DIGITAL TRANSACTIONS

Trends in the Electronic Exchange of Value

MANY UNHAPPY RETURNS

E-commerce is booming, but chargebacks are boomeranging.

ALSO IN THIS ISSUE:

ID Theft's Somber Toll

All Eyes on the CFPB

A Skeptical Look at Crypto

Time to Dump Interchange

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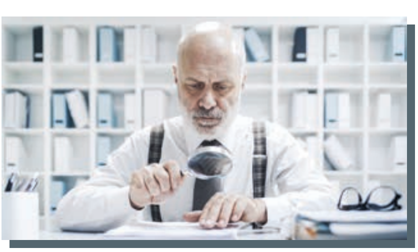

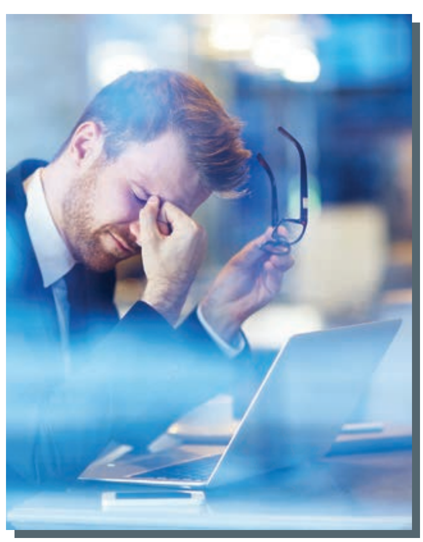

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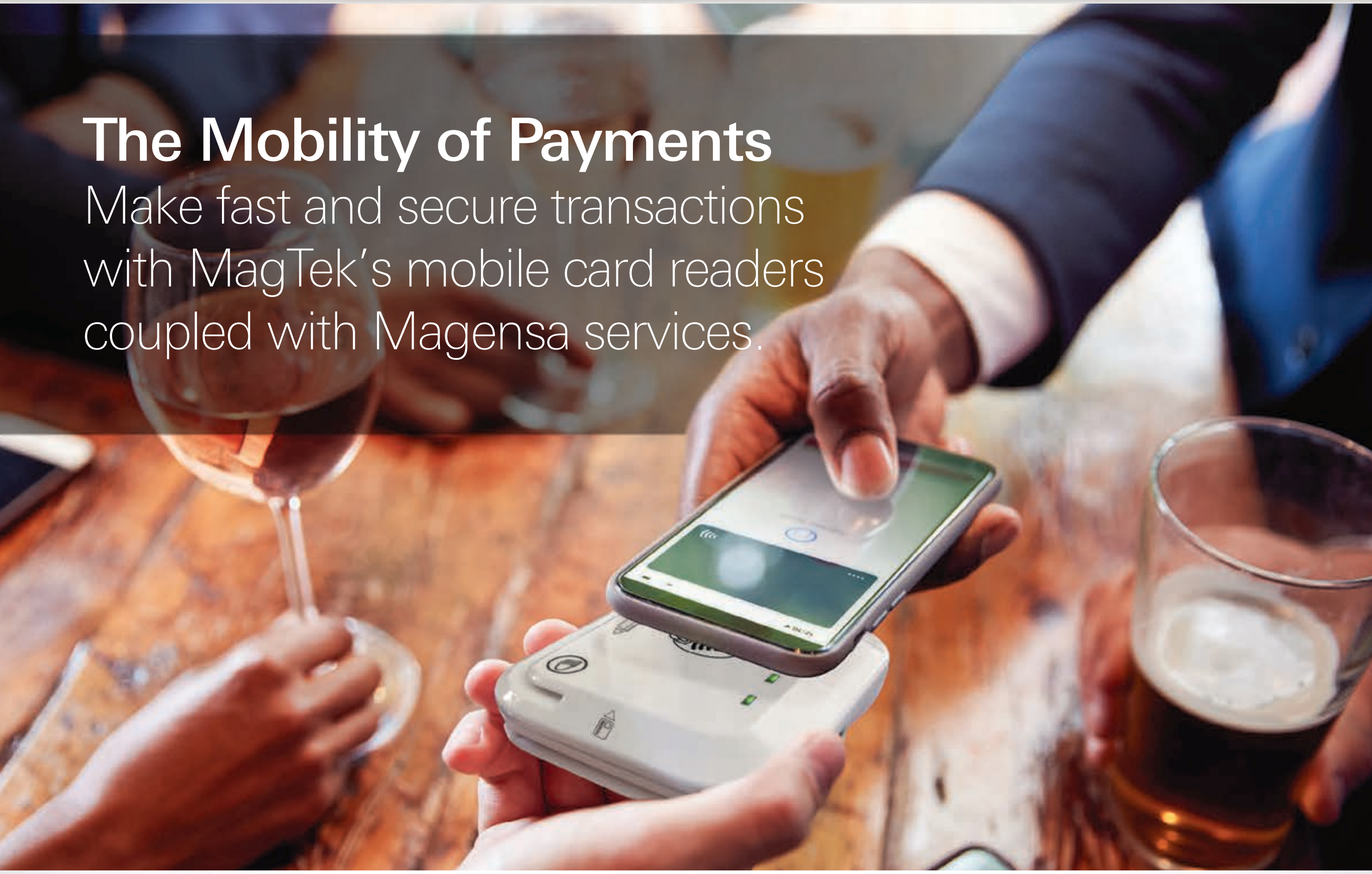

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the gimlet eye

THE AGE OF MIRACLES

SOMETIMES YOU GET WHAT YOU WANT if you just ask—and if you have the right people asking for you.

Just before we went to press with this issue, Visa and Mastercard released the news that they were holding off on planned interchange-rate adjustments for another year, until April 2022. Their rationale for the delay was the ongoing business pressure many merchants, particularly small sellers, were facing because of Covid-related restrictions and infection fears.

Sellers pay interchange fees—plus a markup—to their processors on each card transaction, with the fees ultimately flowing to the issuing banks. The levies have been a keen point of contention for decades, inspiring heated debate and unending litigation. (For a trenchant look at an alternative to interchange, see page 30.)

But a couple of points are easy to lose sight of. First, although the two network giants were preparing to adjust their rate schedules this month, the changes included some reductions as well as increases. Generally speaking, e-commerce transactions were scheduled for higher rates, but some other categories, including T&E and quick-service merchants, would have seen some reductions. And the networks had already postponed adjustments once before, last year, in recognition of the Covid crisis.

The fact remains, however, that the net result would have been a hefty increase, with issuers collecting some $889 million in additional interchange annually, according to estimates from CMSPi, a payments research and consulting firm.

The other consideration is that the networks' decision to hold off came about, not because they were sued or defeated in court or attacked by powerful regulators, but because they were asked to hold off. Granted, it was a couple of powerful politicians who did the asking. The primary player was Sen. Richard Durbin, D-Ill. Yes, that's the Durbin of the Durbin Amendment to the Dodd-Frank Act, the amendment that puts caps on debit card interchange.

Durbin called out the networks for planning increases at a time when many businesses were still feeling the squeeze of Covid restrictions. He also asked for a postponement. In between, he inserted a bizarre contention that the networks were somehow trying to exact revenge on merchants for his success 10 years ago in shepherding his amendment into law.

Granted, this wasn't any ordinary Joe asking for a favor. But the fact remains that the networks backed off, and it didn't require a court verdict or settlement or executive order. That alone, in an industry that has proven all too prone to litigation, was remarkable.

So merchants have another year to recover, and we needn't shed tears for the issuers. Perhaps, after all, the age of miracles hasn't passed.

John Stewart, Editor | john@digitaltransactions.net

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Trends in the Electronic Exchange of Value

PUBLISHER Robert A. Jenisch

EDITOR-IN-CHIEF John Stewart

SENIOR EDITOR, DIGITAL
Kevin Woodward

CORRESPONDENTS
Jim Daly, 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

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

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trends & tactics

BEHIND ID THEFT'S SOMBER TOLL

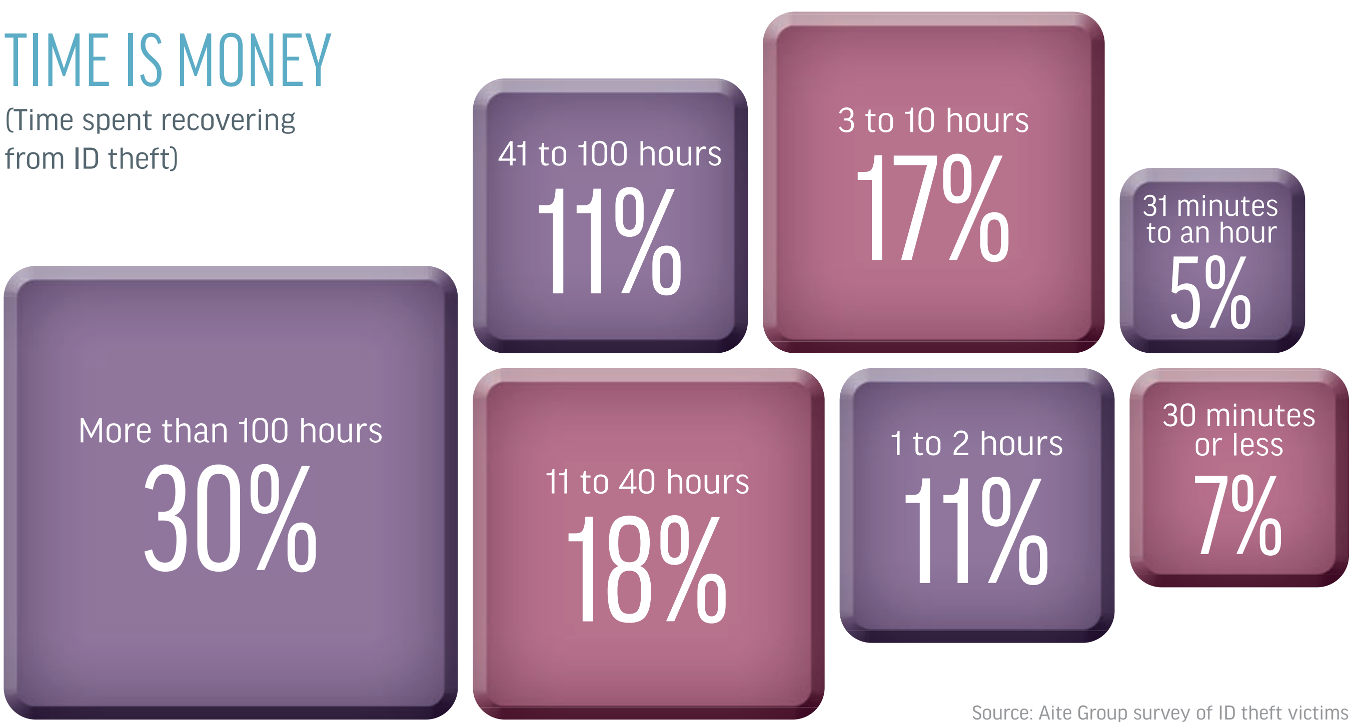
Some 47% of U.S. adults have reported identity theft over the past two years, while the fraud's toll ballooned to $712.4 billion in 2020, up 42% from 2019, according to a report released in March by Aite Group, a Boston-based research and consulting firm, and sponsored by Giact, an Allen, Texas-based financial-services security firm.

The startling rise in this fraud stems at least in part from the onrush of e-commerce transactions and other card-not-present activity following the arrival of the coronavirus pandemic in March last year, earlier reports have said. A study released in January by TransUnion LLC, for example, found 100 million suspected fraudulent transactions in the six weeks following March 11 last year, up 5% from the weeks ranging from Jan. 1 to March 11.

Still, as Aite's latest study points out, identity theft goes well beyond the one-off fraudulent credit card transaction and involves methods such as application fraud and account takeovers that can be devilishly hard for victims to untangle. ID theft losses overall increased 42% in 2020 from 2019, driven by such factors as phony unemployment claims, according to Shirley Inscoe, author

TIME IS MONEY

(Time spent recovering from ID theft)



Source: Aite Group survey of ID theft victims of Aite's report, "U.S. Identity Theft: The Stark Reality."

Aite's study, which canvassed more than 8,600 consumers, found 37% had been a victim of at least some sort of application fraud. These applications can range from tax filings to snatch refunds to consumer loans and even to mortgages, according to the report. "Fraudsters have no shame and will go to any length to benefit from the sound financial reputations others have established over the years," the report notes.

Fraudulent applications for credit cards, though, have affected 25% of consumers surveyed for the report, second only to checking-account applications (27%). In all cases, at least half the victims knew the person who misused their identity. And the impact of the fraud can fall on financial institutions as much as on affected consumers.

In the case of fraudulent credit card applications, 12% of those who reported being satisfied with the way the issuer resolved the matter still said they were unlikely or extremely unlikely to do business with the institution again. Among those who were dissatisfied, that number shoots up to 42%.

Aside from fraudulent applications, some 38% of consumers reported having been victimized by criminals who gained access to credentials that allowed them to hijack an existing account. By contrast with activity in 2019, account takeovers involving peer-to-peer payments occurred "far more often" in 2020, the report says. Consumers in general during the pandemic relied more heavily on services like Venmo and Zelle to transfer funds and make payments.

Indeed, the report surfaces stark differences in behavior throughout the pandemic between consumers who suffered ID theft attacks and those who didn't. Overall, only 37% of consumers who experienced ID theft did not make any change in their banking activity. Some 74% of those who did not sustain ID theft said the same thing. Fifty-six percent of those who experienced ID theft used a new credit card, for example, while the same was true for only 15% who did not suffer an attack.

—John Stewart

HOW AN INTEGRATION LINKS ZELLE AND TCH

Peer-to-peer transactions have taken off as a way to pay digitally during the pandemic, and now the biggest bank-owned P2P network is getting a big lift through its integration with the country's most extensive real-time payments network.

Early Warning Services LLC announced in February payments on its fast-growing Zelle P2P payments system can now be cleared and settled on the Real Time Payments network, owned by The Clearing House Payments Co. LLC.

The first two institutions to leverage the new capability are Bank of America and PNC Bank, both of which are among the owners of Early Warning and of TCH.

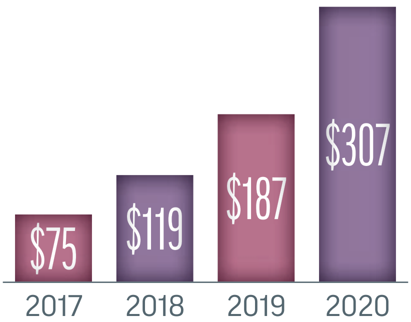
With the integration, senders' financial institutions will see faster availability of funds on Zelle transactions and Early Warning will be able to access features of RTP such as request for payment and bill pay. For its part, TCH will benefit from Zelle's ability to route transactions via simple yet secure tokens like a phone number or email address.

The latest agreement follows small-scale tests between the two organizations that began last fall and represents yet another pathway to real-time payments for many of the nation's biggest banks. Early Warning's seven owners—Bank of America, BB&T, Capital One, JPMorgan Chase, PNC Bank, US Bank, and Wells Fargo—are among the 24 major institutions that own New York City-based TCH.

Executives in charge of the integration with both firms see it as simplifying operations and smoothing the way for banks to launch new faster-payment services that are more likely to succeed in the open market.

ZELLE'S UPWARD MOMENTUM

(Dollar volume in billions)



Source: Early Warning Services

"What this agreement does is it comes up with a common process, so if an institution on Zelle wants to expand [services], this provides a way to do it through a common experience. It's easy to understand, and you don't want everybody doing it as a series of one-offs," says Steve Ledford, TCH's senior vice president for product strategy and development.

The most immediate result of the integration will be a simplified process for Zelle institutions when customers use the service to send money. As things stand, those funds are fronted to the recipient immediately but the recipient's bank must wait for reimbursement through the automated clearing house from the sender's bank. Through RTP, that lag will largely dissolve.

"A financial institution may need to make funds available to a customer on a Friday, but have to wait until the next week to have the funds available to them. The integration with RTP closes that settlement risk," notes Sarah Grotta, director of the debit and alternative products advisory service at Mercator Advisory Group, a Marlborough, Mass.-based research firm.

Even more problematic than the time lag is the back-office bookkeeping the delay requires, according to Lou Anne Alexander, chief product officer at Scottsdale, Ariz.-based Early Warning. "The problems are in reconciliation—what did I get paid for, what not paid for, out-of-balance situations," she says. These issues, she adds, "are what RTP solves for us."

Other features are also involved that could prove useful for both companies. The RTP network's request-for-payment capability, for example, could clear the way for Zelle to move more rapidly into bill pay. And what Ledford refers to as Zelle's social tokens—the recipient phone number or email address—can benefit RTP as the service adds more and more users who may not care to be bothered with more complicated identifiers. "Social tokens is where the Zelle network excels," says Ledford.

Meanwhile, Zelle will benefit through shorter development time for features like bill pay. "Request for payment is the big one, the ability to send an invoice to a phone number or email." says Alexander, referring to the RTP feature. "That's definitely the synergy that comes together here."

The Zelle service, which competes with PayPal's Venmo app, Square's Cash App, and other rivals, launched in June 2017. The RTP network followed five months later.

—John Stewart

AND NOW THERE ARE ONLY THREE

CardX LLC, a surcharging-services provider, can now add another state to the list of places where it can do business. A federal judge ruled in February surcharging cannot be prohibited in Kansas. The decision leaves just Colorado, Massachusetts, and Connecticut with outright no-surcharge rules on the books.

Filed May 29, 2020, the CardX suit alleged the Kansas prohibition violated the commercial free speech of merchants. Kansas's law, according to the complaint, had been in place since 1986.

With surcharges, merchants typically tack on at the point of sale interchange and other fees associated with credit card transactions.

"If allowed to pass on the cost of credit card acceptance, such businesses are able to offer their goods and services to the significant portion of the consumer base that prefers or needs to pay with credit. In these industries and across the economy, credit card surcharges expand consumer choice," Judge John W. Broomes, wrote in the order filed in the U.S. District Court for the District of Kansas.

The order brings good news for Chicago-based CardX. "This result has been over a year in the making. We prevailed in our constitutional challenge, which means that we're able to serve merchants in Kansas today," Jonathan Razi, founder and chief executive, tells *Digital Transactions News* in an email.

"We have a number of merchants based in Kansas who have previously inquired about our services, and they're being set up with our surcharging solution now," Razi says. "Similarly, we're launching ISO partnerships in Kansas and notifying current CardX partners that they can begin offering our solution in Kansas effective immediately."

Razi says CardX is evaluating its options to enter the three states that still ban credit card surcharges, though he adds, "We intend to be a 50-state provider." Network rules prohibit surcharging on debit card transactions.

But surcharging complexities remain in other states, with the Tennessee attorney general, for example, warning consumers about additional charges on their credit card statements and cautioning merchants to be alert for how surcharges are communicated to consumers.

"Our core value proposition as a [regulatory technology] company in the payments space is solving for this regulatory overhead and making surcharging just as easy from the ISOs or merchant's perspective as traditional processing is," Razi says.

The ruling, Razi adds, comes at an important time for the payments industry. "Not only is surcharging becoming even more prominent as payments continue to move online—where surcharging is popular since card-not-present payments are more expensive to process—but in April, the card brands are raising their interchange rates for a number of merchant categories," he says. (In mid-March, Visa and Mastercard said they are postponing planned interchange adjustments until April next year. See page 4 for more detail about the decision.)

"Surcharging provides timely relief for the many companies that will be looking to reduce their costs of payment acceptance, and we're pleased to add Kansas as the 47th state where our solution is available," he adds.

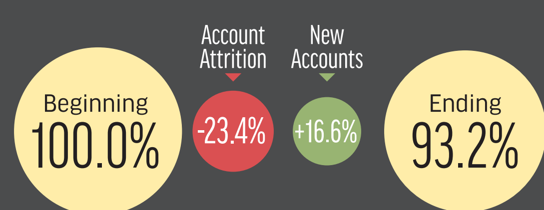
—Kevin Woodward

MONTHLY MERCHANT METRIC

Q4 2020 Account Attrition And Growth

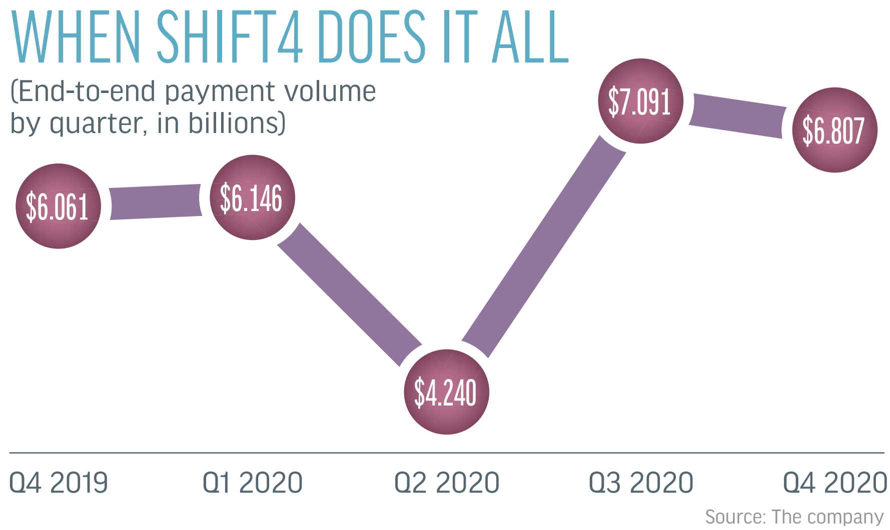
Account Attrition:
Total attrited accounts in given period divided by total portfolio active accounts from same period of the prior year.

New Accounts Added:
Total new accounts in given period divided by total portfolio accounts from same period of the prior year.



Note: This is sourced from The Strawhecker Group's merchant data warehouse of over 3 million merchants in the U.S. market. The ability to understand this data is important as small and medium-size businesses (SMBs) and the payments providers that serve them are key drivers of the economy. All data are for SMB merchants defined as merchants with less than $5 million in annual card volume.

SHIFT4 MAKES A $72-MILLION MOVE INTO STADIUMS



Shift4 Payments Inc. refers to the volume potential it's trying to tap as a "coiled spring" waiting to be released as Covid restrictions ease. In March, the big payments processor tapped into that potential with its $72-million acquisition of VenueNext Inc., a Palo Alto, Calif.-based provider of mobile payments, point-of-sale services, and loyalty programs for sports leagues, business campuses, and similar markets.

The deal expands Shift4's market in arenas and other venues whose business is expected to rebound as the nation moves away from rules imposed to limit the spread of the coronavirus. "We don't sit still," said Jared Isaacman, Shift4's chief executive, during a call with equity analysts to review the Allentown, Pa.-based company's fourth-quarter performance.

Shift4 had already sampled the market through its deal to handle payments at the Staples Center, a stadium also served by VenueNext and home to the basketball's Los Angeles Lakers and hockey's Los Angeles Kings. With the acquisition, VenueNext will funnel all transactions to Shift4's payment platform from the range of venues it serves.

The move simplifies payments handling for VenueNext but also enhances business for Shift4's more profitable end-to-end engine, where Shift4 processes transactions rather than handing them off through its gateway to other providers.

"The sales model was fairly disjointed" for VenueNext, Taylor Lauber, chief strategy officer at Shift4, said during the earnings call. "You had to bring in a gateway, you had to bring in a payments partner." The deal for VenueNext, he said, "is a phenomenal transaction."

The VenueNext deal follows by a few months the acquisition of 3dcart, a deal that catapulted Shift4 full force into the e-commerce market. That transaction, which also moved more volume onto Shift4's end-to-end processing platform, brought 14,000 online merchants into the company's fold. But Shift4 Shop, as 3dcart is now known, has already added about 8,000 since the deal closed. "We believe we can double the pre-acquisition site count by the end of the year," Lauber said.

End-to-end volume is important to Shift4 because it generates greater profitability than the gateway business. In the fourth quarter, end-to-end volume totaled $6.8 billion, up 12% year-over-year. But the company's projection indicates a major expansion this year, partly fueled by the deals for VenueNext and 3dcart. For all of 2021, it projects end-to-end volume between $36 billion and $38 billion, up from $24.3 billion in 2020.

More deals could well develop soon. "We're constantly looking for new opportunities," Isaacman said. "I can't recall a time when I was more optimistic about the road ahead" despite "a very challenging year."

Part of that optimism could be based on a "full pipeline" of potential targets he said Lauber has developed. But he cautioned Shift4 will not succumb to the allure "of the next shiny object." He added, "We've been fairly disciplined allocators of capital."

Still, Isaacman said Shift4 can benefit from the combinations its competitors have made over the past two years. "As a lot of our big competitors go through their mergers, a lot of talent is going to become available, and we're going to get it," he told analysts on the call.

For the quarter, Shift4 reported gross revenue of $210.9 million, up 4.4% year-over-year. Revenue for all of 2020 came to $766.9 million, a nearly 5% increase. DT

—John Stewart

RED ALERT: FALSE CYBER IDENTITIES ARE BEATING OUR DEFENSES

BY GIDEON SAMID
gideon@bitmint.com

INDIVIDUAL HACKERS, organized cyber criminals, and spying nations are all part of a colossal drive to exploit recent developments in artificial intelligence. Why? To create an alternative universe populated by fake characters that are indistinguishable from real human beings with a real name, a real face, and a real bank account.

It's cyber gone amok, yet no one stands up to say, "We are losing this war. We lack the capacity to winnow the real people from their cyber look alikes." We are way beyond criminals stealing identities. We are into the realm of making up identities. Artificial intelligence can draw a decent-looking man or woman, animate them, let them speak, and Zoom-converse with them, giving no clues to the other party to discern reality versus fake.

Cyber essentially is a stream of bits that can be copied and manipulated so that observers get the intended impression regardless of reality. This is so scary that we tend to dismiss it as hype or science fiction. It is neither. It is real and it is here.

And the payment industry is a prime target. Legacy payments are based on the network's ability to ascertain who the payer and the payee are. But the technology of fake-ID is piercing this modality.

Cryptocurrencies are based on a count of participants. Alas, a single person building myriad network nodes can count as many and manipulate prices and confuse transactional dynamics. This used to be limited to a few swindlers who kept selling to fake buyers things like exotic artwork, and then kept fake-selling it back and forth to bump up the price to ridiculous heights.

Today, new fake-identity swindling routes pop up with great creative force. We at BitMint are at a loss even to enumerate them. The combination of made-up identities and false identifies, manipulated with a big dose of unethical imagination, is a threat that does not even have a name yet.

Cyber-anchored countermeasures have been outmanuevered. I don't see leaders who admit we need to anchor cyberspace in material space. We need to develop "cyber chemistry" and put up central identifiers (CI). These are agents who will use physical proximity, and biometrics, to record and establish identities. We need to use such anchors to write core identity information off the digital grid.

Bits are hackable. Chemistry is not. We advocate for material-cyber tie-in solutions to decontaminate cyberspace of human lookalikes. This is a mindset that leads to simple actions such as insisting on mailed monthly reports from your bank. You may need these hard copies if you are a victim of fraud. A client thanked me for this advice, because when the reports did not arrive, though the bank said they were sent, it turned out that a hacker had changed the mailing address so the account owner would not see how his account was drained.

So many of us look infrequently into our accounts online. Indeed, if you leave an account unchecked and without movement, you invite a thief who will then prove his false identity by knowing the account's recent history—which you don't. Recovery might be tricky.

Convenience looms as a blinding force. Cyber is so much easier than physical that we suppress security alerts, ignore doomsday warnings, and inch toward an ever-increasing vulnerability to cyber-fake technology—a vulnerability that is tantalizing in its creative power.

Its fascination overwhelms us. My late mother once moved, and winked at me, from the screen, as if we were Zoom-conversing for real. This is a threat that requires fundamental evaluation, and not a moment too soon. DT

WHAT HAPPENED TO THE UNDERBANKED?

BY BEN JACKSON
bjackson@ipa.org

ABOUT 24 MILLION AMERICAN HOUSEHOLDS have dropped out of the payments scene since 2017. The group once known as "underbanked" Americans has disappeared.

To understand where they went, a bit of history is in order. In 2009, the Federal Deposit Insurance Corp. began doing surveys of American households every two years to find out how many people were in the banking system. The researchers classified people without accounts at depository institutions as "unbanked." It classified people as "underbanked" if they used a non-bank financial service—money orders, check cashing, international remittances, payday loans, refund-anticipation loans, rent-to-own services, pawn-shop loans, or auto-title loans— in the last 12 months.

In its 2019 survey, which was published in October of 2020, the FDIC eliminated the underbanked as a category. As noted above, in 2017, this segment had 24 million households or about 49 million adults, in it. So where did they go?

Nowhere, as it turns out. The change is one of definitions, not data collected. Since all of those products did not disappear, the FDIC is still tracking the use of things like money orders and title loans, but it is not putting all the people who use those products into one big category. The recategorization of people into two groups—banked and unbanked—is due in part to the explosive growth of fintech products in recent years.

Leonard Chanin, deputy to the chairman at the FDIC, said the underbanked term originally carried a sense of people whose needs were not being met by the traditional banking system. But now, with so many fintechs and other financial companies offering products, using a nonbank financial service in many cases represents an active choice by someone with a lot of options as opposed to someone seeking out an option because of being on the edge financially.

The FDIC's data has been an important benchmark because it has helped the financial-services industry understand how many people are outside of the financial mainstream. The underbanked category gave the industry a sense whether they might need to examine their own suite of products. It also helped regulators and legislators understand the shape of the market and the need filled by financial-services companies that are not banks.

I discussed the change with my friends over at the Financial Health Network. Rob Levy, vice president, research and measurement, said that the underbanked category had value as a broad outline, but it comes with the danger of getting the analysis too hung up on products rather than outcomes. The ideal outcome should be financial health. According to the group's research, financial health entails the ability to spend, borrow, save, and plan in ways that enable people to be resilient and pursue opportunities—something far too many Americans are unable to achieve.

It is good analysis to keep product use in perspective. For example, even though I had multiple bank accounts, at one point I needed a money order to put a deposit down on an apartment when I had forgotten my checkbook. I bought one through the post office, and just like that I could be called underbanked. But it would not have been meaningful to count me as underbanked because it was a momentary need, not a reflection of my financial situation.

The disappearance of the underbanked category will make telling the story of the financially vulnerable more complicated. But by getting the industry to dig into the data, we are likely to uncover insights that were glossed over in the past. It may allow for the discovery of new stories and new opportunities. DT

WHAT TO EXPECT FROM THE CFPB

How much attention will the payments industry draw from the regulator and its new director? History would indicate the industry won't be ignored.

BY **KEVIN WOODWARD**

PAYPAL HOLDINGS INC.'S WIN earlier this year in its lawsuit against the Consumer Financial Protection Bureau and its prepaid rule may have appeared to push back on some of the agency's authority. But, as a primary regulator of the payments industry, now under a new presidential administration, the CFPB is likely to be a bit more active than it has recently been.

In the payments industry, those abiding by the regulations or seeking to make changes in generally accepted ways may find little is changing—unless they end up in the CFPB's crosshairs.

The almost 10-year-old agency is charged with monitoring consumer financial markets and enforcing the rules in its domain. Perhaps its most well-known effort in payments enforcement was Operation Choke Point, an initiative during the Obama Administration to target payment processors as a way to punish clients seen as having violated regulations. That has since ceased.

But the agency, which had been less assertive under the Trump Administration, now is under the wings of a new Democratic one. Expectations now are that the CFPB will ratchet up its enforcement activity, especially once a permanent director is confirmed. Rohit Chopra, currently a commissioner at the Federal Trade Commission, is President Joe Biden's nominee for the job. As of mid-March, he had not yet been confirmed.

"We're waiting like everyone else to see if Chopra gets confirmed," says Brian Tate, chief executive and president of the Innovative Payments Association. The IPA is a Washington, D.C.-based trade group. "I suspect he will be more focused on enforcement and oversight."

'FAIR AND EFFECTIVE'

With Congressional attention diverted by President Trump's second impeachment and Senate trial and the intricate negotiations over the $1.9-trillion American Rescue Plan Act earlier this year, federal

leadership approvals are running a bit behind.

Though the CFPB has no confirmed director, "it's fair to say [the agency is] going to be more active than in the previous administration," says Scott Talbott, senior vice president of government affairs at the Electronic Transactions Association. "I would expect increased oversight and increased investigations in general."

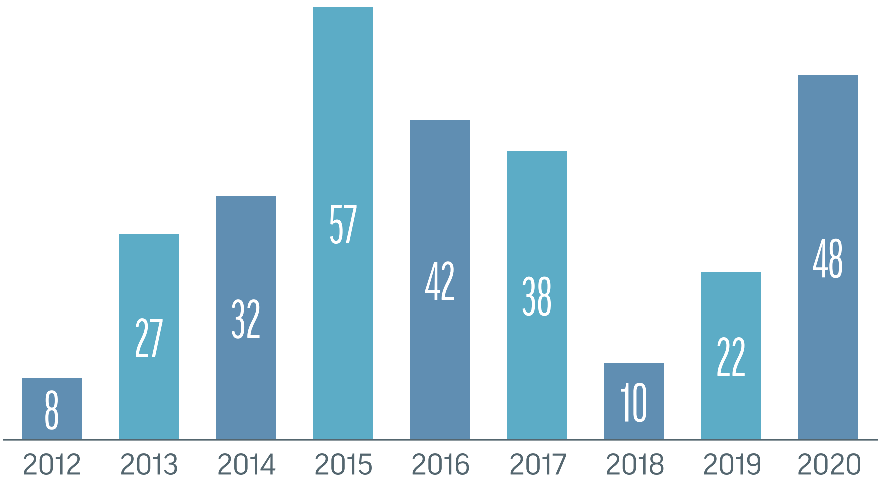
Thad Peterson, senior analyst at Boston-based Aite Group, mirrors that opinion. "With a Democratic Administration under the leadership of a president who was involved when the CFPB was created, we should expect that there will be greater scrutiny of existing policies and practices, and, potentially, re-instatement of policies dropped during the previous administration," Peterson says. He notes that more in the way of specifics are not available because it's very early in the Biden Administration.

Tate's organization is keenly attuned to the CFPB's prepaid rule. San Jose, Calif.-based PayPal filed suit against the CFPB and the prepaid rule in December 2019, arguing against what is saw as the agency's expansive definition of digital wallets as prepaid products.

In a ruling issued a year later, a judge said the CFPB overstepped its authority when it implemented the final, 1,600-page rule. Tate says the CFPB has signaled it will appeal. For now, the rule remains on the books and Tate advises companies

CFPB AS ENFORCER

(Number of enforcement actions by year since the agency's inception)



Source: The CFPB

to continue to abide by it, despite PayPal's win in a dispute over a small section of the rule.

Hints of what may be on the CFPB's radar for the next four years come from Chopra's March 2 testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs. "In the mortgage market, fair and effective oversight can promote a resilient and competitive financial sector, and address the systemic inequities faced by families of color," Chopra told senators.

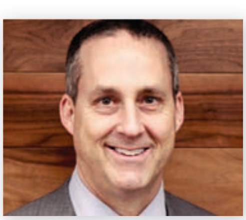
Consumer payments, at least directly, didn't get as much attention, though Chopra mentioned debt collection.

"Congress has entrusted the Consumer Financial Protection Bureau with carefully monitoring markets to spot risks, ensuring compliance with existing law, educating consumers, and promoting competition," Chopra said. "This not only helps to protect Americans from fraud and other unlawful conduct, it also ensures that law-abiding businesses, regardless of size, can compete."

BROAD THEMES

Chopra's testimony provides some insight, Talbott says. "As we look at the Biden administration and his regulatory appointees, we're beginning to see the trees coming into focus," he says. Already, a couple of broad themes are emerging, he says. "One is a pro-consumer approach, which we support. Another is income inequality and diversity."

The absence of a confirmed Biden nominee in charge of the CFPB makes speculation about the agency's direction more imprecise than if one was in place. "If you look at his confirmation hearing, he had a number of other things he touched on," Talbott says, that were not directly payments-related.



'It's fair to say [the CFPB is] going to be more active than in the previous administration'

—**SCOTT TALBOTT**, SENIOR VICE PRESIDENT OF GOVERNMENT AFFAIRS, ELECTRONIC TRANSACTIONS ASSOCIATION

> ‘We believe there will be more oversight.’
>
> —**BRIAN TATE**, CHIEF EXECUTIVE AND PRESIDENT, INNOVATIVE PAYMENTS ASSOCIATION

Still, the CFPB hasn’t shuttered its enforcement activities. Just in March, the agency sued third-party payment processor BrightSpeed Solutions Inc. and its founder for, allegedly, knowingly processing payments for companies engaged in Internet-based technical-support fraud. The CFPB said BrightSpeed was founded in 2015 and wound down operations in 2019.

“What that lawsuit says to payment processors is, if you knowingly help a vendor engage in a fraud, we’re going to pursue you, we’re going to hold you accountable,” Talbott says. “I would expect more of the same.”

That could mean the two agencies with the most payments industry oversight—the Federal Trade Commission and the CFPB—will both be active.

The payments industry changed in the four years of the Trump Administration. New products have emerged, fintechs have gained greater prominence, and consumer behavior has been modified, some of it perhaps permanently, because of the Covid-19 pandemic. All this in the more than four years since the 2016 election.

“First and foremost, the market is expanding and competition is a good thing,” the IPA’s Tate says. “The end user is the beneficiary. We now have more ways for people to access their money and be in the system. It allows them to manage their day-to-day financial lives better.”

‘POTENTIAL CHANGES’

Regulators, too, especially if they train their sights on payments, will need educating on the new ways consumers can interact with the payments industry, Tate adds.

“We believe there will be more oversight,” he says, with potential for more changes. “Regulators are trying to keep up” with the scope of change in payments over the past five years, Tate says. That promises a more active role for organizations like the IPA, he argues. “We would like to educate them,” he says.

That could entail reviewing rules to ensure they align with current payment products and services. “They will have to learn more about the companies and their products on the market,” Tate says. “And determine if the regulations on the books now are the right ones. And, if not, what are the potential changes. That’s what people don’t know right now.”

Other regulators may also touch on payments by, for example, reviewing technology policy, which tends to have some payments involvement. “We don’t know if that carries over to fintechs,” Talbott says. The hope is that a positive environment for continued development and deployment of fintech services can be created, he says.

Returning to the CFPB and its prepaid rule, Tate says if the ruling favoring PayPal is ultimately upheld—and that’s a ways off; the CBPB hasn’t formally filed an appeal—the agency may re-regulate. If the PayPal verdict is overturned, the rule remains in effect.

Other financial services, such as payday lending and arbitration, could be issues for the CFPB, too, Tate says, adding, “We really have to wait until Chopra gets confirmed and see what his agenda is.” DT

WHY CRYPTOCURRENCIES STILL AREN'T READY FOR PRIME TIME

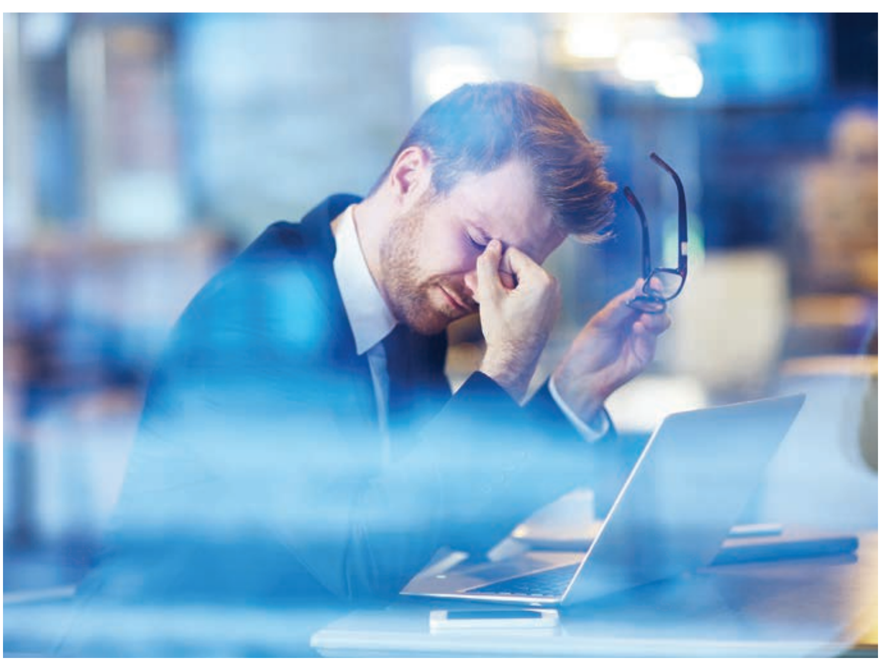
Despite scattered successes, too many pitfalls dot the road to widespread merchant acceptance.

BY **AARON MCPHERSON**

Aaron McPherson is founder and chief executive of Payments-101.com.

BITCOIN AND OTHER CRYPTOCURRENCIES captured the public imagination over the past year, as Bitcoin shattered record after record, PayPal and Square Cash announced they would allow customers to buy cryptocurrency, and major financial institutions such as Bank of New York Mellon announced they would manage cryptocurrency holdings for their customers.

Recent regulatory guidance from the U.S. Office of the Comptroller of the Currency, which is the primary banking regulator in the U.S., has done a lot to resolve concerns about risk and regulation.



However, the "currency" part of cryptocurrency is not doing so well. Huge increases in the spot price of Bitcoin actually serve as a disincentive to use it for payments, because:

- Consumers want to hold onto it, expecting it to go higher; and
- Merchants do not want to accept it, fearing it will go lower.

The volatility of Bitcoin has made these fears more realistic. According to The Bitcoin Volatility Index, which compares the value of Bitcoin to the value of the U.S. dollar, over the 30 days leading up to March 9, the Index was 5.34%. Compare this to other currencies, which vary between 0.5% and 1.0%. Gold, to which Bitcoin is often compared, has a volatility of about 1.2%.

Compare that also to card-acceptance fees, which tend to be somewhere between 1% and 3%, depending on the card and the merchant. An average downside risk of 5% makes it more expensive to accept Bitcoin than cards. And, of course, that is just an average. On a bad day, you could have the value drop 10% or more. That is simply not something most merchants are prepared to deal with.

THE ONLY OPTION

Volatility is far from the only problem. Cryptocurrencies are far better for merchants than consumers under the current card regime. Consider what consumers get with cards that they do not get with Bitcoin:

- Cash back rewards
- Zero liability for fraud
- The ability to spread payments over time
- Universal acceptance
- A payment guarantee, which allows the merchant to release the goods instantly

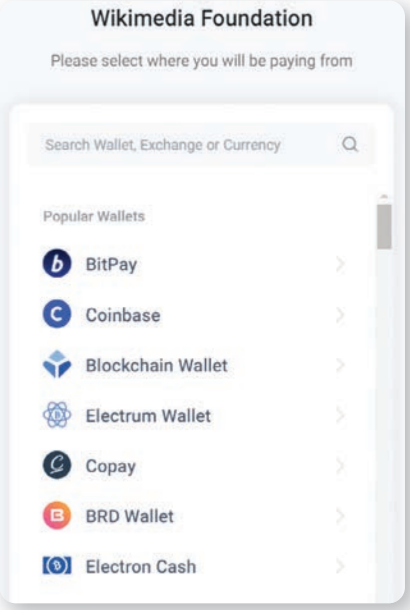
I have been switching between Bitcoin and the more general term "cryptocurrency" because Bitcoin is really the only crypto option for many payments. A few other cryptocurrencies, like Bitcoin Cash and Ethereum, commonly show up on checkout pages, but the vast majority do not.

This means that adherents of other cryptos need to exchange them into one of the commonly accepted currencies before they can spend them. This often involves an exchange rate, which can be as high as 60%, depending on the liquidity of the market for a particular cryptocurrency.

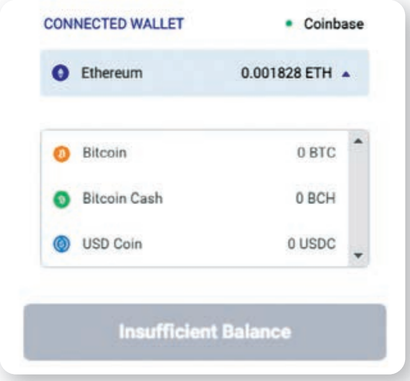
One might ask at this point why anyone would use or accept cryptocurrency for retail payments.

I had to use a Web site to find some stores that would accept crypto, mainly Bitcoin, and it was already out of date. (See *Who Accepts Bitcoins in 2021? List of 20+ Major Companies*, 99bitcoins.com). For example, Microsoft is listed as accepting Bitcoin, but I could not find it on their "Manage your payments" page. Steam and Reddit stopped accepting Bitcoin some years ago, due to "high fees and volatility." Wikipedia, however, still accepts Bitcoin for donations, so that will have to serve as our case study.

BitPay Inc., based in Atlanta, is what we might consider a "crypto acquirer," in that it enables merchants to accept cryptocurrency. For example, BitPay is used by Wikipedia to accept donations, and it accepts a wide list of wallets:



Note that BitPay is both a wallet and an acquirer. Once you select your wallet (in this case Coinbase), you get the following screen:



Assuming you have a sufficient balance in one of the supported currencies, you can then click on it to select it, and complete the payment.

Note that Bitcoin is not the only cryptocurrency accepted. You also have a choice of Ethereum and USD Coin. This last is significant, because it is a stablecoin without the volatility of Bitcoin. USD Coin is what is referred to as a "token," in that its value is based on some other asset, in this case, U.S. dollars.

Dollars and other traditional currencies are often referred to as "fiat currencies," because their own value is set by governments by "fiat." Distrust of currency manipulation by central banks was a primary driver behind the development of Bitcoin in the first place.

UNFRIENDLY AND CONFUSING

Several merchants listed in the above article have already ceased to accept cryptocurrency as of the time of this writing, including Microsoft and Humble Bundle. Since we have already established that cryptocurrencies are better than cards in all other respects, this must be due to volatility and the expense of converting back to fiat currency.

Wikipedia continues to accept donations via Bitcoin, Bitcoin Cash, Ethereum, and USDCoin. Another use that has seen a lot of media coverage is the purchase of "non-fungible tokens," credentials on the blockchain that link to digital and real-world assets.

One of the biggest events to influence the price of Bitcoin was the announcement by PayPal that it would allow users to buy Bitcoin, Ethereum, Litecoin, and Bitcoin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Trends in the Electronic Exchange of Value

Cash. Unfortunately, this comes with a big condition. According to PayPal's site, as of the time of this writing, "While you can't currently use crypto as a way to pay or send money on PayPal, we like the way you think! Many people have big dreams for the future of crypto and so do we."

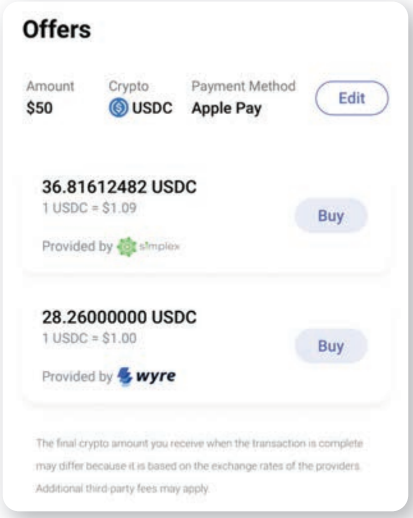
With no timeframe for this policy to change, PayPal's offering is limited to the legitimacy it bestows on Bitcoin.

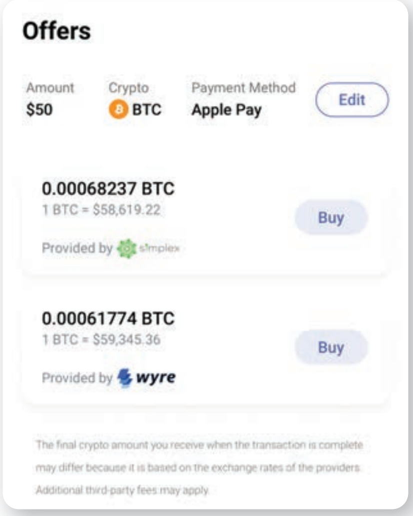
Why would PayPal not be willing to allow payments to be made with Bitcoin? I suspect the volatility is an issue. If PayPal were to allow payments to be made with Bitcoin, it would bear the risk of price swings between the time the user confirmed the payment and the time it was settled with the merchant. Since most merchants do not want to hold Bitcoin, PayPal would have to reconvert its crypto into cash, incurring an exchange fee as well as the risk that the crypto's value drops.

BitPay does allow you to order a debit card that is linked to your account and can be used to spend your cryptocurrency anywhere that Mastercard is accepted. Note that the merchants do not actually receive any crypto, but pure fiat currency. Instead, your crypto is converted in real time into U.S. dollars and used to settle the transaction.

I tried a BitPay card once, and before I could get it in the mail, the value of my Bitcoin had declined over 20%, and I decided to get out while I was ahead. Yes, that seems shortsighted now, but I would have had to wait a long time for the value to get back up, and in the meantime, I could not have used the card without locking in the losses.

I could have kept my assets in USDCoin, but that would have been no better than using my regular debit card. In fact, I would have been worse off. Check out the conversion rate for USDCoin for a load of $50 USD and for Bitcoin:





As you can see, had I used the USD stablecoin, I would have only gotten $36.82 worth for my $50. The difference between $50 and $36.82 is the exchange rate, because USDCoin is not a liquid currency. On the other hand, had I converted my fiat into Bitcoin, I would have gotten $59.34 worth via Wyre. The obvious conclusion is that Bitcoin is being subsidized at some point in the process.

The same kind of problem exists when converting from Bitcoin back to USDCoin. On Coinbase, there is a 99-cent fee for this, which makes it expensive to move money between Bitcoin or one of the other commonly accepted cryptocurrencies. This is an exceedingly unfriendly and confusing user experience. You would have to be really motivated (or a payments consultant) to get through it.

A POOR SHOWING

Having looked at the matter from all angles, I have to conclude that cryptocurrencies at present do not offer as good a purchase experience as cards, and in fact are much worse. Combine that with the low acceptance rate by merchants, and you would have to go quite a bit out of your way to use them at all.

Of course, there are merchants that have no choice but to accept cryptocurrencies, but these are the sorts of businesses that skirt the lines of legality, such as Pornhub, currently under fire for hosting sexually exploitative videos and pirated videos.

Still, that is a poor showing for a cryptocurrency that claims it will replace cash. For now, I would regard Bitcoin and other pure cryptocurrencies as assets to be invested in, rather than used as currencies.

The situation may change, however, as central banks and partnerships like Diem get into the space. That is by no means guaranteed. A central bank digital currency (CBDC) would face the same challenges as USDCoin, particularly in providing a better experience than cards. DT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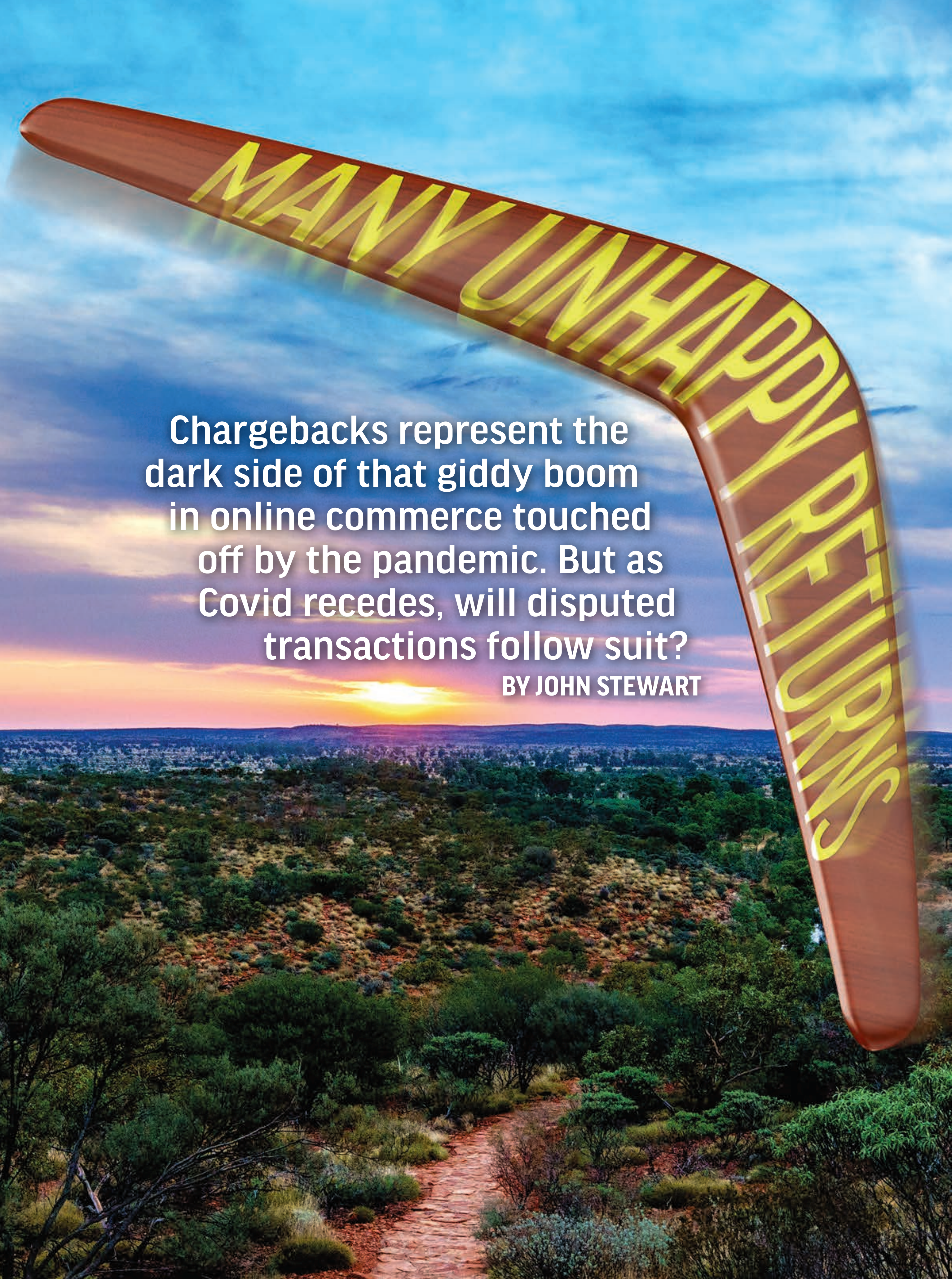


MANY UNHAPPY RETURNS

Chargebacks represent the dark side of that giddy boom in online commerce touched off by the pandemic. But as Covid recedes, will disputed transactions follow suit?

BY JOHN STEWART

E-COMMERCE DOESN'T ALWAYS MEAN AMAZON. Think for a moment about the position your local independent eatery or hardware store found itself in just about a year ago. Accustomed to foot traffic and in-person transactions, proprietors of these places suddenly had to scramble to serve customers who were afraid to touch anything in the store—or even to come in the store.

Up against the effects of a deadly pandemic, owners and managers had to act fast to rig up online ordering and delivery services. That meant improvisation on a massive, national scale. And that also meant something these owners never bargained for: an explosion in chargebacks as opportunists charged goods and laid off the cost on someone else.

"Suddenly, they were inundated with chargebacks. They just weren't used to dealing with that," says Dan Stanbridge, vice president of global risk for the payment processor Paysafe Group.

Industries like travel and entertainment saw chargebacks take off as well with canceled airline trips and hotel stays.

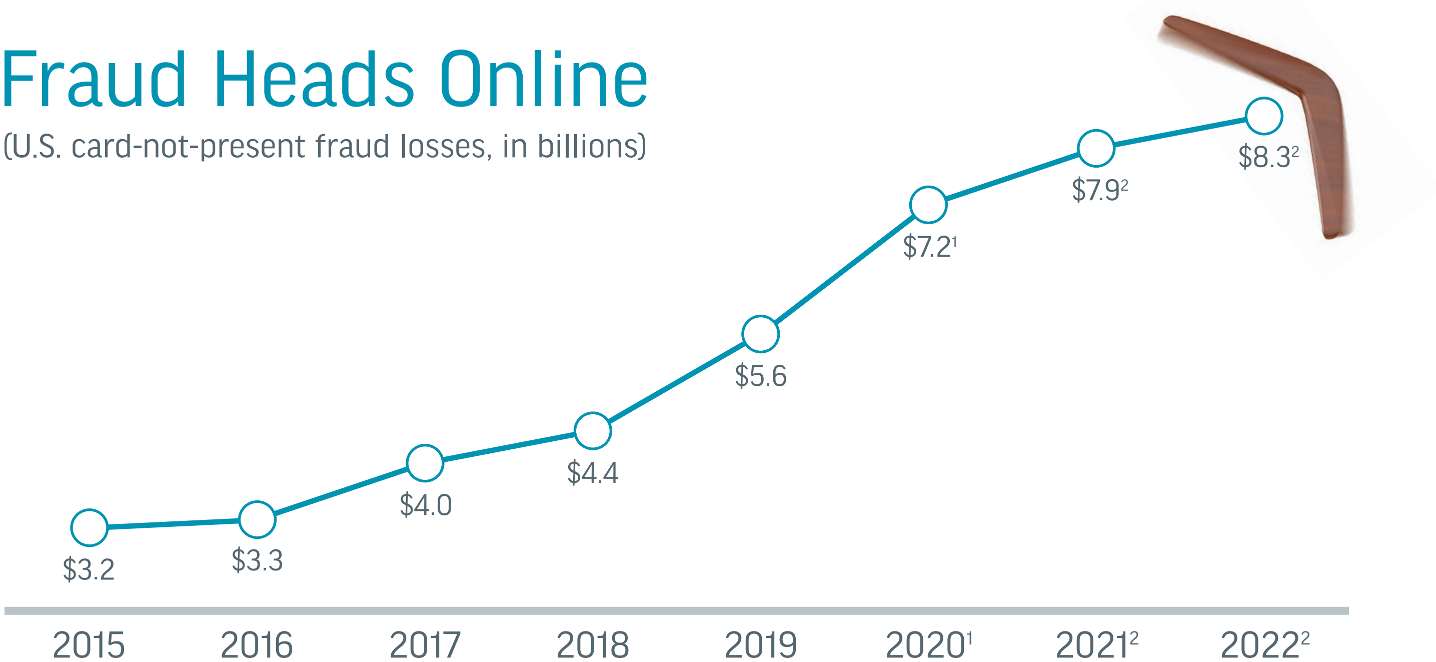
Old-fashioned fraud also played a prominent role. Losses to identity theft—cases where anyone from a hardened criminal to your shiftless son-in-law hijacks your card account or opens a new one in your name—boomed in 2020, rising 42% to more than $700 billion (chart). The process that follows when the victim discovers the fraud is a chargeback filing, and the merchant is typically on the hook to make good.

All in all, the shift to e-commerce was "a petri dish for fraudsters," says Monica Eaton-Cardone, chief operating officer and cofounder of Chargebacks911, a Clearwater, Fla.-based company that helps almost 50,000 merchants defend chargebacks.

But career fraudsters using stolen identities account for probably no more than 10% of chargebacks, according to estimates by McKinney, Texas-based Chargeback Gurus, which helps merchants defend chargebacks. Most cases arise from casual or so-called friendly fraud, which snazzy technology like mobile apps helps

Fraud Heads Online

(U.S. card-not-present fraud losses, in billions)



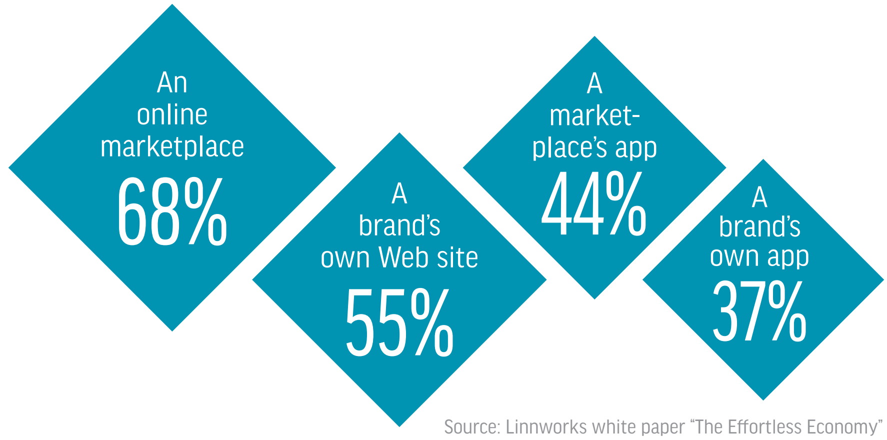
1. Estimated 2. Projected Source: Aite Group

enable by making a chargeback filing merely a matter of tapping an icon.

Expectation of same-day delivery—a standard set by companies like Amazon but hard for many smaller rivals to match— and easy repudiation also make for a volatile mix, even for big retailers, as consumers yield to the temptation to disavow purchases they actually performed. "We have to remain on high alert and continue to make more investments" in chargeback defense, says an executive with a major retail chain.

The Opportunity for Fraudsters

(Top places where consumers say they've shared payments data)



Source: Linnworks white paper "The Effortless Economy"

'DOUBLE DIPPING'

The payments industry has known for years that card-not-present transactions invite more fraud. It's easier online to hide behind fake or stolen identities, and easier also for brothers, sisters, husbands, or wives to impersonate a sibling or spouse.

But the pandemic lent impetus to a relatively new scenario: online ordering with curbside or in-store pickup. It's a popular option for both merchant and customer. Still, while consumers who are who they say they are generally get their goods even sooner, so do customers who "borrowed" a parent's or sibling's card.

This so-called friendly fraud is the bane of the industry. Until the onset of Covid, such cases accounted for 25% to 30% of all chargebacks, according to Nadir Kiem, senior vice president of operations at Vesta Corp., a specialist in fraud protection. Now, he says, that number is 48%.

Other estimates are even higher. Chargeback Gurus, for instance, puts the proportion at anywhere from 60% to 80% of all chargebacks. Even the large chains are bedeviled by this activity. "When you move into e-commerce, you open yourself to friendly fraud," says the big-box retailer executive, who spoke on condition of anonymity.

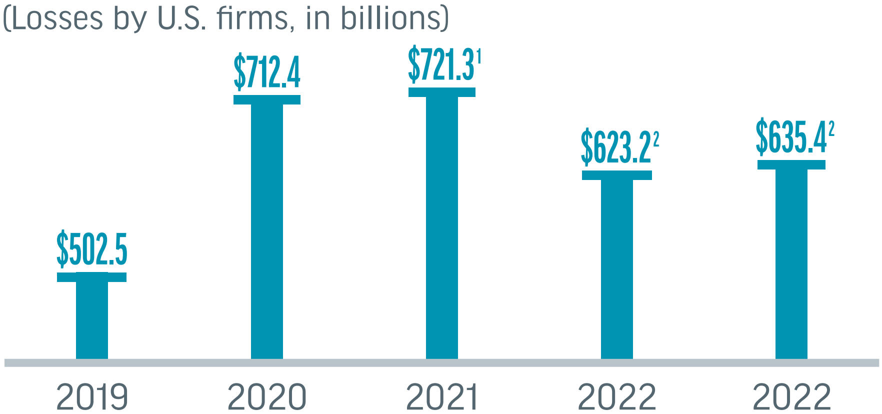
For example, he says his company has recently seen an increase in chargebacks for goods not received. "It's not that they didn't receive the goods, it's just that it's not what they expected," he says.

Not all chargebacks, of course, arise from such careless attitudes. Many small merchants venturing into e-commerce for the first time, for example, got burned after the pandemic set in. "Merchants were not ready, but they were forced to go online," says Suresh Dakshina, president and cofounder of Chargeback Gurus. "They had a lack of resources and a lack of time." But controlling and preventing chargebacks "isn't set it and forget it," he adds.

Nor were large and sophisticated merchants immune. Early in the pandemic, chargebacks poured in on airlines, hotels, entertainment media, gym memberships, and spas—

The Impact of Identity Theft

(Losses by U.S. firms, in billions)



1. Estimated 2. Projected Source: Aite Group

The Sudden Rise of E-Commerce

(Quarterly U.S. sales in billions, plus % change year over year)

Q1 2020	**$160.4**	32.1%
Q2 2020	**$211.6**	36.6%
Q3 2020	**$209.3**	44.5%
Q4 2020	**$206.7**	14.8%

Source: U.S. Census Bureau

all areas where fulfillment was difficult or impossible, Dakshina says.

"Throughout 2020 we did see an immense spike in dispute volumes related to disruption in travel plans," adds Julie Conroy, research director for the fraud practice at Aite Group, a Boston-based consultancy. "It was incredibly painful for issuers and merchants alike." Disputes, she points out, represent the first step toward the eventual chargeback.

What experts have seen, however, is that many chargebacks are simply no more than complaints or refund requests filed through the wrong channel. In some cases, this may happen simply because the customer finds the chargeback option easier. Even in some banking apps, consumers can begin the process with the touch of a button, Eaton-Cardone says. "It's a competitive differentiator for many banks," she adds.

Another twist of the knife comes when consumers request a refund from the merchant and also file for a chargeback with their bank in a maneuver Eaton-Cardone calls "double dipping." In response, many banks have removed the chargeback option from their mobile apps, says Dakshina.

Consumers are generally unaware that chargebacks cost serious money, experts say. Banks impose fees on merchants that can amount to anywhere from $20 to $100 per chargeback, according to Chargeback Gurus. With operations costs and customer-acquisition expenses, the firm estimates the final cost can come to two to three times the purchase total.

'STUNG TWICE'

Whether they stem from criminal activity, friendly fraud, or honest mistakes, chargebacks present an expensive problem. So merchants and card issuers are pushing back.

Visa recently began offering merchants the opportunity to avoid a chargeback by routing a refund through the chargeback system, according to Paysafe's Stanbridge. "It will be interesting to see how that pans out," he adds. Visa, which in 2019 acquired dispute-resolution specialist Verifi, did not make an executive available for this article by deadline.

Stanbridge warns, however, that merchants inclined to issue refunds should be careful to do so through the card network. In their eagerness to avoid a chargeback, some merchants have refunded customers via wires or checks, a move that can make it harder to defend a chargeback if one arises. "I saw cases where merchants were stung twice," he notes.

To help substantiate transactions for forgetful consumers, Verifi also began offering a channel by which issuers can get a receipt of a transaction "to help jog the consumer's memory," according to Julie Ferguson, chief executive of the Merchant Risk Council, a trade group focused on fraud matters, and a former executive with Ethoca, a fraud-mitigation firm acquired in 2019 by Mastercard.

The description on the receipt can help establish that, for example, the consumer's child performed the transaction or give more details of the transaction than the spare line of type on the monthly statement.

Another weapon in the battle relies on technology that connects merchants with issuers, allowing for a flow of data that can help establish in real time whether the person performing an online transaction is who he says he is. The specification, dubbed EMV 3-D Secure 2.0, comes from EMVCo, the standards body controlled by Visa, Mastercard, and four other global payments networks.

The new standard is seen as a big improvement on version 1.0, introduced as long ago as the early 2000s. That version annoyed merchants because it required consumers to leave the e-commerce site to perform authentication steps on a pop-up window. That problem was eventually smoothed out, but the clunky reputation dogged the technology for years.

But even with 2.0, fear remains that customers will abandon their carts, leading to reluctance by merchants to adopt the technology. "I'm consistently hearing less than 4% of card-not-present volume is going across 3-D Secure rails in the U.S. market," notes Conroy. "The reality is, in the U.S. market, it would take a governmental mandate" to get close to universal adoption, she adds.

'IT TAKES MANPOWER'

Unsurprisingly, experts differ on what to expect in the near future. The big-box store executive refers to a "trifecta" of rising e-commerce demand plus merchant apps plus issuer apps. All that tech, he warns, "makes it easier" to generate sales but also leads to more disputes and chargebacks. "People aren't disputing with the merchant, they're going straight to their bank," he says, adding that technology has smoothed the way for those complaints to turn into chargebacks.

The key, he says, is "do everything you can to make the customer happy. We've made returning an item extremely easy within our app, so hopefully they don't go to their bank."

He warns, though, that the other half of the solution—dealing with disputes early on—is expensive, as it requires human intervention, and lots of it. "Unfortunately, it takes manpower," he says. "The incoming volume has increased so much, we've added on [full-time equivalents], and in some cases we've just told the customer to keep the item."

Vesta's Kiem sees a half-full glass. "I do think chargebacks will subside, but I also don't think [they] will return to the pre-Covid level," he says.

Others are more optimistic. Chargebacks will remain a tricky problem, but some experts look for a moderation in volume as the economy returns to normal post-Covid and educational efforts divert consumers from filing for chargebacks as a first resort.

"This year we'll see a continued calming of chargeback levels," says Paysafe's Stanbridge. After a tumultuous 2020, many merchants devoutly hope so. DT

Get ready for dynamic pricing.

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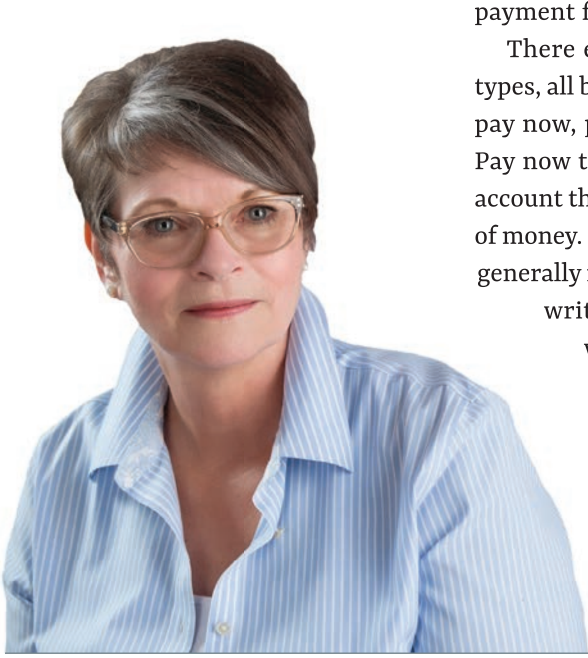
A NEW MODEL FOR VALUE EXCHANGE

It's time to replace interchange with a model that fairly represents the value each party receives.

BY PATRICIA HEWITT

Patricia Hewitt is principal at PG Research and Advisory Services, Savannah, Ga.



FINTECHS HAVE SHOWN US THE WAY to create exciting new forms of financial services. But we are merely scratching the surface of what the age of intelligent systems can do for the payments industry. One such solution can be to enable a dynamic and fluid new form of interchange.

I believe that, in the not-too-distant future, the system of interchange will not be controlled, as it is today, by one market vertical, namely the card networks. Rather, interchange will become as dynamic and fluid as any new payment form the market can dream up. How could this happen? Let's start by looking at the difference between payment type and payment form.

There exist only three payment types, all based on a source of funds: pay now, pay later, and pay before. Pay now types rely on a depository account that holds variable amounts of money. Pay later types represent a generally finite line of credit underwritten by a lender or entity willing to take on credit risk. Pay before types rely on an aggregated depository account holding finite funds earmarked for some future use.

Accepting any of these payment types means that the payee has to determine if there are sufficient funds in the account to cover the payment, that the account is in good standing, and that the accountholder actually owns the account—all basic tenets of determining interchange.

Yet the form used to access a source of funds (meaning payment type) and, by definition, which entity controls or influences this access, will define the future transfer of value for a payment. In other words, disruption in payment forms leads to disruption in the commercial model.

UNIQUE AND INVIOLABLE

So, let's look closer at this idea, starting with pay now types, which are the most vulnerable to interchange disruption but also hold many of the characteristics for change present in the other two types.

Financial institutions have done a good job throwing up roadblocks to intruders looking to gain entry to the retail depository market. But these walls are crumbling because of a number of factors. These include a combination of regulations, the development of new real-time payment networks, new processing technologies

SPONSORED CONTENT

REDEFINING THE "I" IN ISO AS INTEGRATION

Payment integrations are helping ISOs maximize revenue and enhance the customer experience

By Oscar Lopez,
Director of Sales, Strategic Partnerships, First American Payment Systems

Independent Sales Organizations are focusing on payments integration, and for good reason.

Accelerated by the pandemic and consumer demand, card not present payments continue to gain traction. That means one thing for businesses that do not yet have an e-commerce strategy in place. If they are to survive and remain relevant, the time to create one is now.

That is opening up a new segment of merchants ripe for business management solutions. When payments integration is built-in, that can often seal the deal, as it gives these merchants one unified solution through which they can protect revenue, simplify their business day-to-day, and also delight customers.

Want to get your business software into the hands of as many users as possible? Integration is the answer.

OFFERING MULTIPLE PAYMENT OPTIONS AND SIMPLIFYING PAYMENT INTAKE

The pandemic reignited innovation with virtual terminals, mobile POS systems, and other card not present solutions that consumers immediately utilized. Businesses that previously shied away from ecommerce, are now embracing it, and ISOs are looking for value-added solutions that solve business needs and reduce expenses.

Take the restaurant industry as an example. They revamped their business model to serve customers curbside and with to-go orders as dining rooms closed, but many were forced to rely on food-delivery apps for online sales. These apps charge merchants for their service and as merchants got a glimpse of the revenue being lost, they began seeking alternative solutions; solutions that allow them to couple sales with inventory management and accounting functions.

SAVING TIME WITH STREAMLINED OPERATIONS

Integrated payments make running a business easier. Adding payment technology to software streamlines operations by connecting sales to inventory to accounting, reducing the need for manual data entry and eliminating errors that cost time and money. Moreover, integrated payments simplify the user experience, providing a clear shopping path and a branded checkout for customers—they go to and stay on your website throughout the transaction—that's complemented by business insights gained from real-time transaction data and customized reporting.

Want instant access to real-time data? Need a simpler way to track sales and manage inventory? Have customers who want to pay via text? Integrated payments allow ISOs to easily scale payment options that best serve businesses and drive consumer spending.

ELEVATING THE CUSTOMER EXPERIENCE

ISOs benefit from the accessibility, convenience and security that digital payments afford.

When a medical software company needed help growing its sales pipeline, the company turned to First American. The company was using an independent payment gateway that allowed patients to pay online, but there was no connection between that payment system, the payment hardware or the software company. Using First American's solutions, the software company was able to embed payments and reporting into their patient portal, creating a better customer experience and relieving manual reconciliation efforts. Plus, this payment integration has helped improve cash flow and ensure PCI compliance.

Today's ISOs need a payment technology partner who provides solutions that save time, save money and make it easy for merchants to sell goods and services—and integration has to be a part of the conversation.

built for purpose through cloud-based services, and the expansion of digital access to funds.

This environment is enabling rapid distribution of issuance and acceptance services across all consumer and merchant categories, a trend that also serves to encourage more direct or bi-lateral payment forms. Also, payments-orchestration software allows merchants to better understand transaction behaviors, costs, and frictions.

For example, least-cost debit routing will become the norm, as will expedited/instant clearing and settlement, which benefits the merchant and consumer. But these factors will disadvantage higher-cost, higher-friction pay now forms as merchants nudge consumers toward a better experience at the point of purchase, where they can receive enhanced benefits in the form of money management, discounts, and convenience.

Similar factors are in play for pay later types, but here the stakes for the industry are much higher. Interchange was originally created in the credit card market, and its legacy framework remains true to those beginnings. Credit cards and personal loans are critical components of banks' revenue streams.

As I've written in this space before, merchants are increasing their strength in the consumer and small-business credit markets. Consumers see the value of accessing highly personalized, short-term, budget-friendly credit. And now that interchange rates are set to rise for business cards and card-not-present transactions, there will be even more aggressive moves by merchants to shift transactions from high-cost credit cards to lower-cost loans.

And then there is Pay Before. This payment type is poised for significant growth coming from two main forms. First, closed-loop stored-value wallets, which are especially appealing to merchants that want to either decrease their reliance on high-cost card transactions or penetrate new markets.

But a digital wallet that consumers can dip into for ad hoc or monthly payments is just the start. These wallets are also capable of housing rebates, credits, gift cards, and promotions like cashback, all representative of key merchant strategies.

Second, there is cryptocurrency and the exploding market for Non-Fungible Tokens. Briefly, these are tokens that represent an asset such as a piece of artwork or a collectible. To trade in these NFTs, consumers enable a cryptocurrency wallet and fund it with a specific currency called Ethereum. This is where the value of the blockchain comes into play, because Ethereum is used to not only pay for these assets, but also to ensure they are unique and inviolable.

RENT GATHERING

We now have a retail-payment strategy that is inextricably tied to an entirely new transfer of value between two parties, one that seeks to eliminate risk entirely.

How does one quantify (i.e., establish a fee structure for) these new kinds of value transfer? The NFT market represents the real future of interchange, one where digital information and payment-credential data merge and enable the creation of dynamic business models that define the level of value transfer in any given transaction.

The current construct the payments industry uses to define value transfer is locked into a model that is increasingly irrelevant to the market. Traditional interchange structures have become rent-gathering mechanisms tied to controlling access to the funding source.

Relying on regulators and lawyers to carve out exceptions just digs the hole deeper. It's a complicated issue without easy solutions, but solving it holds the key for real market expansion and a stronger industry. DT

DOES YOUR PROVIDER PUT YOU IN THE CENTER OF THEIR UNIVERSE?
QuickBooks Integration
Multiple POS Solutions
Auto Approvals
Cash Discount
Surcharging
Sundown Policy
AGENT
Level III
Unmanned Solutions
Account Updater
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