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November/December 2017

TRANSACTION trends

THE OFFICIAL PUBLICATION OF THE ELECTRONIC TRANSACTIONS ASSOCIATION

The Merchant PERSPECTIVE

Payments professionals share insights from their customers

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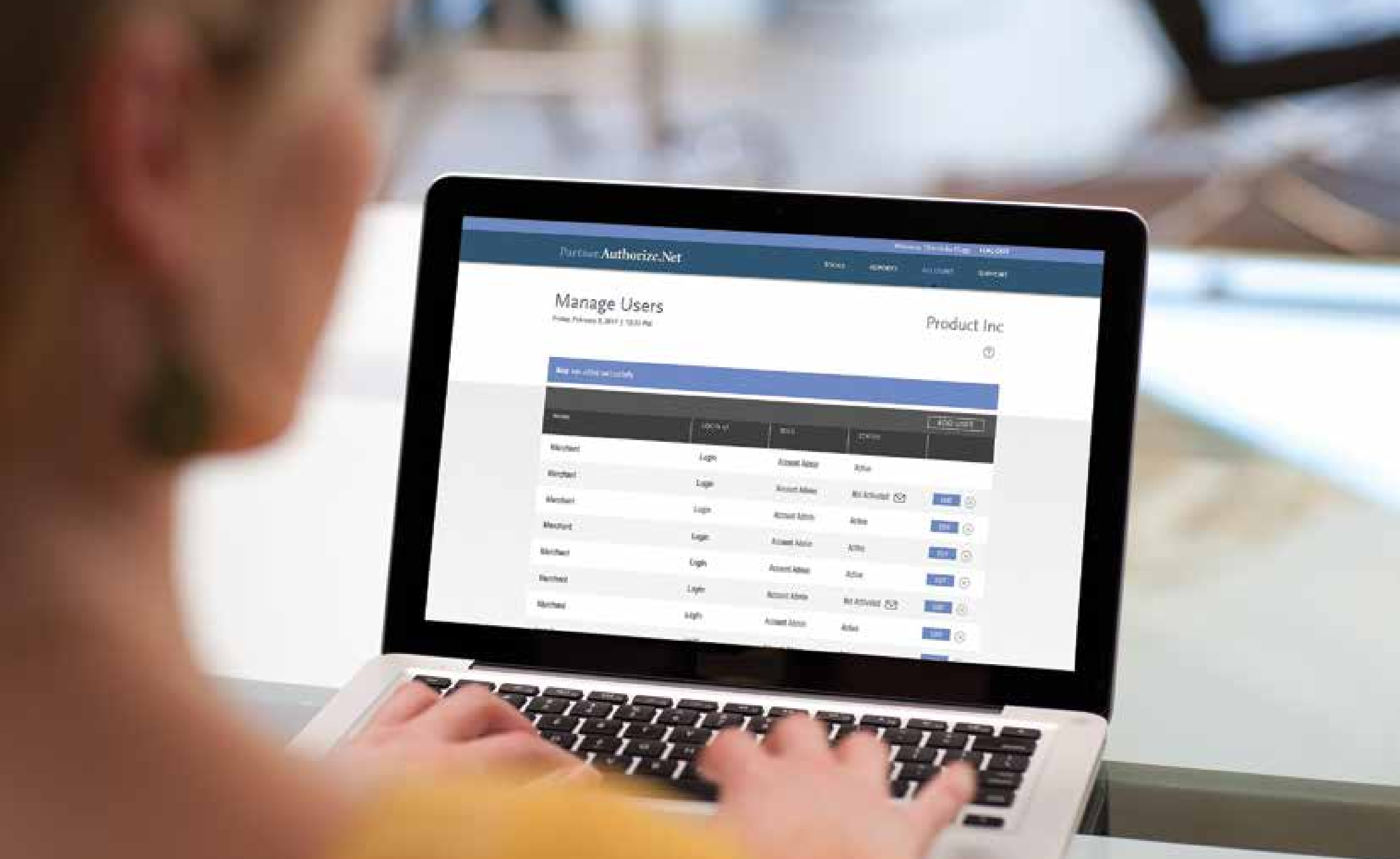

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ETA and the Future of Payments

The Electronic Transactions Association's journey began on July 16, 1990, in Denver, Colorado.

Attending a related industry conference, a small group of men and women—many of whom represented companies that have since been acquired or changed names—came together with a modest $14,000 budget and a clear goal. They voted that day to form a group dedicated to representing the interests of the payments business. The Bankcard Services Association (BSA) was born, made up of a small group of processors and ISOs that recognized the acquiring side of the payments industry needed its own trade association.

What the founders could not have known is that the acquiring association they established that day would come to represent the world's most innovative industry. After all, the Electronic Transactions Association—the name BSA would adopt in 1996—was founded in a much different world. The payments industry was a straightforward business, focusing on enabling magnetic stripe plastic card acceptance at the retail point of sale (POS) on behalf of financial institutions. **It was the age of analog.**

At the dawn of electronic payments, there were no APIs, no smart terminals, no instant payments, no mobile wallets, no chip card readers (at least not in the United States). **There was one principal sales channel: the ISO.** Visa and Mastercard were themselves associations owned by their issuing banks. The Discover Card was owned by Sears, the nation's largest retailer at the time.

The analog days are over. The payments industry is now the payments technology industry as **software and tech firms collaborate with financial institutions to bring merchants and consumers the seamless and secure payments experience they demand.** And as ETA innovates and changes after three decades as the voice of the payments industry, **it makes sense that ETA should look different, too.**

Today, I'm proud and excited to officially introduce ETA's new logo.

As your voice and your community, ETA brings together a diverse coalition of companies from across the globe. From the world's biggest financial institutions, to Silicon Valley's bluechip firms, to over 500 software vendors, value-added resellers, payment facilitators, fintech startups and developers, ISOs, and processors, **every corner of this robust and dynamic ecosystem is part of ETA.** Your association has invested tens of millions of dollars into developing events, educational content, political advocacy, and industry research that advances the payments technology ecosystem. **Our logo needs to convey the novel, forward-thinking, fast-moving, innovative industry that we proudly represent.**

Our new logo is a natural evolution but deliberate departure from ETA's previous look and feel. **It focuses forward**, invoking the interconnectivity and diversity of our members on a worldwide scale. The tech-inspired geometric lowercase lettering is built from circuit-like, forward-moving elements, **representing and invoking the global flow of trillions of electronic transactions that our members enable.**

Our global, interconnected economy is approaching a cashless future, built on payments enabled by our members through innovative POS solutions, quick and ultra-secure e-commerce, the Internet of Things, blockchain, mobile and smart platforms, smart collaborations, and partnerships. Our new logo projects what has been true of our organization since its founding day—**that ETA is the pulse of the payments industry**.

Jason Oxman
Chief Executive Officer
Electronic Transactions Association

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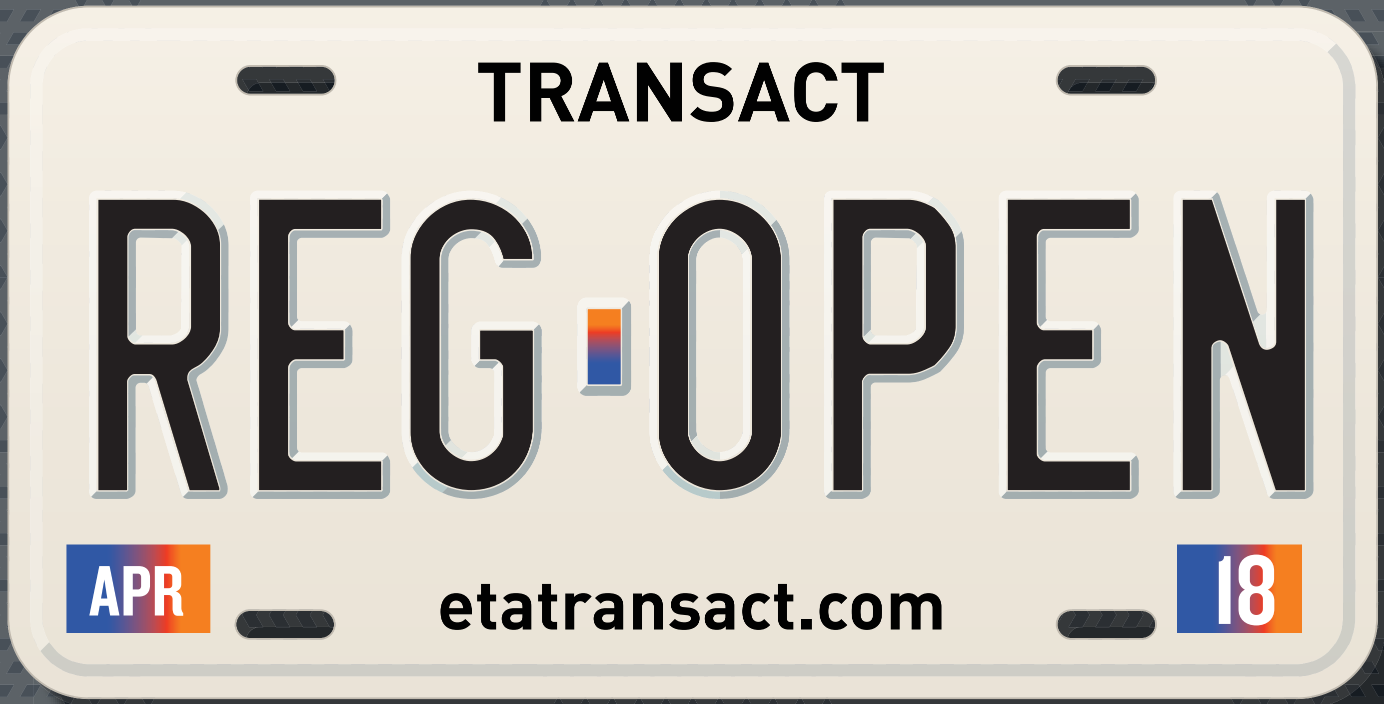

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*Super Early Registration expires January 23, 2018.

CONNECTING THE PAYMENTS TECHNOLOGY WORLD

Online Holiday Spending To Surpass In-Store for First Time

For the first time ever, holiday shoppers will spend more of their budgets (51 percent) online than in-store, according to Deloitte's 32nd annual holiday survey of consumer spending intentions and trends. Fifty-five percent of respondents plan to shop online for gifts, with 44 percent planning to shop at mass merchants, according to the survey. For higher-income households—those earning $100,000 or more—57 percent will be shopping online, and 39 percent in-store. Interestingly, only 28 percent of respondents plan to shop for gifts at department stores, which is down 3 percent from last year.

So, why do consumers prefer to shop online in 2017? According to the survey, online shopping is outperforming in-store venues in five key areas: Ease of searching (79 percent internet retailers vs. 64 percent in-store retailers), products—high-quality/trusted (76 percent internet vs. 64 percent in-store), variety of products/styles available (76 percent internet vs. 62 percent in-store), availability of hard-to-find/unique products (57 percent internet vs. 41 percent in-store), and variety of delivery options available (56 percent internet vs. 32 percent in-store) drove their choices.

"Whether a retailer is online or store-based, their digital influence is one of the strongest cards to play this holiday season," said Rod Sides, vice chairman and U.S. retail, wholesale, and distribution leader for Deloitte LLP. "Even though 80 percent of people said they expect the majority of their shopping will fall in late November onward, decisions about where they'll shop and what they buy will be largely determined by the digital interactions occurring now. In the survey, we found that retailers have a 75 percent probability of converting a desktop or laptop shopper to a purchaser, along with a 59 percent probability of converting a smartphone shopper."

More than 5,000 U.S. consumers participated in Deloitte's most recent survey, which also offered insight into the various ways mobile payments will play a role this holiday season. More than one-in-five consumers expect they'll pay for purchases in physical stores using a mobile wallet or mobile payment solution. In addition, 40 percent of consumers shopping on their smartphone plan to pay using a retailer's app, beating out 36 percent who plan to pay a retailer on their website (not using their app) from their smartphone. Thirty-six percent will also use apps to pay other people this holiday season.

Infographic

Expected Holiday Sales Retail Growth Winner and Losers

WINNERS	
Eating Places/Restaurants	October 2017 = **6%** November 2017 = **3.8%** December 2017 = **3.6%**
Hotels/Lodging	October 2017 = **4.8%** November 2017 = **4.3%** December 2017 = **4.2%**
Lumber & Building Material Stores	October 2017 = **4.8%** November 2017 = **10.7%** December 2017 = **10.2%**
Shoe Stores	October 2017 = **12.8%** November 2017 = **12.7%** December 2017 = **10.1%**

LOSERS	
Sporting Goods	October 2017 = **-2.8%** November 2017 = **-6.3%** December 2017 = **-4.6%**
Jewelry Stores	October 2017 = **-1.7%** November 2017 = **0%** December 2017 = **-3.2%**
Electronic Stores	October 2017 = **-0.3%** November 2017 = **0%** December 2017 = **0.5%**
Movie Theaters	October 2017 = **-15.8%** November 2017 = **-8.8%** December 2017 = **-6.1%**

Source: "2017 Holiday Spending Report Card," ETA and The Strawhecker Group
Note: National year-over-year sales growth indicated

Adoption of 'High-Assurance Strong Authentication' Recommended for Businesses

A new report from Javelin Strategy & Research recommends businesses adopt readily available high-assurance strong authentication to bolster security in light of increasingly effective attacks against traditional authentication methods.

The research, which was sponsored by FIDO Alliance, suggests that businesses continue to be vulnerable to data breaches because they rely on passwords, and, if they opt to implement additional authentication factors, they choose outdated options like static questions and SMS one-time passwords (OTPs). The report identifies the weakest authentication factors—those based on knowledge, not possession—and reports they remain the most popular and common. Businesses are using passwords plus static questions (31 percent) or SMS OTPs (25 percent) as their additional factors for customer authentication online. This is true despite the fact that strong authentication is evolving and is readily available, according to Al Pascual, Javelin's senior vice president and research director. "Many consumer devices are coming equipped with built-in capabilities that enable high-assurance strong authentication, reducing costs and complexity for all stakeholders," he said in a press statement.

Currently, companies are more likely to offer strong authentication to their customers than to their employees, but the research shows that both are lagging in the adoption of high-assurance strong authentication. Fifty percent of businesses offer at least two factors when authenticating their customers but only 35 percent of enterprises use two or more factors for authenticating their employees to data and systems. Between the two, use of high-assurance strong authentication is rare—only 5 percent of businesses offer the capability to customers or leverage it within the enterprise.

"So many of our commercial transactions today take place over the internet, and we've seen time and again that passwords, and even one-time-passcodes, do not provide sufficient protection against today's threats," said Brett McDowell, executive director, FIDO Alliance. Consequently, the report recommends companies strongly consider high-assurance strong authentication because it is not susceptible to phishing, man-in-the-middle, or other attacks targeting credentials—which are known vulnerabilities with passwords, static questions, and OTPs.

Fast Fact

Voice assistant devices across all platforms—smartphones, tablets, PCs, speakers, connected TVs, cars, and wearables—will reach **870 million devices in the United States by 2022,** an increase of 95 percent over the 450 million estimated for 2017.

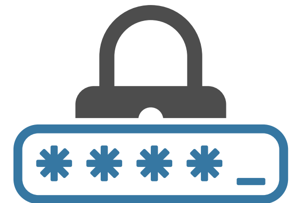
Source: "Digital Voice Assistants: Platforms, Revenues, & Opportunities 2017-2022," Juniper Research, November 2017.

Visa Introduces Payment Wearables at the 2018 Olympic Winter Games

Visa, the exclusive payment technology partner at the Olympic and Paralympic Games, recently introduced three commercially available prepaid wearable payment devices for the 2018 Olympic Winter Games in PyeongChang: NFC-enabled payment Olympic pins, gloves, and commemorative stickers. Fans and athletes who don these wearables will be able to complete a transaction with a tap at any on-site, contactless-enabled terminal.

In addition to the wearables, Visa also is facilitating and managing the payment system infrastructure and network throughout all venues within the Games. This includes more than 1,000 contactless POS terminals capable of accepting mobile and wearable payments.

"We are looking forward to transforming the payment experience for everyone who attends the upcoming Olympic Winter Games in PyeongChang," said Iain Jamieson, Korea country manager at Visa. "At Visa, we have been working tirelessly to ensure all of the Olympic venues are equipped with the very latest payment capabilities to provide the best experience possible for all those on-site."

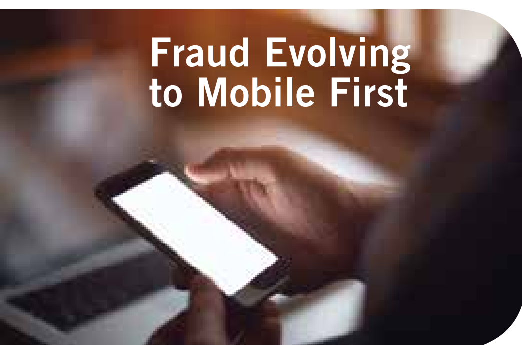


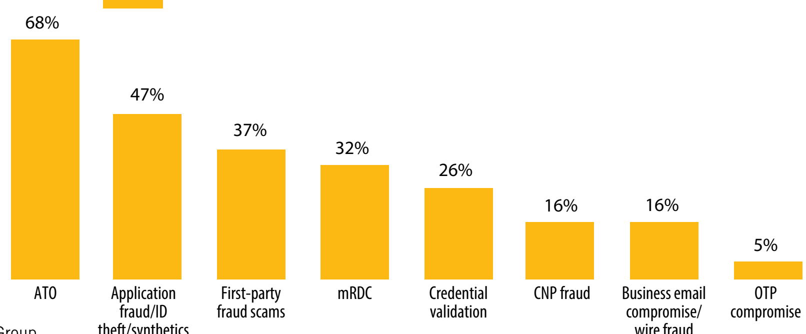
Fast Fact

Only 28 percent of Americans use two-factor authentication. **More than half** have never heard of it.

Source: "State of the Auth: A Survey of Users' Authentication Experiences and Perceptions," Duo Labs Inc.

Infographic





Source: Aite Group

Gift Cards Prompt Larger Purchases, Says First Data

The average consumer spent $38 more than the value on their gift card, up $10 from 2016, according to First Data's annual "U.S. Prepaid Consumer Insights Study." Based on the responses of more than 2,000 U.S. consumers, the study also found that 44 percent of consumers visit a store they would not have visited otherwise because of a gift card, and 53 percent are likely to visit a store more often as the result of receiving one.

The majority of millennial consumers (55 percent) reported visiting a store they would not have visited otherwise because of a gift card they received, compared to just 43 percent of Generation-X responders and 41 percent of baby boomers. Millennials (64 percent) are also more likely to visit a store more often thanks to gift cards than Gen-Xers (54 percent) or baby boomers (41 percent).

"There is a tremendous opportunity for businesses to drive sales and build brand loyalty by implementing gift card strategies and solutions," said Dom Morea, senior vice president, head of gift solutions, at First Data. "From employee rewards and customer service programs to social media promotions and marketing campaigns, gift cards are their own form of currency, offering convenient solutions for gift card purchasers and receivers alike."

Gift cards aren't just about giving gifts anymore. Sixty-two percent of millennials reported self-purchasing gift cards, with more than one-third of consumers across age groups citing discounts (37 percent), loyalty/rewards programs (35 percent), and online shopping (27 percent) as the biggest drivers behind this growing trend. Self-purchasing is up from 53 percent across age groups in 2016.

First Data's "2017 Consumer Insights Study" found that consumers purchased an average of 6.5 physical gift cards on annual basis, steadily climbing from 5.9 in 2016, 5.5 in 2015, and 4.7 in 2014. While physical gift cards still dominate, the research showed that digital gift card popularity is on the rise. In addition, a trend worth watching is mobile gift card apps. This year, among all consumers who were aware of mobile gift card apps, 52 percent had used one, and millennials outpaced total respondents with 65 percent having used an app to purchase a gift card.

Moves & Mergers

Louise M. Parent has joined the board of directors of **FIS**, a global financial services technology firm. Retired from American Express after serving as executive vice president and general counsel, Parent has more than 35 years of experience in the financial industry.

JPMorgan Chase & Co. has acquired payments platform **WePay**. Chase reports that it will keep WePay as a standalone company, ensuring it helps WePay maintain its identity as a developer, while also leveraging Chase assets. WePay counts GoFundMe, Infusionsoft, and Constant Contact among its clients.

After a three-decade career at the Central Intelligence Agency, **Jeanne Tisinger** has joined **Mastercard** as a senior advisor for cybersecurity. She will contribute to the implementation and expansion of the company's security strategy and public policy initiatives.

Pineapple Payments, an omnichannel payments technology company, has acquired **Payline**, a full-service payment solutions provider.

Planet Payment, which provides international and multicurrency processing services, has been acquired by Fintrax Group, a multicurrency digital payment processor for tourists.

Sage Payments Solutions has tapped **Joe Kaplan** to take the helm as CEO. Kaplan previously held positions as the founder of Superior Financial Group, a nationwide SBA lender; president of Innovative Merchant Solutions, an Intuit company; and president and CEO of Superior Bankcard Service. Kaplan has also received the Arthur Andersen Award for Best Business Practices in Customer Satisfaction, the 1998 Ernst and Young Entrepreneur of the Year Award, and the U.S. Chamber of Commerce Blue Chip Enterprise Award. He is a member of ETA's Presidential Advisory Council and a past president.

Congress Repeals an Overly Restrictive CFPB Anti-Arbitration Rule

How and why ETA worked to roll back the rule

By Scott Talbott

When the U.S. House of Representatives and Senate both passed a resolution disapproving the Consumer Financial Protection Bureau's (CFPB) anti-arbitration rule, it represented a major victory for consumers and the U.S. economy. Prior to the rule, many financial services companies used arbitration to resolve disputes with their customers. The CFPB's rule would have dictated the legal pathway for dispute resolution between consumers and financial services firms. In its own language, the CFPB's rule would have prohibited financial services firms from "relying in any way on pre-dispute arbitration agreement clauses" in connection with "any aspect of a class action that is related to consumer financial services or products." That means the CFPB's rule would have all but banned consumers from using arbitration to settle any disputes with financial services firms. Consumers—in situations where effective customer service or other resolution channels weren't available or were exhausted—would have been forced into participating in class-action lawsuits.

Congress' rejection of the anti-arbitration rule was an important win for consumers and the U.S. economy. The repeal of this overly broad rule demonstrates the effectiveness of teamwork within the financial services community, and the importance of checks and balances in the U.S. system of government.

Heavy-Handed Policy

The CFPB's arbitration rule, which ignored the practical benefits of arbitration, (almost) promised a bum deal for consumers. After all, class-action lawsuits are a far cry from a fair deal for consumers.

We've all seen the mailings—a long-winded and complicated offer from a law firm to join a class-action lawsuit, free of charge, for some never-noticed wrong that has supposedly been done to you by one of your financial institutions. So, you join, because it's free and, sure, maybe you now remember that $3 service charge that didn't seem quite right.

Some time later, another envelope from the plaintiff firm arrives. Congratulations are due, the letter says, as we've reached a $45 million settlement with the company. The envelope contains a coupon or perhaps a check for $3.00. All the while, you can't help but wonder where the $45 million went. And, next thing you notice, the costs of services have all increased.

Even though a class-action lawsuit can be an important legal tool, it isn't a very consumer-focused reality for resolving disputes. And it's not a fast, effective, or affordable way for companies—financial institutions, bankcard service providers, merchant acquirers, and technology companies like ETA members—to resolve disputes either.

If a customer service department is unable to resolve an issue, the reality is that arbitration is the most effective way for companies and consumers to reach a timely and meaningful solution. Arbitration clauses have routinely been approved by the U.S. Supreme Court. The CFPB—a data-driven agency—conducted its own comprehensive examination of arbitration. As illustrated in the CFPB's own study, and supported by a report by the U.S. Treasury, arbitration is up to 12 times faster than class-action litigation. Unlike trials, which must be scheduled into busy court calendars, arbitration hearings can be scheduled more easily and even during non-business hours.

Moreover, arbitration does not require consumers to hire an attorney and doesn't require many of the burdensome practices of a lawsuit. Customers can participate in arbitration in-person or remotely and, in most cases, the financial services companies cover virtually all of customers' costs. Arbitration is an inexpensive, impartial, fast, and flexible option for both consumers and financial institutions.

Furthermore, class-action lawsuits result in millions of dollars in legal fees but provide little or no benefit to consumers. According to the CFPB's study, an average class-action lawsuit member received just $6.29, while the legal fees were in the millions. Typically, arbitration results in much higher returns for consumers. The CFPB's study found that consumers won 47 cents on the dollar in arbitration cases. In contrast to the smaller settlements to consumers, class actions are very expensive. In fact, the CFPB itself estimates the rule would have generated more than 6,000 class-action lawsuits, costing businesses between $2 and $5 billion every five years. Other independent studies estimate even higher costs. Banning mandatory arbitration clauses would have shifted those costs on to the consumers, while depriving them of the benefits of arbitration.

The CFPB's own data on arbitration did not match its final rule. Despite the clarity of the CFPB's data, and despite years of comments from ETA and other industry experts, the CFPB finalized its rule. It was at this point that Congress acted to address the concerns with the rule.

Checks and Balances

Perhaps just as important, another long-lasting victory in repealing the arbitration rule lies in the demonstration of the necessity of checks and balances and their importance to the structure and function of the U.S. government in setting good public policy.

A common complaint against the CFPB is that it is not subject to the normal checks and balances, which are so common elsewhere in the U.S. system. The argument goes that, subjected to normal checks and balances, the CFPB's rule against arbitration would have been narrower and more balanced. As it stands now, to address the overreach by the CFPB, Congress was forced to rely on a rarely used tool to reject the rule. While the debate may continue on whether the CFPB needs more routine checks and balances, the arbitration rule stands as an example of the need for more.

Working Together

On the ground in Washington, DC, ETA focuses on collaboration–either within our diverse membership, with other groups, or both. ETA led the effort for its members and worked with a diverse group of financial services trade associations and industry groups to educate lawmakers and voters alike on the negative implications for consumers of the CFPB anti-arbitration rule.

ETA's daily efforts against the bill were spearheaded by our own Senior Manager of Government Affairs Rebecca Cantrell and ETA's Arbitration Working Group.

ETA regularly met with members of Congress, filed a comment letter opposing the CFPB's proposal, engaged our members and policymakers across multiple social media channels, held regular calls with ETA members, joined a joint trade letter to the Hill opposing the rule, and spoke with the media and think tanks to articulate the benefits of arbitration and express our concerns with the CFPB's regulation.

Thanks to the work of our team at ETA and others across DC and the nation, Congress passed a law repealing the CFPB's rule, and the president has signed the repeal into law.

Finally, although the regulatory pendulum never stops swinging, ETA continues to argue for a more positive regulatory environment for ETA member companies, their customers, and their partners.

Ultimately, by repealing the anti-arbitration rule, Congress helped to protect consumers and the U.S. economy, and ETA applauds its leadership and was pleased to deliver for ETA members on this important issue. ***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.

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Vertical Value Hits Its Stride

Focusing on merchant-specific integrated services elevates the role of payments professionals

By Christine Umbrell

Many of today's successful ISOs have undergone a fundamental shift in their business strategies. The days of relying on a shiny new terminal and discounted pricing are long gone, as merchant customers have come to expect much more from their payments solutions. In response, many ISOs have shifted their focus to providing an integrated solution, combined with superior customer service, marketed to specific merchant verticals.

Learn more about how the payments business is shifting from transactional to a value-based model. Log in and listen to "Evolving the Agent/ISO Business: A Panel of Peers Share Their Experiences" from TRANSACT at www.eventscribe.com/2017/Transact.

THE DECREASING PROFIT MARGINS ASSOCIATED WITH TRADITIONAL PAYMENTS TERMINALS, COMBINED WITH THE GROWTH OF ISVS WITHIN THE SALES SPACE, HAVE LED TO **A RETHINKING OF THE ROLE OF THE ISO.**

"It gets back to a more holistic perspective of what the merchant needs. And it's also a function of differentiation," says Thad Peterson, senior analyst for Aite Group. ISOs are looking for a way to create a differentiable value package, and merchants are looking for a more integrated package, he says. "And there's a major move to find ways to add value to the relationship."

A more comprehensive approach to providing payments is needed today, suggests Peterson. "If you take a more holistic view, which is [looking at a specific problem for a] merchant and reducing friction and enabling his business to make it better for him, that's a much better way to look at things," he says.

While adding services to increase recurring revenue isn't a new concept, Donna Embry, chief payments advisor at Payment Alliance International, says that yesterday's value-added services have morphed into "enhanced services" that are integrated with essential services and customized. "I think it's more of the interaction with the core processing, with the consumer experience, and the detailed operations of how the vertical operates," she explains. "You have to be able to add the customization based on the merchant location and the merchant type."

In this more responsive environment, a one-size-fits-all approach isn't feasible. When the payment process is commoditized, the keys to future success for ISOs—the differentiation—is "the understanding of the vertical that they're serving, whether it's a general retailer or a specified vertical," says Embry.

Rising Expectations

The decreasing profit margins associated with traditional payments terminals, combined with the growth of independent software vendors (ISVs) within the sales space, have led to a rethinking of the role of the ISO. Today's successful agents are rising to the challenge by providing bundled services targeted to a specific merchant's needs, within a given vertical, and priced as a single comprehensive solution, says Mary Winingham, a consultant at iStream Financial Services, an in-house payments development platform, and founder of Mirror Consulting. This approach is necessary given the way merchants' expectations have shifted—just as consumers' expectations have evolved—toward a highly customized experience.

In addition, new technologies enable payments systems to have greater functionality, notes Winingham. "The ease of integration, the ease of pulling these things together, has made a big difference," she says. Payments professionals who can assist merchants with their data and customer engagement, Winingham suggests, will be in the best position to increase revenue and customer satisfaction while driving retention.

Toward that end, some payments professionals are now offering packages—"and it might be a package for retail, a package for wholesale, a package for health care, a package for property management, a package for e-commerce," Winingham says. "Each one of those has different challenges."

While this transition is bearing fruit for many agents, it requires them to become much more educated about their customers and their unique needs, and to take a strategic approach in filling those needs with targeted payments solutions.

A New Path

The evolution of the agent/ISO profession was the topic of discussion at a TRANSACT 17 workshop, where panelists discussed how they pivoted their businesses, becoming laser-focused on payments for a particular merchant segment. Shrinking margins and a "model that just wasn't working anymore" have led many ISOs to look at how they can add value, explained Shane Hurley, CEO of Redfynn Technologies.

Tim Boyd, CEO of Highland Payments, noted that there came a time a few years ago when merchant cus-

... MERCHANTS' EXPECTATIONS HAVE SHIFTED—**JUST AS CONSUMERS' EXPECTATIONS HAVE EVOLVED—**TOWARD A HIGHLY CUSTOMIZED EXPERIENCE.

tomers stopped caring about rates and started asking what payments products could do for them. Merchants wanted to know what could be incorporated with payments to enhance their products and services. "They wanted something that had a little more value in it," Boyd said.

At the same time, ISVs began working more closely with merchants. While this trend has had an impact on the payments industry, it's important to note that only half of ISVs currently integrate payments into their offerings, according to the "2016 ISV Study" published by First Annapolis Consulting, which is now part of Accenture. This means there is plenty of opportunity for agents to work within verticals and even partner with ISVs in fulfilling merchants' needs.

Jimmy Nafso, CEO of Fortis Payment Systems, said his company began its transition by focusing on the hotel vertical, a natural fit because he has a background in the lodging industry. He was able to translate that expertise into merchant services, focusing on nonfranchised independent companies. "We help those ISVs that are small typically, they only have 500 to 5,000 merchants. They don't have the scope to deal with EMV and PCI. They can't really charge extra for it. They can integrate with us, and we can help them with that.

"As we've progressed, we've continually tried to find experts that were willing to work with us that might be able to make those connections," Nafso continued. Fortis has followed that same model to move into other verticals as well, including medical. "Ultimately, we're always trying to provide some value outside of price. So, expertise has been something that's really helped us."

As the lines between value-added resellers (VARs) and ISOs blur, Nafso said ISOs need to distinguish themselves to merchants who want "something more" than a simple payment terminal. "And that 'something more' is what we need to focus on," he said. "When we do that, then those lines are less blurred, and we're able to provide a service, and those merchants are happy. The processing's not as important, and maybe we can charge a little bit more because they're happy with the products and services."

Profitable Partnerships

Providing value to merchants often requires partnering with other companies to develop an integrated solution. Jeff Cole, president of Change Merchant Solutions, explained during the TRANSACT workshop that he focuses on "building a better mousetrap" and offering excellent services. That means "finding the right partners to help us with underwriting, portfolio management, and back-end service… And we piggyback their resources and their capabilities," he said. "You know what your clients want, you know what software you need, you know what your product needs to do. You tell me what you need the payments side to do, and I'll do that. And then I go and I harness the resources to make that happen."

Cole said that an integrated model positions the company as a solution facilitator. "There's so much great technology out there in a gateway, and, with processors, all you have to do is listen to what your client needs, understand what they need, then go out and find the right solution and work very hard to implement it," he explained. "Get the right people talking to each other, and connect the right dots." He emphasized that it's important to "pay your partners well."

RedFynn also has learned to build partnerships. "We spent a year finding the right partners and going through the process of learning lessons," Hurley said. "The client expects everything to work, but the reality is you have to stay committed and go through those learning lessons if you want to be in this business."

This focus on customer service has become ever more important in today's technology-driven climate, with social media playing a big role in how decisions are made. "Now, anybody could go and put up a bad Yelp! review, or go on Facebook and knock us. So, I think it's important to realize we have to monitor our social media reputations," said Nafso. "If there's something that's negative, we need to jump on that and make sure we take care of it and we resolve that issue. And if it's positive, then we need to make sure we have the tools in place to perpetuate that. It could be something that results in more business for us. … Our social media reputation is something we all have to be focused on because that's really the new landscape, and it's definitely changed quickly."

Niche Knowledge

ISOs that offer services targeted to specific verticals typically "are trying to fill what they consider a void in the marketplace. Or they may have been a merchant themselves, or they may have worked for a processor or buyer who saw this challenge or issue and have gone out and created companies or have partnered with other companies to create these [niche offerings]," says Rod Katzfey, senior vice president, international acquiring for GlobalOnePay. A holistic service package "is always something that has been created or built, refined because of a perceived need based on actual occurrences taking place," he says. "It creates stickiness as well."

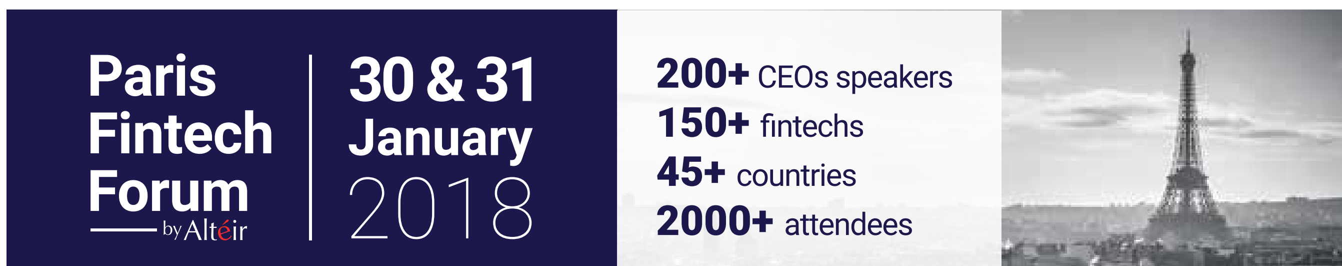
"If you look at every single vertical, it doesn't take too much to figure out what the points of friction are," says Peterson. "I think we understand what needs to be adapted to address them."

ISOs and acquirers should invest in education surrounding the verticals they work with to provide the most appropriate services. It's important to fully understand the products, services, and technologies associated with the vertical, follow market trends, and even take part in trade shows to become an "expert" on the industry. Profitability in some vertical markets is dependent on efficiencies gained by repeating sales and services—so the more you can help similar types of businesses in one vertical, the better chances of profitability for ISOs.

The list of verticals that can benefit from bundled or integrated services surrounding payments is almost endless. While retail is an obvious choice, restaurants comprise another sector of the U.S. economy where ISOs can add significant value. Many restaurants have already seen tremendous transitions, with some fast-food dining spaces integrating payments into ordering kiosks. Payments that can be integrated with staff management or centralized menu offerings, as well as split-ticketing options, could be helpful in this vertical, suggests Embry.

Health care—and the added security required in this sector—is an area where subject-matter expertise on the part of a payments professional could go a long way. Winingham's company is heavily involved in the hospital space, and it offers value by separating payments data from patients' protected health information, facilitating compliance efforts for health-care entities.

Winingham also points to property management and



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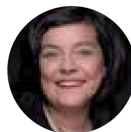
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daycare centers as two big sectors agents could embrace, and Peterson identifies opportunities in travel and food markets for ISOs: "In the airline industry, of course, it's being able to enter kiosks. And in retail grocery, there is the attempt to essentially make payments like Amazon Go," he says.

Service industries—such as hair and nail salons, massage therapists, aestheticians, and similar enterprises—need to be able to accept credit and debit cards with minimal equipment but maximum speed, and they expect low costs. These venues benefit from solutions that offer robust scheduling tools and marketing integration—which ISOs can provide as part of bundled solutions. There are several POS systems that are designed to accommodate the service industry, and payments professionals should know these solutions and be able to go above and beyond to accommodate this demographic.

Charities are another distinctive vertical—these entities rely on nonprofit software to accept donations and typically don't have a lot of money to invest in IT, according to sources. But they do need cloud-based nonprofit software, and accounting, membership, and donation management systems, as well as analytics technology and analytics dashboards.

Serving a merchant's niche need doesn't have to mean targeting a vertical market, either. For example, when Boyd started Highland Payments in 2010, he shifted his business strategy to focus away from the "big fish"—which would be challenging for a smaller payments company—and instead sought to service merchants in remote locations. "Being in Dallas, Texas, I would drive up to 100, 150 miles each way to go to the areas where the market wasn't as saturated," he said. "Nobody was going out to the country, 120, 150 miles away, but I was going out there, shaking their hands, and they were excited and wanted to work with me. I realized that [those customers] were very easy to talk to, they wanted to sign right away, and they were excited about getting new products. .... I didn't talk about price much at all."

Boyd was committed to offering a superior POS solution and high-quality customer service to this under-serviced demographic, and his strategy has paid off. "All [the customers] care about is the value that's inside of the product, and being able to do everything that they [want it to do]. It all depends on the salesman and if you can sell your product better than theirs," he said.

As payments professionals shift from a transactional to a value-based business, specialized knowledge and a fundamental willingness to create innovative solutions is necessary, sources agree. Offering integrated services is simply "the right way to go," says Winingham. "It's the right way to approach business. It's the right way to service your customer, with the right mix of products. It's not just a revenue play—it's revenue, it's retention, it's service. And the customer wins, too, because they get the services they need." ***TT***

Christine Umbrell is a contributing writer to Transaction Trends. *Reach her at cumbrell@contentcommunicators.com. Ed McKinley also contributed reporting to this article.*

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Secure Attitudes

Pros from around the payments profession weigh in on their customers' thoughts on security

Edited by Josephine Rossi

Not so long ago, conventional wisdom in the payments community said that merchants did not view data security as a high-level priority. Aside from the largest and most well-funded of retailers, merchants were more focused on revenue generation and other business fundamentals than they were on self-assessments, log monitoring, penetration testing, and the like. But times have changed, and as the digital economy has exploded, so, too, has society's attention on cybersecurity and data breaches.

Transaction Trends' contributing writers set out to learn if payments professionals are seeing a change in perspective from their merchant customers regarding security. We spoke to professionals from niche functions in the payments ecosystem, including acquiring, processing, security consulting, and software, for their input. Although their insights varied, most agree that while merchants are more aware of the importance of payments security, they are not necessarily doing much about it or are heavily reliant on third parties to facilitate a more secure sales environment. "It still speaks to the value of having a trusted advisor, which I know is cliché," explains one source. Several payments experts also pointed out the need for independent software vendors (ISVs), which have exploded onto the scene, to become better educated on security, too. ISVs should be prioritizing security rather than narrowly focusing on developing "an elegant solution" for merchants, according to multiple people we contacted.

Additional excerpts of our discussions follow.

What are merchants' general mindsets and attitudes toward security?

They are more aware, but they still lack resources. "Smaller merchants are exponentially more cognizant of security pitfalls and requirements than they used to be, due to a number of factors including landmark retail data breaches, customers' increasing expectations, the constant discussion around securing personal data, and their own consumer experiences," says Scott Baker, vice president of IT, security, and technical operations, BigCommerce, an ISV/ full-service SaaS e-commerce platform.

"That said, greater awareness and a sense of urgency don't necessarily translate to merchants having the time, resources, or expertise to address cybersecurity and payments security on their own," he continues. "Many small businesses are already stretched thin, so they need technology providers to step in, manage the risks, and allow them to focus on growing their business, not warding off constantly evolving security threats."

Some think breaches won't happen to them. A prevailing mindset among small and mid-sized merchants is that the breaches are only happening to the large, Fortune 500-type companies, says Jeff Zimmerman, chief operating officer at Clearent, a payment solutions and processing provider. "A lot of smaller merchants still believe that they're too small to be a target—despite all of the industry's attempts to tell them otherwise. ... There are plenty of stats that show that small merchants are getting hit. Our education attempts definitely highlight that, [but] it's a perception that is hard to break."

Many are not thinking holistically. The targeted nature of PCI mandates has helped merchants become more comfortable talking about compliance over the past few years, but it also has encouraged merchants to view security as piecemeal, says Sam Pfanstiel, ETA CPP, solution principal of PCI at Coalfire, a cyber risk advisory and security compliance assessment firm that works with merchants of all sizes. "There are too many threats for today's organizations to consider security a back-office concern," he says. "Security must be ingrained in the culture of an organization if they want to succeed in the future."

Besides awareness, how have the breaches covered by the media actually affected your customers' thinking or sense of urgency?

They are concerned about the customer experience and trust. Consumer concerns are driving more business decisions, says Baker. "The more vigilant consumers become with regard to their identities, payment credentials, and PII [personally identifiable information], the more hurdles are introduced to the purchase process that can lead to friction in the customer experience and even cart abandonment. Merchants understand the gravity of ensuring that their customers have secure, streamlined avenues to shop, pay, and become repeat buyers, and realize that they're fighting an uphill battle to maintain consumer trust in the wake of major industry breaches."

More executives are getting involved. "It's impossible to be desensitized to some of these breaches [in the news] because each one seems a little bit bigger and more egregious than the last one," says Steve Robb, president of the managed compliance services division at ControlScan. The firm, which merged with EchoSat earlier this year, has since broadened its focus on merchant PCI compliance to include security programs for ISVs. Executives at smaller merchants and retailers, in particular, have taken notice of the headlines, according to the firm's research. Forty-two percent of ControlScan customers' executive teams are "100 percent aware" of their company's security-related activities and objectives.

"This really began with the Target and Home Depot breaches, which showed just how deep the impacts of a breach can go, not only with regard to the company's bottom line, but also the ability for the company's topmost executives to continue leading," Robb says.

What is the most troubling merchant mindset regarding security?

Many are overly reliant on technology. "A good 'human firewall' is the most important—yet often overlooked—security approach for merchants," Pfanstiel explains. "Security technologies are rapidly evolving, but [they] are not a magic bullet and cannot replace training and building a culture of security."

Many perceive PCI compliance as a hassle. "[Merchants] are required to complete PCI self-assessment questionnaires that can be tedious and technical, and some are required to conduct network vulnerability scans," Zimmerman explains. Consequently, merchants become focused on completing those "detailed tasks and can lose sight of how they help them avoid costly data breaches."

What are merchants' attitudes toward EMV implementation?

Not all value the standard. Some merchants truly understand the importance, says Zimmerman, but others—especially restaurants, which are not as concerned with chargebacks—do not "appreciate what EMV's trying to do." In addition, some merchants are more concerned with accepting the latest technology rather than having updated

security features. "The terminal that supports EMV [also] supports Apple Pay, and they get a two-for-one," he says.

Cost is a deterrent for many. "Smaller card-present merchants in the United States have largely looked to their acquirers, gateways, and POS providers to provide them with EMV solutions," says Pfanstiel. "For many merchants, however, card-present counterfeit fraud liability isn't cost-justified, and they are still focusing on improved security or reducing fraud in card-not-present channels."

What are some specific concerns that keep your e-commerce customers up at night?

"Tuning" and multichannel commerce. "Tuning" is an anti-fraud service and a "major concern and pain point for merchants. It can be a nightmare to understand, and it is almost guaranteed that revenue will suffer until they've got the anti-fraud knobs tuned properly for the specifics of their business," Baker explains. Merchants fear losing customers if legitimate transactions are declined and "need to be reassured that the payments and fraud detection services … can be customized to fit their business."

The other chief concern, says Baker, is security when selling via social media, marketplaces, mobile channels, and voice command. "They're wondering what payments and data security measures are in place, and are concerned about how they are—or aren't—covered when commerce becomes more decentralized," he says.

E-commerce sites being used to validate card numbers. Fraudsters "will go out and buy a batch of 20,000 card numbers on the dark web, and they will just start running them through," Robb explains. As a result, the merchant incurs a fee every time an authentication is performed. In addition to the costs, operations can be significantly affected, too, according to Robb. "Card fraud through checking for valid numbers can [prevent] legitimate purchases from being able to even get passed through the system."

Any advice for the payments community?

Be transparent about resource commitment and liability. Payment providers need to be "proactive and transparent" in their discussions with merchants regarding how much time merchants "will spend manually validating purchases as opposed to the payment or anti-fraud provider automating that process," says Baker. "Merchants are serious about security," but they need to know how to balance resources for other business priorities.

Similar candor is needed when payment providers discuss "liability for fraud once a payment or fraud detection partner greenlights" a card-not-present transaction, adds Baker, who describes merchant confusion and surprise over chargebacks in such a situation, coupled with increased pressure from merchant banks to secure their e-commerce solutions. "As an example, certified PCI DSS compliance of an e-commerce platform by a qualified auditor used to be sufficient to prove a secure e-commerce platform and, according to the standard, it still should be," he explains. "However, many merchant banks are now requiring their merchants to have their own security testing of the e-commerce provider beyond that compliance. The potential for conflicts between security testers adds a new layer of stress on the merchant."

> "A GOOD 'HUMAN FIREWALL' IS THE **MOST IMPORTANT—YET OFTEN OVERLOOKED—SECURITY APPROACH** FOR MERCHANTS."
>
> —Sam Pfanstiel, ETA CPP, Coalfire

Educate on "bad behavior." The genesis of many POS compromises is "people doing things on the system that they probably shouldn't, like surfing the internet or reading their email and opening a document," says Phil Agcaoili, senior vice president and chief information security officer at Elavon, a payment processor and acquirer. "Some of the more general-purpose POS systems have been run off of Linux or Windows environments, and so those are just as susceptible as an end-user's laptop in a compromise."

Keep an eye on merchants with multiple locations and franchises. These types of merchants have inherent weakness because "they're smaller entities and have a lot more satellite stores," Agcaoili continues. "The franchising side of the house is where a lot of the challenges are," because they lack standardization. "My message is the more standardization happens, the better likelihood of [the merchant] staying secure and avoiding a breach. A lot of companies that standardize … follow enterprise-wide standards and policy. Those traditions tend to [create] a uniform security posture."

Help them take ownership. "Acquirer security programs should include an element of risk analysis, not simply strict compliance-based objectives," says Pfanstiel. By interweaving discussions of risk with concepts such as interchange and fraud, for example, merchants are reminded that they are "ultimately responsible for securing their environment, which helps them to take ownership of this important role." ***TT***

Josephine Rossi is editor of Transaction Trends. Reach her at jrossi@contentcommunicators.com. Ed McKinley contributed reporting to this article.

Enhanced Data Breach and Chargeback Program Revenue Stream

We were tasked by one of the nation's leading PCI providers to create a new insurance product which solved some of the industry's top issues, while creating an additional revenue stream for the ISO.

Enhanced Breach Revenue

Every service provider in the industry that offers some sort of breach guarantee covers comparatively the same thing and is very limited. Because of this, PCI revenue has remained relatively unchanged the last few years. These basic-breach programs fall short in addressing the exposures beyond response costs that merchants could face in the event of a breach. Our program fills this gap in coverage by including numerous enhancements such as defense, ransomware, HIPAA, and post-breach chargebacks to name a few. Further, ISOs are afforded indemnity against actions by a processor.

Chargeback Revenue

While the possibility of a merchant breach will always remain, fraudulent chargebacks are a certainty. Never before has there been an insurance-backed merchant chargeback solution. We designed the program in such a way so that it provided an immediate tangible benefit to the merchant by covering fraudulent chargeback losses and fees. Because of the created value, the ISO gains an additional revenue stream without the perception of charging another fee.

EMV Liability Shift - Petrol and ATM Revenue

Because the policy also includes EMV liability, rather than have merchants outlay tens of thousands for equipment upgrades, losses will be paid by the policy, including fees. Not only will this add yet another revenue stream, but add stickiness to an account by having saved tens of thousands of dollars for the merchant.

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Making the **Consumer** Connection

How today's digital consumers will influence merchants and the future of payments

By Christine Umbrell

Succeeding as a payments professional in today's digital society requires going above and beyond simply facilitating transactions. It entails assisting merchants in getting to know their customers—and potential customers—and communicating why investment in technology is critical. Understanding today's "connected consumers"—consumers who have access to the internet via mobile devices, wearable technology, and the Internet of Things (IoT)—and their spending habits can help payments professionals educate merchants and help position them for success by the products and services they offer as well as their payments solutions.

Nielsen and the Demand Institute, a division of the Conference Board and operated by Nielsen that focuses specifically on consumer behavior, recently took the concept of

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connected consumers one step further, studying a demographic they call "Connected Spenders": consumers who have access to the internet *and* earn enough income to make discretionary choices in their spending. In addition, Connected Spenders are omnichannel shoppers who "punch above their income class in spending," prefer premium products, and are on the cutting edge of consumer trends, according to the Demand Institute's analyses of Nielsen data. This demographic is forecasted to spend $262 trillion over the next decade, accounting for 46 percent of total aggregate consumer spending.

"The Connected Spenders are a group of consumers who are the most digitally engaged and the most engaged in the consumer economy in general," says Louise Keely, EVP, global retail practice leader at Nielsen and a board member of the Demand Institute who led a session on the subject at the 2017 ETA Strategic Leadership Forum this fall. This demographic tends to be early adopters of new technologies and new services. "As we think about the payments space, and how that's changing the way people are paying for goods and services," Keely explains, "the Connected Spenders provide an early indication of what consumers are looking for."

More Devices, More Opportunities

Most estimates put the percentage of Americans who have access to the internet at more than 75 percent. "That's a very large chunk of individuals," says Casey Bullock, general manager for North America at WorldPay. Granted, that doesn't mean that everybody is a Connected Spender, but "most people do have a mobile device, and, through that mobile device, they're able to make purchases. And they may have connections through other types of wearables or other connected devices that allow them to buy things through the internet."

Because we live in a technology-driven society, Dinesh Kumar, author of *The Connected Consumer*, suggests companies should prioritize meeting the shopping needs of connected consumers. Smartphones have caused a fundamental change in consumers' behavior, Kumar says. He cites compulsive use of connected devices and a migration to social media, prompting a need for retailers to integrate sales channels, reinvent "the store," and "bring back the fun" to the consumer shopping experience.

Kumar also points to "smartphonatics"—a term coined by *Time*—as people who use their phones for mobile banking and

mobile payments. "They use their devices to check out prices and order even as they are on the move," he explains. "Such consumers photograph objects and bar codes as they go about doing other things, and check out products, seek opinions, check prices and deals, and order online. … Success in the new economy will go to those who can execute clicks-and-mortar strategies that bridge the physical and virtual worlds."

Today's consumers are accessing the internet in increasingly new and inventive ways, often moving beyond computers and smartphones to wearables and IoT devices. A recent report on "The Connected Consumer" from WorldPay found that more consumers are ready to embrace automation and convenience delivered by IoT technologies: Nearly half of U.S. consumers (48 percent) would feel comfortable with a connected device, such as a refrigerator, ordering items on their behalf.

"Merchants need to think about what connected devices they're providing, what those access points will look like, and, ultimately, how that data is being consumed and how that messaging is delivered back to the consumer in question," says Bullock.

Targeting Spenders

Looking not just at the consumers who have access to connected devices, but to those specific internet users who also have discretionary income, offers insight into how current and future consumers are making their purchasing decisions. The Connected Spender concept takes into account many different factors are influencing consumer spending, and some consumers are going to be more important than others for boosting growth over the next decade. This information can help companies adjust their business models to get ahead of that change, according to Keely.

Connected Spenders numbered 1.4 billion worldwide in 2015, but, according to Nielsen data, they are expected to reach 3 billion by 2025. The population "rivals that of the global middle class, but the Connected Spender cohort is growing faster than the middle class and spending more. By 2025, these consumers will account for half of global consumption. For marketers coping with a sluggish global economic environment and middle-class malaise, tapping into the Connected Spenders can help generate healthy growth," according to the Demand Institute.

Connected Spenders span all age groups, according to the research. As would be expected, the highest percentages of internet users who are Connected Spenders are between ages 21 and 39 (62 percent), but another 20 percent are between 40 and 54, and 9 percent are 55 or older. Connected Spenders also tend to be urban, with 78 percent living in urban areas.

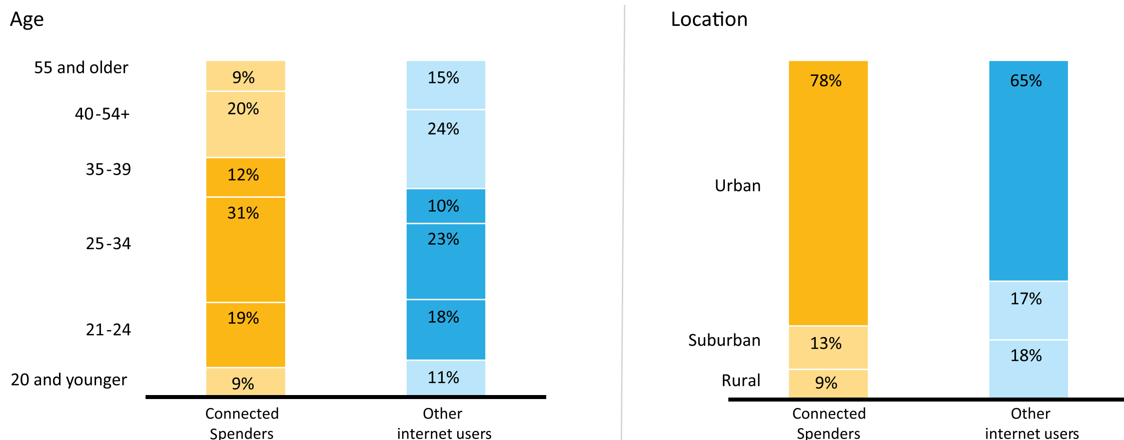
Connected Spenders in developed markets like the United States, Japan, and Germany will contribute the most to sales growth, according to the research—so tapping into this market can be beneficial. In addition, significant international sales growth is expected in emerging markets, particularly in Indonesia, Pakistan, and Nigeria, where the greatest increases in number of Connected Spenders are expected. "Though the number of Connected Spenders will grow faster in emerging markets, the new Connected Spenders in those economies will have far less spending power than Connected Spenders in mature economies," reports the Demand Institute. "We expect that in 2025, Connected Spenders in mature markets will still be spending 10 times as much per year as their counterparts in emerging economies."

Consumers in mature markets, such as the United States, "have the ability and the willingness to spend in discretionary ways. That's the reason why, in countries like the U.S., the focus needs to be on engaging with consumers and addressing their needs," Keely says.

In fact, consumer-facing businesses should look to Connected Spenders as "a first lens" in making decisions about which markets to invest in, how to communicate with and reach customers, and what conditions they should be monitoring across markets, according to Keely. "New product in-

CONNECTED SPENDERS ARE YOUNG AND URBAN

Age and location among internet users



Source: "Nielsen Global Consumer Confidence Survey," 2013

Opportunities **Across the Globe**

Just as it's important to understand how the connected consumer phenomenon affects mature markets, delving into how it impacts emerging markets can help U.S. retailers and merchants offer the most appropriate products and services—and select appropriate payment offerings—when marketing internationally.

"You're going to have to look at this on a country-by-country basis. That's a key consideration for merchants," says Casey Bullock, general manager for North America at WorldPay. "How mature are the markets? If you're in a culture where credit or debit cards are not readily available or are not a common form of payment, you need to be able to accept something else—cash-driven payments, bank transfers, anything else that might otherwise be defined as something that is not issuing credit to that consumer," he says.

"Being honest about the markets that you're serving, and then for those top-tier markets that are more advanced than others, offering the appropriate methods of payment by sales channel, will help you to capture the vast majority of the income you're looking for," Bullock explains.

During the next 10 years, there will be tremendous opportunity for sales growth in emerging markets, according to recent research from Nielsen on "Connected Spenders": consumers who have access to the internet and who earn enough income to make discretionary choices in their spending. By 2025, Nielsen data forecasts there will be close to 3 billion Connected Spenders globally. While Connected Spenders account for just more than one-third of consumer spending now, they will account for more than half of it by 2025, with the fastest growth expected to occur in emerging markets.

"In the United States and other mature markets, the share of the population that qualifies as Connected Spenders is much higher than the share of the population that is middle class. But that's the reverse in emerging markets, where the middle class is more dominant than the Connected Spender population," says Louise Keely, EVP, global retail practice leader at Nielsen and a board member of the Demand Institute, which provided data analyses for the report. Looking to the future, she predicts the Connected Spender population will grow much more quickly in emerging markets—particularly in Indonesia, Pakistan, and Nigeria.

Mobile payments will become increasingly important as retailers address the growing needs of Connected Spenders internationally. Mobile phone penetration is higher in some emerging markets than in the United States, and "it is the way that many consumers in emerging markets are entering internet access," Keely says. "They're leapfrogging computers; they're going straight to mobile phones, and credit card penetration is much, much lower in emerging markets, so these consumers are just skipping over that whole stage ... they're moving straight to mobile payments. They are open to it, and they are engaged in it—Connected Spenders more so than others."

According to the Nielsen research, 80 percent of Connected Spenders in China say they would be willing to purchase a product using a payment method that's stored in their digital device, compared to 54 percent in the United States and only 23 percent in Germany.

Keely believes that Connected Spenders in emerging markets are "ideal digital consumers" who engage online for the full shopping experience, and who also are engaged with digital advertising. "They like advertising as long as it's relevant to them. It's all part of that shopping experience."

vestments should be aligned with the demand of Connected Spenders. They're the ones who will be willing to pay for higher quality. They're the ones who are going to be willing to be early adopters of new products and services."

Portrait of a Connected Spender

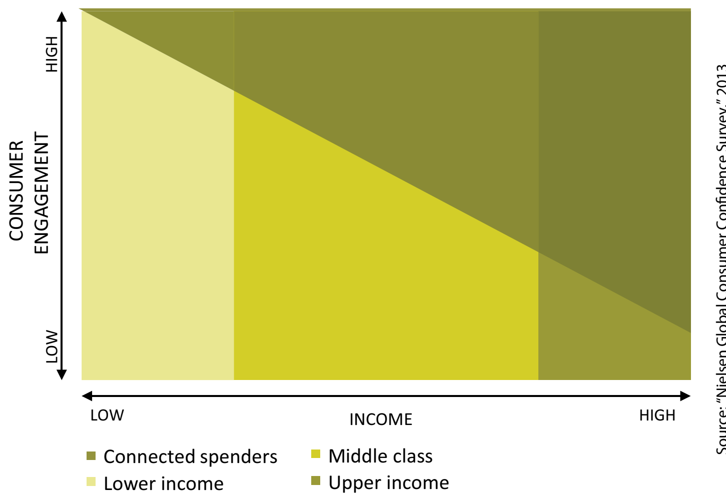
Many of today's merchants and advertisers focus on middle- and high-income Americans as they develop products and messaging. But such strategies may need to be adjusted to meet the diverse demands of Connected Spenders, says Keely.

Focusing too narrowly on the middle class is "inadequate" because it is primarily an income-based approach, Keely says, and it doesn't take into account the technological changes that are impacting consumer behavior across different markets. In fact, Connected Spenders are the most engaged consumers from each income group, and there are low-, middle-, and high-income Connected Spenders, according to the Nielsen research. The research also found that Connected Spenders are more likely not only to participate in consumerism but also to spend more than might be expected based on their income.

"Middle-aged consumers in the U.S.—Gen X or even the younger baby boomers—these are people at the height of their spending power, the height of their earning power, and they are some of the early adopters of some new services," says Keely. Looking at how this sector chooses to spend on new products and services offers insight into growth op-

CONNECTED SPENDERS ARE MOST ENGAGED CONSUMERS FROM EACH INCOME GROUP

Consumer engagement and income



Source: "Nielsen Global Consumer Confidence Survey," 2013

portunities for merchants. Keely cites the rapid rise of meal kits—freshly prepped meal-in-box delivery services—among this group. "It's growing like gangbusters and getting a lot of attention because it's a new business model, and a new way of providing food and meals to families," she says. "And actually it's the Gen X consumers who are the biggest users of that, because they're the ones with kids, and they're the ones with the time crunch and the discretionary income to spend on something like that." Forward-thinking merchants and payments professionals can study how payments are integrated into such services and build on this model for future endeavors.

But Keely also notes that merchants should not be overlooking the lower-income sector of online consumers. "If you think about the definition of Connected Spenders, these are people who say that they have the ability and the willingness to spend in discretionary ways," says Keely. "Just because someone isn't high income doesn't mean that they're not looking for ways to indulge and ways to make their lives easier and more convenient, and to have luxuries and amenities in their lives." The needs and wants of this demographic may be different from those of Connected Spenders who are high income, "so then the challenge and the opportunity is to meet those needs of [lower-income consumers seeking amenities], with maybe a different service or a different type of price point than someone who is high income. But there's still opportunity there."

Keely suggests that retailers tailor their offerings toward the different types of Connected Spenders. "For retailers, there's a need for focus," she says. "You can't be all things to all people. There needs to be a decision about, 'Here's our position in the market, here are the consumers whose needs we're going to meet. We're going to do a great job of that—and yes, that means there are going to be other opportunities that we have to pass up, but we're going to do what we do really, really well, and we're going to focus there.' And there's lots of places you can focus."

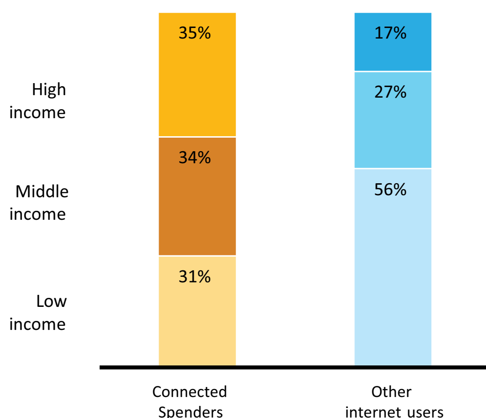
Opportunities in the Payments Space

Looking closely at the connected consumer phenomenon can offer clues as to how payments may be leveraged in innovative ways in conjunction with new products and services. "If you think about payments, specifically, the approach in general needs to be that you need to understand what consumers are looking for and how their needs are being met or not met today. And then innovation in products and services should be focused on meeting those needs in new ways," says Keely. One of the challenges in the U.S. payments space in mature markets, according to Keely, is that people already have access to credit cards and other noncash payment technologies that are convenient, and easy to access and to use. "So things like mobile payments haven't taken off necessarily in a way that

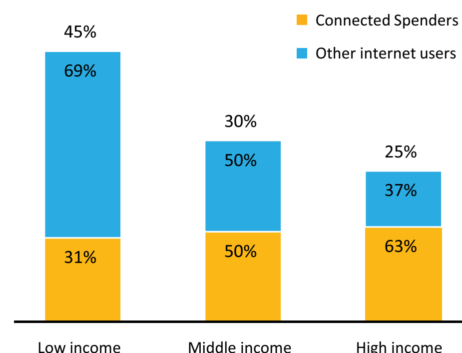
CONNECTED SPENDERS ARE HIGHER INCOME, BUT NOT ALL ARE RICH

Income of internet users

Composition of Connected Spenders and other internet users



Composition of income groups



Source: "Nielsen Global Consumer Confidence Survey," 2013

people were kind of hoping or expecting several years ago.

"The challenge for the payments industry in terms of new products and services is to really identify what people's pain points are, and [determine in what ways] consumers' lives can be made easier in an environment in which things are actually pretty convenient to start with," she says.

Keely points to recent successes in linking loyalty programs to payments as one area to study and learn from in the digital age. "There are a few specific companies that have done a really nice job of this. Starbucks is probably the most famous example, but there are others as well," she says. "Linking the payment to another type of service [as in the Starbucks model] is one method." Other examples, which have had varying success, involve "helping consumers with managing their overall financial lives through their payments, or companies that offer access to peer-to-peer [P2P] payments that help people to send money and share money or divide bills in ways that are easy and that haven't been available before.

"It's been interesting to me that consumers are using P2P payments as well as B2B [business–to-business] payments," Keely continues. "You think about Venmo and PayPal, they're using those platforms for more than one purpose. These platforms want to build a kind of stickiness and engagement with consumers—they're willing to let them do that, and be very creative with the business models to allow for that."

Keely also cites the Uber model as an example of linking payments to a service in a novel way. This model "takes out the hassle of paying somebody at the end of a taxi ride," she says, and can serve as an example to other categories of spending—"be it restaurants or other types of services." Such a model integrates a payment with "another pain point or another service, and, through that linkage, gets people to start to use different types of payment technologies."

Capturing Connected Consumers

With the WorldPay research predicting there will be 25 billion connected devices by 2020, and the Nielsen research forecasting that Connected Spenders will spend more than $260 trillion over the next decade, merchants will need to tailor not only their products and services but also their payment offerings to meet the needs of increasingly tech-savvy consumers. Retailers and payments professionals will need to be "in tune with the different types of connected devices they're going to be looking at by 2020. The writing's on the wall," says Bullock.

Merchants also will need to adjust their offerings to meet the needs of consumers who are seeking new products and who may be willing to pay a premium for new products. "Connected Spenders love innovative products," says Keely. They are engaged online shoppers, for whom "it's not just about purchasing online, but it's about the whole shopping process, and moving between channels, whether it be using their phone and an app in a store, or researching online before they go to a store, or making a purchase online."

Those payments professionals who understand the Connected Spender concept and follow the latest trends in connected devices will be best positioned to help merchants adapt their products and services in an increasingly digital society. ***TT***

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

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Inside the Merchant Mind

Seven concerns merchants want their ISOs to know

By Brian Berkenbile

As merchants brave the new world of 21st century business, they are still dealing with age-old concerns. While some things haven't changed—merchants have always looked for the best ways to increase revenue while bringing value to their customers—perhaps the only difference now is the fact that technology has grown by leaps and bounds. Business owners are entering an era of both hardware and software advancements that are intended to improve efficiency. Regardless of that fact, merchants still have plenty to be worried about. What are some of their biggest concerns? Here are seven things merchants want their ISO agents to keep in mind when working with them.

1. Security is a top priority for merchants.
Merchants have always been concerned about the safety of their customers' transactions. Merchants want to know that people can buy their products with confidence. Additionally, merchants are quite aware that reputations are very important. If they intend to not only retain existing customers but also create opportunities with new ones, merchants must ensure that consumers are able to pay for goods through secure methods.

The ability to purchase products through POS systems and gateways that are safe is good not only for customers but also for the merchants. Business owners are concerned with the safekeeping and transfer of sensitive consumer data (e.g., credit card numbers), and they are also preoccupied with keeping their stores' financial information private (e.g., banking details and transaction histories). A good ISO agent will always keep his or her merchants abreast of the current state of security by providing relevant news, sharing recent anti-fraud advancements, and educating them on how to be proactive in keeping data safe—or what to do when a data breach occurs.

2. Merchants need service and support beyond business hours.
In today's business environment, it's simply not good enough for help and support to be available during a typical 9-to-5 day. With merchants running their businesses around the clock—especially those that operate e-commerce stores 24 hours a day—service and support made available after "normal" hours aren't simply a luxury, they're a must-have.

Now that everything seems to be better and faster than ever before, consumers have come to expect rapid communication, responses, and help, including extended support times. Likewise, so have merchants. In order for merchants to meet their customers' needs, they need to be able to present solutions immediately (or as soon as possible), and they need to be able to call on a professional if they have questions or require help. Extending customer service and support hours goes a long way toward improving merchant satisfaction, which, in turn, improves customer satisfaction that can increase buyer loyalty.

3. Merchants want to stay on top of mobile payment trends.
What's new in the world of mobile payments? This is a very intriguing—and important—topic for many merchants. As consumers gradually make the shift toward simplifying their finances and purchases, merchants have a unique opportunity to meet them where advancement and opportunity collide. Mobile payments simplify the payment process, and they're rapidly growing in popularity. Savvy business owners are interested in learning how they can use new technologies like this to enhance the customer experience by providing more ways to make purchases at their stores.

It's not about merchants being "cool"; it's about merchants being able to offer consumers added convenience—a specific convenience that perhaps a competitor doesn't offer or hasn't even thought about yet—to ensure that their business enjoys continued patronage. Keeping merchants dialed in to not only the latest and greatest technical innovations but also what's actually going on in the rapidly changing field is a good start.

4. Merchants don't always understand the differences between payment terminals and POS systems.
It may be hard to understand at first, but payment terminals and POS systems are different. Merchants are often unaware of that fact, and they are also sometimes unaware of what each option can do. It's important that business owners know how they work and what makes them different from each other.

Payment terminals are simple, effective solutions that have a main purpose of accepting or declining credit and/or debit cards, as well as processing mobile payments (e.g., Apple Pay, Samsung Pay, etc.). Sometimes referred to as "credit card terminals," they are a definite must-have for any merchant, especially because consumers are using alternative methods besides cash to pay for goods and services more than ever.

POS systems typically offer more features than standard payment terminals. In addition to utilizing a simple terminal where customers can swipe a card or make a mobile payment with a smartphone, they also provide the ability to track inventory, record employee clock-in and clock-out times, and automatically batch reports, sending them to a linked bank account. Advanced POS systems can create detailed reports, including customer statistics and other analytics, which can be quite useful in a merchant's marketing efforts.

5. Ideas for rewards and loyalty programs are always welcome.
Both online and brick-and-mortar stores can benefit greatly from rewards programs, which drive loyalty as well as spending. It has been shown that 80 percent of profit is driven by 20 percent of a merchant's customer base, according to National Merchants Association's Director of Support Tim Reynolds. Additionally, most retail shops profit because of loyal shoppers. Reward programs help businesses increase sales, while increasing their reach.

It's been proven time and time again that rewards and loyalty programs not only boost sales but also encourage repeat visits. Although a growing number of merchants are becoming aware of the merits of implementing such programs, many are still in the dark when it comes to deploying them. Where do they start? What type of program is best for their particular store?

Enter an experienced and dedicated payments professional. Loyalty definitely has its rewards, and, by working with merchants to create strategies designed to increase the profitability of their businesses, ISO agents can benefit as well.

6. Merchants want to know about new tech even if they're not ready to adopt it.
Just as they want to stay on top of current trends in the world of mobile payments, merchants are always interested in technological advancements, regardless of their readiness to implement them.

Whether it's the latest biometric that would improve the safety of making a purchase or a POS solution that could streamline a transaction while tracking valuable customer purchasing habits and presenting an innovative inventory solution, new technology always has a purpose—which generally means making things better.

ISO agents are encouraged to share tech news with their merchants and be receptive to a merchant's inquiries. Most of the time, merchants just want to know what makes new technologies so important. However, they also want to know if and how these products can help their stores.

7. Analytics are more important than ever to merchants.
The vast majority of merchants who are interested in learning about the buying habits of their customers are also looking for ways to market to them more effectively, while prospecting for new customers. Merchants can do that a lot more effectively through the use of analytics.

Business owners want comprehensive analytics that show detailed customer statistics. From that, they can tailor marketing campaigns and make concerted efforts to target those customers. Various rewards and loyalty programs can be drawn up by studying the findings that analytics uncover.

Data such as order history, order dates, and other valuable insights can be key factors in determining what and how to market to specific customers, as well as a larger body of customers that display similar purchasing habits.

ISO agents can inform merchants about why analytics are useful and present solutions based on each individual merchant's particular business model. Knowing and understanding data like this is crucial to promoting the success of virtually every business.

While most agents maintain consistent and open communication channels with their merchants, it's still a good idea to dig a little deeper from time to time to determine client needs. Your merchants may not always tell you what services they want or even know that certain services and products are available to them. Filling in the information gap goes a long way toward keeping merchants and their customers satisfied. ***TT***

Brian Berkenbile is the senior vice president of sales and support at the National Merchants Association.

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Christophe Vergne

Christophe Vergne leads the payments practice of Capgemini Financial Services France. Since 2006, he also has been the publisher of the "World Payments Report," which is now produced in partnership with BNP Paribas and presents an annual overview of the industry and a description of the opportunities and challenges that global leaders are facing. Here, Vergne discusses some results of the report and their effects on the future.

Despite the growth in non-cash payments, the report also indicates that cash continues to be mainstream and in some countries is even increasing. What's going on?

In most countries, cash continues to be mainstream as cash in circulation (CIC) has remained stable or has increased slightly over the past five years, except in countries such as the U.K. and Sweden, where CIC decreased in the past few years. Although the share of cash in total payment volumes is declining, it is expected that cash will continue to stay in the system for a longer term than estimated due to factors such as anonymity of transaction associated with cash, lack of modernized payment infrastructure, and lack of access to banking systems in emerging markets. However, central banks across the world are striving to move toward cashless societies. Therefore, we expect the share of cash in total payment volumes to decline over a period of time in several markets where there is a strong push or incentives for businesses and individuals to move toward cashless instruments.

How does financial inclusion factor into the growth of cashless transactions globally?

Financial inclusion is one of the initial steps to achieve cashless societies, especially in developing economies as the majority of their populations are still underbanked and unbanked. The assumption made by most regulators for financial inclusion seems to be that infrastructure upgrades and digitalization are expected to provide affordable services, bringing those underbanked populations into mainstream.

We have seen regulators in certain developing nations in Asia, Africa, and South America take up such initiatives to bring more people into the banking system. In India, the demonetization drive, along with the push to enroll for digital identity, has resulted in people having to open banking accounts to avail various benefits from the government. Similarly, in markets such as Nigeria, there have been significant efforts by central banks to enhance financial inclusion. Such measures are expected to give a boost to cashless transactions in respective markets.

How behind are B2B payments in terms of digitalization?

Corporations are increasingly embracing digital payment methods, attracted by the operational and financial benefits of such methods, while checks, which traditionally found the highest usage in wages and invoicing and bill presentment, might slowly fade out. The slow rate of digitalization in the corporate payments segment is in part due to inconsistencies and operational inefficiencies created by lack of standardization of messaging and data capture, and of real-time synchronization between receivables and payables. Other factors could also include a resistance to change due to cultural or systemic factors, or a general inertia against change in some markets.

What are the key drivers of the new payments ecosystem?

Changing customer expectations, evolving regulatory and industry initiatives, the rise of fintechs, and new payments-enabled technologies are the key factors driving the development of the new payments ecosystem. In our opinion, increasing customer demands for personalized offerings and agile payment solutions demands is the most influential factor as it resulted in the rise of fintechs to meet their demands and in turn is expected to drive further collaboration in the industry.

Based on the report, banks and fintechs are collaborating more yet they have a varied view on digital security vulnerabilities. Why?

In our survey for the report, bank executives ranked distributed denial of service (DDoS) attacks [50 percent] and customer payments fraud [31 percent] as the top two security challenges they face. On the other hand, fintechs have rated customer payments fraud [45 percent] and data breaches due to hacking attacks [30 percent] as their top two security challenges.

The varied view might be due to the nature of attacks and the kind of security infrastructure of their respective organizations. For example, DDoS is a large-scale attack involving multiple sources and perpetrators generally target large firms, while data breaches due to hacking is a small-scale attack and usually targets those with more vulnerable systems.

High global levels of card fraud place a significant cost burden on firms, making its identification as one of the major concerns by both.

For payments pros, what is the biggest takeaway?

Payments professionals should acknowledge several key changes taking place in the industry.

First, in the coming years, the growth of non-cash transaction volume in the world will be driven by emerging countries—especially Asia—as the adoption of next-generation payment instruments such as contactless and wearables grows in mature economies.

Second, regulators across the globe are slowly evolving their agenda toward a transformative approach to encourage payments' services competition and innovation through policies that suggest increased collaboration with the stakeholders.

Third, the industry, though still in a nascent stage, is witnessing an evolution of a new payments ecosystem where the payments participants are expected to reassess their roles in the face of the internal and external structural changes taking place. Banks might aim to become platform providers and move away from their current role of being product factories. ***TT***

—Josephine Rossi

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