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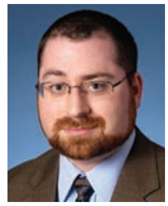
NOW THAT THE HOLIDAY SALES RUSH IS OVER, RETAILERS ARE OPEN TO REINVENTING THEIR POINT OF SALE. A LOOK AT THE INVESTMENTS BEING MADE, AND WHAT ISOs NEED TO KNOW TO STAY COMPETITIVE

Inside 01/02.2017

Cover Story

RYAN ETTER

Editor's Letter



Daniel Wolfe
Editor

Investing in Technology

IT'S TIME TO THINK BIG ABOUT THE POINT OF SALE.

With the hectic holiday season behind us, retailers have an opportunity to upgrade aging point of sale systems and experiment with emerging technology. Ironically, Amazon.com — a company not known for its physical retail presence — is leading the pack with its Amazon Go concept store, which streamlines the checkout to the point where it is practically invisible.

Other retailers may not wish to be so bold, but that doesn't mean they have to watch idly as Amazon captures the imaginations of the most tech-savvy customers. Advancements in mobile payments and loyalty are within reach of even the smallest sellers.

At the same time, technology demands at the point of sale is getting more complex than ever, much to the frustration of many merchants. EMV upgrades are dragging on for reasons out of retailers' control, and with the recent EMV extension given to gas stations, it will be years before the U.S. moves fully to the chip-card standard. **ISO**

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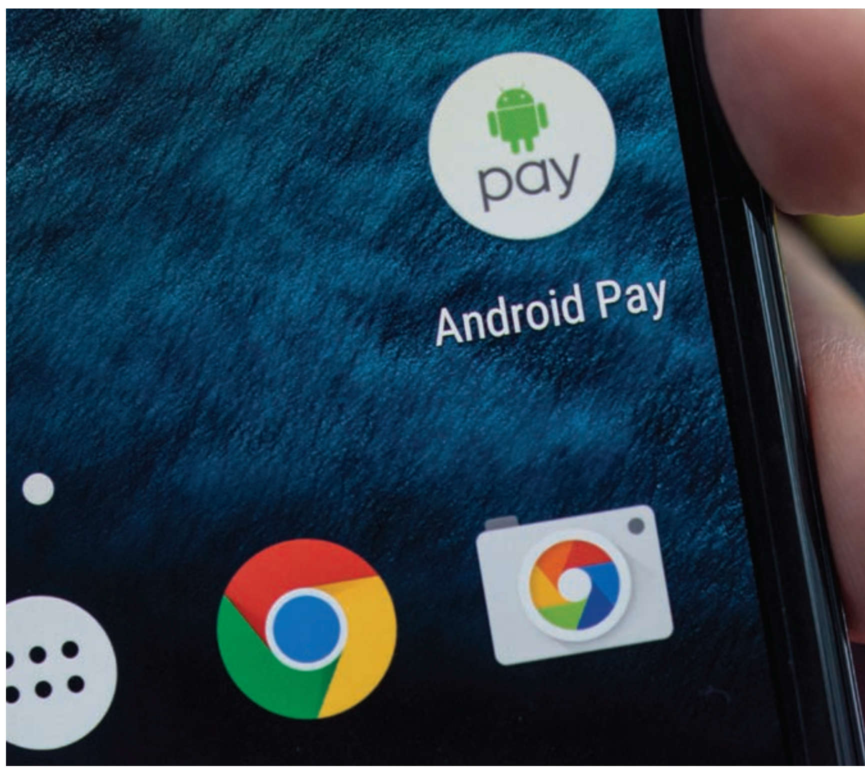
Retailers Beating the 'Pay' Wallets

The `one size fits all' mobile wallets offered by Apple, Google and Samsung would seem to fit every need a consumer has. But they don't Ð and retailers are eager put better wallets on the market. BY JOHN ADAMS



Bloomberg News

Apple Pay, Android Pay and Samsung Pay may seem to have a marketing edge over retailers' mobile wallets, but there is strong momentum among apps that serve individual merchant brands.

One reason for this spike in merchant app development is there is less fear of app fatigue—or consumers storing too many apps on their phones—as smartphone culture matures, said Jon Squire, CEO of Cardfree, a San Francisco company that provides digital marketing and technology to retailers.

"People have the five or so major brands that they interact with on mobile already, so you're just adding payments," Squire said. "People don't see a major mobile payment app as the single wallet solution for their lives. They see the actual phone as that single solution."

The merchant-specific app market got an added boost as House of Fraser, a U.K.-based and Chinese-owned department store invested about $50 million in U.K. challenger bank Tandem to develop a mobile app for banking and payments specific to the retailer, with financial and card services slated to deploy over the course of 2017.

The store would not comment beyond the press release, but the move suggests more retailers are comfortable with adding payments, marketing and even limited financial services to their mobile apps in addition to—or instead of—relying on third parties.

Having "too many" apps isn't a big deal because the tech industry is making it easier to accommodate and manage more apps on phones, according to Rick Oglesby, founder and president of AZ payments.

"While app fatigue is real, there's more than enough app capacity for consumers to have individual apps for their favorite merchants."

Cardfree's clients include Dunkin Donuts and Taco Bell, where apps that enable consumers to place their order ahead of time have seen gains. Dunkin Donuts expanded its app's capabilities in 2016 following a successful pilot of the order-ahead feature in Maine, and Taco Bell reports order volumes are higher for mobile orders than for orders placed in stores. Other merchants embracing mobile ordering include Starbucks, Domino's and McDonald's. Starbucks gets as much as 10% of its total business

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AAMA American Amusement Machine Association from order ahead, and 25% of its U.S. in-store transactions that come from its mobile app.

"In-store mobile payments require behavioral change on the part of consumers," Oglesby said.

"No one is in a better position to drive that behavior than the merchants themselves, who can readily bundle additional capabilities into their mobile apps as opposed to the third parties, which are largely providing standalone payment apps or enabling third-party programs."

Order ahead, which is a relatively recent addition to merchant mobile apps that has proven popular among quick serve restaurants, is harder to execute for multi-retailer wallets, Squire said.

"No one is in a better position to drive ... behavior than the merchants themselves."

-Rick Oglesby, founder and president, AZ Payments

And the benefits for these brands is tying specific relationships to marketing and line-busting features, Squire said.

"If you're paying from a cloud delivered technology, you're skipping a line," Squire said. "Near Field Communication doesn't do anything to bypass the transaction. If you're 10 or 15 feet deep in a line, an order ahead app from the retailer will fix that for you."

Individual apps can also benefit grocery stores by storing orders or issuing real-time offers based on a consumer's past shopping habits, Squire said, adding that like order ahead, that's harder for a centralized app to execute.

Over the longer term, store apps will likely implement the payment functionality of the tech companies' mobile wallets, Oglesby said, adding not all consumers will be loyal enough to specific merchants to carry dedicated apps.

"In the long term, by 2020 or something like that, it does make sense to have a provider step out and do all of this—loyalty, order ahead, etc.—in a centralized app," Squire said. "But right now the 'Pays' aren't doing this." **ISO**

WHAT TARGET CORP'S MOBILE APP MAY DO DIFFERENTLY

Target Corp. has demonstrated payments innovation in many ways, including participating in an early pilot of mobile payments with Starbucks, and driving its payments volume to lower-cost debit rails via its Red Card.

But apart from supporting Apple Pay in-app after the mobile wallet's launch, Target has lagged behind other major retailers including Walmart, Best Buy and Kohl's when it comes to developing its own mobile wallet pulling its various payment options together.

Target will finally roll out its own mobile payments app this year, according to a Reuters report, but details so far are scant.

However, Target could surpass its rivals by tying its app into the emerging payment services it already supports.

What we know is that Target, along with Walmart, was an early backer of the Merchant Customer Exchange (MCX), which aimed to develop a barcode-based mobile payments app called CurrentC.

Participating retailers wanted an app that could support a variety of payment types and give them more control over managing their own customer data for loyalty and deals. CurrentC fizzled out last year after millions of dollars were spend on its development.

But many MCX members plowed ahead to develop their own mobile payment apps.

Walmart Pay rolled out last May using a barcode approach similar to what CurrentC had planned. MCX veterans Shell Oil and Phillips 66 last year announced they would participate in JPMorgan Chase & Co.'s Chase Pay mobile wallet to extend mobile payments to customers.

Walmart also is participating with Chase Pay.

Target's mobile wallet could theoretically do more than many existing wallets because of its existing payment innovations. Its mobile wallet would almost certainly include support for its popular Red Card, and it could tie in Bluetooth beacons, another technology Target has tested.

Target was not available to confirm the report.

Target's role in the development of mobile payment technology cannot be understated. The bar code readers it had in place enabled Starbucks — which operates a significant number of coffee shops in Target stores — to expand its original mobile payment app from a handful of stores in the Seattle area in 2009 to over a thousand nationwide.

From these beginnings, Starbucks was able to demonstrate the benefit of its mobile app at streamlining payments and reducing lines. The company has since gone on to become one of the strongest success stories in mobile payments.

Additionally, Target hosted trials of the location-based loyalty technology developed by shopkick, leading to a nationwide rollout of the tech in 2010 after brief trials in seven cities.

The shopkick app uses a phone's technology to verify that a shopper has entered a participating store.

Earlier versions of shopkick's system used the phone's GPS or mic — which could pick up an ultrasonic signal broadcast over a store's speakers — to detect a shopper's presence. The company now uses Bluetooth beacons, a technology also used by Apple and PayPal, to communicate directly with an app on users' phones.

Target has also helped more traditional payment products reach a wider market. In 2011, the mega-retailer partnered with American Express to test a prepaid card that had no monthly fee.

And long before the card networks began their official push of EMV in the U.S. Target tested the technology in its U.S. stores.

EMV: Out of Merchants' Control

As more merchants migrate to EMV, many are facing significant roadblocks that are beyond their ability to control. BY DAVID HEUN

iStock

Prior to the October 2015 EMV chip-card liability shift in the U.S., various merchant groups expressed concerns about factors that would keep them from meeting that deadline — some of which remain beyond their control.

One major fear was whether merchants would receive processor specifications in a timely manner, and making all of those specifications work without a hitch through hardware security modules, network software, payment gateways and point-of-sale terminals. They envisioned a series of tests, certifications and recertifications to accept all payment types, with the timeline determined by other parties.

In many ways, that is exactly what has happened, especially in certain retail settings, said Daniel Montellano, vice president of strategic business development for Shift4, a Las Vegas-based payments technology and security provider.

"EMV adoption remains slow," Montellano said. "We noticed more places using it during the holidays, but it remains very slow for those in an integrated environment, where solutions were sent out massively in June of 2015, and that was just too late."

The Merchant Advisory Group sensed trouble in this area in September of 2015, noting in its position paper on EMV that there should be a way for merchants to work within the payments industry to get to a "delta certification point" so that any one party's experiences with implementation could benefit other merchants. Without that sort of process, merchants would have to keep re-certifying when integrating parts of the EMV puzzle.

Near the end of last year, Visa was reporting 1.7 million and Mastercard 2.3 million merchants accepting chip cards, representing roughly 38% of U.S. merchants.

At the start of 2017, things are picking up and EMV deployments continue to rise, but less than 10% of Shift4's clients are accepting chip cards—and the company has been offering EMV integrations for several years, including seven years in Canada. Many have the equipment and are ready, but can't turn on EMV until specifications are working in all parts of the network.

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molafson@capitalprepaidservices.com | www.capitalprepaidservices.com it has brought more business to us, because many processors don't have the resources to service hundreds of companies," Montellano added. "Some processors have to drop what they can't handle."

It's a problem being discussed in many corners of the payments industry, said Thad Peterson, senior analyst with Boston-based Aite Group.

"The reality is that EMV implementation is very, very complicated, and some processors have not been fully prepared to support their customers even a year out from the liability shift," Peterson said.

The food service and hospitality verticals represent a challenge because they are clearly lagging in EMV implementation, Peterson said.

"The downside risk to not implementing has not been clearly communicated and they become increasingly vulnerable as fraud shifts away from traditional channels," he added. "There needs to be a concerted effort to move food service and hospitality to EMV."

Initially, merchants and processors alike feared that an issue regarding EMV debit transaction routing to satisfy the Durbin Amendment would delay the migration process — and it did to a certain extent. But that problem has been resolved, with progress smoothed further by recent updates such as Visa changing it routing choice rules.

Another obstacle that concerned merchants was the agonizing 10 to 12 seconds a card reader holds onto an EMV-chip card, compared to the split-second speed of a card swipe. Visa introduced Quick Chip software upgrades midway through 2016, with the other card brands quickly following with their own versions, though its adoption has been slow.

"Quick Chip is nice to have… but we know of many companies that will not take EMV because of how slow it is, and that would be sports or events stadiums and airports," Montellano said. "Those businesses can't have slow transactions, or they will lose money."

However, if EMV were a three-ring circus, the debit routing and Quick Chip solutions would be sideshows. Center ring still belongs to the difficulty merchants encounter in obtaining and deploying processor PIN key and encryption coding, researching which key injection facility to turn to, and setting up devices that work with the new specifications.

Consider businesses with multiple locations that encounter problems with integrating the proper processor keys, and you have months of EMV delays on your hands, Montellano said.

"It gets even worse, in the case of multi-unit retailers, if the processor suddenly says they are too small for them to work with and the retailer has to start over," he added. "We have seen this happen."

Ultimately, in relying on hardware partners to expedite their certifications, or encountering the need for extra data hardware, merchants must deal with the mounting costs of both EMV migration and the fraud that comes from being non-compliant.

Mobile wallets offer some reprieve, but the technology is still too thinly adopted by consumers and retailers alike.

Shift4 has tried to provide an answer to that dilemma with its VT4 application for a mobile point of sale system, said Jeremy Fried, systems architect at Shift4.

"We didn't want a 'me too' product just for micro-merchants; we had to build a truly neutral system that would provide all of the services a larger company would need," Fried said.

In that regard, the PGA Tour became a Shift4 client with the VT4 because it would work on golf course beverage carts, the pro shop and cafes at country clubs, and at kiosks selling merchandise or tickets.

Still, mobile is not in a position to overturn EMV's progress.

"EMV is one of those things that, now that it is moving along, it's not going to stop," Montellano said. "There is a chance that something better could come along, and the industry would have to agree that would be the way to go."

Until then, a couple factors could help speed up the EMV migration process, Montellano said.

"Having all of the integrations all ready to go at one time would be a huge help, and that is what we are striving to have done, and we are just about there," he added.

The other factor is simple awareness. "Many companies don't understand what it means if you do not adopt chip technology," Montellano said. "They don't understand the danger of friendly fraud and don't understand that addressing encryption and EMV go hand-in-hand to thwart fraud and breaches." **ISO**

VERIFONE'S TAXI PAYMENT APP SHAKEUP

Verifone is making changes to its taxi payment services that include discontinuing its Way2ride app in favor of its Curb hailing and payment services.

According to an alert sent to Way2ride users, account details and default tip percentage will migrate to Curb. Ride histories and payment methods will not migrate, though the customer note provides instructions on registering with Curb.

Verifone acquired Curb, which was originally known as Taxi Magic, in 2015, and relaunched the site to include services such as pre-booking to match flights.

Verifone quickly made Curb available in New York, Chicago and other cities after the acquisition.

Eyes on Transaction Laundering

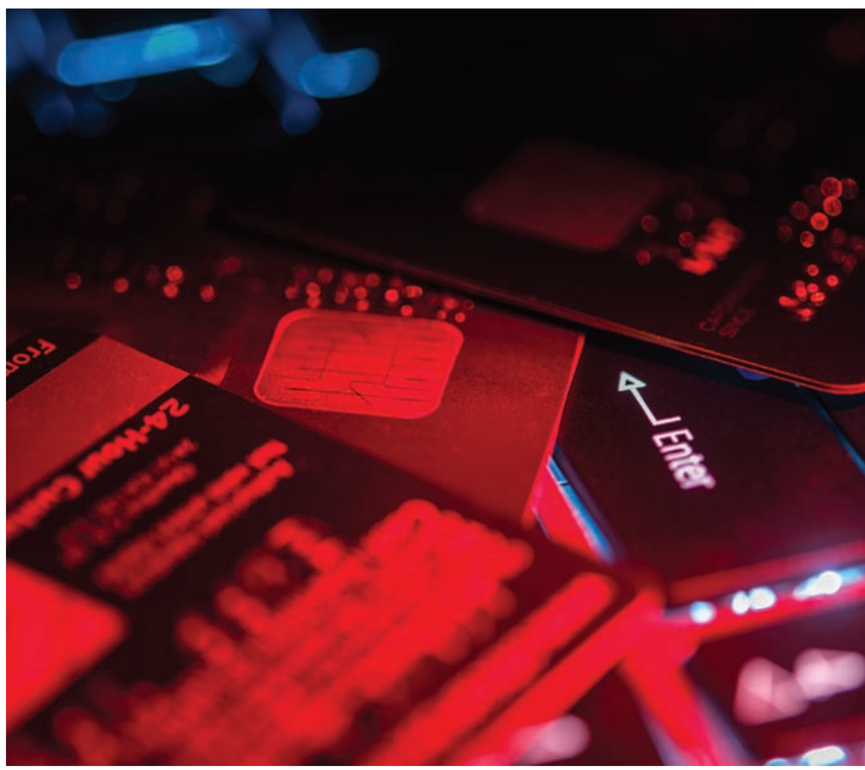
Independent sales organizations must be ever vigilant against the rising tide of fraud, especially as scammers modify their tactics to pursue new targets. **BY DAVID HEUN**

Fraudsters, aware of the scope of the Payment Card Industry data security standards, increasingly deploy fraud methods that fall outside of PCI safety.

Having helped independent sales organizations and acquirers comply with PCI for more than a decade, security provider Trustwave has seen most every trick a hacker can develop — and it has led to the company adding a transaction laundering detection [TLD] service to its Web Risk Monitoring portfolio.

It's one of those nefarious activities hackers are becoming prolific at that falls outside the scope of PCI compliance, which is essentially designed to secure payment card data as it moves through a network.

Trustwave's TLD helps acquirers, banks, payment processors, payment gateways and ISOs more closely monitor their merchant clients' websites for any illegal activity that could be lurking beneath the surface of the merchant's legitimate site.



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"In this particular case, it is identifying transactions that have been laundered on websites set up behind seemingly legitimate sites that are using the processing and gateway capabilities to facilitate illegal transactions," said Michael Petitti, senior vice president of global alliances for Trustwave.

Hackers seeking payment credentials and other personal information may set up what appears to be a legitimate business site, such as a flower service, simply to steal that data.

But they can expand upon that crime by steering transactions from the phony flower shop to a site offering child exploitation materials, illegal online gambling, firearms or tobacco, or counterfeit goods or pharmaceuticals.

While such transaction laundering may not be widespread, it is a "big and growing issue" that various vendors like Trustwave, G2 Web Services, WebShield and others have been trying to resolve for some time, said Julie Conroy, research director and fraud expert with Boston-based Aite Group.

Indeed, transaction laundering prevention company EverCompliant says his type of activity is the new face of payment fraud as banks may be processing transactions from between 6% and 10% of unauthorized e-commerce sites without permission or awareness, according to its own research.

There's a reason this particular crime is on the rise, Conroy said.

It's an area where fraudsters see opportunity but the card networks are slow to implement new rules to protect against the scam.

"While the card brands encourage direction for transaction laundering, it's not yet mandated," Conroy said. "That said, I think it's just a matter of time [for a mandate], since the increasing prevalence of marketplaces and payment facilitators is making this type of activity fairly easy for crime rings to perpetrate."

It can work either way, with hackers hiding behind an unsuspecting merchant's site or through development of a "fake" legitimate site, with transaction laundering hiding underneath it, Petitti said.

"Now the card brands are saying they want ISOs and acquirers to take a thorough look in identifying unknown merchants and transactions that could be laundered," Petitti said.

"Our new service is designed to help acquirers comply with those regulations, as the cards brands don't want to be associated with those types of transactions."

The screening for transaction laundering gets far deeper than looking at a merchant's transaction summary or simply examining detials such as URL sites and secure socket layer configurations.

"We are evaluating language and keywords on the sites and we have robust detection tools that can look at images on the site," Petitti said. "In some cases, we bring in a team of people to examine the findings to determine if transactions should be flagged so the ISO can see it on the system dashboard."

The TLD service adds to other site monitoring for content, malware, terms of service violations or identification of third-party relationships.

"It adds further to enhance the integrity of the payment industry and transaction supply chain," Petitti said. "We want to supply those services in a one-stop shop environment, with a single dashboard with all of this information." **ISO**

Should We Fear Amazon's Store?

The checkout-free ªAmazon Goº store introduces a new way of handling marketing and payments. It also showcases a world where retailers don't need point of sale devices.

BY KATE FITZGERALD

Amazon's concept store seems like the ultimate line-busting system: People just grab what they need and walk out. But does it still leave a role for the traditional payment hardware manufacturers?

Terminal makers like Verifone and Ingenico have a right to feel concerned; they already faced a very real disruptive force from Square and other mobile point of sale providers. Noncompetitors like Groupon and Intuit even got into the game, stealing potential customers from the companies that dominate the payment hardware market.

Once again it seems like an outsider is looking to cut terminal makers out of the loop, and it's up to device makers to adapt.

In many cases, they already have. Starbucks may have wowed the mobile payment industry with its in-house app, but it never fully committed to its relationship with upstart Square, eventually severing its processing relationship to go with a more appealing offer from JPMorgan Chase.

Similarly, Apple Stores have long had a cashier-free experience, with any floor staff member able to ring up payments on a handheld device made by Verifone.

Amazon Go, the e-commerce giant's prototype store in Seattle, may similarly need to rely on traditional partners even if those relationships are kept hidden from the average shopper.

Payment terminal makers are watching these developments closely but so far they don't see any immediate threat.

"We're excited to see innovation continuing to grow around seamless payments, but we don't see these [cashier-free payments] use cases impacting demand for our secure terminals," said Greg Burch, vice president of strategic initiatives at Ingenico Group. "Use cases for this type of payment is still maturing and it remains to be seen if it can be sustained on a large scale with broad user acceptance across diverse market segments."

Verifone also takes the long view on retailers developing cashier-free checkout options. "We see ourselves playing a bigger role for our clients as payment/commerce technologies and retail models evolve," a Verifone spokesperson said.

Analysts point to several new ap-

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proaches evolving around point of sale checkout.

"I believe there's a role for the new technology that allows cashier-free, terminal-free checkouts, but it will likely be a long time before this trend impacts the way we check out of most retailers and the companies supporting those retailers," said Gil Luria, managing director of research at Wedbush Securities.

It also bears noting that in most cases, checkouts that occur minus a terminal require merchants to pay a higher, card-not-present merchant discount rate, which could weigh against potential savings on personnel, Luria said. And self-checkout terminals based on traditional payment terminals that have existed in many big-box merchant locations from Home Depot to Kroger's for years still account for only a fraction of total checkouts, he noted.

Walmart recently rolled out its Scan & Go app at Sam's Club stores nationwide, enabling customers to bypass the checkout line using the app to scan items on store shelves and paying in-app. And last year a Santa Clara, Calif.-based startup called Selfycart launched, enabling independent retailers to extend the same type of technology to consumers who use an app to shop and pay, exiting the store without waiting in traditional checkout lines.

This new breed of checkout-and-pay apps from Amazon Go and Walmart are suggest a major paradigm shift away from retailers' existing self-checkout processes at payment terminals that essentially blur the lines between the roles of shopper and employee, observers say.

"What Amazon Go and other stores are doing by putting shopping and payments into the app is triggering a shopping journey that begins before you go to the store, where you create lists and reminders or you get notifications based on your previous purchases, which is a different experience than just scanning your own items at a payment terminal," said Richard Crone, CEO of Crone Consulting LLC.

Systems like Amazon Go most likely represent the beginning of a "very gradual" migration away from traditional retail checkout models, said Rick Oglesby, president of AZ Payments Group.

Because Amazon Go is a single-store pilot that is open only to Amazon employees, it's too early to predict its potential effect on the payment terminal industry, he said.

"Amazon Go is a long way from transforming retail in a general sense, but it will speed up investment by competitive retailers and by technology companies, so it's likely to accelerate things [in payments technology] quite a bit," Oglesby said. **ISO**

HYPERMARKET STREAMLINES CHECKOUT WITH NCR'S TECHNOLOGY

Amazon isn't the only company working to streamline the checkout process.

In January, NCR Corp. launched its FastLane Mobile Shopper software in the Globus hypermarket chain in Russia, citing it as the first supermarket/department store in Europe to offer the scan-and-go system.

Globus made the FastLane system available to shoppers in one of its stores in mid-December to introduce Moscow consumers to the scan-as-you-shop option.

All Globus customers can now pick up a handheld device when entering the store to scan items as they place them in a shopping cart, a process that speeds checkout time by eliminating the need to scan items when the final transaction occurs at a designated area for those using self-serve checkout or FastLane Mobile Shopper.

FastLane does not provide its own payment mechanism, but the NCR FastLane SelfServ Checkout accepts Apple Pay, Samsung Pay, cash or cards.

"We are very pleased to be able to partner with such an innovative retailer as Globus, that continuously evolves to offer new services for its shoppers," Andriy Pinkevych, head of retail solutions for Russia and the Commonwealth of Independent States for NCR, stated in a Jan. 17 press release.

The NCR FastLane Mobile Shopper is powered through Re-Vision software and is part of the NCR Retail ONE application ecosystem.

It operates as "the foundation of an omni-channel experience that makes it possible to unite all retail checkout tools and other applications on one a single platform," Pinkevych said.

The scan-and-go feature of FastLane Mobile Shopper also provides users with product information, pricing comparisons or targeted offers created through integration with the Globus loyalty program.

Atlanta-based NCR has put a strong emphasis on omnichannel payments through its NCR innovation labs business.

The company also continues to expand its ATM footprint in the grocery, gas station and convenience store markets through partnerships with payment processors and technology providers.

Grocery stores are particularly interested in reducing checkout times through the introduction of new technology throughout the shopping experience.

Common grocery store setups like self-checkout and express lanes haven't totally eliminated lines, leading grocers to add mobile ordering and other features for tech-savvy shoppers.

Some innovations also target specific parts of the store, such as computer-operated ordering systems for the deli section that allow shoppers to place orders as they enter the store and have those orders ready by the time they arrive at the deli counter.

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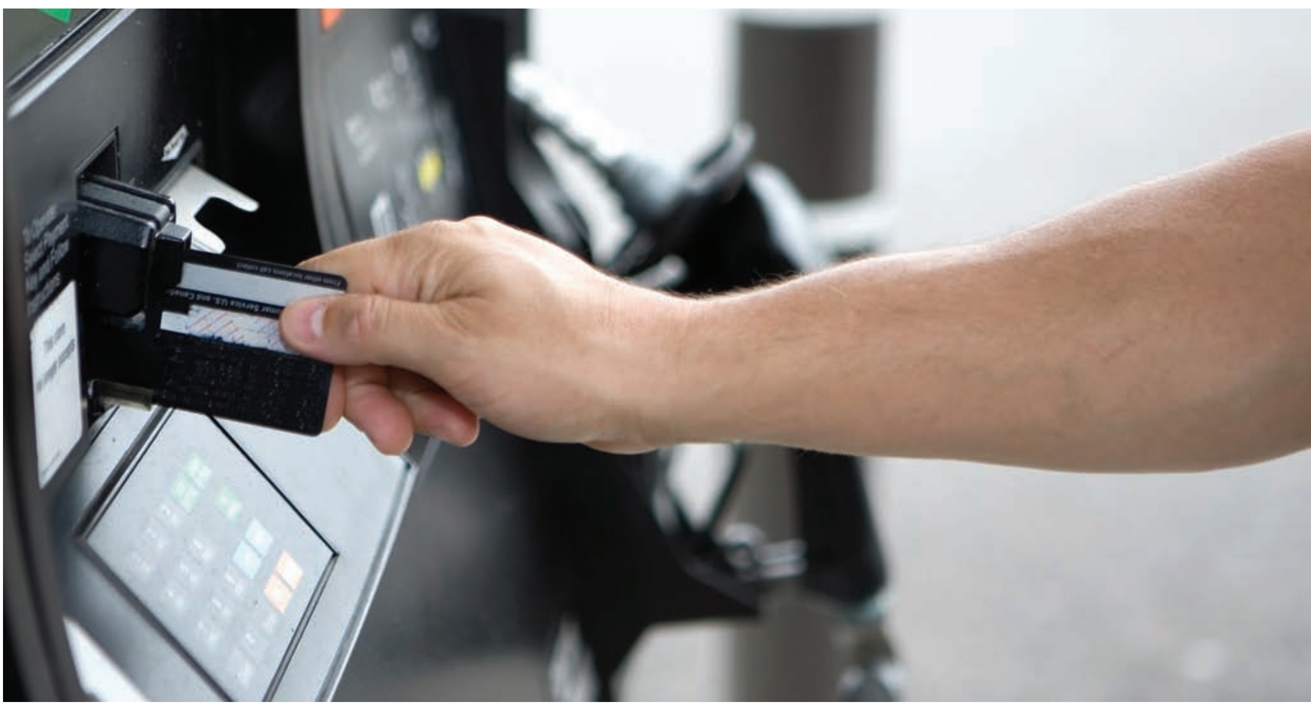
EMV's Pump Delay and Security

The card networks' decision to delay the deadline for implementing EMV at gas pumps could leave those merchants exposed to fraud. But instead, it seems to be creating opportunities for alternative security methods. **BY DAVID HEUN**



Getty Image

With Visa and Mastercard extending their EMV compliance deadline to 2020 for fuel pumps, EMV is less likely to overshadow anti-fraud technology that is faster and more practical to implement.

Fuel stations may not even feel they need the extra security EMV provides four years from now, especially compared to the costs of an upgrade that could require disrupting business and ripping up concrete.

As such, it is not surprising both major networks on Dec. 1 extended the EMV liability shift for chip cards on automated fuel dispensers from Oct. 1, 2017 to Oct. 1, 2020. It is welcome relief for fuel station operators, who questioned the business case for EMV when considering that counterfeit fraud at gas pumps represents only 1.3% of total payment fraud, according to Visa.

"It's a very small percentage of overall fraud, but we do have to keep an eye on it," said Jason Oxman, CEO of the Electronic Transactions Association. "The rest of the retailers are going to migrate to EMV, and the question is whether criminals will decide that fuel stations are the place to go now."

Software-based anti-fraud tools like Visa Transaction Advisor and Mastercard's Decision Intelligence card verification and risk-scoring tools are helping reduce that fraud by 54%, according to Visa. The availability of these products makes the timing of the liability shift extension even more helpful because there is no significant fear that waiting will equate to a massive surge of fraud.

For the past four years, independent and corporate fuel stations have been more concerned with crunching their own numbers to determine the business case for converting to EMV with the previous October 2017 deadline in mind.

Even though the National Association of Convenience Stores estimated fraud costs at fuel stations were about $700 a year, the station owners also faced the rising cost of compliance with the Payment Card Industry data security standards; the NACS estimates such costs to be about $2,000 a year. With those numbers in mind, the thought of converting each pump to EMV — at an estimated cost between $6,000 and $10,000 — simply was not adding up, regardless of the liability shift time frame.

And that's where mobile advancements are coming into play, with the liability shift extension providing some new life into technology that was once seen as a bridge to EMV but could now have a more lasting effect on card security at the pump.

Terminal providers like Verifone have already been pushing technologies that add various digital and mobile features for gas station operators considering the upgrade to EMV.

Among its latest options, NCR is providing its fuel station clients with the option to simply add its NCR Optic platform with touchscreen technology for EMV acceptance and bar-code based mobile payments; this upgrade would not require breaking concrete and building new pumps.

And ExxonMobil has added Apple Pay to its Speedpass mobile payment app, which allows users to activate a pump and pay for fuel from their mobile device.

"Obviously, the fraud prevention there is huge [with Apple Pay] and we're going to see more fuel stations using the mobile payment options," Oxman said. "It all gives the station operators added incentive to upgrade their pumps."

> "We're going to see more fuel stations using the mobile payment options."
>
> -Jason Oxman, CEO, Electronic Transactions Association

Still, four years from now, independent fuel station operators will be going through the same cost-benefit analysis they are formulating today to determine if EMV is worth the effort, said Julie Conroy, research director and fraud expert with Boston-based Aite Group.

"If it is a station in the middle of Kansas, they might take their chances because they are not seeing a lot of fraud occurring," Conroy said. "But others will be actively targeted if they do not upgrade."

Those stations tend to be in port cities like Miami and Los Angeles, where criminals bring in trucks with "fuel bladders" and fill those up using counterfeit cards, Conroy said.

"Then they turn around and sell that fuel down at the ports," she added. "Those stations have some significant fraud occurring, in some cases up to $300,000 to $400,000 per year."

The thought of absorbing that fraud cost is the main reason large fuel corporations have been lobbying hard for extra time for the EMV conversion — even though they would be passing the EMV upgrade costs down to the owners and operators of the stations, Conroy said.

Regardless of how merchants approach payment acceptance at automated fuel pumps between now and October 2020, the new deadline acknowledges there are more challenges with EMV conversion at a gas pump than with countertop terminals, which had a deadline of October 2015.

"EMV compliance for fuel merchants brings significant regulatory and implementation challenges," Mastercard spokesman Seth Eisen said in a written statement. "Over the past months, we have had extensive discussions with fuel merchants, issuers, acquirers and other stakeholders regarding these unique challenges."

In its statement, Visa said: "Based on the current issues fuel merchants face and the critical long-term need for the industry to adopt chip as a solution for counterfeit fraud, we believe these changes are a balanced and manageable way to ensure a successful migration to chip."

Whatever fuel station operators decide, the extra time will allow them to consider upgrades that go beyond the scope of EMV rather than fast-tracking an upgrade that focused only on chip-card acceptance.

"We applaud both Visa and Mastercard for doing this, recognizing the unique challenges faced by fuel station merchants in migrating to EMV acceptance capabilities," Oxman said. "It is the right thing to do and the right time to do it."

The U.S. Payments Forum, formerly the EMV Migration Forum, has been active in monitoring the conversion to chip cards since networks first established liability shift timelines more than four years ago.

The concerns of fuel operators have been "an active part of the EMV migration over the last year with the U.S. Payments Forum and its Petroleum Working Committee," said Randy Vanderhoof, director of the forum, in a statement issued to media outlets.

"Given the migration challenges for implementing EMV in the petroleum environment, Visa's and Mastercard's modification of the liability shift dates will be beneficial to the retail petroleum industry and the U.S. chip migration," Vanderhoof added. **ISO**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PAYMENTS REDEFINED—CHANGES AT THE POINT OF SALE

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NOW THAT THE HOLIDAY SALES RUSH IS OVER, merchants are starting to look more closely at game-changing sales models like Amazon Go as models to reinvent their own point of sale.

Checkout-free shopping, portable payment systems and self-service kiosks are a few examples of how technology is revolutionizing the in-store experience and helping make the traditional checkout process obsolete. Other up-and-coming options such as robotic assistants and biometric payments also have the power to radically transform the way people shop.

"Retailers need to think about how they improve the end user experience—how can you leverage technology to provide the best possible guest experience," says Aman Narang, president and co-founder of Toast, a Boston-based company that makes point of sale software for the restaurant industry.

"The next five years should be really interesting in terms of the types of innovation we see within retail," says Narang, who focused on business intelligence and e-commerce at his previous employer Endeca (now a unit of Oracle) and still follows the retail space closely.

As these changes are happening, it's a prime opportunity for savvy ISOs to help their merchants make smart and long-lasting technology decisions that can change the face of their businesses going forward.

"The more tech savvy a sales rep is, the better merchant sales representative they will be, and the better the margins will be," says Drew Freeman, president of Freeman Consulting in Fort Lauderdale, Florida.

BY CHERYL WINOKUR MUNK

A changing retail landscape

Changes in the retail space are largely being driven by customer desire for increased speed of check-out, convenience and data security, industry participants say.

"For the first time in a long time, customers are starting to push the envelope on the shopping and the buying experiences and merchants have to respond," says Marc Castrechini, vice president of product management at Boston-based Cayan LLC. "Customer preferences are changing. They will actively gravitate toward merchants that offer what they want and avoid ones that don't."

Certainly, checkout-free shopping is one of the ways retailers are looking to shake up the customer shopping experience. Amazon set the ball in motion late last year when it announced the opening of a new 1,800-square foot storefront in Seattle. Using the Amazon Go app, customers simply enter the store, take the products they want and go. Amazon then charges the customer's account and sends a receipt for the purchases. Amazon beta tested the store with employees and has announced plans to open it to the public in early 2017.

Amazon's not the only company pursuing this approach. An AI company based in Cork, Ireland, is on the verge of introducing its own version of checkout-free shopping using proprietary technology it calls 0Line.

Everseen, a seven-year-old company, already works with a handful of the world's top 10 retailers to decrease errors during the checkout process. Its proprietary technology can detect non-scans in real-time and reduce losses for merchants. Now Everseen has developed an offering that it hopes will be an alternative to Amazon Go.

Alan O'Herlihy, founder and chief executive of Everseen, hopes the convenience of checkout-free shopping will draw consumers and that ultimately his company will convince large retailers to adopt its 0Line technology for their own stores.

"Retailers see Amazon as a threat right now. We want to position ourselves as the alternative to Amazon," O'Herlihy says.

Everseen plans to launch its concept store in Cork this spring. The small convenience store will be called Evershop and is similar in size and scope to a typical 7-Eleven in the U.S.

While the concept of checkout-free shopping is still new, O'Herlihy predicts it has the potential to completely transform the customer experience.

"It's unbelievably convenient. That's what's going to drive the retailers to adopt this quickly," he predicts. "At the moment, it's a nice-to-have. But as soon as more retailers adopt the technology, it will be a must-have."

Mobile point of sale

Most brick-and-mortar merchants today have a relatively traditional checkout process where customers scan their items and pay at some type of register near the store's exit before leaving. But many forward-thinking companies are exploring ways to make the sales process more portable and user-friendly.

"One of the worst things about shopping is waiting in line to check out," says Justin Guinn, point of sale market researcher for Software Advice, a division of Gartner that focuses on reviewing and researching software applications for small-business owners.

Nowadays, thanks to newer technology, customers don't necessarily have to wait in long queues. Instead, using portable, tablet-based payment systems, clerks can circulate through the aisles and help customers compare prices, research products and ultimately check out from wherever they are within the store.

"Merchants can now bring the payment experience to the consumer," says AnnMarie "Mimi" Hart, chief executive of MagTek, a Seal Beach, California-based provider of secure card reading and authentication technology. "That may be the dressing room, or the leather lounger, the adjustable bed, your doorstep or your table," she says.

Some large retailers have been slowly integrating mobile point of sale systems into their stores for a few years, but the technology has not yet been broadly implemented. At minimum, it requires a POS system upgrade, and some merchants haven't wanted to make the move or aren't aware the option exists, explains Guinn of Software Advice.

However, Guinn predicts more retailers will start to move in this direction. Particularly as the battle between brick and mortar and e-commerce has intensified, retailers are recognizing the need to converge the two areas in order to shore up their customers' business.

For example, if a particular item or color of a product isn't available, a sales clerk can use a tablet to immediately check the store's inventory and determine what's in stock. It's also an opportunity to offer the customer additional products that come up as part of the search.

"These upsell opportunities aren't typically available at a traditional register," Guinn says.

With mobile devices, in-store customers can buy an item online and have it shipped to their home if it's not immediately available. For merchants, this is a boon because they don't lose the sale, plus certain tablet systems can process online transactions with a physical card.

Card-present transactions are usually less costly for merchants than card-not-present transactions, so it's a value-add ISOs can provide merchants, explains Greg Burch, vice president of strategic initiatives at Ingenico Group, a Paris-based payments technology company that operates globally.

Over the past few years, some larger retailers have installed self-service touchscreen kiosks as another way to cement relationships with in-store customers. These kiosks, strategically placed within stores, enable customers to search on their own for items, get product recommendations and make purchases. Self-service kiosks have been around for a few years, but newer models can be used with chip cards. Previous versions required customers to swipe their card or initiate a card-not-present transaction.

"If a customer is considering making a purchase and the physical store does not have the right size, color or specific item, many times that store location will lose the sale," says Luke Wilwerding, director of retail solutions at Elo, a global supplier of digital touchscreen solutions.

However, with a kiosk, even if an item isn't in stock, customers can purchase it and have it shipped to the store or their home. At a kiosk, customers can also search for similar or complementary products and buy them from the merchant on the spot. This gives merchants a significant upsell opportunity that a traditional register doesn't afford, Wilwerding says.

A kiosk wouldn't necessarily replace a tablet-based POS system; it would more likely enhance or supplement it, Wilwerding says. The advantage of a kiosk is that customers can peruse for items on their own and then buy them, freeing up employees to do other tasks. Employees can certainly help customers use the kiosks, but there's also a self-service opportunity for those who prefer it.

Wilwerding says that traditional checkout options will continue to have a place in retail, but predicts that over time there will be a bigger connection between e-commerce and in-store sales. "I don't feel that going forward, those two channels can live separately in different worlds," he says.

According to Wilwerding, a merchant who has four registers today might have only two at the front of the store in the future. As another option for customers, the merchant might install a few self-service payment kiosks in strategic areas within the store, he says.

Testing new technologies

Some of the up-and-coming technology for reinventing the point of sale is still so new it hasn't been broadly marketed beyond a small test market. NEC Corporation of America in Irving, Texas, for instance has a new technology called Object Recognition POS that it's testing with a retailer outside the U.S.

Using NEC's technology, a customer places his or her items on the checkout counter and cameras identify the products so a clerk doesn't need to scan each item. Once the items are recognized, a green halo appears on them so the clerk knows the items are ready to bag. The customer then pays using his or her normal payment method.

NEC is also testing Facial Payment, a cashless payment service that uses facial recognition to provide shoppers with a speedy and secure alternative to cash or credit cards.

Here's how it works. A customer approaches the checkout area and is identified by NEC's facial recognition technology. Then, as additional verification, a picture of the customer pops up on the cashier's screen. The cashier visually checks to ensure that the customer matches the photo and allows the transaction to proceed. Payment is then charged to the customer's account on file.

Girish Nazhiyath, director of retail solutions at NEC, says people have been trending toward faster payment methods for some time now, but EMV has slowed things down. He predicts that biometrics will reinvigorate the sales process. "You can be prepped for payment even before you start unloading your cart," he says.

Opportunities for savvy ISOs

With technology changing so rapidly, it's important for ISOs to keep abreast of all the up-and-coming options and help retailers find the best solutions for their individual situations. ISOs need to know their customers, understand their needs and craft a solution to help them solve those needs.

"Today more than ever technology is there to solve these everyday challenges. But it remains confusing for many in business," says Mary Winingham, a payments industry veteran who is now head of sales program management at iStream Financial Services, a payment processing and solutions provider based in Brookfield, Wisconsin.

"It's the job of the ISO salesperson to research and then be in a position to recommend and implement a mix of solutions to their prospects that drive value," she says.

Enterprising ISOs can help merchants by explaining to them how various technologies can improve their business and save money. For example, if retailers are unhappy with their POS, or are buying one for the first time, ISOs can make it known that from a cost perspective, many small businesses are moving in the direction of a tablet-based POS because they find it's less expensive than a traditional POS system.

ISOs can also discuss the additional ways they'll have to generate revenue.

"It's something you can say not only is this a new POS, but it has this amazing feature where you can very innovatively change your store to where every customer interaction is a potential point of sale," says Guinn of Software Advice.

Of course, not all innovations will be appropriate for every merchant's business, according to Ingenico's Burch. "ISOs and agents need to remember that it's not one-size-fits-all." **ISO**

Trump's Effect on Cash Advance

U.S. President Trump's views on regulation could be a boon to the merchant cash advance market, considered a lucrative but controversial business. BY AUTUMN CAFIERO GIUSTI

One group in particular that's optimistic about the Trump administration is the merchant cash advance industry.

President-elect Trump has vowed to loosen the regulatory environment for the financial sector, as well as to implement more practices that support small businesses, which account for the lion's share of cash advance users.

"The industry's take on it is that it's phenomenal," says Isaac Stern, CEO of Yellowstone Capital and board president of the Commercial Finance Coalition, a trade association that consists largely of alternative lenders. "Everyone knows Trump is pro business, so it looks like it's going to be a more lax environment for us."

Merchant cash advances have been considered something of a controversial financing tool because businesses are typically required to repay them at a high premium.

But they can be lucrative for cash advance companies as well as the ISOs that rely on advances as a value-added service.

The cash advance industry has gained more mainstream acceptance and experienced substantial growth in recent years, fueled in part by investments from hedge funds and venture capitalists as it has become more difficult for small businesses to obtain traditional bank loans.

Dan Gans, executive director of the Commercial Finance Coalition, says his group's membership deploys about $1 billion in capital each year.

"You could argue that might sustain 100,000 jobs," he says. "Imagine if we had a regulatory environment that fostered this kind of activity."

Federal regulations under Dodd-Frank have clamped down mostly on traditional banks, but cash advance companies have feared that they could end up in the crosshairs of federal regulators too.

The industry has drawn comparisons to the Wild West in its early days for being largely unregulated; experts point out that it's been self-regulation, and not federal oversight, that's helped the cash advance market shed that Wild West reputation in recent years.

"We focus on the regulatory environment every day. The fact that Trump won doesn't really change our conversations,"

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says Andrew Reiser, CEO of Strategic Funding Source.

Stern adds that it's in the cash advance companies' best interest to regulate themselves because not doing so can be costly. "No one wants to have to hire 20 compliance people to make sure you're following every rule," he says.

Hellen McQuain, senior vice president of corporate relations for Strategic Funding Source, doesn't see a Trump presidency having much bearing on the industry in the short term because cash advance isn't affected by prime lending.

"I don't think it's going to make a huge impact with us, at least not in the next year or two," she says. Rather, there are other forces in play that will have more influence on how merchant cash advance companies evolve in the next few years.

"I believe we have our own issues in the industry, which is making sure our default rate stays down, that we have good algorithms in place to study our data, and making sure we're not overextending to a merchant," McQuain says.

CAN Capital, for example, says its own wounds are self-inflicted. The merchant cash advance provider said in late November that its CEO and two other executives are taking a leave of absence and it is not actively seeking new customers. The company said its problems stem from its method of collecting payments; however, experts say CAN Capital's situation could create fallout for other companies.

James Pendergast, chief operating officer for US Working Capital, says the greatest threat to the industry right now is not who's in the White House, but rather funding companies picking each other off by stealing one another's merchants. But whatever the issues, the merchant cash advance market will persist because "there's always going to be a need for it," he says. **ISO**

HOW TRUMP'S BORDER WALL THREATENS INTERNATIONAL PAYMENTS

President Donald Trump's signing of an executive order to push forward with plans for a "security wall" between the U.S. and Mexico has strong implications for how the plan will affect cross-border payments.

Trump in the past has suggested shutting off remittances between the U.S. and Mexico — one of the busiest corridors in the world — as a way to pressure Mexico to pay for the border wall. The proposal was widely panned at the time, as financial services experts doubted the plan could be executed politically and logistically, and contended it would hurt U.S. businesses.

Remittances are not a main part of the January action from the administration. Trump's executive order was part of a series of moves planned to address immigration; those plans would also place limits on refugees from certain nations and establish a national biometric program for non-citizens entering and leaving the U.S.

Most media outlets, such as The Guardian and The New York Times reported the Trump administration will cull through current U.S. aid packages to divert money to build the wall, with pressure applied to Mexico later to pay for the wall.

Redirecting Mexican aid would give Trump some political cover, since Mexico would be indirectly paying for the wall. But Trump has long promised to force Mexico to pay for the wall's construction, and altering aid packages may not be enough to cover costs, nor would it be an exact fulfillment of the campaign pledge.

"I don't think remittances are off the table here," said Richard Crone, a payments consultant. "Once you have a gate you can be a gatekeeper and can exact a toll anywhere along the commerce line. Financial services is not a sacred cow."

The fluid nature of the administration's plan demonstrates the difficulty of using a financial service as leverage for an unrelated global policy, according to Julie Conroy, research director at Aite Group.

"I do think that using a financial instrument as part of political policy is incredibly complex, given the vast number of stakeholders, the patchwork of federal state and international regulation to consider, and the potential for unintended consequences," Conroy said. "I think we saw that illustrated with Operation Chokepoint a couple of years ago, and cross-border remittances are even more complex, given the stakeholders are spread across multiple countries."

The wall was a signature of Trump's presidential campaign, a structure he said would curtail illegal immigration from Mexico that would be funded by the Mexican government. The Mexican government has consistently refused to pay for the wall, requiring other sources of funding in order for Trump to maintain his campaign pledge.

The funding would have to be substantial. While the administration has not yet released specifications for the wall, Business Insider pegs the cost at as much as $25 billion, citing analysts at Bernstein.

The administration's biometric ID proposal could also have a large impact on the security industry, and subsequently financial services risk strategies. A national biometric ID program would funnel substantial money to biometric companies, which are already pushing the security method as a replacement for passwords for bank and payment apps. A large biometric program could elevate biometrics as a security method over static methods.

"This could lead to an enactment and requirement of multi-factor authentication with the mobile phone being the new hardware," Crone said. "The government would not have to pay for any new hardware in that case."

Biometric technology is already being used for border control, Conroy said, adding it's a central part of many countries' existing border controls, including the U.S.

"I think the confluence of this use case and consumer devices like Apple's Touch ID have brought biometrics into mainstream awareness and adoption," Conroy said. "This is certainly a factor in the increasing biometrics use we're seeing for a variety of financial services."

Acquirers Confront Their Ethics

Despite decades of work to improve the overall ethics of the merchant acquiring industry, some say deceptive practices are still going unpunished. **BY AUTUMN CAFIERO GIUSTI**

Merchant acquirers say the industry has worked over the course of decades to improve its ethics. But some acquirers report that deceptive practices and dubious tactics still exist, and that the card brands could do a better job at enforcing their own rules.

"It's still kind of the Wild West in the payments space," says Jeff Marcous, CEO of Dharma Merchant Services. "My sense is that the card brands themselves have bigger fish to fry in terms of big, big disruptors – [products] like Bitcoin that threaten the payments industry."

The advance of technology is providing some reprieve, as independent sales organizations work to transform their business models to sell software and smart terminals; those products typically require an ongoing and healthy relationship, making trust essential.

The subject of industry ethics has received some attention this year.

In February, Gravity Payments made headlines over accusations that the company violated card brand rules by incorrectly classifying several hundred bars as restaurants for processing purposes.

In doing so, the bars would be eligible for lower processing fees, and Gravity could gain a pricing edge over its competitors. Gravity is the same company whose CEO gained worldwide attention for cutting his salary to $70,000 and raising the company's minimum salaries to match that amount.

Adobe Stock

The accusations made against Gravity could hint at a more widespread problem in the industry, Marcous says.

"If there's any evidence that the associations are actually enforcing the violations of their rules, I'm not seeing it," he says. "That's probably why the Consumer Financial Protection Bureau came to be, because they saw that was this wasn't an industry that self regulates."

Visa and Mastercard did not respond to press inquiries by deadline.

Eureka Payments president Ken Musante contends that the card brands don't always know about these violations unless someone files a complaint to them.

"Although you might say the rules are being inconsistently applied, it's because Visa and MasterCard aren't all knowing," he says. "Unless it's brought to their attention, they're not going to act on it."

As a lucrative industry that does not require education, certification or licensing, the merchant acquiring profession has been known to lend itself to opportunities for unethical behavior that can lead to significant gains. “Any time you have that, there are going to be some individuals who try to bend the rules to their advantage,” Musante says.

That behavior has evolved from the way things were a decade ago, when the industry’s ethics issues stemmed from equipment sales that allowed sales reps to make a great deal of money from a single interaction with a single merchant.

“The industry has changed,” Musante says. “Businesses know the cost of terminals, and there’s much less likelihood for an unscrupulous salesperson to survive with that one-off sale of leasing equipment and then burning the next merchant they come across.”

> “The industry has changed. Businesses know the cost of terminals.”
>
> -Ken Musante, president, Eureka Payments

Jared Drieling, business intelligence manager for The Strawhecker Group consulting firm, says the industry has made strides due to the fact that more payments associations are developing certification programs that can speak to an individual’s qualifications.

He points to the Electronic Transactions Association’s certified payments professional, or CPP, program as one example and how the National Retail Federation now encourages merchants to seek out payments professionals who are certified.

Another sign of progress, Drieling says, is that more ISOs are defining themselves as independent software vendors in an effort to become more than a sales agent to merchants, and to provide technologies such as apps and smart terminals to help merchants run other aspects of their businesses.

“The sales agent is becoming much more ingrained in that merchant’s business, thus at the end of the day creating a more transparent, sticky relationship – and a healthier relationship with that merchant,” Drieling says. **ISO**

Can Rewards Be a Currency?

Merchant reward programs may be popular, but they are still difficult for many consumers to use. Newer models aim to improve the process of redeeming offers, thus making loyalty programs more enticing to shoppers. **BY JOHN ADAMS**

Getty Image

Loyalty programs can be a mixed blessing. When they work as advertised, they can lock in consumers and build relationships; when they fail, they vex shoppers and sour relationships.

"You don't want consumers to be frustrated with points that they can't use," said Spencer Hoffman, a partner at Lovell Minnick, a private equity firm with offices in Philadelphia, Los Angeles and New York. Lovell Minnick just made an investment in the Toronto-based Engage People, a loyalty and incentive company that sells web hosted and delivered loyalty, sales and incentive programs for a mix of clients in airline, telecom, financial services and other industries.

In the airline industry, for example, changes in sales strategy have made it harder to rely on rewards programs that offer free or reduced price flights.

"The reduction in capacity has makes it hard for consumers to redeem offers," said Jonathan Silver, CEO of Engage. "Airlines are booked to capacity."

Engage's Loyalty Redemption Globally product enables participants in loyalty programs to redeem and earn loyalty on most e-commerce sites, paired with traditional fulfillment and data analytics. This enables loyalty marketing to be more personalized than traditional miles or discount-based loyalty programs that rely on excess capacity.

The companies did not disclose the size of the investment. Lovell Minnick, whose portfolio includes wealth management, business lending and other financial services, sees an opportunity in a marketing trend that's deemphasizing loyalty as an affinity branding exercise and moving the strategy toward a value proposition, where engagement translates into an open currency of sorts.

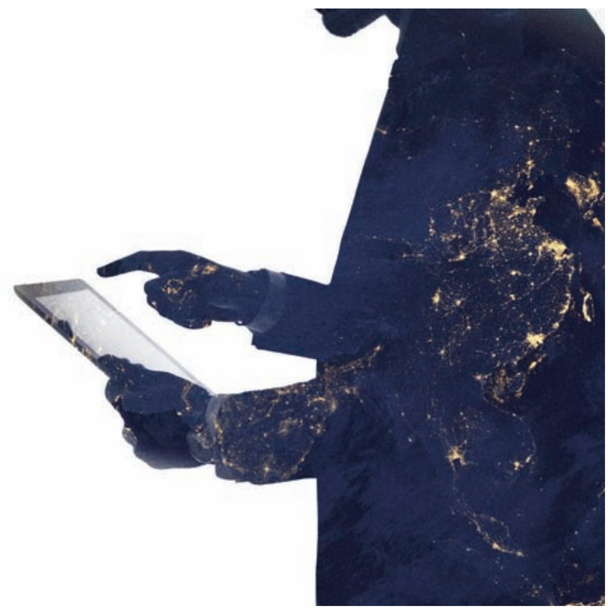
"It's becoming a complex value proposition to differentiate a company by how it offers a rewards program by offering something of value," Hoffman said, adding the incentive and redemption is driven by rise of data in transaction and point of sale technology. "That trend relies more on the payment than ever before."

There are also financial benefits to a company using this type of loyalty program, since consumers can be engaged for repeat business with a flexible rewards program while the merchant can continue to improve capacity and inventory management.

"The issue was these 'points' were a kind of fuzzy money that didn't result in a major value for an airline or a hotel," Hoffman said. **ISO**

Targeting Digital Media Payments

The market for digital media payments is still fraught with friction, but there may be opportunities for companies that can remove some of the pain. BY JOHN ADAMS


Getty Image

Tipalti is building a presence at the intersection of electronic media and advertising, where a different kind of 'faster payment' movement is taking hold.

"In performance marketing, all advertisers need to get paid when the conversion or sale occurs," said Brett Grow, CEO of LinkTrust, a company that tracks digital marketing performance.

LinkTrust added Tipalti's payment gateway to its mix of services for companies that use digital media. That includes advertisers, referral companies and publishers. The combined workflow includes marketing and payments, with more than 190 countries, six different payment methods and 120 currencies available in the same location.

"The pain point for the [digital advertising market] is the payment experience," said Rob Israch, chief marketing officer at Tipalti. "You have to deliver that seamlessly."

LinkTrust and Tipalti are targeting an emerging advertising ecosystem in which payments are based on tangible results such as successful referrals or conversions. LinkTrust, which tracks and analyzes marketing campaigns and is expanding to include CRM, social networking content and other technology, contends relationships in this new advertising and marketing ecosystem can quickly end based on the absence of swift and accurate payments.

"The clients have had to go to Quickbooks of other payment platforms, or cut checks manually," Grow said. "This new [Tipalti] partnership alleviates that. The software brings up the commission report, and the payment can be made by the click of a button."

The companies increasingly include small to medium sized businesses and e-commerce startups that rely on electronic lead generation and marketing that's both targeted and dynamic. "We want to create a place where they can go in and actually see their entire invoice, performance history and payment method," Israch said.

Tipalti's overall strategy over the past few years has been to provide payment, tax forms, compliance and other services for the expanding freelancer-based economy. As companies employ more contract workers, payroll becomes more complex, covering different methods and geographies. Tipalti's cloud-based integration with NetSuite's ERP technology allows payment processing and reconciliation for multiple payment types.

Tipalti's first foray into advertising payments came in 2013 when it added payments function and tracking to Cake Marketing's digital marketing dashboard. Tipalti later partnered with digital media company Paladin to power payments to video content creators." ISO

Fintech's Role as an Ally to Cards

Technology such as mobile wallets have long been seen as threats to older payment methods like plastic credit and debit cards. But over time, fintech emerged as an ally of plastic payments, giving cards a more useful set of features. **BY DAVID HEUN**

Getty Image

Over the past five years, the slow-but-steady rise of mobile wallets seemed to signal the end of the plastic card era.

But that's not how things played out.

What many may not have envisioned was mobile technology actually making payment cards stronger. Advancements in digital and mobile technology have enabled cards to become interactive and virtual, giving consumers and businesses far more control over how their money is spent.

Cards have also benefited from advancements that put pressure on merchants to accept more payment types, enabling the introduction of EMV, instant reward redemption and other updates at the register. Mobile technology also enabled the development of the mobile point of sale, enabling sole proprietors and other small merchants to finally accept plastic payments.

Ubiquity

A card can have all of the features in the world, but if it is not accepted at certain merchant locations, it is likely to suffer.

As such, the utility of a credit card represents one of the most important recent developments the payment card industry has seen, said Brian Riley, director of card services for Mercator Advisory Group.

"That's something that has really been corrected in the last few years, especially on the Discover and American Express sides," Riley said. "I don't think one brand can say they are not being treated fairly in the market anymore because that parity now exists."

Discover has smoothed over its rough spots the past few years, gaining acceptance at more merchant sites after some initial difficulties in getting acquirers and processors like First Data to work with it after unveiling a partnership with rival payment company PayPal in 2012.

From 2015 to 2016, Discover says its merchant acceptance grew from 37 million global merchants to 39 million, while its debit card is accepted in the U.S., Canada, Mexico and the Caribbean.

Similarly, American Express aggressively pushed the OptBlue program through its acquirers with small merchants the past two years, looking to make it more affordable for merchants to accept Amex cards. It has also worked aggressively on prepaid products such as Bluebird and Serve, with the goal of putting its cards in the wallets of consumers who were previously overlooked by its marketing.

Overall, the factors driving a consumer's decision on which card to put in their wallet have expanded far beyond what type of fees or annual percentage rate the card carries.

Tried and true

One factor that has not changed much is how various card perks appeal to different consumer age groups.

Overall, it is safe to say that rewards still attract more affluent cardholders, while the ability to control a card's credit line, transaction limit and payment date appeals to younger cardholders on tight budgets.

When examining these preferences, it is best to carve out the Generation Y group of 18- to 24-year-olds as their own category, said Michael Moeser, director of payment at Javelin Strategy & Research.

"In that lower age group, only 50% have credit cards, and of those who do, a parent has probably co-signed and can monitor what they are buying," Moeser said.

The Credit Card Act of 2009 has a lot to do with that, making it against the law for an issuing bank to sign up a cardholder younger than 21 without a legal guardian's involvement. Issuers also can't market to students on a college campus without the college disclosing its relationship with the bank.

"Once the consumer reaches the 25 to 34 age group, the ownership of a credit card jumps to 70% or 80%," Moeser said, citing Javelin studies. When that happens, convenience, security against fraud and the rewards on the card are the three factors most likely to resonate, Moeser added.

Knowing this, card brands have sharpened their focus on rewards programs and security features in the past few years.

Pile on rewards

"We've seen an explosion in rewards in the last few years," Moeser said. "Your typical reward signup, whether it is points or miles, used to get you 30,000, but now can get 50,000 easily."

Rewards can change the way consumers view credit cards. Baby Boomers were the first to get rewards cards, but 23% of Gen Y consumers have hotel rewards cards, compared to only 10% of Baby Boomers, Moeser added, citing Javelin research.

"When it comes to airlines, 27% of Gen Y consumers have an airline reward card, compared to 16% of Boomers," he added. It illustrates a trend that hasn't changed much over the years, that segments of consumers tend to choose cards that fit — and reward — their lifestyles, Moeser said.

A few examples of cards with mounting rewards include the Chase Sapphire Visa, for which JPMorgan is willing to take a short-term revenue hit by offering 100,000 points as a typical signup reward. The Chase Freedom Unlimited card offers 1.5% cashback on every purchase and the ability to earn a $150 bonus from spending $500 within the first three months of opening the account.

The Discover It Miles card provides 1.5 miles earned for every dollar spent. And the It Cash Back Match card doubles cash-back earned at the end of the first year, allowing a cardholder who has earned $200 to automatically get $400.

The Capital One Venture card provides rewards of 40,000 miles when a cardholder spends $3,000 on purchases with the card within three months of approval.

Even Amazon has upped the stakes in its premium card rewards structure, offering 5% back on purchases from Amazon.com for consumers who pay the $99 fee as members in the Prime program; non-members receive just 3% when using the same Chase-issued Amazon Visa card.

Economic crash course

Younger cardholders want to know where they stand with credit ratings and how to manage their spending.

"Credit score tracking has been an important feature for some time, but it's especially important for younger cardholders," said Jaclyn Holmes, senior manager of payments insights for Auriemma. "Young cardholders recognize the value of starting off with a good credit score, and having that tool readily available helps them manage and remain accountable for their behavior."

In a survey of nearly 400 cardholders for Auriemma's 2016 fourth-quarter payments report, 38% said their card offered credit score tracking and 73% of those cardholders said they used that feature regularly.

Nearly 60% said they customized mobile alerts linked to their cards and 54% said they liked the ability to see their spending habits by category.

"We're seeing cardholders express greater interest in having more control over their accounts," Holmes said. "Interest in customizable alerts has risen over the past year or so, but we're also seeing a new desire to set controls over spending with limits in specific categories."

Old ideas are not forgotten

When technology brings new capabilities, it does not always mean that the old ideas are gone.

"Federal Reserve research tells us that cardholders really like aggressive credit lines — and that can be cheapest and most attractive way for an issuer to make that card worthwhile," Mercator's Riley said. "As far as general features, there is some movement in the market again about going back to multi-purpose cards." **ISO**

First Data's Pitch to Tech Devs

Larger payment companies like First Data could feel threatened by smaller developers. But these newcomers also represent an emerging opportunity that the processor is ready to tap into. **BY JOHN ADAMS**

Technology developers are both the stars and the target audience for payment companies looking to be on the right side of the industry's mobile-driven future.

"Developers are our customers and partners. They are the ones making decisions," said Dan Charron, executive vice president of Global Business Solutions at First Data.

The processor on recently launched its Integrated Solutions Group, a new segment that focuses on software development tools for integration with First Data platforms.

The group is designed to lure independent software vendors (ISVs), resellers, developers, integrators and others in payments innovation.

Developers can access a library of integration specs, enabling programmers to embed payments and other services, as well as self-certify or work with First Data specialists for certification.

ISG will include sales, marketing and training support, automated boarding, "competitive and transparent" compensation and incentives. First Data is also providing access to its global merchant acquiring footprint through a single integration.

The company's Clover digital point of sale platform is additionally being opened to enable developers to build their own branded solutions for merchants, supporting PCI compliance, EMV, gift cards and electronic checks. First Data is providing access to Clover's source code, which allows developers to write their own register and order applications that can be deployed through Clover's cloud-hosted operating system.

ªIt's not us versus you, it's we together ... we've opened all of this up to the developer community,º said Dan Charron, executive vice president of Global Business Solutions at First Data, of the company's outreach to software developers.

"It's not us versus you, it's we together," Charron said. "It's 'Clover as a service.' We've opened all of this up to the developer community."

One of ISG's early collaborations is with KWI, which sells cloud technology to specialty retailers. "We're inviting any group of people that looked at us as a light switch," said Charron, adding First Data sees these companies as potential collaborators on new merchant services.

ISG is designed to give external partners a deeper dive into First Data's technology, to broaden services and add more speed of deployment as the company wards off alternative providers and API-driven startups.

"We historically have had thousands of technology people certified to us. We're shifting and are looking at adding a business layer to those relationships," Charron said.

ISG follows myriad moves First Data has made as it diversifies beyond a traditional payment processor, leveraging its global scale to offer a range of digitally driven merchant services.

It recently partnered with Silicon Valley Bank to provide payment services to that bank's clients, a move that also gave First Data visibility into the Bay Area's development culture.

The processor also partnered with Capgemini to smooth processing inefficiencies with clients, a strategy designed to accelerate First Data's broader technology transformation.

Other recent First Data integrations include Bypass, which makes point of sale software for sports and entertainment merchants; and Booker Software, which sells cloud-hosted appointment booking and marketing software for the service industry.

First Data has hired EJ Jackson to lead ISG. Jackson has served in leadership, strategy, business development and sales for VC-backed companies. Jackson comes to First Data from SAP, where he was senior vice president and GM of SAP Anywhere. He also has worked in a technology development capacity for a number of years.

"It's not just the payment, but the e-point of sale, gift card, loyalty, there are so many things," Jackson said, adding developers are primarily seeking a partner that's large, diverse and has a technology infrastructure that's easy to work with. "The payment industry is in a state of transition, and there's so much marketshare to be taken."

First Data's not alone among large payment industry companies that are extending their technology tools to outside developers. Visa opened its network about a year ago, calling the opportunity to work with developers "staggeringly large," and Mastercard in the fall of 2016 launched a developer program.

Another noteworthy example is PayPal's purchase of Braintree about four years ago with the goal of attracting innovators to build new payments technology.

Later, PayPal moved some offices to a development center in Toronto.

First Data's Clover terminal is also key to its strategy of innovation. With the 2015 launch of the Clover Mini form factor, First Data promoted the use of its devices as a platform akin to an Apple device, complete with an app store.

The device could run 100 apps that handle nonpayment functions such as tracking employee timesheets, for example.

The gating factor in implementation through developers is processors, which has been particularly true through the EMV migration, said Thad Peterson, a senior analyst with Aite Group.

"It's a challenge for processors to adapt to the fluidity of the ecosystem now, but several are working to adapt and deliver offerings that are at least competitive with fintech startups," Peterson said.

"It's an encouraging sign that First Data has established a group to focus on this," Peterson said. **ISO**

Issuers Balance Costs, Rewards

Card issuers are going big on reward programs, but can their business models sustain it? And what effect will this have on their retail partners? BY KATE FITZGERALD

Credit card issuers usually reserve their richest rewards for customers at the higher end who are willing to pay steep annual fees for special perks and privileges. But a recent surge in credit card rewards deals targeting mainstream consumers signals a key strategy shift for issuers looking to lock in these users' loyalty.

Issuers are willing to bear the steeper costs because they're betting that over the long haul, consumers intent on earning more rewards will pile more of their everyday spending on to these attractive new cards, driving interest and other income.

"The goal is to develop a long-term habit of using and revolving, to keep earning rewards," said Brian Riley, a director of credit cards at Mercator Advisory Group.

Top examples include a pair of new cards from JPMorgan Chase & Co., including the new Sapphire Reserve card, which drew millions of deal-savvy consumers last year. The card was a hit with younger consumers drawn to its introductory signup points-bonus worth $1,500 that more than offset the card's $450 annual fee. That promotional deal recently expired, but Chase continues to promote an offer of giving at least $300 of the annual fee back in travel bonuses each year.

Similarly, Chase's revamped Amazon Prime Visa card aims for families reliant on Amazon Prime for expedited shipping by dangling a hefty 5% back on Amazon.com purchases, 2% back at gas stations, restaurants and drugstores and 1% back elsewhere. For the estimated 65 million consumers who already pay $99 for Amazon Prime membership, converting to the updated Amazon Prime Visa card easily offsets the annual fee, analysts note.

Citi also said it's reaping strong growth from the new Costco Anywhere Visa rewards card it rolled out last fall, which comes free with a $55 Costco membership. It's drawing many mainstream users and families with rewards that include 4% back on gasoline purchases, 3% back on travel and restaurants, 2% back at Costco and 1% everywhere else, Citi said.

Both issuers are leaning heavily on mobile and digital channels to promote their cards, encouraging users to apply for and manage credit card usage and rewards with mobile wallets and apps. More than 80% of Chase's new credit card accounts in 2016 were established through digital channels, Chase said during its earnings call with analysts on Jan. 13.

So far the strategy of heaping bigger rewards on average users is helping issuers grow their portfolios, but it comes at a price, analysts note. Chase last year saw double-digit sales volume growth from its cards, offset by a 38% decline in card-related income from costs associated with card marketing and rewards. Citi also noted steep costs associated with its "investment" in customer acquisition for its Costco card.

Consumers have long had many rewards cards to choose from, but the recent influx of relatively rich rewards available with so many mainstream cards is new, says Patricia Hewitt, CEO of PG Research & Advisory Services, Savannah, Ga. And it's a strategy that's not without risk.

> "Issuers may find it's increasingly hard to drive usage for any particular card."
>
> -Patricia Hewitt, CEO, PG Research & Advisory Services

"The latest enhancements to these rewards programs for mainstream users are an indication the credit card market is heating up again, but issuers may find it's increasingly hard to drive usage for any particular card with so many other tempting deals available," Hewitt said.

The risk is that consumers who recognize the benefits of richer rewards cards will begin to use cards strategically, concentrating their purchases on certain cards to maximize rewards.

"Issuers may see cardholders begin to use the new crop of rewards cards very granularly, concentrating Amazon spending on the Amazon card, and travel spending on the airline card, so the top-of-wallet spot will be in flux and no one issuer will get really broad usage," Hewitt said.

So far issuers are pleased with results from the new crop of cards.

Chase's new Amazon Prime credit card has sparked a surge of interest from new prospects, as well as those using Chase's existing credit cards, said Steve Goodman, general manager of Chase Card Services. **ISO**

Apple Wins Favor with Nonprofits

Apple Pay has struggled to take over the point of sale, but it offers something unique for nonprofits: the ability to set up recurring donations via mobile app. **BY JOHN ADAMS**

Bloomberg News

The tale of Apple Pay's first few years has been lackluster, though there are some signs the tech giant's mobile wallet is taking off.

There was the spike in usage this past fall, and Blackbaud, a software company that serves nonprofits, has signed a number of organizations to start using Apple Pay. The Charleston, S.C., company launched Apple Pay support in November, and serves more than two dozen non-profits.

"About four or five ask us about [Apple Pay] every day," said Kevin McDearis, chief product officer at Blackbaud. "And people are coming on in a steady clip."

Blackbaud's Apple Pay adopters include the American Red Cross, the American Heart Association, St. Jude's Children's Research Hospital, the Nature Conservancy, The Water Project, Save the Children and others. The company's most recent clients to add Apple Pay include the American Cancer Society, CARE, DonorsChoose.org, PBS and the United Way.

The Apple Pay addition serves a couple of needs for nonprofits, said McDearis. First, there's an overall trend toward using mobile apps for charities and other nonprofits that McDearis said mirrors the overall trend of mobile adoption. "Using an app provides convenience, and the nonprofits trust Apple as a brand to move money around," he said.

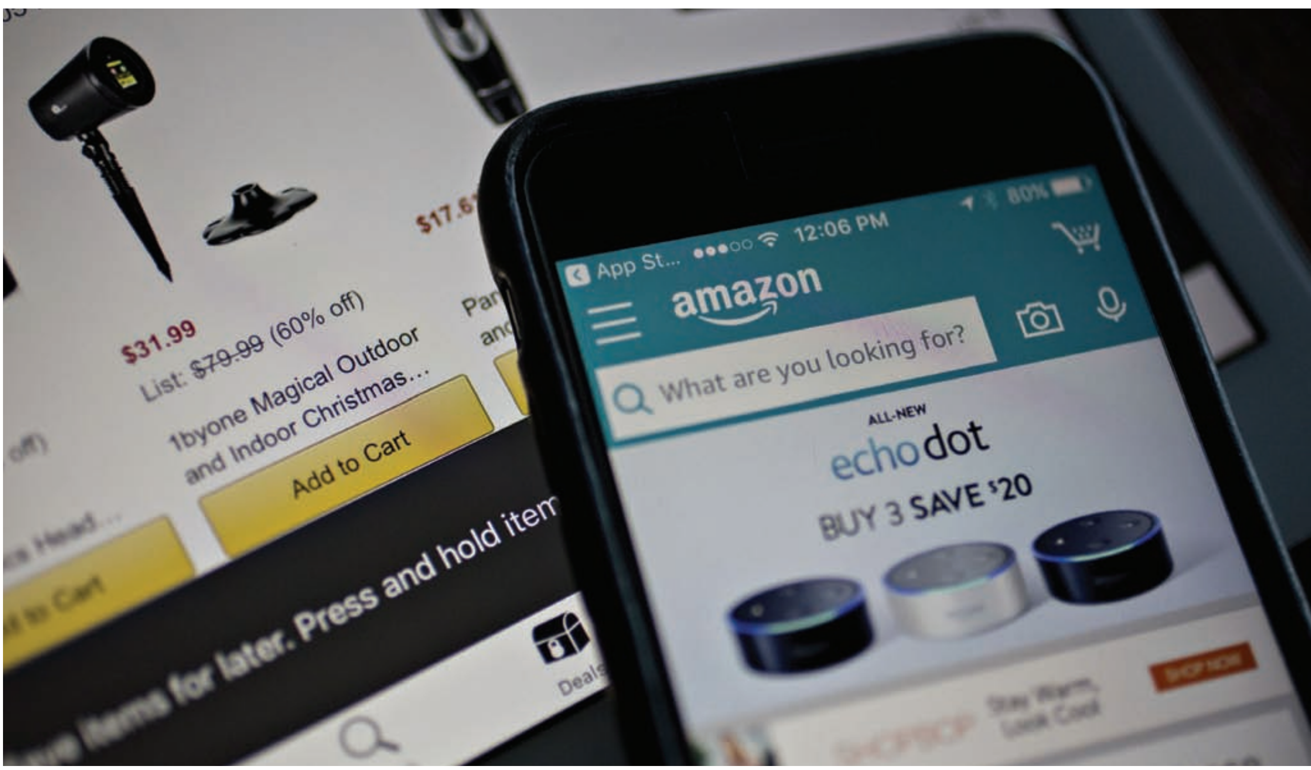
Secondly, Apple Pay helps address the gap between courting donors and getting sustainable donations, McDearis said. It's easier to win a donor than it is to collect a large sum or retrieve recurring payments; Blackbaud has been adding mobile collection capabilities for the past four years, and Apple Pay can set up regular payments in the field.

"It's a big advantage to say to a donor 'don't give me one check, but sign up for ten or more monthly payments and to do that through the Apple app. People make that payment every month automatically without us having to check with them every month," he said. "It's a sticky form of engagement."

Blackbaud ties its payment gateway to its CRM system, which allows the nonprofits to engage donors in a targeted way or use analytics to personalize messaging, McDearis said. Blackbaud also offers PayPal as a digital payments option, and plans to add Visa Checkout and Mastercard's Masterpass this year. **ISO**

Amazon Flips the Rewards Script

By tying its new card rewards to Amazon Prime subscriptions, Amazon is able to get people to pay a $99 annual fee without explicitly tying it to its rewards card. **BY KATE FITZGERALD**



Bloomberg News

Amazon is revamping its cobranded rewards card, adding a higher tier of rewards for people who pay a $99 annual fee — as 65 million people already do — for Amazon Prime membership.

The strategy is at odds with that of most credit card issuers, which market the perks of using their credit cards and use the lavishness to justify an annual fee. In Amazon's example, the company has sold its customers on paying the fee for a growing range of services including expedited shipping, video streaming and early access to deals; the credit card would just be one more benefit for a cost consumers already pay.

The Amazon-branded Visa card, issued by JPMorgan Chase, has no annual fee but its rewards are less generous for non-Prime subscribers, who get a mere 3% back for money spent on Amazon compared to Prime members' 5% reward.

The reward structure allows Amazon to offer a premium reward card while bundling the premium fee as part of a service that the majority of its customers already purchase. It also makes Amazon's credit card more enticing at a time when the e-commerce giant is experimenting with new services that could ramp up its customers' spending.

"By upping the benefits with this new Visa card, Amazon is giving its best customers another reason to sign up for Prime, which benefits Amazon all around," said Brian Riley, a director at Mercator Advisory Group.

Giving credit card customers 5% back at Amazon isn't entirely new; with the existing Chase Freedom cash-back card, which offers rewards that vary over the course of the year,

Amazon is one of the merchant categories eligible for 5% cash back during some Chase Freedom promotional periods, Riley noted.

Making that reward tier available year-round will effectively lock customers into both renewing their Amazon Prime membership and steering more spending to Amazon's cobrand card, Riley said.

"For most customers who use Amazon, the break-even point for earning back the cost of the $99 a year Prime fee is $2,000 a year, and heavy Amazon users would blow through that barrier very fast every year," he said.

According to Consumer Intelligence Research Partners, Amazon Prime has 65 million subscribers in the U.S. who spend, on average, $1,200 a year (double the annual spend of non-Prime customers), according to an article it authored for Huffington Post in November. The research firm says 52% of Amazon shoppers are Prime members, but that the service's annual growth rate was starting to decline.

Amazon did not reply to an inquiry from ISO&Agent by deadline, and does not include Prime subscriber numbers in its financial reports.

If Amazon can lock in more customers to using its cobranded card, it positions the retailer well for the launch of its Amazon Go brick-and-mortar store model. With Amazon Go, customers would pre-enroll with their Amazon accounts so that they would not have to select a payment method in-store. Instead shoppers just walk out with merchandise, and the sale is charged to whatever card they have on file with Amazon.

And from Amazon's perspective, it would be best if that default card is its own.

The new card builds on Amazon's existing credit card program with Chase, and carries no annual fee. There's no cap on rewards users may earn and rewards—redeemable at Amazon.com—and rewards never expire. Cardholders also may earn 2% back on purchases at restaurants, gas stations and drugstores and 1% back everywhere else.

Chase already has strong momentum with rewards cards and some of the perks on existing cards such as the premium Chase Sapphire Reserve card recently took a bite out of JPMorgan Chase's profits.

At the same time, Citi is seeing strong growth from its cobranded Costco Anywhere Visa Card, which offers 4% back on gas, 3% back on restaurants and travel, 2% on Costco purchases and 1% back everywhere else. Citi makes the card available at no cost to consumers who pay Costco's $55 annual store membership fee.

To sweeten the lure of its newest credit card, Amazon is going a step further by giving new customers who are approved for the Amazon Prime card a $70 Amazon gift card. During the recent holiday season, Amazon led all e-commerce providers, accounting for 38% of all online revenue, according to Slice Intelligence. **ISO**

AMAZON BLURS THE LINE BETWEEN DIGITAL AND PHYSICAL SALES

Amazon is flipping the script in another way: Its physical Dash buttons, which allow consumers to order supplies without visiting Amazon's website, have now gone virtual.

Amazon added virtual Dash buttons to the front of its website in January to make reordering simpler for customers.

The original concept of dash buttons was to place physical, WiFi-connected ªbuttonsº around the home and simply press it when running low on a certain product, like dish soap or Cheez-It crackers in the kitchen or laundry detergent in the laundry room, for example.

Additionally, Amazon has partnered with appliance makers to enable Amazon purchases directly from the interface of devices such as washing machines and dishwashers, which may even be able to sense when they are running low on soap and other supplies.

Now, Amazon has added Dash buttons virtually to its mobile app and the homepage of its website to make reordering and restocking frequently purchased items easier and faster for customers, even creating buttons automatically for frequently or recently ordered products.

Since the 2015 launch of the Dash buttons experiment, Amazon has grown the offering of physical buttons to more than 200.

The virtual version is available for ªtens of millionsº of products, according to Re/code, which first reported the news.

Customers can add, remove or re-organize the order of their buttons from a dashboard in their preferences.

Dash buttons also tie into Amazon's growing list of Prime membership perks; the products are sold to Prime memmbers for $4.99, and that fee is credited to the customer's account after their first order of whatever product the Dash button was linked to.

To avoid misuse, Dash buttons have some protections built-in, such as preventing multiple orders from being placed at once.

Customers cannot place a new Dash button order until their previous order is delivered, and they have the option to cancel errant orders before they ship.

Web Chargebacks Keep Rolling In

Much time has passed since the U.S. EMV liability shift took effect in late 2015. But for many merchants, particularly e-commerce sellers, the transition's difficulties have shown signs of going away. **BY AUTUMN CAFIERO GIUSTI**

iStock

Now that the second holiday season has passed since the U.S. deadline for EMV migration, acquirers are taking stock of the damages that merchants incurred this year to determine the effect of the new technology.

EMV, already common in other countries, is designed to prevent counterfeiting of plastic cards. Most U.S. companies faced an October 2015 deadline to migrate to EMV or else face a shift in fraud liability. But EMV protects only the physical point of sale, leaving e-commerce vulnerable to a fresh wave of fraud.

And for the past two years, fraud and chargebacks have been more rampant on the e-commerce side than at the point of sale. And some of those chargebacks might not start showing up until this quarter.

Acquirers and merchants say the reasons for the fraud spike are twofold: Fraudsters are shifting from brick-and-mortar to online now that more merchants have EMV-enabled terminals in place. At the same time, more transactions are taking place online, and the rate of fraud is rising to keep pace.

Holiday sales are expected to have grown more than 10% compared to the previous year, says Al Pascual, senior vice president, research director and head of fraud and security for Javelin Strategy & Research.

"As fraud grows in tandem with transaction volume, we can also expect at least a 10% lift in fraud, in addition to the impact of more capable and motivated fraudsters," he says.

A report Javelin released in October highlights the challenges merchants are facing post-EMV. E-commerce sellers surveyed for the report indicated that 49% of their chargeback losses come from the online channel, which is roughly three times the amount of in-person fraud for this group.

Several e-commerce merchants might not be aware of some of the holiday-related chargebacks until now. According to a 2015 report by e-commerce fraud detection firm Kount Inc., most merchants don't know they are the victims of higher fraud during the holiday season until the end of the first quarter because there is a 60 to 90 day lag in chargeback reporting.

Pascual says that for e-commerce merchants, the impact of EMV's rollout is unmitigated.

"So at the same time the fraud community is generally becoming more adept at e-commerce fraud, they are also being motivated to look beyond the POS to get paid. As a result, we can expect chargeback rates to soar, well exceeding sales growth in the online channel," Pascual says. **ISO**

Samsung Pay Sees a Lifeline

On the surface, Samsung Pay looks a lot like Apple Pay and Android Pay. Can the tech giant make the case Đ to consumers and merchants alike Đ that its mobile wallet is the one to pick? BY JOHN ADAMS

The tale of the 'pays'—Apple Pay, Android Pay and Samsung Pay—has been largely underwhelming.

Three years after Apple Pay's launch, only about 1% of payments in the U.S. are contactless mobile payments, and Apple Pay didn't benefit significantly from the robust holiday shopping season for overall digital shopping.

There are also signs that merchants and banks are, if not moving on without the third party mobile payment apps, at least charting their own course.

Chase Pay has fed off the remains of the defunct Merchant Customer Exchange CurrentC wallet, while digital marketing companies such as Cardfree — a company founded by the pioneers behind the successful Starbucks app — target retailers with a combination of pinpoint marketing and mobile payments.

The challenge for the third party apps, according to experts, is they exist mostly to automate the point of sale.

These apps lack the marketing advantage that retailers have when offering their own loyalty program or mobile app.

Nana Murugesan, Samsung vice president and general manager, is in the midst of bridging this gap. Samsung launched a new marketing program for Samsung Pay in November, a rewards initiative that encourages consumers to ramp up their use of mobile payments by scaling perks based on usage.

These benefits are in addition to the reward program attached to the credit or debit card that funds the Samsung Pay purchase, meaning savvy consumers can double-dip on rewards.

That loyalty program followed other upgrades such as location-based deals and smartwatch support as the Samsung Pay app looks to make headway in the U.S. and other markets.

And Samsung Pay could already differentiate itself by touting its method simulatinmg a contactless payment at magstripe terminals that don't support the NFC chips that Apple Pay and Android Pay rely on.

The early returns appear to be positive. Samsung this week reported that, since the launch of Samsung Rewards, the number of daily Samsung Pay transactions has nearly doubled and the number of "power users" — those who are making mobile purchases almost once a day — more than doubles every week.

The company did not report specific numbers, but noted there has also been a surge in overall monthly active users.

"It's clear that adoption of mobile wallets such as Apple Pay, Android Pay and Samsung Pay, has so far been disappointing in most markets," said Zil Bareisis, a senior analyst at Celent. "However, I would argue that it is too early to write off mobile wallets as a flop; all the wallets have been making strides in each of the three key dimensions: availability, acceptance and value proposition."

Murugesan recently detailed Samsung's strategy for making its mobile wallet stand out among its rivals in the increasingly competitive digital payments market.

The following has been edited for length and clarity.

> "Like all new technologies, there are opportunities to constantly innovate and optimize."
> -Nana Murugesen, vice president and general manager, Samsung

Where is Samsung Pay now available? And where can the rewards program be used?

Murugesan: Our digital wallet is now available to 10 countries, and our partnership with Mastercard for Masterpass will open up hundreds of thousands of merchants in 33 countries for online payments. Samsung Rewards is available to all Samsung Pay users in the U.S.m and in the coming months it will expand to include a wide variety of Samsung products and services.

How important is the link between loyalty and mobile wallet adoption/usage?

To lower barriers to adoption, we need to demonstrate to consumers how they'll benefit. Changing consumer behavior requires an incentive, and that's what Samsung Rewards provides.…In May, Samsung Pay also began supporting merchant membership and loyalty cards. This has given users quick and easy access to savings, rewards and other offers from their favorite stores while leaving their physical wallet at home.

Is there an awareness gap that remains regarding mobile payments and wallets? How can that be improved?

There is still an opportunity to further improve awareness with consumers and merchants regarding mobile wallets — specifically around understanding the high level of security through tokenization or the convenience of paying with phones and wearables.

Samsung Rewards is just one part of our larger strategy to build momentum for the digital wallet. At Samsung, we believe that these kinds of innovations – along with access to the larger Samsung ecosystem and the premium quality of the phones themselves — will be a crucial part of attracting new customers and expanding our user base.

How close is mobile payments adoption to maturation?

This past year, mobile payments systems like Samsung Pay have developed more robust features – adding support for deals, coupons, gift cards, loyalty cards that work virtually anywhere thanks to both [Near Field Communication] and [Magnetic Secure Transmission], allowing them to become true digital wallets.… People are more likely than ever before to try mobile payments and to keep using them every day.

Are there still technology gaps such as interoperability and availability that need to be addressed before mobile payments mature?

Like all new technologies, there are opportunities to constantly innovate and optimize. As a mobile payment service, Samsung Pay can already be used almost anywhere you can swipe a card. The next level is adding features to shift from paying with your phone to a full mobile wallet.

Do you see retail-specific apps (such a store's own mobile app) as a competitor?

Merchants are critical partners in the effort to bring mobile payment technology to more consumers. Samsung Pay is very committed to working with merchants for in-app payments and online payments, specifically through the partnership with Masterpass, which will allow Samsung Pay users to shop online. **ISO**

Square Seeks an Untapped Market

At its roots, Square was designed to be the ideal mobile payment option for small merchants that had previously accepted only cash. Today, Square is revisiting this market in search of new opportunities. **BY JOHN ADAMS**

Getty Image

Digital merchants don't necessarily have to open a store, but they can still benefit from the tactics of brick-and-mortar retailers, according to David Schwartz, vice president of e-commerce at Wix, a Tel Aviv-based technology company.

One such example is the popup presence. Many small merchants that want to strengthen their presence in their community will buy a booth at local fairs and other events, and digital merchants have the same opportunity.

"The first thing I do when I want to make an impression on clients is to talk to users," Schwartz said. "I speak to users everyday. There's enormous value in getting out there."

Wix has a base of about 300,000 merchants that use its web development platform, and its new integration with Square — announced early Tuesday — will enable these merchants to engage their clients face-to-face.

There are competitive plays for both companies. For Square, the collaboration opens up thousands of potential new clients, given that most of Wix's merchants do not offer Square presently — but have asked specifically for Square's product, according to Schwartz.

Since Square has been incrementally adding more merchant services as it turns its focus entirely on acquiring and away from consumer-focused payments, a windfall of new merchants would certainly be welcome.

Square initially offered its hardware for free, and has been adding merchant services over time to diversify its business model.

In the past year, Square has executed a marketing program in Portland, a city with a high percentage of micro merchants, offered same-day deposits for merchants and installment plans for chip card hardware.

It has also inked partnership deals with Vend and TouchBistro, two companies that offer inventory management and other merchant services.

The new partnerships, which follow an older Square pact with Starbucks that ended poorly, give Square an opportunity to scale quickly by relying on an outside party to acquire merchants.

"Wix allows any seller to run an omnichannel business," said Pankaj Bengani, Square's partnerships lead, in an email. "By integrating with Square, businesses can track sales data and manage inventory both online and in-person in one place, making it easier to make smart decisions to grow their business."

For Wix, it's battling a growing number of third-party services that build web gateways for merchants, particularly in the micro-merchant market—including WebyDo, SiteSumo, EasyWebContent and many others.

"The need for point of sale for these merchants is very clear," Schwartz said. "If you're taking orders and payments on a website, how do you compete for customers offline?"

Wix's merchants can use the company's drag and drop editor to add Square acceptance alongside other tools such as order management, promotional features, tax and shipping rules.

There are no fees beyond the fees Wix and Square charge independently. Square is Wix's first mobile point of sale integration, though Schwarz said the company would likely pursue relationships with other mobile payment providers, particularly in markets where Square does not have a large presence.

The Wix/Square integration at the onset is targeted primarily at the U.S. market.

"These merchants all want to have seamless processing," Schwartz said. "We cannot promise sales, but we can make it easier to set up."

Companies have made attempts to bridge the gap between digital and in-person payments before, said Ben Jackson, director of the prepaid advisory service at Mercator Advisory Group.

"It is interesting because Amazon has opened brick and mortar stores that appear to be permanent installations," Jackson said. "Amazon Go is letting people buy things without any formal checkout process. The question is whether other online retailers can or need to follow suit...it seems as though more online merchants are trying to curate content around their brands, and so having in person events might offer a new avenue, especially for specialty retailers." **ISO**

SQUARE'S EUROPEAN COUNTERPART, IZETTLE, GETS STRONGER

European mobile point of sale provider iZettle has made several recent moves to strengthen its offering, including the addition of UnionPay cards to the menu of credit and debit cards its merchants can accept.

The partnership with China's major card network will allow millions of Chinese travelers visiting Europe each year to pay for goods and services with their UnionPay cards through the iZettle reader.

Stockholm-based iZettle says its card reader is the first across its 10 European markets to accept UnionPay transactions.

ªThis partnership will help the hundreds of thousands of business owners that use iZettle to sell more by accepting more payment alternatives,º Johan Bendz, chief marketing officer at iZettle, said in a Jan. 19 press release.

The transaction fee with UnionPay cards will be the same as with other major credit cards that iZettle accepts: 2.75% of the transaction size, with the potential for a lower rate based on volume.

The deal with UnionPay comes four months after the company strengthened its potential in restaurant and other small-business settings by acquiring intelligentpos, a business/management technology provider based in Scotland.

Generally looked upon in the payments industry as Europe's equivalent of Square in the U.S., iZettle recently raised about $80 million in funding, in part from U.S. investors.

The round includes debt funding from New York-based Victory Park Capital, and will be used to help pay for technology expansion and an acquisition of Scottish startup Intelligentpos. iZettle also appointed Maria Hedengren as CFO. Hedengren served in the same position at gaming company NetEnt.

iZettle did not immediately respond to a request for comment. In an interview on CNBC, iZettle CEO Jacob de Geer said the company is adding other services to its existing mobile point of sale technology to address the need to diversify in a competitive marketplace.

He also said the company was planning its ªnext stepº for the next 18 to 24 months.

Intelligentpos allows iZettle to deliver management tools to restaurants and other types of merchants, enabling them to optimize table turnover, inventory and back office planning.

iZettle's CEO mentioned his industry was undergoing consolidation, and added the IPO market is heating up. He did not confirm plans to go public, nor did he discuss an expansion to the U.S. market or acquisition plans.

Square, the most recognizable mobile point of sale company in the U.S., has entered a series of collaborations to broaden its product mix and merchant reach. iZettle would need to find the a ªstrong distribution partnerº for a move to the U.S., de Geer told CNBC.

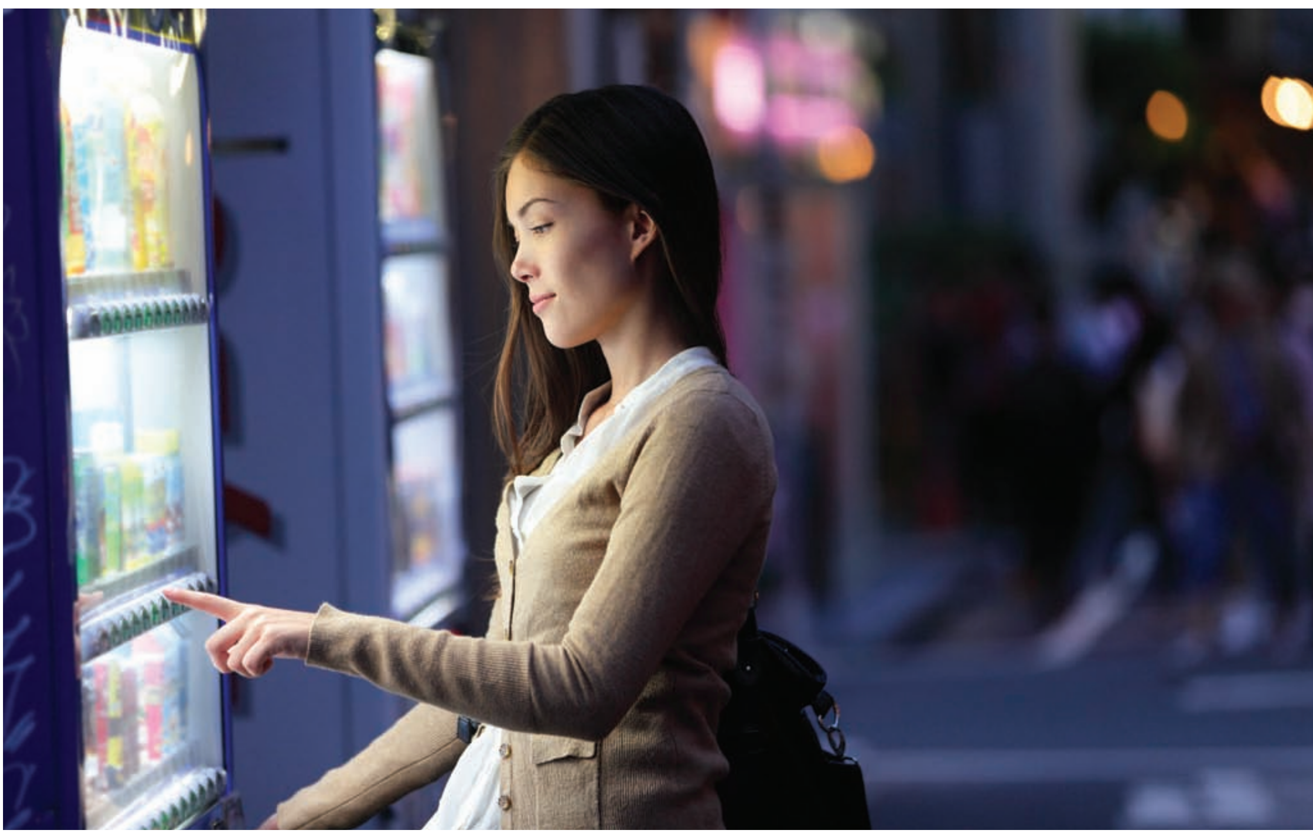
In the early days of mobile payments, iZettle's presence in Europe gave it a unique perspective on the way the market would evolve. Specifically, it already operated in regions where EMV-chip card payments were commonplace, whereas Square's initial focus on the U.S. limited it to magstripe payments.

This dynamic worked to Square's advantage in that it could use lower-cost hardware that did not handle EMV or contactless payments, but it also meant that Square's fundamental business model would have to shift when EMV finally began to spread in the U.S. with the October 2015 liability shift.

Meanwhile other companies such as PayPal took a two-pronged approach by offering simpler magstripe-only mobile point of sale devices in the U.S. and more complicated EMV-compliant devices in other markets.

Can Apple Aid Vending Machines?

One of the key perks of mobile wallets is their ability to gather data. This creates unique opportunities to build loyalty programs for just about any sales model Ð including unattended vending machines. **BY JOHN ADAMS**



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Vending machines are perhaps the least personal way to sell items, but mobile wallets are providing a fresh visibility into their customers' habits.

It's even possible to use mobile wallets such as Apple Pay to enroll vending machine customers into a loyalty program — a concept that seems at odds with the impulsive and anonymous nature of most vending machine purchases.

"When a consumer uses coins or cash, all you can tell is volume over a long period of time," said Amelia Powell, USA Technologies' senior marketing director. "But with mobile, we can pin down when transactions are happening and can report on that information."

In a recently announced deal, USA Technologies (USAT) will integrate its MORE. loyalty and payroll deduct platform with Apple Pay for use at as many as 300,000 machines across the U.S. Companies that operate unattended machines, such as vending machines that dispense soda and snacks, will be able to more closely tie contactless mobile payments to marketing. Consumers

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can enroll and have the USAT loyalty card added directly to Apple Pay.

USAT is also collaborating with Urban Airship, a mobile market development company, to improve marketing content for mobile apps. Consumers that present an iPhone or Apple Watch will get an electronic prompt to join USATs loyalty program.

These consumers can then add a digital loyalty card to the Apple Wallet, which can be used to receive or redeem loyalty perks at any participating machine, since that user's loyalty information will be "shared" with the transaction.

"This frees up operators to be creative when reaching out to consumers that are typically hard to communicate with at unattended locations," Powell said.

Apple Pay is the first third-party mobile payment app to partner directly with USAT's loyalty program, though Powell did not rule out working with other wallets. Its fees depend on USAT's partnerships with the different companies that deploy its vending machines.

USAT has long been aggressive in pursuing contactless mobile payments. It was an early marketing partner with Coca Cola and the telco-led mobile payment app Softcard (then called Isis), and has more recently marketed the availability of Apple Pay at machines, a move that has produced positive results for the mobile payment app.

USAT hopes the new integration will make mobile payments easier to use at vending machines, which would result in even greater volume for Apple Pay wallets.

Despite the recent signs of pickup, Apple Pay's use has mostly lagged observers' expectations since its launch in 2014. And across all providers, contactless mobile payments at the point of sale is still only about one percent of all transactions.

"By reaching out beyond the point of sale, we can anticipate the needs of consumer better and drive traffic better," Powell said. "And we can present offers that have more value to consumers."

Since self-service has always been how people use vending machines, and consumer boost in comfort with Apple Pay at vending machines can spread to other retail categories, Powell said.

"Unattended is where traditional retailers are going," Powell said, noting Amazon's new concept store that eliminates the checkout counter. "Vending machines are a proving ground. If it's not super complicated to make an NFC payment at a vending machine, people will use it elsewhere."

Unattended venues can help jumpstart mobile wallet adoption, said Zil Bareisis, a senior analyst at Celent.

"First, it is less likely that a vending machine will have a long queue, so the customer is more willing to try new technology, especially if they are reminded by a sign or advertising," Bareisis said. "Even if it doesn't work, there is no 'social embarrassment,' and they are not holding anyone up by taking longer. Second, these tend to be frequently regular transactions, which can help form a habit." **ISO**

APPLE PAY WORKING WITH GODADDY TO SUPPORT MOBILE COMMERCE

The web hosting company GoDaddy has streamlined the checkout process for small business customers using its Online Store services, including adding Apple Pay to speed mobile e-commerce transactions.

The Scottsdale, Ariz.-based provider of web and e-commerce services recently introduced several checkout features to customers who use its cloud-based web commerce platform through an integration with Stripe, GoDaddy said in a press release.

One reason for the upgrade is that GoDaddy's data shows about 60% of all traffic on small-business websites hosted by GoDaddy comes from mobile devices such as smartphones, the company said.

"Mobile shopping is driving e-commerce activity and simplifying the consumer purchase experience with things like Apple Pay is a big advantage for small businesses," said Greg Goldfarb, GoDaddy's vice president of commerce and email marketing.

"We've removed friction for buyers so they can just tap and pay, and provided businesses with easier ways to reach customers with compelling content," Goldfarb said.

Stripe sees growing demand for Apple Pay among e-commerce operators of all sizes.

"More and more online commerce in the U.S. now happens on mobile devices, and Apple Pay is a rapidly growing portion of those purchases," said Cristina Cordova, head of business development at San Francisco-based Stripe.

"We've already seen other major platforms significantly increase their conversion rates by enabling Apple Pay, and we're excited to extend this to GoDaddy users around the world," Cordova said.

Though Apple Pay is best known as a means of making contactless payments at the point of sale, the mobile wallet also launched with capabilities for in-app purchases on Apple devices.

In this way it gained support from major retailers like Target which didn't have NFC capabilities at the point of sale and were, at the time, supporting the development of a competing mobile wallet called CurrentC.

Apple later chose to expand Apple Pay support for the mobile web by integrating the wallet with its own Safari browser.

Google's Android Pay has similar features, including support for mobile commerce via Google's own Chrome web browser.

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