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@ETA

Looking Forward to Tremendous Opportunity

Has there ever been a year quite like 2017 in our industry?

From major industry mergers, to the debut of new products and the forging of new partnerships, to the massive growth of the software marketplaces that continue to drive and define the future of payments, 2017 was driven by incredible change from ETA's innovative members.

So, what will 2018 hold? My hunch is that a myriad of exciting developments will dominate headlines and boardrooms alike in 2018.

With this dynamic growth comes the reality that the incredible pace of change can make it difficult to know which industry trends create the best opportunities. This month, in partnership with IDC, ETA is releasing a new report titled "Payment Trends to Watch in 2018," which gives you, the innovators and leaders of the payments technology industry, a look into the five trends and technologies that will shape this upcoming year. See page 18 for more insights.

Payments now touch everything, and 2018 will bring us the changing state of the point of sale (POS); the increasing role of software as the new hardware; the emergence of new channels like voice, artificial intelligence, and the Internet of Things; the development of evolving transmission networks; and a renewed focus on security. These are the trends that will define the payments technology experience.

As the POS evolves beyond the traditional cash register and credit card terminal, sophisticated devices will continue to shift a consumer's interface with the payment process away from traditional models and toward faster, seamless, portable, and data-driven interactions. As the hardware becomes more capable—and the consumer expectation of omnichannel, multiplatform, seamless payment options grows—so too will the market for tailor-made software solutions provided by ISVs, payment facilitators (PayFacs), and other developers in the payments space. These will create new revenue and partnership opportunities for payments companies on top of traditional models.

Given the rapid change in the industry, it is now more important than ever for members to stay engaged and involved. TRANSACT this year will focus on weaving software developers and other disruptors straight into the DNA of the show floor. A Startup Zone and floor areas that focus on new and exciting verticals of tech growth in payments, like biometrics and contactless solutions, will help foster connections and bring like-minded innovators together at TRANSACT. And ETA has brought in new voices to its membership and committees by bolstering our PayFac committee and introducing a startup membership category to bring new players into our industry.

From ETA's vantage point at the nexus of payments technology, we'll be working as hard as ever to make sure that the opportunities to make critical connections into new verticals and maximize your ROI are fundamental to our 2018 strategy.

Jason Oxman
Chief Executive Officer
Electronic Transactions Association

App Users Prioritize Security During Log-Ins

"Security" is rated a top priority when logging into most apps, according to the "IBM Future of Identity Study: Millennials Poised to Disrupt Authentication Landscape" study, which surveyed nearly 4,000 adults from across U.S., European Union, and Asia-Pacific regions. Security is particularly important to individuals using banking, investing, and budgeting apps, according to the study: 70 percent ranked security as the top priority for these types of apps, while 16 percent selected privacy and 14 percent selected convenience as their priorities.

Individuals using online marketplaces, workplace apps, and email also ranked security as highly important. For social media applications, 36 percent of respondents said convenience was a top priority, followed by security (34 percent) and privacy (30 percent).

When asked about different types of login methods, respondents agreed that fingerprint biometrics is one of the most secure methods of authentication (44 percent), followed by passwords (27 percent) and PINs (12 percent).

The survey also found that millennials (those age 20-36) and older users are split on how they secure their data. Only 42 percent of millennials use "complex" passwords that combine special characters, numbers, and letters, while 49 percent of those 55 years of age and older tend to use stronger passwords, according to the study. Millennials also are two times as likely to use a password manager as people over 55 and are more likely to enable two-factor authentication in the wake of a breach.

Adults under the age of 24 prefer a faster sign-in experience for convenience, which may be one reason these users are more likely to adopt biometric authentication. Three quarters of millennials said they are comfortable with biometrics, compared with 58 percent of those over the age of 55.

Data Breaches Soar to New Heights in 2017

More U.S. companies experienced data breaches in 2017 than in any previous year, with 1,579 breaches filed last year, according to the "2017 Annual Data Breach Year-End Review." The report, published by the Identity Theft Resource Center and CyberScout, shows a 45 percent jump over last year's record of 1,091 breaches. The banking/credit/financial sector experienced 134 breaches, according to the report.

The business sector experienced the most incidents, topping the list with 870 reported breaches, which represents more than half of the overall total number of incidents in 2017. The medical/health-care, education, and government/military sectors all saw decreases in the percentage of data breaches from 2016 to 2017.

More than 14 million credit card numbers were exposed last year, according to the "Year-End Review"—an 88 percent increase over 2016. In addition, more than eight times the number of Social Security numbers were exposed in 2017 than in 2016.

Hackers who specifically target companies were listed as the main "type of incident," with 59.5 percent of the breaches being identified in this category. Phishing and ransomware/malware also were popular breach methods.

"We've seen the number of identified breaches increase as a result of industries moving toward more transparency," said Eva Velasquez, president and CEO of the Identity Theft Resource Center. "We want to encourage businesses and government entities to continue to provide timely reports to their respective attorney generals so consumers can be better informed on what are the immediate and long-term impacts to their personal information by any given data breach."

Fast Fact

More than half (57 percent) of all U.S. adults and **78 percent of young adults ages 18 to 34 use person-to-person payment services** such as PayPal, Venmo, Google Wallet, Facebook Messenger, and others.

Source: CustomerMonitor Survey Series, Mercator Advisory Group

NRF Predicts 10 Percent Online Sales Growth for 2018

Online and other non-store sales are expected to increase between 10 and 12 percent for 2018, compared to 2017, according to the National Retail Federation (NRF), which has released its 2018 economic forecast. Overall retail industry sales are projected to grow between 3.8 and 4.4 percent. High consumer confidence, low unemployment, and increasing wages are factors in the NRF's forecast for growth. Last year, retail sales grew 3.9 percent over 2016, according to NRF.

"The underpinnings of the economy are very good, and consumer spending is at the center of our outlook," NRF Chief Economist Jack Kleinhenz said. "The push and pull of forces both external and internal to the U.S. economy will continue to provide challenges, but on balance we expect a good year. And as the retail industry continues to transform, retailers will leverage the new tax plan to invest in their employees, stores, and new formats that engage with the ever-evolving and demanding consumer."

Fast Fact

Sixty-six percent of adult consumers think biometrics are strong authentication tools; that's good news, considering **recent market intelligence reports predict that by 2020, 100 percent of smartphones, wearables, and tablets will have biometric capabilities** to access data and secure information.

Sources: Keeper Security Inc. and eMarketer

Moves & Mergers

American Express has acquired Mezi, a personal travel assistant app that helps consumers plan and book trips. The app uses artificial intelligence and "human expertise" to personalize the customer experience.

ETA has selected a new Board of Directors for 2018. The Executive Committee for 2018 is led by Chairman of the Board and ETA President Tim Tynan, CEO of **Bank of America Merchant Services**. Other members of the Executive Committee include Kevin Jones, president and CEO of **Anovia Payments**; Christine Lee, senior leader, BIN sponsorship, for **Vantiv , now Worldpay**; Guy Harris, president North America for **Elavo**n; and Jeff Sloan, CEO of **Global Payments**.

Ingenico Group has expanded its footprint in Asia with the acquisition of Airlink, a Taipei-based company that specializes in customized payment solutions to acquirers and retailers, including POS terminals, field services, and software development.

Merchant services and payment organization **Payroc LLC** has acquired **Integrity Payment System LLC**, a full-service processor and acquirer. The combined Chicagoland companies have more than 27,000 merchants.

Vantiv Inc., a provider of payment processing services and related technology solutions for merchants, has completed its acquisition of Worldpay Group plc, a technology-led payments solution company. The new combined company is called Worldpay Inc.

Visa has announced an agreement to acquire Fraedom, a software-as-a-service technology company providing payments and transaction management solutions for financial institutions and their corporate customers.

Retailers Invest More Marketing Dollars in AI Tools

Retail spending on artificial intelligence (AI) is expected to reach $7.3 billion per year by 2022, a nearly fourfold increase over the estimated $2 billion that will be spent in 2018, according to a new study from Juniper Research. "AI in Retail: Disruption, Analysis, and Opportunities: 2018-2022" emphasizes the role of AI tools—such as timely offers, automated marketing platforms, and chatbots that provide instant customer service—in providing a better experience for customers.

Retailer spending on AI in 2022 is expected to be focused in three areas: customer service and sentiment analytics (54 percent), AI-based automated marketing (30 percent), and demand forecasting (16 percent), according to the report.

As consumers continue to shop on specific days throughout the year, such as Black Friday, retailers are able to hone in on customer demands and correctly plan and market to them. In fact, Juniper suggests that retailers must invest in AI to stay competitive, particularly in low-margin retail segments. The costs of AI tools are expected drop nearly 8 percent over the next four years, which will contribute to the growth of AI in the retail sector.

Nearly half of card-not-present (CNP) merchants **(48 percent) claimed CNP fraud was their biggest source of chargebacks,** followed by friendly fraud (28 percent), account takeover fraud (7 percent), and merchant error (4 percent). Meanwhile, 12 percent of organizations reported that they don't know the cause of the majority of their chargebacks.

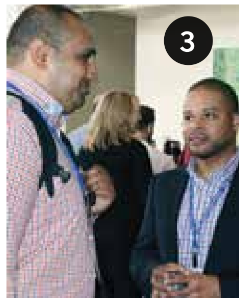
Source: "2018 State of Chargebacks Survey," Kount and Chargebacks911

ETA HAPPENINGS

TRANSACT Tech San Francisco, held at the end of 2017, brought together venture capitalists, payments leaders, software innovators, government representatives, and next-gen players for discussions on the changing landscape of payments technology and the importance of investment and partnerships in the development of new payments innovations.

Attendees heard from several speakers, including Dan Saks, co-CEO of AppDirect; Rich Aberman, co-founder of WePay; and Matt Brennan, global head of worldwide strategy at Apple.

During the panel discussions, attendees got an inside look at the customer experiences with leading POS developers, heard a discussion on investing in payments with major Silicon Valley venture capitalists, and took a dive into partnership brokering with payments leaders.



Save The Date – ETA Events

- TRANSACT Tech NYC, March 13, 2018
American Express Tower
- TRANSACT, April 17-19, 2018
Las Vegas, Mandalay Bay
- TRANSACT Tech Atlanta, June 12, 2018
Georgia Tech Student Center
- TRANSACT Tech DC/FinTech Policy Forum,
September 6, 2018 Washington, DC
- Strategic Leadership Forum, October 2-4, 2018
Dana Point, California
- TRANSACT Tech San Francisco, November 1,
2018 Wells Fargo Headquarters

Go to electran.org to register today! Space is limited.

In January, ETA hosted its annual **ETA University** on Capitol Hill, part of an ongoing series of education policy events that connect payment advocates and experts from ETA members across the country to policymakers on Capitol Hill.

ETA University brought payments experts together to discuss the past, present, and future of payments technology on Capitol Hill. Staff from congressional offices, law enforcement officials, and ETA members and regulatory staff all took part in the event.

During one panel, Megan Hannigan of PayPal, Melissa Netram of Intuit, and Erich Wurst of OnDeck discussed how new ways to access capital can benefit small businesses and the economy. In total, there were six sessions that provided ETA members key opportunities to educate lawmakers and policy experts in Washington, D.C.

1. (Left) Daniel Saks, AppDirect, and Jason Oxman, ETA, at TRANSACT Tech San Francisco 2. (Left to right) Marla Knutson, CardFlight; Sarah Schaaf, Headnote; and Sophie McNaught, Silicon Valley Bank, at TRANSACT Tech San Francisco 3. Networking at TRANSACT Tech San Francisco 4. Steve Boms, Allon Advocacy for Yodlee, at ETAU 5. Sam Taussig, Kabbage, at ETAU 6. Melissa Netram, Intuit, at ETAU

PCI Security Standards Council Announces New Standard, New Program

The PCI Security Standards Council (SSC) has announced two new initiatives: a standard focusing on software-based PIN entry on commercial off-the-shelf (COTS) devices, such as smartphones and tablets, and a new Associate Qualified Security Assessor (AQSA) program.

PCI's new Security Standard for PIN on COTS devices provides requirements for developing secure solutions that allow EMV contact and contactless transactions with PIN entry on merchants' devices using a secure PIN entry application in combination with a Secure Card Reader for PIN (SCRP). ETA has been in productive conversations with the Council regarding this announcement and the associated timeline.

While existing PCI standards require hardware-based security protection of the PIN, "we are now building on this foundation with a new standard that allows for an alternative approach to secure PIN entry by isolating the PIN from other data and using a new robust set of security controls that extend beyond the physical hardware device itself," said PCI SSC Chief Technology Officer Troy Leach. "The PCI software-based PIN entry standard gives solution providers and application developers a baseline of security requirements specifically for accepting EMV contact and contactless transactions using software-based PIN entry."

The new standard covers active monitoring of the service to mitigate against potential threats to the payment environment within the phone or tablet; isolation of the PIN from other account data; ensuring the software security and integrity of the PIN entry application on the COTS device; and protection of the PIN and account data using a SCRP. Under the new standard, merchants may be able to accept payments with just their mobile device and a small card reader connected to it, along with a PIN entry application.

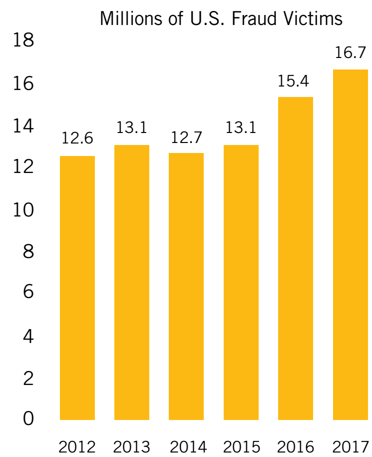
ETA has reached out to the PCI SSC expressing some concerns with respect to the rapid pace and schedule related to the PIN entry on COTS standard. In a January 26 letter to the Council, ETA CEO Jason Oxman asked that the Council "recognize the impact the proposed standard will have on the industry and consider how to move forward in a fashion that will enable fuller industry comment and contribution." Discussions are ongoing.

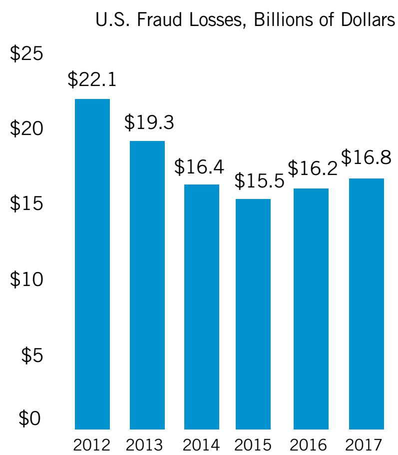
In a separate announcement, PCI SSC revealed it is accepting applications for the new AQSA program, an initiative aimed at protecting the payment card industry by ensuring quality QSA services for merchants and service providers.

QSA companies provide on-site assessments of a company's PCI Data Security Standard compliance to ensure the proper protections and policies are in place to protect payment data from cyberattacks and breaches. The AQSA program equips companies with a path to bringing in new cybersecurity professionals and developing them into full QSAs under the guidance of an experienced mentor.

"An overall shortage of cybersecurity talent is making it difficult for QSA companies to find suitable new assessors," said PCI SSC Chief Operating Officer Mauro Lance. "As a result, assessors are increasingly expensive to hire and retain, driving assessment costs up for merchants that rely on their services."

Fraud Victims and Losses Continue Three-Year Rise





Source: "2018 Identity Fraud Study," Javelin Strategy & Research

Prioritizing the Year Ahead

Last year's progress inspires confidence for 2018

By Scott Talbott

In politics, optimism can at times feel elusive. After all, the U.S. legislative system was wisely designed by our nation's founders to be slow, deliberate, ponderous—not words that often inspire optimism in an era of instant gratification.

But looking back at all the success and progress that the payments technology industry advocated for in the halls of our federal government and state houses across the country in 2017, I can't help but think that the public policy glass is more than half full in 2018.

For ETA, 2017 was a year of wins—from enacting pro-growth tax reform that has already enabled our members to bring higher wages to their employees and increased investment to their products, to stopping the implementation of an overly restrictive anti-arbitration rule, to helping to create a positive regulatory environment and advocating for the growth of fintech. I am proud to say that ETA members, through our Payments Fly-In on Capitol Hill, FinTech Policy Forum, Lunch and Learn sessions on Capitol Hill, and many other policy events in the states, contributed directly to those significant victories. Thanks to the hard work of our members, American consumers and companies alike are seeing the benefits of a public policy environment that encourages innovation.

But that most certainly does not mean ETA's government relations team and our members are resting on these laurels. There is still plenty of work to be done, and we're already working to build on the positive policy environment.

General Principles and Priorities

ETA is focused on advocating for public policies that best encourage the growth and competitiveness of our industry. We are supportive of policies that encourage a competitive marketplace, a positive policy environment that bolsters the development of fintech, the harmonization of state and federal policies, and regulations that take an approach tailored to fit the risk profile of the company.

As we identify, analyze, and advocate for policies that satisfy those general principles, we also are focused on the following specific priorities this year:

Strengthening the payments system. As the regulatory pendulum swings toward a more favorable policy environment in Washington, we see some key opportunities to help strengthen our industry and make it easier for ETA members to serve their customers.

Data breaches are an unfortunate reality of our business, and threats from sophisticated fraudsters remain a concern. That's exactly why ETA is pushing hard for Congress to enact a uniform national data breach notification standard.

Payments technology companies of all sizes often work on the national scale, and, presently, each state sets its own laws for notifying customers when a data breach occurs. That means when a company is the victim of a breach, it must comply with more than 50 different laws for notification. That costs lots of time—which is of critical importance and in short supply during a breach—and amplifies compliance costs and risks. Plus, it is confusing to consumers. In 2018, ETA will be advocating for Congress to codify a uniform system to help strengthen the payments system's response to a breach.

Further, ETA supports market-based incentives to purchase data breach insurance, and we will work with policymakers to establish appropriate federal data security standards for non-banks, so all are prepared to prevent and respond to a data breach. In addition, it's time to bring the Telephone Consumer Protection Act up to speed with the 21st century so that financial services companies can have a clearer, risk-adverse pathway to contacting their customers during data breaches and routine business matters.

Broadly, ETA will continue to advocate for patent reform, which will unlock innovative tech solutions in payments, and educate policymakers on key products and services like EMV, tokenization, person-to-person, and online small business lending.

Encouraging innovation. Ensuring a robust, competitive environment so that payments technology can continue to evolve is a focal point for ETA and my team.

We are working to advance policies that encourage partnerships between fintech companies and traditional financial services companies. The financial service products of tomorrow will come from partnerships between legacy players and newer entrants into the market. We continue to support approaches like the Office of the Comptroller of Currency's (OCC) fintech charter and pieces of legislation like the Financial Services Innovation Act because they encourage partnership and competition.

Ensuring appropriate regulatory reform. To help sustain the current pro-growth regulatory environment, we fundamentally support right-sized regulatory responses that are appropriately tailored and supportive of innovation. My team and I are encouraged by the new appetite to modernize outdated or ineffective regulation on the federal level.

We want to create a positive regulatory environment that encourages fintech, and that is going to mean fostering dialogue between payments technology stakeholders and federal regulators.

Educating state policymakers. In 2017, we anticipated that states would increase their policymaking with regard to payments technology and fintech firms. We were right, and I expect that these regulatory and legislative efforts in the states will only grow in 2018.

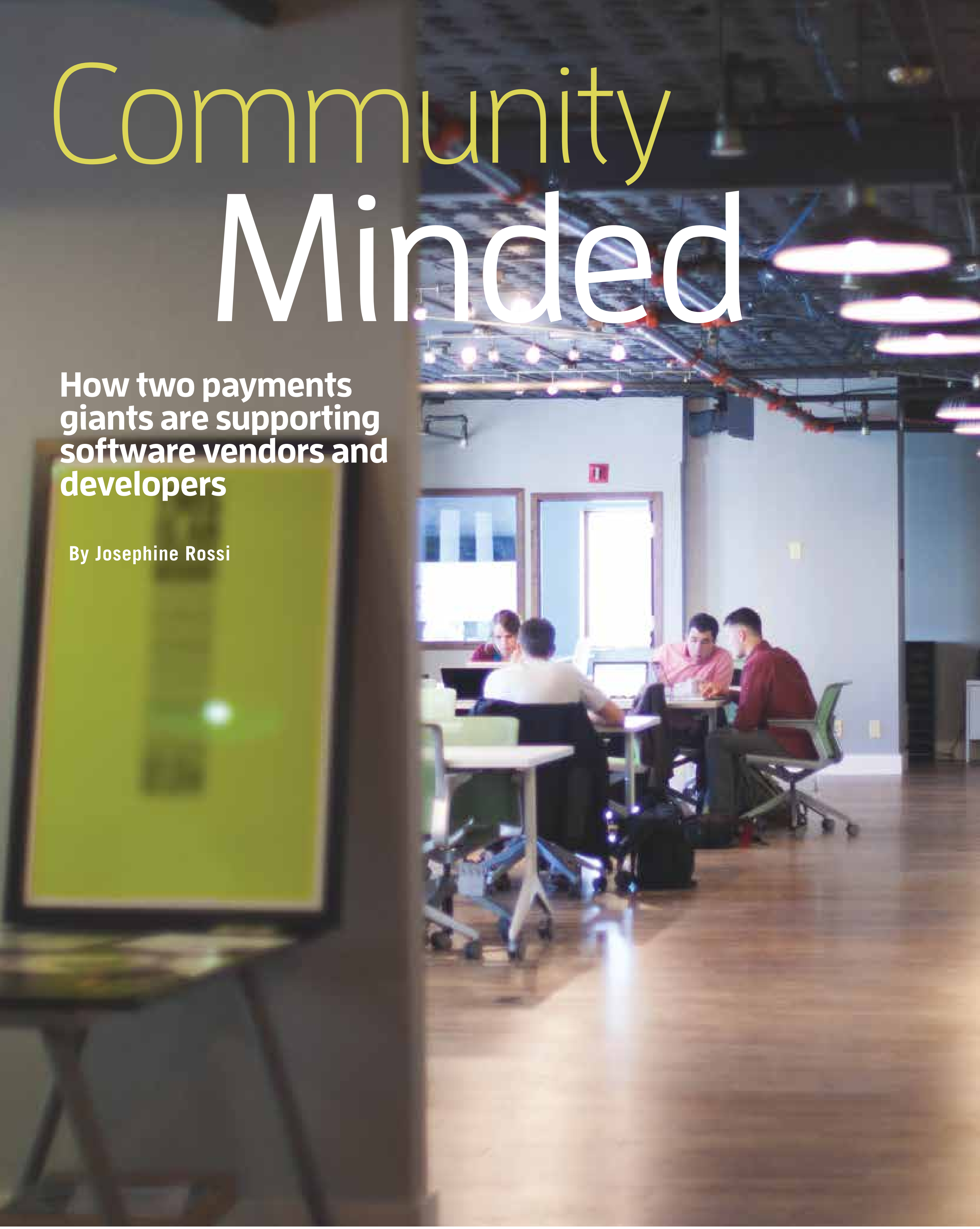
When budgets get tight, state lawmakers look for ways to close the gap, and, increasingly, the payments technology comes into the crosshairs. As the regulatory environment loosens at the federal level, some states move to tighten. In 2017, ETA's advocates activated in state houses all over the country to keep burdensome, unnecessary, or costly measures like real-time sales tax collection off of the lawbooks.

In 2018, we will increase our efforts to work with and educate state policymakers on the modern payments industry. Providing data and context on the benefits that an innovative and free market for the payments industry brings a state's economy will help yield positive outcomes.

Promoting financial participation and financial well-being. One of the most incredible benefits of a market that encourages fintech innovation and growth is that the products become more inclusive. ETA will continue to highlight what our members are doing to expand opportunities and participation to the underserved. We also will promote how electronic transactions enhance financial well-being to consumers and small businesses alike through things like mobile payment and banking apps, advanced analytics, and integrated financial literacy coursework.

Washington isn't always an optimistic place, but, as I reflect on 2017 and our priorities for 2018, I think there are plenty of reasons for ETA members to feel confident about the year ahead. ***TT***

Scott Talbott is senior vice president of government affairs at ETA. For more information, please contact Talbott at stalbott@electran.org or Grant Carlson, government affairs specialist, at gcarlson@electran.org.



Community Minded

How two payments giants are supporting software vendors and developers

By Josephine Rossi

Community. It's a term used to describe groups of people who are linked by commonalities and who share a sense of belonging. Psychologists and sociologists attribute community—or lack of it—to the success and failure of social, political, and economic structures. Researchers have tied community participation to personal well-being, health, and happiness. And even the business world has turned to community building as a means for improving employee accountability and performance.

In the payments profession, "community" has become a necessary part of the vocabulary as rapid technological advancement, changing consumer buying behaviors, and omnichannel commerce have created a need for customized solutions for merchants. Whereas payments acceptance was once an isolated part of the merchant business, it now must be part of a seamless experience for the customer and cohesive business operations for the merchant.

Enter the independent software vendors (ISVs). They've arrived on the scene ready to serve with highly customized software solutions that help merchants manage their businesses and accept payments at the same time. More than 10,000 ISVs exist in the United States alone, according to a 2017 joint report from ETA and the Strawhecker Group, and their entry into the landscape is forcing collaboration with the payments industry and changing business practices for the future. With software now at the center of merchant business operations, "the model going forward is technology-enabled, software-led distribution that allows integrated payments with more flexibility and less friction."

As a result of this shift, collaborating with ISVs has become a must for most players in the payments space. Among other benefits, working with ISVs offers payment companies a new channel for merchant acquisition and increased stickiness as merchants become dependent on business-management software and the cost of cloud-based solutions decreases over time.

For two of the largest acquirer/processor companies in the world—Vantiv, now Worldpay, and First Data—embracing software professionals and building a classic sense of community has been part of their business strategies for years. Creating what both companies describe as "open platforms" and mechanisms for collaboration, however, was made easier through recent key acquisitions.

First Data actually created its Integrated Solutions Group (ISG) prior to acquiring CardConnect in July, but the latter move "put the program on steroids," according to Rob Nathan, EVP of integrated solutions for CardConnect, a First Data company. "We've been spending the last six, seven months working hand-in-hand with First Data … adding our tools, technology, people, culture, and the processes and platform" to facilitate collaboration, he says, noting the company is still "actively in the processes of combining our platform of Clover."

Similarly, the acquisitions of Element Payment Services in 2013 and Mercury Payments Systems in 2014 gave Worldpay a launch pad for its Vantiv ONE program in 2016, says Matt Taylor, EVP, global integrated payments and SMB e-commerce. "Both [companies] were pioneers in creating the ability for ISVs, or the development community, to connect to a payment platform," he says.

Taylor ranks Worldpay's priorities for Vantiv ONE: global e-commerce, global integrated payments, and omnichannel capabilities for merchants of all sizes. "Because the software developers are driving scale, innovation, and capabilities, [it] is really important to have an experience for them that's attractive, that helps them commercialize very quickly, that removes some of the barriers for plugging into or selling to a single view of the customer," he says.

First Data also is committed to an effective and holistic experience for software companies to integrate in an omnichannel environment. "There are thousands and thousands of software companies that are looking to have the right partner and more than just a set of APIs," says Nathan. "I think the key is just having one simple way they integrate, and then a robust platform to manage [their] experience."

Membership

In theoretical terms, individuals feel a sense of community when membership in a group matters. By forming ISG, First Data sought out collaboration with ISVs, developers, value-added resellers (VARs), system integrators, and other market participants, according to press materials, but Nathan says the company's "core focus" is attracting and engaging software companies. ISVs that partner with First Data receive an all-inclusive experience, including access to a full library of integration specifications and self-guided or assisted certification processes. Other benefits of ISG partnership include those offered to merchant clients, such as sales, marketing, and training support; automated boarding processes; loyalty offerings; data analytics tools; hardware; and more.

WORKING WITH ISVS OFFERS PAYMENT COMPANIES **A NEW CHANNEL FOR MERCHANT ACQUISITION AND INCREASED STICKINESS** AS MERCHANTS BECOME DEPENDENT ON BUSINESS-MANAGEMENT SOFTWARE.

At the same time, the company also enhanced its Clover POS platform to allow developers to build their own branded solutions for merchants. Among several improvements, app developers can now access code and write applications for the Clover app market to enhance capabilities for businesses running Clover POS hardware out of the box, says Nathan. "The app market … is a powerful tool to make Clover a more robust platform." He likens it to an iPhone user downloading apps from the Apple App Store to build a more personalized and functional mobile device.

Worldpay describes the Vantiv ONE program as a "network" for payments integration. "Taking an open-source approach, the platform does not restrict developers to certain software, payment types, or even processors—its design is simply to give developers the toolkits they need to create payments solutions that can work on any platform," according to press materials.

Taylor explains that the program has three pillars. The first is called Tech Tools, which is a suite of APIs and software developer kits (SDKs) and an environment for developers to build, test, and certify their solutions. The second is Tech Lift, an "organization" within Worldpay comprising technical support professionals with experience in certification and "problem solving for [the] live processing environment" and software engineers who are well versed in coding, software languages, and formats. The combined team "basically looks at our client needs … and maps out an architecture that would best solve for their needs and help them succeed in the market," says Taylor.

The third pillar is Tech Tribe, a crowd-sourced community that developers can access through a log-in only portal and is overseen by a Worldpay community manager. The peer-to-peer environment allows developers to interact with other developers to problem solve and share success stories. "It's something that we continue to be thrilled about as it keeps growing," says Taylor.

Influence

For any community to flourish, experts say influence should be a two-way street. Because they tend to specialize in specific merchant verticals, software vendors expose payments companies to new sales channels. In return, payments companies offer ISVs that may be green in payments the expertise they need to understand industry nuances and expectations.

Taylor says this is the case for the Tech Lift team. Aside from assisting developers with the mandatory elements of payments such as security and PCI compliance, he points to examples of bridging technologies to provide a better customer experience.

"Maybe a client is only thinking about online payment processing because they are an online-only startup," he says. "Maybe [we talk] to them about the various mobile wallet options out there from—Apple Pay, Google Pay, Visa Checkout—and showcase [how] that tech add-on could make a difference to some online customers. 'Solutioning' also helps them think about factors in driving a better omnicommerce experience for those clients wanting to branch out and grow, helping them think about all the use cases where customers might browse products, shop, return, and more."

Nathan agrees that the payments company should play a consultative role for developers across all aspects of the merchant payments cycle. The software providers, in turn, also help to keep First Data on track in terms of having the right tools and experiences in place to attract the business-savvy ISV crowd for long-term relationships. "It took us years and years to build [a flexible platform], and we continuously do it," he says. "We have development sprints mainly that are in response to what our software companies want. It's challenging to continue to build these things, to innovate … to actually produce what we say."

Connections

Members of successful communities also have shared connections. Despite all of the technology involved in maintaining a robust software developer program, both companies place a high emphasis on human interaction to nurture relations. First Data has four offices, in Philadelphia, Chicago, Denver, and Kansas City, dedicated to in-person business development with new software companies. "We have solutions engineers that are devoted to understanding our technology inside and out, helping the people that are making decisions from these software companies get across the finish line, and get these deals closed, and make sure that they're comfortable," says Nathan.

After an ISV is on board, it works with an integration team, partner development employees who "proactively put together growth plans," and a marketing team, says Nathan. First Data also deploys a team to meet in person with the ISV. "We're in their offices, we're understanding their software environment, … how their sales teams work, and how we can embed our payment experience within their culture," says Nathan.

First Data also makes it a priority to attend tradeshows and participate in speaking engagements to grow strong community and business development roots. In addition, the company participates in an incubator program with Silicon Valley Bank called "Commerce.Innovated." It's described as "an accelerator designed to help commerce, payments, and fintech companies grow their businesses." February 2017 marked the induction of the seventh class to the four-month virtual program, which provides five companies from the United States, Canada, and Europe with operational mentorship from Silicon Valley Bank, First Data, and their networks.

In Durango, Colorado, Worldpay hosts an innovation lab where the community can experiment with the next generation of payments. "It's really important for us to keep track of emerging trends and see what the future of payments could look like in the next five to 10 years," says Taylor.

Payments over voice, robotics, and virtual reality are among some of the concepts currently being tested in the lab. "Our team built a voice-activated auction website as one of the projects, using our payments technologies and Amazon Echo to see and learn more on the voice trend in payments," Taylor explains. "You could experience this and make a voice payment in person in our lab today." For those who cannot make it to Durango, Worldpay hosts an online version of the physical lab on the Vantiv ONE portal.

Taylor says Worldpay also offers its APIs and other tools to students and young developers who are looking for access to automated code "to just try things out or test ideas" in a commercialized environment.

"Tech Tribe is geared a lot toward giving access to a community of the young, burgeoning software developers, as well as more established ones," he explains. "We find the two collaborating quite a bit. If you've got somebody that's young, that's just starting something in a mobile or alternative currency space, and they want to talk to somebody that's got an established business inside retail or services marketplaces, they can log in or create an identity in the Tech Tribe developer community and start solutioning together."

Rewards

The remaining hallmark of a successful community is for its members to feel rewarded for their participation. During a recent earnings conference call, First Data offered investors quantitative results for the company's ISV endeavors during 2017.

"Our pipeline of ISV opportunities has tripled, and our total number of live integrations is up over 70 percent," said Frank Bisignano, chairman and CEO. "During the fourth quarter [of 2017], we had 24 new ISVs go live. And finally, merchant production across the ISV channel has more than doubled."

A Worldpay spokesperson says the Vantiv ONE program has created a new revenue stream and new channel of leads for the company. The program is "growing as fast as or matching the capabilities of the software ecosystems at a market level," and he attributes much of success to the program being vertical- and product-agnostic. "We're seen as noncompetitive, and, in many ways, that gives us access to a look at everything that's going on out there."

Roughly 4,000 members are active in the developer community, according to Taylor. "It's been phenomenally successful to get access to the base of innovation that's happening in the market," he says.

Moving forward for both companies, challenges also are opportunities. Nathan says there are many hurdles in creating a program like ISG and keeping it running like a well-oiled machine. First Data will be concentrating on "producing revenue and having meaningful partnerships that are impactful to both businesses," he says. "How do you make it efficient, and actually produce revenue, which is what everybody wants out of these relationships?"

Taylor points to the opportunity of competing for global scale outside of the United States and possibly Europe, where integrated payments is a "very immature" market.

"It's a fast moving, highly competitive marketplace with consolidation and innovation happening all over the place," Taylor says. "We've got key decisions to make … and that's as much of a challenge as it is an opportunity." ***TT***

Josephine Rossi is editor of Transaction Trends. *Reach her at jrossi@contentcommunicators.com.*

Risk Management Refresh

Keeping pace with the ever-changing payments space and associated regulatory environment, ETA has revised one of its most widely accessed publications, the "Guidelines on Merchant and ISO Underwriting and Risk Monitoring." First published in 2014, the document was updated in 2016 and has now been revised for 2018 to incorporate important changes, including guidelines to comply with the Financial Crimes Enforcement Network's (FinCEN's) beneficial ownership rule.

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ETA releases updated version of seminal merchant and ISO underwriting guidelines

By Christine Umbrell

The publication of the revised guidelines was officially announced February 15, when ETA CEO Jason Oxman testified on Capitol Hill at a hearing of the Subcommittee on Financial Institutions and Consumer Credit. During the hearing, which focused on "Examining De-Risking and Its Effect on Access to Financial Services," Oxman educated lawmakers about the risks involved in underwriting and explained how the newly revised document provides information regarding recommended effective tools to help mitigate merchant risk in the card acceptance ecosystem.

"For both back-end networks and systems, as well as consumer payment products, payments technology firms have heavily invested time and resources into ensuring data security," Oxman explained during the testimony. "The rate of fraud on payment systems is at remarkably low levels, thanks to due diligence programs to prevent fraudulent actors from accessing payments systems."

ETA's newly revised underwriting guidelines serve as one tool to help payments companies avoid conducting business with such fraudulent actors. When they debuted four years ago, they quickly gained acceptance as industry best practices. They continue to remain highly regarded, in part, because they keep current with the changing payments ecosystem.

The "Guidelines on Merchant and ISO Underwriting and Risk Monitoring" was originally published "with the intention that they would be a living document," explains Amy Zirkle, ETA's vice president, industry affairs. "Its value comes in its being current, to reflect the current practices in risk management." Entities that provide payments acceptance to merchants and third parties are required to follow strict rules and regulations imposed by the card brands, she says, and the document serves as "a very efficient tool for underwriting."

For the latest update, subject matter experts re-evaluated the entire document to ensure that ETA members have thorough information to support their risk management practices. "The guidelines were developed through a collaborative process," explains Andrew Bigart, Esq., partner with Venable LLP, who participated in the latest revisions. "ETA members and industry practitioners worked together to develop the voluntary best practices outlined in the document."

Some sections within the 2018 revision needed no significant changes, and adjustments to other sections were more stylistic, according to Zirkle. The most significant revisions, however, included a section on the beneficial ownership rule, which goes into effect in May 2018, and a chart of "red flags" to assist members in identifying potential problem areas.

Beneficial Ownership

The new version of the document offers guidance for payments professionals seeking to adhere to FinCEN's final rule on customer due diligence (CDD), which was adopted in 2016 but with mandatory compliance delayed until May 11, 2018.

"The CDD rule requires covered financial institutions to establish and maintain written procedures that are reasonably designed to identify and verify the beneficial owners of legal entity customers," according to the U.S. Department of the Treasury. "These procedures must enable the institution to identify the beneficial owners of each customer at the time a new account is opened, unless the customer is otherwise excluded or the account is exempted. Also, the procedures must establish risk-based practices for verifying the identity of each beneficial owner identified to the covered financial institution, to the extent reasonable and practicable. The procedures must contain the elements required for verifying the identity of customers that are individuals under applicable customer identification program requirements."

BONUS CONTENT: Log in to www.electran.org/member-only-content to download the complete updated version of "Guidelines on Merchant and ISO Underwriting and Risk Monitoring."

A "beneficial owner" includes any individual who, directly or indirectly, owns 25 percent or more of the legal entity in question, or one individual who has significant responsibility to control, manage, or direct the legal entity.

The CDD rule amends the anti-money laundering (AML) program requirements for covered financial institutions, including banks and credit unions, "to explicitly require covered institutions to implement and maintain appropriate risk-based procedures for conducting ongoing customer due diligence," according to the Treasury guidance.

To ensure ETA members are prepared to engage in practices in alignment with the CDD rule, the revised "Guidelines on Merchant and ISO Underwriting and Risk Monitoring" offers recommendations regarding compliance with AML regulations as well as the FinCEN's beneficial ownership rule and its impact on the process of customer identification and verification, according to Bigart.

For example, starting in May, banks are obligated to identify and verify the beneficial owners of all legal entity customers at the time of account opening. "Even if a processor, ISO, or payment facilitator is not directly subject to these requirements, these entities are almost always contractually required by their sponsor banks to engage in customer identification and verification activities," according to ETA's new guidelines. "As such, processors, ISOs, and payment facilitators should implement programs designed to capture the customer information of merchants (including beneficial ownership information) seeking access to merchant processing accounts."

The revised document also explains that, once the FinCEN rule takes effect, banks will be required to "identify and verify a legal entity customer's beneficial owner(s) at the time of account opening. To ensure compliance, sponsor banks are likely to push these beneficial ownership requirements to their processor, ISO, and payment facilitator partners." ETA members can expect to find additional instructions regarding adherence to the new rule in the full document.

Red Flags

Another important update to the 2018 guidelines is the addition of Exhibit L, a chart titled "'Red Flags' in Merchant Underwriting and Monitoring." This chart lists several "red flags that might indicate to someone that something fishy is going on with a merchant," explains Zirkle.

This section offers specific suspicious activities to look for and explains what each activity could mean. Red flags are detailed in eight categories: application information; beneficial owners, hidden owners, and controlling persons; background checks; related accounts; merchant site visits; merchant marketing; multiple merchant identification numbers; and ongoing monitoring.

This chart should be seen as a tool to aid payments professionals in identifying potential areas of concern. For example, a red flag of "inconsistent information" indicates the processor should "make an accurate evaluation of the merchant." In addition, an overly optimistic anticipated sales volumes for a startup "should trigger an inquiry about whether the merchant has been truthful in completing its application." And "straw men" accounts may suggest "load balancing, or a merchant's inability to pass usual risk reviews on its own," according to the updated guidelines. These are just three of the more than 30 red flag examples included in the new chart.

Additional Modifications

While the revisions related to beneficial ownership and the addition of the red flag chart are the two most significant updates to the 2018 underwriting guidelines, the entire document has been updated to feature language and suggestions that are in compliance with the most recent changes in the payments ecosystem. Rewrites and additions have been made throughout. Below are just of few of these new changes:

- An addition to the section on time frames for merchant underwriting policy has been made to indicate that "automatic approvals" should be reserved for lower-risk merchants that have met basic hurdles.
- In the section on activities that support risk management goals, EMV considerations have been added.

UNDERWRITING GUIDELINES **AT A GLANCE**

While ETA members are only required to comply with card schemes and applicable laws and regulations, ETA's "Guidelines on Merchant and ISO Underwriting and Risk Monitoring" document offers recommendations to help members evaluate the types and degrees of exposure that different types of merchants present. This information can help members in determining whether the risks posed by merchants are acceptable or can be mitigated satisfactorily through conditions or restrictions. The following topics are covered as in-depth sections of the whitepaper:

- Guidelines for Underwriting Merchant Accounts
- Merchants Requiring Enhanced Underwriting Due Diligence
- Guidelines for Risk Management of Merchant Accounts
- Risk Management for Merchants Requiring Enhanced Due Diligence
- Guidelines for Sponsoring and Monitoring of ISOs

• The section on monitoring of micro and mobile merchants has been amended to include "instant boarding" merchants.
• Section 5, "Risk Management for Merchants Requiring Enhanced Due Diligence," has been rewritten to improve the overall readability of the section, including updates from the Federal Trade Commission and VISA regulations. Best practices also have been enhanced.

The Basis for a Micro-Credentialing Program

Publication of the newest version of the guidelines paves the way for the debut of an associated micro-credentialing program. In addition, ETA is planning to develop a micro-credential based on its payment facilitator guidelines as well. "We're moving forward with a micro-credentialing program and also are in discussions with a number of companies around the development of a corporate certification program tied to those guidelines," she says.

While plans for the micro-credential have not been finalized, "we are looking to leverage the guidelines as a vital ETA industry document and the basis for an online micro-credential course" that requires certificants to demonstrate a deep knowledge of the document, Zirkle says. The credential will be offered online so individuals can work through self-paced modules.

Zirkle says ETA will likely offer courses to walk potential certificants through the document. "Included throughout the courses will be knowledge checks for each section" to ensure participants accurately grasp the content. "This is a way to engage the industry in really knowing the document, inside and out," she adds. Micro-credentialing participants may include "anybody in the risk space—acquirers, processors, ISOs—anybody interested in the risk management compliance piece," Zirkle says.

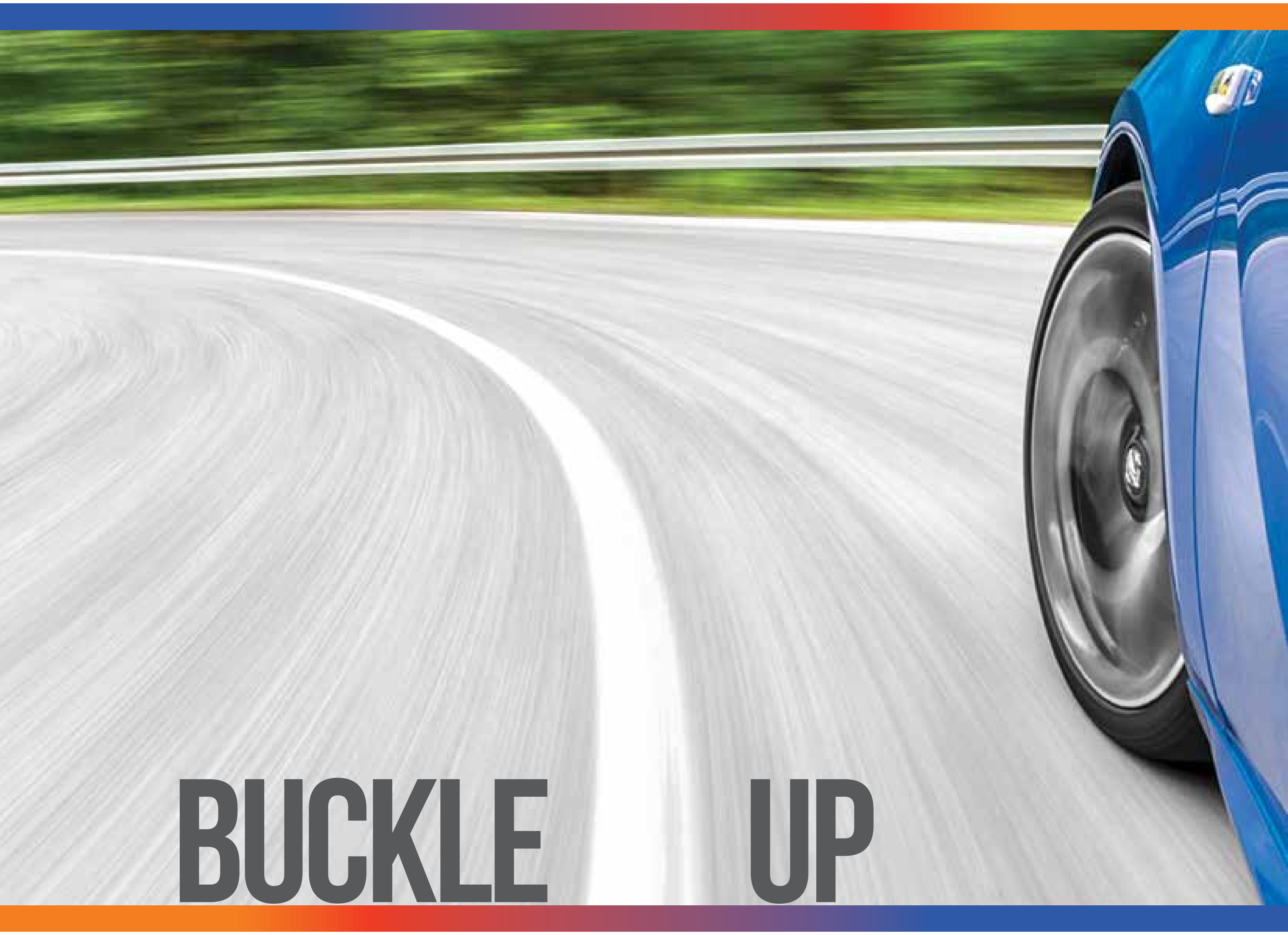
Part of the Payments Solution

The 2018 version of the "Guidelines on Merchant and ISO Underwriting and Risk Monitoring" is designed to assist ETA members in improving security and reducing risk in payments, but it is just one part of a comprehensive and strategic payments strategy that should be embraced by payments professionals. "ETA's overall goal is to be the hub around all things payments, and risk management and security is a big part of that," says Zirkle.

Adds Bigart, "For payments professionals, whether in sales, compliance, or risk, the guidelines [is] a great resource for understanding best practices for merchant and ISO underwriting and risk monitoring." ***TT***

Editor's Note: The information provided here is based on the publication, "Guidelines on Merchant and ISO Underwriting and Risk Monitoring," developed by a working group consisting of risk professionals and other personnel from various ETA member companies. Readers should refer to legal or other counsel for complete guidance.

Christine Umbrell is a contributing writer to Transaction Trends. *Reach her at cumbrell@contentcommunicators.com.*



BUCKLE UP AT TRANSACT

Prepare for accelerated change in the payments industry, with five key trends leading the way

Payments professionals from around the globe are preparing to travel to TRANSACT, the world's largest payments technology tradeshow. When they arrive for the three-day event in Las Vegas in April, attendees should come prepared to collaborate on the future of payments and ready to explore the innovative solutions in the Exhibit Hall to help their companies compete in the ever-evolving world of electronic transactions.

Driving much of the conversation on where the industry is headed and how companies can position themselves for success in the coming years is a new report that details the five most pervasive trends in the payments space for this year. The ETA-sponsored IDC Market Spotlight report, "Payment Trends To Watch in 2018," highlights new technologies and areas of growth, including software, voice-enabled commerce, artificial intelligence (AI), the Internet of Things (IoT), security, and more.

"The payment market remains one of the hottest areas in technology and financial services," said James Wester, research director for IDC Financial Insights and author of the report. "If the last weeks of 2017 were any indication, 2018 will see more excitement and interest, as well as more entrances, mergers, and acquisitions."

While 2017 was the year payments became a topic that touched every aspect of the business world, 2018 is poised to show continued progress while presenting new challenges for leadership, according to Wester. But despite fast-moving changes within the industry, the report suggests that merchants and payments professionals must continue to recognize the importance of POS systems to the retail customer's experience. Consumers have shown a desire for an enhanced experience at the point of sale, and merchants and vendors must deliver new—and secure—capabilities and experiences.

Read on to find out how each of the five trends outlined in the "Trends" report may impact the future of payments, then travel to TRANSACT to discuss these trends, forge new partnerships, and experience products and technologies designed to help professionals and companies prosper in the changing payments landscape.

Trend 1: The Point of Sale/Interaction Is Changing

This year, the industry is poised to see even more evolution at the point of sale as payment terminals continue to advance and offer new solutions for enterprise resource and planning and customer relationship management. As that happens, the interactions that consumers have become accustomed to will change, too, according to Wester.

"The next phase of the POS evolution will see two different threads come together: the push by large retailers for a POS that is more intimate, and the need of small retailers for powerful, integrated POS systems that are modestly priced," wrote Wester in IDC's report. "At one end of the spectrum, large retailers have looked to their POS equipment to handle not only money and transactions, but also data." But, as Wester notes, "small retailers have come to expect the same level of functionality from their equipment, except at a lower cost and with a smaller footprint."

This is a space where Verifone and Square have found success by offering turnkey systems that are low cost and powerful, while combining acceptance of a variety of payment types with other services, such as loyalty and rewards programs. As shoppers continue to search for a seamless experience that provides continuity across all channels, merchants must meet those expectations and will continue to look to their POS vendors for help.

In fact, IDC forecasts that U.S. merchants will spend nearly $1.7 billion on POS hardware in each of the next two years, and those investments will be made with vendors that can deliver an exceptional and seamless customer journey, connect to an ecosystem of adjacent value chains, and offer the most value to the retail shopper.

Trend 2: Software Is the New Hardware

As the point of sale evolves in 2018, so will the software associated with those terminals and devices. U.S. merchants will spend $2.2 billion this year and $2.4 billion next year on POS software alone, according to IDC. In addition, spending on customer analytics and loyalty management solutions is predicted to hit $1.4 billion in 2018 and $1.6 billion in 2019.

"The idea of having a standalone system that just sits there and records transactions—especially in this market where things are becoming tighter and tighter—it's a hard business to be in," Wester said in a recent interview with ETA. "But, if you can start adding value on top of it, if you're building networks on top of that money movement, that gives you an opportunity to start extracting revenue from that value you created."

As software and an omnichannel environment become more crucial to commerce, manufacturers are building the hardware and turning the software capabilities over to external companies, some of which are just entering the payments landscape. By developing partnerships and opening their ecosystems to third parties, POS vendors and partners rely on software developers to anticipate the needs of specific merchant segments and offer them solutions in an agile manner.

"What companies are now doing is saying, 'Let's not think that we want to lock down that software on the point of sale, but instead let's turn it into a platform. Let's invite developers in. Let's, in fact, reach out to developers,'" said Wester. "The hardware is at the nexus of all of these different relationships. So now there are all of these really cool solutions that are being put onto the device to do things well beyond the transaction. It uses all of the transaction data, and all of the [information] flowing back and forth to the retailer. … The point of sale is becoming a very important part of how omnichannel commerce is going to be run."

eta | Listen to ETA CEO Jason Oxman and IDC's James Wester discuss the five trends for 2018 in the inaugural episode of ETA's podcast, *Transaction Trending*. Visit www.transactiontrends.com and subscribe to *Transaction Trending* on Apple Podcasts, Google Play Music, SoundCloud, or Stitcher.

During 2018 and beyond, POS vendors and their payment partners will look for new revenue opportunities by offering access to an ecosystem that delivers new solutions in addition to card acceptance.

Trend 3: Voice, AI, and IoT Are Commerce Channels

While merchants are seeking the latest and greatest POS hardware and internal software, they're also faced with the challenge of understanding how consumers buy their goods and services. As technology advances and different payment options become more widespread, merchants will have to continually adapt.

"A recent IDC survey found only one in three U.S. consumers had used mobile payments at the POS, and only 38 percent had used their mobile device to make a peer-to-peer (P2P) payment," the "Trends" report states. "However, one needs only look to other markets around the world to see the future of mobile payments." As consumers in China, India, and other countries continue to embrace mobile payments, P2P payments "will top $6 trillion worldwide by 2020," according to the report.

In addition to purchasing goods at a traditional point of sale or through their mobile devices, consumers now can make purchases using their voice through personal assistants like Google Home and Amazon Alexa, as well as via AI and IoT. In particular, "voice commerce" is going to be a very important topic this year, according to Wester.

"The ability to use voice-enabled devices to do things like initiate a payment or initiate a transaction will be an important part of what happens in commerce," he said. Voice is "such a natural way to communicate," and it's relatively easy to speak into an Alexa or comparable device to place an order.

Wester predicted that voice-enabled transactions will grow, especially in circumstances where interacting via voice commerce is "better, safer, or easier" than other methodologies—for example, while driving in a car. "If you really want to order or do something, and you're already in traffic or doing something that requires all of your attention, then having that [voice-enabled commerce] is a much safer, better way of interacting. That's the kind of thing that you're going to start seeing more of."

AI also will have a major impact on transactions, and "is that step where [a device] makes a purchase for me because it knows what my patterns are going to be," Wester explained. "Artificial intelligence steps in and says, 'I see the patterns of your uses for laundry detergent, paper towels, or dog food, or any of those things we have to order all the time. This is something I'm going to order for you. I'm going to take care of that.'"

IoT takes the idea of AI one step further, linking all of those patterns across all of the devices that represent the consumer, according to Wester. IDC forecasts that within the next 24 months, 30 million devices—cars, buildings, appliances, and sensors—will all be connected to the IoT and able to make purchases for consumers. In fact, IDC estimates that, during this year alone, those connected devices will initiate $150 billion in transactions. How merchants, financial institutions, and payment technology vendors prepare for this new rush of purchasing ability will be critical to the success of the industry.

"In 2018, we're going to start to have very interesting discussions about how these things work," Wester said. "How do I assign an identity to a device? How do I assign access to my accounts to AI? How seamless is that process—how seamless is it for me to connect wireless devices, not only into my own wifi, but into my financial institution and my financial services? And then how do I control all of that from a spending perspective? … How do I have all of those devices connected in a smarter way so that I am now actually saving money?"

Those questions pose an opportunity for payment professionals to start thinking of answers from a products standpoint, "because I think that's where the opportunities lie … in creating those products, creating those interactions, creating that ease" to facilitate these types of interactions, Wester noted.

Trend 4: Transmission Networks Are Progressing

To make processes as seamless as possible, new payment networks will receive increased attention in 2018 to carry transaction volume, and financial institutions will upgrade their systems. IDC predicts that in the next two years, banks in the United States alone will spend nearly $5 billion on the effort, including hardware, software, and IT services.

"Financial institutions are improving their back-end systems to better connect across multiple channels," said Wester. "Institutions do not want to lose to a non-bank player, and the 'next generation' platform for banks will allow faster connections to new networks."

Wester explained that the financial institutions themselves, sometimes working in conjunction with non-financial networks substituting in, are beginning to offer the ability to clear transactions with faster settlements and faster payments. "These financial institutions around the world are in the process of making that back-end system—their platforms—better able to connect across multiple channels like branch, ATM, mobile, or online. They're trying to connect all those experiences."

In the United States, Zelle, the bank-backed P2P network owned by Early Warning, "is an example of a new network offering a solution for a specific use case," the report highlights. "Additionally, technology vendors like ACI Worldwide and FIS are working on making real-time and faster settlement a reality."

Multiple network options mean financial institutions can offer products for business and consumer customers, such as dynamic routing of payments across multiple competing networks, or support connected banking, where application program interfaces (APIs) provide links into bank systems for third parties to access data for aggregation or money movement. "We're beginning to see the ability to build these networks at a lower cost," Wester said.

Trend 5: Security Is a Never-Ending Priority

Connecting new experiences and new technologies always poses inherent dangers to security and fraud. Unfortunately, hackers will not disappear in 2018, and companies must continue to take proactive steps to ensure their hardware and software remains safe from any data breach.

"Scale will be a key component of the security discussion," the IDC report states. "For instance, since the size of the IoT market is expected to grow so quickly, getting a handle on securing IoT transactions—and the exceptions, chargebacks, and inevitable issues they will cause—must happen sooner rather than later."

Complicating matters is the fact that consumers continue to assign their identities—and the financial accounts attached to those identities—to objects and items in the IoT. "Security is one of those areas where we're going to have some challenges," Wester warned. "We may not fully understand how quickly some of these changes are happening. We really need to get ahead of it."

Fortunately, more companies are recognizing the importance of security, according to Wester. "It's not just about financial loss, it's also about brand damage … so there's more appetite from companies to get ahead of security issues and to take care of those holes and figure things out," he said. "There's a lot more cooperation across organizations, and across companies that would be considered competitors, to [understand] where bad things are happening."

Going forward, the payments industry will have the opportunity to introduce new tools and technologies to meet the growing cybersecurity and fraud threats that merchants face online and in-store. To combat the potential rise in hacking, U.S. vendors are planning to spend $1 billion on security software this year, according to the IDC.

"One of the things we're seeing is that the vendors in this space are beginning to realize there are all sorts of new technologies they can deploy to help combat fraud and security risks," Wester said. "They also have the ability to solve problems that are happening now, but also start building products for that next generation."

Merchants that want to understand the risks before investing in any new technology need to ask questions like the following: How does identity get assigned to a device or sensor? How is fraud anticipated when payments settle in real-time? How is fraud stopped in an IoT world?

"We're building all of these things that are going to improve payments," said Wester, "but are we actually looking at all of those things from a security standpoint as well, and understanding what the ramifications of improving the payments system are, from a security standpoint?" As the transactions space embraces new technologies, it will be important to pay attention to questions of risk, fraud, and security.

Risks, Change, Reward

The payment industry is poised for major changes in 2018 as the point of sale develops new capabilities and consumers are presented with more options for how to purchase goods. However, those new purchasing powers come with increased security threats that merchants will have to tackle head-on in 2018.

"Given the rapid changes to such a vital industry, it is incumbent upon members of the payment market—from financial institutions to technology vendors—to stay involved and engaged," the IDC report states. "They must participate in the discussions that are shaping the space. They must find opportunities to evaluate the trends that are affecting their industry. Now is not a time for complacency or a wait-and-see strategy. New entrants, business models, and technologies need to be understood for players in the space to remain competitive." ***TT***

ISOs: The New Loyalty Experts

The case for ETA's loyalty micro-credentialing program

By Jeff Mankoff and Neil Axe, ETA CPP

In today's hyper-competitive payment processing marketplace, payment processing sales professionals need door openers—beyond price undercutting—to increase merchant profitability and customer retention. One key differentiating path is empowering ISOs and sales agents to sell loyalty and rewards solutions to merchants. However, agents sell only what they know best. To help agents become experts in the loyalty space, ETA is introducing a web-based loyalty micro-credentialing curriculum. More details about this program later.

Why Loyalty and Reward Programs Matter

Loyalty and rewards are big business, and small to medium-sized business (SMB) merchants know this. In fact, the global customer loyalty marketplace is $200 billion strong—composed of an ecosystem of billions of consumer transactions (with 3.8 billion individual loyalty program memberships issued last year in the United States alone). Loyalty, well executed, is a proven strategic tool for optimizing customer lifetime value and maximizing ROI for SMB merchants. More specifically, here are five reasons why loyalty and reward programs are a top priority for SMBs:

1. For in-store merchants, loyalty is the only solution to identify their best customers. Without knowing the customer, a merchant cannot establish a meaningful, sustainable relationship. To-date, the most successful in-store loyalty and reward offerings are hosted primarily by the largest Tier 1 and Tier 2 brands (e.g., Starbucks, Amazon, Walgreens, Sephora, and Nordstrom). However, the situation for SMBs is rapidly changing; ISOs are enabling them to think, act, and execute like their larger merchant cousins. ISOs have recognized the strategic upsell business opportunities, and they are now providing SMBs with sophisticated, differentiated, affordable, and scalable value-added solutions that increase revenue and reduce churn.

2. Payments and loyalty are interdependent for tracking loyalty purchases. ISOs had limited success in selling early generation, mag-stripe-based loyalty schemes. Unfortunately for ISOs, consumers increasingly refused to carry those cards, or merchants preferred not to clutter their counters with additional devices for tracking loyalty purchases. But times have changed. New loyalty solutions are now streamlined and integrated with payments so that loyalty is automatic. Now is the time for ISOs to reclaim loyalty.

3. New POS payment terminal platforms are now customer-facing. Updated POS systems are transforming into smart loyalty engagement devices—designed to seamlessly integrate and enable automatic

Consumer-Related Loyalty Usage Statistics

- Consumer enrolls, on average, in 14 loyalty and rewards programs.
- User is active in only six programs.
- Eighty-one percent declare loyalty programs incent continued patronage to merchant.
- Sixty-six percent will modify spend to maximize loyalty benefits.
- Seventy-three percent are more likely to recommend specific merchants with "good" loyalty programs.
- Fifty-seven percent desire interaction via mobile.

Source: "The Loyalty Report 2017," Bond Brand Loyalty enrollment, loyalty tracking, and rewards redemption. Cayan, owned by TSYS, and vPromos, a terminal integrated loyalty provider, offer separate loyalty solutions that allow consumers to seamlessly earn and redeem points simply by paying with their chosen payment card, all without additional cluttering loyalty tracking hardware. These integrated loyalty platforms also provide additional stored payment and shipping credentials, email-delivered receipts, and purchase history archives.

4. Integrated loyalty solutions come with Big Data analytical software tools. With payment-integrated loyalty data, SMBs now have answers to questions like the following:

- Who are my best customers?
- What are loyal customers spending vs. nonmembers?
- How often do the merchant's best customers shop?
- How long do the merchant's customers stay loyal before churning?
- What is a merchant customer worth?
- What is the lifetime value of my customer?

From these tools, SMBs gain real-time insight and intelligence about their ongoing performance and realize prime top-of-mind future opportunities for establishing meaningful, sustainable, customer relationships from which to personalize and customize 1:1 promotional offers and communications via email, text, social media, mobile app, phone, or post.

5. Loyalty reduces client churn to competing ISO providers. Terminal and POS-integrated loyalty solutions are sticky for ISOs. Merchants with a loyalty base in the thousands will most likely not be willing to forfeit their loyalty program to save processing pennies.

Loyalty is central to payments, and, thanks to continuous advances in POS terminal technology, artificial intelligence (machine learning), and third-party loyalty software-as-a-service providers, loyalty is the perfect value-added solution for ISOs and their merchant customers. This is game changing, whereby ISOs now can empower SMBs to be enabled on par with Tier 1 and Tier 2 merchants.

Key Loyalty and Rewards Solutions Trends

- Customers expect loyalty programs, and they will shift spend away from merchants that do not offer loyalty.
- Technology is automating loyalty tasks pertaining to customer identity, "best" customer segmentation, POS purchase experiences and offers, data archives, merchant-to-consumer communication, and machine learning intelligence.
- Terminal integrated card-linking automates loyalty by tracking the customer's points earnings with the customer's preferred payment card. With card-linking, every payment and reward is automatically tracked for the merchant's loyalty program.
- Mobile is a disruptor for ubiquitous merchant/loyalty member interaction and engagement. However, any mobile engagement must be relevant, and loyalty messaging meets that test.
- Loyalty performance provides merchants real-time, actionable insights, and intelligence to maximize ROI and optimize customer lifetime value.

Learnings and Benefits of ETA Loyalty Certification

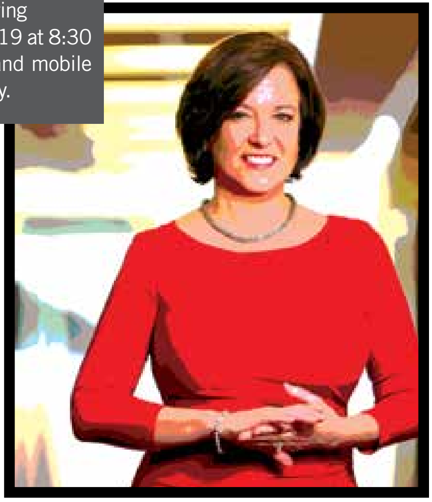
ETA is helping ISOs to accelerate their transformation into becoming expert providers of loyalty and rewards solutions. Beginning in April during TRANSACT 2018, ETA will announce details about a web-based micro-credentialing course to aid ISOs in becoming versed in loyalty fundamentals and best practices. Powered by the Loyalty Academy (loyaltyacademy.org) from the Wise Marketer Group (thewisemarketer.com), the ETA-hosted web-based curriculum contains four one-hour individual loyalty training modules led by senior faculty members of the Academy. The modules cover the following:

- Principles and best practices in loyalty marketing.
- Industry and consumer behavior trends that impact loyalty.
- SMB-specific targeted marketplace needs.
- Tips, technologies, and sales tactics for ISOs to penetrate the market.

This curriculum and mini-certification will enable the aspiring loyalty expert to become more versed in the capabilities and expectations required by ISOs to open doors to countless opportunities at SMBs in today's hyper-competitive payment processing marketplace. ***TT***

Jeff Mankoff is the founder and CEO of vPromos Inc., the holder of numerous card-linked loyalty and promotion patents, and a member of the ETA Retail Technology Committee. Reach him at jmankoff@vPromos.com. Neil Axe, ETA CPP, and Certified Loyalty Marketing Professional, is director of value- added services at Cayan (owned by TSYS) and leads product and strategy of Cayan's InGenius Incentives loyalty and rewards solution. He is a member of the ETA Professional Development Committee. Reach him at naxe@cayan.com.

Hear more of Lou Anne Alexander's insights during TRANSACT. Plan to attend a fireside chat, April 19 at 8:30 a.m., where Alexander will discuss how P2P and mobile applications are changing the payments industry.



Lou Anne Alexander

As group president of payment solutions, **Lou Anne Alexander** leads Early Warning Services' (EWS) payments product line. Her team is currently focused on creating faster payment solutions for financial institutions, and she played a key role in the company's acquisition of clearXchange, which advanced EWS's real-time person-to-person (P2P) offerings.

Here, she talks about the Zelle P2P platform, which processed more than 247 million payments worth $75 billion in 2017.

Zelle and the real-time payments market is growing fast—why?

As consumers ditch checks and cash, they found Zelle to be a convenient and safe way to send money. For example, if they owe their roommate for a utility bill, a friend for last night's restaurant tab, or need to pay their dog walker, millions of consumers are finding the "send" feature to be the fast, safe, and easy way to pay friends and family. Consumers are also enjoying the "request" and "split" features—with just a few taps on their mobile phone, it's an easy way for them to pool resources for a shared cost such as a high-valued gift or vacation rental.

For more than 95 million consumers, Zelle is already available from the convenience of their mobile banking app, with no additional downloads required. For consumers who bank with financial institutions outside of the network, a Zelle app is available in the Apple App Store and Google Play.

How do you see P2P services evolving at the point of sale and elsewhere beyond the consumer?

By working with the banking industry to create the first real-time P2P payments network, we introduced Zelle in June 2017 and continued to bring new partners into the network so millions of consumers could have access to P2P payments through their financial institution for the first time.

In addition, adoption of Zelle went beyond P2P in 2017. Corporations and charitable organizations leveraged the Zelle Disbursements service to send electronic payments to individuals using only their mobile phone number or email address. For example, Zelle was used by American Red Cross to distribute emergency financial assistance to victims of last year's hurricanes.

Will P2P "rails" disrupt the existing payments rails?

The mobile consumer demands immediacy of action and expects banking services to be instant. Who wants to go to the bank and cash a check they received?

Cash is only safe when presented hand to hand and requires a trip to the bank or ATM. Instead you can send money via P2P fast, safe, and easy. With Zelle the transaction goes right into a consumer's bank account—no need to wait when both parties are registered.

The most recent Federal Reserve study showed P2P check declines were slowing, and about 64 percent of voters in our recent Twitter poll received zero to five checks in 2017.

Overall, payments are moving away from cash and check. Consumers want to send money to their friends, their parents, their babysitters, their children, and more from the convenience of their phone. We live in a digital world and consumers want choice on how they make payments.

Zelle enables money to be sent directly from one deposit account to another with funds available typically within minutes when the sender and recipient are both registered. Many of these transactions will help reduce the reliance on checks and cash and also help reinforce the relationships financial institutions have with their customers.

How do you ensure security and authentication if consumers are using phone numbers or email addresses to facilitate payments?

EWS has been protecting consumers and banks from fraud for more than 27 years. Moving money in real-time from one account to another creates new opportunities for "bad actors" to commit new types of fraud. We work to prevent a range of existing and emerging threats that can compromise accounts, including measures to prevent account takeovers. Much of our work is focused on implementing multi-layer and multifactor authentication during the enrollment process to prevent bad actors from accessing the network. These efforts complement what we are doing 24/7 to monitor account activity and take action against fraud or potential fraud once anomalies are detected. Additionally, we work with Zelle financial institution partners to enhance our solutions to mitigate fraud.

How important is a P2P platform's social aspect for long-term viability, especially with younger users?

Research found that the majority of P2P users across all demographics prefer to use a service that is delivered and backed by their bank or credit union because of the security and protection they provide.

We are reaching a wide demographic that we call the mobile majority, ages 18-55. They want their payments to be sent and received fast, safe, and easy. That is the most important aspect for long-term viability. ***TT***

Listen to Lou Anne Alexander discuss P2P payments on the February 28th episode of ETA's podcast, *Transaction Trending*. Visit www.transactiontrends.com and subscribe to *Transaction Trending* on Apple Podcasts, Google Play Music, SoundCloud, or Stitcher.

CONGRATULATIONS
to the newest ETA CPPs!

eta CERTIFIED PAYMENTS PROFESSIONAL

The ETA Certified Payments Professional™ (ETA CPP) program sets the standard for professional performance in the payments industry and is a symbol of excellence. It signifies that an individual has demonstrated the knowledge and skills required to perform competently in today's complex electronic payments environment.

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Joseph Alves, Platinum Choice Banc
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Thomas Avers, Anovia Payments
Jeffrey Balk, Payroc
Brian Barnes, Payroc
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Michael Bosshammer, Elavon
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ETA CPPs get exclusive benefits at TRANSACT, including a special registration rate of $450. We look forward to honoring all 700+ ETA CPPs at a special recognition luncheon at TRANSACT.