faster makes payments go faster because, remember, we are just using existing debit rails."

Push Payments, operating as a white label provider, makes the real-time payments option available to clients through Switch Zero, an all-in-one portal interface; RailStorm, its proprietary API; and PayDoc, a turn-key portal supporting medical payers. **ISO**

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How Amazon Builds Channels

The annual Amazon Prime Day is more than just a summer sale. It's a massive experiment in how consumers respond to new channels for digital commerce. **BY NICK HOLLAND**

Amazon's third annual Prime Day will likely share the immense success of its two first years, but Amazon's goal with this invented holiday isn't just about driving sales.

Prime Day is first and foremost a recruitment drive for Amazon Prime — the heavily discounted sale items are merely bait to make that happen — and for any new sales channel that Amazon is testing.

Certain deals are explicitly tied to Amazon's Alexa voice assistant, and the company is also shining a spotlight on its mobile app.

The lead-up to Prime Day saw the introduction of several new devices that can accept payments for other Amazon products: the Echo Show, the Echo Look and the Amazon Dash Wand.

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The Echo Show and Look are beefed up versions of its smart speaker, but the Dash Wand is more narrowly targeted. Reviving an old concept, the Dash Wand has a built-in magnet meant to adhere it to refrigerators, and can scan any food item's bar code to help restock the kitchen. It is sold for $20 with a $20 Amazon credit after setup — a pricing model reminiscent of the one Square used to build the mobile Point of Sale market.

Prime Day also gives Amazon a chance to highlight certain categories in its catalog, including those that pair well with its new focus on the kitchen.

While specific Prime Day offers are kept hidden before the event kicks off, Amazon has been more aggressive about grocery sales including 25% off items including ice cream and fresh fruit. This is a subtle way of driving awareness not just that Amazon is active in the grocery delivery business, but that items that are highly perishable are available in a reasonable time frame.

It's a shrewd educational move, setting the stage for anything else Amazon has planned with its acquisition of Whole Foods. And anyone with a new Dash Wand has likely also begun a trial subscription to Amazon Fresh, lowering the barrier to Prime Day grocery shopping.

As part of the drumbeat leading up to the signature event, Amazon was offering daily prizes from June 28 through July 10 that ask shoppers to first view a short ad for the Amazon app, with explicit instructions on how set up alerts for upcoming deals advertised in the app.

The educational aspect of this promotion, which highlights specific app features, would appear to be an important acknowledgment that device ownership doesn't necessarily correlate with device knowledge and use.

This is further evidenced by Amazon's rumored development of an equivalent service to Best Buy's "Geek Squad," which would presumably act as not just a means of installation and setup of its technology in the home, but also as a means of providing in-person training on how to use Amazon's services.

And some of the giveaways include mobile devices such as Apple's iPad and Amazon's Kindle Fire, emphasizing the digital nature of Amazon's deals.

Prime Day is by no means the first invented event devised purely to encourage retail spending.

November is replete with holidays such as Black Friday and Cyber Monday, and Small Business Saturday originated as a marketing push from American Express in 2010.

In its third year, Prime Day may be cementing a specific time on the calendar for years to come.

For all other retailers, this creates a conundrum: How do competitors like Walmart and Best Buy capitalize on the shopping frenzy taking place in early July, but not draw attention to Amazon's creation?

The usual big box and apparel retailers are also running sales to coincide with Prime Day, but are conspicuously avoiding any mention of the e-tailer, treating its name the same way Harry Potter characters avoid naming the Dark Lord.

It's too tempting a retail opportunity to ignore entirely. In 2015, the first-ever Prime Day, Amazon exceeded 2014 Black Friday sales. In 2016, sales shot up a further 60% worldwidecompared to the prior year's Prime Day. The invention of a new retail holiday in the middle of the year and a week or so after the Fourth of July has broadsided the entire retail industry, which previously calibrated the year around Black Friday.

Unlike Small Business Saturday, Prime Day is singularly a celebration of Amazon and therefore forbidden ground for competitors. Amazon's signature event is therefore unlikely to become a "Hallmark Holiday," but it will be hard for retailers to simply pretend that this event isn't happening as it becomes an annual tradition. **ISO**

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Visa Tackles a Global Data Deluge

Visa is building international transaction processing centers in multiple countries to support its global strategy for digital payments. **BY DAVID HEUN**

Visa is developing its first international transaction processing centers — one in the U.K. and one in Singapore — on the heels of other moves to accelerate digital payments growth globally.

Expanding its data processing footprint to a more global presence is "part of the overall vision we have to continue to invest to make sure our infrastructure continues to have resiliency and can scale up and out," said Rajat Taneja, executive vice president of technology and operations at Visa.

Its only other data centers are in North America.

For security reasons, Visa will not disclose the precise locations of the new 10,000-square-foot data centers, but the card brand expects them to begin accepting transactions from some areas and partner banks in 2018 before becoming fully operational at some point during the year.

Merging with Visa Europe a year ago was a significant factor in strengthening the VisaNet global network, Taneja said. In acquiring Visa Europe, the company said it stood to benefit from bringing 3,200 European clients onto VisaNet while also advancing on the many innovations unfolding in Europe.

In addition, Visa has opened its network to third-party app developers for the first time, and established Visa Checkout as a one-click e-commerce payment option. Its landmark agreement last year with PayPal to spark even more Visa transactions online is also likely to expand its data processing needs.

"This is an overall vision we created for the next generation of payments," said Rajat Taneja, executive vice president of technology and operations at Visa.

Visa has been planning for the new data centers for years, Taneja said.

"This is an overall vision we created for the next generation of payments," he added. "All of these are pieces of our strategy encompassing our views on software and open architecture, and it's all about transforming our technology for this digital era."

That means Visa will be busy in the coming months preparing the data centers for operation, starting with industrial cooling and power supplies, which involve a complex network of backup generators and power subsystems.

"We have layers and layers of resiliency built into the system" prior to installing physical cabling and network connections, Taneja said. After that, Visa will deploy the transaction processing software.

"We will have more than 300 applications running at any given time to do the processing of credit, debit, prepaid, Visa Checkout and other digital commerce apps," Taneja added. **ISO**

Stopping Fraud in the Packaging

Prepaid cards are under constant attack from fraudsters, but sometimes the solution isn't to protect the card itself Ð but to update the packaging. **BY DAVID HEUN**

The simplest scams are sometimes the hardest to thwart. Rather than redesign its prepaid card with added security, InComm is redesigning the packaging in a way that should render stolen cards unusable.

Thieves like the idea of simply by taking a prepaid card out of its package and replacing it with a "dummy" card that has no value. When a buyer activates the "dummy" card by scanning its package at the point of sale, the real card in the thief's possession is loaded instead.

Atlanta-based prepaid card provider InComm is launching a new bar code encoding technique that requires both the card and the packaging to be present. If the card is removed, the bar code will not register at the point of sale.

Essentially, about two-thirds of the card activation code is on the packaging, with the final digits on the card inside of the package.

The new technique "helps to protect our retail partners and the end consumer from fraud by invalidating a prepaid card that has been compromised before it's activated by a legitimate consumer," said Chanda Wicker, senior vice president of global production services at InComm.

InComm's packaging puts some of the activation code on the card itself, rather than printing it entirely on the packaging.

With this technique, if the card is stolen or replaced, the store won't be able to activate it because part of the bar code will be missing.

In that regard, a fraudster trying to steal the card from the packaging would end up with a card that could never be properly activated.

"A card that cannot be activated is rendered useless, which makes the purchase impossible to complete," Wicker said.

During InComm's initial run of prepaid cards using this printing technique, Wicker said the company saw "significant improvement" in the protection of those cards.

The technology will apply to both gift cards and prepaid debit cards.

The new packaging will definitely thwart fraudsters who swap out cards, said Julie Conroy, research director and fraud expert with Boston-based Aite Group.

However, scammers may adapt over time in response to InComm's anti-fraud efforts.

"As with everything else, if it is a pretty low-tech solution, we see that criminals can get through it pretty quick as well," Conroy said.

"I want to learn more about what InComm is doing with this, but it appears to address the card swapping aspects," she said.

Conroy cited incidents with Visa gift cards two years ago in which buyers were purchasing what they believed to be legit cards, only to find they had been tampered with and returned to the packaging.

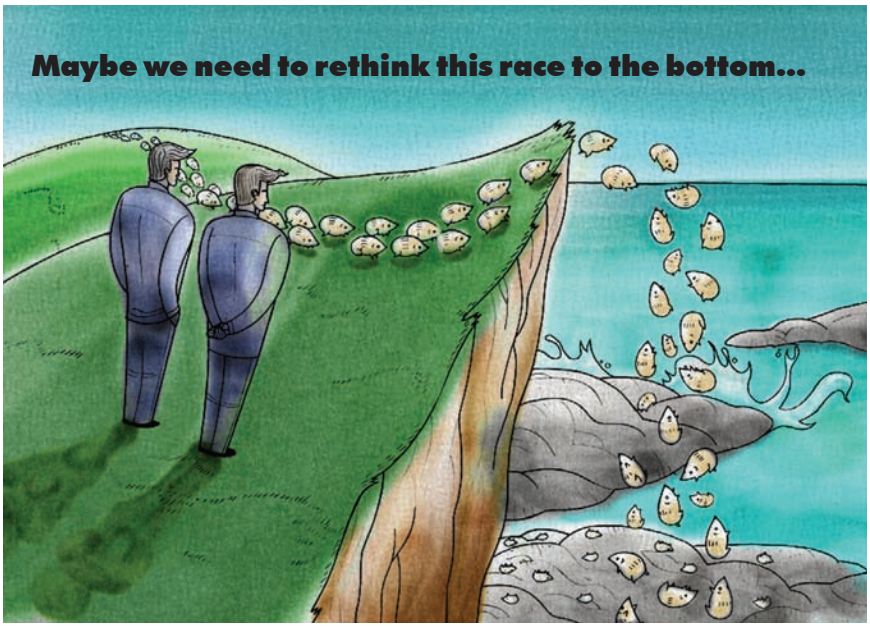
InComm's new packaging, or any sort of tamper-evident packaging, could be a deterrent for that kind of activity, she added.

InComm received a grant from the United States Patent and Trademark Office for the patent on the new packaging method.

Late last year, InComm addressed online security when it began using technology that constantly changes the CVV on the back of a reloadable prepaid card, incorporating the services of Tender Armor and its CVV+ solution.

Participating cardholders each receive a new three-digit security code daily to use in place of the static CVV code printed on network-branded payment cards that's required for most card-not-present transactions.

Cardholders may opt to receive their code, which is sent anew daily, via text, email or by visiting a bank's website. A mobile app is also planned.



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InComm was the first major financial services provider to try out Tender Armor's approach that gives card issuers a way to directly deliver real-time, dual-factor authentication to customers.

Some recent surveys suggest consumers—who are increasingly aware of and concerned about fraud—are willing to take part in helping to block fraud, but there's little evidence so far that they will do so.

While card network policies generally absolve consumers of liability for card fraud, when fraud occurs consumers' accounts typically are frozen, and for those who rely solely on their prepaid card and live paycheck to paycheck, the inconvenience can be costly, said Madeline Aufseeser, Tender Armor's co-founder and CEO.

"Not only are these cardholders concerned about how to react to a fraudulent event, but they're actually afraid to shop online," Aufseeser said.

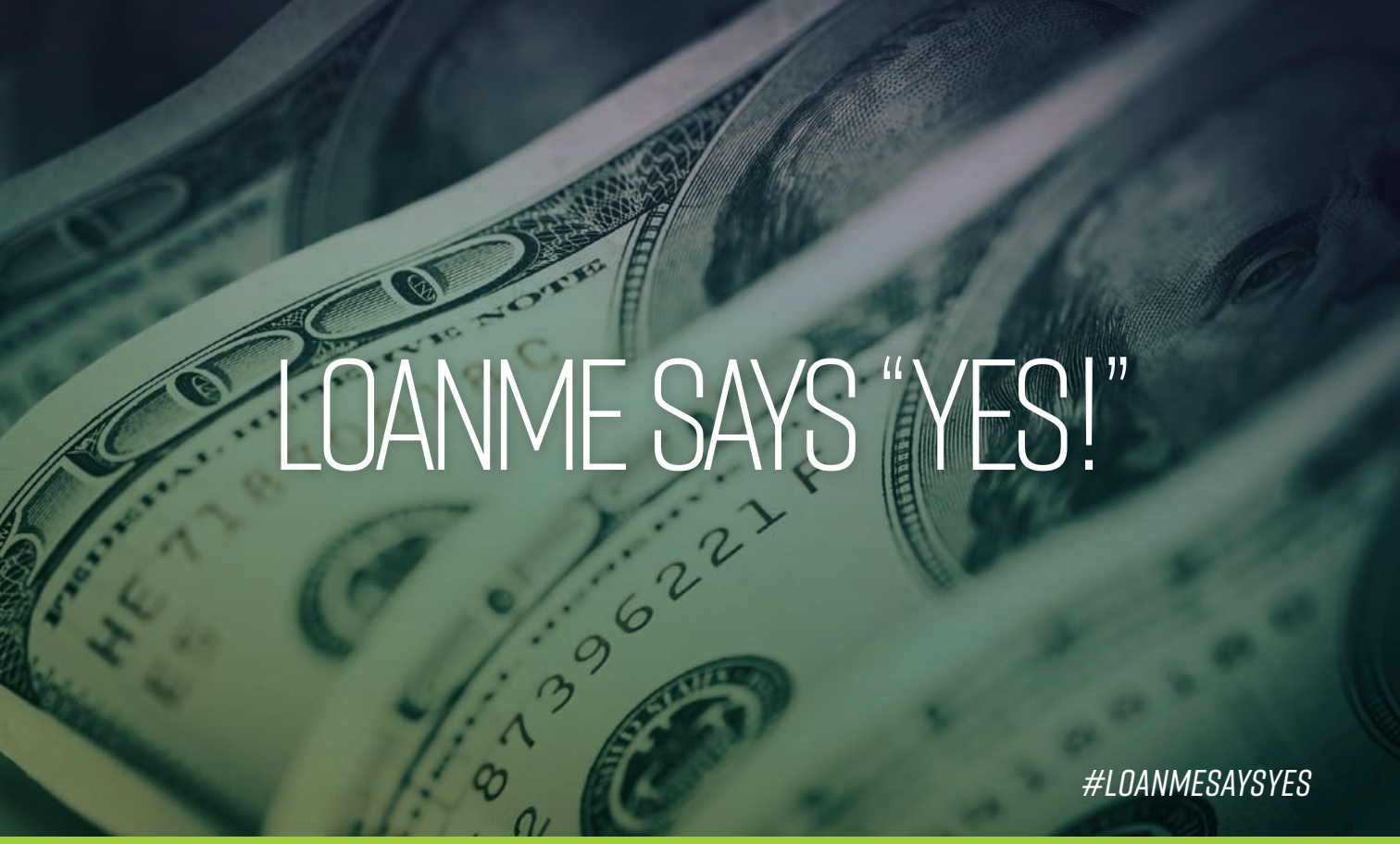
"The intelligence we gain from our relationships with retail and brand partners guides us in our mission to protect them and their customers who rely on our products," Wicker said.

But fraudsters keep prepaid card providers on their toes, with a favorite trick being to simply write down or scan the card numbers, which are fully visible through regular packaging so that retailers can scan them when being activated by the buyer.

The scammer will then regularly check online to see if that card is activated and will be accepted. This way the card and its packaging are in tact, but the funds can still be stolen in a card-not-present transaciton.

Time is also a factor in this scam. A person receiving a prepaid card as a gift might not know that someone else has already drained its value.

InComm would like to see all of those tricks thwarted, and is developing more anti-fraud tools to combat them, Wicker said. **ISO**



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Profiting from Amazon's Strategy

Amazon's global e-commerce strategy is ambitious and far-reaching. But it still leaves gaps that other companies can fill in. **BY DAVID HEUN**

Many companies in the payments industry position themselves as the answer to the competitive threat of Amazon. But that's not the only option out there.

"We do position ourselves as Amazon experts," said Richard Gilbert, director of strategic partnerships in North America for Payoneer. "It's core to our strategy to work with Amazon sellers, and it is the bulk of my business as well as a significant percentage of Payoneer's overall business."

Small e-commerce businesses — the ones that sell within Amazon's ecosystem rather than try to compete with it — are vital to Payoneer's international expansion strategy as the vendor works to go beyond facilitating mass digital payouts on its wholesale business side.

Payoneer's ability to convert 150 currencies as part of its money transfer and e-commerce payments services puts it in a position to stake a claim as the largest provider of those services for Amazon sellers.

Even though it is not the only marketplace in which New York-based Payoneer enables sellers to expand to entire new markets of consumers, Amazon represents a major enabler of Payoneer's business model.

"It all starts with a marketplace like Amazon, and we have been able to reduce the barriers to entry by enabling a foreign seller to enter another country and sell goods and services," Gilbert said.

In that manner, Payoneer facilitates the payouts to sellers in 25 currencies that Amazon does not support, working through the relationships the company has established with nearly 50 banks.

Payoneer does not stray far from its focus as a money transmitter and converting of one currency to another. It is not a merchant processor like Stripe and others, so Amazon and other marketplaces act as the merchant of record.

Payoneer has a different niche than what other providers seek from China and other markets, such as Stripe's recent collaboration with WeChat and Alipay to make it easier for merchants around the world to accept payments from Chinese consumers.

Mostly, Payoneer comes into play when a seller on Amazon's U.S. site wants to make the move to Amazon U.K., Amazon China or other markets.

And it keeps Payoneer in a good spot, as it has found one of the few pain points that Amazon doesn't address on its own, said Gil Luria, director of research for equity capital markets at D.A. Davidson & Co.

"There may be limited opportunities to add value as a payment provider on Amazon," Luria said. "These opportunities may be capped by the fact that Amazon broadly handles most payments aspects and if an opportunity became too big they would address it internally." **ISO**

Visa Broadens Its Investments

Many of Visa's recent investments have focused on merchant acquiring technology. Its investment in Marqeta opens new paths. **BY JOHN ADAMS**

Visa's recent leading of a $25 million investment round in Marqeta is an unusual move for the card network, which has most recently focused its investments in merchant acquiring technology companies.

While a lot of the attention for open development has gone to direct merchant acquiring, Marqeta sees other links in the payment chain that can benefit from fast and minimalist deployment.

Marqeta instead has its eyes on e-commerce, alternative lending and 'gig economy' companies.

"The success of a modern company lives and dies on the user experience, whether it's a commercial space or the consumer space," said Jason Gardner, CEO of Marqeta, an Oakland, Calif.-based company that sells technology to power card issuance and technology development via a sandbox, or open space for external developers.

Visa didn't return a request for comment by deadline. It has recently invested in Stripe, which makes it easier for retailers to build payment acceptance pages into their websites.

The card network has also made a recent investment in Klarna, which just received a banking license in Sweden, and has opened its own technology to third party developers.

Marqeta is an issuer processor, providing an API that powers the development and deployment of payment cards, virtual cards and mobile authorization products.

"The success of a modern company lives and dies on the user experience," said Jason Gardner, CEO of Marqeta.

The company contends it is democratizing access to payments technology for new issuers and fintech companies.

Its "Just-In-Time' (JIT) funding feature enables companies to authorize their own card transactions by accessing a sandbox to build authorization in a few minutes, then use Marqeta's card controls and configurations to build a funded card program in a few days.

This model is designed to shave time and steps from more traditional processing and issuance given the pace the emerging electronic payments market requires for transaction types such as payables, alternative lending, disbursements, e-commerce, on-demand services and P-to-P payments.

"If they don't have an open platform to build on, a company has to make changes more often," Gardner said.

The Visa investment will go toward distribution.

"Visa is a railroad that connects every merchant in the world," Gardner said. **ISO**

Subway's New Payments Strategy

The sandwich chain has tried more than once to modernize its ordering process. Its latest effort may be its most ambitious. **BY NICK HOLLAND**

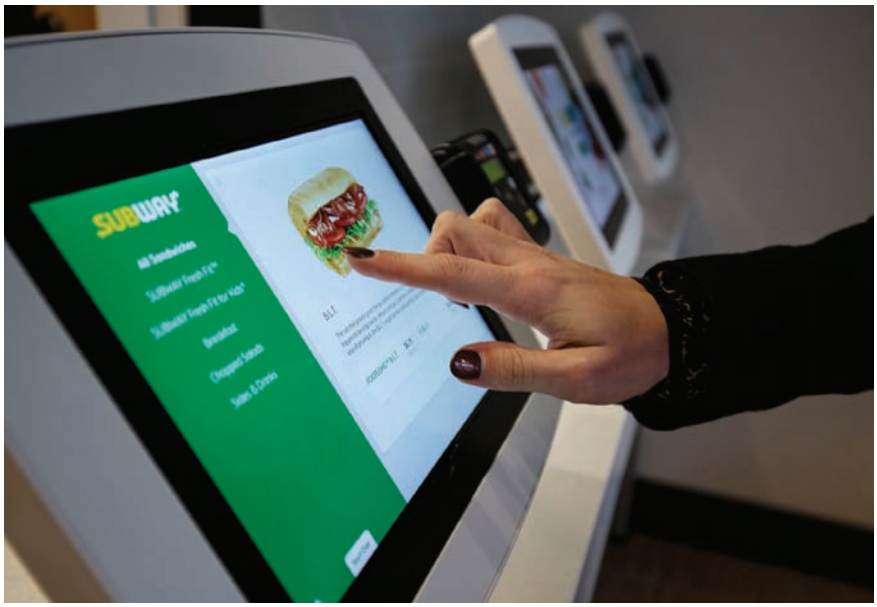
Subway is a classic example of an analog company that needed a digital upgrade.

The sandwich chain is piloting its new "Fast Forward" design in a dozen restaurants, revamping in-store design with a new color palette, curated music, comfortable seating with USB charging ports and complimentary Wi-Fi, but the upgrade is more than cosmetic — the chain is experimenting with technology to enable faster customer throughput with self-order kiosks that handle payments as the sandwich is built.

Subway is one of the world's largest franchises, with over 45,000 restaurants globally. This means that to create any kind of chainwide overhaul, the company must convince countless franchisees that it is worth their effort to invest. Thus, this new system must be more than an experimental upgrade; it must prove its worth before it goes in place.

This isn't Subway's first time trying to overhaul its point of sale technology, but it's a lot more ambitious.

Back in 2014, Subway was a major supporter of the telcos' Softcard mobile wallet, launching support at 26,000 locations in what was then one of the largest NFC wallet deployments. This move, which roughly coincided with the U.S. launch of Apple Pay, tied into Subway's rewards program and extended its 2013 support of Softcard's pilot in Salt Lake City.



Despite its ambition, this partnership didn't change much for Subway patrons. Softcard shut down in early 2015, selling off its technology to Google. More recently, Subway has signed on to support Mastercard's Masterpass, but the lesson of its Softcard alliance was clear: To succeed in mobile, Subway can't pin its hopes on a third party.

With Fast Forward, Subway is more focused on what's going on in its stores than what's going on in the broader payments industry.

"We didn't look at other merchants; we talked to our customers," said Trevor Haynes, vice president of operations at Subway. "We conducted consumer research in Brazil, Australia, the U.S. and other locations around the world. We asked ourselves, Do customers come in more often when there is a kiosk in restaurant; do they spend more? We told ourselves if the customer doesn't notice the kiosk, we take it out. What we found was the designs were very well received around the world."

Ultimately, franchisees will have options for how to deploy Fast Forward. "For instance, some restaurants may not have kiosks or the back-of-house line based because of its size and the needs of the guests. There are different design tiers to fit the needs of each location," Haynes said. **ISO**

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Why Canada's Soft on Mobile Tech

The success of contactless payments in Canada has given consumers less incentive to switch to mobile devices at the point of sale. **BY KATE FITZGERALD**

Mobile wallets have failed to excite many consumers, but Canada has an extreme case of paralysis underscoring the stark need for ongoing incentives to get consumers to change their payment habits.

Canada's strong momentum in contactless payments would seem like an advantage that sets the stage for mobile, but it also shares many of the selling points that mobile wallet providers advertise. This may be one reason third-party wallets took their time launching in Canada, with Android Pay making its debut last May, two years after its launch in the U.S.; and Apple Pay finally going live with Scotiabank-owned Tangerine Banks last week.

"Canadians are already so well-entrenched with tapping contactless plastic cards to make quick payments everywhere that they don't see the value proposition in getting out their phone to pay," said Mia Huntington, Elavon Canada's senior vice president and general manager.

ªCanadians ... don't see the value propositon in getting out their phone to pay,º said Mia Huntington, Elavon Canada's senior vice president and a general manager.

In Canada, Elavon played an active role in helping merchants adopt contactless payments technology, with most merchants supporting Near Field Communication. This is in contrast to the U.S., where less than a third of merchants have NFC, Huntington said.

Canada's contactless payment volume rose 60% last year to $100 billion over the previous year, reaching nearly 2 billion transactions, according to Toronto-based Technology Strategies International's new Canadian Payments Forecast 2017.

But mobile payments technology so far has not shared this momentum.

"Canada was ahead of many other countries with its NFC infrastructure, and many were watching with bated breath to see what would happen when third-party mobile wallets rolled out, but it's clear now it will take a different kind of incentive to get consumers interested in mobile payments," Huntington said.

If consumers aren't getting a better deal by paying with mobile, there won't be much adoption of Android Pay and Apple Pay, she says.

"The only thing likely to interrupt the status quo is when mobile payments can deliver specific offers based on a consumer's preferences and loyalty, and no one is better positioned to do that than Google," Huntington said.

Merchants are making rapid progress in adopting in-app payments technology, which also may help nudge mobile payments adoption ahead, she said. **ISO**

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