March/April 2017

TRANSACTION *trends*

ETA

THE OFFICIAL PUBLICATION OF THE
ELECTRONIC TRANSACTIONS ASSOCIATION

Mobile Universe

Mass acceptance, stickiness, and integration of all things mobile

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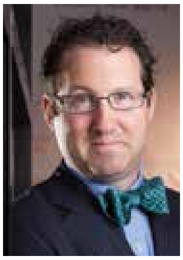
On behalf of the Electronic Transactions Association (ETA), welcome to TRANSACT, the world's largest and most influential gathering of payments industry professionals. Over three exciting days, you'll connect with leading professionals representing the entire payments ecosystem. TRANSACT offers the best networking of the year, but what happens here is even more powerful than networking—business.



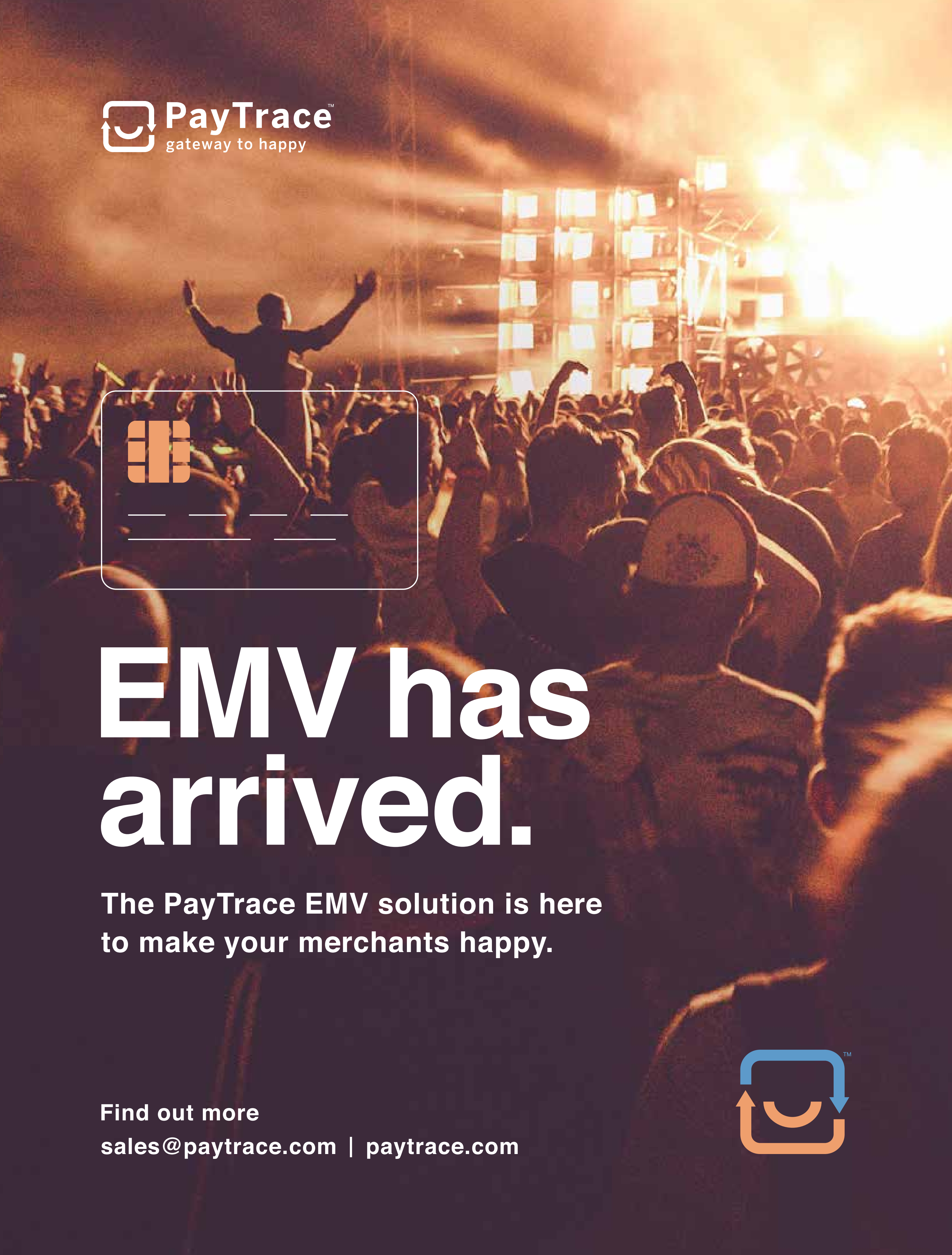
TRANSACT is strategically designed as an investment that pays you dividends immediately. Look around you—innovators are meeting investors, industry leaders are catching up with valued clients, and new companies are inking deals with power-players. Partnerships drive our industry, and ETA continues to put on the best annual event in payments, where attendees can knock out a year's worth of meetings in three days, building the relationships that strengthen careers.

The TRANSACT show floor features 200 of the world's most innovative companies that define the future of payments technology. This is where payments professionals see and interact with the latest technologies, discovering inspiration to create their own groundbreaking solutions.

Because ETA brings the entire sales channel together at TRANSACT, our networking and business development events touch every segment of the payments ecosystem. From the specialized receptions for ETA Certified Payments Professionals, young payments professionals, ISVs, and ISOs to Payment Facilitator Day and our four educational tracks, we're creating opportunities for you to rub elbows with your colleagues, your competitors, and your prospects. And our all-star keynote speakers will deliver the kind of actionable intelligence that informs and empowers business.

TRANSACT is also about the 500+ ETA member companies and our tireless efforts, as the nonprofit trade association of the payments technology industry, to grow your business and advance your agenda. Each year, TRANSACT builds upon our foundation of success, and this year is sure to be the best year ever for the best payments show on Earth. Thank you for being part of payments' future.

Jason Oxman
Chief Executive Officer
Electronic Transactions Association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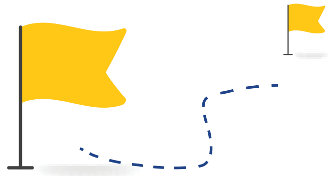
Retailers Ramp Up Sales Using IoT

Globally, retailers are expected to connect 12.5 billion business assets—including products, digital signs, and Bluetooth beacons—to Internet of Things (IoT) platforms by 2021, representing a 350 percent increase from 2016, according to a white paper from Juniper Research.

In "Agile Retail in the IoT," Juniper predicts that radiofrequency identification (RFID) will become a key factor in the IoT ecosystem. RFID tags, which integrate easily with new IoT systems and analytics, will increasingly be used to identify and locate retail assets in real time, according to the researchers. Juniper also forecasts a surge in new services, such as dynamic pricing and promotional offers enabled via in-store digital signs.

"The retail industry has shifted from a cash-driven, supply-driven industry to one that is digitally- and demand-focused," said the researchers. "Consumer expectations have altered considerably in response to online and mobile retail. The level of service a retailer can provide is now a key consideration before a purchase; it is, after all, now trivial to find the desired product at the lowest possible price, reducing this latter factor in importance."



Fast Fact

"Market data shows that cross-border e-commerce is increasingly common. The share of **online cross-border sales is growing twice as fast as the overall market,** and the percentage of shoppers making cross-border digital purchases is expected to rise to 45 percent by 2020."

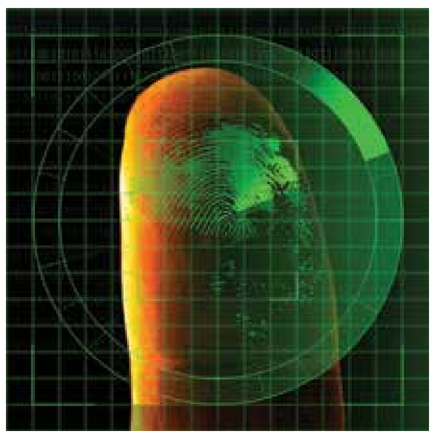
Source: "Fast-Track Merchant Growth Paths in e-Commerce," ACI Universal Payments/First Annapolis

Millennials Open to Alternative Authentication at Banks

Consumer perception of various forms of authentication is the subject of a new report from Aite Group, "Moving Beyond the Password." The report is based on a January 2017 survey of more than 1,000 U.S. consumers who use online and/or mobile banking.

While passwords are a well-understood mechanism among consumers and businesses, movement to another identification method to access accounts is being considered by many banks and financial institutions.

Among Millennial survey respondents, 95 percent are very willing (48 percent) or somewhat willing (47 percent) to switch to non-password identification methods, according to the Aite Group report. By contrast, 82 percent of Generation X are very willing (40 percent) or somewhat willing (42 percent) to make the transition; 82 percent of Baby Boomers are very willing (29 percent) or somewhat willing (53 percent); and 64 percent of seniors are very willing (16 percent) or somewhat willing (48 percent).



Security Issues Persist for Financial Services Applications

A recent study on the health of application software has found that apps in the financial services sector post some of the lowest average security scores. The "CAST Research on Application Software Health (CRASH) Report 2017" reviewed more than 1,850 applications at 300 organizations in 10 industries to better understand how application development and delivery practices impact IT and organizational performance.

CAST gave security scores to each sector, with scores below 3.0 indicating applications that harbor too many weaknesses that can be exploited to steal confidential information. Apps in financial services posted the lowest average security scores.

"Lack of security architecture combined with porous code in legacy systems produce easy targets for hackers. This is especially concerning in financial services applications," said Bill Curtis, senior vice president and chief scientist at CAST Research Labs.

The report recommends several steps for increasing security, including training staff in secure coding practices; using hybrid methods for developing large, business-critical applications (combined agile and waterfall methods of application architectures); using smaller teams to create applications in an effort to maintain consistency in design and coding decisions; and analyzing software regularly to detect structural flaws early.

"Lack of security architecture combined with porous code in legacy systems produce easy targets for hackers."

—Bill Curtis, CAST Research Labs

Japan Recognizes Bitcoin as Legal Payment Option

The Japanese legislature has officially categorized bitcoin as a prepaid payment instrument and has passed a law bringing bitcoin exchanges under that country's anti-money-laundering/know-your-customer rules as of April 1, 2017. The law enacts capital requirements for exchanges and spells out requirements for cybersecurity and operational guidelines. In addition, those exchanges will be required to conduct employee training programs and submit to annual audits.

While Japan does not consider bitcoin to be a "currency," it has defined bitcoin as a method of payment. Being recognized by the government as a payment method will "likely have a positive effect on people's mind and facilitate usage of virtual currencies," according to Ken Kawai, special counsel at Anderson Mori & Tomotsune and a speaker on the legal issues of virtual currency regulations in Japan.

Square Designated POS Partner for Coachella Vendors

Attendees at this year's Coachella music festival, scheduled for April 14-23 in Indio, California, will be able to use their phones to pay for all expenses. Square has announced that it is the exclusive point of sale at the festival, and all vendors will use Square Readers for transactions.

Concert-goers are encouraged to download a contactless payment system, such as Apple Pay, Android Pay, or Samsung Pay, to ensure quick transactions, or to bring chip cards. Square Cash also may be used to quickly send money to friends while at the event.

Moves & Mergers

CardConnect has acquired MertzCo Inc., an ISO that had previously worked with CardConnect. **Michael J. Mertz, ETA CPP,** MertzCo's CEO, was named the company's chief sales officer.

EVO International Payments, a card payment acquirer, has announced the acquisition of **Sterling Payment Technologies**, a provider of integrated payment solutions. Paul Hunter will continue managing the Sterling team, which will be responsible for EVO's overall U.S. integrated solutions offerings and will operate under the Sterling Payment Technologies brand. Hunter also will take on additional responsibilities as a member of EVO's executive leadership team.

Accenture has completed its acquisition of **First Annapolis Consulting Inc.,** a privately held payments consulting and advisory firm. The acquisition expands Accenture's consulting and digital capabilities in the payments sector. As part of this acquisition, First Annapolis, now part of Accenture, will bring approximately 80 professionals to the Accenture payments practice, primarily in North America.

Mastercard has entered into an agreement to acquire NuData Security, a technology company that helps businesses prevent online and mobile fraud using session and biometric indicators.

National Merchants Association has announced several promotions: **Brian Randolph, ETA CPP,** who previously served in the role of chief technology officer and partner, has been named chief operating officer. **Jacob Bennett, ETA CPP,** who had previously served in the role of vice president of risk and underwriting, has been named chief risk officer. In addition, **Jason Holderness**, who had served in the role of director of software development, has been named chief technology officer.

The Strawhecker Group has promoted **Trevor Forbes** to director of metrics. Since joining the company in 2012, Forbes has made contributions in expanding and managing its metric arm, which focused on primary and secondary market research on the electronic payments industry.

Security Pros Face Increased Pressure To Secure Their Businesses

Fifty-three percent of information security decision makers report increased pressure in trying to secure their organizations, according to a new report from Trustwave. The "2017 Security Pressures Report," which features the results of a survey of 1,600 individuals in information security roles across six nations, also indicates security is becoming more personal.

Forty-six percent of respondents say the most pressure comes from boards, owners, and C-level executives, while 24 percent of respondents cite pressure exerted by oneself (up 13 percent from the previous year). This shift in pressure highlights that individuals may be starting to understand the bigger role they play in helping to enable their organizations' security posture, according to Trustwave.

Other key findings from the report, released in April 2017, include the following:

- Forty-two percent of respondents cited their biggest fear following a cyberattack or breach as reputational damage to themselves and their company.
- Thirty-one percent of respondents partnered with a managed security services provider (MSSP) to help compensate for lack of skilled security professionals, and 26 percent have been involved in a partnership between in-house teams and an MSSP.
- The most worrisome outcomes of a cyberattack or data breach were customer data theft (30 percent) and ransomware (18 percent).
- Nearly two thirds of respondents (65 percent) felt pressure to roll out IT projects before they had undergone necessary security checks/repairs.

"Findings show that the pressures cybersecurity professionals face have become much more personal than in previous years, as executives recognize that pressure does not translate into better performance; instead, it may lead to stress, burnout, and faults," said Chris Schueler, senior vice president of managed security services at Trustwave. The report includes findings from information security decision makers located in the United States, Canada, United Kingdom, Australia, Singapore, and Japan.

Infographic

More Than 150 Million To Use OEM Pays By Year's End

Number of Apple Pay, Samsung Pay, and Android Pay Contactless Users, in Millions

	2015	2016	2017
Apple Pay	15	45	86
Samsung Pay	3	18	34
Android Pay	2	12	24

Source: "Contactless Payments: NFC Handsets, Wearables, & Payment Cards 2017-2021," Juniper Research

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Rise of Convergence Gets Attention From Washington

But by working together, traditional players and technology companies will be the developers of our future

By Scott Talbott

Financial services are undergoing a cataclysmic, disruptive shift due to the fact that start-ups are constantly developing and deploying new technologies that are revolutionizing commerce. Innovative products and services are hitting the market and changing the way we shop. These exciting new changes are no cause for alarm. In fact, it's a tale as old as time: Start-ups take shots at incumbents; incumbents fire back. The key is what happens next.

In the past, many incumbent industries chose to fight innovation because of the risk to the status quo. Think about how the record labels reacted to the advent of digital music: They went all the way to the Supreme Court to shut down nascent web-based music sites. The movie studios lost a similar battle to kill the VCR.

But the payments industry is different. Traditional players and technology companies are working together to deliver innovative financial products and services to consumers and merchants. The innovation, demanded by Millennials, makes financial products and services less expensive; more accessible, especially to low- and moderate-income Americans; and easier. In the end, consumers are the beneficiaries. We call this process "convergence."

As the senior vice president of government affairs for ETA, I've seen firsthand the convergence of our more than 500 global members—banks, technology companies, online small business lenders, payment processors, and more. ETA members are leading the way in demonstrating convergence around innovation—and, when you have both, consumers, merchants, and the marketplace win.

Although many existing laws already cover the innovations, federal and state policymakers have taken notice of the convergence. Attention from policymakers often makes people uneasy. But legislators and regulators have the power to create an environment that encourages innovation through policies that foster new ideas and innovation, while still protecting consumers. Let's take a look at some of the most recent developments in public policy—both positive and negative—focused on convergence that affect our industry.

The Office of the Comptroller of the Currency (OCC) recently announced that it is offering a new special purpose national bank charter for fintech companies. This special charter will allow fintech companies to operate across the country—allowing the benefits of the innovation to be available to all Americans. With this step, the OCC is acknowledging the convergence trend.

Given the pace of technological advancements in the financial services sector, the OCC should adopt a flexible, tailored, and collaborative approach to the regulatory requirements of the charter. Because fintech companies come in all shapes and sizes with a varying degree of products and services offered, it is imperative that the OCC take a case-by-case approach when reviewing applications to account for those differences. Such flexibility allows fintech companies room to innovate and provide the best products and services for consumers.

One area where regulators could help foster innovation is cybersecurity. There is no doubt that it is a prominent, if not paramount, issue for all segments of the financial services industry. As is often the case with regulatory efforts for industries undergoing change, regulators are using different regulatory tools, moving at different speeds, starting from different points, and coming to the table with different degrees of comprehensiveness. The varied approach has resulted in uneven overlapping and redundant regulatory schemes for cybersecurity that serve to stifle innovation.

Federal banking regulators have proposed applying new cyber regulations to the convergence between traditional financial services and fintech space. However, financial institutions and their third-party service providers are already subject to a number of cybersecurity rules and frameworks. Rather than issue another set of compliance obligations, federal regulators should place this effort on hold and work with the appropriate government and industry groups to harmonize existing cybersecurity rules.

Financial regulators should be careful not to overregulate an area, which would choke off innovation by the industry. One example where the industry has taken the lead is access to financial data. Data aggregators and third-party applications have created platforms allowing consumers to see their entire financial picture. Many traditional players are working with these fintech companies to make it possible for consumers with accounts at multiple financial institutions to access all of their financial data. According to a recent request for information, the Consumer Financial Protection Bureau (CFPB) recognizes the convergence occurring and the need to support consumer access, choice, and security.

The best way to address data access challenges is for financial institutions and the fintech industry to continue to work together to develop solutions and standards to ensure that consumers are able to permission their financial data safely and securely rather than having the CFPB mandate requirements through rulemaking.

Given that innovation and convergence trends will continue, it is imperative that all corners of the financial services industry continue to work to promote innovation and pave the way for an exciting future for all. Regulators should encourage the industry to take the lead in developing and deploying solutions that preserve industry flexibility, while providing appropriate consumer protections. By working together, the old and the new can provide a pathway to the future that benefits the American consumer. ***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.

A Brief History of Mobile Wallets

A look at the expansion and inevitable contraction of the future of payments

By Ed McKinley and Josephine Rossi

What's happening these days with mobile wallets brings to mind the Big Bang theory. Scientists tell us that all the matter in the universe is speeding outward from a momentous explosion that occurred 14 billion years ago—and, eventually, it will all fall back inward. A somewhat similar, if less dramatic, fate is befalling the universe of mobile wallets: It has expanded rapidly but is expected to contract.

Bonus Content: Reading this at TRANSACT? Don't miss several sessions on the future of mobile, including "Tap, Pay, Done: Cutting Through the Clutter With Mobile Payments" on Wednesday, May 10, at 1:00pm in Islander H. Or, log in and listen to the sessions after the conference via the ETA member portal.

"An explosion of payment options has been ignited by the [mobile payment] market's rapid growth to $180 billion—tripling in only three years," according to a report by Daniel Van Dyke, an analyst at Javelin Strategy & Research. "However, from 2019 to 2021, Javelin expects the explosion will give way to an implosion, as the number of payment providers contracts."

Despite those fireworks, the use of mobile wallets in the United States remains *"de minimis,"* says Eric Grover, principal at Intrepid Ventures, a strategy consultancy. Still, he describes mobile wallets as "already relevant and becoming more relevant."

Although mobile wallet use remains a small niche, the number of consumers trying out mobile wallets for the first time continues to grow steadily, says Emmett Higdon, director of the mobile practice at Javelin. Smartphone owners who have used mobile wallets grew from 11 percent in 2013 to 21 percent in 2015, according to Javelin research. But the firm's studies indicate repeat usage has declined from 3.7 transactions per user per month in 2013 to 3.5 in 2014 and 3.0 in 2015.

Mobile wallet adoption remained surprisingly flat during a six-month period ending early this year, according to a report released in March by First Annapolis Consulting. By January 2017, some 75 percent of Americans who own a smartphone and have a bank account had made a mobile payment in the past year, but that percentage had barely changed from the 74 percent who had done so by June 2016. What consumers paid for with their mobile wallet transactions didn't change much, either. Among those who made mobile wallet payments by January 2017, 58 percent had done so to pay a bill, compared with 54 percent in June 2016. Fifty-three percent had used a mobile wallet to make a purchase in an app or online in the past year by January 2017, down slightly from 55 percent in June 2016, the study shows.

Mobile wallets tend to fall into five categories, although industry observers agree that the lines between categories can blur. Tech companies like Apple and Samsung provide general-purpose horizontal wallets; retailers have banded together in efforts like Merchant Customer Exchange's (MCX) recently failed CurrentC; individual retailers offer proprietary wallets à la private label credit cards; financial institutions have introduced their own offerings; and wireless carriers have joined forces to enter the fray.

The First Annapolis study similarly breaks down wallets into three categories: the "Pays" (i.e. Samsung Pay, Android Pay, and Apple Pay); merchant wallets, such as those offered by Starbucks, Walmart, and Dunkin' Donuts; and wallets from issuers such as Wells Fargo, Chase, and Capital One.

Grover describes the mobile wallet "flavors." An open mobile wallet works somewhat like a physical leather wallet, functioning as a container that holds payment products (e.g., Visa and Mastercard accounts) and operating by the rules of those card networks. Closed mobile wallets can be general-purpose (e.g., PayPal) or they can be proprietary (e.g., Walmart Pay), enabling stores to take private-label retailing online. Closed mobile wallets can have their own rules, he notes.

Predictably, heavily smartphone-oriented younger consumers have shown themselves willing to try mobile wallets; however, a number of older Americans have tried out the technology, too. The First Annapolis researchers found that more than one third of those age 65 or older have made a mobile payment recently.

"This wasn't a segment of the population that we had captured in earlier research studies—the presumption being that mobile payments were mostly a Millennial phenomenon," says Melissa Fox, senior manager at First Annapolis. "Activity is certainly concentrated among younger consumers, but I was surprised how high the penetration levels were among older participants."

Origins and Expansion

The history of mobile wallets begins in July 2008, when Apple started an app store and opened it to third-party developers, says Russ Jones, an analyst at Glenbrook Partners. The opening gave just about everyone the opportunity to develop an app that held payment data, he says.

It also led to a period lasting until about 2011 when the industry was "up for grabs," as uncertainty reigned about how the early mobile wallets would communicate payments data, Jones says. But the questions didn't end there. "The back-and-forth in the industry was about what a mobile wallet was, how many wallets did you need, how many wallets would there be, and would they all be on your phone at the same time," he says.

During that time, the payments industry was leaning toward storing transaction data in smartphones while the rest of the world was enthusiastically embracing storage in the cloud, according to Jones. Players who owned handsets thought the data should reside there, those who owned the SIM cards wanted data to live there, and those who controlled neither the handset nor the SIM card tended to believe the cloud should store the data, he explains.

The first working demonstration of how the technology could converge came in May of 2011 with the introduction of the Google Wallet. Google had aligned partners who thought the smartphone should contain the data. It was under the control of the wireless carrier, and the wallet was an app on the phone that Google developed. Bank participation was limited. "So they were off to the races with that," Jones adds.

The Google offering proved mobile wallets could work, but its system was flawed because it was based on a laundry list of requirements that few consumers could fulfill, Jones explains. First, users had to have the right device—one of only a few that contained near-field communication (NFC) chips at the time. They also had to have the right Android operating system and a data plan with Sprint. They had to have a card that not only came from one of just a couple of participating issuers but also had been designated for use in the mobile wallet, he says.

Not surprisingly, the planets seldom aligned in just the right way to enable Google Wallet. And further complications ensued, Jones explains: "When you walked into a store, you had to unlock your phone and unlock the app. Now, we would laugh at that with simple biometric identification."

Other missteps have occurred, too. "The graveyard of mobile wallets is filled with some high-profile names," Grover observes, citing the demise of Softcard, which was backed by wireless providers AT&T Mobility, T-Mobile, and Verizon. Similar ventures by wireless companies in Canada, France, and the United Kingdom also failed, notes Jones. "In every country, carriers thought they could band together and control the mobile wallet," he says. "That belief turned out to be wrong."

Another ill-fated mobile wallet, called CurrentC, was the product of MCX, a group comprising some of the nation's largest and most powerful retailers. MCX backers included 7-Eleven, Best Buy, CVS, Lowe's, Target, and other big names. Those and other mobile wallets died young despite having financial angels with virtually unlimited resources because they couldn't reach critical mass, says Grover.

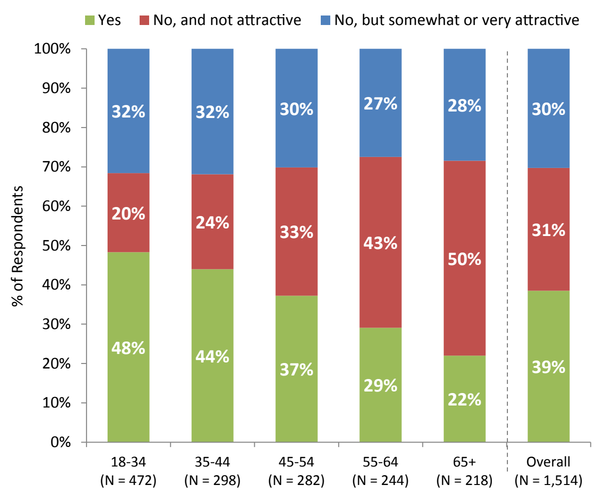
Besides simply wanting control of a mobile wallet, the retailers in MCX had a burning desire to bypass the fees that card brands levy upon transactions, Higdon notes. But substituting a direct connection between the point of sale (POS) and the consumer's checking account presents the problem of persuading every entity involved, including banks,

"IN EVERY COUNTRY, CARRIERS THOUGHT THEY COULD **BAND TOGETHER AND CONTROL THE MOBILE WALLET**. THAT BELIEF TURNED OUT TO BE WRONG."

— Russ Jones, Glenbrook Partners

Mobile Wallet Penetration & Interest

"Do you currently have a mobile wallet app on your phone?"
"How attractive do you find the idea of a mobile wallet?



Source: "Study of Mobile Banking & Payments," First Annapolis Consulting Inc.

to cooperate, he maintains. That challenge may have helped kill off CurrentC, he suggests.

Throughout the years, some problems worked themselves out. In the early days, debate raged over what entities would control payments data used in them—the wireless carriers or the banks, Jones recalls. Instead, the operating systems took ownership of the payments information, which makes it difficult for app providers to have a competitive position, he notes. "That turned out to be the real surprise," Jones says. Meanwhile, other surprises have unfolded. In one example, the industry has moved from using actual payments data to employing tokens. In another example, biometrics are taking precedence over personal identification numbers to unlock wallets.

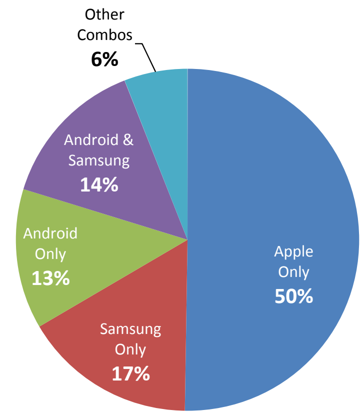
Those choices took hold, and the resulting model for mobile wallets has been embraced by card networks around the world and could become an "adoption ramp," Jones says. Meanwhile, merchants almost everywhere are becoming increasingly likely to have the capability to accept mobile payments because they're obtaining EMV-compatible equipment that nearly always takes mobile transactions, too, he notes.

Apple Pay, for example, was launched in October of 2014 with 220,000 merchant locations in the United States, and it now claims 2.2 million for an increase by a factor of 10, according to Jones. And while merchants have been gaining mobile capability, consumers have been replacing aging smartphones with new models that can make mobile payments, Jones explains. The Apple product line has become mobile-capable, and Android is approaching that point, he maintains.

The January First Annapolis study found Apple Pay to have the highest activation and usage rates among compatible devices when compared to Android Pay and Samsung Pay. The data isn't unexpected considering the wallet has had "an 11-month head start" in the market. However, the researchers were surprised by its 34 percent penetration rate since its launch more than two years ago. "Although maybe not as high as many initially anticipated, I think that's surprisingly high when you think about how relatively short a timeframe that is," says Fox.

Pays Mix

% of Pays Owners (N=293)



Source: "Study of Mobile Banking & Payments," First Annapolis Consulting Inc.

Stabilization

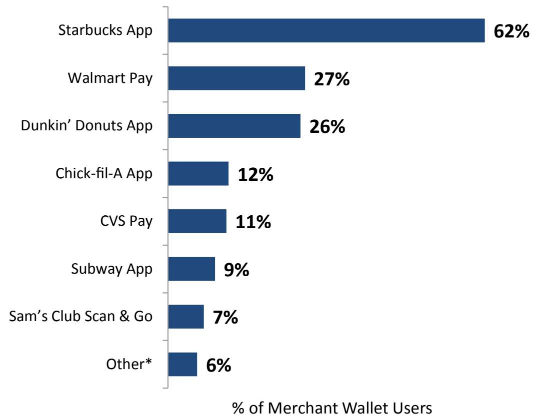
At least one company has already succeeded with a mobile wallet in the United States. PayPal leads the U.S. mobile wallet competition and has been the first to achieve critical mass, according to Grover.

But following PayPal's example won't be easy. Mobile payments don't unlock new spending that previously didn't exist, according to Jones. "You're not buying more milk because you're going to pay with a mobile phone," he notes.

Mobile Wallet Penetration by App

"Please indicate which of the following merchant wallet apps you have."

(N=229)



Source: "Study of Mobile Banking & Payments," First Annapolis Consulting Inc.

Consumers who use mobile wallets are simply replacing payments formerly made with cards, he says.

Merchants may not gain that much from mobile wallets, and consumers likewise see little upside. Mobile wallets do little to reduce friction at the physical POS; thus, it's difficult to make a case for using them there, Grover says. However, mobile wallets decrease friction a little for online purchases, which justifies their use for those transactions, he maintains.

While mobile wallets usually don't solve any consumer problems or meet any consumer needs, Grover suggests a few compelling cases are emerging for using them. When a consumer puts payment information into an Uber app, for example, that results in something akin to a mobile wallet and goes a long way toward facilitating ride-hailing services, he explains.

And retailers are converting some of their shoppers to mobile wallet users by plying them with loyalty rewards, discounts, special offers, engagement campaigns, and functions like pay-ahead. (See related article on page 22.) "That's the real struggle for all of the wallet providers," Higdon says. "How do we make this something that becomes sticky?"

When it comes to retailers that do a good job with loyalty and mobile wallets, one only need mention Starbucks, Grover contends. In a few years, the coffee chain may be processing 50 percent of its sales on its mobile app, according to published reports.

Still, general-purpose wallets have provided few incentives to woo consumers away from their plastic cards, Grover points out. Samsung Pay has an advantage over competitors because of its capacity to trick card readers into thinking they're reading a mag stripe, he notes.

To make the job of convincing Americans to use mobile wallets even harder, a large majority of consumers have already made up their minds about the technology—either for it or against. Seventy percent of consumers have formed a hard-and-fast opinion of mobile wallets, and "that figure is relatively constant across age segments," according to the First Annapolis study. In fact, nearly one third of respondents don't own and are not interested in mobile wallets, which Fox says "speaks to the perceived benefits of mobile payments relative to traditional card payments, and how long it takes for consumer payment behaviors and preferences to shift.

"Consumer payment preferences are often driven by habit, and it takes a long time to change those habits and preferences on a large scale. It's not something that happens overnight," she continues. "It's also worth noting that nearly one third of respondents have not yet made up their mind—they haven't used a mobile wallet, but they find the idea of a mobile wallet at least somewhat attractive."

Whoever's using mobile wallets, the question remains: What technology will ultimately prevail at the point of sale to engage with mobile wallets? Should NFC, Quick Response (QR) codes, or Bluetooth take precedence? "A mix of all of the above," says Grover. NFC seems to lead the competition now, but that doesn't preclude QR codes, which Alipay uses, he says. PayPal served as the "early evangelist of Bluetooth, but that's on the back burner," he notes. Payments companies should prepare to accept any technology instead of picking one, he cautions.

Mobile wallets will reach the tipping point that leads to mass acceptance only when consumers and retailers have no doubt the transaction will work seamlessly, Grover says. "Where you have uncertainty, there may be growth, but it will be limited," he states. "We're nowhere close to that certainty." But that will change. "Being able to pay anywhere, anytime, worldwide is a big deal, and most of that is simply extending existing systems," he says.

Fox acknowledges "growth may be slower than many people originally forecasted." But she says that the "shift to mobile payments is, in some ways, inevitable—not as a universal replacement of existing card technology, but as another option that many consumers will want to have available."

What does the future hold? "The distinctions we make between physical point of sale, e-commerce, and mobile commerce will blur, and the digital wallets will play a part in that—but we have a long way to go," Grover suggests. For example, a consumer could select merchandise in the store and pay for it at the merchant's website. "Is that e-commerce?" he asks rhetorically. In another example, the pricing difference between e-commerce, mobile commerce, and the point of sale could disappear if tokenization and biometrics result in comparable fraud rates, he says.

After all, use of mobile wallets and the number of companies offering them have to keep expanding until the field becomes crowded enough to fall back inward. "A cull is inevitable because users are becoming increasingly confused by choice overload," Van Dyke says, noting that consumers are navigating dozens of mobile wallets that will soon increase to hundreds. Though many mobile wallets will fail to make the cut, the survivors will prosper, he predicts. ***TT***

Ed McKinley is a contributing writer for Transaction Trends. *Reach him at edmckinley773@yahoo.com. Josephine Rossi is editor. Reach her at jrossi@contentcommunicators.com.*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INVESTMENT INTO
$48
MILLION!"
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The Future of Credit Card Processing is Cash Discounts.

They're good for merchants and ISOs alike – and here's why.

The credit card processing industry has become increasingly competitive with little options, creating a constant tug-of-war between merchant fees and ISO margins. An answer to this dilemma has been found in recently formulated cash discount programs – which where federally authorized in all 50 states in 2011.

Cash discount programs allow merchants to share or pass on credit card fees to customers in the form of a per transaction service fee. – Typically a flat fee that when averaged out at the end of the month, more than covers the cost of interchange.

To understand the benefit of cash discount programs, take a look at a real-life case study:

A local burger restaurant in Palmdale California switched to the PayLo Cash Discount program in August 2016. Comparing 5 months of standard credit card processing to 5 months of the PayLo program, the results are eye-opening. The merchant has been able to save an average of $1,569.73 per month on processing fees, while the ISO residual has increased by 2.5x.

Some may think there would be a decrease in credit card usage or a loss of customers, but it hasn't been the case. Monthly sales volume has remained consistent with the average of $73,611.61 per month.

The business owner agrees *"Customers don't really mind the service fee. I ask them if they'd like to save .80 by paying in cash, and they appreciate the offer, but continue with card payment".*

> ***"The merchant has been able to save an average of $1,569.73 per month on processing fees, while the ISO residual has increased by 2.5x"***

Understandably, he's happy with the results, this year he is looking to save over $18,836.76 on credit card fees. On the other side, his ISO is looking to increase his residuals by $1,386.01 annually.

"This is the future of payments," says John Martillo, CEO of SignaPay, the creator of PayLo. *"The same cash discount technology gas stations have been using for years is now available to other businesses, and response has been overwhelmingly positive. Merchants have been waiting for this for a long time."*

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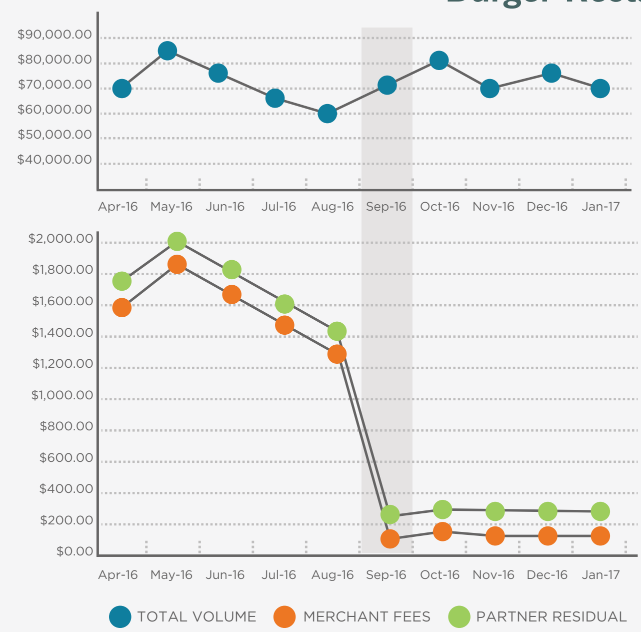
Burger Restaurant Case Study



Monthly Average	Apr-16 Aug-16	Sept-16 Jan-17	Difference
Sales Volume	$72,159.15	$75,064.07	$2,904.93
Merchant Fees	$1,669.64	$99.95	$1,569.73
ISO Residuals	$72.16	$187.66	$115.50

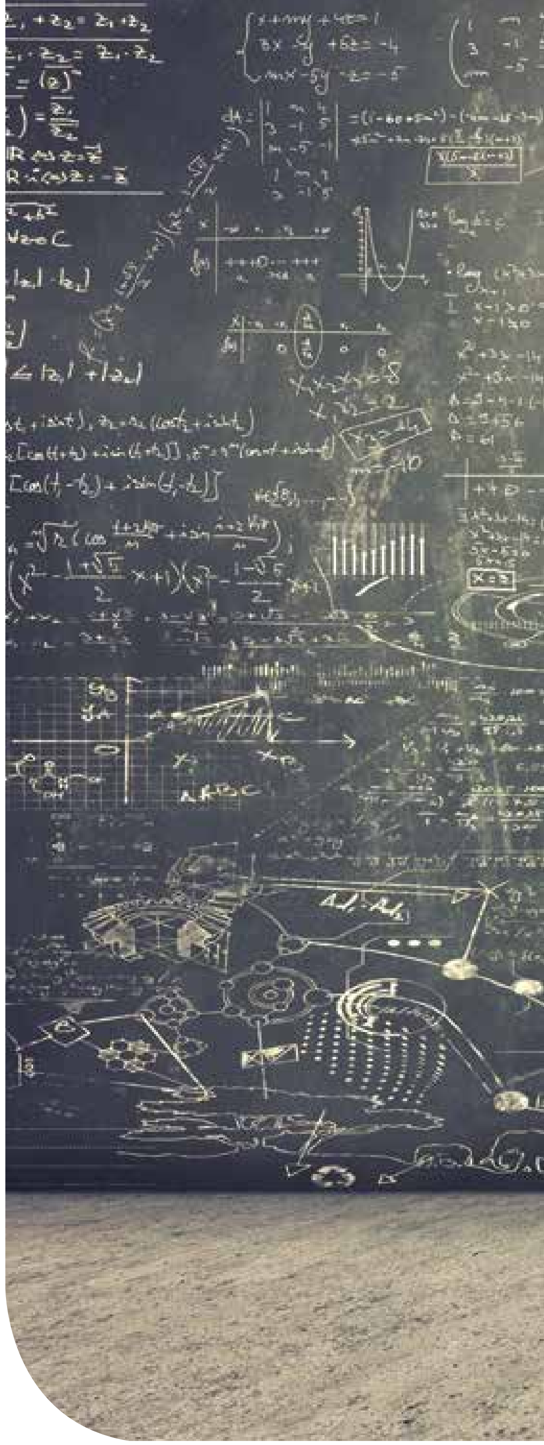
Monthly sales volume has remained consistent with the average of $73,611.61 per month. The merchant is is looking to save over $18,836.76 on credit card fees. ISO is looking to increase his residuals by $1,386.01 annually.

To become a PayLo Cash Discount sales partner, call 888.444.9149 or visit sellpaylo.com

Finding Mobile's X Factor

How the latest loyalty, data, and engagement programs are promoting mobile payments

By Ed McKinley



Consumers have been slow to retire their plastic credit and debit cards in favor of paying with their smartphones. "The reality is there's nothing broken about the card," notes Ben Jackson, an analyst at the Mercator Advisory Group. "The mobile payment doesn't solve a payments problem for the consumer."

In fact, just one in five Americans who own a smartphone tapped or waved it to make a mobile proximity payment in the last six months, according to Nicole Perrin, an analyst at eMarketer. The firm estimates that not even a quarter of smartphone owners will use them to pay this year, and, by 2020, only a third will do it. "It's still a fairly niche activity among smartphone owners," she concludes.

If anything can make mobile wallets, mobile apps, and mobile payments inevitable, it's loyalty rewards, offers, and discounts, observers agree. Those incentives could overcome the "friction" of having to open the phone, open an app, and deviate from the familiar practice of swiping a card or the relatively new necessity of dipping a card, multiple sources say. With the right rewards and discounts, presented in the right way, mobile wallets could take their rightful place among the continuum payments without ever having to entirely replace cards, cash, or checks, they predict.

Moreover, every good loyalty scheme will eventually incorporate mobile capabilities, according to Ben Kaplan, president and CEO of Cashstar, a prepaid and loyalty platform. "Consumers are inherently mobile, and mobile phones are both powerful and ubiquitous, so any loyalty program that wants to engage with their consumers needs to take into account those simple facts of today's market," he asserts.

Retailers also can use mobile wallets and loyalty programs to collect information that helps them understand their customers' habits and desires, notes Perrin. "They're going to want to use it for data, and having it tied directly into a loyalty program is ideal for them," she says.

Discussions about loyalty programs in the digital era tend to begin with references to Starbucks. "Starbucks is the gold standard because they were the first to pull it all together and figure it all out," Jackson says of the company's

"CONSUMERS ARE INHERENTLY MOBILE, AND **MOBILE PHONES ARE BOTH POWERFUL AND UBIQUITOUS,** SO ANY LOYALTY PROGRAM THAT WANTS TO ENGAGE WITH THEIR CONSUMERS NEEDS TO TAKE INTO ACCOUNT THOSE SIMPLE FACTS OF TODAY'S MARKET."

— Ben Kaplan, Cashstar

system. The coffee chain made its cards reloadable and attached them to the loyalty program, an approach other companies have sought to emulate, he notes, citing similar programs at Dunkin' Donuts, Tim Hortons, and Burger King.

But Starbucks didn't just do it first. The company also did it exceedingly well, according to Kaplan: "They have done an amazing job of building out a really rich, full-featured application." The coffee provider built most facets of its own platform, but Kaplan acknowledges that his company contributes to the system by helping with digital gift cards.

Loyalty programs on retailer-operated mobile apps—like the one at Starbucks—use rewards and features like the pay-ahead function to draw customers back into the stores and back to the mobile experience, Kaplan says. Other types of mobile apps—including general-purpose ones like Google Wallet, Android Pay, Samsung Pay, Apple Pay, and PayPal—employ loyalty to encourage users to rely on the app wherever and whenever they can, he notes.

Discounts attached to company loyalty cards have proliferated at gas pumps operated by convenience store chains, says Jackson. Cumberland Farms, a brand well known in New England, offers a 10-cent-per-gallon price break to motorists who use its card. Family Express operates a similar program in the Midwest. The discounts on gasoline bring drivers into the station, and, once they're there, they often stop in at the store for bread, cigarettes, coffee, candy, or snacks, he says, adding that "getting them in the door is important."

What the coffee purveyors and convenience stores have in common is that customers stop in frequently for small-ticket purchases, Jackson says, noting that it's a scenario that builds rewards. It just doesn't work that way for companies offering merchandise at higher prices, he explains: "You're not buying clothes or shoes every day."

If they're frequent enough, small purchases add up to big numbers, says Perrin. Consumers who purchase small-ticket items with mobile payments do so repeatedly, and their total annual purchases are increasing. In 2015, the average mobile payments user spent less than $400 with the help of mobile, but that rose to more than $700 last year and is expected to reach $1,200 this year, eMarketer research indicates. "By 2020, even though we're still having low penetration, each of those users will be spending at least $4,000 [via mobile payments] that year," she adds.

Loyalty by Design

Retailers often tie loyalty rewards to purchases, but a few retailers choose to use loyalty programs in a quest for engagement, Jackson says. Sephora, the French-based international chain of cosmetics stores, serves as a case in point. The company's app includes gift cards but not much else in the way of payment mechanisms. Instead, Sephora seeks to involve customers in its product lines. Besides loyalty rewards, the Sephora site touts new products, trending products, editors' picks, special values, recommendations for individual shoppers, expert advice, live 3D virtual demonstrations, and tutorials. All of the offerings invite customers to enjoy luxury and pursue beauty.

So knowing one's customers becomes paramount in creating and sustaining successful loyalty programs. In another example, Kohl's, the moderately priced department store chain, sends its value-driven customers daily email messages offering an array of discounts and rewards—with only a quick nod to fashion. Levi's, on the other hand, peppers regular customers with daily email messages emphasizing "cool" and only occasionally offering price breaks or loyalty rewards. Peruse a particular pair of jeans on the Levi's site, and the company follows up by sending an email message an hour later that says something like, "We're still holding those 511s you were looking at."

United Airlines knows many of the travelers who use its MileagePlus X mobile app become "junkies" who delight at earning frequent flyer miles and using them to purchase luxury goods, says Kaplan. Users earn bonus miles by shopping at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certain stores, and they can "burn" those miles by redeeming them for gift cards they can use immediately in those stores, he says. Many find their miles such a compelling currency that they work for years to amass and spend them, he maintains. (Kaplan's company works with United on the program.)

Once retailers know their customers, Jackson suggests they can choose appropriate rewards and discounts, but he warns they shouldn't choose rewards arbitrarily. Starbucks and other savvy retailers connect their rewards to their core business, he notes. They don't offer cash back or some random piece of merchandise. Instead, the companies give customers more of what they came in to buy in the first place. "It's a very closed-loop rewards system to bring people back," he explains.

Kaplan agrees. Just a few years ago, retailers were declaring that they wanted loyalty programs just like the one at Starbucks, but following the lead of another retailer too closely doesn't make sense, he says. Instead, loyalty programs should support a particular brand with rewards that relate to the company's products and make sense relative to the prices the company charges, he notes. "You don't need to order ahead on a mobile phone at a department store," he says. Retailers also should determine whether they need to include payments and turn their apps into wallets, he adds.

Lots of retailers have yet to pick a sophisticated approach to mobile and loyalty that follows the example of the fashionable Sephora, the value-minded Kohl's, or the purportedly hip Levi's. "The struggle for a lot of these guys is that they want their webstore on the mobile app—it's a narrow way to think about it," Jackson says. It's a one-dimensional approach where customers can go into the store, shop online, and shop on the app, but the stores aren't taking advantage of the ability to deliver content, he observes: "There are opportunities that haven't been fully explored yet by these companies to make the mobile app work for them a little better."

Data for Discounts

But help is on the way. Artificial intelligence and machine learning may soon help retailers enhance engagement by making offers relevant to recipients by backing them with useful information, Jackson predicts. Accomplishing that requires data on the shopper as well as on the product. These days, when someone looks at a pair of motorcycle gloves online, companies simply bombard the shopper with ads and offers on any motorcycle gloves. Knowing the customer through data could tailor offers on gloves to weather, geography, and the customer's style of motorcycling. Jackson explains, "It's just brute force right now," through a large volume of contacts, noting that "there are a lot of ad blockers online, and that says something."

Location-based marketing can aid loyalty schemes, too, according to Kaplan: "Geo-location for offers as well as for acceptance with mobile payments and loyalty programs is very powerful." He reports using the store-location capability in the Starbucks app frequently. The United Airlines app, he notes, lets users know the location of brands and stores participating in the frequent flier program.

Still, plenty can go wrong with location-oriented marketing, especially with beacons set up in stores. Using them for location-based discounts and rewards has piqued the interest of retailers for several years now. At first, it might seem perfect to offer a price cut on merchandise when the system can sense that the customer is standing right in front of it. But stores have seldom put the technology into practice. That's because retailers worry about what Jackson calls "the creepy factor" that accompanies the technology. "It's creepy that they know where I am and when I'm there," he says, explaining the shopper mentality. Retailers can avoid that trap by making an offer at five nearby locations, he suggests. Mainly they should remember that "just because you can do something, doesn't mean you should," he says.

Security remains a concern for some consumers when it comes to mobile payments, notes Perrin. "It isn't something people have specific concerns about," she says. "People are a little bit nervous in a generalized way. It's a technology they don't completely understand." Still, security isn't as big an obstacle as failing to see a need to give up cash and cards without the benefits of loyalty rewards, she notes.

Then there's the question of who wants to use mobile wallets and mobile payments. "It's basically your early adopter," Perrin says. "They tend to be younger—under 35 would be more likely. Also, men are more likely than women."

But age doesn't necessarily predict a proclivity to pay with a mobile wallet, Jackson observes. As an example, he describes a couple in their 40s, born a little too early to qualify as Millennials. The wife has become an avid mobile wallet user, while the husband didn't bother to transfer the relevant apps when he upgraded his phone.

The ultimate question in mobile payments may be who will win the mobile wallet wars. For Kaplan the answer is "Yes." By that he means it's better to view mobile apps, mobile wallets, mobile commerce, and retailer-specific apps as separate entities. Multiple general-purpose wallets will succeed, as will many store-branded apps that include, but aren't limited to, payments, he predicts. For both types, he notes, adoption will be driven by offers, discounts, promotions, geo-location, and improved customer experience.

Kaplan's company works with big corporations but also does business with small- and medium-sized players. From the latter experience, he says a medium-sized regional retailer should have a digital loyalty and marketing strategy. Will that mid-size player also create a mobile app that accepts payments—like Starbucks or Target? Probably not, he says. But that mid-market chain should have an app, should have a digital strategy, and should support mobile payments, he says, adding that its coupons can appear in an Apple Wallet. "It doesn't take significant investment," he maintains, "to ensure that you're providing a really good mobile experience for your customers." ***TT***

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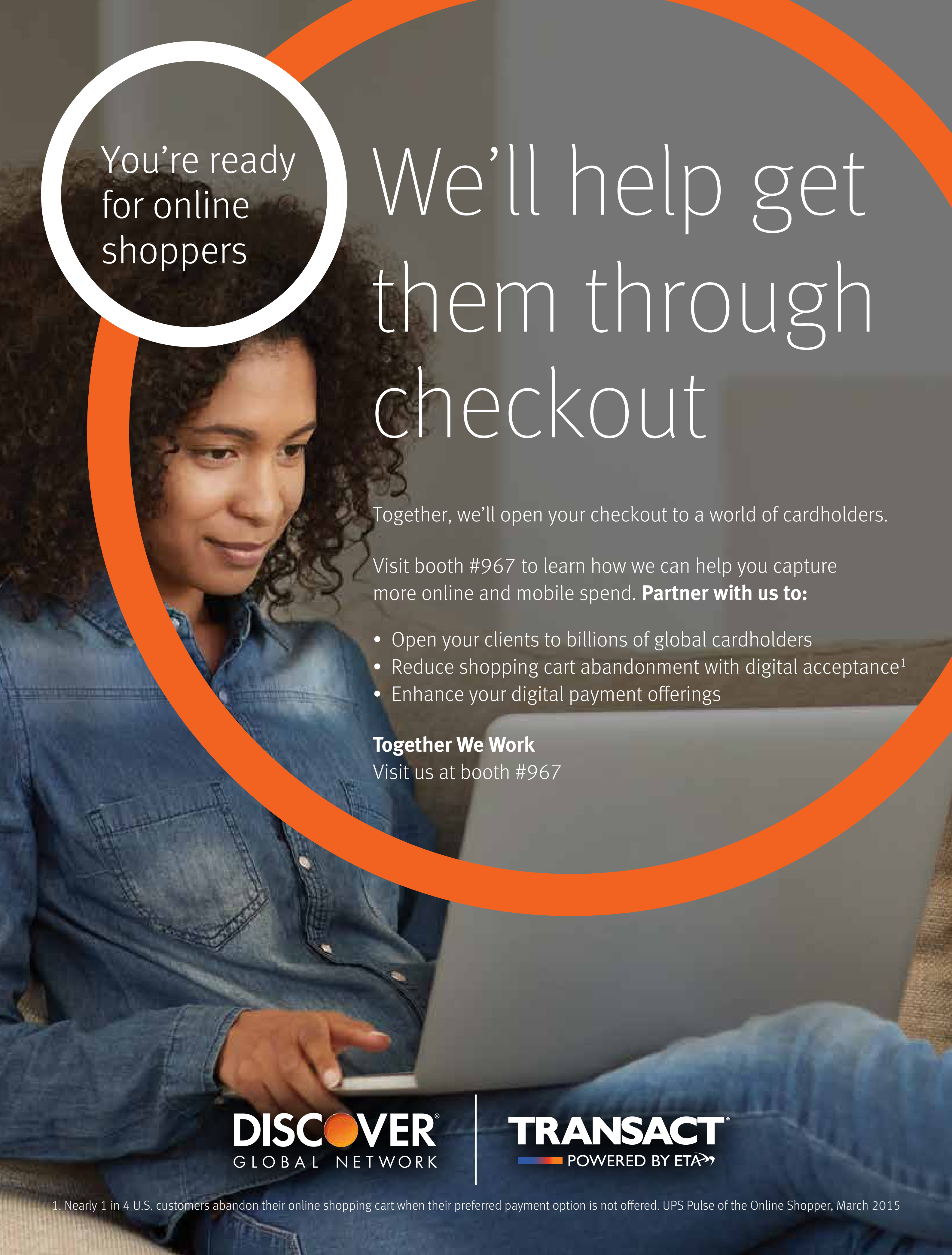
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1. Nearly 1 in 4 U.S. customers abandon their online shopping cart when their preferred payment option is not offered. UPS Pulse of the Online Shopper, March 2015

Mobile on the MOVE

How transit agencies are offering alternative payment options to commuters

By Christine Umbrell

The widespread adoption of smartphones and mobile devices is beginning to make an impact on the way commuters pay for their travels—via subway, bus, train, and other modes of transportation. While some transportation agencies have adapted with the times and are offering mobile payment capabilities, others continue to rely on traditional legacy systems.

Unlike other sectors of the U.S. economy that have adapted quickly to alternative payments methods, "changes in transit payments in the U.S. are coming at a slower pace than changes in other industries due to the costs of infrastructure investments," says Emily Boese, principal at First Annapolis Consulting. With each passing year, however, more transit systems are offering mobile options, and growing numbers of commuters and transportation systems are taking advantage of new ways to pay.

Mobile On the Rise

Across the United States, thousands of transit agencies use different media to capture payment, including cash, tokens, paper tickets, and magnetic strips or contactless cards. These various payments are leveraged at fare gates or via visual or electronic validation. In some areas, systems are complicated and cumbersome, requiring different payment methodologies for commuters who transfer from one mode of transportation to another.

"The changing demographics of the transportation customer base have forced transit companies to be more aggressive in expanding their mobile and digital offerings," says John Vasilj, managing director of Accenture Transportation. "At big-city properties, all of the 'value' used to be 'on the card.' As solutions become much more pronounced, available, and secure, the systems have become a bit more open."

Mobile ticketing apps have been adopted at several transit agencies, including those in Boston, Dallas, New York, and Portland, Oregon, says Elisa Tavilla, payment strategies industry consultant at the Federal Reserve Bank of Boston. "Based on discussions with some of these transit agencies, mobile continues to represent a growing percentage of their ticket sales and revenue, while sales through other fare channels—including ticket vending machines, fare boxes, retail outlets, and on-board cash payments—are declining." With mobile ticketing, commuters may use credit or debit cards to purchase mobile tickets via ticketing apps or commuter prepaid cards. Mobile ticketing is processed on the back end like standard credit or debit transactions, and tickets are stored on the consumer's mobile device. Commuters can use their iPhones or Android phones to pay for their travels.

"Given the number of transit riders in the U.S., mobile is an area where there is a lot of opportunity," says Tavilla. "More agencies have begun to roll out apps in the past few years"—including both large and small transit systems.

Taking the mobile movement one step further, some cities are in the process of developing fare systems that accept open contactless payment, via near-field communications (NFC), while a few have already implemented open systems. For example, Chicago Transit Authority's Ventra fare system accepts open contactless payment via NFC, says Tavilla. These "tap and board" systems enable payment via NFC mobile wallets, such as Apple Pay or Android Pay, and accept other options for payment, including contactless credit and debit cards. These systems work similarly to retail point-of-sale systems, and a fare validator calculates payments when commuters tap their NFC mobile wallets at the reader, explains Tavilla. Installing these systems, however, requires budgeting for capital expenditures and new infrastructures needed to accept payments.

Vasilj's company offers an "Accenture Fare Management Solution," which is currently being used in Toronto.

The solution has been designed to manage fare collection and customer service across multiple transit authorities and modes of transport. It accepts most fare payment media and allows passengers to access the solution across busses, trains, ferries, tolls, and bike-sharing services. It offers a multichannel approach to allow self-service functions via web, mobile, and kiosks, allowing travelers to purchase fare products, add to payment cards, and manage account profiles and details. "It's an exciting time, seeing how many customers are using their phones for payments and account benefits," says Vasilj.

With the solution in place, the speed of boarding has helped services stay on schedule, asserts Vasilj. Plus, he states, "It has lowered the cost of fare collection in a very meaningful way."

Vasilj says commuters benefit from systems like Accenture's because they have a choice in how and when they pay for their trips. Consumers may have the opportunity to prepay on a monthly basis—giving them better budgeting data about how much they're spending. In addition, these payment options provide multimodal flexibility.

Other transit agencies are installing similar systems, including the planned implementation of an open fare system in New York's Metropolitan Transportation Authority (MTA). MTA rolled out its eTix App last summer, and, by late fall, nearly 1 million eTix had been sold. eTix accounted for 8 percent of all MTA tickets sold in October 2016, exceeding expectations. In October, New York Governor Andrew Cuomo announced the addition of Apple Pay and Masterpass digital wallet technology to MTA eTix, the mobile ticketing app that enables Metro-North Railroad and Long Island Rail Road customers to purchase their tickets anywhere, anytime. In its next step toward more mobile usage, MTA will roll out its New Fare Payment System in phases beginning next year. Customers will be able to bring their own contactless media, and MTA will start to phase out MetroCards.

Encouraging Consumer Acceptance

While many transit authorities are transitioning to systems that accept mobile payments, there is evidence that some commuters remain reluctant to embrace nontraditional payments.

Findings from the "2016 ACI Worldwide Mass Transit Payments Survey," conducted by ACI Worldwide to assess the current sentiment of U.S. public transportation riders in regard to payment preferences and payment security, indicate that, while there is a high demand for alternate payment types, cash is still the most prevalent method of payment for mass transit riders. It is also currently viewed as the most secure method of payment. "Riders also indicated that there is a strong demand for alternate payments, such as credit/debit cards and mobile app payment, but the current perception is that these methods of payment are less secure than cash payments," according to the report.

Other highlights from the report include the following: 43 percent of travelers have a monthly transit pass, 51 percent use a preloaded card, 59 percent of riders are forced to use multiple payment types for multimodal transit, and more than two thirds of riders would like a single payments method for multimodal transit. The three most preferred payment methods are cash (51 percent), credit/debit card (31 percent), and mobile app (12 percent), according to the report. Cash is viewed as most secure, with credit/debit card payments viewed as the most secure noncash transactions.

"More than three quarters (78 percent) of mass transit riders currently trust that the payments process for mass transit in their city is secure, and nearly the same (76 percent) trust their mass transit authority is protecting their payments information. However, if their payment data was compromised (by data breach or fraud), nine out of 10 people would likely revert to using cash for mass transit payments," says the report.

Mass transit authorities "have a long way to go to increase the overall perception of payments security," the ACI Worldwide report concludes. "The perception that cash is the most secure method of payment among riders should be concerning for mass transit authorities," given the costs involved in cash management when compared to the cost of alternative payments. The report recommends that authorities attempt to proactively increase the perception and importance of security of electronic payments and provide seamless payment options for riders.

Benefits of Mobile Adoption

For those commuters who are wavering in their feelings about using mobile payments to cover transportation costs, new apps and products may help ease the transition—and may provide opportunities for payments professionals.

"Mobile offers convenience for consumers, and saves them time because they don't have to wait in lines," says Tavilla. "It can also be less intimidating to people who are not regular transit customers, who can use their phones to figure out how to use and pay for travel" before arriving at a transit station.

Transit agencies may begin to offer mobile fare products and incentives that are comparable or more attractive than those via traditional fare media, suggests Tavilla. Incentives such as free intermodal transfers, unlimited passes, and other discounts may help motivate consumers to try new options. "Transit agencies continue to add more fare products as mobile ticketing evolves," says Tavilla. "For example, [Dallas's] DART offers transit fare with discounted admission to several local attractions, including the Dallas Zoo and State Fair, via GoPass." She also notes that some agencies are trying to integrate other transportation services—such as ride-sharing and bike-sharing programs—into their transit apps, which "could help commuters access and pay for other modes of transportation to reach destinations in areas that are not covered by mass transit."

As more commuters move past security concerns and begin to make use of expanding payments options while traveling, transit agencies stand to benefit in several ways. "Mobile payments can help reduce costs" from less cash handling and fewer proprietary fare media and ticket vending machines, says Tavilla. In addition, those transit authorities that currently offer mobile options are gaining insight into the buying habits and transportation patterns of commuters who are leveraging electronic payments. This could ultimately lead to reductions in operating costs and increased consumer satisfaction levels.

"You can't track people who are giving you coins, but you can pull information from phones—demographic data, how often you ride, where you go—like at the grocery store," says Linda Coven, CTP, senior analyst at Aite Group.

Vasilj says the data generated by using new systems allows for better budget planning and route mapping. The Accenture solution allows the company to "take all of the digital activity and analytics, and deliver it to help lower maintenance costs and manage assets," he explains.

"A lot of data aggregation is 'opt-in' based on customers' interest in providing information about themselves," says Vasilj. "Transportation companies have reworked services based on data being aggregated by our solution." In the future, data that facilitates connecting trips and real-time updates will allow for improved budgeting decisions, suggests Vasilj.

Aggregated commuter data also could lead to changes in the way transit agencies schedule rides—perhaps by cancelling a bus that is usually empty or adding a bus when the routes are too crowded, says Coven. "This doesn't 'just happen,' but knowing you have the data will help drive businesses and help transit companies run the right number of busses and trains at the right times, in the right places, based on what you know about ridership. Then you're meeting commuters' needs and improving the user experience."

Partnerships and Opportunities

New opportunities for partnerships between transit agencies and local retailers may arise as more commuters embrace mobile options, says Tavilla. "As commuters habitually use their smartphones to conveniently pay for their fares and conduct other daily activities during their transit ride, they will be motivated to use them to make other purchases beyond their commute.

"Transit operators are considering more customization that takes personalized travel preferences into account or makes location-based offers," states Tavilla. "They also may choose to institute loyalty programs to further enhance customers' experience using and paying for public transportation."

In the increasingly mobile transportation payment climate, payments professionals can look to partner with mobile apps developers. "Transit agencies are integrating a variety of travel tools with mobile payments. Most apps include trip planning capabilities, such as transit directions, schedules, real-time arrival information, and service alerts," says Tavilla.

Smaller payments companies should look to leverage opportunities on a smaller scale when seeking to engage in transportation payments, says Boese. "Mobile will have a massive impact—but those are big investments for transit authorities," she says. Boese suggests that payments companies explore opportunities in smaller cities, and look to partner with software vendors and mobile app developers to provide the payments piece of transportations solutions. "As they create mobile apps, can you partner with a mobile app designer?" Partnering with smaller software vendors to offer value, such as companies that design apps that incentivize mobile commuters, may be a good option.

Vasilj offers the following advice to payments professionals: "Keep a close eye on payments trends. Watch what is going on in transit. But be sure security functionality is incorporated," he says. "Take a close look at how to remove some costs by doing this via mobile and digital" in a way that has not traditionally been done before.

It is yet to be seen just how much mobile payments will overtake more traditional payments in transit—but it's a good bet that the next few years will see a significant transition. "As consumers become more familiar with mobile, it will grow, and services will become more robust," says Tavilla. For now, "education can help build awareness, create optimal user experiences, and generate early adopters." ***TT***

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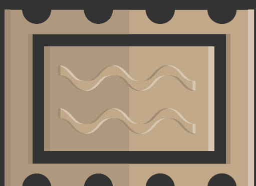

Learn About Mobile Ticketing in Large Cities at TRANSACT

Be sure to visit the Mastercard Trailer at TRANSACT, which will be stationed at #916 of the Exhibit Hall. The trailer features demonstrations of a variety of innovative products from Mastercard. The "Smart Cities" section offers examples of how mobile ticketing can enhance transportation services in large cities, including demonstrations of the following technologies:

- **MTA/Transit:** The in-market MTA app (available in New York City) can be used to purchase tickets leveraging Masterpass; tickets can be stored in a ticket wallet and presented via a QR code on a mobile device.
- **MC Send:** Mastercard recently formed new agreements with Stripe and Green Dot (powering Lyft, Uber, etc.) for this iPhone app, which has many uses in transportation.

Additional demonstrations at the trailer will preview the following technologies: Groceries by Mastercard, Conversational Commerce, Pay at Table, Qkr Vending Machine, Commerce for Every Device, and Masterpass.

TRANSACT
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WED MAY 10 • FRI MAY 12
LAS VEGAS • MANDALAY BAY
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The Fast Track at TRANSACT!

Inside the one show focused solely on the business of payments and gathering innovators to make industry-shaping deals

ETA is thrilled you've taken the most important step toward industry success: Attending TRANSACT! If you are new to TRANSACT, we know that your first time walking into the payments industry's premier event can be overwhelming—you are here with more than 4,000 leading payments professionals from more than 25 countries. This event is the annual catalyst driving payments' future, so use this guide as your primer on maximizing and individualizing your TRANSACT experience.

CURATED EVENTS, FACILITATED NETWORKING, AND ENHANCEMENT OPPORTUNITIES

We've packed TRANSACT with opportunities to connect! ETA is all about getting business done, which is why we've created the right occasions for you to meet the right people. In addition to the unique highlights described below, check out what's new for 2017 on the TRANSACT Fresh List.

• ETA CONNECTS

Sponsored by Transaction Trends

Wednesday, May 10, 12:00pm – 1:00pm

New member? First-time attendee? Make the most of your TRANSACT experience. Connect with seasoned ETA members and industry veterans who can help you maximize your time at TRANSACT. Get introduced to a seasoned industry professional or stellar ETA member who will be your personal ETA CONNECTS guide. This meetup will steer you toward the best sessions to attend for your specific needs and introduce you to what can be important, career-long connections.

• The TRANSACT Show Floor and Exhibit Hall Opening Reception

Sponsored by Merchants' Choice Payment Solutions

Reception: Wednesday, May 10, 5:00pm – 7:00pm

The Exhibit Hall Opening Reception is your first chance to glimpse the latest in solutions and make a great first impression on future customers—all while reconnecting with colleagues. The show floor is open each day of TRANSACT, so visit early and often. Exhibit Hall Hours: May 10, 5:00pm–7:00pm; May 11, 10:00am–6:00pm; May 12, 9:00am–12:30pm.

• The Visa President's Dinner and ETA Star Awards Gala*

Sponsored by Visa

Wednesday, May 10, 7:30pm – 9:30pm

Join your colleagues for the most prestigious affair in payments: the Visa President's Dinner and Star Awards Gala. Enjoy a celebratory evening, beginning with a cocktail reception followed by a gourmet dinner and awards presentation. The ETA Star Awards are designed to showcase individuals and companies that have made a significant difference in the payments industry, whether through innovation, business practices, advocacy, or contributions to the association. This event is open to all. *Separate registration is required.

• First-Time Attendee / New Member Reception

Sponsored by National Merchants Association

Thursday, May 11, 5:00pm – 6:00pm
Exhibit Hall

This is an opportunity to meet fellow first-time attendees and new ETA members on the show floor. Exchange ideas and be inspired!

• Hangover Breakfast

Sponsored by Sage

Friday, May 12, 10:00am – 11:00am
Exhibit Hall

Held the morning after the All-Attendee Party, the Hangover Breakfast is an opportunity to cement new and old relationships over mimosas and Bloody Marys before departing.

STAND-OUT SHOW FLOOR ZONES

Because all of payments' many verticals are represented at TRANSACT, ETA has made it easy for you to navigate the show floor and identify your target vendors, future partners, and key allies by creating specialized zones where you'll find exactly who you're looking for—connect with convenience!

• The Forter Risk, Fraud, and Security Solutions Zone

Sponsored by Forter

"Forter is an end-to-end, real time, fraud prevention solution. Last year, Forter won the E-pay Innovation award—now we're stepping up to sponsor the Risk, Fraud, and Security Zone at TRANSACT. As a more mature company this is an opportunity to stand out as more than a start-up, and to have the TRANSACT community to work with us." -Michael Reitblat, Forter co-founder & CEO

For the payments industry, progress relies on robust risk, fraud, and security solutions. Customers expect you to be able to offer them not only customized solutions and ease of use, but also peace of mind. In TRANSACT's Risk, Fraud, and Security Solutions Zone, meet face-to-face with the people and companies on the leading edge of providing these solutions.

• The Software Zone

The new language of payments, TRANSACT's Software Zone features the hottest software companies transforming the payments landscape today. From customized apps to SaaS innovations and systems that simplify back office operations, find the partners who will dazzle your merchant customers every time.

• The Tech Innovation Showcase

Sponsored by PayPal

TRANSACT brings payments' latest innovations out of the cloud and onto the show floor. Visit ETA Star Award tech finalists as they demonstrate best-in-class solutions in risk, social media integration, payment facilitator integration, and mobile.

• The Mobile Pay Zone

Explore digital wallet platforms and the possibilities for loyalty and incentives programs, as well as security technologies, specifically developed for mobile applications.

• The Discover Payments Next Zone

Sponsored by Discover

No one knows what the future holds—except TRANSACT! Experience the innovative mobile ecommerce solutions start-ups offer and understand how they'll impact your business.

• Payments Pitch-Off and E-Pay Innovation Award

Sponsored by Vantiv

Thursday, May 11, 10:00am – 1:00pm

ETA will again provide the opportunity for payments start-ups to compete for the E-Pay Innovation Award live on the TRANSACT show floor. The Payments Pitch-Off (PPO) provides start-ups the venue to demonstrate their innovative new electronic payments technology product or service to an audience including media, venture investors, and potential industry partners. The judging panel will select one E-Pay Innovation Award winner demonstrating the best new technology, product, or service to receive an award of $25,000!

KEYNOTE SPEAKERS AND PRESENTATIONS

TRANSACT is renowned as the stage for best-in-industry keynote speakers and powerhouse panels, all delivering actionable intelligence and insights. This year ETA is proud to present the following:

• Craig Vosburg, President, North America, Mastercard

Thursday, May 11, 8:45am

Vosburg oversees Mastercard's customer-facing activities in the United States and Canada, including sales, business development, strategy, and relationship management with issuers, merchants, governments, and acquirers.

• Diane Greene, Senior Vice President, Google Cloud

Thursday, May 11, 1:00pm

Greene leads Google Cloud, a major Google business that is partnering with companies as they digitally transform their cultures and businesses. Greene is also a member of the Alphabet board, and Intuit's and MIT's boards.

• The Merchant Perspective on Payments Keynote Panel

Friday, May 12, 9:15am

Hear directly from global brand leaders like Etsy, Walmart, Dunkin' Donuts, and Nordstrom about what technology they need and want from payments providers. They'll discuss relevant issues including EMV, tokenization, and security, and review how new technology can drive sales and improve security. Learn their pain points and success stories, so you can offer your customers the right solutions.

• The Tech Panel Keynote

Friday, May 12, 10:15am

Growth in the adoption of digital payments, entry of nontraditional players, technological innovation, and the proliferation of immediate payments drive the dynamics of retail payments. This panel of industry giants, including Amazon, Microsoft, and Samsung, will discuss transformations in the payments ecosystem, examining how the payments industry adopts new technology, embraces disruption, and ensures a smooth transition for the entire payments value chain.

EDUCATIONAL TRACKS

Four outstanding Educational Tracks are available at TRANSACT, each designed to meet individual needs and address individual goals:

• Security Technologies

Sponsored by Intel

The payments security landscape evolves in leaps and bounds. New technologies stop criminals and meet consumers' increased expectations for data protection, in-store and online. This track offers an insider perspective on the newest tools available to secure information, manage risks, and reduce fraud. Understand the latest technologies on the market and gain insights into innovations on the horizon.

• 22nd Century Payments

Sponsored by Mastercard

The mobile point of sale (POS) is revolutionizing payments. Experience the advantage that offering mobile POSs creates for your business. Learn about digital wallet platforms, integrated marketing and loyalty incentives,

ETA Affinity Program Addresses Payment Industry Challenges

Powered by Frates Insurance, the ETA Affinity Program was designed for the payments industry in order to address the many challenges not covered under traditional insurance programs. Here are some of the ways Frates can help your company:

Chargeback Liability and Reserves

Reserves are an expensive way of mitigating risk and place an additional burden on an ISO and their merchants. A far more cost effective strategy is to utilize chargeback liability insurance and bonds which the acquiring bank accepts in lieu of reserves. We have helped numerous ISOs reduce their chargeback liability and attain merchants they otherwise would have lost to their competitors while still having no reserve requirements from their acquiring banks.

Vendor Insurance Requirements

One of the simplest ways for your company to avoid a loss is to require the company you are contracted with to be insured. An acquiring bank requires this of an ISO just as an ISO does of a gateway or CRM. Many payment companies find obtaining their insurance is a difficult task or their insurance does not cover what they do. Frates specializes in payments and places its clients into polices customized for their operations.

PCI and Data Breach

There are numerous ways an ISO can purchase their merchant breach protection. By far, the most cost effective way and to get the broadest coverage is directly from the carrier. Frates enables ISOs to cut out the middleman and eliminate the risk of unpaid claims due to exhausted limits as many ISOs have found out the hard way.

Mergers & Acquisitions

Holdbacks place an unnecessary burden on the seller and add a significant amount of time to the M&A process. A far more efficient approach is to utilize a transactional liability policy. Buyers can now stand out by not requiring a holdback and allowing a seller to make a clean break from the transaction.

location-based interaction opportunities, and the sophisticated layering securities that mobile employs to secure transactions.

- **Globalization**

Sponsored by Alipay

Globalization means increased market share and exciting partnership opportunities for your business. Cross-border payments are more important—and more complex—than ever before. Join this track to gain the upper hand in understanding the benefits of international payments and the skills required to navigate compliance.

- **Politics & Policy**

Sponsored by Venable LLP

Join the industry's top policy advocates and explore legislative and regulatory issues, as well as the newest threats and opportunities, with issues related to data collection, information sharing, uniform standards, breach notification, and more.

THE TRANSACT FRESH LIST: WHAT'S NEW FOR 2017

You return to TRANSACT annually because TRANSACT is where payments business gets done! Each year, TRANSACT builds on what we've accomplished over the past quarter-century-plus as the payments' hub for connection and innovation. This year, ETA has added exciting elements to increase productivity.

CURATED EVENTS, FACILITATED NETWORKING

- **Matchmaking Happy Hour**

Thursday, May 11, 5:00pm – 6:00pm in | Exhibit Hall

Connect with people on the show floor to make the deals that are necessary for shaping the future of your business. Make the most of your TRANSACT experience with attendee-specific introductions made by ETA's in-the-know staff!

- **Headshot Studio**

Sponsored by Bank of America Merchant Services

Thursday, May 11, 10:00am-6:00pm, and Friday, May 12, 9:00am-12:30pm

Put your best face forward. Update that headshot to get noticed!

- **The Young Payments Professionals (YPP) Program**

Thursday, May 11, 10:00am – 12:00pm

Young Payments Professionals (YPP) are shaping the future of our industry! Join your YPP peers for informative sessions, including "The Convergence of Technology & Next Gen Payments Professionals" and "Bridging the Generational Gap: Creating Omnipresent Payments Through the Ages."

- **The All-Attendee Party / Shark Reef Aquarium at Mandalay Bay**

Sponsored by First Data

Thursday, May 11, 7:00pm – 9:00pm

We listened to your feedback and added a new, final networking opportunity to the schedule. It's one last chance to attract the right people, so add this exciting event to your plans and conclude TRANSACT with a bang!

INDUSTRY-SPECIFIC CONTENT

- **ISV Workshops**

Sponsored by Global Payments

Wednesday, May 10, 1:00pm – 5:00pm

ETA will host a half-day ISV/Integrated Payments Workshop addressing the impact of changes in technology to the sales channel. Whether you are an ISO, ISV, PSP, or VAR, these workshops are tailored to help manage challenges and opportunities available at the POS, whether in-store, online, or mobile, to become an integral part of the merchant experience.

- **PayFacs Day**

Thursday, May 11, 10:00am – 5:00pm

ETA and paymentfacilitator.com present Payment Facilitator Day, an exclusive, full-day event of targeted content for existing Payment Facilitators and those considering the solution. Attendees will explore prevailing topics, exciting trends, and pain point mitigation techniques surrounding risk, fraud, and compliance in your Payment Facilitator market.

- **ISV Reception**

Sponsored by First Data

Thursday, May 11, 5:00pm – 6:00pm | Exhibit Hall

Join fellow ISVs at a reception on the show floor for networking and collaboration.

- **ISO Reception**

Sponsored by IRIS CRM

Thursday, May 11, 5:00pm – 6:00pm | Exhibit Hall

Join fellow ISOs at a reception on the show floor to connect and thrive.

Going Global at Home

Connecting retail partners with the Chinese traveler abroad

By Souheil Badran

When Chinese tourists make travel plans, many view shopping as one of the top priorities for their trip. While abroad, they can buy items they would otherwise not be able to find in China, often at more affordable prices. In fact, with the Chinese market booming, Chinese tourist-related spending is estimated by economists to be around $200 billion globally. And with more than 3 million Chinese consumers predicted to visit North America in 2017, an increase from 2 million last year, North American retailers have a tremendous opportunity to tap into this group's massive spending power.

But attracting and enticing Chinese travelers to make purchases can often be easier said than done. Chinese tourists can be an enthusiastic group of shoppers who come to North America ready to exert their spending power on everything from food, to accommodations, to apparel, to luxury goods. However, while these tourists enjoy their travels in North America, they are generally not that comfortable paying here. That's because they often must navigate not only significant language and cultural differences but also financial ones. With credit cards and cash being the most commonly used forms of payments, Chinese tourists have to both calculate conversion rates and consider foreign transaction fees, which can often hit their bank accounts well after their trips have ended. This can add to their shopping stress and can make them a more hesitant payer at the register.

Savvy payments providers are in a unique position to educate North American retailers on how to benefit from this lucrative market. By helping retailers recognize and address these unique challenges, payments companies can help them present a comfortable payment and shopping experience that will ignite the Chinese tourists' enthusiasm for finding and buying great items abroad. Ultimately, the retailers benefit the most because of greater spending and a deepening relationship with this lucrative audience.

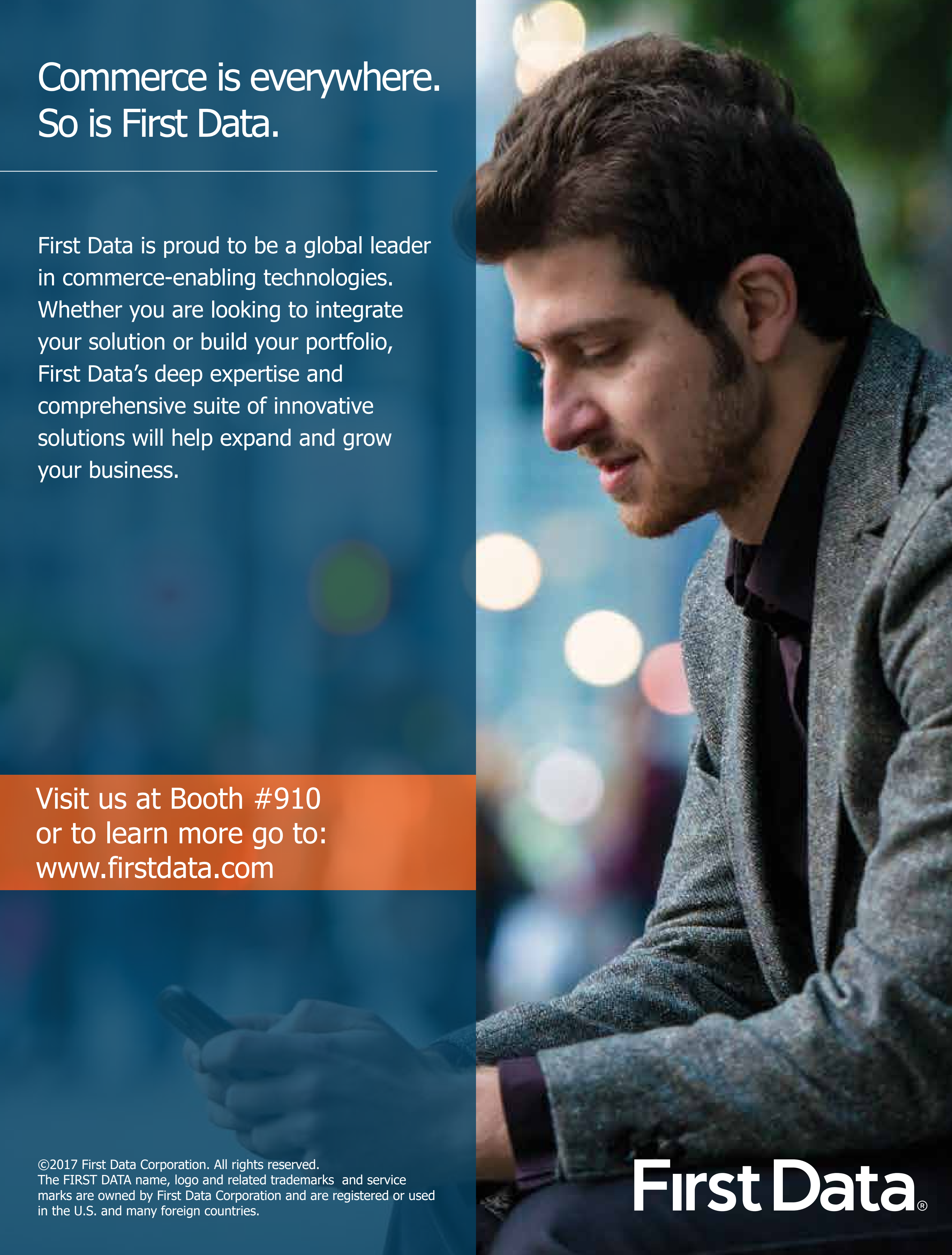
While there are many factors to consider when targeting Chinese tourists, to be successful retailers must realize that the most important consideration is the experience. Here are a few tips that will help your retail clients tap the spending power of the Chinese consumer traveling abroad.

Understand their spending targets. A lot of Chinese tourists shop with a mission. Some may want to find items for friends or family members on their list. High school students are often looking specifically to buy luxury designer goods at more affordable prices than they'd pay at home. Senior citizens often shop for children and baby-related items, likely for their grandchildren. Retailers need to be ready and equipped for each type of customer and guide them to items that best resonate with their agenda.

Entice shoppers before they arrive. Some retailers or brands might think about marketing to Chinese tourists even before they leave China by partnering with influencers to ensure their stores are on travelers' "go-to" list before they even get on the plane. That way, a retailer can be added to a Chinese tourist's agenda and have a greater likelihood of drawing the consumer in-store during his or her visit.

Eliminate payment barriers. Retailers should also look to accept a payment method that is familiar and easily accessible to Chinese consumers. Mobile payment platforms that deliver information in their language, as well as work with their own currency, can make the experience at the register more pleasant for both the shopper and the cashier. Accepting such payment methods can also eliminate surprise fees that often hit shoppers' accounts after they return to China.

Retailers will also find it beneficial that some Chinese-friendly payment platforms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enable Chinese tourists to use the payments app to search for shops nearby and discover deals in their own language. This offers another channel to connect with the Chinese traveler, and drive business and increase sales for a retailer connected to the platform.

Provide seamless services. Chinese tourists have done all their research, found their way to a retailer's store, and are ready to spend. It is now time for the retailer to meet them at the door with seamless services that will put these special consumers at ease. Consider how every facet of their experience can be made more efficient and simplified. Promotion reminders, product recommendations, fitting room services, gift packaging, and checkout lines offer touch points for building trust, and, importantly, encouraging shopping. The experience of a quick-and-easy purchase is the key to enticing shoppers to another visit, or inspiring word-of-mouth endorsements to their friends and family, resulting in greater opportunity for sales.

Have the "it" product. Many Chinese tourists who come to North America are shopping with a specific "hot" brand or item in mind. Retailers and brands should do their research and review their inventory—making sure to stock up on items that appeal to Chinese consumers and verifying they have enough of the "it" product available.

Speak the language. Retailers should consider adding signage with Chinese characters to their mainstream stores. They might want to consider bringing in Chinese-speaking staff to help tourists navigate the store, find what they need, and checkout. Retailers that show they understand the challenges of the Chinese tourist and make efforts to bridge the language barrier will help give these visiting consumers the confidence they need to pull out their wallets.

Offer exclusives and deals. Retailers and brands can incentivize Chinese shoppers by offering exclusive treatments or deals. Think of benefits like red envelopes, price discounts, or even a private styling service that is only available to Chinese tourists. This approach can be an added incentive to shop at a specific retailer or brand.

Introduce membership. Many retailers have their own loyalty program to build the long-term relationship with customers, and Chinese customers are very familiar with membership points and discounts. The first purchase can be the beginning of establishing a long-term relationship and future sales, particularly for frequent travelers. Retailers should consider electronic membership cards and coupon options, which are very popular in China because they are portable and convenient to store and use.

Offering a shopping and payment experience that is simple and familiar to Chinese tourists is critical for North American retailers. By bridging the language and payment gaps, and extending services above and beyond what is expected retailers will attract and establish relationships with this large and growing segment. Ultimately, developing long-lasting relationships with the Chinese tourist abroad will benefit North American retailers with increased sales. ***TT***

Souheil Badran is president of Alipay North America.

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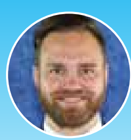
May 10–12 in Las Vegas **Booth #1108**

Heather Petersen
CHIEF EXECUTIVE OFFICER

"Lessons Learned from EMV: How to Implement New Security Technology"

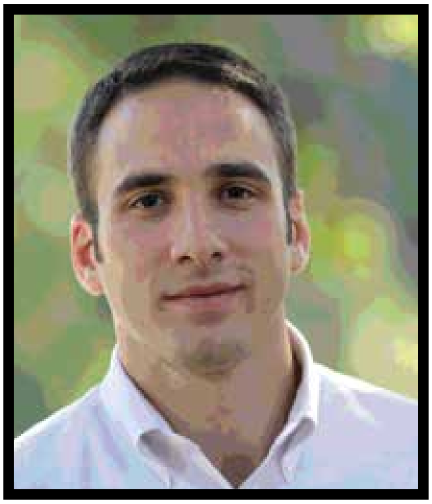
Wednesday, May 10 | 2:00pm - 2:50pm
Location: Islander I



Jacob Bennett
CHIEF RISK OFFICER

"With Friends Like These, Who Needs Enemies: A Friendly Fraud Discussion"

Wednesday, May 10 | 9:00am - 9:50am
Location: Islander I



Dan Rosen

Partner and founder of Commerce Ventures, Dan Rosen has been investing in technology start-ups for 15 years. He also is the chair of the new ETA Venture Capital Council and will be leading a new session on investing in payments at TRANSACT. Here, he talks about trends in venture capital (VC) and aspirations for the council.

The following has been edited for length and clarity. A fuller edited version of the discussion is available on the *Transaction Trends* website: http://bit.ly/1XYuin2.

What's your firm's elevator pitch?

Our elevator pitch is that we are an extremely fanatically driven, sector-focused investor. Our focus is on payments and commerce start-ups—really the innovators who are providing technology and infrastructure to folks in the payments and commerce ecosystem. And the goal that we have is to invest in companies where we think we can be helpful, [which] means leveraging our networks, our knowledge, our expertise to provide more than investment. Also, [we] help them with servicing potential customers, servicing potential distribution partners, and even recruiting advisors or key executives. Being as focused as we are, we're assembling a highly relevant set of [contacts] and expertise that we can then leverage on their behalf.

What excites your team about fintech and payments right now?

There's a lot of change going on in commerce and in payments. For instance, if you look at the explosion of e-commerce, clearly e-commerce requires digital or electronic payments and electronic payment enablement. If you combine that trend with the EMV reterminalization of the United States, those two things together would suggest that there's going to be a big spike in fraud in the e-commerce world. We've made an investment in a company called Forter in that space, and Forter has a scalable software platform that immunizes e-commerce merchants from fraud.

On the other hand, the trend in retail [is the need to have a] very rich checkout and robust experience in a mobile app. We're seeing retailers and merchants that increasingly want to have their own branded loyalty and payment integrated solution within the mobile app. And so, we invested in a company called OmniPay [that] has a platform that enables retailer-branded mobile wallets and mobile commerce. Those are a couple different areas that are really exciting.

What qualities in companies set them apart from the rest?

In the order of importance and priority, first and foremost is the team. At the early stages of investing, team matters most, so we like to invest in teams that we're excited about—[those that are] really smart, hard-working, and tackling a problem they're intimately familiar with.

The second criterion is market. Is it an exciting market opportunity? That could either be a really big market that's ripe for disruption or it could be a relatively small nascent market that is poised to grow very fast.

The third is product. How compelling and different is [the company's product or service] relative to alternative products or ways of doing something? Are you delivering a lot of utility to consumers or users because of the product that you've built? That utility could be a formal ROI or the user experience for a consumer.

The last thing is the economical viability of the deal. Can we invest an amount of money now that either would fund the company all the way to break-even profitability or with some assumptions around additional capital in the future? And then, what does the company look like at that point, and will it be worth a lot of money?

And there are a lot of reasons not to invest. Candidly, it doesn't have to be a horrible answer to any of those questions; it could just be a mediocre answer.

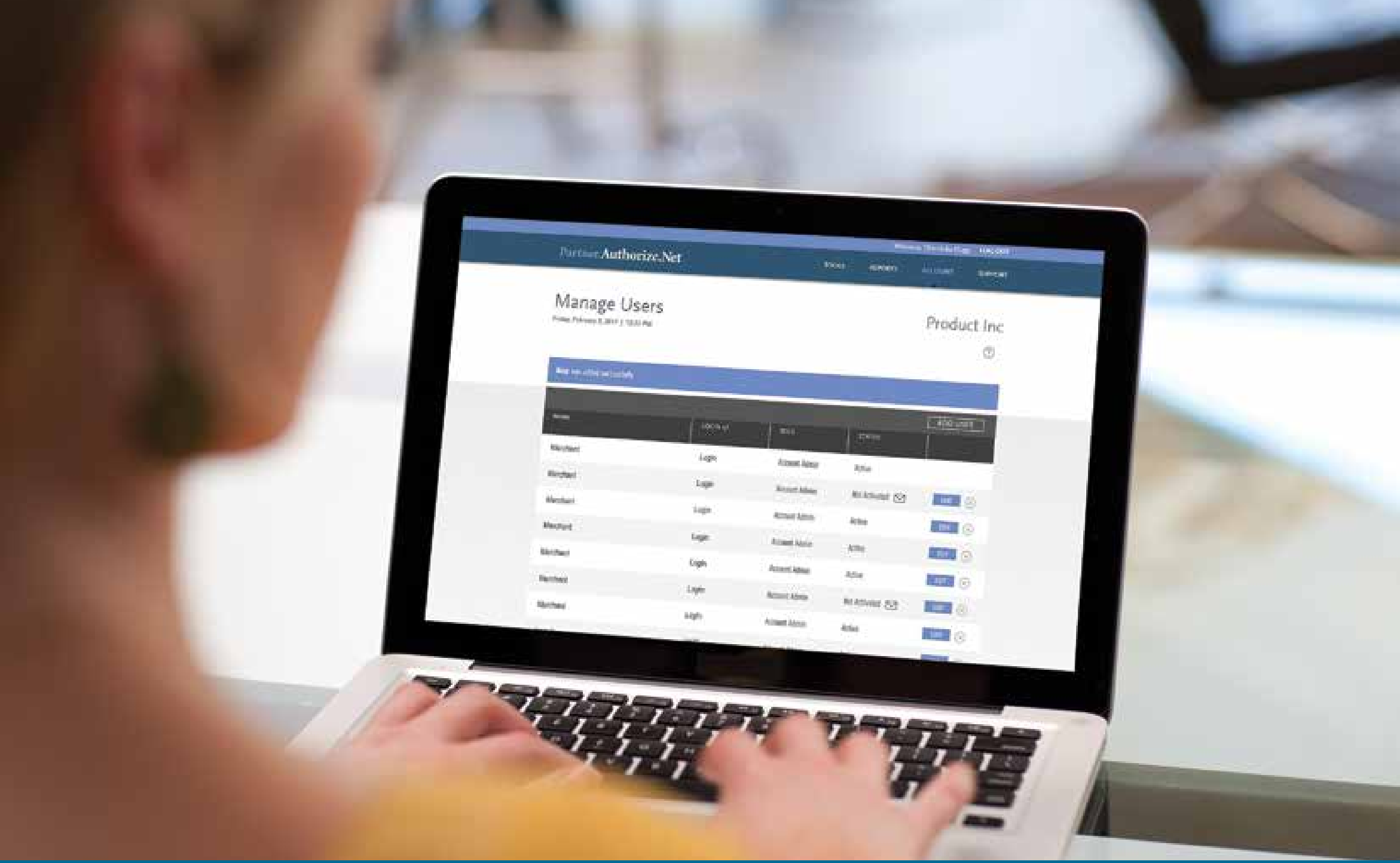
Describe the Venture Capital Council and its value for ETA members.

As we think about the ETA membership, which historically has been ISO and merchant acquirers and even bank members, increasingly, technology companies are playing an important role in the payments landscape—whether it's Google or PayPal or Intuit or one of the number of other companies that are relevant to the payments and commerce world. Understanding the ecosystem and being connected to innovators at the early and mid-stages of development I think is important to [members]. There's the opportunity for both to collaborate with innovators as well as to be aware of potential disruption that is occurring.

The VC Council [is] a way to establish rapport and deeper ties in the innovation ecosystem. [It's] an obvious first step to bringing start-ups and ETA members closer together. And over time, there will be other steps to take as well, [such as] including other VCs who do less specifically in payment processing but who are active in the commerce world, bringing in other tech companies, and so on.

There are already several additional high-profile VCs [that] have expressed interest and willingness to commit to being involved who aren't able to attend the inaugural event [at TRANSACT]. So I would encourage anybody who thinks that the council is relevant to them to get in touch either with ETA or with me directly if they're interested in getting involved. ***TT***

—Josephine Rossi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