DIGITAL TRANSACTIONS®
Trends in the Electronic Exchange of Value

THE BILL-PAY REVOLUTION

After years of dominance by billers, can real-time settlement put banks in control of the bill-pay market?

Volume Sixteen, Number Seven • DigitalTransactions.net • July 2019

ALSO IN THIS ISSUE:

Pay-at-the-table has arrived.
And it's FREE!*

SkyTab™ is the game-changer you've been waiting for. You can now offer a cutting-edge pay-at-the-table solution to your merchants for FREE! SkyTab is fully integrated with all Harbortouch systems so servers can seamlessly accept payment directly from the table. But SkyTab offers much more than just payments...

- Pay-at-the-table including ability to add tips and split checks
- Re-order items directly from the table (full ordering functionality coming soon)
- Accept EMV, NFC and swiped card payments
- Built-in customer satisfaction surveys with manager alerts for low ratings
- Ability to collect customer emails to build a marketing database
- Integrated receipt printer and e-receipt functionality

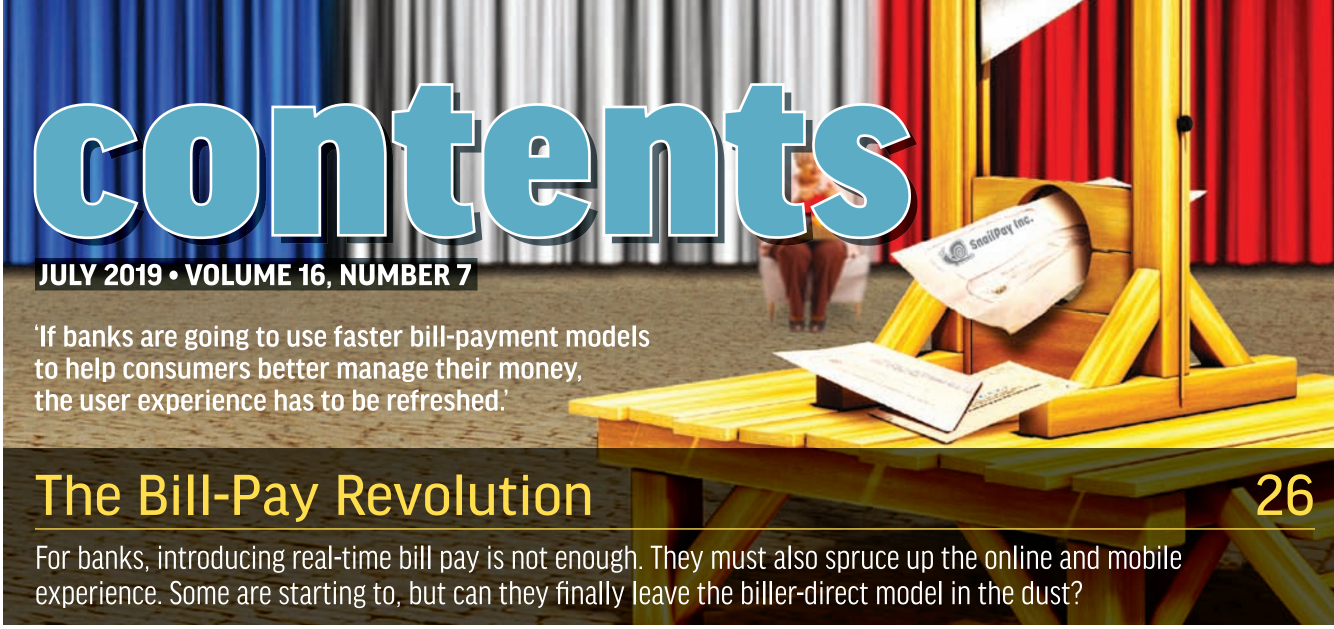
Contact us today to supercharge your sales with SkyTab!

Brian Fitzgerald, National Sales Manager Central - 800-201-0461 x 1257 or bfitzgerald@harbortouch.com
Rich Lopez, National Sales Manager East - 800-201-0461 x 1205 or rlopez@harbortouch.com
Max Sinovoi, National Sales Manager West - 800-201-0461 x 1219 or msinovoi@harbortouch.com
or visit www.isoprogram.com

HARBORTOUCH®
A SHIFT4 COMPANY

*Free equipment program requires Merchant Processing Agreement. Terms & Conditions apply.

S3584_05062019



contents

JULY 2019 • VOLUME 16, NUMBER 7

Cover Illustration: Jason Smith, 123RF

Digital Transactions (USPS 024-247) is published monthly by Boland Hill Media LLC, 800 Roosevelt Road, Building B, Suite 212, Glen Ellyn, IL, 60137. Periodicals Postage Paid at Glen Ellyn, IL, and at additional mailing offices. POSTMASTER: Send address changes to Digital Transactions, P.O. Box 493, Northbrook, IL 60065-3553.

the gimlet eye

REAL TIME GETS REAL

THIS MONTH, WE ARE FEATURING TWO STORIES about the progress of faster payments. Our cover story, "The Bill-Pay Revolution," starting on page 26, shows how real-time capability is finally asserting itself in a crucial segment of the payments business. Then, on page 34, you'll find "2020 Vision," our take on just what's going on with that Fed-inspired 2020 deadline for so-called ubiquitous real-time payments.

Up to now, most of the attention in real-time payments has been riveted on peer-to-peer payments. This is a natural market for real-time applications, since it affects consumers directly and, so to speak, immediately. After all, who isn't thrilled to get money from another person just as if that person had handed you a $20 bill—but without the paper?

But bill pay is potentially a much bigger market with a much bigger potential payoff—if the providers play it right. Card networks see that potential, which is why Mastercard, for example, developed a system that lets banks offer real-time bill payment as part of an effort to recapture volume lost to billers. If anything can reverse the long slide in market share from aggregated bill-pay at bank sites to biller-direct sites, it just might be real-time payment.

But that leaves open the question of just how prepared banks, billers, and merchants are for speedy payment flows. So, in our second story, we indulged our curiosity about how soon all this real-time activity will finally arrive. It was only two years ago, after all, that the payments industry set itself the goal of establishing real-time capability for all or nearly all endpoints by 2020. That's next year. Is it going to happen?

The easy—and somewhat evasive—way to answer this question is to say that it depends on how you define ubiquity. But our bet is that no, ubiquity is probably not going to arrive in 2020. That's if you define it as most in the business do, as a very high percentage of accounts capable of handling real-time flows.

This is not for lack of trying. Players like The Clearing House Payments Co. LLC and Early Warning Services LLC have pushed hard for real-time capability. TCH has 15 institutions on its Real Time Payments platform, built with the help of Mastercard's Vocalink unit, and more are in the pipeline. Early Warning's Zelle network is backed by many of the country's biggest consumer banks.

There are others pushing technology for real time, too. So we could be proven wrong. In the end, though, what's important is that real time happens relatively soon. If soon means 2021 or 2022, few will complain.

John Stewart, Editor | john@digitaltransactions.net

JULY 2019 • VOL. 16, NO. 7

DIGITAL TRANSACTIONS
Trends in the Electronic Exchange of Value

PUBLISHER Robert A. Jenisch

EDITOR-IN-CHIEF John Stewart

SENIOR EDITOR Jim Daly

SENIOR EDITOR, DIGITAL
Kevin Woodward

CORRESPONDENT
Peter Lucas

ART DIRECTOR/PRODUCTION EDITOR
Jason Smith

DIRECTOR OF ADVERTISING
Robert A. Jenisch, 877-658-0418
bob@digitaltransactions.net

ADVERTISING SALES REPRESENTATIVES
Robert Mitchell, 877-658-0418, x7
bmitchell@digitaltransactions.net
Rob Akert, 877-658-0418, x6
rakert@digitaltransactions.net

Digital Transactions, Digital Transactions News, and DigitalTransactions.net are publications of Boland Hill Media LLC, 800 Roosevelt Road, Suite B212, Glen Ellyn, IL 60137

John Stewart, Managing Director
Robert A. Jenisch, Managing Director

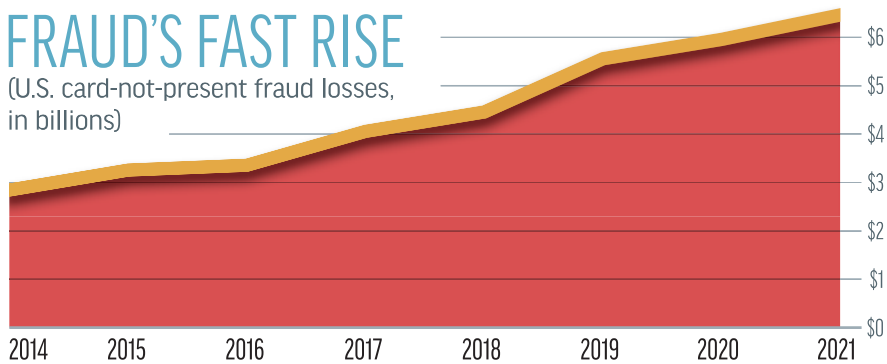
For advertising information, call 877-658-0418. To subscribe or give us a change of address, go to www.digitaltransactions.net and click on "Subscriber Care" or call 847-559-7599.

Subscription prices: $59/year for subscribers in the United States; $69/year for Canadian subscribers. All other subscribers, $119/year, payable in U.S. currency.

trends & tactics

NO FAST PAYOFF FROM SRC

NEWS THAT THE MAJOR PAYMENT CARD NETWORKS will implement a standardized buy button later this year may have stirred hopes among issuers, merchants, and acquirers that the longstanding problems of rising e-commerce fraud and inconsistent checkout flows will finally be addressed. But already cautionary notes are emerging to indicate the bulk of the hoped-for benefits could be years away.



Note: Figures for 2019-21 are projections on current trends. Source: Aite Group

Version 1.0 of the Secure Remote Commerce specification from EMVCo, the major card networks' standards body, emerged early in June, and almost immediately American Express Co., Discover Financial, Mastercard Inc., and Visa Inc. said they plan to incorporate the SRC process within a matter of months.

The new blueprint promises to streamline online checkouts for transactions involving the major card brands. It is also expected to cut fraud by incorporating reliance on such technologies as device ID, tokenization, and 3-D Secure 2.0, a separate security standard from EMVCo. Fraud losses have become a big headache for card issuers and online merchants in the United States, rising 38% last year to $4.4 billion, according to numbers compiled by Aite Group, a Boston-based financial-services research firm (chart).

"With thousands of merchants approaching digital commerce with different approaches, opportunities for fraudsters to crack a merchant's platform are significant. And while many merchants maintain high levels of security around their payment processes, others don't, and inconsistency is the enemy of security," notes a report just released by Aite.

But implementing the new SRC standard will be a complicated business, leading observers to warn the payments industry not to look for any quick payoffs. To begin with, implementation is voluntary, and some merchant advocates have already said they doubt large online retailers, which have already invested in smoother and more secure checkouts for their sites and apps, will want to adopt it.

"Even if SRC becomes a common solution, it will take some time to impact the total digital-commerce ecosystem," cautions the Aite report's author, senior analyst Thad Peterson.

Also, the standard does not contemplate systems built outside the constellation of the major card brands. "The limitation of SRC is that it is completely payment-network-card based. Alternative payment schemes such as Alipay or even PayPal will be precluded from using the capability," says the report, "SRC and the W3C Payment Initiative: Revolution in Online Retail?" W3C refers to the Worldwide Web Consortium, a standards body for the Internet that has been working on its own spec for payment flows.

Once built, the buy button will face yet another problem: enrollment. Branded checkout systems from the card networks and big tech companies like Apple Inc. have all struggled to attract users, Aite's report says.

"There are few examples of past programs that have succeeded in enrolling enough customers to achieve critical mass," notes Peterson in the report. "The only success stories have been wallets that were embedded in the payment stream, like PayPal and Amazon Pay."

But while it may be long in coming, the payoff could be significant, Peterson adds. "If implemented as envisioned, SRC will create a secure payment process in which the merchant has no need to retain customer [data] unless it so desires," the report says.

—John Stewart

HOW THE GLOBAL-TSYS DEAL IS DIFFERENT

Payments observers are tempted to think of the $21.5 billion proposed merger of Global Payments Inc. and Total System Services Inc. (TSYS), announced last month, as the latest megadeal in a series initiated in January when Fiserv Inc. said it would acquire First Data Corp. That announcement was followed by the news in March that Fidelity Information Services Inc. (FIS) had struck a $43-billion deal to acquire Worldpay Inc.

To be sure, processors are using acquisitions to achieve the scale they need to remain competitive in pricing and technology. But some experts reacting to the Global-TSYS deal, which results in a combined company that will use the Global Payments name and will take in a projected $8.6 billion in annual revenue, could herald a completely new trend in third-party transaction processing, and on a huge new scale.

"What's different about this merger is it's a major issuer platform and a major acquiring platform" coming together, says Patricia Hewitt, principal at PG Research and Advisory Services, a Savannah, Ga.-based consultancy.

Atlanta-based Global Payments is just about as close to a pure-play acquiring processor as can be found in the payments business. Columbus, Ga.-based TSYS, on the other hand, draws just over one-third of its revenue from acquiring, with the remainder coming from issuer processing and prepaid card support.

That combination could have far-reaching effects, some observers say. "[Global Payments] will be a major credit-card issuer processor and acquirer in the [United States] and [the United Kingdom] and therefore process many payments for both the merchant and the issuer (cardholder). Therein, maybe an opportunity for game-changing synergies, delivering closed-loop benefits over open-payment systems," notes Eric Grover, principal at Minden, Nev.-based consultancy Intrepid Ventures, in an email message.

For years, non-bank processors have tended to specialize in either merchant-acquiring operations or support of card portfolios for

> 'There's a lot of effort to be done ... before economies of scale are truly realized.'
> —**RICK OGLESBY**, PRINCIPAL, AZ PAYMENTS GROUP

financial institutions, but rarely managed both on anything approaching an equal footing. One major exception is First Data, which bills itself as the "number-one" acquiring and issuer processor.

The "synergies" Grover points to include the ability to more efficiently authenticate cardholders at the time of transaction at merchants whose accounts are under the same roof. Global Payments chief executive Jeff Sloan highlighted this capability during the merger announcement in reference to an upcoming regulation in Europe that will mandate strong authentication. "The user ID will be more important as we go more digital" in payments, notes Hewitt.

And, for all the merger mania going on, it will be hard for other third-party processors to match this combination by acquisition, Hewitt notes. "Most [issuing platforms] are banks. I don't think Capital One is going to sell that off," she says.

Others agree there will be advantages to having a major issuing and acquiring operation under one roof, but argue this edge could be exaggerated. "The TSYS issuing and prepaid businesses are a net new for Global, so there won't be economies of scale to be had there," notes Rick Oglesby, principal at Mesa, Ariz.-based consultancy AZ Payments Group, in an email.

"There may be some opportunities to reduce network costs by connecting merchants and banks directly, or to complete peer-to-peer transactions," Oglesby adds. "But those opportunities are speculative at this point and are probably nice-to-haves in the deal."

The added economies of scale from the merger will have a definite effect in the acquiring business, Oglesby contends, though it will take time for that effect to be felt.

"This [merger] will help drive merchant prices lower," he says. "Because competitors are increasing in scale also, we're likely to see continued price competition. However, there's a lot of effort to be done to consolidate these businesses before economies of scale are truly realized."

—John Stewart

NOW MEDICAL COLLECTIONS AGENCIES ARE VULNERABLE

A data-security services firm early last month announced it had spotted about 200,000 payment card numbers in online fraudster marketplaces stolen from a collections firm serving diagnostic laboratories. And it expects more to come up for sale in the coming months.

Secaucus, N.J.-based Quest Diagnostics Inc. reported that financial and other data on some 11.9 million of its patients was compromised in a data breach that lasted from Aug. 1 to March 30.

The breach targeted the online payment page of American Medical Collection Agency, which provides collection services to Optum360, which in turn is a Quest contractor. Quest said the breach affected patients' credit card and bank-account information, Social Security numbers, and medical information, but not laboratory test results.

New York City-based Gemini Advisory LLC, which monitors the Dark Web in attempts to find its clients' stolen data, said in a blog post that it first "identified a large number of compromised payment cards" on Feb. 28. About 15% of the records also included such personally identifiable information as dates of birth, Social Security numbers, physical addresses, and email addresses.

Christopher Thomas, an intelligence production analyst at Gemini Advisory, says all of the financial records it has spotted so far are payment card data, not bank-account

pymntz™
all payments a-z

THE PLATFORM FOR ALL YOUR PAYMENT PROCESSING NEEDS

PAYMENT PROCESSING

ACH, CHECK AND CARD PAYMENT RAILS

TENS OF BILLIONS
Payments Processed Annually

TREASURY AUTOMATION

TREASURY WORK-FLOW AUTOMATION, API'S, SDK'S AND SAMPLE UI'S

-45%
In AR Days-Outstanding

PLATFORM SECURITY

ADVANCED MONITORING, FRAUD PREVENTION AND RISK TOOLS

100,000+
Locations

The iStream payments platform, Pymntz™ is centered around
Payments, Data, A/R, A/P, Treasury Management and Reconciliation.

Utilization of iStream for payment processing for both bank and card centric transactions, requires no changes to existing banking relationships, resulting in **decreased costs, increased revenue, all from a single provider.**

powered by iStream™ FINANCIAL SERVICES

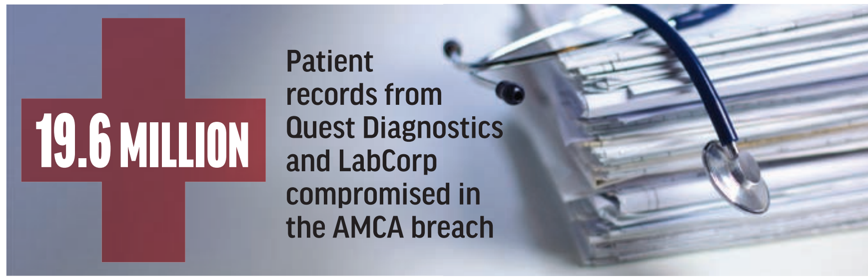
262.796.0925 istreamfs.com

information. “While 200,000 records have currently been posted for sale, it is common for cybercriminals to post compromised data to the Dark Web in installments, so the number of records may well increase,” Thomas says by email.

The breach indeed holds the potential to wreak ongoing havoc. Quest is not AMCA’s only client, the Gemini report notes. The KrebsOnSecurity news site reported that another big diagnostics firm, LabCorp, says personal and financial data on 7.7 million of its patients was exposed in the AMCA breach. It wasn’t immediately clear if all of the 200,000 records Gemini spotted originated with LabCorp.

Plus, some of the known compromised records were linked to health-savings accounts. HSAs are tax-advantaged accounts consumers can use to save funds to cover medical expenses, and some come with prepaid cards.

“While we do not know the exact number of compromised HSAs, some of the most affected financial



institutions in this breach primarily focus on HSAs,” says Thomas.

After finding the card numbers on the fraudster marketplaces, Gemini researchers concluded they came from something other than an online retailer. “Since the records we observed contained information such as date of birth and Social Security number, we determined that the compromised records came from an online portal that requires more personally identifiable information than average online retailers,” Thomas says. “An in-depth analysis of the affected financial institutions indicated that it was a health provider, and through collaboration with partner banks we determined that the source of the compromised records was AMCA.”

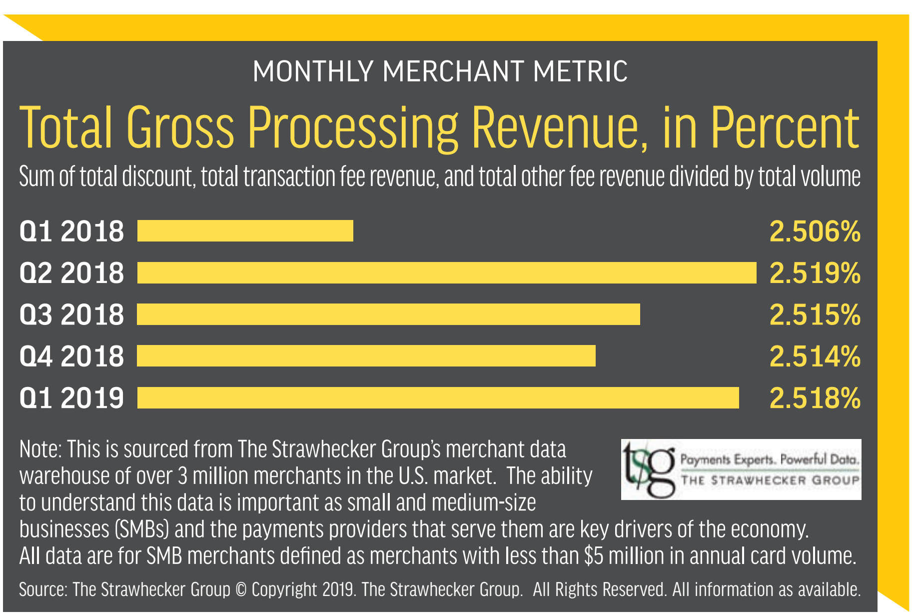
The Bloomberg News service reported in June that AMCA’s parent company, Retrieval-Masters Creditors Bureau Inc., had filed for Chapter 11 bankruptcy protection as a result of the breach. The company said it plans to liquidate, citing millions of dollars in breach-related expenses.

Gemini Advisory said AMCA took its online payment portal offline from April 8 to May 2. Gemini also said it alerted AMCA to its findings, but received no response.

Exactly how the breach happened hasn’t been revealed, but in a statement, AMCA said that an “unauthorized user” accessed its system.

“Upon receiving information from a security compliance firm that works with credit card companies of a possible security compromise, we conducted an internal review, and then took down our Web payments page,” the statement says. “We hired a third-party external forensics firm to investigate any potential security breach in our systems, migrated our Web payments portal services to a third-party vendor, and retained additional experts to advise on, and implement, steps to increase our systems’ security. We have also advised law enforcement of this incident.”

—Jim Daly



FOR BITCOIN, SIGNS OF RISING MERCHANT VOLUME

Most economic activity with Bitcoin remains on trading exchanges, but lately there is some evidence volume at merchants may be picking up.

Bitcoin's total merchant volume, in dollar terms, was $42.8 million in the week ended May 19, according to the latest figures from Chainalysis Inc., a New York City-based cryptocurrency research firm. That represented the second week in a row volume exceeded $40 million and registered a 50% increase over the first week of the year.

Chainalysis, which tracks merchant volume on both monthly and weekly bases, says the weekly tracking may be a better barometer of actual sentiment among Bitcoin holders and businesses that accept or are considering accepting the digital currency.

"While merchant-services activity represents a small portion of Bitcoin economic activity overall, recent data suggests this activity may be rebounding following the 2018 price downturn," a company spokesperson says in a comment sent to *Digital Transactions.*

Bitcoin's price began rebounding early in April following a mid-November crash that cut the coin's value in half over the course of the next four weeks. As of mid-day June 17, it was trading at more than $9,200, according to Coindesk. Swings in value affect the value in dollar terms of goods and services bought with Bitcoin, which is notoriously volatile.

The monthly figures for merchant volume also indicate a steady buildup this year so far. The April number, the most recent one available, was $157.5 million, up from $119.5 million in January.

To be sure, these indicators remain tentative and very much tied to Bitcoin's dollar value on any given day. The Chainalysis numbers indicate there were three months last year, for example, when merchant volume exceeded $200 million. Indeed, volume soared to $469.6 million in

November 2017, as Bitcoin's value was rising toward $20,000 before crashing in December (chart).

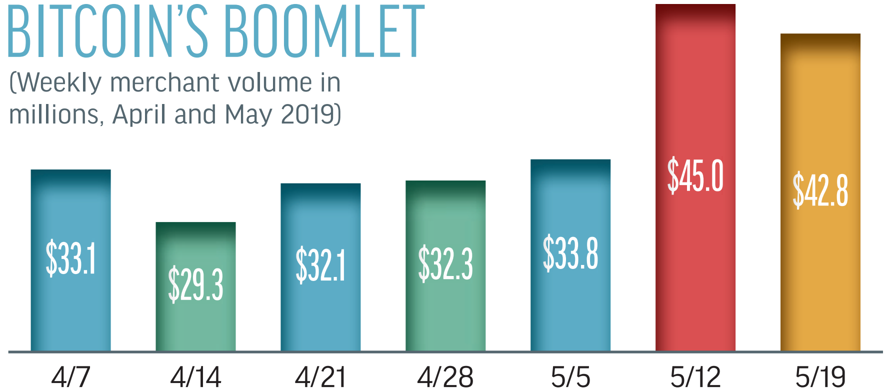
Both physical and online merchants accept Bitcoin, and while the number of businesses welcoming the cryptocurrency remains murky, it is a decidedly small contingent worldwide. Some major retailers like Overstock.com have accepted it for years, and in May AT&T Communications said it would become the first mobile carrier to take Bitcoin and Bitcoin Cash for bill payments.

The fee users pay to spend Bitcoin, however, has shot up in recent weeks. The median fee stood at $1.26 on June 17, up from 66 cents as recently as late April, according to Bitinfocharts.com. Some observers fear higher user fees could depress spending and thus discourage acceptance.

—John Stewart

BITCOIN'S BOOMLET

(Weekly merchant volume in millions, April and May 2019)



Source: Chainalysis

VISA'S KELLY IS REALLY SKEPTICAL OF REAL TIME

Visa Inc.'s chief executive in May questioned the drive for real-time payments by U.S. banks and merchants, but also argued Visa's recent acquisition of business-to-business payments processor Earthport plc will help the company expand real-time capability beyond cardholders.

Visa closed on London-based Earthport in April after winning a bidding war with rival Mastercard Inc. The deal, which cost the card network $320.4 million, was well worth it, Alfred Kelly told the audience at an investor conference in New York City.

Earthport will connect Visa to automated clearing house and real-time networks in 88 countries, which means "we have the ability now to move money to people we don't have a card relationship with," Kelly said.

The company's Visa Direct service enables real-time push payments but requires that the receivers of funds have a Visa card. Now, Kelly said, "The capability to push funds to bank accounts has grown 100%."

But Kelly was less enthusiastic about the concept of real-time payments in general. In recent months, The Clearing House Payments Co., a New York City-based processor owned by many of the nation's biggest banks, as well as vendors like ACI Worldwide and Fidelity National Information Services Inc. (FIS), have built or contributed technology to faster-payments systems in the U.S.

Also, Mastercard in 2017 acquired another British firm, Vocalink Holdings Ltd. which designed much of the technology used by TCH and earlier built a real-time system for the United Kingdom.

Kelly questioned the purpose and reliability of competing faster-payments systems, without naming names, and argued the systems offer inadequate protection against unauthorized transfers. "I am not convinced these [services] are going to take off like crazy," Kelly told the audience.

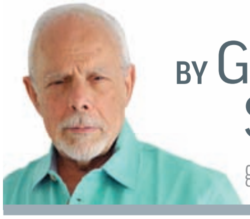
He zeroed in on the matter of fraud protections in an environment where value travels between accounts in a matter of seconds. Some networks, he said, "don't have the same protections you have in a payments ecosystem." Transactions are irrevocable, he said, raising the question, "if I now have a dispute with you or some element of chargeback with you, how is that going to work? With great difficulty would be the answer."

A spokesman for TCH declined comment.

Kelly was more sanguine about the opportunity real-time systems could open up for Visa. "We have all sorts of value-add for them," he said. "We're open to talking." DT

—John Stewart

THE USES OF DIGITAL MONEY



BY GIDEON SAMID
gideon@bitmint.com

THE FED HESITATES and the networks hold on to power, but technology breaks through. The efficiency and convenience of digital money are slowly but surely making it the currency you stuff your wallet with.

While pure, airy cryptocurrencies without a central mint are still very much fringe money, the deeper concept of digital money is taking hold. For decades now, most of the money has been value-digital (computer expressed, not physically minted), but identity-missing. One hundred dollars is an expression of value, not of an identity. With proper digital money, the bit string expresses both value and identity. And so there is wood to hammer cryptographic nails into, to build that money to fit any intended purpose one may imagine.

That is the governing philosophy of BitMint. And while government is still "studying" this revolution, big business moves in, waiting for no one, and goes forward. Big banks and big merchants announce, and prepare to offer the public, their branded dollars. This is a revolution that has not yet been recognized for what it is.

The U.S. dollar goes viral. Why? Because of universal trust in the U.S. government—trust that extends worldwide. The dollar is the world currency. Now big business, entities like Facebook, Amazon, and JPMorgan, cannot claim that level of trust, but they do claim quite a bit of gravitas (look at the stock market).

This public trust is now leveraged to mint corporate money. A certified document that says that a trusted big business will pay against that document $1,000 would be a negotiable instrument of value. The same is true if, instead of pulp and paper, the document comprises bits and bytes and the certification is not in a form of a dripping red stamp, but a modern cryptographic signature.

If the brand is trusted, its IOUs are trusted, and hence are a form of payable currency. While the government "looks into this matter," big business competes on security, convenience, efficiency, versatility, and on being as frictionless as possible for both humanly involved payments and for transfers of value based on artificial intelligence and the Internet of Things.

Loyalty money is turning upside down. It used to be elaborate, complicated, even whimsical. "Air miles" are in one way a cash equivalent, but in practice they are engulfed in a maze of use restrictions and trade confusion. The new way is to turn loyalty money into almost a cash equivalent, like a gift card—that is, having a clear cash value to be used anywhere cash is welcome.

And the biggest step ahead is to render loyalty money into a cash-redeemable instrument, so that it can be used as payment to a recipient who does not shop with the branded store. Think about it. As long as the cost of cash redemption is competitive with the interchange fee that a merchant pays the banks, then the merchant will encourage its customers to pay with branded dollars from another store.

We expect to see coalition-branded dollars. This is digital money that works within several complementary merchants (for example, airlines, taxis, hotels). It's also branded city dollars that are designed to promote local business and digital dollars issued by malls and shopping centers.

Digital money can be tethered to any purpose (see my book, "Tethered Money"). This option unleashes a host of payment options. The Fed will be transformed once it realizes that if it pays with digital money it can control the money's disposition after the payment takes place. It will then grab this power head on. But right now, business leads the way. DT

BlueStar

POS & KEY INJECTION SOLUTIONS

SIMPLIFIED

IN A BOX SERIES™

IN-A-BOX SOLUTIONS

BLUESTAR FINANCIAL SERVICES

CUSTOM CONFIGURATION

TECH SUPPORT

KEY INJECTION

Solutions & Value-Added Services for All POS Verticals

P2PE • CTGA • QIR • PCI PIN 2.0 • TR-39

BlueStar

Jason Firment
Director of Electronic Transactions Business
jfirment@bluestarinc.com 859-371-4423 Ext. 4230

SMARTER FEET ON THE STREET

The sales-agent model is far from obsolete. Agents just need patience and the right training, experts say.

BY KEVIN WOODWARD

OTHER SALES MODELS may garner more attention, but the traditional sales agent continues to have a place and a future in merchant services.

Even when it appears that every processor is courting software developers, adding payment-facilitator sales models, and looking at direct sales channels to build its merchant portfolios and associated revenue streams, the tried-and-true sales-agent model continues to have a valuable place in merchant services.

Feet-on-the-street sales—so named because merchant-services sales then meant visiting business owners in person—was the original sales model for merchant services during its early days, but as payments technology improved and merchant sophistication developed, new models emerged.

Witness Global Payments Inc.'s perspective. In the first quarter, the Atlanta-based processor, which is in the midst of a $21.5 billion merger deal with Total System Services Inc. (TSYS), cited its direct-sales merchant-acquiring operation as a growth factor. In contrast, revenue from the U.S. wholesale business, which uses independent sales organizations to sell Global Payments' services, fell in the high teens in percentage terms year-over-year.

Global Payments continues to tilt toward software-based services linked with payment processing, and its direct-sales operation.

Merchants are moving to more sophisticated payments products and sales agents are adapting.

"Models like direct distribution, the [independent software vendor] referral network, and online enrollment are all viable models that fill a gap here and there, so there should not be a 'take-it-or-leave-it' approach," says Ryan Malloy, senior vice president of partner sales at Troy, Mich.-based North American Bancard LLC.

"Our approach remains to be centered around making sure we provide the best tools that merchants want," he continues, "and who better to understand the pulse of the merchant community than the sales partners that are entrenched in those respective businesses?"

Sales partners are essential to NAB, Malloy says. They form unique relationships with merchants because "their success is influenced by the success of the merchant's business," he says.

KEEPING PACE

That's never been more important as merchants increasingly adopt point-of-sale systems in lieu of standalone countertop POS terminals. The payoff for acquirers is great. Merchants are less likely to defect to other processors if their payment acceptance is an integral part of their business software. Merchants also may more easily use third-party apps with the POS software.

Selling such versatile products requires more than leaving a rate card and a product brochure on the merchant's countertop. It requires more training and an enduring commitment to stay current not only with new payment products, but also with the merchant's business, whether it be dining, apparel, retail, or some specialty industry.

"I read everything I can about small businesses," says Mark Dunn, owner of Field Guide Enterprises LLC, a Hartland, Wis.-based training and consulting firm. Dunn regularly offers training seminars in conjunction with regional acquiring conferences, in addition to paid training.

'High-value questions frame the issues in a way that does not threaten or pressure the business owner.'

—**MARK DUNN,** OWNER, FIELD GUIDE ENTERPRISES LLC

One technique involves talking with a business owner without rushing to close a sale. The idea is to learn about the issues facing the merchant. "I try to listen carefully," Dunn says.

Another technique that has worked for Dunn, whose payments career has included sales positions at TSYS, Global Payments, and Verifone Systems Inc., is to ask a high-value question about the client's business.

"High-value questions are those that bring greater value to the discussion and frame the issues in a way that does not threaten or pressure the business owner," Dunn says. For example, if trying to sell a merchant cash-advance product, the question might be "What value would having an additional $75,000 of working capital have for your business?" he says.

Incorporating these fundamental sales techniques can help sales agents keep pace with the ever-changing payments landscape. It's one of the reasons companies like NAB continue to rely on sales partners, Malloy says.

"The traditional sales-agent model is perfectly positioned to adapt as the landscape evolves," he says. "This model relies on relationships and is at the core of it being successful. This model can adapt and retain its value by seeing what the competition is doing, and how non-traditional players in the market have forced evolution."

A case in point is Square Inc. and how it changed merchant services (page 20). Prior to the late 2009 debut

'The traditional sales-agent model is perfectly positioned to adapt as the landscape evolves.'

—RYAN MALLOY, SENIOR VICE PRESIDENT OF PARTNER SALES, NORTH AMERICAN BANCARD LLC

of the Square card reader, no other large acquirer focused exclusively on an online-only distribution model. Since then, Square, and many other entrants, such as ShopKeep and Shopify, have made online sales a must-have channel for the industry.

THE PAYOFF

Like others, NAB views this channel not as competition for their other distribution methods, but as a collaborative move, Malloy says. "Because we integrated with hundreds of software providers, our sales partners work with ISVs instead of against them. We are constantly integrated with new software providers so we can offer greater features, or even fine-tune what we already offer."

In this environment, staying relevant is vital. "Today's sales partners can stay relevant by continuing to evolve with the tech age," Malloy says. "We are already seeing it." It is particularly evident in the small and mid-size business market. Because of the ultra-slim profit margins at these merchants, they need an affordable product suite that provides multiple business tools, he says.

"How [salespeople] remain relevant is by continuing to build relationships with merchants and customize a solution that fits the current and future needs of the merchant," Malloy says.

"Perhaps the merchant is exclusively doing business online, but decided that they want to establish a brick-and-mortar location," he continues. "The sales partner has the tools and resources to offer so that the merchant can establish that physical location, suggest a smart [POS] terminal, or help the merchant send an invoice. By adding value to the merchant's experience, and becoming a partner instead of a vendor, is how the model will evolve."

That's where Dunn's suggestion to listen and learn can pay off. When making a sales call, an agent should know the owner's name, the nature of the business, and "every other detail you can learn in advance," he says. He suggests asking for a minimum of 20 minutes to speak with the owner, though 40 minutes is better.

Getting to the point where the sales call is smooth and a merchant's questions can be anticipated and answered takes practice. "Persistence and patience pays off," Dunn says. "Merchant services is a long-term play and all of the big payoffs are several years down the road."

Other advice for the sales agent is to get the best possible training and to make sure the ISO or agency you sell for is investing in you, he says. "Keep improving your skills. A professional learns something new every day. Don't assume you already have mastered the sales role."

This affinity for self-development is why companies like NAB find sales agents so valuable, Malloy says. "Many merchants want to shake hands with and trust the person they are doing business with," he says. "Technology is evolving at a pace where in-person demonstrations are necessary to help merchants become comfortable in using their newest solution."

FOR THE FUTURE

The complexity of merchant services, with POS systems, loyalty programs, business-management software, and other technologies, means training is unceasing and can be involved. "If you're not ready to invest a couple of years in learning the business, your timeline is probably too short," Dunn says. "It takes time, active effort, and good training to make it in this business, which has a lot of moving parts."

The sales-agent model is evolving. "Leveraging new ways to engage with sales partners means better solutions for the merchants," Malloy says. "This model will evolve as we continue to offer the latest training videos to sales partners, new and diverse engagement opportunities through social channels, or by curating entire events about the success of their portfolio."

With investment and expertise, the sales-agent model works now, says Malloy, "and for the future." DT

We believe if you’re only focused on payments, you’re missing the big picture.

Lead the future of commerce with Poynt’s revolutionary platform.

Visit https://info.poynt.com/manifesto to become a believer.

POYNT

HOW THE TWITTER GUY CHANGED PAYMENTS

It's been almost a decade since Square piled into the merchant-acquiring industry. How much disruption did this upstart cause?

BY JIM DALY

IT'S LATE APRIL OF 2010 at automated clearing house governing body Nacha's annual conference in the Seattle convention center. On stage before an audience of 2,000 bankers and other mostly buttoned-down types is Jack Dorsey, who co-founded social network Twitter to become an Internet superstar.

Now he has started a payments company called Square, and his new company is the object of intense curiosity among bankers, independent sales organizations, and others in the payments business.

Dorsey and Square's chairman, Jim McKelvey, politely field questions, but mostly are vague about their plans for their upstart. Afterward, something happens that probably never happened at a payments conference before: attendees, smart phones in hand, rush up to Dorsey and ask to have their pictures taken with him ("Is It Still Hip To Be Square?" September, 2014).

At the time, this magazine's sister publication, *Digital Transactions News,* obtained a comment from a payments executive who witnessed the startling scene but asked not to be named. The executive said Dorsey and his team at Square were "intelligent men who have consulted with many people in the industry and can't be dismissed," said the news account. "Still, he thinks Square's Silicon Valley glitter is attracting attention out of proportion to the company's accomplishments so far."

"'If the Twitter guy wasn't involved, they would be a non-story,'" the executive concluded.

KEY SQUARE NUMBERS

(first-quarter data in millions unless noted)

	2019	2018	Change
Gross Payment Volume (billions)	$22.6	$17.8	27%
Adjusted Revenue[1]	$489	$307	59%
Adjusted EBITDA[2]	$62	$36	72%
Net Income	-$38	-$24	n.a.
Share of GPV From Larger Sellers[3]	51%	43%	n.a.

1. Total net revenue less transaction-based costs and Bitcoin expenses. 2. Earnings before interest, taxes, depreciation and amortization. 3. Sellers with more than $125,000 in annual GPV. Source: Square Inc.

'THEY'VE BUILT A BRAND'

It turns out, however, that the Twitter guy did have a payments story to tell. Square made its first splash as the provider of a little square dongle with rounded edges for iPhones that enabled everyone from flea-market sellers to parents of Cub

Scouts during popcorn drives to accept credit card payments.

The company would morph into a processor with a growing base of bigger merchants and its toes in everything from business-management software and person-to-person payments to merchant financing and cryptocurrency.

Now it has its eyes on banking, with an application pending for a Utah industrial-bank charter. Square doesn't just provide a payments service, it offers an "ecosystem," a word Dorsey uses repeatedly.

Thanks to its Silicon Valley genetics, its ability to bring small merchants into the card-acceptance fold, sleek marketing, and a constant stream of new or refashioned products, Square's beacon has shone past a big industry largely invisible to consumers.

"Almost more than anybody they've built a brand," says payments consultant Eric Grover, principal of Minden, Nev.-based Intrepid Ventures. "And it's a trusted brand, it's a powerful, very visible brand. In a café, both the waiter and the consumer know it's Square."

What other payments company can boast, as Dorsey did at a JPMorgan Chase & Co. investor conference in May, that one of its products—Cash App, Square's P2P service that works in tandem with a Visa debit card—is mentioned in approximately 250 songs, mostly hip hop?

"Square's biggest influence on acquiring has been the productization of the industry," researcher and consultant Rick Oglesby, president of Mesa, Ariz.-based AZ Payments Group, says in an email. "Historically, and still, acquiring has been referred to as a commoditized industry, but that is less and less true every day, and that's largely due to Square."

'NET POSITIVE'

Square never has called itself an ISO, but at its core that's what it is: a non-bank entity that signs merchants for payment card acceptance. It feeds transactions into the payment system through banks, mostly Chase. It employs the aggregator model with its smaller merchants, using its account as the merchant of record for those too small to have individual merchant accounts.

Dorsey, the Twitter guy who shook up payments (far right), at the White House in April 2019.

(Official White House Photo by Tia Dufour)

"They spurred ... a re-characterization of who a merchant acquirer or card processor is," says Jared Drieling, senior director of business intelligence at The Strawhecker Group, an Omaha, Neb.-based payments consultancy. "They do not identify themselves as a payment processor, they're a technology company focused on the software space."

For a long time, many ISOs viewed Square with suspicion. Square competed with them for small merchants ISOs viewed as big enough to be profitable, but it also exploited overlooked opportunities presented by micro merchants many in the acquiring business thought were too small to bother with.

In contrast to the often Byzantine pricing plans from legacy payments providers, Square offered simple, transparent pricing options, even if they weren't necessarily the lowest rates a merchant might find. Plus, Square eschewed the traditional feet-on-the-street sales model and instead deployed an Internet-based "self-origination" model to sign sellers, the term Square uses for merchants.

Still, ISO and acquiring-industry veteran Kevin Jones, current president of the Electronic Transactions Association, the national payment-industry trade group, views Square as "a net positive for the industry." (Square, by the way, joined the Washington, D.C.-based ETA last winter.)

"They're laser-focused on user experience," says Jones, who is chief executive of Celero Commerce, a payments and software firm headquartered in Nashville, Tenn. "I think that above all."

Jones notes Square "came into an industry that had a lot of incumbents, and had a fresh perspective on electronic payments and how to simplify the process of acquiring a mechanism to take payments, and for the consumer to actually pay via credit card. That focus ushered in a group of businesses that previously were not accepting credit cards."

Square did this through its focus on mobile payments, use of social media to connect with prospective sellers, and self-onboarding, according to Grover.

"One area which it is very clear they were pivotal in is socializing mobile commerce," Grover says.


Raymond

'It's the wrong time to be dormant.'

—**KEVIN JONES,** PRESIDENT, ELECTRONIC TRANSACTIONS ASSOCIATION

Square wasn't the first to do that, he adds, but "they were the ones who were normalizing it … you can't be an acquirer today and not support mobile acceptance."

The online-booking process, meanwhile, is another innovation that Square refined and other processors copied. Square declined comment for this story, but Dorsey said at the JPMorgan investor conference that 80% of Square's large sellers have self on-boarded.

"Square was pivotal in the self-origination" of merchant clients, says Grover. Part and parcel of that, he adds, was that Square used a more abbreviated underwriting process than most acquirers on the theory that small merchants presented relatively lower risk.

That, too, inspired copycats. Since Square came along, other acquirers have "worked to make the merchant-underwriting experience faster, easier, kind of a painless, if not instant, really quick process," Grover says.

Meanwhile, Square never has been reluctant to discontinue or revamp products. In 2015, it shut down Square Order just 10 months after introducing it as the replacement for an earlier product, Square Wallet. Square Order enabled users to place an order and pay for it on a mobile device, then show up later at the business—usually a coffee shop or café—to pick it up. But merchant adoption was mostly limited to coffee shops in New York and San Francisco.

One of Square's most recent initiatives has been in the Bitcoin and cryptocurrency realm. Square is in the process of building a cryptocurrency team, and Cash App supports the buying and selling of Bitcoin. The company reported $65.5 million in Bitcoin revenue in the first quarter, but $64.7 million in Bitcoin-related expenses. How crypto services will prove to be a long-term moneymaker for Square currently is unclear.

STRIKING OUT

Indeed, while Square has hit some home runs, it's had a few strikeouts, too. Its much-ballyhooed processing partnership with Starbucks Corp. fizzled after about three years. And last month, *The Wall Street Journal* disclosed that Square had misdirected numerous emailed receipts to the wrong person, compromising some consumers' privacy. A spokesperson told the newspaper the company had made a number of changes to address the issue.

And as is the case with many Internet-based companies, some Square customers have complained that it can be hard to get a live person on the phone to answer a question or fix a problem.

The Strawhecker Group's Drieling says one merchant told his firm that Square cut his company off after it submitted a much-higher-than-average transaction, though the merchant knew the sale was legitimate. The merchant lost a week of card sales while scrambling to find a new processor, and never received a reason from Square about the termination, he says.

And, nearly a decade after its launch and after almost four years as a publicly traded company, Square has yet to report a full-year profit on a generally accepted accounting principles basis.

But Dorsey said at the JPMorgan conference that Square's take rate, or transaction-based profit, has been stable in recent quarters at 1.1%, and Square is getting more volume from its generally more profitable larger sellers (chart, page 20).

'A GROWTH STORY'

Wall Street so far has been patient. Consultant Grover notes that Square's market capitalization was $26 billion in late May, bigger than either of two recent merger partners, Global Payments Inc. and Total System Services Inc. (TSYS).

"To me, that says success," Grover says. "The market is willing to give leeway. Square has a growth story, and people believe it."

Some observers wonder how Dorsey can serve as CEO of two publicly traded companies at the same time—in addition to heading Square, he has returned to lead his original company, Twitter. But so far neither board of directors has demanded he choose just one.

As it heads into its second decade, there's no doubt Square has ratcheted up competition in the acquiring industry.

"I would say because of Square, and many others like Square, it's the wrong time to be dormant," says Celero Commerce's Jones.

INTRODUCING

THE LATEST RESTAURANT MANAGEMENT PLATFORM

TABLETURN™

FREE EQUIPMENT WITH ELECTRONIC PAYMENTS MERCHANT ACCOUNT

PAY-AT-TABLE	EMV/NFC WITH TIP ADJUST	TABLESIDE ORDERING
DATA ANALYTICS	OPEN API	GIFT CARD PROGRAM

Available for a variety of industry-leading POS solutions, including Exatouch® Point of Sale.

SCHEDULE A FREE DEMO TODAY!

800-966-5520, ext. 223 | keith@electronicpayments.com | calendly.com/tableturn

Powered By ElectronicPayments®

IT'S BEEN A LONG, STEADY RETREAT FOR BANKS IN ONLINE BILL PAYMENT. Since 2010, banks' share of the bill-payment market has declined from 38% to 27% in 2016. The losses have come at the hands of direct billers, which grew their market share from 62% to 73% during the same period, according to Aite Group.

Despite the absence of more recent data, experts suspect banks have lost even more share to direct billers since.

The most frequently cited reason is that consumers prefer biller-direct sites because they provide faster proof of payment. With biller direct, consumers can initiate a payment on the due date, even if it is a weekend, and receive same-day confirmation, which allows them to better manage their cash flow.

In contrast, bank bill-payment applications initiate payment days ahead of the due date, the same as if the consumer were paying the bill by mail. Confirmation by a bank that a payment has been sent is not the same, however, as confirmation from the biller for receipt of payment. As a result, consumers must keep money in their account to cover bill payment for days on end to avoid incurring an overdraft.

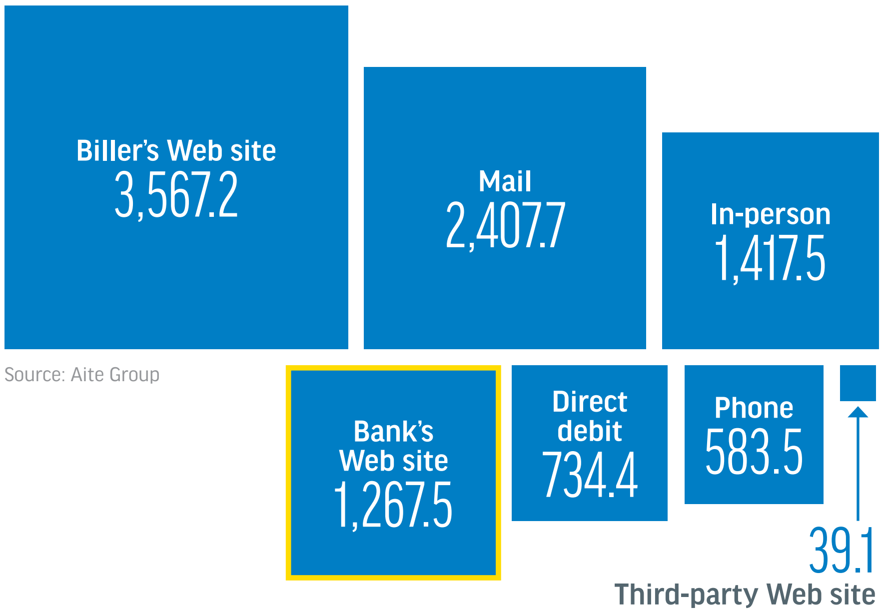
THE BILL-PAY REVOLUTION

For banks, introducing real-time bill pay is not enough. They must also spruce up the online and mobile experience. Some are starting to, but can they finally leave the biller-direct model in the dust?

BY PETER LUCAS

BANKS ARE A DISTANT FOURTH

(U.S. one-time bill-payment volume by channel, in millions, in 2016)



Source: Aite Group

'If banks are going to bring back bill-pay customers, and attract new ones, they need to compete with the immediacy of the biller-direct model.'

—PATRICIA HEWITT, CHIEF EXECUTIVE, PG RESEARCH AND ADVISORY SERVICES

Same-day bill payment confirmation is of huge value to consumers, especially those working in the gig economy, because it allows them to match bill payment to their availability of funds, payments experts say. Even if a biller-direct payment does not officially post for 24 hours, same-day confirmation assures consumers the bill has been paid.

Because payments are central to banks' relationships with their customers, failing to meet expectations for speed of bill payment can hurt those relationships and make it harder to attract new customers.

"Bill payment is an important part of the financial-services lifecycle, and Millennials aren't particularly attached to online-banking platforms [that include online bill payment]," says Patricia Hewitt, chief executive of Savannah, Ga.-based PG Research and Advisory Services. "If banks are going to bring back bill-pay customers, and attract new ones, they need to compete with the immediacy of the biller-direct model."

A GROWING FIELD OF PLAYERS

For banks looking to match the speed of biller direct, the solution is real-time payment (see "2020 Vision," page 34). Many banks in the United States already have real-time payments capability for peer-to-peer payments, cross-border payments, and business-to-consumer payments. Extending this capability to online bill payment is a natural next step for banks, payments, experts say.

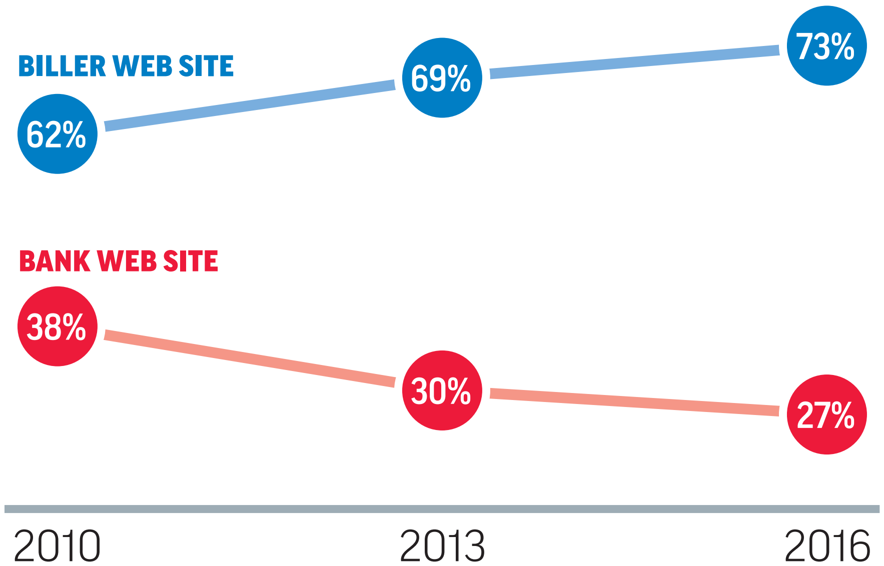
Already, there is a growing field of players looking to bring real-time capabilities to online bill payment. These include such payment-industry stalwarts as Mastercard Inc., ACI Worldwide Inc., Fidelity National Information Services Inc. (FIS), and Fiserv Inc., as well as fintech startups like Fort Collins, Colo.-based BillGO, a provider of digital bill payment and presentment.

Even tech companies such as PayPal Holdings Inc. are eyeing the bill-payment space, with or without real-time capability. In January, PayPal revealed it is working with Paymentus Inc., a North Carolina bill-payment processor.

In May, Mastercard raised its real-time bill-payment profile by acquiring Transactis, a New York City-based provider of digital-billing services. The acquisition is expected to provide Mastercard's real-time bill-payment platform, Bill Pay Exchange, with enhanced end-user interfaces, expanded payment options and digital bill-presentment

BANKS ARE LOSING SHARE

(Percentage of online bill volume by type of site)



Source: Aite Group

135,000
Billers scheduled to be part of Bill Pay Exchange's mid-2019 launch

capabilities in online bank applications and with biller Web sites.

Bill Pay Exchange, which Mastercard announced last fall, will allow consumers to view and pay their bills online in real time using existing banking apps. The technology comes from Vocalink, a real-time payments platform acquired by Mastercard in 2016.

Bill Pay Exchange was scheduled to launch in mid-2019 with about 135,000 billers. Mastercard did not make executives available for comment.

Meanwhile ACI, FIS, and Fiserv are expanding their real-time payments capabilities for their bank customers to direct billers, such as utilities and telecom providers.

THE 'WOW FACTOR'

Despite progress on online bill pay, simply adding real-time settlement to the mix won't be enough for banks to win back share lost to biller-direct sites in meaningful numbers, payments experts say. The winners will be the ones that deliver enhanced user experiences in addition to faster payment.

"The online-bank bill-payment experience hasn't changed in years," says Dan Holt, chief executive of BillGO. "If banks are going to use faster bill-payment models to help consumers better manage their money, the user experience has to be refreshed."

One prevailing school of thought is to add online bill presentment and automated consumer messaging. These features, payments experts say, can strengthen the customer relationship by giving users a one-stop shop for all their bill-payment information, as opposed to moving between individual direct-biller sites to get the same data.

"With faster settlement, there is an opportunity to create a 'wow' factor when it comes to the user experience," says Norman Marraccini, line-of-business executive and vice president for retail digital payments, ACH, and real-time payments at financial-services technology provider FIS. "What banks need to remember about consumers' preference for biller-direct payments is that it's based on muscle memory. To win back customers, they have to give consumers a reason to change their muscle memory and key to that is improving the user experience."

FIS is looking to create common user interfaces for the three primary types of real-time payment—P2P, money transfers, and bill pay—regardless of the device used to initiate those services, Marraccini says.

Other ways to enhance the user experience include automatic email or text messages reminding customers a bill is coming due, and including a link to immediately pay or set up a payment date. To receive such messages, customers would have to opt in to the service, Marraccini says.

The idea is that giving consumers an opportunity to pay a bill when a reminder is sent makes bill payment more convenient by offering the opportunity to handle the transaction in one click, versus logging into the bank's, or biller's, bill-pay application to make a payment. The convenience of one-click, real-time bill pay can also reduce the risk of late payments, payments experts say.

"We can also pull in data based on a consumer's past payment behavior with the biller to determine when best to send a reminder," Marraccini says. "The aim is to create features that make it easier and faster for consumers to pay their bills without having to stop and think where is the fastest, most convenient place to go to pay their bill every time a bill is due."

'A BIG POINT'

Yet another way to spruce up the user experience, and one likely to appeal to Millennials with their preference for mobile wallets, is to download bills to a digital wallet along with an option to pay using the wallet. ACI has paved the way for this capability through its acquisition of Walletron Inc., a mobile bill-presentment provider, from The Western Union Co.

Walletron works on Apple Inc.'s Apple Wallet and Alphabet Inc.'s Google Pay wallet. Walletron has a network of billing and payment partners managing more than 12 billion bills, according to ACI.

Last October, ACI and Walletron, which is used by more than 6 million consumers in more than 100 countries, agreed to a deal allowing customers of ACI's bill-pay clients to view bills from smart-phone

6 million
Walletron users worldwide, in more than 100 countries

‘The more options that can smooth the customer experience, the better. The key is that consumers feel in charge of how they manage their bill payment.’

—SANJAY GUPTA,
EXECUTIVE VICE PRESIDENT,
ACI WORLDWIDE

wallets and make payments using ACI’s UP Bill Payment service. Concurrent with the Walletron acquisition, ACI acquired Western Union’s Speedpay bill-pay business.

“For many consumers, bill payment is a mobile-centric experience,” says Sanjay Gupta, executive vice president for ACI Worldwide.

For consumers not comfortable with managing bill payment through mobile wallets, ACI offers text reminders with a link to pay the bill.

“The more options that can smooth the customer experience, the better,” says Gupta. “The key is that consumers feel in charge of how they manage their bill payment.”

An obvious, but overlooked, aspect of improving the bank bill-pay experience is removing the friction for consumers to add new billers to their bill-pay account. Typically, bank bill-pay customers must enter all the details about the biller into their account before the bank can route payment to the biller.

The process can be so time-consuming many consumers limit the number of billers entered, such as including only those they pay monthly. As a result, billers that consumers pay irregularly, such as on a seasonal, quarterly or annual basis, tend to be omitted.

One way to improve the onboarding process, says Tim Ruhe, vice president for electronic payments at Fiserv, is to leverage the customer information in banks’ and billers’ customer databases to cross-match a bank’s bill-pay customers to payees.

Armed with that information, a bank can recommend to its bill-pay customers which billers to onboard and automatically download the biller’s information for the customer. With connections to both billers and banks, Fiserv is in a position to facilitate such a service, provided consumers opt-in.

“This can address a big pain point for bank bill pay,” says Ruhe. “It also makes the bank’s bill-pay apps more user-friendly than having to go to individual biller sites to pay.”

‘LARGE OPPORTUNITY’

Despite all the technological advances available to banks to enhance the bill-payment experience, payment experts question whether consumers that have embraced biller-direct models will shift their bill-payment preference to banks that offer real-time payments. Banks must decide whether they will be better off rolling out real-time bill pay to commercial customers first.

“There is a large opportunity for banks to offer real-time bill pay to small and medium businesses with tight cash flow that would welcome paying electronically closer to the due date,” says consultant Hewitt. “Banks took a similar path with remote deposit capture before opening it up to consumers.”

Another question facing banks is whether to charge for real-time bill payment. Predicting which way banks will lean on that question is tricky. Even though consumers have shown a willingness to pay for speedier services like overnight delivery, they know they can pay a bill last minute on a biller’s Web site, at no charge, and receive immediate confirmation of receipt of payment.

Should banks opt to charge for real-time bill pay, they must be careful to avoid overpricing the service, Hewitt says. That's because direct billers can benefit from real-time payment too by using it to lower their payment-acceptance costs.

To enable speedier payment, many direct billers accept credit or debit cards, in addition to payments processed through the automated clearing house. Since card issuers guarantee the biller payment, minus a transaction fee, the biller can issue a same-day receipt of payment confirmation.

Payment experts say it would not be that big a leap for direct billers to move away from card acceptance to real-time payment to reduce or eliminate card-acceptance fees as long as they continue to provide consumers same-day confirmation of receipt of payment.

Accepting real-time payments would further benefit direct billers by allowing them to receive actual funds faster, says David Albertazzi, research director for Aite Group's retail banking and payments practice. ACH transactions, for which direct billers issue same-day payment confirmation, typically clear within 48 hours.

'THE LONG-TAIL PLAY'

For banks to successfully forge ahead with real-time bill pay, they must be prepared to present a clear and persistent marketing message to consumers that highlights its benefits, including how it enhances the user experience, says BillGO's Holt.

Payment experts figure it will take at least 12 to 18 months for consumers to start wrapping their arms around the advantages of real-time bill payment.

In the meantime, payments experts warn of false starts.

"Consumers are not ready for real-time bill payment because of the perception they have of what real-time bill pay is, which is why meaningful consumer adoption will be slow in coming," says Marraccini. "The long-tail play for banks is going to be improving the user experience, making sure consumers can easily download billers into the bill-pay account, and providing same-day confirmation the bill has been paid."

Banks that put those elements together will likely win faster rewards in the race to deploy faster bill payment. DT

2020 VISION

Will the U.S. payments industry reach its goal of ubiquitous real-time payment capability by 2020? In part, the answer may depend on how "ubiquitous" is defined.

BY JOHN STEWART

WHEN THE FEDERAL RESERVE'S Faster Payments Task Force wrapped up its work in July 2017, it set what seemed to be a challenging but perhaps ultimately achievable goal: ubiquitous real-time payment capability in the United States by 2020.

Little did anyone then understand just how ambitious that goal would turn out to be—mainly because a major complication in reaching it would come from the Fed itself.

When it comes to payment systems, the Fed typically casts itself in the role of referee and organizer. With real-time payments, indeed, it filled that role by organizing task forces on faster payments and on security, and shepherded through the work of those groups to what appeared to be a satisfactory conclusion, including that 2020 goal.

Then, last fall, the Fed announced it would investigate the idea of taking a more active role by providing a gross settlement (RTGS) service for real-time transactions. Such a role is far from unheard-of for the Fed. After all, it operates one of the two switches for the nationwide automated clearing house network. And by late spring, the RTGS idea remained that—an idea, with the Fed continuing to mull over formal comments it received from the industry.

But critics say just the notion itself has been enough to freeze banks in place that would possibly have jumped on a real-time platform by now.

"No two ways about it, a lot of folks are taking their time to see what the Fed ends up doing," says Steve Ledford, senior vice president of product and strategy at The Clearing House Payments Co. LLC, which began offering real-time processing to financial institutions late in 2017 and has 15 on the service so far. "We're hoping the Fed will make its intentions known so we can all get moving forward."

A PRAGMATIC APPROACH

Industry observers see the Fed service, should it materialize, as a potentially attractive option for smaller institutions, since it could exert competitive pressure on pricing. TCH is owned by 24 large banks. But that makes the Fed's long silence on the subject frustrating for operators besides TCH.

"I do think it's causing smaller financial institutions to wait and see if they want to participate in the Fed service. That could take years," says Lou Anne Alexander, group president for payments at Early Warning Services LLC, the Scottsdale, Ariz.-based company that runs the Zelle person-to-person payments service. Early Warning is owned by seven major banks, including several that also have stakes in TCH.

The Fed took comments from the industry after its proposal appeared last October in the Federal Register. For the time being, it's officially staying mum, though Fed vice chairman Randal Quarles in May answered Congressmen's questions about the possible real-time facility during a hearing of the House Financial Services Committee.

While he was at pains to stress that the contemplated Fed operation would not exercise any unfair advantage over private-sector players, Quarles cast no further light on the regulator's ultimate direction.

"If the Federal Reserve were … to have an offering in the faster-payments area there are statutory standards that we have to meet to ensure that it would be on a level playing surface with the private sector," Quarles told the panel, according to a transcript. "But no decision has been made."

Now, some players are sticking to the idea of "ubiquity" for faster payments but aren't necessarily eyeing 2020 as the deadline for achieving it. The U.S. Faster Payments Council, for example, is focused on helping to achieve ubiquity, but Kevin Christensen, who took over the cross-industry group in January as acting executive director, says he can't say when that is likely to happen.

The FPC emerged in November as an outgrowth of the Governance Framework Formation Team, which was created to help implement the conclusions of task forces the Fed had set up to introduce real-time payments. TCH, JPMorgan Chase & Co., and Walmart Inc. are among the FPC's 19 founding members. Christensen is a senior vice president at the Johnston, Iowa-based Shazam debit network, an FPC sponsor.

For now, the group is taking a pragmatic approach to the question of the Fed's possible involvement. "The Fed is one key stakeholder," Christensen says. "We're going to bring together organizations that want to achieve the goal of faster payments. Whether [it's] an operator or not, we'll work with the Fed."

'THE LAST MILE'

Still, not all banks are frozen in place waiting for a decision from the Fed. TCH in June announced it had signed FirstBank, a $19-billion asset bank based in Lakewood, Colo., for the RTP platform. And in May, it proved it could attract small banks by recruiting Hudson, Mass.-based Avidia Bank, which at $1.6 billion in assets ranks around number 400 among the nation's financial institutions.

How many more will go with TCH remains to be seen, though Ledford promises that "others are in the pipeline." Critics say one reason the Fed decision will be important is that small and mid-size banks are hoping the regulator will offer a competitive offset to TCH, particularly on pricing. But TCH makes no bones about its stance, promising in its FirstBank announcement "flat" pricing to all comers "regardless of size," and no "volume discounts" or "minimum volume" requirements.

'I still have that aspirational goal to get there by 2020.'

—**LOU ANNE ALEXANDER**, GROUP PRESIDENT FOR PAYMENTS, EARLY WARNING SERVICES LLC

"Whether [it's] an operator or not, we'll work with the Fed."

—**KEVIN CHRISTENSEN**, ACTING EXECUTIVE DIRECTOR, U.S. FASTER PAYMENTS COUNCIL

"Our comment [to the Fed] is that its RTGS is not needed, we're actually serving the market," says Ledford.

But if the question of when ubiquity will arrive is uncertain, so is the very definition of the term. "Ubiquity is one of those easy-to-say words, but certainly not all agree on what it means," notes George Warfel, a payments consultant who served on the Faster Payments Task Force, and a former columnist for *Digital Transactions.* "If ubiquity means any place anybody can buy a hamburger anywhere in the world, you've got a huge problem."

Some in the industry measure the approach to ubiquity by the number of all bank accounts that can handle real-time transfers. Early Warning, for example, looks at the fraction of U.S. demand-deposit accounts capable of sending funds instantly. Right now, that's about 68%, Alexander says.

"I still have that aspirational goal to get there by 2020," she says. By "there," she means 80% of DDAs. "I'm optimistic," she adds. "It's not real easy. It's the last mile."

'A VARIEGATED DEFINITION'

One factor that could make recruitment for real-time payments "not real easy" is the fear that faster processing also could bring faster fraud. The window for authenticating receiving accounts, experts say, is fleeting. "It's all about verifying and authenticating in real time before you hit the send button," says David Barnhardt, executive vice president of product at Giact Systems LLC, an Allen, Texas-based vendor of fraud-prevention technology.

Systems like the one TCH has built rely on a credit-push model, which can contain risk because it's not possible for malefactors to use debits to suck funds out of victims' accounts. "A credit-transfer system has fewer ways you can be defrauded than a debit-transfer system," says Ledford. "And we've learned a lot about how to authenticate online and mobile accounts."

The FPC's Christensen sees this as the model for the real-time industry. "Most payments are going to be credit push," he says. "Not to say down the road there can't be debits, but this is a first step."

That may help reassure some FIs sitting on the fence. But among some observers concern remains that the much-vaunted 2020 goal is steadily slipping into the realm of impracticality. Observers like Warfel, though, counsel a more detached approach. "Ubiquity gets defined by the market," he says. "We're much closer to a variegated definition, an option of instant payment when you need it."

For others, such pragmatism may be fine, but for now a dose of urgency would be appreciated. "The time for waiting is over," says TCH's Ledford. "We need to have every FI in the country on a faster-payments system." DT

SPONSORED CONTENT

A TALK WITH PAYSAFE

The following is an interview conducted by Bob Jenisch Publisher of Digital Transactions with Denise Tahali of Paysafe.

While Paysafe has roots dating over 20 years, particularly in Canada and Europe, can you describe Paysafe's strategy in the U.S.?

Over the past five years, we have significantly expanded our footprint in the U.S. market with several key acquisitions including Merchant's Choice Processing Solutions and iPayment. Now a top-5 non-bank processor in the U.S., we're focused on our partners; helping resellers and developers drive incremental value for their businesses by offering an unparalleled suite of payment solutions and value-added services designed specifically for SMBs. We also have a dedicated team focused on helping Financial Institutions attract and retain customers through our robust suite of value-added product solutions.

What do you consider to be Paysafe's most significant value proposition for Agents and ISO's?

We have a tagline, Plug into Paysafe, and I think that is speaks really well to the value that ISOs and Agents receive when they partner with us. We're a one-to-many relationship with a wide array of incremental specializations including petroleum, high-risk, and integrated payments. And that's in addition to the actual products and services we offer, which range from point-of-sale to cash advance and pretty much everything in between.

How can Paysafe support and facilitate all of these unique verticals and portfolios?

I mentioned our one-to-many philosophy, which is really about offering our partners flexibility and choice and building customized programs to meet their business needs. In order for us to provide the breadth of options we do; we have multiple processor and bank relationships; expanding the options for partners to ensure that they have the right structure to support their individual needs. We also have subject matter experts in each of our core verticals, complimented by a dedicated team of partner account and support managers.

Seems like Paysafe truly understands what Agents and ISO's are looking for—how popular are financial products and value-added services to your partners?

It's funny because sourcing and product commercialization weren't core to this space 10 years ago, but now it's our responsibility to sort through the chaos and partner with or build products that enable our partners to be hyper-competitive in the market and provide them with the opportunity to increase the value of their portfolio. Solutions like Paysafe Capital™ or Paysafe Pay Later™ do just that and they are hugely popular with not only our partners, but also with the merchant customers as well.

How much is Agent/ISO training, partner support and business enablement emphasized in Paysafe's U.S. operations?

I alluded to it earlier, but with vastly expanded products and services, we have also invested significantly in our partner support efforts. We now have regular live and on-demand product trainings, dedicated partner support teams, and a team of relationship managers. For growing agents, we also offer services like appointment setting; booking local appointments for agents to help them build their respective customer-base.

Anything specific you're hearing from your partners that they want to resell?

Many of our Agent and ISO partners are transforming into more VAR-like businesses and also actively pursuing ISV relationships. And for others, they're looking to monetize their portfolios with residual buyouts. In either case, we're here to help and have programs for both. In terms of new products, consumer lending at the point-of-sale, which we offer through Paysafe Pay Later, is becoming more and more popular as well as small business bundles and stickier solutions that truly help SMBs manage and grow their business. In today's space, we're all focused on a much more consultative sale than ever before and, for us, that's is what's most exciting about the future.

Paysafe:

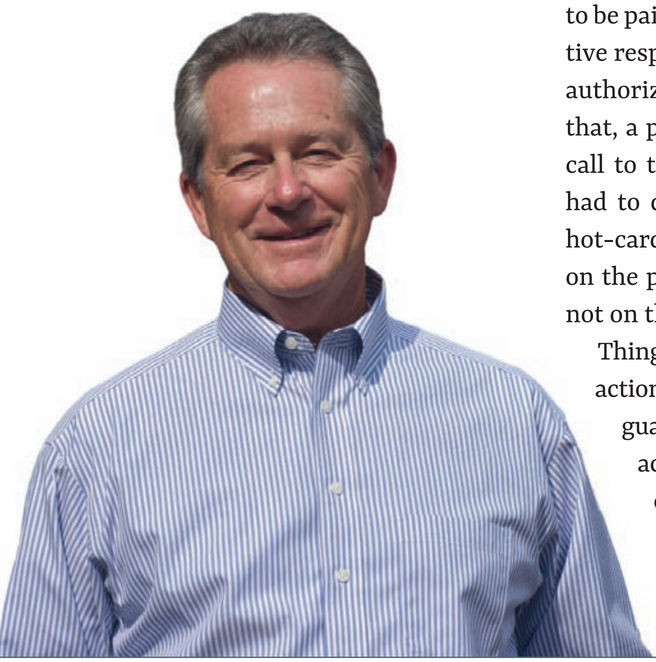
Merchants pay more, issuers pay less, and schemes benefit.

HOW MERCHANTS GOT STUCK WITH CARD FRAUD

The history of battling fraud within rules set by the card networks has been a somber one for merchants. And the picture isn't likely to brighten any time soon.

BY **MARK HORWEDEL**

Mark Horwedel is strategic consultant at CMSPI.



IT USED TO BE when a merchant got an authorization—an approval from a card-issuing bank resulting from a request by the merchant—the merchant got paid. Not any more!

After squeezing as much money as possible out of merchants by charging them excessive, supra-competitive interchange fees and shifting most of the burden of network overhead from issuers to merchants, it evidently occurred to the networks (some of which are issuers themselves) that helping issuers get rid of one of their biggest costs, fraud losses, was virgin territory.

Most of us recall the days when merchants could legitimately expect to be paid when they received a positive response to an online payment-authorization request—or, before that, a positive response to a phone call to the issuer. All the merchant had to do was to simply check the hot-card list to make sure the name on the prospective buyer's card was not on the list.

Things got better when all transactions were authorized online, guaranteeing that every transaction—big or small—got checked by the issuer prior to authorization or denial. The prevailing wisdom was that the issuer is in the best position to make an informed decision on whether or not to authorize the transaction. So, in the event of fraud, the issuer ate the loss.

PSEUDO-STANDARDS

One exception was mail-order/telephone-order purchases, in which the merchant actually sold goods by mail or by phone to its customers. For these so-called MOTO purchases, the merchant was required by the card schemes to pay higher interchange and accept the risk that the cardholder wouldn't pay.

While there may have been some logic to this, it's hard to see any justification for charging the merchant a higher rate when the merchant was taking the risk of not being paid!

Over time, MOTO transactions were replaced by Internet transactions. Unfortunately for Internet merchants, the old MOTO paradigm—higher interchange coupled with accepting the risk of not being paid—was transferred to Internet transactions. No doubt, issuers rejoice as more and more purchases occur on the Internet. They get paid more for doing less!


Innovation
PALM
SPRINGS
WSAA
16th Annual Conference
SEPTEMBER
18TH & 19TH, 2019
REGISTER NOW: WWW.WESTERNSTATESACQUIRERS.NET

Another development, PCI, came into play in the early 2000s. According to its Web site, "The PCI Security Standards Council is a global forum for the industry to come together to develop, enhance, disseminate, and assist with the understanding of, security standards for payment account security."

In reality, PCI does not function as a forum for the industry to come together. Instead, it is a closed body through which the global card schemes exercise complete dominion. The same is true of EMVCo, for that matter. Most of the "industry" is excluded from voting on the pseudo-standards published by EMVCo and PCI. Only the global schemes get to vote.

Merchants, consumer representatives, regulators and other "industry" stakeholders can pay handsomely to come and voice their grievances, but they can also be ignored or summarily dismissed. Blatantly, many of the networks are also issuers, which provides them with every motivation to shift fraud, and the costs of preventing fraud, from the issuers to the merchants.

A BUM'S RUSH

Contrary to conventional (though somewhat contrived) wisdom, the coming of EMV to the United States actually hurt rather than helped merchants with respect to fraud-related expenses. Although merchants were required to pay for most of the costs to move to EMV, issuers received almost all of the benefits.

EMV has undeniably reduced the losses associated with counterfeit fraud, but that cost was largely being borne by the issuers, not the merchants. The rushed EMV timelines in the United States (for example, four years compared to nine years in Canada) predictably—and likely intentionally—led to merchants getting stuck with fraud through an associated liability shift.

This shift occurred when issuers converted to EMV cards but merchants had not yet converted to EMV at the point of sale. While it sounded reasonable, it was not. The costs and complexities for U.S. issuers to move to EMV pale in comparison to the costs and complexities borne by merchants.

This bum's rush has been the bane of merchants, but it was exacerbated by a chargeback fest that created a huge windfall for both the issuers and the card schemes. The issuers were able to transfer to the merchants one of their biggest costs of operation, that is, fraud, while the schemes collected fees to process the deluge of chargebacks.

Overnight, a completely new industry was created to help merchants cope with the chargebacks, which the merchants again, of course, had to pay for.

NIT-PICKING ISSUERS

Finally, unsuspecting merchants were shocked to discover (even after they thought they were EMV-compatible) that the testing and certification process was faulty, leaving them liable to nit-picking issuers that could lean on liberal chargeback rules to dump even more chargebacks on merchants.

More recently, the two major global card schemes unveiled plans to overhaul their chargeback platforms. As usual, scheme spokespeople hail their plans as adding efficiency, customer service, and merchant economies to the payments ecosystem.

Frankly, we are suspicious that the final result of this latest move will be a continuation of the pattern of history in which merchants pay more, issuers pay less, and schemes benefit by having created another revenue stream. DT

ADVERTISER INDEX

NOW OFFERING

CRYPTOCURRENCY PROCESSING

DISTINGUISH YOURSELF FROM YOUR COMPETITION

Cryptocurrency processing, enabled by Electronic Merchant Systems (EMS), provides you with a unique opportunity to stand out.

- Merchants Funded in US Dollars
- Safe & Secure Payments
- Help Payments Move Faster
- Minimize the Likelihood of Chargeback Fraud

TARGET MARKETS

- High-End Retailers
- Car Dealerships
- Travel Business
- CBD
- Paraphernalia
- Insurance
- Nutraceuticals
- Real Estate
- Bail Bonds
- Gold, Silver, Precious Metal
- Contractors
- Time Share

glassdoor OpenCompany

Google 800+ Reviews ★★★★★

BBB ACCREDITED BUSINESS

866.887.8907 | emsagent.com

electronic merchant systems® | AGENT