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BY HER OWN DEVICES

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DANIEL WOLFE
Editor

An Ongoing Change in Culture

THE PAYMENTS INDUSTRY IS UNDERGOING CONSTANT TRANSFORMATION. Usually we focus on the technological changes, but it is important to also recognize the cultural changes that are enabling women to bring their influence to the forefront.

The Most Influential Women in Payments, an annual feature by PaymentsSource and ISO&Agent, honors the women who are driving change in one of the most dynamic areas of financial services.

The past year has been particularly exciting for these honorees, who are leading their companies' efforts in key initiatives such as the introduction of EMV-chip card security, the reshaping of the mobile wallet landscape, and development work toward an ecosystem that supports faster payments. On top of that, many participate in mentorships and other programs that support the advancement of women in this critical industry.

The honorees, selected by the editors of PaymentsSource and ISO&Agent, are responsible for businesses and innovations as diverse as the payments industry itself. They are technologists, entrepreneurs, leaders and influencers throughout the worlds of banking, payment processing, hardware development and merchant acquiring. **ISO**

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Why Merchants Still Swipe Cards

Many consumers have EMV-chip cards, which are supposed to improve security. But several issues are causing merchants to stick to the magnetic stripe. **BY AUTUMN CAFIERO GIUSTI**

Consumers who have been issued EMV chip cards know how to use them. So it might come as a surprise when merchants equipped with chip card readers instruct their customers to swipe their cards instead.

In advance of last fall's Oct. 1 deadline for merchants to start accepting EMV chip card payments – or else be held liable for fraud losses – plenty of retailers swapped out their old mag stripe terminals for new ones that could read chip cards. Yet even though the deadline has passed, quite a few merchants equipped with the new terminals are still having customers swipe their cards.

One reason is that the terminals, by themselves, simply aren't enough.

"At this point, it is extremely common for a merchant to have an EMV device without the capability of accepting EMV chip cards," says J.D. Oder, chief technology officer and senior vice president for research and development at Shift4, a credit card processing gateway out of Las Vegas that has been assisting software vendors with the EMV certification process.

Mansour Karimzadeh, managing director and chief technology officer for the SCIL-EMV Academy, an EMV education firm in Toluca Lake, Calif., estimates that about 30% to 45% of merchants have the new terminals but are not using them for one reason or another.

A lack of software is the leading



problem.

"To be able to use EMV, they have to put that software in and then do a number of certification tests to make sure the terminal works correctly and to make sure the processor can actually see transactions coming in," Karimzadeh says.

Lack of will appears to be another reason.

Steve Eazell, president emeritus and board member of the Western States Acquirers Association, says that when the checkout line is backed up with customers, it can be tempting for the merchant to disable the terminal's

EMV capability and allow customers to swipe their cards just to get people in and out of the store. And because consumers still aren't used to the new cards and not all merchants have fully trained their employees on EMV, the process can take even longer.

"Unless an owner is there 24/7, the employees are going to do what's most convenient," Eazell says. "If there are too many people in line, or the customer says it's taking too long, they're just going to opt for the path of least resistance."





Some merchants also decided to streamline the rollout by continuing to magstripe cards during the holiday

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season and then slowly ease into chip-card acceptance, Karimzadeh says.

Taped-Over Problem

Jeff Marcous, CEO of Dharma Merchant Services in San Francisco, says that as a consumer, he's witnessed the trend of merchants who have new equipment but are still relying on the swipe. "I'm often faced with going to a merchant's location, and a lot of times they've taped over the slot," he says.

Dharma started deploying terminals as soon as they became available, and that by and large his merchants have been using the equipment when a chip card is present, Marcous says. But that's not to say the industry as a whole was prepared for the Oct. 1 rollout.

"Acquirers weren't ready. Merchants weren't ready. Consumers weren't ready," he says. "All in all, we just can't believe the level of incompetence of this industry to accommodate such a large program as EMV."

A leading complaint among merchants about the new equipment has been the difficulty of accepting tips, Marcous says. The issue is that tip needs to be added while the card is in the terminal, but at most restaurants and bars, the customer isn't at the point of sale to add the tip because the server has taken the card away.

"There are always unforeseen glitches that arise whenever there's a mass adoption of new technology like this," Marcous says.

Payments consultant Linda Perry says it's taken a lot longer to activate terminals than expected because the entire conversion process – and the logistics involved – ended up being much more difficult than the card companies expected it would be.

There are always unforeseen glitches ... whenever there's a mass adoption of new technology.

-Jeff Marcous, CEO of Dharma Merchant Services

"If you've never been a bank or processor, you have no idea about how hard it is," she says. "And you have to get it right, because the merchant's got to wake up the next morning and have it work."

Perry, who previously worked for Visa Inc. as senior vice president and head of acquirer and processor sales, suspects that Visa and MasterCard are a step or two removed from the point of sale process and the activity at the ISO and acquirer level. Nor did they fully understand how big a task it would be to convert 8 million merchants, particularly the smaller ones, she says.

"They know what Walmart does. They know what Target does. They just don't know what the other 7 million merchants do," she says.

Certification Waiting Game

Visa reported in January that only 17% of card-present merchants accepting Visa in the U.S. were using EMV at the time.

While several players have complained about the software issue, Oder says the real hold-up has been with getting that software certified for EMV, as well as certifying the entire card-accepting infrastructure. Certification involves months of work to validate every single processor, point of sale and terminal device in play in a merchant's environment. In a mega resort, for example, five to 10 different certifications could be required, each taking months to complete.

"Service providers and independent software vendors realized too late that EMV-ready doesn't simply mean 'plug in an EMV device,'" Oder says.

Merchants who did their part and obtained EMV equipment well in ad-

vance of the deadline ran into snags with processors that still hadn't finalized their EMV specifications, and thus couldn't allow for certifications to begin until as recently as a few months ago, Oder says.

"To frustrated merchants who are willing but unable to fully adopt this new technology, I say, 'be patient,'" Oder says, adding that the list of merchants that can accept EMV-enabled cards is relatively small and includes names like Home Depot, Target and Walmart.

"If you're not a company of this size and clout, chances are you're not being pushed to the front of the line for certifications," Oder says.

The merchant community has put the blame at the feet of the credit card industry for not getting them certified quickly enough. Craig Shearman, spokesman for the National Retail Federation, says that merchants rushed to meet the deadline and spent billions of dollars to obtain the new equipment, but because the card industry failed to provide enough personnel to certify these terminals to accept chip cards, the equipment is just sitting there.

"To put it very simply and bluntly, the retail industry has done its part. It's the credit card industry that's dropped the ball," Shearman says.

Even after EMV is up and running everywhere, Shearman contends that it still won't be enough to protect merchants from rising instances of credit card fraud because the new system requires that merchants provide a signature instead of a PIN at the point of sale.

Retailers for years have asked for chip-and-PIN technology, which is what most other countries, including the U.K. and Canada, rely on because they deem it the most secure method for acceptant payments, Shearman says. But instead, many U.S. issuers adopted chip-and-signature technology, which he says does not provide the same level of security as chip and PIN.



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“We’ve got ‘EMV lite.’ We don’t have true EMV,” Shearman says.

If it’s going to take several more months for the payments industry to complete the EMV migration process, then they may as well add the PIN capability in the meantime, Shearman says. “There’s no reason to have to go through this twice,” he says.

Eazell admits that ISOs and sales agents could have done a better job of educating and assisting merchants with setting up the new terminals.

“Merchants have the idea that if you don’t get a new terminal, then you could be liable for a chargeback. But ISOs are never famous for their follow-up as far as training and holding the hand of merchants through a change like this,” Eazell says.

Merchants bear some of the blame, too, and that plenty of them still believe they’re immune to fraud, Eazell says. “I know there were a fair number of salespeople who did alert the merchants that it was coming, and then there were a fair number of merchants who pooh-poohed it and said, ‘I’m not going to have fraud in my store,’” he says.

‘Merchants Are Getting the Stick’

Some acquirers say that merchants still don’t see a compelling reason to include EMV.

“It doesn’t mean increasing sales for them. It doesn’t make it easier for them to accept payments,” Marcus says. “Sure, there’s the liability issue, but most merchants are not the victims of credit card counterfeit fraud.”

Banks saw an incentive to issue the new cards because it allowed them to shift the fraud liability to the merchants, says Ken Musante, president of Eureka Payments.

For merchants, making the switch merely meant that they would get to keep things exactly the same, meaning that merchants still wouldn’t be liable. But there was no real incentive beyond

Issuers saw a carrot, whereas merchants are getting the stick.

-Ken Musante, President of Eureka Payments

that, Musante says.

“Issuers saw a carrot, whereas merchants are getting the stick,” Musante says. “So unless you do something, you’re going to get harmed. I think that’s the way that merchants feel, which is on the wrong side of it.”

In addition to having no real incentive to switch to EMV, accepting chip cards can create logistical challenges for merchants at the point of sale. Simply processing a transaction takes a lot longer than it used to. Whereas a customer with a mag stripe card can swipe the card and have a receipt within a matter of seconds, a customer with a chip card has to insert the card and then wait – sometimes for the better part of a minute – for the machine to complete the payment and release the card.

“Waiting for the consumer to put their card in there and having to leave it in there for the duration takes more time than it’s worth because you’re not likely to see a chargeback on a very small item,” Musante says.

Shared Responsibilities

Given that it took the better part of a decade for other countries to transition to EMV, some industry members say they’re not too surprised that the U.S. still has a ways to go before all merchants have both EMV equipment and the software and employee training to support it.

The U.S. rate of conversion to EMV has actually been relatively quick compared to other countries such as the U.K., which took about eight years to achieve 90% conversion, Karimzadeh says. “Although the U.S. is a bigger market than the U.K., the U.S. should

be at more than 90% in three years or so,” he says.

The EMV Academy has been training larger entities, including financial institutions, issuers, ISOs and merchants, to help them better understand the EMV process. This has taken a little more time on the terminal side than on the issuer side, Karimzadeh says, because it’s been costing ISOs money to convert their merchants to the new terminals and they don’t see the benefits of conversion.

Several parties involved with the EMV rollout need to follow through with their responsibilities, said Industry analyst Todd Ablowitz, president of Double Diamond Group LLC:

- The banks that issue the cards should provide consumers with information about EMV.
- The equipment manufacturers that make the terminals should make the checkout prompts more intuitive for both consumers and merchants to follow, so that less training is necessary.
- ISOs should explain to merchants why they’re making this change and how it helps them.
- Consumers should demand it. “If you go to Canada, the consumer is not going to put up with a merchant swiping their card,” Ablowitz says.

Ultimately, Ablowitz says, all of the stakeholders in the EMV migration hold some level of accountability.

“EMV requires everyone in the ecosystem to be involved, so you can expect it to take a long time,” he says. “Even in the U.K., it took nearly 10 years from the time it was announced until the time it was fully adopted. That’s how these things work.” **ISO**

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Tech Confusion May Be Good for Card-Linked Offers

BY DAVID HEUN

U.S. consumers remain unimpressed by mobile wallets and annoyed by EMV, so something has to give at the point of sale.

That something could be coupons, according to Linkable Networks, which wants more merchants pushing card-linked offers rather than mobile coupon apps or clippable coupons from newspaper inserts.

“Mobile wallets are interesting, but the widespread payment form in the world is credit cards; everyone has one and it doesn’t need a battery and everyone knows how to use it,” said Mike DiFranza, president of Boston-based Linkable Networks.

In partnering with News America Marketing, the company behind SmartSource magazine, SmartSource.com and other free-standing print inserts, Linkable Networks can reach the audience that already rabidly clips coupons to save money on their regular shopping trips.

Shoppers wading through the Sunday newspaper inserts will see information at the bottom of an ad informing them how to register their credit cards with Linkable, then send a text code from their phones that will automatically link the product offer to their payment card.

The setup of linking offers directly to a card helps merchants as well, DiFranza said, because they don’t pay Linkable unless a deal linked to a card actually sells. Also, the deals tend to be for national brands, so those manufacturers cover the cost of the deal, not the store owner.

Plus, Linkable monitors the other products a consumer purchases at SKU level, and which ones did not have a linked offer, providing information to the merchant that can sharpen their marketing in the future.

Banks have also been more active in



providing in card-linked offers through their mobile banking apps.

But the long-standing routine of clipping paper coupons may be hard to break. In addition, consumers are growing less comfortable with registering card credentials with third parties.

“Card-linked offers are a strong way to get deals in front of consumers, but the problem is the early friction in asking a consumer to take a few steps to register a card,” said Adil Moussa, payments strategic marketing analyst at Omaha, Neb.-based Adil Consulting. “Even if registering is a one-time thing, it takes a few steps and in many cases it is just laziness on the part of consumers to not want to do it.”

For many coupon clippers, the ritual of going through Sunday newspaper inserts is “like a social activity that they really enjoy,” making it difficult for a technology provider to disrupt that behavior, Moussa said.

But it is not impossible to trigger interest, he added. “The offers have to be diversified and have to be really good,” Moussa said. “It has to make it painful to the consumer to not do it.”

Linkable’s approach is not to disrupt the ritual of clipping coupons at the home — after all, its deals are listed in the same newspaper inserts as the paper coupons — but to speed things up at the point of sale, DiFranza said.

News America Marketing’s inserts reach 73 million households a week-end, or about 130 million consumers. “We’re starting with specialty retailers and taking a newspaper ad vehicle and turning it into a performance-based platform as if it were an online platform,” DiFranza said.

Systems that involve paying only for results tend to be more appealing to small and mid-size merchants, said Mark Horwedel, CEO of the Merchant Advisory Group.

But retailers will likely have questions about how Linkable and companies like it handle data and promote new technology to consumers, he said.

“Those who get comfortable with the approach are likely to demand some pretty ironclad contracts forbidding third parties from using the data in any manner inconsistent with their contracts,” Horwedel said. **ISO**



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EMV's Hidden Cost for ISOs

Merchants who adopted EMV security were expected to bring ISOs a flood of new revenue. But as the EMV migration progressed, that didn't happen. **AUTUMN CAFIERO GIUSTI**

As merchants prepared to swap out their aging magstripe terminals for modern EMV card readers, some acquirers hoped that this widespread demand for equipment would flood ISOs with revenue from terminal sales.

But with the Oct. 1 deadline for EMV adoption well behind them, ISOs report that they have yet to see the glut of business that some had predicted. What's more, some acquirers say the new equipment has proven to be an added expense, as opposed to a profit center.

In the two years leading up to the EMV deadline, Steve Eazell, who at the time was working as a senior-level payments industry executive, predicted that EMV hardware upgrades would be a boon for the marketplace.

Eazell, the president emeritus of the Western States Acquirers Association, says that ISOs have experienced at least an uptick in equipment sales, as the deadline motivated several retailers to switch over their terminals, although not as much as expected. And it's still too early to measure just how much of a revenue bump has occurred so far.

"Yes, we have seen it. But the downside is I don't think it's quite what we hoped," says Eazell.

Eazell chalks up the limited gains to several factors, including margins that continue to shrink and because retention is based on what niche an



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ISO serves and how well that ISO is taking care of merchants. “The fact is that most of these ISOs have had to deliver these terminals to merchants for free,” he says.

For a long time, larger ISOs have given free terminals to merchants as an incentive for them to sign up for or keep a merchant account. They continued that practice when it came time to replace EMV terminals. But the result was that small and medium-sized ISOs felt compelled to do the same.

“Competition has created an environment that requires them to do that to maintain the status quo,” Eazell says.

Hedging Bets

Some acquirers decided from the get-go not to pin their hopes on a big payday from EMV terminal sales.

Jeff Marcous, president and CEO of Dharma Merchant Services in San Francisco, says he didn’t really expect to see a windfall from EMV.

“We’ve never looked at this as a new revenue opportunity for us,” he says.

Dharma doesn’t provide free terminals, nor does the company lease equipment. Rather, the company offers terminals at discounted prices.

However, any additional equipment sales were offset by the costs Dharma incurred to buy the equipment wholesale, as well as the need to provide additional product support. The company spent about \$40,000 to purchase and encrypt new terminals.

“When you factor in all the costs, it’s probably a break-even proposition,” Marcous says.

The first three months after last year’s deadline proved to be hectic for Dharma, and there was a lot of misinformation among merchants who were not accustomed to the new technology.

“October, November and December tied up our customer service department like we’ve never seen in the history of our company. It’s pretty much been a

boondoggle,” Marcous says.

One bright spot, Marcous says, is that the industry’s switch to EMV gave merchants one more reason to shop around for a new merchant service provider. “We definitely have had new prospective merchants mention EMV when they contact us. So in that respect, it’s been a positive,” he says.

Banking on Loyalty

Ken Musante, president of Eureka Payments, says the company has approached terminal replacement as more of a long-term investment and retention tool than a moneymaker.

“It’s certainly a significant cash flow hit. And we’re really not seeing any significant increase in revenues because of it,” Musante says.

Eureka Payments has always relied on the free terminal model, and that continued to be the case when merchants needed EMV terminals. Eureka spent about \$60,000 on new equipment for the EMV upgrade, and most of this cost was to maintain new clients. The company went out and replaced merchants’ terminals at no cost to them, as long as those merchants agreed to sign a document saying that the terminal belongs to Eureka.

“What we are doing is getting terms from them, so that they do need to stay with us,” Musante says. “But there’s no additional monthly revenue.”

Eureka Payments is betting that by providing its customers with free terminals, merchants will return the favor by keeping their accounts with the company. Time will tell whether that turns out to be the case, Musante says.

“This is what we were expecting, which was a big cash outlay in exchange for loyalty down the road,” Musante says.

What the company didn’t expect, though, was how few new merchant accounts they’ve signed since the EMV deadline. There have been some incremental gains, but nothing substantial

as of yet, Musante says.

“We actually thought we would have seen a bigger lift from new customers, and we’re surprised we haven’t seen that,” he says. “Maybe it’s still coming, but it hasn’t been a huge number.”

The good news, Musante says, is that this year the company has noticed an uptick in clients who are reaching out to them for additional accounts.

Following the Money

Even though EMV might not be the gravy train some ISOs had hoped for, analysts still see moneymaking opportunities for ISOs.

Payments consultant Linda Perry says acquirers still have a shot at some added revenue from smaller merchants who are more likely to pay retail prices for terminals.

“They’re the ones who are going to have to upgrade, and there’s yet to be enough volume in the small merchant category to make money,” she says. “The smaller guy is going to pay \$400 for a \$200 terminal.”

Amidst the industry’s excitement over equipment sales, analysts continue to beat on the drum of differentiation.

ISOs shouldn’t overlook the importance of offering products and services that go beyond price, as the margins continue to expand for ISOs that adopted a diverse strategy, says industry analyst Todd Ablowitz, president of Centennial, Colo.-based Double Diamond Group LLC. “The ones just carrying a Verifone terminal in their backpack are not going to pick up a big win, in my view. It’s the ones that have something that excites the merchant at a deeper level.”

ISOs should consider which niche services and offerings, such as back-office integration, they can offer to help merchants overcome their day-to-day problems, Ablowitz says.

“That’s how it’s really being solved,” he says. “And EMV is just a compelling event to make a change.” **ISO**



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How Vantiv's Early Bet Paid Off

In recent months there have been several expensive acquisitions with a focus on omnichannel and integrated payments. Vantiv was ahead of the trend. **BY DAVID HEUN**

Vantiv Inc.'s mid-2014 purchase of Mercury Payment Systems proved the company was ahead of the curve on two payments trends – opening its network to third-party app developers and integrating other business features and tools with payments at the point of sale.

The \$1.65 billion acquisition of Mercury, now called Vantiv Integrated Payments, helped Vantiv deliver strong financial reports throughout 2015, catapulting its merchant services division revenue to a 25% increase at \$1.3 million. The move has also been validated by the many high-priced acquisitions that followed.

Matt Taylor, formerly the CEO of Mercury and now group president of integrated payments and emerging channels at Vantiv, shared insights into how his company made the right decisions at the right time.

ISO&AGENT: At the time of the Vantiv deal, Mercury Payment was an attractive company because of its platform, partnerships and the potential of its technology. What put your company in such a favorable position?

Taylor: Mercury really pioneered distribution through POS technology, software vendors and resellers in terms of small to medium sized merchants acquiring. That was based on a couple of big bets early on. In 2002 or so, one was that all things payments would leave



³All things are becoming integrated for a variety of reasons. Simplicity is one, effectiveness is another and security is the third,⁴ said Vantiv's Matt Taylor.

the stand-alone countertop terminal and the other was it would gravitate to an integrated software environment.

ISO&AGENT: And the numbers prove you won those bets?

Taylor: At that time, about 14 years ago, nine of 10 transactions from a small-business merchant were run on a standalone terminal in a dial-up Internet world. Fast forward to today and we have integrated close to 1,000 of the most

popular POS software environments that are running countertops in the U.S. We believe that is strong leadership there, and bets that came true.

ISO&AGENT: Today, with Visa, MasterCard and PayPal all opening their networks to developers and companies like Apple pushing it, it appears the open network will be quite common.

Taylor: All things are becoming integrated for a variety of reasons. Simplicity

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ity is one, effectiveness is another and security is the third. Data is important to protect, and in a software environment, we can put a lot of controls in with encryption. So you can see that a lot of tailwinds are helping the conversion of stand-alone terminals to integration.

ISO&AGENT: An open network holds new promise for merchants, it seems, on a lot of different fronts. How do you view that?

Taylor: It is the era of the open platform and ISV [independent software vendors]. That is why we have targeted our efforts to cast the widest net around any ISV that wants to make payments a part of their offering, as opposed to picking a specific product or acquiring a set of products we think merchants are going to want to use. We think more merchants want diversity, and we have to give them access to a wide array of diversity. That's why Vantiv takes the approach of being open in the integrated payments space, as opposed to being closed or picking a specific product.

ISO&AGENT: When you mention the standalone terminal, do you mean legacy systems or something else? Is there no way for a standalone to upgrade with integrated payments?

Taylor: When you talk about what a full-scale POS system does versus what a standalone terminal is capable of, it comes down to this: You need the operating system and networking capabilities of a full-scale system to host reporting environments. Layering all types of robust applications for accounting, time and attendance, inventory tracking and management, gift cards, multi-location gift cards, etc., those are things that require end-to-end software-based operating systems and networking capabilities.

ISO&AGENT: Is it a huge learning curve for merchants to grasp the difference and what it means to them?

Taylor: It's really two different environments, but merchants are becoming savvy about operating these sophisticated systems as they are becoming

more affordable. It doesn't require a \$15K to \$20K investment any longer; you can spend \$3K and get a pretty robust system. Features are becoming more specialized and user-friendly, based on more proliferation of retailers using these systems.

ISO&AGENT: Merchants have far more choices than just a couple of years ago it seems.

Taylor: It really continues to make me excited about working with the POS software vendors' community. Over and over again, I get asked if the POS software market is going to consolidate into one big player and normalize. Yet, all I continue to see throughout my career is more new entrants in the market and merchants accepting it. The merchants are demanding more specialized features at the POS and we are seeing that market continue to expand and accelerate.

ISO&AGENT: Of all the integrations Mercury and Vantiv have been involved in, is there a specific feature that resonates with all merchants.

Taylor: Yes. The No. 1 thing we see demand for and that merchants understand is making the retail countertops in this market secure. We are seeing an acceleration of breaches at small businesses, and the fraud will continue to move downmarket as more large retailers embrace EMV.

ISO&AGENT: Small businesses are reluctant to jump on EMV. How does Vantiv Integrated Payments impress upon them to take on security measures?

Taylor: EMV is one very important component to protect against counterfeit fraud, but you also need to protect data flying in and out of the system with encryption and data at rest with tokenization. There are lots of use cases for reusing a card number, so it has to be tokenized. At this point we have well over 100 integrations completed for encryption and hundreds more planned. **ISO**

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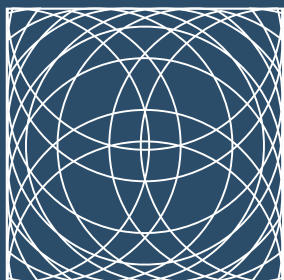
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BUILDING FINTECH'S FUTURE

MagTek CEO Annmarie 'Mimi' Hart is eager to witness the potential of futuristic payment technologies, from wearables to 'edibles' and 'injectables.' But first, she must work with the merchant community to address the shortcomings of today's approaches to payment security.

BY CHERYL WINOKUR MUNK

Annmarie "Mimi" Hart, CEO and chairman of MagTek in Seal Beach, Calif., has a vision of the payments industry that may seem more like the plot of a Star Trek script. But that sci-fi vision happens to be coming true.

Back when a mobile wallet was still an uncertain concept and the EMV migration was just beginning, she was already looking ahead to the next phase, when consumers would be making payments through "Dick Tracy" style smartwatches that they could talk into much like Captain Kirk would talk to the Enterprise. And, eager to live in that future, she wore such a watch years before the Apple Watch debuted to kickstart the wearable payments movement.

As exciting as it may be to sprint into the future of payments technology, Hart's philosophy has also kept her company grounded in reality. EMV hardware may be a source of revenue for her company, but Hart does not overpromise the level of security it provides. She has been just as critical of point-to-point encryption.

MagTek's name may seem anachronistic in a world where the major tech initiatives are all pushing to bring payments beyond the magnetic stripe, but Hart and her company have built a reputation and a network of relationships that has promised it a seat at the forefront of new developments. Hart has been recognized three times by PaymentsSource and ISO&Agent as one of the Most Influential Women in Payments.

ISO&Agent recently connected with Hart to discuss her opinions on the past, present and future of payments. The following is

an edited transcript of the conversation.

ISO&Agent: *What are the most important accomplishments our industry has achieved in the past few years and why are these at the top of your list?*

I believe the biggest accomplishment our industry has achieved is mobility—taking payments and untethering them from the counter.

This has fundamentally changed the payments business.

ISO&Agent: *You predicted for years that consumers would eventually demand a “Dick Tracy style” wristwatch computer for tasks such as payments. What other types of innovative products would you expect to see in the future?*

We will see more wearables, whether it’s a wristwatch or something around my neck or something on my clothing. I also think we’ll see things like edibles, implantables and injectables. Today, we put microchips in dogs so if they go astray and get lost there’s still a way to contact the owner. You could conceivably do that to a human being as well. It sounds far-fetched, but these are technologies that are available today.

I could choose to allow something to be implanted in me that would identify me and automatically bring up my payment information when I’m making a purchase. I believe this type of thing will become available, but not within the next five years. It may happen in the next 10 to 15 years though. Of course, it will have to be with the consumer’s consent. No one should be forced to have an implanted chip in order to make a payment.

A more imminent change I believe we’ll see is the ability to use mobile devices for all steps of the payment process. This will make the process simpler and faster for the consumer. POS terminals won’t disappear, they will just change form. For example, I will be able to pay with my phone

"I could choose to allow something to be implanted in me that would identify me and automatically bring up my payment information."

using souped-up wireless technology and beacons. Customers won’t have to tap or touch something on a traditional POS terminal to make a payment. We can move away from the lineup, funnel and finish payment mode. All that space that’s now used to queue us up for payment can be turned into selling areas, or maybe socialization space depending on the clientele and their preferences.

I also think we’re going to see a major return to voice recognition. Right now we’re very focused on text. We have a whole generation of people that do everything by their thumbs. However, voice is a more a natural way of getting things done. Imagine going into a McDonald’s and instead of interacting with a touch screen, a person could speak her order of two cheeseburgers, French Fries, a Coke and a Pepsi. The computing system at the POS would recognize the customer’s voice and acknowledge the order. It would then be prepared by workers in the kitchen and delivered to the customer. The customer could then verbalize that she would like to pay with her Mastercard and the voiceprint could be authenticated. This type of transaction is much more natural than texting. The voice as a way of doing business—instead of having to interact with keyboards and displays—will be something that we will see more of in the next few years. We’ll get to know more of the Siri and Alexa types.

ISO&Agent: *Give us your vision of what you think the payments space will look like in 10 years.*

One of the things about payments is that we never end of the life of anything. Despite efforts, we can’t get rid of pennies, for example. Thirty years

ago, everyone said we would be living in a checkless society, but we still use checks. Payment is really a matter of convenience. Checks, for instance, are convenient in certain contexts, like making payments to charities or the IRS.

Because payment is all about convenience, I don’t believe there can or will be a one-size-fits-all model. It’s not that everything will be mobile, or everything will be phone-based. There won’t be an exclusive way to pay because there are too many other ways of paying that are convenient within their context. Like my check example.

Another huge improvement will be expanded use of dynamic payment data. Static data is responsible for breaches, not the transport mechanism. We will soon see cards and devices that are stripped of sensitive personally identifiable information and are able to generate digital payment tokens that change with each swipe or tap. We will enter an age where PANs no longer appear on cards or phones or wearables; only non-sensitive “seeds” will be present on the payment-initiating device. The seed value will be useless by itself. The one-time-use feature of tokens generated by digital seeds will greatly alleviate skimming and siphoning episodes, which means we can truly contain counterfeit and card-not-present fraud.

We will also see the rise of at least one more brand, maybe two, that will offer to deliver a different type of payment platform than exists today. I believe this company will have a product that is simple, speedy, safe and sensible. It will have the backing of a financial institution and it will cause the existing brands to look at their business model and make some adjustments. That company with

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ISO&Agent: *Let's talk about contactless payments. Where do you see the future here?*

Over the next few years, wireless technology is really going to take off. And the technology that becomes most readily adopted will not rely exclusively on NFC, which is power hungry and requires that you be within about four centimeters of a terminal. I think the future will be an untethered wireless communication system that doesn't depend on being within a certain proximity to a terminal.

We're not quite there yet, but I think we will be in about two or three years. The consumer will definitely make a conscious decision to pay. So it's not as if just walking by a beacon will accidentally send your payment data over the air. And consumers will definitely opt for contactless over contact EMV because of the speed you get with wireless. Tapping and swiping are virtually equivalent in terms of speedy transactions, but "dip the chip" means you have to leave your card in the slot for 20 to 30 seconds or more. That's clunky. There are ways to make payments more secure without making them less convenient. That's an improvement worthy of investment.

ISO&Agent: *Other countries like Sweden and Denmark are well on their way toward a cashless society. What do you think it will take to bring the U.S. to that point and how long? Will we ever get there?*

While it may work in smaller countries, the U.S. is a much bigger country with a much different mindset. We value our privacy too much to let get cash go completely by the wayside. It's a remarkably convenient exchange mechanism, which makes it more unlikely that people will give it up completely. We may see

MAGSTRIPE REIMAGINED FOR THE ANTI-EMV MERCHANT

It may seem odd for a vendor of payment acceptance hardware to discredit EMV security, which is commonly seen as a catalyst for hardware sales, but that's exactly what MagTek is doing.

The company is getting a clear signal from its clients: EMV hasn't changed the way they do business, and in many ways it is making things harder by adding friction to their checkout process.

And many that missed the card networks' Oct. 1 EMV liability shift date are in no rush to catch up.

"On Oct. 2, everybody woke up and the world hadn't fallen apart," said Annmarie "Mimi" Hart, CEO and chairman of MagTek. "Merchants that were desperate to get something on Sept. 29, when they realized that Oct. 1 came and went and nothing bad happened, they [said], 'Well, we're going to defer that decision now.'"

Rather than double down on its efforts to sell EMV hardware, MagTek is eager to side with these merchants, pointing out the flaws of EMV security. MagTek's solution is not to add more protections around the primary account number (PAN), but to remove the need for it.

The company's Cyberstripe technology, which it has developed over two years, is based on its earlier security system called Magneprint. The basis of this system is to use traits of a magstripe card that are as natural as fingerprints.

Like a fingerprint, each card's magnetic stripe has a unique signal to it, based on how the stripe was originally formed.

"The tape is actually made from a big vat of ¼ barium ferrite, like magnetic sand," Hart said. "When the barium ferrite dries ¼ it gives off a magnetic signal and it gives off that magnetic signal across the entire content of the stripe,"

and that signal never changes, even after the account data is written on top of it.

But there is dynamic data there. Just like with taking fingerprints, the print itself may not change but the way it is taken will produce variances such as the amount of ink used or the amount of pressure applied by the fingertip. The same applies to card swipes.

"When the head moves over that underneath layer, it never picks up an identical number of groupings of [barium ferrite] bits that are moving around," Hart said. "It's a factor of the sensor, which is the magnetic head ¼ that creates a digital value, which is in this case 54 bytes of information, but it's guaranteed to change every time you swipe."

All of this technology works today on magstripe cards, emulating some of the security features of EMV without requiring a chip, but MagTek wants to go a step further and use its technology to replace the need to write sensitive account data to the card.

Its Cyberstripe card has no PAN, relying entirely on the Magneprint security system.

Cyberstripe functions as another layer of security on top of what the payments industry already provides.

The vendor is not abandoning EMV, of course. It still sells EMV-compliant card readers to merchants that prefer it, but it is taking a more modular approach by letting merchants choose just how far they want to go with their EMV deployment.

"The merchant knows best how their consumers are going to react and they know what level of security they need," Hart said.

By Daniel Wolfe

cash go away for large-value transactions, but for small denomination transactions, cash is simply too convenient to go away completely.

ISO&Agent: *We talked about what was*

happening in Sweden and Denmark with respect to becoming a cashless society and how you don't think it would really take hold in the U.S. Are there things ISOs and acquirers can glean from how payments work in other countries that might take

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hold here and if so, how can ISOs and acquirers best prepare for these changes?

Countries like Sweden and Denmark are considerably smaller, less democratic and have far fewer financial institutions than the U.S. Americans are very choice-conscious and very convenience-oriented. They don't like change or inconvenience. They are suspicious of mandates, especially ones that cede control over money and threaten their right to privacy. Cash is plentiful, negotiable, anonymous, final and trustworthy. But it, too, has drawbacks. It has hidden costs not generally considered by merchants—like counting it, transporting it and protecting it from theft. So ISOs need to look for ways to help merchants take less cash, but not to demonize it. Most payment alternatives are always measured with cash as the yardstick. Is a prepaid card as convenient as cash? Can I use it in as many places? Is it as difficult to counterfeit as cash? Does it have the full faith and credit of the U.S. government behind it? And so on. So cash—just like plastic cards—will be around for decades to come because of its undeniable usefulness.

What we have seen in developing countries is the power of the phone as a wallet—instead of cash—and the ability to take a payment or make a payment with very little infrastructure needed. When you're building from scratch, you don't need ATMs or brick and mortar branches if you can give a consumer an easy, ubiquitous, safe way to move money between consumers and businesses or other consumers.

The digital movement of money in many different channels is something ISOs can prepare for and guide merchants on how to accept these new forms of payment. We are going to see consumers swipe, dip, tap, scan, glide, type, nod or wink—these are many different ways of signaling that they are intending to pay. With all those choices consumers and merchants will need a lot



"It has been difficult for many ISOs to stay on top of all the changing regulations, but they have to so they know how it will impact their business."

of education and coaching from astute ISOs on how wallets and payments will evolve. That complexity gives rise to ISO opportunities for more consulting and selling.

ISO&Agent: *Our industry tends to loathe additional regulation, but are there any areas where you believe additional regulation or guidance would be helpful?*

I really believe we have too much regulation as it stands right now in the payments space. For example, merchants are getting buried under documentation that's four feet high and vendors have a much too lengthy and complicated certification process.

We have instituted layer upon layer of rules and the net effect is that there are not as many players in the marketplace. In many cases the regulations are too burdensome, making it difficult for new players to enter. If we relied on the competitive spirit more and the idea that people will vote with their pocketbooks and their feet, rather than relying on regulation, we'd be much better off as an industry.

ISO&Agent: *How has increased regulation specifically affected the ISO industry?*

In some cases, ISOs are being squeezed out of the business by regulations like Operation Chokepoint. For

several years now, they have had to accept lower interchange rates because of Durbin, which has put pressure on profits. It has been difficult for many ISOs to stay on top of all the changing regulations, but they have to so they know how it will impact their business and they can adapt accordingly. Regulation has weeded out many players since tens of thousands of pages of regulations make it harder for them to be profitable. In my view, companies have to adapt or die and this, not regulation, should be what ensures the survival of the fittest.

ISO&Agent: *Without getting into specific products, do you think the promise of biometrics is overblown? Why or why not?*

Although I talked about implantables earlier, I believe the promise of biometrics is totally overblown. Consumers already know about the data breaches affecting Target and many other large companies. They're protective of their data—and rightly so. Accordingly, many consumers don't want to give their fingerprint or their iris scan or DNA or saliva for the purpose of making a payment. They want something that will provide them more protection than a password, but they don't want to give a drop of their blood. They feel it is too invasive and not worth the risk. Once personal biometric data has been provided, a consumer has no way to get it back.

Of course, there are consumers who would be happy to give up this personal information and a bit of privacy for the sake of making payments or performing other transactions without having to carry a device or remember a phrase. However, I don't think they're in the majority. We cannot make biometrics a requirement of payment. That would be a grave mistake. We've got to be able to offer the consumer a way to pay that strikes a balance between ease of use and intrusiveness, and I think that balancing point is best determined by

each consumer.

ISO&Agent: *Are there any mistakes you've made over your career that could provide a useful takeaway for ISOs and acquirers?*

Over the years, I learned to never underestimate the power of the incumbent. So many of us in the industry have ideas about how we could change payment processes and activities, but it's a daunting challenge. You have to have a very good understanding of the intricacies of the payments system before you can hope to change it. A lot of people look at payments in a simplistic way, thinking they can introduce something novel and frictionless. They don't necessarily understand all the players, the dependencies and the politics, and they underestimate the complexity of all the moving parts.

ISO&Agent: *What do you think is the biggest challenge ISOs and acquirers are facing today? And why do you feel it's the biggest challenge?*

There are shrinking margins, new competitors and changing regulations all the time. The squeeze is on from all directions. ISOs will have to find ways to differentiate themselves. They have to get away from the notion that it's all about payments.

Payment is only a small part of the consumer experience. I don't wake up in the morning and think about what I am going to pay with today. I do, however, think about what I need to buy and the steps I'm going to take throughout my day to accomplish this task. In my head, I might think about 10 different things related to the buying process—how much I'm going to buy, when I'm going to do it, where I'm going to go, for example. But the act of paying is only one of the 10 things. From a practical standpoint, ISOs need to develop ways to facilitate the buying process, recognizing that payment is just a piece of the equation.

It's not the whole thing as many in our industry mistakenly believe.

ISO&Agent: *How can ISOs and acquirers make an impact with Big Data?*

Big data is all part of the notion of delivering value to the merchant that goes beyond payment. Big data can be used to help merchants with cash flow forecasting, product trending, discount timing and more. Big data offers opportunities for ISOs to partner with companies that do it well, package it and resell the services to merchants as part of their value proposition as consultants. It's another way ISOs can expand beyond payments. They have to be pulling together all the other value-added services that they can deliver to the merchant.

ISO&Agent: *How can ISOs and acquirers best meet the challenges they will face over the next few years?*

ISOs need to be knowledgeable about technology and the other services they are offering. They need to embrace a broader role beyond hardware salesman and focus on specialization and packaging things that are not necessarily in the payments space currently. Things like better working capital and industry-specific analytics.

They also should provide things that will help the merchant not only sell, but also bond with the customer—like rewards, loyalty points and special offers tailored to the customers. Some ISOs are starting to move in this direction, but more will have to follow suit if they want to survive in this space.

ISOs can't expect to drop a box on a merchant's countertop and walk away. They have to deliver more value to the merchant. This all starts with the critical understanding that payment is not a standalone business. ISOs have to make a more concentrated effort to help the merchant provide a better customer buying experience. **ISO**

The Most Influential Women in Payments

Each year, PaymentsSource and ISO&Agent recognize the achievements of the women shaping the payments industry. This year's honorees have not only played vital roles at the forefront of payments, banking and merchant acquiring, but also demonstrated leadership and mentorship within their organizations.



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Director of Credit and Debit Acceptance, Walmart

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EVP and Chief Control Officer, First Data

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feel comfortable being who they are which makes them most productive and creative.”



REETIKA GREWAL

Head of Payments Strategy and Solutions, Silicon Valley Bank

“From the way we live and communicate to the way we shop and pay for things, [technology] is fundamentally changing customers' expectations of payments and financial services.”



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Vice Chairman of Risk and Public Policy, Visa

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Vice President,
American Express



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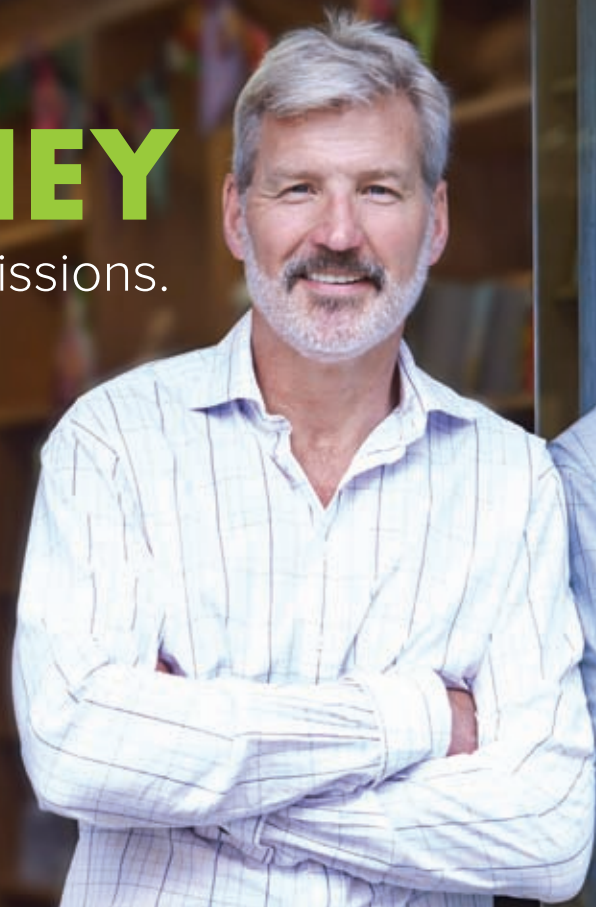
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Pierce-Gilmore Digs PayPal's Data

Though Silicon Valley still has a male-dominated culture, PayPal's Kathleen Pierce-Gilmore finds her unique perspective is valued by her peers. In her role, she uses PayPal's data and technology to provide credit to new audiences. **BY KATE FITZGERALD**

Arriving at PayPal six months ago to head its credit operations, Kathleen Pierce-Gilmore felt an immediate and refreshing change in the atmosphere, compared with the stuffier air at her previous financial services jobs.

"It's definitely not your average banking environment," Pierce-Gilmore said. "People wear jeans. I can be in a sweater or a suit, or Converse shoes, because what matters are ideas, not fitting into a certain look. I feel like I'm part of a new world here."

Pierce-Gilmore joined PayPal after spending more than four years managing credit card operations and cobranded card relationships at Capital One.

Prior to that she spent nearly six years in executive posts at American Express.

She has her work cut out for her at PayPal, where she's developing and expanding PayPal's consumer credit services based on Bill Me Later, which the company acquired under its former parent, eBay, in 2008 for about \$1 billion (eBay, which bought PayPal in 2002, spun it off in mid-2015).

The credit unit is ready to spread its wings now that PayPal is flying solo, and Pierce-Gilmore is eager to lead the push to use new technology and marketing strategies to make PayPal's credit services available to a broader range of consumers than those who



would typically use credit.

Pierce-Gilmore also plans to extend the reach of PayPal's credit services to many new merchants, while she also revamps PayPal's own credit card operations.

"We're creating an alternative lending solution," Pierce-Gilmore said, noting that while the audience PayPal wants to reach with credit is broad, young adults that have largely eschewed credit are a clear focus.

"PayPal has a special opportunity here because our brand resonates with younger people and with those looking for new financial alternatives," she said.

Financial discipline is especially important to Pierce-Gilmore, who learned about it the hard way, growing up in a family that often got in over its head with money.

"I was born in Las Vegas and when my parents divorced, my brother and I lived with my mom below the poverty

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line in California, leaning too much on credit cards, which became detrimental,” she said. “My parents suffered a lot from debt, and avoiding those mistakes became a passion for me.”

An exceptionally eager student, Pierce-Gilmore first wanted to be a scientist, and was accepted into a unique “integrated sciences” program at Northwestern University, where she earned a B.A. that combined math, physics, chemistry and biology.

Neuroscience fascinates Gilmore to this day, but her first college summer spent in a lab quelled her passion for the minutiae of laboratory work and seeking grants to fund it.

When the PayPal opportunity

emerged, Pierce-Gilmore was eager to explore the chance to break out of traditional financial services. “I was ready and it’s really the right fit,” she says.

On the merchant side, Pierce-Gilmore says PayPal’s goal is to streamline its services so merchants can quickly and easily add secure, instant-credit options to their websites and apps.

What will set PayPal’s credit services apart is their versatility, Pierce-Gilmore predicts.

“We want to create more credit products that have discipline built into them, where consumers can choose how they want to repay loans and stay in front of their finances,” she said. “We want

to build in flexibility, so if we want to extend an individual’s credit line or lower their APR, we can do that too.”

The fact that she’s a female executive in Silicon Valley—a zone that’s typically described as dominated by males—doesn’t cross Pierce-Gilmore’s mind often.

“It’s true that I’m the only woman at this level on the credit team at PayPal, but I feel like I’m helping to raise women up here, and there are plenty of opportunities,” she said. “PayPal is a big company but it still has a startup culture, and I never feel pushed aside. I feel valued for my unique perspective as a woman; it’s been an amazing experience.” **ISO**

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Target's Cook Pushes Tech's Limits

Kristy Cook's mission at Target Corp. is to find ways to improve the payments experience, even for projects that do not put payments at the forefront. She is also deeply involved with the retailer's adoption of EMV security. **BY KATE FITZGERALD**

For Kristy Cook, group manager of bankcard strategic projects at Target Corp., there couldn't be a more exciting time to lead the payments team at one of the nation's most forward-thinking retailers.

Consumers have made it clear that they want to shop and pay through many channels, and whether it's on a mobile phone, tablet, PC, in the store or—eventually—through wearables or the emerging Internet of Things, Cook said it's her job to make sure Target is ready.

"We're moving toward more of an on-demand shopping experience, where payments must be seamless and they must also deliver value," Cook said.

Leading a team of about 20 people handling all aspects of payments at Target's Minneapolis headquarters, Cook exudes infectious excitement for managing day-to-day operations for the company's 1,792 stores and its mobile and emerging omnichannel operations, as well as planning for payments' future.

Her job calls for working on a number of fronts at once. Target is a high-profile participant in the Merchant Customer Exchange's CurrentC mobile wallet pilot in Columbus, Ohio, and Cook is closely involved in the project.

Within CurrentC, Target is integrating several things, including the retailer's Cartwheel shopping app, its proprietary REDcard debit program



and employee discounts, she explained. "When consumers pay with CurrentC, all those features, along with the 5% automatic REDcard discount, are applied in one transaction when the app is scanned," Cook said.

But Cook says it's still early days for mobile payment development, and she isn't ready to predict any winners. "We expect there will be several strong solutions in this space, and we're look-

ing to see which ones consumers adopt and why they choose one over another," Cook said.

Cook also has been leading Target's transition to EMV technology, which is still in progress. "We were operating with EMV in its stores before the Oct. 1, 2015 liability shift, and we'll soon complete the conversion of our REDcard credit and debit card portfolios to EMV," she said.

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To keep an eye on where payments innovations are headed, Cook is looking for opportunities at the Target Open House, the retailer's connected home lab and retail space in San Francisco that opened last July. This is where Target tests such things as a self-replenishing dog food bowl.

"It's a bit too soon to see how some of these innovations will play out, but it all comes back to how consumers want to use them," Cook said.

But developing new concepts for payments within some of the industry's existing systems is a constant challenge, Cook said, pointing to the need to balance customer convenience against managing fraud risk in a bankcard

environment that's still defined as either card-present or card-not-present.

Cook loves embracing new projects and leaped at the chance to lead the payment acceptance aspects of Target's expansion to Canada in 2013. It was a "tremendous opportunity" to lead the strategy for and rollout of payments at more than 130 stores.

Though Target retreated from Canada less than two years later, it fueled Cook's interest in taking on new challenges.

Cook moved into her role more than three years ago, after beginning at Target on the finance and accounting side nearly 11 years ago, and particularly welcomes opportunities to participate in

cross-industry collaborative forums, she said. With a solid background in retail from a previous position at Minnesota-based Supervalu, Cook worked as an auditor prior to that, getting broad exposure to diverse industries.

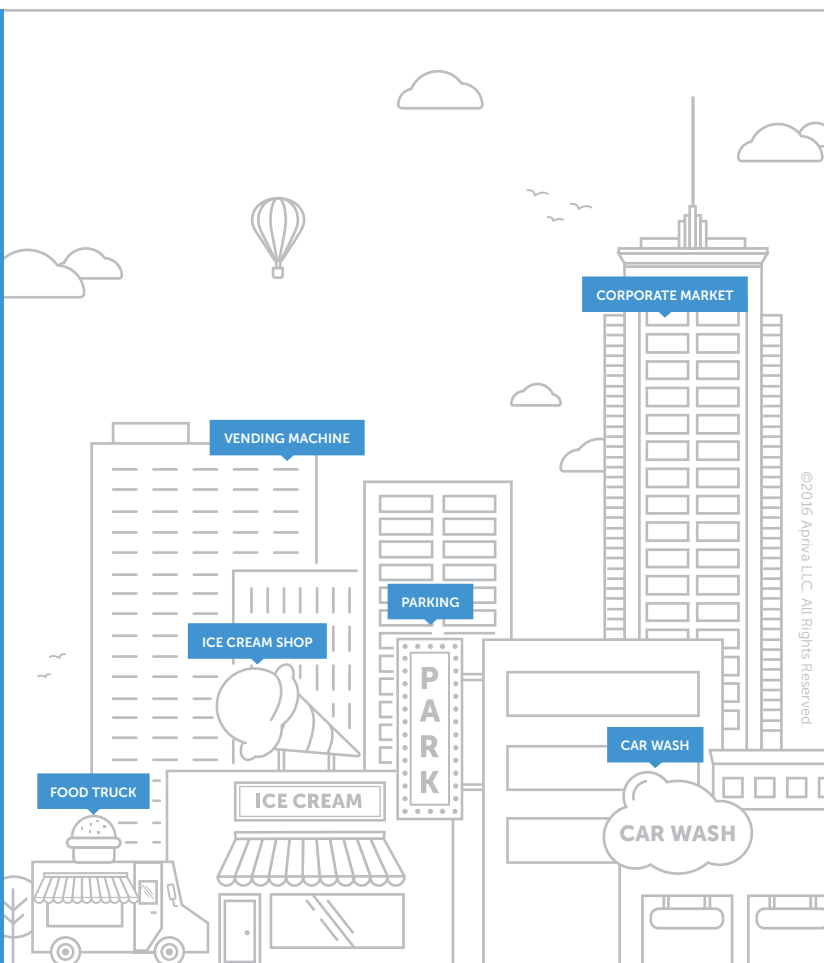
That perspective has enriched Cook's experience as she's participated on key committees, including the EMV Migration Forum, EMVCo and the Merchant Advisory Group.

"Participating in these meetings and on committees has been incredibly interesting. You might see fewer women than men in certain settings, but I really find there are a lot of women working in payments, from technology to operations to IT," she said. **ISO**

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Shazia Manus Sparks Innovation

Shazia Manus, CEO of The Members Group, founded her first company at age 17 in Bangladesh, where women were not encouraged to pursue a higher career. Today she is one of the most influential executives in Silicon Prairie. **BY JOHN ADAMS**

Eight thousand miles removed from her South Asian youth, Shazia Manus has found a home in Silicon Prairie, a section of the upper Midwest where technology disruption happens quickly, and can come from a source as simple as an imaginative young person's bedroom.

"It's really hard to invent something, but when you talk about innovation, it's not necessarily something that didn't exist ... it can be how to take something existing and use it in a new way, or give it a new purpose," said Manus, CEO of TMG (The Members Group). "And that can come from anywhere."

Manus has been finding a new way since her childhood in Bangladesh to her current home in Des Moines, where she's led TMG for the past four years, addressing the challenges and opportunities of the digital age of payments.

There's a cultural shift that's necessary for some companies, Manus said, noting that for many organizations, past success is the biggest threat to a healthy future. Repeat business and loyal customers can feed a resistance to change, leaving the doors open to challengers, she said.

"New financial market entrants want to own the consumer relationship," Manus said. "They're looking at how data can help them. The competitive stakes for TMG's clients, community financial institutions, are high. Yet, they have the wealth of data – not to



mention consumer trust – to give retail giants, tech conglomerates, wireless providers and fintech startups a run for their money."

But for Manus, before it was about analytics and optimizing the impact of EMV, tokenization and digital payments to ward off disruptors, it was about leveraging sixth grade science lessons for business opportunity. At 17, Manus

founded a tutorial business, giving math, English and science lessons to middle school students.

Manus started the business with her brother, and it didn't involve reinventing the wheel, but rather recognizing a need and the best path to solve a problem. "A lot of the kids did not have the access to the knowledge that they needed, and they needed help beyond the school



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system,” said Manus.

And that was just the start. Other businesses followed, including a food service.

“We noticed the public schools in Bangladesh had a lot of food vendors outside, where you didn’t know about the quality or the safety,” she said. “So with our mom we developed a box lunch business.”

Later, while in college, Manus opened a boutique store with a group of friends.

Manus faced ample challenges along the way, working within a culture where the massive gender gap made the basic task of gaining an education difficult.

“Growing up in Bangladesh was not easy for an individual like me,” Manus said, adding the support of her grandfather was crucial—he insisted she have the same opportunity as his grandsons. “Women were relegated to second-class citizens and not encouraged to pursue a higher career. As a young woman, I worked hard to earn scholarships that would allow me to

continue my education.”

After attending the University of Dhaka, Manus came to the U.S. to study at Iowa State University and launched a career in financial services that led to her current role as TMG’s CEO. In four years, the company has tripled revenue growth; it also increased staffing by nearly 30% in 2015 alone. TMG now serves seven of the 13 largest credit unions and has expanded to support banks. It has also launched a Canadian line of business called Collabria.

“There are things we can learn in the Canadian market,” Manus said. “They’re a lot more EMV savvy.”

The company has also collaborated with COOP Financial services, a credit union service organization, and Dwolla, another Des Moines-based company.

TMG is seeking merchant uses for technology that’s quickly growing from experimental to maturity, such as wearable computing, Web-connected devices and marketing technology.

“New technologies, such as geo-

fencing, can deliver custom alerts and marketing campaigns based on a consumer’s behavior,” Manus said, adding TMG is accelerating its investment in data analytics and predictive modeling. “As consumers increasingly demand real-time messaging from their financial institutions and self-control, financial institutions utilizing this technology will quickly gain consumer loyalty.”

At the same time, Manus is tackling gender equality issues in the U.S., drawing on her experiences in Bangladesh.

“It is a heightened sense of self-being of how compassion, empathy, and inspiration not only play a role in making you a more effective leader,” Manus said. “It helps you become a better human being. Mindfulness has given me the tools to become more self-aware and better tune into the needs of others.”

There are opportunities for women to advance their careers in payments, she said, such as by participating in industry conferences and forums and pursuing designations and certificates, like the Certified Ethical Hacker.

“Perhaps what we need, however, is to also focus on helping females understand their own self-worth,” Manus said. “Financial support is also critical. Three practical methods for injecting financial support into the lives of promising young women across the globe are scholarships, microfinance and supporting equal pay.”

Beyond diversifying leadership, there is also a business case to be made for increasing the number of women in leadership roles, Manus said.

“Women are responsible for 70% to 80% of all consumer purchasing,” Manus said, noting that Deloitte predicts that by the end of the year, fewer than 25% of digital jobs will be held by women. “It’s only logical the payments industry would look to female leaders to drive engagement with this influential consumer segment. However, that is not often the case.” **ISO**

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ISOs Respond to Rising Risks

The rapid growth of online and mobile commerce is creating a corresponding growth in chargeback rates. ISOs are responding to this trend. **BY AUTUMN CAFIERO GIUSTI**

It used to be that chargebacks were just another cost of doing business. But with the e-commerce world growing by leaps and bounds, online merchants are experiencing a corresponding spike in chargeback rates that's eroding their bottom lines and jeopardizing their merchant accounts.

Because this rise in chargebacks can hold consequences for ISOs, merchant acquirers are taking additional steps to mitigate and even avoid these disputes.

"It's requiring a lot more attention. It's no longer just a routine error on merchants' balance statements," said Monica Eaton-Cardone, managing partner for the risk mitigation firm Global Risk Technologies and co-founder of its Tampa, Fla., subsidiary Chargebacks911.

Some ISOs are turning to third-party mediators that have popped up in recent years to address this growing demand. Others are offering new services to address and even capitalize on the need to lower chargebacks.

ISOs are paying much closer attention to chargeback thresholds and using more scrutiny when bringing on e-commerce merchants. For some ISOs, part of the underwriting process now involves ensuring that when boarding an e-commerce merchant, there's a 24/7 customer service support center available to them.

E-commerce sales have more than



doubled in the past five years, from \$144.9 billion in 2009 to more than \$304.9 billion in 2014, according to the U.S. Commerce Department. But at the same time, online-only merchants are experiencing more fraud losses because they are being held liable for a greater proportion of chargebacks, according to the LexisNexis Risk Solutions True Cost of Fraud Study.

Large e-commerce merchants lost 1.39% of their revenues to fraud in 2015,

compared to 0.6% of their revenues in 2012.

Acquiring banks have taken notice of the trend, said Payments attorney Paul Rianda.

"The banks are deciding they just don't want to do e-commerce merchants," he said. "And they're changing their unapproved merchant lists to reflect that."

Online transactions have been of particular concern to Rianda's ISO cli-

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ents, especially those who serve smaller merchants that are less sophisticated about payments. A merchant might receive the store's biggest order ever and ship it out, only to be hit with a massive chargeback. "All of a sudden, he gets a chargeback for \$8,000 and doesn't know what happened," Rianda said.

Companies like Chargebacks911 are coming on the scene to help ISOs and merchants lower their chargeback rates. The company works with merchants to challenge illegitimate chargebacks.

Previously a merchant herself, Eaton-Cardone helped develop the chargeback management service after some of her own ISOs, acquirers and processors started contacting her and her col-

leagues to consult with their merchants.

"Little did we know, there were actually plenty of merchants out there that suffered from chargeback ignorance, like we did, and they didn't know how to solve these problems," she said.

Global Risk Technologies estimates that approximately 86% of chargebacks are fraudulent, and that many consumers bypass merchants to directly file complaints with card-issuing banks.

With e-commerce growing, there are more layers of technology, which add complexities that make it very easy for criminal and fraudulent activities to remain hidden.

"The more technology there is, the more opportunity there is for fraud,"

Eaton-Cardone said.

The phenomenon known as "friendly fraud" is helping to drive up chargeback rates. This occurs when consumers abuse the chargeback process to get a refund.

Another reason chargeback activity has increased is the way issuing banks have promoted the use of their credit cards, Eaton-Cardone said. Cardholders are more willing to spend when advertising tells them that everything they purchase online has zero liability.

"They suffer no consequence. They don't get caught. And statistically, half of those customers will file another chargeback within 60 days," Eaton-Cardone said. **ISO**

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Lessons from Amazon.com

Life is all about teachable moments and Amazon has a treasure trove of them thanks to its long and storied history of payments innovation. **BY CHERYL WINOKUR MUNK**

Amazon.com is constantly unleashing new payment-related products and services. Some efforts succeed, some fail and the rest are a mixed bag — but regardless of the outcome, retailers have a golden opportunity to learn from Amazon’s experimentation.

“Amazon is teaching graduate-level courses to other retailers, who can and do learn a lot from the company about providing sophisticated, ahead of the curve merchandising, logistics and customer experiences,” said Allen Weinberg, co-founder of Glenbrook Partners.

The Successes

Amazon has made many strides in payments over the years, with some of its most promising efforts shaping the way retailers think about consumers and the sales process.

Streamlining payments. The company is a market leader in making payments easier for customers. For instance, its 1-Click system has been a game-changer for the online checkout process. It allows customers to make online purchases seamlessly because their payment information is already on file. Other retailers have sought to emulate Amazon’s user-friendly checkout system, and Apple Inc. has licensed the company’s 1-Click patent and trademark for use with its online store.



Amazon, which did not respond to requests for comment for this story, is also streamlining the payment process for merchants by offering an online and mobile checkout system similar to PayPal’s. Amazon’s Login and Pay allows shoppers to pay on a merchant’s website with the Amazon account information already stored in their browser. The takeaway for retailers is that consumers place a high priority on speed, ease of use, convenience and safety.

“Amazon has clearly demonstrated is that if you make payment easy, shoppers will spend more money with you,” said Penny Gillespie, a research direc-

tor who follows electronic and mobile commerce for Gartner Inc.

Machine Learning. Amazon has been a pioneer in the science of getting computers to take action without being explicitly programmed to do so. By harvesting various types of data, the company for many years has used technology to gain helpful insights on customers, buying patterns and products they might like. Indeed, more than a third of the company’s sales come from recommendations, according to Richard Crone, chief executive of Crone Consulting LLC.

Amazon has also begun using ma-

chine learning to improve its star-rating system and the trustworthiness of reviews. “It’s not so much about payments as it is about data and we’ve only scratched the service on what we can do with payments data,” said Crone.

The Failures

Of course, no company can be perfect at all times, nor should it want to be.

“Amazon is a very experimental company. They take innovation very seriously. An advantage they have is that they aren’t afraid to fail,” said Ben Jackson of Mercator Advisory Group.

Amazon Local Register. In the summer of 2014 — and with considerable

fanfare — Amazon rolled out its mobile app and secure card reader to provide merchants with the tools to accept credit and debit cards in person. With Amazon Local Register, the company threw itself into direct competition with Square, PayPal and others, attempting to woo merchants with the promise of excellent customer service and low prices. But the effort was short-lived. The mobile card reader service is no longer available to new merchants and will be completely shut down by Feb. 1, 2016.

The lesson for retailers is clear. If you can’t give something your all, then perhaps it’s best to focus efforts elsewhere.

Amazon Wallet. Amazon quietly launched its Amazon Wallet beta in late

July 2014 and pulled the product from market six months later. It allowed users to store and manage gift and loyalty cards, but not credit or debit cards. Many viewed this limitation as a nail in the app’s coffin.

Noteworthy for retailers is the importance of giving customers payment choices. While loyalty programs are important, it’s clear that consumers also like network cards because they can be used anywhere. “Customers want choice, but they are only going to adopt payment methods that add additional value,” said Gartner’s Gillespie. A wallet app “is not going to become mainstream unless there’s a strong value-proposition,” she said. **ISO**

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Gift (Card) That Keeps On Giving

Can a plastic card address the pain points of person-to-person payments?

BY KATE FITZGERALD



It would seem like a chilly time to roll out a new prepaid card program, with formal regulations in the works for an industry that's been under escalating scrutiny around fees and customer service. But that doesn't faze Texas entrepreneur Houston Frost, who has relaunched the Akimbo reloadable prepaid card—a concept he's championed since 2011—with new banking partners and a multi-pronged marketing approach.

The product is repackaged, but its core selling point remains the same as

it was four years ago: Akimbo targets consumers who want to use a prepaid card—or several—in addition to a regular checking account to make recurring payments to friends and family.

“The main thing setting Akimbo apart from other prepaid cards is we're not going after unbanked customers,” Frost said. “Our target market is people with cash flow who want a convenient way to send money to people around them for gifts, allowances, babysitting and everything else that happens in your everyday life.”

There are two pain points in mobile P-to-P, and prominent apps like PayPal's Venmo have succeeded in removing the consumer-facing friction by redesigning the interface to resemble a social media app. Despite this progress, Frost insists that there is much left to fix under the hood of most P-to-P apps.

“We see an opportunity to help people who have recurring payments for people in their immediate circle, who don't want to use new services like Venmo and Square Cash where there's no immediate access to the cash,” Frost said.

“With Akimbo, the recipient gets the money immediately, which they can spend anywhere, convert to cash from an ATM, or transfer to a bank account, all through the familiar mechanism of a payment card.”

This setup differentiates Akimbo from other P-to-P apps where funds are held in a virtual account or transferred to a checking account, Frost said.

Frost’s attempt to get Akimbo off the ground by marketing it on Facebook achieved some initial success, resulting in enrollment of about 70,000 consumers. Users notified recipients by sending invitations through the social media network, and the company also sought banks to issue a card, but those efforts were unsuccessful and Akimbo’s growth stalled.

In December of 2014, Frost found new backers for the startup concept—originally funded by local investors—when San Antonio-based Payment Data Systems Inc. acquired the assets of Austin, Texas-based Akimbo Financial Inc., for \$3 million in stock and cash.

Payment Data Systems sees promise in the Akimbo concept, adding the efficiencies of its own financial services marketing and payment-processing resources. As part of the deal, Akimbo transitioned from a Visa product issued by The Bancorp Bank to a MasterCard product issued by St. Paul, Minn.-based Sunrise Banks N.A. with about 25,000 active accounts, completing the process in June 2015.

Sunrise is known for its willingness to experiment in the prepaid card market. Its other offerings have included the True Link Prepaid Visa card for seniors, the MyPlash Prepaid MasterCard for teens, a combined debit and government ID card for the city of Oakland, Calif., and the notoriously short-lived Kardashian Kard.

Bringing Akimbo and Payment Data’s payment processor under one roof does more than just lower costs, Frost said.

“It’s hard to innovate when you have to go through third parties for every change you want to make in the platform,” he said. “Now that the same company that owns Akimbo also owns the processor, we have full control of the technology stack, which is a huge advantage.” Frost, formerly the president and CEO of Akimbo, is now senior VP of corporate development and prepaid products for Payment Data Systems.

Akimbo expects its reloadable prepaid card to benefit from another product, Akimbo Gift. Gift card buyers can opt to have the card sent by traditional mail or delivered by email as a virtual card for online purchases.

The major challenge with this approach, observers says, is the same one

Akimbo faced four years ago: Without a partner or other mechanism to build scale on a mass basis, growth could be slow and costly.

Akimbo’s relaunch is also complicated by the overhang of the CFPB’s proposed regulations for prepaid cards, which could include hefty disclosure requirements for any prepaid card that functions as a bank account, said Ben Jackson, a director with Mercator Advisory Service.

Still, Frost’s brainchild holds some appeal, said Jackson. “Sending a gift card that converts to a reloadable prepaid card is an interesting idea, and it helps resolve the core problem with prepaid cards, which is their typically short lifespan,” he said. **ISO**

The advertisement for USAPay features a light blue background. At the top left is the USAPay logo, and at the top right is a circular seal that says "USAPAY Established 1998". Below the logo is the tagline "Smarter Solutions For Secure Payments". A list of services includes "Inventory & Customer Database", "eChecks & ACH", "Free Tokenization", "Fraud & Developer Tools", and "Cloud Processing". Two event banners are shown: "TRANSACTION 16 POWERED BY ETAM 4.19.16-4.21.16 LAS VEGAS" and "SEAA SOUTH EAST ACQUIRES ENTERPRISE May 2-4". Below these are icons for "Mobile", "E-commerce", and "Retail". The central image shows a hand holding a smartphone displaying a payment interface with a keypad and a balance of \$79.99. At the bottom, the phone number "866 490 0042" and website "USAPay.com" are displayed. The background of the lower half includes a stylized cityscape and a hand holding a gift box.

Why Retailers Still Loathe NFC

Near Field Communication ushers in many new services, but it also brings complexity and confusion. Still, do NFC's problems really outweigh its benefits? **BY DAVID HEUN**



Near Field Communication has been the burr in the saddle of emerging payments technology these past five years.

Though NFC-based mobile wallets would seem to be an easier and more secure way to make purchases than swiping a plastic card, the technology simply hasn't taken off in retail settings.

Cost and complexity are factors, and the retailers' biggest efforts to control the state of mobile payments have either flopped or stalled.

Merchants haven't been enamored with the NFC process from the start, basically because they didn't have much say in the early deployment of the technology, said Mark Horwedel, CEO of the Merchant Advisory Group.

But the main concern now is that EMVCo, the chip and NFC standards group operated through the card brands, is taking the decision out of retailers' hands by calling for merchants to "honor all wallets," Horwedel said.

"If you take one wallet through NFC, you have to accept all of them," Horwedel added.

A wallet is different than a card,

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particularly because a company doesn't need to be a bank to design a mobile app, Horwedel added. "It would be like, for example, telling Walmart they have to take an Amazon wallet; and the informed merchants are not going to do that."

Early on, the merchants behind the CurrentC mobile wallet didn't want to give a competitor such as Apple Pay any ground.

Companies like Best Buy initially refused to put in NFC acceptance at the point of sale, and Rite Aid even turned off NFC for all payment types, including contactless cards. Both companies have reversed their positions and now support NFC wallets.

The "honor all cards" paradigm that has helped Visa and MasterCard for more than a decade has now morphed into an "honor all devices" type of edict, said Steve Mott, principal of Better-BuyDesign, a Stamford, Conn.-based consulting firm.

The honor-all-cards rule requires merchants to accept all credit cards from a specific network, including premium reward cards that have higher card acceptance fees.

"I am afraid it is now turning into an honor all authentication methods edict," Mott said. "That's why Visa was quick to send a bulletin to merchants who were not accepting Apple Pay in saying if they were accepting Google Wallet or, at the time, Softcard, with NFC, they had to accept Apple Pay."

As such, NFC became a bargaining chip of sorts, enabling merchants to vote with their wallets (as the saying goes) to protest the assumption that they would be willing to bet their own money on supporting an unproven technology.

NFC will likely remain an issue for smaller merchants for some time, but the larger retailers should eventually be lured into it by card brands offering sweeter deals on transaction rates to do so, Mott said.

There is no doubt NFC makes trans-

action routing trickier for merchants, especially on debit cards. Without NFC, merchants can prompt for a PIN when a consumer inserts a debit card, which is a cheaper option for merchants.

With NFC debit, the terminals don't operate in that manner because each brand has its own contactless kernel rather than a single EMV kernel for debit cards. Due to that complexity, more NFC debit payments get routed over the signature debit networks, which carry pricing that favors the brands. If a merchant wants to control the POS and move more debit traffic to PIN, that merchant would opt not to turn on NFC at the terminal.

It also explains why members of Merchant Customer Exchange (including Walmart and Target) are supporting lower-cost options such as the ACH-based CurrentC wallet and Chase Pay, the latter of which offers a flat rate lower than the standard card rate for Chase cards.

"Some companies don't want to worry about all of the strings that go with NFC acceptance," Horwedel said. "If they do it themselves, they don't have to deal with network rules, don't have to deal with interchange and a lot of other things, and they can prompt people for less expensive ways to do payments."

Ultimately, merchants see the NFC landscape as one in which the card brands presume to pick the merchants' partners and vendors for them, Horwedel added.

"When you start putting chips on devices, and the power of those chips doubles every 18 months, people are going to be walking into stores with computer devices that can do all sorts of things we can't even imagine today," Horwedel said. "Merchants don't want to waive their rights to differentiate between those they want to accept and those they don't want."

Some in the industry view NFC as significant opportunity for merchants

because it brings new security tools to the table, including biometrics, secure elements and tokenization.

It also is generally agreed that NFC has various other security benefits for hotels and college dorms, combining functions such as room access with payment capabilities.

But whatever the benefits, NFC has a history that is tough to ignore.

Because some NFC mobile wallets use a virtual card account instead of the customer's own account to fund payments, there can be some confusion over how to handle payments and returns.

NFC also could not function smoothly within the context of many merchant loyalty programs, Horwedel said. For example, even though the payment is handled through NFC most retailers must still scan a bar code from a card or the phone's screen to access the customer's loyalty account.

Many of these problems could have been resolved if merchants had a stronger voice early in the process of NFC development and deployment, Horwedel said.

At some point, merchants will have to decide whether they can afford to cut out a big chunk of the population of Apple Pay and Samsung Pay users, said Larry Berlin, vice president with Chicago-based First Analysis Securities. "If that's where consumers are using their card credentials, merchants won't turn away from that."

Still, merchants make solid arguments about why they won't cozy up to NFC, Berlin added.

"Merchants are 100% right to say they were not involved enough in the technology creation process," Berlin said. "And there is no doubt that NFC caused routing problems and disrupted some merchant loyalty programs."

But, like any other technology, the hiccups get fixed and things move forward, Berlin said. **ISO**

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Innovators Seek Legacy Tech

Even startups don't want to reinvent the wheel. More newcomers to the industry are learning to appreciate the technology that's already here. **BY DAVID HEUN**

On the surface, traditional bankers and third-party disruptors may not always have the same approaches in mind, but the gap between their goals and how to go about it is increasingly getting smaller.

Ripple, which has its roots in the virtual currency movement, has ditched a consumer-facing business model to actively seek ways to help banks move money and update the correspondent bank network.

Another fintech innovator, Dwolla, has long tried to work with banks to improve the speed and flexibility of their payment offerings.

But these companies also understand their current spot on the banking industry's totem pole, and view efforts such as Swift's Global Payments Innovation initiative, which aims to build a modern cross-border payments system on legacy infrastructure, with the respect it has rightfully earned.

"One thing Swift has globally is a connected network of financial communications, and the banks trust a message from Swift," said Ben Milne, Dwolla's chief executive.

If a Swift message informs a bank that an individual or company is going to pay \$1 million for something, that bank will be confident that it will be paid, Milne said.

"If I made that call, they wouldn't trust me, but when it comes as a Swift



message, it really means something," Milne said.

Nevertheless, Milne says that from a technology standpoint, Dwolla can deliver that same confidence.

"Where we really come in is connecting to the regulated infrastructure — the custodians, the banks — to when the transactions actually have to move," Milne said.

"We can integrate with Swift messages, so a Swift message can actually tell us what needs to happen and how the funds need to settle, and we become a very simple way of settling the funds between the participants," he said.

Dwolla has stepped into the banking infrastructure through its branded APIs, allowing financial institutions to essentially put their names on Dwolla

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technology. It has also moved into real-time payments and clearing in the futures and options marketplace.

Dwolla continues to advance its ACH application capabilities for faster integration, support for integrated payments, usage-based subscriptions for variable billing and a more seamless bank verification process.

The end result, Milne said, is financial institutions using a simple “fund accounts” button to lower capital costs, increase transaction speed, decrease risk and increase liquidity.

“This has not been an opportunity for these companies in the past, and the APIs are the glue that holds it all together and makes it possible,” Milne said. “They can make more money and provide a better experience for customers.”

Ripple is also watching Swift’s latest project, seeking a way to fit its own tech into the international banking system.

“With a cross-border payment, we try to make them essentially instant and with certainty, so it can’t fail in the middle at an intermediary, all at a very low cost,” said Chris Larsen, Ripple’s chief executive.

Ripple is taking a broader view than some, focusing more on the Internet of Value that goes beyond just replacing existing payment methods. This holds true to its original model, where Ripple sought to enable any item — from bitcoin to beer — to be exchanged as a currency.

“It’s a world where you have all of these Internet connected devices, billions or potentially trillions of them, and those devices are going to be enabled with value,” Larsen said. “You need an incredibly low-cost infrastructure for that to actually happen, with a standard for moving and settling value.”

Such a scenario can’t rely on a correspondent banking system, as the numbers of transactions may increase and get smaller through “payment-enabled things,” Larsen added.



You need an incredibly low-cost infrastructure...with a standard for moving and setting value.

Chris Larsen, CEO of Ripple, on introducing new tech

For now, it is in the best interest of both banks and fintech companies to work together, especially on infrastructure challenges, Larsen said.

But the correspondent bank network, in which smaller banks and larger banks rely on one another for the proper settlement of cross-border transactions, will endure for some time, said Nancy Atkinson, wholesale banking expert and senior analyst with Aite Group.

“I’ve seen arguments where Ripple Labs is looking to replace that network, but that is not how I see it,” Atkinson said. “For banks to participate in Ripple Labs and use the distributed ledger solution, they still need to reach agreements with each of the banks in the Ripple network.”

Ripple has indicated it views those bilateral negotiations as outside of the purview of its network and solution, Atkinson added.

“That is one of the benefits of Swift in that they have experience with creating multilateral agreements for their model,” Atkinson said.

Theoretically, Ripple could accept that responsibility for their network and develop a common agreement to which all participants must commit, Atkinson added. “But they lack that experience.”

Ripple says it is moving in that direction with Interledger, its open-source protocol standard that financial institutions can use to move currency or anything else of value.

“We believe this is the best standard because it has the most scale and transaction privacy, and you don’t have to use cryptocurrency to use it,” Larsen said. “It can change dollars to euros.”

Ripple is also banking on its XRP digital currency playing a role in this distributive ledger model.

Ripple announced last week that it struck a deal with SBI Holdings to form a company called SBI Ripple Asia to serve banks in that region. The companies plan to explore trading Ripple’s XRP on SBI’s platform, which they say is the largest trading exchange in Asia.

“The old way of thinking in the bitcoin community was that everyone had to adopt a single ledger to be the core of everything worldwide,” Larsen said. “We don’t think it will work that way, because we look at it more like the Internet, with millions of databases on a common Internet protocol.”

There is little doubt that banks have a problem moving money and other financial assets, Dwolla’s Milne said. As such, they are more open than ever to discuss new APIs, new connecting technology and blockchain, the ledger system that bitcoin uses.

But it will all take time. When hundreds of billions or trillions of dollars are part of the discussion, many will dig in their heels to slow things down.

“A lot of it is just figuring out how to actually do it,” Milne said. “It is amazing how many walls around knowledge are built up in large institutions. It can take years for someone to give you the document you need to affect change.”

Banks in Europe don’t want to rebuild infrastructure and wait three years to enter the U.S. market and communicate with banks here, Milne said. “They want to do it in three weeks, and we can’t predict network effect on APIs in that area, but it feels very real.” **ISO**

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Verifone Peeks Into the Future

Verifone is working to keep pace with the fast evolution of the global payments market.

BY JOHN ADAMS

Verifone, which is challenged to move beyond its reliance on selling traditional payments hardware, is producing an almost dizzying array of products in hopes of diversifying.

In just the past few months, Verifone has detailed its acquisition of AJB Software, announced a “payments as a service” partnership with Microsoft, completed a beacon deployment at one of its clients and integrated its systems with touchscreen technology developer Elo.

The market conditions demand this brisk pace, according to Jim Surber, regional head of Payment as a Service for North America at Verifone. “Payments are changing as fast as we’ve ever seen, and we’re making sure we can help merchants keep up with that,” he said.

The pace of change is fueled by a rush of technology into retail stores, pertaining to security, loyalty, mobile and other needs. The rapid pace fits with Verifone’s multi-year strategy to become a technology-focused merchant provider, using EMV and mobile to recover from financial setbacks from several years ago.

“In year one, you talk about doing something. In year two you start to see things happening and in year three things start to take off,” Surber said.

Verifone will provide EMV-ready “payments as a service” technology certified for Microsoft for retail and



commerce products. That means payment hardware, software and support services will be integrated into a centrally managed system built on Verifone’s Secure Commerce Architecture (SCA). SCA connects terminals to Verifone’s gateway.

This structure prevents payment data from entering point of sale hardware and

allows changes for the purpose of EMV and PCI compliance without repeated recertifications. It also allows point of sale systems to be remotely upgraded to support future mobile wallet and contactless payment technologies, as well as marketing programs.

“Merchants are going to have to deal with this change for a lot of years,”

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Surber said.

For merchant service providers, the “cloud” is the tonic for that change—the idea that remotely hosted technology can deliver new updates on the fly, rather than requiring new tweaks each time a new way to pay emerges.

“Fill in the blank’ as a service is showing up in a lot of different areas, and it makes a lot of sense in the payment and commerce space,” said Thad Peterson, a senior analyst at Aite Group, adding it cuts cost and can be quickly upgraded as situations change. “I’m not sure that the degree of change and the challenges of omni-channel delivery in a tokenized ecosystem can be effectively managed

with any other solution by a merchant.”

Verifone’s “as a service” collaboration with Microsoft is one of several moves Verifone has made. At the National Retail Federation Big Show in New York, Verifone demoed a beacon pilot from Allrecipes, a social network for user-generated recipes, reviews, grocery tips and photos. Allrecipes is testing beacon-triggered marketing and other content delivered directly to consumers’ mobile apps at participating grocery stores.

In a separate collaboration, Elo will add its self-service platform to Verifone’s newest payment devices to support loyalty programs, EMV and Near Field

Communication.

“Payments really isn’t the important piece today,” Surber said. “Payments have to stay secure, but what we really want to do is make it easy to create additional value at the point of sale.”

The move toward omnichannel shopping also fuels the need for a payments technology gateway that connects directly to the point of sale, said Rick Oglesby, a senior analyst and consultant at Double Diamond Group.

“The gateway adds additional value to the point of sale in terms of encryption and encryption key management, and managing certifications and or recertifications,” Oglesby said. **ISO**

THE OMNICHANNEL ARMS RACE HAS A HEFTY ENTRY FEE

The rush to be a “one stop” shop for merchants by bundling mobile, Web and in-store payment technology is proving to be a heavy lift, in terms of cash, resources and IT skills.

In January, TSYS announced it is acquiring TransFirst, in part to accelerate its ability to integrate different payment channels and flesh out its product mix to include processing, prepaid and multi-channel payments. The \$2.4 billion price tag is \$1 billion more than TSYS spent to add a consumer-facing prepaid business just two years ago when it bought NetSpend.

The TSYS/TransFirst deal is part of an aggressive arms race, in which acquirers are leaving their comfort zones to build an arsenal of multi-channel services through acquisition and partnerships. Global Payments is also spending heavily, at a \$4.3 billion price tag, to acquire Heartland Payment Systems to offer integrated payments to a wider and more geographically diverse client base.

“If a company wants to play in retail they need to provide an integrated capability or they need to partner with someone who does,” said Thad Peterson, a senior analyst at Aite Group. “I don’t think this is a ‘nice to have’ ¼ it’s table stakes.”

It’s not just payments, Peterson said. “It’s the integration of data with display, inventory, point of sale, Bluetooth Low Energy with CRM, everything’s coming together to create a unified retail whole,” he said.

Acquirers have three ways to respond to mobile’s disruption of traditional point of sale hardware and merchants services. Companies can build their own technology, partner with another provider to fill gaps in each company’s product menu, or buy the technology by acquiring a company that provides the desired innovation.

None of these options are easy, particularly in a volatile financial market where overall payment related deals are

becoming more challenging to execute.

“There’s not only an expense, but there’s also the process and platforms and people that are necessary to support these new functions,” said Richard Crone, a payments consultant. “You have to have a war chest to do this, you need to be able to make, buy or partner your way into these services.”

Verifone is pursuing all three options. It has acquired AJB Software to upgrade its ability to connect payment devices with 100 processors and applications covering government payments, fleet cards, stored value cards, supermarkets and convenience stores. Verifone is also collaborating with Microsoft to “future proof” point of sale terminals by enabling cloud-delivered updates for mobile payments and security. And it’s testing a beacon-based in-store marketing program.

“Verifone has a fierce competitor [AJB] in the fold, and they can also offer a new independent cloud-based service to merchants,” Crone said. “This is the classic way to vertically integrate.”

Verifone and TSYS are not alone. First Data late last year bought Spree to add e-commerce and earlier this year updated its mobile point of sale system, both moves are part of long technology diversification initiative that also included a huge IPO in 2015. Vantiv’s 2014 purchase of Mercury Payment Systems, at a price of \$1.65 billion, was another major acquisition fueled by the demand for integrated payments.

“We are in a very unusual time now where you have regulatory-driven investment, like EMV, which is a huge suck on time and money. And now we’re also seeing a response to mobile technology,” said Lynn Holland, product line manager for ACI Worldwide. “For acquirers, it’s a matter of how they can add value to the process beyond shaving a few basis points off of the transaction.”

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