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IF EMV ISN'T SELLING, WHAT IS?

Sales of EMV hardware are dropping off. Here's what ISOs can do to keep sales strong

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Cover Story

If EMV Isn't Selling, What Is? 30

The U.S. liability shift for EMV is well behind us, but it has not lit a fire under the merchants who have still not upgraded. If they're not spending on EMV, what are they buying?

ADOBE STOCK

Editor's Letter

DANIEL WOLFE
Editor

Looking Past the EMV Upgrade

WE'VE COME A LONG WAY IN THE MIGRATION TO EMV CARDS IN THE United States, but the journey is far from over.

The biggest issue seems to be a lack of enthusiasm — for many merchants, the world did not end when the fraud liability shift took effect in October 2015, so their motivation to upgrade disappeared. And as consumers adjust their expectations at the point of sale, the pain points of EMV seem to disappear as well.

But whether or not a merchant is EMV compliant, the pace of technology marches on and new payment options invade brick-and-mortar stores and digital marketplaces. Convenience and security are among the big drivers of these changes, but loyalty also plays a growing role.

The landscape is also becoming easier to understand, as early innovators drop out of the race, creating a more streamlined and comprehensive list of options for merchants.

Even if the U.S. never fully migrates to EMV, it's clear that technology will continue to improve and the point of sale will continue to be a platform for innovation. The only question is what shape that innovation will take. **ISO**

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Expect More Vendor-ISO Teamups

To fight back against the disruption, independent sales organizations and independent software vendors are joining forces. **BY DAVID HEUN**

When Visa opened its network to third-party software developers for the first time in its history earlier this year, CEO Charlie Scharf said his company was going after a "staggeringly large" opportunity.

Now, independent sales organizations and independent software vendors are equally threatened by disruption, making an alliance a logical — if uneasy — step for both groups.

It's a quickly changing environment up and down the payments food chain, especially for the ISO and ISV operations. They may find the current fast pace of payments technology to represent the proverbial best of times and worst of times.

The trend is good because there are far more opportunities for partnerships and deals; it is bad because having many choices isn't the same as making the right choices.

"The days of an ISO just dialing for dollars and standing on their own as an independent solution are about over," said Rick Robshaw, CEO of Club Prophet Systems, a software vendor providing point of sale, management and food/beverage software and services to the golf industry.

ISOs understand that their traditional role in merchant acquiring has changed because of technology, and it is becoming common practice for them to seek partners they might not have considered to be allies in the past.

But they also face an ongoing threat. "As the networks and ISVs become more sophisticated, the gateway companies and ISOs become less valuable," Robshaw said. "While we use a couple gateway companies, we primarily tie directly into one of the leading processing networks."

In an example of the types of ISO-vendor partnerships possible, Club Prophet works with Linked2pay, Integrity Payment Systems and TSYS for the majority of its clients, but also with gateways Phoenix and Shift-4 for niche markets.

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In Canada, the company works with Moneris to serve its install base.

Ultimately, for software vendors, it becomes critical to choose the correct partners and find ISOs and processors that will help benefit the customers they already have.

In that regard, software vendors are becoming keenly aware of old — but apparently not forgotten — ISO tactics that are considered ineffective in today's landscape.

"We probably get calls from four ISOs per week asking us to integrate with them," Robshaw said. "They use all kinds of tactics to try to get through the filters to talk to the right people, and most of these tactics are quite sleazy."

On occasion, an ISO will tell a software vendor that one of its customers is switching to the ISO network, creating a need to integrate with them, Robshaw

added. "Then we call our customer to find out they have no intention of moving their processing."

After understanding where the land mines exist, the first choice a software developer must make is whether to remain more agnostic and provide choice for their merchant customers, or to embed a preferred or exclusive partnership for payment processing in their solution, said Chris McNulty, president of payments industry consulting firm Wimsett & Company.

"They are lured into the latter by financial upside on a part of the solution ecosystem that they may not have participated in previously," McNulty said. "That path may not be in the best interest of their customers, as they lose control over pricing and margin levels in the future as well as flexibility to ensure the best service."

But it is a good time to be a software developer because most acquirers, processors and ISOs have developed a strategy to partner with more of them, McNulty added.

Most have taken notice of the recent acquisitions of companies like PayPros, Accelerated Payment Technologies, Element Payment Services and Mercury Payment Systems, and realize it is a buyer's market for integrated payments, McNulty said.

Indeed, after acquiring Mercury, payment processor Vantiv took steps to increase its level of collaboration with payments software developers, creating the Vantiv ONE hub to better organize technology development and collaboration.

But even with expanded opportunities and channels to advance services and develop new products, the software

developers and vendors don't always have clear choices.

"It can be confusing on what is the best model to benefit and protect their customers they have worked so hard to earn," McNulty said.

ISVs also want to land non-exclusive contracts with ISOs and acquirers, McNulty added. "Locking into exclusive contracts with the wrong partner can damage the reputation and long-term success of their solution," he said. "Even the best choices at one point in time can later become a bad choice."

A merchant's satisfaction has to remain an ISV's most important asset. "The software developer owns the customer relationship and should protect that at all costs," McNulty said.

By its nature, an open network generally means more traffic. As such, it can translate to a logjam for software vendors seeking integration with a payment provider.

"That logjam has much more to do with the PA-DSS [payment application data security standards], than it does integrating to a payment provider," Club Prophet's Robshaw said.

"Any change to the credit card logic in the card data environment causes the ISV to re-validate to the PA-DSS, and this is an effort of hundreds of man hours and upwards of $100,000."

In those cases, the software vendor has to be a bit wary of ISOs that promise a simple integration and suggest that customers will be "completely out of PCI scope" without that integration, Robshaw said.

Or they might say, "If you handle card data in your ISV software, your are in scope."

Neither is likely to be entirely true, he added.

However, if an ISV is actually taken out of scope through an integration, they still have to understand the need to clearly inform the merchant about which entity is responsible for each facet of PCI validation and compliance, Robshaw said.

Ultimately, most ISOs do not develop the technology they assemble, but now more options are available to them to consolidate by working with the right platform partners, said Richard McShirley, chief marketing officer for linked2pay, which provides card and core bank services in a consolidated package for its ISOs.

"The approach taken by ISOs as a hub results in too many semi-integrated apps, which is a maintenance issue for the ISV, and potentially a major one affecting compliance, service quality, user cost and other factors," McShirley said.

Linked2pay looks at the current payments trends as a consolidation opportunity for those that do not pay for technology development, but have the tools to sell those new technologies, McShirley added.

In that way, an ISO touting a secure payments application and PCI compliant system can approach a merchant or financial institution and offer mobile, online or e-mail payment acceptance options, McShirley said.

It also means the ISO can concentrate on what it does best — sell stuff to merchants.

"The ISO may need to embrace the role of being the sales team for a financial institution and stop trying to be the solution provider hub for the software vendors," he added. "That approach is getting harder by the day." **ISO**

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Walmart's Fee Fight Gets Ammo

Walmart's deal to handle transactions on ChaseNet does more than deepen its relationship with JPMorgan Chase Ð the pact gives the retail giant more bargaining power when fighting for better card acceptance rates. **BY KATE FITZGERALD**

Walmart's pact with JPMorgan Chase is anything but routine.

The processing deal, which expands on the companies' earlier relationship for handling Walmart's e-commerce transactions, diverts Chase card payments at more than 5,000 Walmart and Sam's Club stores through ChaseNet, a closed-loop system designed to slash costs for merchants. Walmart has also committed to accpeting Chase Pay in its stores and in its Walmart app.

Chase accomplishes this by acting as the acquirer, network and issuer for transactions where both the cardholder and the merchant are Chase clients. And from the perspective of Walmart, this deal hands it a long-desired holy grail: less expensive Visa transactions.

"We will still have a relationship with Visa for non-Chase transactions," but the deal with Chase "will bring much-needed competition to the payments markets," said Randy Hargrove, a Walmart spokesman.

Walmart has been a scathing critic of Visa's fees and routing structure,

repeatedly confronting the card network in court and, more recently, going so far as to ban Visa cards at certain locations in Canada.

The deal with Chase, announced today, gives Walmart significant new leverage in how it handles Visa transactions. "Walmart will have the ability to selectively route transactions based on the performance of the payment providers," Hargrove said.

Visa did not provide comment on the Walmart-Chase deal by deadline. ChaseNet has its roots in a 10-year contract that Visa entered with Chase in 2013 to create a customized processing and end-to-end payments platform. ChaseNet has since become the foundation of Chase Pay.

Walmart is inviting other issuers to consider similar arrangements, Hargrove hinted. "We believe other issuers would benefit from the efficiencies created by connecting directly with Walmart," he said.

Kimberly Fitzsimmons, U.S. market president for Chase Merchant Services, explained ChaseNet's structure this year at SourceMedia's annual Card Forum and Expo.

"What is ChaseNet? It is a simplification of an ecosystem. It takes a traditional five-party acquiring system and takes it down to three," she said. "When you take two extra parties out of touching that system, nothing is more secure."

Because ChaseNet is a closed-loop system, it enables the issuer to provide fixed-rate pricing for Chase Visa credit and debit payments for the term of the contract.

With its giant volume as the nation's largest retailer, Walmart already likely has favorable pricing arrangements with the payment networks, said Patricia Hewitt, CEO of PG Research & Advisory Services in Savannah, Ga.

But it's the strategy behind Walmart's deal with Chase that's especially interesting, according to Hewitt. "Walmart has made no bones about its interest in breaking up the card networks," she said.

"They've been at the forefront of that fight since the 1990s and went so far as to try to develop their own network," she said, pointing to Walmart's key role in establishing the Merchant Customer Exchange mobile wallet initiative,

MCX abandoned its efforts to develop a merchant-branded mobile wallet. Instead, MCX is now working with Chase to enroll merchants with Chase Pay.

With the growing momentum around Chase Pay—now supported by Best Buy, Shell Oil and Phillips 66—Chase also is advancing its agenda to wrest control over payment networks.

"With the assets Chase now controls, it can offer Walmart something very close to autonomy over Visa and this deal also creates an even more muscular entity to deal with when it comes time to renegotiate contracts," Hewitt said. **ISO**

A BRIEF HISTORY OF CHASENET, A CLOSED-LOOP PAYMENT SYSTEM

When JPMorgan Chase announced a 10-year contract with Visa in early 2013 to create a customized processing and end-to-end payments platform, it seemed to have little to do with the bank's mobile wallet plans.

But everything that makes Chase Pay possible is built on the foundation of that platform, called ChaseNet.

ªWhat is ChaseNet? It is a simplification of an ecosystem. It takes a traditional five-party acquiring system and takes it down to three,º said Kimberly Fitzsimmons, U.S. market president for Chase Merchant Services, during presentations at SourceMedia's 2016 Card Forum and Expo.

A traditional five-party system involves the consumer, the acquirer, the network, the issuer and the merchant.

ChaseNet takes over the role of three of these participants, functioning as the acquirer, the network and the issuer.

ªWhen you take two extra parties out of touching that system, nothing is more secure,º she said.

In addition to improving security, ChaseNet also trims cost, allowing merchants to pay lower fees to accept payments.

ªIt is a closed-loop environment which fixes interchange,º Fitzsimmons said. ªIt's also ... the onramp for additional functionality, hence Chase Pay.º

ChaseNet was announced a year and a half before Apple Pay's announcement kicked off a wave of ªPayº-branded mobile wallets that gave life to Android Pay, Samsung Pay and, by the end of this year, Chase Pay.

The original selling point of Chase Pay was its pricing structure. ªThere's no network fees, no merchant-acquiring fees, we will not charge them back for fraud once we've approved a transaction, and we will also give them the opportunity to drive down further their cost of acceptance based on how much volume they do with Chase,º Gordon Smith, head of JPMorgan Chase's consumer bank, told Bloomberg News in October 2015.

According to Fitzsimmons, pricing is just one piece of the Chase Pay puzzle Ð and it isn't even the most important piece.

ªWe took it from the cardholder and the consumer perspective, No. 1,º she said. ªAs consumers, we're the ones that are really driving the adoption and the change at the point of sale at the merchants.º

That's why Chase Pay will have two interfaces when it launches: Consumers, not the bank, will decide how this mobile wallet is used.

This strategy is already evident in the bank's deal with Starbucks, wherein the coffee chain will accept Chase Pay as both a standalone app and as a funding option within the Starbucks app, Fitzsimmons said.

This also benefits Chase Pay's second-biggest stakeholder, the merchant community, she said.

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Good EMV Intentions, Bad Results

An Arizona grocery chain got a head start on its EMV migration, expecting to be ready by the October 2015 liability shift. But the outcome was beyond its control. **BY KATE FITZGERALD**

Bashas' Inc., Arizona's largest independent grocery chain, was certain it was prepared for the October 2015 EMV liability shift. After all, it had begun purchasing terminals for all of its 1,400 checkout lanes a year in advance.

But when the card networks' fraud liability shift arrived, those terminals were collecting dust — and Bashas' had to absorb the losses through no fault of its own, said Jim Buhr, CFO of Bashas', at the Western States Acquirers Association's annual meeting in Scottsdale, Ariz., this month.

"We were one of the few retailers in the (supermarket) field that was completely chip-enabled with our hard-ware," Buhr said. "But because of all the industry slowdowns, software vendors and payments gateway providers weren't ready when the liability shift went into effect. We spent millions on terminals that sat on a shelf for two years and we got penalized by absorbing the charge-backs on counterfeit card fraud in the following months."

What made this sting even worse was that Bashas' had already suffered a serious data breach in 2013 as a result of a malware attack, and its EMV implementation was meant to provide a much-needed boost to its defenses. EMV-chip cards are designed to deter the counterfeiting methods that are prevalent with older magstripe technology.

"We experienced a data breach that was extremely painful, but what's worse is that authorities told us there was no way we could have foreseen that breach, and nothing we could do to prevent it," Buhr said during a panel discussion.

Bashas', which has 130 locations, ultimately had to wait almost 10 months after the liability shift went into effect to begin accepting chip cards because vendors were unable to provide the necessary supporting software and services any earlier, due to industrywide bottlenecks. One contributing factor in the slowdown was the fact that the payment card industry didn't resolve EMV specifications for debit network routing rules until April 2015.

Bashas' finally began accepting chip cards in all of its stores in July 2016, but chargebacks continue to pour in, Buhr said.

Other EMV-compliant retailers attribute the ongoing chargebacks to delayed notification of transactions that predate their EMV migration.

It can take up to five months for issuers and processors to provide merchants with details about counterfeit card transactions, because of the time involved in reporting and verifying each case.

Ultimately, the experience has not deterred Bashas' from encouraging the use of payment cards. The company attributes 70% of its transactions at its Bashas', AJ's Fine Foods and Food City stores to credit, debit and EBT cards.

The tough lessons Bashas' has learned over the last few years have

Bashas' Big EMV Project

The Arizona grocery chain covers the brands Bashas', AJ's Fine Foods and Food City. It planned to convert all of these to EMV by the card networks' October 2015 deadline.

130 stores

1,400 lanes

70% of transactions on cards

Completed July 2016

Source: Bashas'

forced the company to take a more active role in supervising its own card security and having a bigger voice in driving payments policies, Buhr said.

"You don't find out what you need to know until you have a breach," Buhr said, describing the crash course he undertook to put the brakes on losses during the 2013 malware attack. "Afterward, we learned a lot about the technical side of things, and we got to know everyone at our processors and the card brands. Now we have all their contact numbers, we know them very well, and we know the FBI very well.

"We also looked more closely at what the PCI security standards, and we didn't like some of it, so we went to speak to them, and now we're getting directly involved with the PCI Council," Buhr said.

Payment card interchange also casts a growing shadow over Bashas' card-acceptance program, Buhr added. "Rewards credit cards cost us a lot of money, and now we're seeing a whole new wave of expenses from the new Costco Visa card, which has a very big rewards program," Buhr said.

And with the EMV shift behind it, Bashas' can focus its attention on the

effects of newer payment options such as mobile wallets. "When Apple Pay became available, we were accepting it 30 days later," Buhr said, adding that customers appreciated the convenience and "it seems like it's more difficult to hack."

Bashas' isn't the only merchant to have a 'horror story' tied to the EMV migration.

Early on, Netflix complained that the process of reissuing magstripe cards as EMV was disrupting its ability to collect funds from subscribers, since many banks were changing card account numbers in the process.

Overall, this led Netflix to report a a 10.2% decline in year-over-year subscriber count in 2015, the year the EMV liability shift took effect in the U.S.

Gift card sellers also suffered, since many gift card issuers saw little point in adding EMV security.

This made gift cards a target of fraud; scammers would use stolen magstripe credit cards to buy gift cards at non-EMV merchants. Afterwards, they would use the gift cards anywhere, since even at EMV-compliant stores it was expected that gift cards would remain magstripe-only. **ISO**

Gas Stations Face EMV Pressure

Gas stations are getting closer to their own EMV liability shift at the pump, but they are still lagging. Vendors are stepping up to make the transition easier. **BY DAVID HEUN**

Replacing gas pump hardware is a big, disruptive move for any fuel seller, but with the sector's EMV liability shift only a year away, more companies are facing the inevitable.

Gas stations were given a two-year extension on the October 2015 deadline that the rest of the U.S. had to meet for accepting EMV-chip payment cards, which improve security over older magstripe cards.

But even that extra time hasn't convinced many gas stations to begin the painful process of putting in new hardware.

Gas stations have been able to convert standard point of sale terminals inside their stores, but even in this piecemeal approach they are lagging other industries.

POS equipment at gas retailers, on average, is about 3.6 years old, a statistic that is the highest among retailers in a survey by Aite Group.

"It's true that it may be easier than first thought for stations to convert to EMV, but you have to think about how many pumps there are at each station," said Thad Peterson, senior analyst with Boston-based Aite Group. "It's not like putting in three or four POS terminals at a retail operation. Even if you are not replacing an entire pump, is still new technology with a lot of costs."

Terminal hardware and software providers have recognized this dilemma, essentially letting the station operators determine what sort of rollout they want in place for their customers.

NCR Corp. is making its pitch that converting fuel pumps from magstripe card acceptance to chip cards doesn't have to be a complex and lengthy process.

The company signed Speedway gas stations to a contract three months ago to deploy its NCR Optic platform for EMV acceptance, and did the same with a smaller petroleum firm, Rutter Farms. Installing Optic means the station is simply adding a touchscreen to its pump, not breaking concrete and completely building new pumps.

At the same time, JPMorgan Chase has continued to sign stations onto its mobile platform for Chase Pay acceptance starting later this year or early next year.

Shell Oil and Phillips 66 have agreed to offer Chase Pay as a mobile payment option for its customers. Both Chase Pay and NCR's Optic accept mobile payments through bar code scanning.

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NCR's Optic software ties in loyalty program capabilities and mobile wallet acceptance — a combination it hopes will convince more gas stations to choose its product.

"It [provides] the flexibility to address the technology need for the liability shift, but [also] to add value-added services in a way in which NCR has not been able to previously," said Jason Nichols, solutions manager for the Optic Program.

Pump manufacturers generally have one-way communication channels for station operators, offering content such as advertising or video showing news or weather included.

Optic provides a high-definition touch screen that retailers may use to control the customer experience at the pump and from within the on-site convenience store.

Despite technology advancements and the looming October 2017 liability shift, the conversion of U.S. gas stations to EMV will likely remain a slow and challenging process, said Aite's Peterson.

Fuel retailers not accepting chip-card transactions at the pump after the liability shift are responsible for any chargebacks on fraudulent transactions.

"I am seeing technologies to offset or bridge EMV adoption, such as Visa coming up with a software platform that catches more fraud at the pump than traditional methodologies," Peterson said. "There will also be new anti-skimming technologies in the marketplace, so this is a transitionary period because it is such a complex and costly migration for fuel operators."

Visa provides the Visa Transaction Advisor system for fraud screening at the pump, and describes it as an ef-fective tool that has allowed some gas station operators to buy time for more cost studies and other preparations for converting to EMV.

Beyond the cost of ripping out and installing new terminals, gas stations are also sensitive to the cost of handling individual transactions.

If they can get a better deal at the same time as converting to EMV, they are far more interested in the investment.

As such, the door has been opened for small banks and credit unions to find partners to set up mobile payment options at the pump at less cost to retailers through a financial institution mobile banking app.

In a 2016 survey of merchants deploying mobile technology, Aite Group found that 29% of gas retailers currently accept mobile payments, with 19% saying they don't offer it now, but plan to support it in the future.

But 45% said they had no plans to add mobile acceptance.

Various other partnerships and alliances have been forming to offer mobile payments at the pump, including Mastercard and mobile commerce platform provider P97 a year ago.

"We have the flexibility to address any rollout plan the retailer needs," NCR's Nichols said. "We understand what is required to introduce new solutions in this industry."

Some station operators may base timing of an EMV rollout on the marketplace and amount of fraud occurring, while some have to consider the weather as part of planning to avoid terminal work during the winter, Nichols said.

"There is no magic formula for this because not only are there technology components, but operational, signage and training to consider as well," Nichols added.

Because many gas stations have converted the terminals in their on-site convenience stores, they may find the advancement of the card brands' Quick Chip technology, a software upgrade to reduce EMV chip transaction times from about 10 seconds on average to two seconds, to be beneficial in a gas station setting, said Simon Hurry, a senior director and EMV expert at Visa.

"It will only take weeks, not months, for merchants that are going directly to Quick Chip to get EMV-enabled," Hurry said at the Western States Acquirers Association conference this month.

Visa's Quick Chip (and the equivalent solutions that other card networks offer under their own branding) also streamlines the checkout process, which should come in especially handy for card customers pumping gasoline, Hurry said.

In addition, the move to Quick Chip reduces the development and testing time for EMV implementation by up to 85%, he added.

Specifically, Quick Chip saves time by eliminating issuer scripting, response cryptography and card-initiated reversals that were built into the original EMV authorization process.

Because the majority of U.S. credit and debit transactions are handled online, rather than offline, the card networks later determined there's no need for those steps, which were designed for other markets.

"What's been slowing down EMV is the fact that it can take 30 seconds or more for scripting as a series of systems query one another and resend queries, but Quick Chip bypasses all that," Hurry said.

"For merchants like petroleum retailers that haven't even begun their EMV rollouts, Quick Chip is especially promising." **ISO**

"I am seeing technologies to offset or bridge EMV adoption."

-Thad Peterson, senior analyst, Aite Group

ACH Fights for Its Future

As more companies develop faster payment networks for the U.S., will the Automated Clearing House still have a role in moving funds? **BY DAVID HEUN AND DANIEL WOLFE**

At the start of its fourth decade, the Automated Clearing House — a payment method most commonly known for facilitating payroll direct deposits — has found itself firmly in the crosshairs of the card networks and alternative payment providers.

ACH, built as a way to convert paper checks into electronic payments when making its debut in 1974, has become the standard for payroll deposits because it is a lower-cost alternative to traditional payment methods.

But the tradeoff has always been its speed; it can take several days to clear and settle an ACH payment, making it a clunky and aggravating option for some businesses and consumers — and a non-starter for retailers. And since ACH typically relies on both the sender and the recipient having a bank account, it is rarely an option for the unbanked.

Two forces threaten to change this longstanding status quo.

The first is same-day ACH, part of an overall industry push for faster payments. It will initially benefit business-to-business payments and eventually trickle to the retail side when ACH debit is added.

These changes started to take effect Sept. 23.

The other force is the exploding popularity of alternative payment options for ACH in its dominant areas.

The prepaid card sector has gained significant ground in handling payroll, and Visa and Mastercard are succeeding in giving their brands preference over ACH as a funding method in the PayPal ecosystem.

But there are ways to push back — hard — at the forces threatening traditional ACH.

The Loyalty Factor

Mastercard's pending acquisition of the U.K.'s VocaLink is one of the ways ACH is expected to reach new audiences.

The goal of this acquisition is, in part, to allow ACH payments to benefit from many of the same advancements that have helped credit and debit cards flourish, said Michael Miebach, Mas-

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tercard's chief product officer.

"The convergence of cards and ACH rails, many years out, is something that is absolutely in the cards," Miebach said. "If you take our existing services that we have today in Mastercard. … and you assume for a second that loyalty matters to a consumer regardless of the underlying type of payment, you can make an ACH payment an even more valuable payment by combining it with a loyalty feature."

Particularly in the U.K., ideas like these are sparking interest, he said. However, there are some market differences to consider when exporting the concept to the U.S.

"In the U.K., fast ACH is already established," Miebach said. "Here in the U.S. it's a bit different because fast ACH doesn't exist here yet, so you start off the conversation at a very different level."

However, he expressed confidence that the U.S. will get to the same point as the U.K., in part due to VocaLink's existing contract with The Clearing House, one of the parties developing a fast ACH system.

The Importance of Speed

Mastercard — and the many other parties interested in fortifying the business case for ACH — is hinging its ambitions on the promise of a faster ACH system. But how big is the demand for this system in the U.S.?

For their part, some merchants have shown a desire to have more transactions move through ACH or a similar process to avoid card network interchange fees. The Merchant Customer Exchange mobile wallet venture was built in part on that premise, using ACH payments as the foundation, but their product

never went beyond the testing phase and was shelved in late June.

It is currently unclear whether ACH-based mobile wallets would become a more favorable option if same-day speed became a factor.

Even under same-day rules, ACH will not be able to compete against the real-time validation and memo posting of the card networks, said Richard Crone, chief executive of San Carlos, Calif.-based payments consulting firm Crone Consulting LLC.

Receiving depository financial institutions will hop on board with same-day ACH right away because they are required to handle the two clearing times, but it will take some time to determine how originators like billers, payroll processors and retailers adapt to it, Crone said.

"For same-day ACH to be competitive [with card options], it has to expand its points of acceptance and has to grow beyond billers to get to more retailers," Crone said.

Visa and Mastercard have an advantage in that it is not restricted to two clearing windows, Crone added.

LIke any other advancing payments technology, ACH has to look for new customers in areas not yet developed, Crone said.

"The breakout opportunity for ACH and faster payments in general is to adopt its infrastructure into a greenfield opportunity," he said. "Rather than chase the credit cards, take the infrastructure and adapt it to land-blocked accounts that aren't available for these services, and you do that through mobile payments or mobile cardless cash."

For its part, Nacha — the organization that maintains the rules and transaction types for ACH in the U.S. — has already established a mobile wallet team to study the potential for industry collaboration, including participation by the card networks, for the potential use cases of same-day ACH.

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And card networks will absolutely have to respond to this push from rival ACH providers, said Nancy Atkinson, wholesale banking expert and senior analyst with Aite Group.

"I believe same-day ACH puts more pressure on the card networks, even with the networks' movement towards same-day capabilities," Atkinson added.

With both ACH and card transactions, the funds are recognized in the receiver's bank account, but the posting of the payment to the payer's account by the receiver may be delayed to the next day, Atkinson said. "For years, consumer payments have been supported by 24/7 customer service at banks, but business payments have not."

New Challengers

While Mastercard aims to align itself with ACH through its VocaLink deal, Visa is marketing its competing Visa Direct platform to the same audience. The platform was developed for the U.S. in collaboration with the bank-run Early Warning venture's clearXchange network, also known as Zelle.

Visa Direct's technology enabled the card brand to make peace with longtime "frenemy" PayPal, according to Cecilia Frew, senior vice president and head of U.S. push payments, operating Visa Direct in the U.S.

Visa and PayPal announced a deal in July in which PayPal would openly market Visa as an alternative to ACH for funding PayPal accounts.

"Before the agreement, a PayPal user had only one way to get money out of a PayPal wallet or a Venmo wallet, and that was ACH that would take a day or two," Frew said."Now, they can use this new option [Visa Direct] and it is all about offering choice to the customer."

Ultimately, transaction speed was a key factor for both companies and "a great way to collaborate with each other," Frew said.

Venmo, PayPal's person-to-person payment option, is a fast payment method, but it "takes days through ACH, not minutes," Frew added.

The main benefit beyond customer choice that Visa wanted to secure in the PayPal deal was increasing volume for issuing customers while improving the overall card experience, Frew said. "Consumers want to use cards to see their money more clearly and send money."

Slow and Steady Won't Win

ACH's fate in the U.S. is linked to the many faster-payments initiatives currently in play.

The Federal Reserve is coordinating this effort, but it is not in the business of picking winners and losers. Thus, even though several pro-ACH companies are working with the Fed, their future is not guaranteed.

Payments technology provider Dwolla, for example, has been working on a faster payments rail for the past two years as well with its FiSync protocol and white-label API as an alternative to ACH.

Early Warning and clearXchange/ Zelle have been pushing the concept that their P2P payments network can be expanded into a real-time environment.

If ACH doesn't deliver on the type of payment speed that would benefit retailers and consumers beyond what it currently offers, The Clearing House, an ACH operator, says the next best thing is developing a new rail for real-time payments to operate under the hood

of financial institution and network products already in place.

But this new rail will operate only for push payments or a request to push a payment. It will not have a debit, or pull payment, option like ACH. Out of the gate, it will concentrate on bill payments, payroll, insurance claims and business-to-business needs.

The Clearing House is hoping to launch its real-time payments option during the first quarter of 2017, in collaboration with VocaLink and FIS.

"This will be a brand new channel, a new rail that is not ACH, but available to all," said Amy Smith, head of payments association for The Clearing House. "It is one of the proposals that the Federal Reserve is looking at [for faster payments]."

The Clearing House, which will deliver payments in less than nine seconds on the new rail, has a goal of making it available to, and connect with, every financial institution in the U.S.

"This is not a closed-loop project that will only benefit a few," Smith said at a recent acquirers conference.

The rail will initially have a $25,000 limit, but that will likely elevate as the industry gets more experience in real-time transactions, Smith said.

It will target all push payments financial institutions have in place such as business-to-person, person-to-person, person-to-business and business-to-business.

If The Clearing House option were to eventually expand to pull payments, or those from a checking or debit account, it could ultimately represent another option for merchants.

Until then, same-day ACH may yet rise to the forefront as an element in merchants' ongoing war with card networks over transaction interchange rates.

"If markets demand changes, I expect the card networks will eventually modify at least some of their pricing models," Aite's Atkinson said. **ISO**

"This will be a brand new channel, a new rail that is not ACH but available to all."

-Amy Smith, head of payments association, The Clearing House

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Merchants Aren't Matching Shopper Security Zeal

BY DAVID HEUN

If online merchants can keep their sites secure, they stand to make big gains from a consumer base that is overwhelmingly willing to play its part in protecting payment credentials.

However, while nearly 80% of consumers indicate a willingness to enter a security code for their credit card online, only 57% of merchants require it for e-commerce transactions, the American Express Digital Payments Security Survey reported.

Sixty percent of merchants have reported experiencing fraudulent online sales and nearly half of consumers who shopped online in the past year report experiencing payment fraud, representing nearly 80 million people, the report said.

Incidents of fraud have reached a point where most consumers are willing to take extra measures to strengthen their online security, creating an opportunity for merchants to increase sales and build customer trust, Amex says.

"Merchants can take steps to ensure they not only are providing a smooth commerce experience for their customers but also a secure experience, whether it be online or mobile," said Mike Matan, vice president of industry engagement, product and marketing for American Express' Global Network Business.

Consumers are willing to take extra steps for better security, with between 60% and 80% saying they would welcome CVV code requests, billing address verification, security questions, one-time passwords or building a profile.

"Taking these steps may enable merchants to build trust with their customers and ultimately convert more people who visit their sites into purchasers," Matan said. **ISO**

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IF EMV ISN'T SELLING, WHAT IS

?

Sales of EMV hardware are dropping off, but merchants still have an appetite for new technology. What can ISOs do to keep their sales strong?

BY CHERYL WINOKUR MUNK

After a year of pushing EMV full-throttle, many ISOs are shifting gears to focus on other products and services. They're now seeing chip card-related revenue take a backseat, as sales associated to point of sale systems, consumer financing, business advice and mobile payment acceptance gain traction with merchants.

"We would rather talk about something that is going to help their business than putting the fear into customers about EMV," says Derek DePuydt, president and chief executive of Apogee Payment Systems LLC, an ISO in Mukwonago, Wisconsin. "EMV isn't part of the main discussion anymore like it was a year ago."

Apogee is one of a number of ISOs across the country changing course after spending the latter part of 2015 and early 2016 heavily pushing EMV to merchants.

Apogee still supplies an EMV solution for new customers that aren't already accepting payment cards, but DePuydt finds that most merchants it seeks to poach from other ISOs are already on board with EMV, so it's not the sales draw it once was.

Instead, Apogee is spending its time talking to businesses about switching to a point of sale system that can do more than just credit card processing.

To be sure, EMV terminal sales haven't completely ground to a halt industrywide. Nonetheless, earnings reports from terminal manufacturers as well as anecdotal data from ISOs indicate that the pace of sales has slowed significantly from its peak.

Indeed, Paul Ganci, a payments industry veteran, says he doubts terminal sales will ever be as hot as they were back in October 2015 when the credit card networks' EMV liability shift took effect and his phone was ringing off the hook.

"From October to December 2015 it was a mad rush for people to get equipment and then it just died off at the beginning of the year," he says.

ISOs changing their approach

As the need to supply merchants with EMV hardware has waned, DePuydt says Apogee Payments has seen more small and midsize merchants expressing an interest in switching from basic terminals to POS systems. Not all of these systems are even EMV-compliant, he notes.

"It's not that merchants don't want chip compliance. They do. It's just that they want other things more," he says.

Nick Bencivenga, chief operating officer of Dharma Merchant Services, an ISO in San Francisco, predicts that EMV will rear its head again in the form of chip and PIN upgrades in the next few years. But for now, his ISO is also more heavily focused on meeting growing demand from small and midsize businesses for POS systems that are searching for ways to run their operations more effectively. "There's a lot of value in finding a product that's going to meet [a merchant's] needs for the next 10 years," he says.

For some merchants, a full-fledged POS system is too expensive, so ISOs are touting less expensive options that offer more bells and whistles than a traditional terminal. To meet this need, some agents have begun offering tablet-based solutions like Clover Mini for under $400, giving merchants the ability to accept multiple types of credit and debit payments and manage tips and pre-authorized tabs and cards. Clover Mini also has a built-in printer, offers on-screen signature capture and has bar code and QR code reading ability.

It's a cost-effective solution if you want more soup and nuts than a traditional terminal for only a little more money, says Vlad Sadovskiy, president of Merchant Services at TOT Payments, subsidiary of TOT Group in North Miami Beach, Florida.

Sadovskiy says his agents have seen demand for tablet-based solutions that are somewhere in between traditional terminals and a full-fledged POS system, which are bigger and costlier than a terminal and offers functionality that smaller merchants don't always need.

"To some merchants, a POS system is a waste of money," he says.

Demand rises for finance, mobile

While POS systems are becoming more popular, they aren't they only focus for ISOs looking to boost revenue beyond EMV. Some ISOs, for instance, are branching out into other areas like consulting, consumer finance and mobile payments.

Dharma, for example, is on the cusp of offering merchants tax and business advice on demand.

The ISO has recognized that many small businesses have an increasing need for easy-to-use business services and professional advice. Accordingly, the ISO has partnered with a third party to provide real-time advice on its website for existing or prospective clients. Merchants would receive an hour's worth of services for free by visiting Dharma's website and requesting to initiate a real-time chat session with a licensed CPA. The service is expected to launch in the fourth quarter, according to Bencivenga, adding that details of the arrangement are still being ironed out.

PayProTec, an ISO in Warsaw, Indiana, has a relationship with Loanhero.com where it can offer lending to merchant customers in all 50 states. Agents earn a residual on every loan they bring in that's funded, and the availability of this service has helped PayProTec sign up a lot of independent agents, says Marc Beauchamp, the ISO's president.

"Finance is becoming a key component for business owners, especially in the medical space, as well as home improvement and auto repair," Beauchamp says.

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Drew Freeman, president of Freeman Consulting, a payments consulting firm in Fort Lauderdale, Florida, also knows of a number of ISOs trying to help merchants drive mobile sales. There's not a single solution, but ISOs are starting to focus more attention on mobile technology.

"The future of all commerce is mobile so ISOs should be aware of the different solutions that are in the marketplace. They should be able to provide solutions to merchant portfolios and be ready to embrace third-party applications," he says.

John Mayleben, senior vice president of technology and product development at the Michigan Retailers Association, an ISO in Lansing Michigan, says he has seen some traction in the contactless payments space. All the merchants that upgraded to EMV through his ISO have the potential to accept contactless payments. Interest in this feature varies by the type of business a merchant operates and the demographics of its customers, Mayleben notes.

For instance, he works with merchants around Ann Arbor, near the University of Michigan. Because of the large number of college kids in the area, merchants that serve this market have to support mobile payments because it's what the younger generation expects.

"A certain number of consumers will still purchase from you initially, but they might choose to go somewhere else [where contactless technology is offered]. The premise that consumers are going to shop with you, no matter what, is not the best business model to operate under. As a merchant you have to be accommodating to the consumers and how they want to pay," he says.

E-commerce tech gets popular

With the rise of e-commerce, ISOs have also been offering more products that help customers transact in an online world. For example, many merchants are now doing more business in multiple currencies and are looking for applicable solutions from ISOs.

One feature within the Pivotal Payments platform that has been popular over the last few years is multi-currency pricing, which has been a selling point for e-commence merchants that sell across the world, according to Frank LoSchiavo, senior vice-president of sales and marketing at the ISO based in Plano, Texas. Pivotal's merchants can sell their products and services in over 60 foreign currencies and receive payments directly in U.S. dollars.

Some ISOs are also trying to help retailers fight the battle against card-not-present fraud as they shift more business online.

ISOs that deal with online merchants should be looking at this as an opportunity, given that card-not-present fraud is going up, according to Freeman, the industry consultant. It's a relatively new and fresh opportunity for ISOs to help merchants mitigate online fraud. Bigger ISOs can establish third-party relationships to offer tokenization, encryption, and authentication services to merchants, while smaller ISOs will be more reliant on their processors to offer these services. "ISOs need to be educated on what solutions are available and how they can get those solutions to the merchants," Freeman says.

Beyond e-commerce, ISOs have an opportunity to help merchants accept business payments via credit as opposed to paper checks. "When merchants are dealing in paper processes, it costs them more than they realize. Time is money. The faster they can get paid the better," Freeman says.

At present, checks represent about half of B-to-B payments to merchants, whereas commercial cards represent less than 10 percent, according to data from First Annapolis Consulting in Annapolis, Maryland.

While paper checks have their down-sides, it can be a hard sell to convince merchants to accept B-to-B payments via credit card.

First off, checks are seen as an easy and time-tested form of payment. Secondly, transactions via ACH, another popular form of payment, are significantly less expensive than sales processed with commercial cards. "That's certainly one of the challenges that B-to-B ISOs come across," says Frank Martien, a partner with First Annapolis Consulting.

Some ISOs are also having luck signing merchants up to use products that can make the customer experience safer, such as point-to-point encryption technology.

Within the past year, iStream Financial Services Inc., a payments solution provider in Brookfield, Wisconsin, has been actively marketing point-to-point encryption technology, primarily to its customers in the health care space.

With point-to-point encryption technology, credit card data is encrypted after it is swiped or keyed in by an employee.

This means that unencrypted data never resides on the merchant's network, says Katie Robinson, director of payment services at iStream.

EMV still drives revenue for ISOs

Of course, even as many ISOs are branching out beyond EMV, some continue to heavily pursue opportunities in this area and expect it to remain a large part of their revenue for the foreseeable future.

"Nine-nine percent of my day is talking to people about EMV," says David Leppek, president of Transaction Services, a full-service ISO in Omaha, Nebraska.

He says merchants are still calling him to upgrade their systems, especially those who delayed implementation and changed their minds after getting hit with significant chargebacks. **ISO**

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Merchants Warm to Surcharging

Does the old stigma about charging for card use still apply? Some merchants are wondering if times have finally changed. **AUTUMN CAFIERO GIUSTI**

For years, merchants have had the freedom to charge their customers a premium for paying with a credit card. Yet the practice has never really caught on.

That could be changing, as reports from payments attorneys and other industry players suggest an uptick in merchants inquiring about how they can go about imposing these fees, a process otherwise known as surcharging.

Merchants in most states have been allowed to surcharge since 2013 as a result of a multibillion-dollar lawsuit settlement, in which Visa and Mastercard agreed to lift surcharging restrictions on credit cards but not debit cards.

And just in the past year, more merchants seem to be bringing up the topic with their business advisers.

The increased interest is noticeable to payments attorney Stephen Aschettino of the firm Foley & Lardner LLP, which counsels many of corporate America's major companies.

Several of the merchants Aschettino

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encounters are business-to-business suppliers, and some midsize manufacturers claim that they could save as much as half a million dollars a year if they could pass on their transaction costs to customers.

"In general, merchants have become more sensitized to the transaction cost of using credit cards," he says.

Alison Burns, president and CEO of merchant brokerage firm Precision Payments Systems, estimates that the surcharging inquiries she gets from merchants are up 50% to 60% just in the past eight or nine months.

Most of the requests come to her from merchants with lower on-average transactions.

"I definitely notice a bigger influx of people asking about it," she says.

As managing partner of Processing Solutions Inc., a registered ISO and merchant services provider, Derrick Hess works with agents from around the country and has been fielding a lot of questions from merchants about whether they can surcharge and at what rate.

"Absolutely they can," Hess says. "The question is are your customers going to accept that, or are they going to find another company that doesn't surcharge, especially when it's a higher ticket?"

Hess has encountered other ISOs that use surcharging programs as a door opener to get more clients to do business with them.

"An ISO might say, 'Let me show you how to process your credit cards for 0%,'" he says.

Although surcharging has been permitted since 2013, it appears that many merchants are just now becoming more aware of their options.

"It can take years for court decisions and class-action settlements to permeate through the media and eventually gain the attention of corporate executives," Aschettino says.

Company controllers and other money managers are looking at the line item for credit card processing fees and giving it more scrutiny than they did in the past.

Merchants know they can lower their costs by switching processors, negotiating better fees or exploring some of the alternative payment systems on the market.

But the low-hanging fruit, Aschettino says, is to impose surcharges and leave everything else alone.

Fee issue ongoing in court
Payments attorney Holli Targan attributes the rise in surcharging inquiries to the confusion surrounding that area of the law.

She says more ISOs and fintech companies are seeking counsel on the state of the law and how they can formulate their merchants' programs to comply with the applicable law.

"It's taken a little while to percolate and to come into processors' and merchants' consciousness. But now that it is, they're trying to figure out how to use it," says Targan, who belongs to the firm Jaffe, Raitt, Heuer & Weiss PC.

Surcharging has been a contentious issue for the past decade, starting with a class-action lawsuit that merchants filed in 2005 against Visa, Mastercard and several financial institutions over alleged antitrust violations.

As part of a multibillion-dollar settlement to that lawsuit in 2012, Visa and

Mastercard changed their rules to allow surcharging on the condition that merchants follow certain stipulations, such as posting signage to inform customers about the added fees.

The settlement left it up to each state to determine the legality of surcharging. After the settlement, 10 states passed legislation banning surcharges: California, Colorado, Connecticut, Florida, Kansas, Maine, Massachusetts, New York, Oklahoma and Texas.

Some recent developments are further complicating the issue. In June, a federal appeals court overturned the 2012 settlement, claiming that the lawyers in the suit represented retailers with competing interests.

Despite the reversal, the rules allowing surcharging remain in place, but their long-term fate is uncertain. "Because the settlement was thrown out, are Visa and Mastercard going to go in and change the rules back?" Targan asks.

That scenario could be a lot less likely because of yet another twist: The U.S. Supreme Court agreed in September to take up the surcharging issue.

The court will hear an appeal filed by a group of merchants in New York that pursued legal action to strike down the state's surcharging ban.

The group filed lawsuits claiming that the surcharge prohibition violates their Constitutional right to freedom of speech.

The merchants, who include CVS Health Corp. and Safeway Inc., claim the surcharging ban prohibits them from characterizing their pricing in a truthful way because the law prohibits them from adding a surcharge – which they have to disclose to customers – but allows them to give discounts to customers who agree to pay for their purchases with cash.

"It's so rare that the Supreme Court takes up a case that it's really quite remarkable," Targan says.

An alternative to surcharging

Despite anecdotal reports from attorneys and ISOs, one major retail group contends that merchants are much more concerned about lowering their swipe fees than they are about surcharging.

"Surcharging was brought up by the banking industry as an alternative to reducing fees, and surcharging is the exact opposite of what most retailers want," says J. Craig Shearman, vice president of government affairs and public relations for the National Retail Federation.

Shearman said it's possible that some retailers might at least want the right to surcharge as a negotiation tool that they can use to convince the card brands to lower swipe fees, although that would be an exception and not the rule.

"Merchants are not interested in surcharging, and have never been," he says.

Shearman says most merchants don't need surcharging because they already accept swipe fees as a cost of doing business, like their light bills and electricity.

He also contends that surcharging would only deter customers from paying with credit cards, which would drive down sales for retailers.

"We don't want them discouraging customers," Burns says. "We want them to understand how much more people are spending if they are using a card and how it's boosting revenues."

While it remains to be seen whether more merchants introduce surcharging fees, Targan advises that industry participants keep an eye out on developments in this area.

"It's quite an expenditure of time and money to put a surcharge plan in place, so they would be well advised to make sure they're doing it in compliance with the law before rolling it out," she says.

Another option is to address swipe fees within the design of a retailer-branded mobile wallet.

This was part of the original goal of the Merchant Customer Exchange, a multi-retailer venture that wanted to build a mobile wallet that could lower merchant costs and keep control of customer data.

This concept lives on somewhat in Chase Pay, which lowers merchant fees by handling Chase card payments on a closed-loop platform. **ISO**

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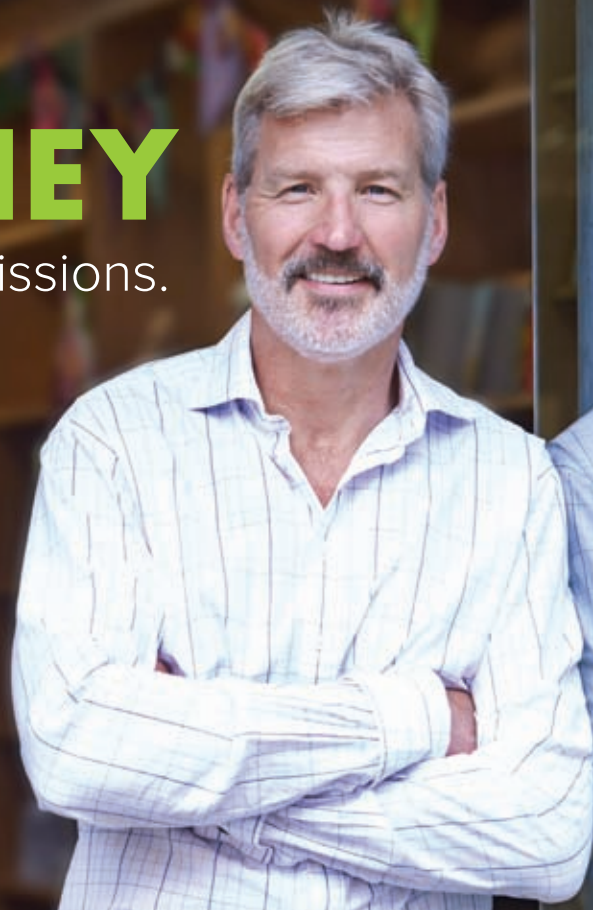
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ONE YEAR LATER:
EMV ADOPTION FACES CRITICS

Is EMV a disappointment-or does it just need time to find its stride?

By Lisa Valentine

More than a year since the October 2015 EMV liability shift, headlines about EMV adoption in the U.S. include words and phrases such as 'disaster,' 'nightmare,' and 'the great EMV fake-out.' But is EMV really a struggling initiative in the U.S. or are the critics simply too quick to declare the EMV rollout a failure?

After all, EMV (an acronym for Europe, MasterCard, and Visa) adoption throughout the rest of the world wasn't instantaneous, with many countries taking five years or more to significantly wean themselves away from magstripe cards. (According to EMVCo, there are currently 4.8 billion EMV payment cards in global circulation.[1])

[1]https://www.emvco.com/media_center.aspx?id=48

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Terri Harwood, Chief Operating Officer

What is EMV?

EMV is technology that uses a small microprocessor "chip" embedded in a payment card to provide an additional layer of security during transactions. The name EMV comes from the three companies that initially developed the technology: Europay, MasterCard, and Visa. EMV cards are quickly becoming commonplace because of the superior protection they offer to the consumer, the merchant, and the card issuers. With an EMV card, a cardholder will typically have to "dip" or insert their card into the card reader device, as opposed to simply swiping the card.

How will EMV change the payments industry in aspects of payment security and the way you pay at the Point-of-Sale?

EMV technology makes it exceedingly difficult to conduct card-present fraud; the purpose behind the initiative is to minimize fraud losses associated with counterfeit cards. The only consumer-facing change is the dip vs. the swipe.

How will EMV affect e-commerce shopping security?

As in-store gets harder, online gets easier … predictably, criminals are now more focused on other less secure attack vectors, including card-not-present transactions. For e-commerce merchants, it's important to be aware of this and to implement countermeasures. As fraudsters continue to get more sophisticated, the tools merchants have in place may no longer be advanced enough to protect them and their customers. Strategy is key and it's imperative to take the extra measures to know good customers and good customer behavior (beyond just AVS and CVV). It is recommended that merchants avoid the use of Address Verification and card validation values (security code) checks as their sole fraud detector

since the false positive exposure can be high when using these tools alone. Merchants should instead consider strengthening the value of these tools by supporting additional technology to confirm and mitigate fraudulent activity.

Why are EMV chip cards being promoted as a payment standard in the US?

EMV chip cards are being promoted as a payment standard in the US because they have already demonstrated their effectiveness in significantly reducing fraud outside of the US, particularly in Europe, which adopted the technology in the 1990s.

Why did more US merchants move to the EMV standard?

The increase in the number of merchants who have embraced EMV technology is directly related to the liability shift that took place in October of 2015 in regards to financial responsibility for fraud and counterfeit chargebacks. At that time, the liability for card-present fraud losses shifted from issuing banks to merchants and acquirers (unless EMV-certified).

What makes EMV transactions secure?

With EMV technology, the embedded chip on the card communicates with a specially equipped card reader to read encrypted data that is generated by the chip. The data is unique for each transaction and cannot be used to forge subsequent card transactions. In contrast, magstripe-only cards that do not contain an EMV chip rely on the use of static data contained on the card's magnetic stripe, data that can easily be stolen and duplicated.

Which types of retail merchants are EMV-ready?

All retail merchants have the opportunity to be EMV-ready. Whether they are or not really

depends on the equipment they are processing on and the merchant service provider they are partnered with. Merchants within certain industries have different needs and therefore a different level of ease as far as getting up and running for EMV acceptance – for instance not many providers offer EMV-ready, pay-at-the-table solutions with Tip Adjust features so the restaurant industry has been slow to adopt the technology.

What was the actual mandate?

The mandate set by the major credit card companies (Visa, MasterCard, American Express and Discover) said that beginning in October of 2015, merchants would be required to utilize EMV-capable equipment or they would bear the responsibility of chargebacks related to counterfeit and fraudulent chargebacks.

What is the impact of an EMV transaction on a restaurant?

Given the restaurant industry's need for a POS solution capable of performing EMV transactions that don't result in awkward conversations with guests about tip amounts, and by extension, chargeback disputes when those guests see a different amount on their statements than what they signed for, restaurants were, at first, slow to embrace EMV. That being said, our innovative Tip Adjust feature allows customers to enter a tip amount themselves during an EMV transaction so we are seeing more and more restaurateurs embrace the technology.

Does my preferred equipment/POS have EMV capability?

This, of course, depends on what equipment we are talking about. As it is now a year after the liability shift, there are numerous options available covering all variety of solutions including standalone terminals, semi-integrated solutions, and tablets, as well

as more advanced POS products. So long story short, we can help – simply give us a call!

How often should a merchant expect to see an EMV card?

Most US banks started issuing EMV cards years ago. As a result, merchants should expect to see a steady increase in the frequency with which they will need to perform EMV transactions in an effort to protect themselves from liability.

What are my merchants, and my potential merchants, hearing about EMV? Is it true?

Unlike historical payment industry items, EMV has been covered by mainstream media in great detail. So, generally speaking, most merchants will be aware of EMV and are looking for the right path to upgrade versus hearing about the initiative for the first time.

What are the costs associated with EMV? And how do I pass them to the merchant?

When you look at it from an equipment perspective, most of the cost is going to be replacing a merchant's existing equipment with an EMV-ready solution. Some merchants will need an upgraded terminal, others may need a more robust POS solution, likely with a semi-integrated credit card terminal to accept the EMV cards. Each merchant situation is unique but depending on their needs, we may place them with EMV-capable equipment at no additional cost, charge them to purchase new equipment, or in the case of a semi-integrated EMV solution, the costs will vary based on how many stations and how advanced their needs are. If you're looking at "cost" from a potential exposure standpoint, this is where things can get really expensive. Just a couple of chargebacks lost by the merchant for not being EMV-capable can greatly outweigh the small and inexpensive (in some cases free) conversion to an EMV-capable solution.

Will I need to change the terminals that I am selling today with terminals that have smart card readers?

Absolutely. If you are not offering an EMV solution your competition certainly is. If you don't get merchants EMV-capable someone else will. Our partners are doing very well taking advantage of our free placement solutions, cost-effective purchase options, and numerous semi-integrated POS solutions to outfit their existing and potential clients with the right tools to be successful, secure, and protected.

Interchange costs, are they staying the same?

So far we have not seen any increases or changes in costs for non-EMV processing related to interchange. However, if history tells us anything, it's that it's certainly possible for increases to come and the best way to insulate your clients from this is get them EMV-ready ASAP. Similar to chargeback exposure, a quick upgrade now can save a ton of heartache and potential cost exposure down the road.

Can EMV prevent card data breaches?

While EMV cards provide enhanced security when used at chip-enabled terminals (and may lower the risk of some types of fraud) they cannot prevent a data breach like the ones we've seen recently at retailers like Target and Best Buy. That being said, the good news is that EMV cards, if dipped into EMV-enabled machines instead of simply swiped, cannot be duplicated via a standard data breach.

Does EMV ensure PCI compliance?

No, EMV is not connected to PCI compliance. PCI deals with protecting cardholder data. Being EMV compliant does however help protect the merchant from counterfeit card fraud. Merchants should take every measure available to protect themselves from credit card fraud including encryption, tokenization, and committing to being EMV compliant. When all of these measures are in place, their PCI Scope will be greatly reduced.

What does it take to become EMV-ready?

It is extremely easy for countertop merchants; most providers offer several EMV-ready terminals that can replace the terminals the merchants are using today. Merchants with POS Systems will also be pleasantly surprised at the simplified integrations available.

Are there advantages to supporting Dual Interface cards when I migrate my card program to EMV?

The more acceptance methods merchants can offer their customers, the better. While EMV chip cards are gaining in acceptance in the US, globally dual-interface EMV cards that also allow for contactless NFC payments (like Apple Pay and Samsung Pay) are gaining in popularity. This is due to the increased speed and convenience that NFC payments offer merchants and consumers. Of course merchants don't need to accept Dual Interface cards to perform NFC transactions but as a business practice, convenience for customers should always be a top priority. In any event, we expect the US to fully embrace Dual Interface cards in the future.

How long will it take to issue EMV cards?

U.S. financial institutions want to support EMV technology, but also have to consider the additional cost of issuing new cards for all cardholders. Still, more and more chip cards are being introduced by U.S. financial institutions each year. According to EMVCo (which is owned by the major card brands) the US finished 2015 with 394 million EMV cards on issue, compared to 101 million in 2014. According to a survey conducted by Creditcards.com, as of April 2016 approximately 70% of US cardholders have already been issued an EMV card. That being said, US EMV transaction rates in 2015 were just 1.98% compared to 97.3% in parts of Europe, so there is still much work to be done.

CONTINUED FROM PAGE 1

Merchants are feeling the pressure. In survey by National Retail Federation, 76% of retailers said EMV was their top challenge, followed by chargeback issues often related to EMV. However, retailers are muddling through, with 86% saying they expect to implement an EMV chip card system by the end of 2016. [2]

That may be optimistic based on current implementation rates. The Strawhecker Group (TSG) says that approximately a third of U.S. merchants are enabled to accept chip cards, and about three quarters of consumers have at least one chip card in their wallet. [3] TSG's January survey estimated that more than 50% of retailers would have an EMV terminal by the one-year anniversary of the liability shift. The pace of implementation is slower than what was anticipated.

But there are wins for EMV. Since EMV transactions transmit encrypted account information based on dynamic authentication, there's no doubt that EMV protects against counterfeit cards. According to Auriemma Consulting Group (ACG), financial losses due to counterfeit cards fell 18% in the first quarter of 2016, the lowest level since early 2013. [4]

However, one-year post liability shift, implementation challenges remain. The following are three of biggest issues impacting a smooth EMV adoption.

1. Swipe or Insert?
Consumers are confused when making payments. They swipe when they should insert, and insert when they should swipe. The uncertainty is understandable since the card industry has done very little in the way of educating consumers and adoption of EMV by merchants has been piecemeal.

Even more confusing for consumers is that there is often a chip reader, but due to a backlog of the payment processers

in validating the chip readers as well as supply delays in terminals, the reader is not activated. The reader looks broken to the consumer.

For now, it seems the only indication that consumers have of whether to swipe or insert are handwritten notes taped over the card reader with some version of 'do not insert' or 'no chip reader.'

Part of the solution is non-technology related: According to the U.S. Payments Forum (formerly the EMV Migration Forum), well-trained sales associates can alleviate much of the customer frustration.

2. A Distressing Sound
The first time a consumer uses a chip-enabled terminal, they are typically distressed by the sound the terminal emits when the purchase is approved. For many, the tone sounds like a rejection rather than an approval, causing confusion and embarrassment.

3. Why Does It Take So Long?
Those in the payments industry understand why the speed for an EMV transaction is slower than for a traditional credit or debit card transaction, but consumers are an inpatient lot, particularly when there is a line of other inpatient consumers in line behind them. And the speed is inconsistent: A chip transaction might take a few seconds at one merchant but more than 20 seconds at another. [5]

In a recent Wall Street Journal article, Joanna Stern detailed her unscientific timing of more than 50 transactions at a variety of retailers and confirmed that an EMV chip transaction takes twice as long as a card swipe or mobile payment. [6] According to Stern's calculation, a consumer who made two purchases per day for a year would spend an extra 85 minutes—one hour and 25 minutes—at the point of sale.

Hardware manufacturers and credit card companies are focused on reducing approval times but the upgrades will be slow to hit the market. The U.S. Payments Forum has issued a

white paper Optimizing Transaction Speed at the POS to provide a better consumer payment experience by speeding the chip transaction process at the point of sale.

In the spring, Visa (Quick Chip for EMV) and MasterCard (M/Chip Fast) announced their own approaches to decrease the amount of time it takes a chip card to process at the point of sale. In some schemes, the cardholder only needs to put the card in the reader for a few seconds.

EMV Struggles Good for Mobile Wallets?
Mobile payments, although talked about for years, have not really taken off. Part of the reason was that it is just as easy for consumers to pull out a credit or debit card as it is to use the phone. However, with the confusion over whether to insert or swipe, the distressing sound that prompts the consumer to remove the EMV chip card from the reader, and the length of time it takes to complete an EMV transaction, consumer frustration could create a perfect storm to give mobile payments the boost it needs.

In addition, most chip reader terminals are already equipped to accept contactless payments such as Apple Pay or Android Pay. In August, EMVCo announced it will provide formal industry approval to confirm that contactless mobile payment-enabled devices can operate seamlessly with EMV Level 1 payment terminals. And since most EMV terminals are built with near-field communication (NFC) used by many mobile payment systems, the transition will be easier.

According to the National Retail Federation, 72% of retailers expect to be equipped for NFC by the end of 2017. [7]

Consumer irritation with EMV and retailers' ability to leverage the investment they've already made in EMV terminals may prove to be the shot mobile payments needs to gain traction. It's ironic that a technology that seeks to make cards more secure at the point of sale may actually wind up contributing to its demise. ■

[2] https://nrf.com/media/press-releases/nrfforrester-survey-says-emv-pushing-aside-other-payment-initiatives

[3] home/20160920005178/en/EMV-Merchant-Adoption-Remains-Sluggish-Year

[4] http://www.acg.net/counterfeit-credit-card-fraud-reaches-lowest-level-since-2013-other-fraud-types-increase-says-auriemma-consulting-group/

[5] US Payments Forum, Optimizing Transaction Speed at the POS, September 2016

[6] http://www.wsj.com/articles/chip-card-nightmares-help-is-on-the-way-1470163865

[7] https://nrf.com/media/press-releases/nrfforrester-survey-says-emv-pushing-aside-other-payment-initiatives

TranSend

Established in 2003, TranSend provides infrastructure software and services to the payments industry. Its expertise includes EMV-NFC, transaction switching, terminal management, and point-of-sale (POS) optimization. The company's latest innovation is RevChip, the most comprehensive and highly featured EMV-NFC software built for the U.S. market. It connects to any processor and runs on terminals models from major manufacturers, including Verifone and Ingenico. Using RevChip, merchants eliminate card data from their POS systems and remove themselves from the burden of PCI PA-DSS. RevChip's SDK provides software developers with a quick, secure integration between a POS system and a payment terminal.
Amit Chhabra, CTO, TranSend

We are approaching the one year anniversary of EMV, yet so many merchants are still swiping and not EMV enabled. Why?
Most large retailers in the U.S. have implemented EMV, while many small and medium sized businesses ("SMBs") have not. Large retailers reacted early in the U.S. migration to update their systems, but the SMB market only moved when chargebacks from the liability shift started hitting. But there's an even bigger cause for the lag: good EMV software. Traditionally, ISOs and their SMB merchants have depended on free software from their processors. Most of the time this "freeware" was handcrafted to work with only one processor or one ISO. That model worked for simple mag stripe programming, but falls apart in EMV. EMV-NFC programming is highly complex and is meant to be regularly updated to defend against new security threats. There is simply no way to write hundreds of variations of an EMV software and keep them all updated. That's precisely why we built RevChip. RevChip is cost-effective EMV software that connects to any processor and runs on terminal models from major manufacturers, like Ingenico and Verifone. What's even better is that RevChip is automatically updated in the field and can be quickly customized to the needs of merchants and ISOs.

My merchants complain that EMV transactions are slow; can anything be done to make them faster?
Yes. It is true that many U.S. EMV implementations have resulted in slow transactions times at the POS. This is often a result of poor EMV software compounding

with the expectations of U.S. cardholders who have become accustomed to a quick "swipe-and-go". Recognizing the market need, the major card networks have recently released specifications for a faster EMV process, commonly known as "Quick Chip". When Quick Chip is implemented into good EMV software, like RevChip, the time savings for merchants and their patrons can be dramatic.

How does Quick Chip work and is it secure?
Quick Chip truncates certain processing steps which apply in other global markets, but are not necessary in the United States. This is possible, in large part, because the U.S. is an "online" market where authorization steps are easily handled "in the cloud" such that the chip card can perform fewer operations and be removed quickly. Transactions remain equally secure and carry the customary EMV cryptogram required by card issuers. RevChip was the first EMV software to certify Quick Chip with major US processors.

Is Store and Forward available with EMV?
For many years, "Store-and-Forward" has been the solution that enables merchants to conduct business during a network outage. Unfortunately, this widely-used method has become clouded by some who believe Store-and-Forward doesn't work with EMV. The reality is Store-and-Forward works just fine under EMV and has long been a part of the EMV standard. Making Store-and-Forward work as an elegant EMV experience requires good software running inside the terminal that can expertly juggle threshold limits, network polling, transaction sequencing, voice auth codes, reversals, re-presentments and other exception handling. RevChip fully supports

EMV Store-and-Forward and makes it easy for POS developers to deploy it.

What is the impact of an EMV transaction on a restaurant?
Despite what one might hear, U.S. restaurants don't need to change their workflows for EMV. Pay-at-the-Table is not a mandate and traditional Tip Adjustment can be used for years to come. Other features like Gift Card, Loyalty, Bar Tab and Partial Authorization are important to restaurants, too. To make all of these possible, the merchant's POS system must connect to fully featured EMV software, like RevChip. Restaurants are key to any ISO portfolio, so it's important to select the right EMV partners that can protect them from chargebacks and keep their operations running smoothly.

Does EMV ensure PCI compliance?
While EMV does not absolve merchants of PCI compliance, there is an important connection between EMV and PCI that every payment professional should know. It has to do with POS systems, which have quickly become the prime target for hackers. Today, in most cases, card data flows through POS systems. With the change to EMV, POS developers are also taking the opportunity to shift to a "semi-integrated configuration", also known as a "PCI out-of-scope solution". In a semi-integrated configuration card data stays within the secure terminal and never gets exposed to the POS system. At TranSend, we are very proud of our semi-integrated configuration of RevChip. The RevChip SDK has been a HUGE win for everybody involved. Everybody except for the hackers, that is!

IF YOU'D LIKE TO KNOW MORE, PLEASE CONTACT US:
TranSend | 455 Larchmont Blvd., Mt. Laurel, NJ 08054

call: (800) 560-0415   **email:** asc@transendit.com   **visit:** www.revchip.com

EMV
Visionaries and Q&A

ONE YEAR LATER:
EMV ADOPTION
FACES CRITICS

Is EMV a disappointment-or does
it just need time to find its stride?

By Lisa Valentine

More than a year since the October 2015 EMV liability shift,
headlines about EMV adoption in the U.S. include words
and phrases such as 'disaster,' 'nightmare,' and 'the great EMV
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EMV Has a Global Problem

EMV was supposed to be a driver of hardware sales. But the buying craze ended far sooner than terminal makers anticipated. **BY KATE FITZGERALD**

The one thing payment terminal hardware makers should have been sure of this year was relatively strong demand from merchants finally upgrading to EMV-compatible equipment after the slow start last year to the U.S. chip-card migration.

But that's not how it's turning out, as Verifone and Ingenico revised sales forecasts downward for the year, pinning the blame in large part on the card networks' moves this summer to ease chargeback policies on some fraudulent transactions.

Verifone on Sept. 1 cut its earnings and revenue forecast for the year, citing as a key reason Visa and American Express' pushing back the date for the merchant liability shift for counterfeit card fraud on transactions under $25 until April 2018 from its original date of Oct. 1, 2015. Political turmoil in Turkey and Brazil also dented sales this year, Verifone said.

"Looking at our sales this year, we saw the biggest downward effect from Visa's liability-shift rollback, which we think lessened demand and urgency from merchants to upgrade payment terminals to EMV," said Jennifer Miles, Verifone's president for North America.

Ingenico put forth a similar narrative. "This market decline has been caused by a relaxation in the (U.S.) EMV rules," the Paris-based company said in a Sept. 6 press release announcing that sales for the rest of the year will grow only 7% instead of 10% as previously expected, noting that the U.S. accounts for about 10% of the company's overall sales. Ingenico added that "macroeconomic conditions in Brazil" also are depressing sales.

Despite its recent revised outlook for near-term payment terminal sales, Verifone said in the long term the company expects to see steady demand.

"There's a subset of smaller merchants that tend to have lower chargebacks—medical offices, spas, salons and companies providing repeat services—that are waiting to implement EMV when they can add more functionality, like mobile payments and loyalty," Miles said. "Quite a few companies fit this model, and they tell us they'll be upgrading to EMV in the next year or so."

While many factors usually affect terminal demand, the card networks' elimination of a key incentive could be a cause for slower sales, said Rick Oglesby, a consultant with Double Diamond Group.

"By reducing the incentives, the card networks reduced demand," Oglesby said. **ISO**

MCA's Allure Hides Major Risks

The Merchant Cash Advance market is a very active area, but it is also fiercely competitive with a lot of turnover. **BY KATE FITZGERALD**

The recession that began in 2008 left a mark on many industries, but one effect for payments was the growth of merchant cash advance (MCA), which became an ongoing source of alternative financing for retailers when the downturn caused banks to sharply curtail lending to small businesses.

The economy has largely rebounded, but banks have not rushed back into small-business lending because of today's steeper organizational and regulatory requirements.

Thus, MCA remains a very active area, serving an increasingly diverse range of merchants hungry for immediate capital.

MCA also has become fiercely competitive and a bit more risky these days, as small businesses face more volatility, experts say.

"MCA is a very tough business, and there's been an excess of supply lately," said Rick Oglesby, president of AZ Payments, noting that competition is more intense than ever among MCA lenders seeking merchants with solid credit quality, who can deliver a good profit stream with relatively low risk.

Authorities in several states, including California, this year announced plans to look at business-to-business lending as other federal and local regulatory agencies have stepped up their scrutiny of practices, which could possibly affect companies active in the MCA space, according to experts connected to the industry.

"Various state, federal and local regulators are looking closely at alternative financing to make sure it's not subject to unfair practices, and at some point in the not-too-distant future, I expect there will be new guidelines for MCA, too, around the pricing and disclosure," said Ryan Masters, head of strategy and business development at New York-based Certa Group, which originates loans to a broad range of borrowers, including some involved in MCA.

Though specific new regulations for MCA aren't immediately looming, Masters said it's not too early for industry participants to begin preparing for some potential changes.

"MCA players should begin at least thinking about making sure their pricing is fair and they have a clear process for disclosing their policies and practices,

to be ready for the day when they're asked to provide proof of fair APRs and full disclosure," he said.

Many MCA participants are pricing loans to small businesses within a reasonable range, but Masters said all operators must avoid straying into territory that could be considered usurious, declining to specify what interest rate range potential regulations might prohibit.

"There are always some lenders pricing things in a range that could be considered predatory, and it's only a matter of time before those come under the regulatory knife, so beware," Masters said.

Lately the credit quality among merchants seeking MCA loans also shows signs of some deterioration, Masters warned.

"Business owners seeking MCA loans seem to be facing a higher level of risk than in past years, with bankruptcy and other unexpected disruptions becoming more common, and all of this calls for more caution when extending MCA funds," Masters said.

Despite the obvious risks, MCA continues to generate plenty of activity, because of its somewhat unique approach.

As credit and debit card payments began to account for a larger share of merchants' overall sales, MCA lenders over the last decade or so devised a specialized way of using card payment volume to secure business-to-business loans for merchants needing anywhere from several hundred to several thousand dollars.

Initially MCA appealed mostly restaurants and inventory-heavy retailers, but observers say all types of merchants now are potential targets for this category of product.

MCA lenders can look at a merchant's credit card volume and history and get a quick snapshot of that company's cash flow, enabling them to advance funds based on the borrower's anticipated credit card receipts.

The competitive advantage MCA lenders offer over other channels is

speed—most can provide businesses with the needed funds within a day or two—and the merchant repays the loan from a set percentage that comes out of the merchant's daily, weekly or monthly credit card receipts.

Most major card processors have evolved a relatively turnkey system for routing a percentage of a merchant's card volume to the lender until the loan is repaid, minimizing hassles around collections, experts say.

Rates vary, based on variables such as the value of the loan and borrower's risk level.

For merchants, MCA is appealing because it enables business operators to get a bundle of money quickly to buy inventory or make opportunistic investments, with minimal paperwork and without providing the extensive credit checks and verification banks typically require.

And lenders get an investment that's relatively lower-risk than other types of deals, because of the guaranteed revenue-split.

The ease of entry into MCA also means it's constantly attracting newcomers who think the business looks fairly easy, say participants.

"There seem to be more players than ever in the MCA space, but there's a lot of turnover because it turns out it's a lot harder than it looks, so it's not like it's growing as a whole," said Jim Fink, director of strategic partnerships for Rapid Advance, a large MCA lender based in Bethesda, Md., which entered the niche in 2005.

Rapid Advance lends directly to merchants and it also receives a lot of referrals from ISOs that don't fund loans on their own, Fink said.

Recently he's seen a surge in the number of ISOs that are funding their own loans directly, or white-labeling MCA loans that they obtained from wholesalers.

"Many ISOs are comfortable doing MCA deals if they know the merchant well and they're confident of their credit rating," Fink said.

Anyone extending an MCA loan to an unknown business is taking on higher risks, Fink noted.

Rapid Advance has built a complex, proprietary system to evaluate prospective MCA borrowers drawing on information available from credit bureaus, bank statements, data from merchants' credit card processors, social media and strategic analysis of business sectors, according to Fink.

"We've developed technology to very quickly assess whether we think a merchant can support the debt they're proposing to take on, and we make a judgment based on what we think is reasonable, because it doesn't do anyone any good if we deploy too much cash for their case," Fink said.

Rapid Advance gets most of its business from partnerships it's built with ISOs, partnerships and even banks that are starting to refer business to the company, Fink said. "There's a lot of opportunity to work with banks who want to refer clients to MCA, because in many cases, they'd rather give their customer a lead than say 'no.'"

Along with a seeming revolving-door of newcomers entering MCA, Rapid Advance in recent years has seen more competition coming from independent operators who are offering merchants loans where the funds are repaid not through credit card receipts via a pro-

cessor, but from daily payouts from a bank account via ACH.

Paying back loans via ACH may not fall exactly under the heading of merchant "cash advance," which generally involves a processor routing the funds instead of a bank, but Fink said both approaches are becoming more common in MCA.

"For us it's irrelevant whether merchants agree to pay back loans through the processor or ACH, and it may depend on what's most appropriate for the merchant," Fink said, noting that all major processors continue to provide a broad supporting role for MCA.

What may be somewhat surprising is that high-profile online lending services, and national small-business lenders like Intuit (which offers loans through a handful of banks to its QuickBooks customers) and Square (which targets its mobile point of sale customers with its Square Capital offering), don't seem to be cutting directly into MCA providers' business, Fink said.

One reason may be that online lenders go after startups more often than other companies, and business software companies tend to have a captive audience of their existing customers, observers say.

"We just not seeing a lot of direct competition from the likes of Intuit, maybe because they're lending to businesses that never went looking for funds elsewhere," Fink said.

Online lending may pose a general competitive threat, but Fink said there is still plenty of opportunity for MCA operators willing to market their services and perform due diligence on prospects for deals that make sense to both sides of the equation.

"MCA stays alive because we operate in an area banks aren't looking at anymore, and we have a business model that works for a certain type of enterprise, if you measure your risks appropriately," Fink said. **ISO**

"There seem to be more players than ever in the MCA space, but there's a lot of turnover."

-Jim Fink, director of strategic partnerships, Rapid Advance

WHY SQUARE'S FINANCING BUSINESS HIT A WALL

Square Inc. is seeking balance as it transitions to a more holistic provider of services including small-business payments and financing.

One thing making investors nervous was slow growth for Square Capital, the business-financing arm that was introduced over two years ago as a rival to conventional merchant cash advance (MCA) offerings. This year Square began a transition away from MCA toward traditional loans.

Square extended $153 million on cash advances and loans to small businesses during the first quarter of 2016, up 4% from the fourth quarter, and the company blamed the slow growth on "challenging credit market conditions."

Competition could be a problem. Square's practice of using its merchant transaction data for risk analysis may seem innovative, but other agile specialists—including Intuit—are finding ways to use new data streams to limit risk and deliver funds to borrowers.

Square in March announced plans to move away from MCA toward business loans originated by Celtic Bank, based in Salt Lake City, Utah.

The new signup process for Square Capital is similar to its previous approach, where borrowers get cash upfront in exchange for a fixed percentage of daily card sales. The amount owed never changes, but with the shift to loans, Square introduced an early repayment option that carries a higher interest rate.

Other MCA alternatives include PayPal Working Capital and Intuit's QuickBooks Financing.

ACH PAYMENTS

Visionaries and Q&A

The Move to Faster Payments

Same-day ACH makes progress while MCX stumbles

BY LISA VALENTINE

Since 1974, the automated clearinghouse (ACH) electronic network has processed large, batch volumes of credit and debit transactions.

According to NACHA, ACH volumes increased 5.6% in the second quarter of 2016 compared to one year ago. During the second quarter, approximately 5.05 billion transactions moving approximately $10.9 trillion were conducted.

Driving much of the increase in ACH volumes are business payments to consumers and consumer online payments, which increased much faster than the overall number of ACH payments, according to the Federal Reserve Bank of Atlanta.

Obviously ACH, now more than 40 years old, is still going strong. It's an inexpensive payments rail and due to its more complex nature, ACH transactions are more challenging for fraudsters to hack. According to the Association for Financial Professionals, fraudsters need to access customer credentials and generate ACH files in the originator's

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linked2pay® is a technology leader in the secure delivery of award winning ACH, credit card and check payments automation. As the originator of Bank Centric Payments the company provides seamlessly integrated payment processing solutions for merchants (SMB & enterprise), along with white label options for banks, ISOs and channel partners. The linked2pay platform is PCI DDS compliant, and operates in accordance with NACHA guidelines.

Why have ACH payments been an afterthought for most ISOs?

When it comes to payment acceptance, most ISOs only promote credit cards for a few basic, ingrained reasons. Firstly, credit cards are usually the most convenient and popular form of payment and only take a few moments to accept. Secondly, a credit card can be declined at the point of sale - meaning there is no chance the payment will bounce later in the process. In addition to convenience, accepting card payments can help broaden the audience for a business and improve general cash flow. Rapid and simple set-up of online payments is one example. But the focus on credit card only is also a risk when offering services to the types of businesses that need to extend more payment acceptance options to their customers. Recent developments that streamline the adoption of ACH payments can give the ISO the best of all worlds. They can now - for the first time - include credit card and ACH as seamlessly combined options from the outset, within one secured digital solution. They no longer have to rely on the cumbersome merchant enrollment and delivery of the non-integrated solutions that were loosely pieced together in the past.

How can banks more seamlessly deliver ACH payments?

As a case in point, it's never been more important for banks to deliver ACH payment acceptance in a quick and painless way. In order to do this, banks need to invest and upgrade their systems to deliver a level of automation that will position them as technologically savvy institutions. The best way to achieve this is to have an automated registration and underwriting process that will allow their clients to register and be underwritten in real-time, AND in a simple and efficient manner that is connected to onboarding and ongoing solution delivery. These ACH payment options need to be blended with credit card into one cohesive platform. This platform should then deliver Omni Payment options for a merchant base that could benefit from these blended payment methods and acceptance solutions, including: virtual terminal, email invoicing, online forms, and the like.

What tools do banks (ODFI) use to approve or decline ACH applications?

Ideally, an ODFI (the bank that assumes the risk and presents the transactions to the Automated Clearing House) should have its personalized risk management practices, underwriting and onboarding imbedded into all ACH services registrations. This would facilitate an immediate approval or disapproval for every merchant application. A series of verifications would need to take place during the registration process that would mitigate risk and allow underwriting to be automated - or routed for further evaluation based on the parameters set by the ODFI. By having a unified platform, the bank becomes an invaluable partner in payments for ISOs, which invariably results in higher profit margins and improved merchant retention.

What are examples of current applications for same day ACH payments?

When it comes to same day ACH payments, current applications are a bit limited in this phase- one stage, but no less valuable. All same day ACH payments submitted before the (two) set cut-off times will be deposited that same day. In 2016, the uses for same day ACH will mostly be limited to payroll payments, bill pay and as a viable option to wire transfers. Come 2017, various debit options will open up even more opportunities for clients to leverage the cost effectiveness and convenience of rapid ACH payments. This will also increase the value of ACH as a side by side option with credit cards.

What determines the speed of funding for ACH payments?

Receiving payment for services rendered is always of paramount importance to all merchants. The speed of funding is typically determined during the underwriting process, which decides the amount of risk a merchant poses to the bank serving as the ODFI on the account. The better the underwriting tools and ongoing automation of monitoring - the greater the willingness to expedite the settlement process. Additionally, a system that provides merchant-facing tools that enable a direct request for faster funding to the ODFI fosters a better relationship for banks, resellers and merchants. It does this by leveraging a technology platform that make it easier to access and attain optimal funding speeds. ■

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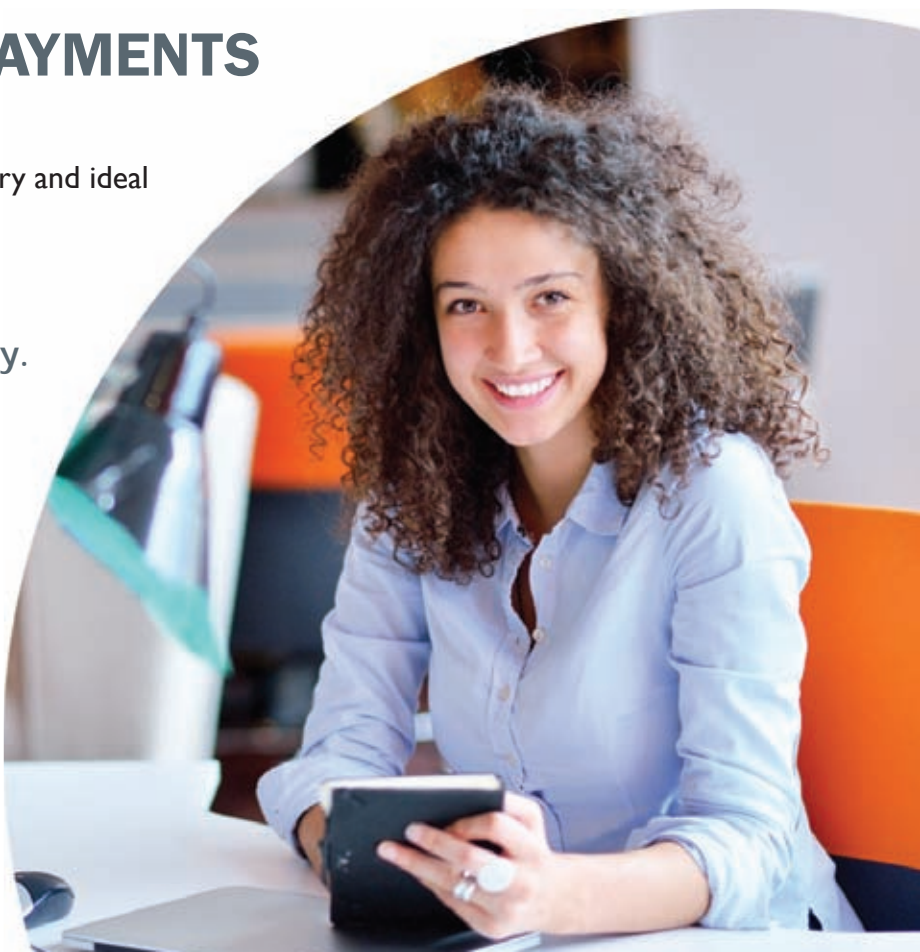## BANK CENTRIC PAYMENTS

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name or build a fake customer profile. In 2014, one in four organizations were subject to ACH debit fraud and 10% to ACH credit fraud in 2014.

The most likely reasons why organizations are victims of ACH fraud are issues that can be addressed, including non-timely ACH returns, lack of ACH debit blocks of filters, and not using ACH positive pay.

Addressing the Shortcomings

Cost and security aside, ACH has several shortcomings. Possibly the most glaring is that ACH transactions can take days to clear. The other shortcoming is that ACH payments require that both the sender and the receiver have bank accounts.

At least one of those shortcomings is being addressed with NACHA—The Electronic Payment Network's Same-Day ACH. The first of three implementation phases took effect on September 23, 2016 for credits making funds available at the end of the receiving financial institution's (RDFI) processing day. Phase two, with an implementation date of September 15, 2017, will include both credits and debits with funds availability at the end of the RDFI's processing day. The last phase, scheduled for implementation on March 16, 2018, also includes both credits and debits but makes funds available by the RDFI at 5:00 p.m. local time.

In mid-October, NACHA issued a statement that Same-Day ACH implementation "has gone smoothly, with robust same-day transaction volume during the first week of operations."

Same-Day ACH joins a variety of same-day or real-time payments across the globe including Japan's Zengin System implemented in 1973 even before the birth of ACH, South Korea's HOFINET implemented in 2001, South Africa's Real Time Clearing (RTC) implemented in 2004, the U.K.'s Faster Payments Scheme (FPS) implemented in 2008, and more recently, Denmark's RealTime24/7 and Singapore's Fast and Secure Transfers (FAST), both implemented in 2014.

Since the U.S. lags behind other developed nations in same-day or real-time payments, the Federal Reserve is encouraging various industry players—including NACHA--to develop solutions to other real-time payments challenge by issuing its recently published Faster Payments Effectiveness Criteria.

But there is a dark side to speed. Same-Day ACH, while decreasing time for transactions to clear, also gives financial institutions less time to review the validity of ACH transactions, potentially providing criminals with opportunity. For example, the UK experienced a £29.9 million surge in online banking fraud after initiating FPS in 2008. Financial institutions in the U.S. will need to be increasingly wary of account takeover fraud, increase monitoring of outbound credits, and consider suspending the payment until the customer authorizes the ACH transaction.

MCX: Not So Smooth Sailing

The Merchant Customer Exchange (MCX), created in August 2012 by some of the largest retailers in the U.S. including 7-Eleven, Best Buy, CVS Health, Darden Restaurants, HMSHost, Hy-Vee, Lowe's, Michaels, Publix, Sears, Shell Oil Products, Sunoco, Target, and Walmart, seeks to use the ACH network rather than card payment networks such as Visa and Mastercard for payments.

MCX's business model is not to collect revenue on the payment transaction, but to save money on merchant swipe fees by leveraging the extremely inexpensive nature of ACH. The savings could be significant. MCX merchants process more than $1 trillion in annual card-based payment volume at a presumed fee of 1.5%, equating to well over $1 billion in savings in payment processing costs.

While the business case seems compelling, the MCX consortium has suffered false starts, bad press, and a less than robust consumer response to its beta rollout. ACH does not have the same level of protection for consumers as the card networks and MCX was taken to task for a customer data breach of its mobile payment solution CurrentC in late 2014.

The other challenge is the competition. CurrentC has to vie for payment transactions against the more established Apple Pay and Google Wallet. In addition to much better brand recognition than CurrentC, Apple and Google have the advantage of being potentially available to any merchant or retailer.

Another sore point for MCX critics: Unlike Apple and Google that use near-field communications (NFC) at the point of sale, MCX relies on Bluetooth and QR technology that is less secure than NFC.

As a result of internal and external challenges, MCX announced in May that it would delay the national rollout of CurrentC and would lay off 30 employees as it shifted its focus from working with consumers to working with financial institutions. It's future is unclear.

Critics have maintained that rather than adopt an ACH-only strategy, MCX would have had better consumer adoption if it instead had initially agreed to work with the card payment networks and then transitioned consumers to ACH once consumers became comfortable with the MCX brand.

The Future of ACH

The ACH network continues to provide a cost-effective way to transact payments. With Same-Day ACH, the network has proven that it is able to evolve with businesses' and consumers' increased appetite for faster payments. With or without MCX using it as a payments network, the ACH network doesn't appear to be in danger of becoming irrelevant, at least in the near term. ■

Mobile Tips of Walmart, Dunkin

Two nationwide retailers had very different experiences in mobile payments. Their lessons could prove valuable for a wide range of merchants. **BY KATE FITZGERALD**

Walmart and Dunkin' Donuts have poured millions of dollars into their proprietary mobile payment apps, and their most interesting lessons are the ones they didn't expect to learn.

For example, sometimes the apps have proven to be unexpectedly popular for certain audience segments and occasions without specifically targeting them, and their popularity reveals how shoppers prefer a self-service purchasing process, the two retail giants shared at Money20/20 in Las Vegas.

Walmart expected younger males would be among the quickest adopters of Walmart Pay when it introduced the payments app early last summer, but to the company's surprise, its latest data suggests women—including older, Baby Boomer age women—are among the app's heaviest users, said Daniel Eckert, senior vice president of Walmart Services.

Another surprise for Walmart: People who regularly use Walmart Pay may be more interested in saving time than in saving money, arguably the strongest of Walmart's brand associations, Eckert said.

"Saving time is the new currency for people who are extremely busy, and Walmart Pay helps people do that," Eckert said in a keynote address on Oct. 25.

Walmart Pay users say the app en-

ables them to quickly identify available items and their location within the store, Eckert said. The app also enables users to build shopping lists and easily find receipts from past shopping trips, and get quick access to cash-back savings captured and stored from Walmart Pay's Savings Catcher feature.

"Payments are just one piece of the

shopping journey in Walmart Pay," Eckert said, adding that since its launch the company continues to add features based on customer feedback.

Eckert didn't say whether Walmart plans develop a new mobile loyalty or rewards features, nor did he hint whether Walmart may eventually adopt contactless payments.

"We're focused on keeping mobile payments (as a central part) of consumer's digital experience, which is really a blended retail and shopping experience," he said.

Dunkin' Donuts' popular QR code-based app, which it's developed and refined over the last several years, also continues to generate surprises and bust internal myths and assumptions, Scott Hudler, Head of Digital, Media & Loyalty for Dunkin' Brands, said in a different presentation later that day.

Though Dunkin' Donuts' mobile app is often compared with the popular Starbucks mobile payments app, the companies have different audiences, Hudler said.

"Our guests don't come to sit, chat and write their screenplay; their primary motivation for coming in is to get their food and drinks and get going on their way," he said, noting that customers place a very high value on speed and efficiency.

When Dunkin' introduced its mobile ordering feature last year, the company saw a surge of popularity and usage because it further sped up customers' visits.

Another key difference between Dunkin' Donuts and many other retailers' mobile payment apps is the fact that the company is composed entirely of franchised locations, which makes app development and implementation tricky at times.

"We have constant turnover of employees, with a workforce that doesn't last longer than a football season," he said, so training new employees to use the mobile app has to be very simple.

Dunkin' Donuts didn't expect to see the growth of new products mobile payments inspired, including a huge surge in gift cards sold through the app.

One more unexpected discovery is the way Dunkin' Donuts app users feel about their mothers versus their fathers when buying gift cards, he added.

"When Mother's Day comes around, we see a huge surge of mobile gift card sales in the weeks leading up to the day itself," Hudler said. Father's Day, however, is different.

"We see the big [mobile gift card] sales surge only on Father's Day—people don't put so much thought into it during the days and weeks beforehand," Hudler said. **ISO**

ISOs Seek Allies for Survival

To stay ahead in a rapidly changing payments industry, independent sales organizations must consider partnering up with other businesses. **BY DAVID HEUN**

Acquirers and independent sales organizations have long heard a similar refrain: Adjust to the fast pace of technology or perish.

It was a blunt way of saying the days of simply pulling point of sale hardware of out a box, plugging it in and moving on to the next customer, are over.

But some acquirers and ISOs have found a way to prosper by collaborating with partners to help clients navigate the confusing and rapidly changing world of payments technology.

"If we are going to be successful as a typical ISO in this space, we have to partner, whether it is with a point of sale company or a bank," said Phil Acree, principal at Veritas Payment Advisors.

The day-to-day business owner is "done with our business [model] for the most part," Acree said.

"They are tired of hearing we are going to save them money, and they are tired of feeling confused about where they fit in the space and why they pay all these fees, and what is what with new technology," he said.

An ISO has to approach a potential client with a partnership that showcases "a trusted advisor," whether that is a bank, a CPA or a technology company, Acree said. "If you don't come in with that, it is really hard work to just come in as a local ISO or agent and make that work."

Oxnard, Calif.-based technology provider linked2pay has positioned itself as a partner that can help guide ISOs and agents through the confutechnology maze, hook them up to a banking partner and funnel needed services

through one technology platform.

"We built our bank-centric payments platform over a long time frame to provide a single point login for financial institutions, ISOs, and merchants so all parties might access a technology

environment that was, first of all, neutral and secondly, highly secured," said Richard McShirley, linked2Pay's chief marketing officer.

McShirley sees opportunity in large processor mergers that left some ISOs unsure of their place in the payments ecosystem, such as Global Payments' purchase of Heartland Payment Systems Inc. late last year and Vantiv's acquisition of Mercury Payments in 2014.

These deals tightened the market for ISO sales talent, McShirley said, adding bank/ISO partnerships have consolidated credit card, Automated Clearing House and remote deposit capture, which had previously been delivered as separate solutions.

ISOs have already had to adapt to the disruption brought on by mobile point of sale providers.

Some of these companies — such as Square and Groupon — sought to cut ISOs out of the sales process entirely by working directly with retailers or repurposing their internal sales staff. But other vendors saw ISOs as a valuable partner to bring their products to market.

The same can be said for banks.

"Simplifying the adoption of payments as a service is critical for financial institutions to remain competitive in the future," said Rayleen M. Pirnie, owner of RP Payments Risk Consulting Services, LLC.

A bank-centric approach solves the problems and complexity of putting the systems in place for all parties in the payment process to access the tools and solutions they need in a scalable manner, Pirnie said. "A single, fully integrated platform can replace what would normally require three vendors and an integrations project in order to launch."

ISOs are always looking for something "hot and new" and finding out they can't just be a "one-trick pony" in today's payments ecosystem, said

Marc Beauchamp, president of Warsaw, Ind.-based Payment Processing Technologies, LLC.

"You can't just say 'let me look at your processing statement and see how much I can save you,'" Beauchamp said of interaction with business or merchant clients.

"You have to turn into a solution sales person and have many different products available," Beauchamp said.

Payment Processing Technologies adopted a bank-centric platform mainly because of the library of application interfaces it offers, allowing the ISO to delve into other services like payroll, consumer finance and data analytics, Beauchamp said.

"What the ISOs and the feet on the street are looking for is something that can draw distinction between them and the competition," he added. "It has to be something that serves their customers and that they can make income on. If it has those three things, you'll have a successful product."

From an ISO or agent's perspective, merchant services and payments remains a "relationship business," Beauchamp said. "The more complex the industry gets, the better it is for ISOs,

in my opinion."

Such a scenario means "human beings have to sit out there with the business owner and explain how these products can help their businesses in an effective manner," Beauchamp added.

The consensus within the industry is that ISOs and acquirers have to spend more time getting well-versed about payments technology, security compliance and card network rules to better serve their merchant accounts, so any collaboration on payments technology that can streamline these efforts is helpful.

In making that partnership with a bank, the benefits can have the look of a two-way street.

"Even though banks have lost a little credibility over the last 10 years, they still have a lot of it and hold a lot of positive influence over their clients," Veritas Payment's Acree said. "They are in strong partnerships with their clients and help them build buildings and capital expenditures."

But banks "haven't done anything on the payments side" to provide a service that works for these customers, and that opens the door for ISOs to connect," Acree added. **ISO**

Card Networks Team with Techies

Visa and Mastercard want to do more than just handle card payments; they want to be involved in the Internet of Things. This desire has led them to partner with global technology brands like Intel and Facebook. **BY JOHN ADAMS**

Mastercard and Visa are reaching out to the technology's industry's largest players to smooth out the bumps in how payments operate today.

Two new partnerships—a collaboration between Mastercard and Samsung and one between Visa and Intel—have a particularly good chance to simplify and extend the reach of secure digital commerce.

Mastercard is integrating its Masterpass digital wallet with Samsung Pay. Mastercard is also expected to announce similar deals with other third party wallets. On Monday, Google announced strategic partnerships with both Visa and Mastercard to support payments at merchants that accept Visa Checkout or Masterpass.

"We want to make it easier for consumers to use their wallet of choice," said Kiki Del Valle, senior vice president

and group head for social networks and operating systems at Mastercard, saying the integration will impact hundreds of thousands of merchants.

The integration also continues recent work Mastercard has done to break down the barriers to using Masterpass, which is now available at about 300,000 merchants."Merchants can reach millions of customers using Samsung Pay without having to do any more development work," Del Valle said.

A relative lack of interoperability among mobile payment methods has left an impression that consumers and retailers have to make choices about which to support. For example, early after Apple Pay's release, companies like CVS and Rite Aid shut off their NFC readers to favor the CurrentC wallet (which never left pilot).

By contrast, Mastercard CEO Ajay Banga said at an earnings call after Apple Pay's release that the app wasn't a competitor to Mastercard but actually an opportunity.

Visa's big collaboration with Intel will place encryption on any device that uses Intel technology. "Everybody is moving fast and security is often an afterthought," said Mark Nelsen, senior vice president of risk products and business intelligence at Visa.

Intel develops the guts behind data centers, connected device deployments, PCs and other computing devices. It's behind a lot of payments hardware, including EMV and NFC-equipped tablets, and collaborates with hardware makers such as Panasonic.

The Visa encryption partnership is aimed at protecting the variety of devices that the card network believes will be used in the near future to collect payments from consumers.

"As more payment devices come from connected devices, securing those devices becomes more important," Nelsen said.

As part of its digital security program, Visa is additionally working on a roadmap for the next version of 3D Secure, which is expected to begin deployment in early 2017.

3D Secure was initially developed to provide extra authentication for digital transactions, but merchants found it too cumbersome. It's being redeveloped to be more streamlined, and to be easier to bypass traditional authentication steps while not sacrificing security for contactless payments and other m-commerce transactions.

Visa's roadmap will rely on feedback from merchants as the protocol evolves. "In general we want to do more transactions with fewer 'turn downs,' so we need more data on where the transac-

tion is originating from," Nelsen said. "If there is more data we can increase sales and reduce fraud and friction at the same time."

Mastercard is also making other moves to further bring tokenization and connected payments technology to new consumer use cases.

Mastercard is partnering with Fit Pay to bring contactless payment capabilities to connected devices and Fit Pay's broader "Internet of Things" platform.

Fit Pay's technology includes a Near Field Communication band that attaches to Web connected devices such as smartwatches. The Mastercard collaboration will add access to the network's Mastercard Digital Enablement Service, which distributes tokenization to secure contactless payments.

Mastercard is additionally debuting a bot platform that makes it easier for businesses to enable payments and other merchant communications in chat bots and to reach consumers via platforms such as Facebook Messenger. Six of the top 10 apps are messaging apps, De Valle said, and are used by more than 1.5 billion people.

"Consumers are leading a digital

"If there is more data we can increase sales and reduce fraud and friction at the same time."

-Mark Nelsen, SVP of risk products and business intelligence, Visa

lifestyle, and these activities have to be seamless," Del Valle said.

Facebook Messenger is a conducive platform for payments in part because of the talent behind it — the unit is run by David Marcus, a former PayPal president.

Similar apps such as Apple's Messages and Google's Allo are working to embed commerce into consumer conversations.

Much of the networks' activity addresses 'connected payments,' either making transactions easier or protecting them.

The growth of connected commerce will change the context of payments, according to Thad Peterson, a senior analyst at Aite Group.

The change will potentially make the payment less apparent to the end user.

"Instead of a conscious act where the consumer needs to 'do something with their device' to make the transaction happen, things will happen in their lives that require a payment and the payment will take place in support of that activity," Peterson said.

"One of the potential consequences of the intelligent enablement of the physical world will be more, faster, and smaller payments, with little conscious effort on the part of the user," Peterson said. "The smartphone won't be the payment enabler, it will instead be a data source."

Visa is also announcing a partnership with FIS to integrate the Visa Direct person-to-person payment service into FIS' banking and financial services technology.

The collaboration can drive other use cases beyond P-to-P, such as insurance claims and health care reimbursements, considered a major benefit of the P-to-P model—P-to-P ventures such as Early Warning's clearXchange have also made health care and insurance part of their business strategy.

"This will bring faster payments to insurance claims and health care benefits," said Vish Shastry, vice president of digital solutions for Visa. "They'll be able to deliver funds to Visa debit cards in minutes." **ISO**

A Hard Lesson in Mobile Wallets

Loyalty and offers are often considered key tools to get consumers to adopt new mobile wallets. But sometimes that approach can be a little too effective. **BY KATE FITZGERALD**
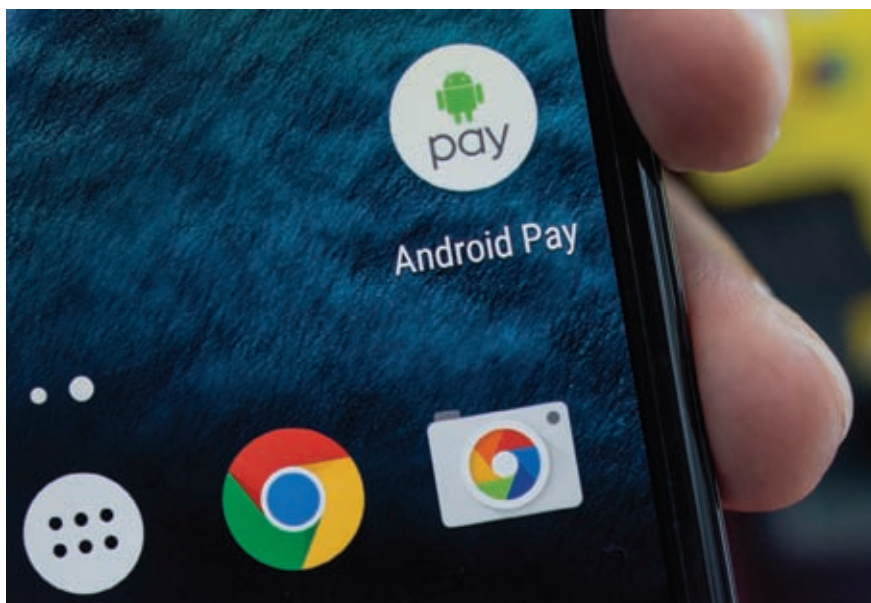
I t would have to take something big for consumers to flock to a mobile wallet en masse. Whether it meant to or not, California-based RadPad found out what consumers wanted, but it wasn't prepared for the aftermath.

Six days after the apartment-rental app RadPad launched a promotion waiving its usual 2.99% credit card payment fee for customers switching to Android Pay, the company's proportion of Android Pay users soared to 70% from a mere 5%, forcing RadPad to cut off the promotion Aug. 31, three months ahead of plan.

"Thousands of renters sign up in the last two weeks to pay their rent using Android Pay, equating to $5 million in rent," said RadPad's CEO Jonathan Eppers, who launched the company in 2014, in an Aug. 24 blog post to its users.

One of the takeaways appears to be that consumers are perfectly willing to change a long-established habit instantaneously—including adopting mobile payments—given the right incentive. In this case, analysts say it's clear that the relatively rare opportunity to earn credit card rewards on a big-ticket, recurring purchase like was rent was the spark driving thousands of renters to immediately switch to Android Pay.

But consumers aren't the only ones swayed by costs and rewards. The downside is that RadPad was still on the hook for the transaction costs for these rent payments, and "within only a few weeks we've surpassed the budget for the entire year that was allocated to subsidize the credit card fee," Eppers wrote.

Since RadPad is in the business of facilitating rent payments, there really is no middle ground here. Since all rent payments are hundreds — if not thousands — of dollars, there was no option to limit the promotion per user or limit transaction size.

"What we see here is that some consumers want their rewards, and savvy consumers saw a great opportunity to do that here," said Patricia Hewitt, CEO of PG Research & Advisory Services in Savannah, Ga.

But Hewitt said RadPad's Android Pay experience is another clue to Google's long-term strategy for mobile payments.

"RadPad's promotion hooked a lot of people into making a recurring payment for a commodity purchase, which is what Google's ultimate goal is with Android Pay," Hewitt said.

The difference is that Google typically focuses on lower-cost items, limiting its exposure during promotions.

"Google has come up with a lot of Android Pay promotions through merchants giving discounts and rewards for people using the service to buy coffee and groceries, and these offers don't emphasize the sexy technology of mobile

payments as much as they go straight to the heart of what drives consumers' payment habits—rewards," she said.

By structuring Android Pay rewards programs around recurring payments for everyday purchases, Google is laying groundwork for expanding its financial services relationship with consumers, Hewitt suggests.

Promotions alone won't be enough to get consumers to broadly adopt mobile payments, which continue to generate only a paltry amount of overall payments.

Plenty have already tried rewards for mobile payments without much success. Promotions have been a big part of the rollout strategy for Samsung Pay, and Apple routinely gives discounts on first-time purchases with Apple Pay.

But Hewitt said the long game for mobile payments will be when convenience and rewards combine to the point where consumers see a good reason for making the switch for routine payments,

and going mobile with rent is a big step in that direction.

"Apple and Google are battling it out to win over consumers, and it's becoming easier to see that Google wants to be the one controlling not just consumers' online lives, but their financial lives as well, and the way it's using incentives to get consumers to trust their payment credentials to Android Pay is just one more piece of evidence of their goals," Hewitt said.

RadPad, which earns fees for listing available apartments in Los Angeles and Chicago, has made mobile payments a central feature by acting as a payments gateway. Many of its customers are young adults who prefer making electronic and card payments, while many landlords still require renters to pay by check.

To streamline processes for all participants, RadPad accepts payments from renters through its app and delivers

payment to landlords by mailing them a check; landlords also may accept payments from RadPad via ACH. In either case, landlords are freed from collecting renter's checks or payment details, and RadPad also enables apartment dwellers to split the rent and sends them reminders.

RadPad accepts all card payments and added Apple Pay before it introduced Android Pay.

Even without a promotion to waive credit card fees, Apple Pay accounted for 8% of all RadPad payments before the Android Pay promotion began, a RadPad spokesperson said.

When announcing the premature end of its promotion, RadPad started encouraging Android Pay users looking to avoid a fee to switch to using ACH payments.

Users also may link their debit card to the app for rental payments, which carries a flat fee of $4.95 per payment. **ISO**

SAMSUNG PAY'S STRATEGY ADAPTS TO THE U.S. MARKET

Samsung Pay is getting a new look in the U.S. as part of a long-term goal to move beyond payments technology to broader commerce platform.

ªWe will start to add new functions that, traditionally, you had to carry in your wallet,º Thomas Ko, global general manager of Samsung Pay, said in an interview.

ªAll of those things we'll actually put into Samsung Pay and you'll be able to replace the wallet. Some of those functions are being offered already,º like loyalty memberships and gift cards, ªbut we'll keep doing more and launch additional services,º Ko said.

The mobile payments service announced a slew of new features at October's Money 20/20 conference in Las Vegas: location-based deals at nearby retailers, in-app payments and Masterpass payments. It also announced international expansion to three new markets.

The upgrade comes just over a year after the mobile payments service launched in the U.S.expands upon the original functionality, which allowed users to load debit and credit cards and gift cards into their mobile wallets as forms of payment as well as rewards program memberships.

A new deals feature within the Samsung Pay app will give U.S. users access to discounts and coupons at nearby retailers that are instantly redeemable. Consumers in the U.S. will also be able to checkout with Samsung Pay when shopping within select merchant apps.

Samsung Pay also announced its forthcoming global

expansion into Malaysia, Thailand and Russia. Ko said it has been running tests there for three or four weeks and expects to roll out the service by the end of the year, bringing its presence to 10 countries since its initial launch in South Korea in August 2015. He also hinted at plans for further expansion announcements in 2017.

Mastercard has integrated Samsung Pay, as well as Android Pay and Microsoft Wallet, into Masterpass, a digital wallet that supports mobile payments at the point of sale and online payments without the need to type a card number each time a customer checks out of the store.

Samsung has had a tricky time spreading the use of its mobile wallet. Because Samsung Pay operates only on Samsung handsets, it is available only to consumers who are willing to pay the cost of its high-end hardware as well as overlook the brand damage of the company's widespread recall of its flagship Note 7 phones.

That said, Samsung has fared better in merchant adoption by incorporating a technology that allows its mobile wallets to simulate a magstripe card; this means that unlike rival wallets such as Apple Pay and Android Pay, Samsung Pay does not require a merchant to have an NFC terminal to accept mobile payments.

But even this advantage may be short-lived, as it is rumored that rival smartphone maker LG will be incorporating a similar technology in the design of its own devices.

Health Care Gets Aid from Cloud

Health care payments are usually far more complicated than traditional business payments. So why do hospitals still rely on outdated payment mechanisms? **BY JOHN ADAMS**

The refrain is familiar by now—health care payments are more complicated than consumer payments and require special technology and products. But there's another difference between health care providers and the rest of the world, one that's just as vexing and equally attractive to technology vendors.

Health care businesses often order and pay for supplies in a manner that can be relatively decentralized, disorganized and surprisingly inefficient.

The current structure can result in "different physicians at a medical practice making a bunch of different orders for latex gloves or swabs, all from different vendors that all charge different amounts and ship differently," said Tommy Bentson, vice president of customer success at Basware, an Espoo, Finland-based company that offers purchase-to-pay, electronic invoicing and other financing services.

While companies like Splitit, Simplee and other third parties focus on managing the complex and expensive consumer direct health care payments market, Basware resides on the business invoicing side. It has updated its technology to enable cloud delivery and mobile commerce, which the company says is more affordable and more germane to the needs of health care B-to-B payments.

Bentson argues purchase-to-pay, which connects procurement and invoicing with business flow, can help health care companies streamline supply chains. Purchase-to-pay is not a new supply chain model, but it is uncommon in health care, mostly because providers cling to paper-based transactions and manual processing, according to Bentson.

For health care, that difference is the decentralized purchases—doctors at a practice usually order supplies themselves or through nurses, creating a mismatch of need and supply. They also pay differently, with a mix of check, card or wires depending on the specific order.

"Also, the supplies themselves are

different," Bentson said. "You have antivirals and controlled substances that have an expiration date, as well as the possibility that you may run out. You have to keep an on the supply and expiration date to optimize your inventory."

There are also changes in the technology that powers purchase-to-pay that make it easier to access on handheld mobile devices, and as such potentially more usable for medical staff, Bentson said.

The cloud-hosted technology enables mobile access for inventory tracking, ordering and payments. Nurses and clinic workers are not in front of a computer, Bentson said, so they often order supplies "on the fly."

Access to a mobile device allows staff to view a digital catalogue that has approved supplies from preferred vendors—shopping, ordering, payment and shipment can all happen from the same app, similar to any other e-commerce site but with features customized for health care offices.

Trilogy Health Services, a Louisville, Ky.-based senior health care and hospitality provider, hopes to gain leverage with vendors via the addition of the payment and supply technology.

"The [technology] will also provide a faster turnaround for processing invoices, enabling us to capture fast pay discounts and negotiate them in the future," said Mike McGrath, director of purchasing at Trilogy, who said Trilogy used a manual budget and purchase order system tied to a back office accounting program that didn't provide much oversight into purchases.

"[The upgrade] will have a true approval process in place that will allow our administrators to approve orders prior to being placed, rather than approving invoices after the fact," McGrath said.

For a billing automation technology company like Basware, the opportunity is to expand on the value of digitizing invoices, said Nancy Atkinson, a senior analyst at Aite.

"Any company with multiple purchasers is likely to encounter sub-optimal purchasing and inventory management," Atkinson said.

"Basware can provide insight into these purchasing practices and enable companies to control these key processes." **ISO**

INVESTORS SEE CLOUD TECH AS VITAL TO PAYMENTS

Omnichannel commerce demands multiple layers of technology, and each layer adds a risk of latency and friction at time when payment companies can least afford it.

Cloud structures can smooth these workflows, and investors are seeing the potential of cloud vendors to serve as the connective tissue between ambitious startups and complex legacy systems.

"The whole payments space is evolving pretty fast," said Omar Khan, managing director of First Quay Capital. "Consumers are demanding change, simplicity and flexibility. Traditional networks are having to make way for new players, especially technology players. Given all of this, companies will increasingly need to have a cross platform offer."

First Quay, an Australian private equity firm, recently made an investment in Alpha Payments Cloud, a Dublin-based company offering a hub that communicates with business systems and supports multiple technology types and programming languages. This allows it to deploy numerous vendor permutations that work together to improve productivity and reduce glitches.

Alpha has offered merchant automation in an "app store" model for some time, and is bracing for what it sees as more demand for technology that can manage other technology. As merchants and financial institutions embrace multi-channel shopping and payments, or simply rely more on mobile payments or apps, they're using more innovation from third parties, or from the diverse toolkits that are increasingly part of IT sourcing.

The complexities are still prevalent for banks and merchants in optimizing their digital, mobile and point of sale payments, risk and commerce strategies, said Oliver Rajic, CEO of Alpha Payments Cloud. "Both locally and globally, requirements change depending on different buyers, products and varying ticket sizes," Rajic said. "The bank can limit themselves to a small number of vendors for every merchant or can use our platform and access hundreds of vendors and create custom solutions based on the merchant's needs."

Alpha has the potential to be an alternative to the large financial technology vendors that sell a 'best of breed' approach to automation as an alternative to multiple technology relationships, which can be more expensive and difficult to manage, especially for smaller financial institutions or merchants.

"Alpha is the middle man for all of the middle men," said Bernard Golden, a cloud computing consultant, adding these third parties can lead to more than a half dozen points of contact depending on the relationshipsÐ and the goal of the new hosted technology is to benefit from these relationships will having a technology workflow that behaves as if these relationships have been eliminated.

Alpha's new investment will boost the company's current initiatives, which include a partnership with payments processor RS2 to provide banks in Thailand with access to multiple financial and non-financial services through a single integration. Alpha additionally announced a new partnership with Australia's Havantec to become the preferred integration provider for its identity authentication service.

The role of open development, which allows companies to build interfaces for e-commerce or mobile transactions, adds to this challenge, since the number of functions powered by application programming interfaces and software development kits is expected to expand rapidly in coming years.

Security Fears Still Rampant

EMV was designed to tighten security at the point of sale, and biometric authentication helps defend online and mobile commerce. So why are merchants getting more scared about fraud? **BY DAVID HEUN**

Because of zero liability rules, consumers rarely share the extent of the concerns banks have over account security. But their fears might be growing.

Despite the introduction of advanced security technology in the form of EMV chips, biometrics and tokenization, more than half of U.S. consumers feel card fraud has increased in the past year. And 42% say they have experienced fraud, with half of those saying it has occurred multiple times, according to new research from Auriemma Consulting Group.

The survey of 500 debit cardholders also revealed that nearly half of consumers believe they will be victimized again in the next five years.

Part of the issue is consumers' stubborn refusal to use a complex, unique password for each account. Also, more than two-thirds save passwords on their devices for at least some of their accounts, most commonly e-mail and social media, Auriemma reports.

The payments industry has long acknowledged that passwords are a weak and outdated security option, but one that will remain in place until other authentication methods reach scale.

As online activity increases, 30% of those who shop weekly say they save the password for nearly all of their accounts, which is double that of less frequent shoppers.

The larger the purchase amount, the more interested consumers become in using more security to protect that transaction.

But that argument can be a misguided concept, said Jaclyn Holmes, the senior manager at Auriemma who directed the study.

Consumers mostly enjoy saving that time online by using one-click payment checkout methods, with Amazon 1-Click and PayPal's One Touch being the most popular, the report said. But almost two-thirds of respondents feel that process makes online shopping more vulnerable to fraud.

"Many cardholders are uneasy with the idea of being permanently logged on," Holmes said in a release. "Consumers appreciate the convenience of being able to breeze through online checkout with a single click, but it may be leading some to wonder whether that same convenience could make them a tempting target for fraud."

Some consumers are beginning to equate better security with taking more time, as they experience the EMV chip card process at the point of sale, the report said.

Forty-two percent of respondents chose chip cards as the method they considered most secure for payments, or more than three times the number that chose mobile. Even though early adopters of mobile understand the added security of tokenization, or the replacement of card numbers with a random sequence of unrelated characters, most consumers do not.

"In the general population, mobile's speed and convenience equate to being less safe," said Marianne Berry, managing director of payment insights at Auriemma. "To convert non-users, marketing messages should highlight how mobile pay transactions mask the payment card information."

The major card brands have been trying to deliver that message in ad-

Consumers warm to biometrics

Millennial consumers surveyed expressed comfort with a range of biometric authentication options

Source: VocaLink
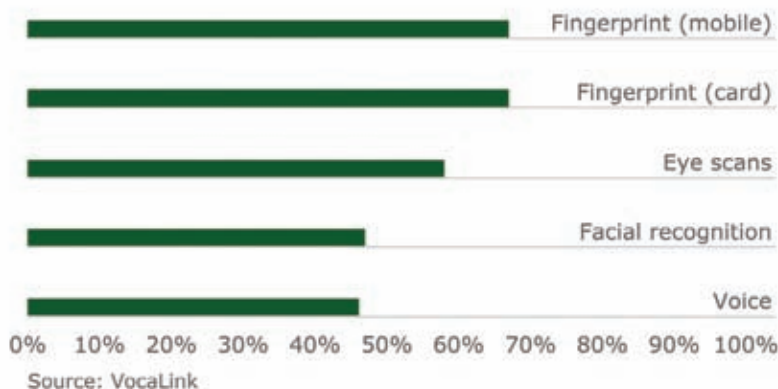
vancing digital payments, but the fact that consumers are looking at EMV chip cards as the most secure method is also helpful to the brands as they continue to push the U.S. away from mag-stripe cards.

More than 345 million Visa chip cards have been issued in the U.S., a 173% increase from a year ago, or just a few months before the October 2015 liability shift for EMV cards, according to Visa's end of July figures.

About 30% of all U.S. merchant locations, or 1.4 million storefronts, are accepting chip cards, Visa said, and more than a half a billion Visa chip transactions took place in July, or 16 times more than a year ago.

That represents a key chip-on-chip transaction statistic for Visa because the 554 million transactions in July are 26% more than the 440 million reported in May.

Still, Visa and other card brands have made the move to bring the security of EMV chip cards, which addresses counterfeit card fraud at the point of sale, together with the mag-stripe transaction speed that consumers were accustomed to.

Visa introduced Visa Quick Chip to

reduce transaction times from 10 to 2 seconds, and MasterCard and Discover quickly introduced similar technology. The first Quick Chip deployment took place earlier this month at a grocery chain in the San Francisco region.

Around the same time, Javelin Strategy & Research issued a report on the growing consumer confidence in biometrics as an authentication method and fraud prevention tool.

Nearly half of U.S. consumers believe fingerprint biometric is an effective form of security, and 65% said they are willing to use it, the Javelin report said.

The payments industry has to embrace the use of biometrics for cardholder verification for physical card transactions because PIN and signature transactions will continue to frustrate consumers without slowing down fraudsters, Javelin's report said.

Some merchants are beginning to test biometric readers at the physical point of sale, especially in settings like exercise facilities where patrons are less likely to carry a full wallet.

"PIN and signature are solutions for another past life," said Al Pascual, research director and head of fraud and security at Javelin. **ISO**

Ignore Starbucks' Mobile Model

Starbucks has had amazing success with its mobile payment app, but retailers would be wrong to try to duplicate its work exactly. **BY DAVID HEUN**

For years, retailers have looked upon Starbucks' mobile payment app — which is used for a quarter of its U.S. in-store payments — with envy. But lately, stores are realizing that they don't want to duplicate Starbucks' success.

At the core of Starbucks' mobile payment app is the Starbucks reloadable gift card, and the app streamlines the processes of reloading and checking balances.

However, many retail stores prefer to drive spending to private-label credit cards, which get different benefits from a mobile app.

"Everyone says Starbucks is different, but every retailer strives to have the majority of their sales on their private label card," said Richard Crone, chief executive of San Carlos, Calif.-based payments consulting firm Crone Consulting LLC.

"Now they are starting to wake up and are seeing they can provide a whole suite of services around this mobile wallet," Crone said. "They can eventually get to

where a customer could open a private label credit card account in the privacy of their own home through the app."

Kohl's in particular is demonstrating the wisdom of building a mobile app to suit its own needs. With Kohl's Pay introducing the option for users to redeem various Kohl's rewards at the time of transaction, through a simple QR code scan, the process "is so easy it is as close to Uber as a retailer can get," Crone said.

Many retailers didn't make the move in the past to push their private label cards more aggressively or establish them as the brand in a mobile wallet because their back-end providers didn't support mobile, Crone said.

When the Merchant Customer Exchange initiative to create the CurrentC mobile wallet fell apart, the major retailers who were MCX members had learned enough to venture out on their own with branded wallet apps and hook up with providers also on board with mobile, Crone added.

Private label cards are already a sound economic move for retailers.

Depending on how their contracts are set up with private label issuers and processors, the retailers promoting private label cards for transaction volume make money on each of those transactions, as opposed to paying interchange for sales on open-loop network cards.

Essentially, the private label providers pay the retailers, instead of vice versa.

"I don't know if it is interchange as we know it," said Brian Riley, director of credit advisory services for Mercator Advisory Group. "The average interest rate on those transactions is pretty high, so if it is not really interchange, I would call it more of a rebate or a participation benefit."

Major retailers did not respond to inquiries about their current transaction contracts, but one did confirm a provider generally pays the retailer low to mid-single digit percentages on a transaction, while the retailer also is not paying a 1% to 2.5% interchange fee to a card network. That math adds up well for retailers.

The major private label providers striking these deals and offering incentives include Synchrony Financial, Alliance Data, Capital One Private Label, Citi Retail Services, Wells Fargo Retail Services, and others.

Those providers make their money off the receivables from the card accounts, as most retailers don't hold onto their own receivables.

"It's a new era and, quite frankly, a healthy one if you are a bigger retailer," said Steve Mott, principal of Better-BuyDesign, a Stamford, Conn.-based consulting firm. "If you are a smaller retailer, interchange keeps going up, but that's the name of the game in a free-market, capitalist system."

Co-branded credit cards represent about 30% of total card payments, while private label cards hover around 10% of the payments card business, Mott said.

"The big incentive on private label cards used in a store is that processing costs are less than a nickel a transaction," Mott added. "A private label card is rarely used outside of the store, but it does happen."

One of the deficiencies of Apple Pay when it first came into the market was its inability to support a private label card, Mott said.

"A retailer who has a private label card is getting more than 50% of its business on that card, so it is kind of silly to participate in Apple Pay if you can't get it to most of your customers," he added.

Synchrony Financial has partnered with retailers to integrate into their native apps, in the same manner it did with e-commerce and mobile web, said Whit Goodrich, Synchrony Financial senior vice president and retail card chief marketing officer.

"This is a clear overlap of a retailer's most loyal customer base in those that have downloaded the native app and also those that have a retailer branded credit card," Goodrich said. Those cards could be a private label card or Synchrony's Dual Card, used as a private label card that can also be used for transactions outside of the store.

As more private label cards become available and retailers catch on to the incentive programs offered through providers, bank-branded wallets may also find their spot right alongside the Kohl's and Walmart Pays of the world, Mercator's Riley said.

This is especially true of Chase Pay, which is expected to be available late this year or early next year, and already has various retailers signed on to support the mobile payment platform.

For consumers, Chase Pay will operate nearly identical to Kohl's, Walmart, Dunkin' Donuts and Subway wallets through their use of QR-code technology. The third-party wallet providers like Apple, Android and Samsung operate on Near Field Communication technology, calling for retailers add those NFC readers to their terminals.

With their own mobile wallet venture out of the picture, most MCX members are turning to their own apps and have also cozied up to Chase Pay, considering the low fees it had offered the retailers to support the technology.

If a retailer can obtain the private label benefits of avoiding interchange through its branded wallet, plus accept Chase Pay with its promise of lower fees, their transaction costs will become substantially lower.

"A real sweet spot for Chase Pay will be when a Chase customer is going into Walmart," Riley said. "That's a pretty good combination for the retailer to get, and the advantage for Chase Pay is that it would have a much wider footprint over the others." **ISO**

Hackers Threaten POS and Mobile

More hackers are going after platforms, not people. Such tactics can be devastating for merchants and consumers alike. **BY THORSTEN HELD**

In the past, hackers have most often gone after specific merchants when seeking cardholder information. Recent attacks on point-of-sale (POS) vendors, however, may signal a drastic shift in how these cybercriminals operate, and certainly signal a need for application security for mobile payments.

More than ten POS vendors, including MICROS, have been compromised within a few weeks. Some of these attacks may be linked to two specific forms of malware: Carbanak and MalumPOS. However, no definitive link between the hackers behind these programs and the recent attacks is certain.

The damage that these attacks can cause are best exemplified with the story of the HEI Hotels & Resorts company. It recently reported a POS-related breach of security at 20 of the properties it manages (which includes major hotel chains such as Marriott and Sheraton). Card numbers, cardholder names, expiration dates, and verification codes used between March 2015 and June 2016 may all have been exposed.

As these breaches indicate, past cyberattacks have mostly been directed at merchants. Mobile devices, however, are now advanced to the point where using your device at the POS is more frequent. Mobile payments are just another way that hackers are seeking to gain control of sensitive data. Hackers are not simply changing to new specific targets; they're targeting multiple points of vulnerability at once – including mobile payments. It is not enough to focus on protecting merchants—security must now be applied to the entire infrastructure supporting merchants, POS systems and mobile devices.

Near Field Communication (NFC) technology has been gaining traction with many device manufacturers as they introduce their own payment solutions. However, NFC-based applications use a secure element (SE) on the mobile device to store credentials whereas Host Card Emulation (HCE) is an easy-to-deploy alternative that does not require a physical secure element on mobile devices and enables NFC devices to perform the same transactions but instead storing credentials somewhere other than the SE – such as in the cloud. With all the benefits that HCE provides, there are associated security risks such as identity theft, fraud and privacy. If these risks aren't addressed, cybercriminals can reverse engineer sensitive code that transmits or processes encryption keys within the mobile device.

Merchants need to take security for HCE to the next level by providing application hardening to protect apps and devices with: Integrity protection, code (application) obfuscation, white-box cryptography, jailbreak detection, and anti-debug protection. **ISO**

Visa's New CEO Takes the Reins

Visa's choice for its next CEO brings in someone who knows the company well. But he won't be a carbon copy of his predecessor. **BY KATE FITZGERALD**

Visa Inc. caught investors off guard with the news that CEO Charlie Scharf is quitting after four years for personal reasons, to be replaced by longtime Amex exec Alfred F. Kelly Jr. — putting the new boss on the hot seat at a time when much is at stake for Visa.

Today, Visa is re-integrating itself with Visa Europe and making peace with longtime rivals like PayPal, while also facing merchant dissatisfaction with the EMV transition and looming legal showdowns.

Experts say it's a tough time to suddenly bring in a new leader, no matter how qualified he is.

"Visa is in a transitional period as it looks to not only expand its position on the value chain, but open up what has traditionally been a closed network," said Jordan McKee, a senior analyst with 451 Research, adding: "A leadership change during this company-wide evolution is not ideal."

Kelly has his work cut out for him, and he acknowledged in a conference call that he will be constantly in motion, with plans to spend a significant amount of time in Europe and China, as well as both U.S. coasts, all in service of Visa's business interests.

He also faces plenty of challenges from the merchant side, including outstanding litigation with Walmart on routing issues around PIN debit transac-

Alfred F. Kelly Jr., a longtime Amex exec, is taking over the CEO role at Visa.

tions and the collapse this year of the merchants' long-running interchange lawsuit.

Kelly does not plan to make drastic changes on day one, but "the reality is that I'm certainly not Charlie [Scharf] and over time I'll figure out how to put my own stamp on the organization," Kelly said in a conference call.

Some changes may be overdue. Many large banks are skeptical of certain Visa policies, McKee said.

"Visa's attempt to 'own' tokenization and its release of services such as the Visa Digital Commerce Application and Visa Commerce Network have raised many eyebrows in the C-suites of large issuers," McKee said.

Kelly's background at Amex—which operates on both the consumer and merchant side—could help in confronting these challenges, said Aaron McPherson, an independent payments analyst.

"I think the balance of power is shifting toward the merchants, and that Visa needs to continue to pivot its focus to become more merchant-centric," he said, noting that it will be a difficult balancing act.

Scharf already has laid out a battle plan and this year he oversaw several strategic moves that might bring the

various factions that drive Visa's business into better harmony.

Visa for the first time opened its network to third-party developers, inviting collaboration with financial institutions, merchants and technology companies through the use of APIs.

In July, Visa negotiated a cease-fire with PayPal after tensions between the two companies had escalated to the point Scharf in June warned PayPal of the perils of becoming "frenemies" because of PayPal's relentless efforts urging consumers to pay via ACH instead of payment cards.

Under that new arrangement, PayPal promised to give Visa issuers equal visibility as funding options, and Visa vowed to provide economic incentives and invited PayPal to join the Visa Digital Enablement Program, which could pave PayPal's path to acceptance in stores. (Mastercardannounced a similar arrangement in September.)

Visa's PayPal deal signals a new approach to working with nonbanks and merchants in a rapidly changing marketplace that spans the globe.

"Visa has traditionally played offense in the payments market, but the market dynamics today require more defense," said Patricia Hewitt, CEO of PG Research & Advisory Services. "Visa needs to recreate for itself a digital imperative to process global transactions and ... this will increasingly be dependent upon partnerships in conjunction with digitally enabling network services to scale."

Scharf told the board of directors of his plan to resign on Oct. 17, though he'd signaled to them last month he was having trouble straddling his job in San Francisco and responsibilities of being a husband, father and son to family members on the East Coast, said Bob Matschullat, Visa's chairman, during a conference call later that day.

Visa's board had already been exploring its options for a successor and

Outgoing CEO Charles Scharf is leaving Visa to spend more time with family.

its decision to name Kelly as chief was unanimous, based on Kelly's deep payments experience from 23 years spent at Amex in diverse roles, including as the rival card company's president until 2011.

At the time of Kelly's departure from Amex, some suggested one reason was that he wanted to be chairman, and after some months he resumed leadership roles elsewhere, venturing far away from payments into sports and community efforts.

Kelly from 2011 to 2014 was CEO of the Super Bowl Host Committee for the 2014 Super Bowl in New Meadowlands, N.J., and early this year he was named chairman and CEO of Intersection Co., which is working to convert New York City's former pay phone booths into public WiFi nodes.

At Amex, Kelly handled a broad range of duties from leading the consumer card group to overseeing small-business and merchant services, travel services and prepaid card operations.

Visa's board is only one of those Kelly has served on in recent years. Kelly has also held a seat on the board

of MetLife since 2009 and currently serves on the board of apparel retailer J.Jill, according to Visa.

Kelly also has been a trustee for charitable organizations.

"Mr. Kelly's deep industry knowledge and familiarity with Visa are reassuring," said Morgan Stanley analysts in an Oct. 18 investor note.

"While it will likely still take time to become more familiar with Visa's operational inner workings, we think this is probably a good time for leadership change ... as the priorities and challenges facing Visa over the next few years are likely to be different than the last few years, given the Visa Europe integration and resurfacing of the legal battle with the merchants," Morgan Stanley said.

Because Kelly has been away from the payments industry in a day-to-day sense for several years, analysts say he will need to move quickly to provide the same results Scharf did in his years as CEO.

"These are big shoes for Al Kelly to fill," said Tim Sloane, head of payments innovation at Mercator Advisory Group. ISO

Costco Confronts the Pitfalls of Deep Integration

BY DAVID HEUN

If there is a takeaway from Citigroup's not-quite-stellar rollout of the Costco Anywhere Visa card, it is this: Even in modern times, the transition of large card portfolios from one issuer to another can prove disastrously complex.

After major complaints occurred in June from Costco members who were having trouble activating their new cards when Citi and Visa began the transition to replace American Express cards, it was revealed that Citigroup had sent a batch of e-mails to the wrong account holders, saying those card memberships at Costco had lapsed.

The only problem was they hadn't, and Citi was left scrambling to appease irate customers again.

The problem stems from the complexity of the portfolio's integration with Amex, said Gil Luria, analyst with Los Angeles-based Wedbush Securities.

"This deal is unprecedented in scope," Luria said of the transition of 11 million member cards. "American Express' reliance on Costco, and Costco's integration of American Express was broad and deep, so it is very hard to just change that overnight and we are seeing that transition pain now."

The industry has shown on more than one occasion that any changes in issuing, acquiring or payment processing for a retailer's card brand can result in challenges, stemming from increased customer inquiries to a more nightmarish scenario when cards don't work when consumers present them at the point of sale.

With far fewer accounts, at about 2 million, prepaid card provider Green Dot had considerable woes in moving payment processing from TSYS to Mastercard. It resulted in a period of time four months ago in which nearly 59,000 Walmart-branded prepaid cards simply did not work.

As far back as 2010, JPMorgan Chase and Starbucks proved that major brand names are not immune to card portfolio problems.

They did not have rollout issues years earlier with what became the popular Duetto card, but did put an end to this credit card romance by terminating Duetto's use and illustrating some of the pressures a card portfolio can face from the economy, costs and ongoing expectations.

No matter which bank or card brand is involved, the key aspect of dealing with card portfolios is predictability, said Brian Riley, an independent payments consultant with past experience at Citigroup.

"For it to be 100 basis points better is just as bad as being 100 basis points worse at the end of the day because you are trying to give your investors guidance," Riley said. "A good surprise can have a bad effect if it turns out to be something you are not expecting."

A couple factors worked against Citi in that regard. The bank could not address Costco customer questions until Visa had completed its acquisition of the portfolio from American Express.

It resulted in "eight months of pent up demand during which time we couldn't address questions on the new product or existing accounts as the portfolio was with a different issuer," said Jennifer Bombardier, senior vice president of public affairs for Citi global cards and consumer services. "The call volume was groundbreaking as of June 20 [official launch date]."

Calling the transition "one of the single largest portfolio conversions in history," and with a brand as popular as Costco, the consumer interest and questions were unprecedented, Bombardier said.

In the early days of the launch, Costco customers experienced longer wait times, but Citi has responded to the demand for new cards and the average call waits were as low as just a few seconds the past weekend, she added.

"It is important to note that despite some of the reports in the media and elsewhere, the vast majority of call volume was related to a number of topics, including card activation, payment queries, online setup and things of that nature," Bombardier said. "They were not complaints."

In addition to being such a large portfolio transition, the Citi/Visa takeover from American Express at Costco has garnered much attention from investors, particularly those who questioned the economics of the move for Visa.

Four months ago, Visa CEO Charlie Scharf was defending his company's position in obtaining the Costco pact, which some investors felt was too steep considering the store's cost to accept Visa transactions was reportedly near zero, while the expense of loyalty and rewards programs have been on the rise.

Scharf essentially said his company could withstand the lower transaction fees because the warehouse shopping business model is sure to bring many new customers into the Visa fold.

Visa did not respond to inquiries about Citi's rollout problems by deadline.

Citi is confident that its most recent measures of proactively communicating with customers about activation options; updating its FAQ section online; and increasing staffing at call centers (in addition to Costco adding up to 20 new employees to enroll new card members and answer questions); will greatly smooth over the transition.

Bombardier said Citi has added "a few thousand" people over the past year for customer service support during the transition. **ISO**

First Data Straddles Two Worlds

The shift to EMV, NFC and other modern payment types is creating a split in the market based on which technology each merchant chooses to adopt. To adapt, First Data must find a way to serve multiple audiences. **BY JOHN ADAMS**

The EMV and mobile wallet movements have split the retail industry, leaving payment companies in the delicate position of having to support clients with very different technological profiles.

This split is also happening on the consumer side, leaving some merchants with multiple payment acceptance devices to accommodate different needs at the point of sale. First Data's goal is to consolidate these products into its Clover Go mobile point of sale device, which has support for EMV, NFC and card swipes.

There is a lot of point of sale technology already in the market that powers all three major payment methods, including other products in the Clover line. But the more complex offerings are typically based on tablets or other hardware that is not meant to leave the store. Even Square — the pioneer of "dongle" payments — divides its catalog into NFC and non-NFC payments.

What's different with this new release of Clover Go is it enables remote smartphone-based in-the-field payments for all three payment types.

"Small merchants don't always work in a store, and they don't always have a terminal with them," said Jeff Hack, executive vice president of global business solutions for First Data, primarily overseeing small to medium sized businesses.

The new Clover Go is a small piece of hardware that pairs with a merchant's smartphone or tablet, and can attach the phone physically or wirelessly (a design choice that makes it compatible with the newest iPhones, which lack a headphone jack).

"We're in this transition phase, where you have a whole lot of swiping going on and most folks are getting used to dipping their cards and mobile payments are more prevalent," Hack said.

It's likely that more phone makers will ditch the audio jack as they strive to make handsets resistant to water and dust contamination, said Tim Sloane, vice president of payments innovation and the director of the emerging tech-

nology advisory service at Mercator . "Based on that I'd expect it will slowly disappear, but likely very slowly."

But regarding Clover and other solutions, Bluetooth is a fine solution for payments as long as the security has been carefully applied, Sloane said.

"The encryption should of course be implemented in the magnetic head or the chip reader and the Bluetooth software on the reader should make sure it can be paired with only the right device and no others." Sloane said.

The introduction of EMV has also forced changes on the mobile point of sale industry, since their new hardware is more complicated and can't be offered economically for free. **ISO**

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Merchants in for Bad Holidays

Retailers don't like to change their hardware during the holiday shopping season. This year, that means many stores will have to halt their EMV plans Ð and fraudsters are ready to pounce. **BY KATE FITZGERALD**

There's no way to gift-wrap the EMV woes for issuers and retailers around the upcoming holiday sales season.

Fewer than half of all U.S. merchant locations have embraced chip cards, and in a few months as crowds of shoppers descend on stores beginning on Black Friday, the partially complete EMV landscape could magnify retailers' risks.

The chaotic holiday sales period is prime time for thieves, and payments experts say criminals are likely to pounce on opportunities to rip off retailers who still haven't yet upgraded terminals to accept more secure chip cards following the Oct. 1, 2015 liability shift for counterfeit card fraud.

"From what we saw in other markets around the world, there's a concerted effort by fraudsters to pull as much fraud from the payments system as possible before things fully migrate to EMV," said Troy Bernard, director, strategic marketing and products at card manufacturer CPI Card Group.

Issuers have converted about 65% of all credit cards and more than 30% of debit cards to EMV, according to CPI's latest research. In 2017 things will look much different, with most credit and debit cards sporting more-secure EMV chips, greatly reducing opportunities for counterfeit card fraud at the point of sale, according to Bernard.

"Sophisticated merchants and issuers realize the upcoming holiday season likely will be the last hurrah for card-counterfeiters, and they should take that into consideration as we approach the busiest shopping period of the year," Bernard said.

But merchants who rush to finish their EMV upgrades right before the holidays may find clerks fumbling to understand the new system.

To assess retailers' risk around EMV this holiday season, Morgan Stanley recently conducted a survey of 35 larger merchants and specialty retailers about their chip-card upgrade status and concerns, and found a mixed bag.

Overall, Morgan Stanley said the chip-card transition will be of "minor significance" to the majority of retailers during the holidays, but there are some areas of concern, particularly for smaller merchants.

In contrast to Mastercard's latest data suggesting only 30% of all U.S. merchants have completed the chip-card migration, Morgan Stanley said 57% of larger, national chains it analyzes have finished their EMV upgrades.

Nearly a quarter of those surveyed, or 26%, said they plan to complete their EMV upgrades before the end of the year. The remaining 27% likely won't finish their chip-card upgrades this year. **ISO**

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