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THE MEGAMERGERS' SUBTLE IMPACT

More than a year has passed since three giant mergers promised to change the payments world. Change has come, but not where many expected to see it.

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contents

FEBRUARY 2021 • VOLUME 18, NUMBER 2

The Megamergers' Subtle Impact 22

More than a year has passed since three giant mergers promised to change the payments world. Change has come, but not where many expected to see it.

THE GIMLET EYE The Digital Dollar Revisited 4

TRENDS & TACTICS 6

Walmart Launches a Fintech

Unlike most startups, this one will be a formidable player from the get-go.

The Megamerger That Wasn't

A potential FIS-Global Payments deal blew up, but it showed merger fever hasn't subsided.

Green Dot's Latest Bid for the Unbanked

Go2Bank is the latest initiative from one of the most sophisticated nonbanks.

PayPal vs. CFPB: It Ain't Over Til It's Over

The U.S. District Court handed PayPal a big win, but it's far too early for PayPal partisans to celebrate.

Trump's Parting Shot: A Puzzling Ban on China-Based Apps

The departing president barred Alipay and WeChat Pay, which have little to no presence in the U.S. market.

Plus, Security Notes outlines a strategy against rampant ransomware; and Payments 3.0 explains why the CFPB's case against PayPal is far from over.

ACQUIRING 14

Parking Apps Look to Upshift

When the pandemic ends, demand for parking places is likely to skyrocket. That augurs well for apps that find just the right spot—and let you pay for it.

SECURITY 18

Ransomware Makes a Comeback

The attack on TSYS last December was a sobering reminder of the vulnerability of payments companies to this insidious fraud. But there are steps you can take to protect your network.

STRATEGIES 27

Decisions, Decisions

Is your bill-pay provider setting you up for success? Use this checklist to decide.

ENDPOINT 31

Merchant Feedback: The Not-So-Secret Key to Success

Payments providers must move beyond merely transactional relationships to build lasting business.

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the gimlet eye

THE DIGITAL DOLLAR REVISITED

ONE YEAR AGO IN THIS SPACE, in the waning days of the pre-Covid Age, we presented some thoughts about the newly established Digital Dollar Foundation and its proposal for a central bank digital currency (CBDC) for the United States. Since then, the notion of CBDCs has attracted much attention as authorities not just in America but also in Europe and Asia explore the notion of a fully digital national currency based on blockchain-based tokens.

Early last month, we published online a piece by payments consultant Eric Grover, who predicted that, much as many experts may point derisively at the growing pains of Bitcoin and other cryptocurrencies, national governments and CBDCs will have the last laugh.

"Over the long-haul ... digital fiat currencies will take share from physical cash," Grover wrote. "They will also compete with reigning electronic retail, money-transfer, business-to-business, and interbank payment systems ... Today, more than 80 central banks are exploring digital currencies ... A decade hence, digital fiat currencies will be in the payments mix planetwide. They could have a tectonic impact."

But even before Eric made this prediction, the former head of the Commodities Futures Trading Commission gave a speech in Zurich that laid out the case for CDBCs as clearly as we've seen it made. J. Chrisopher Giancarlo, now heading up the Digital Dollar Foundation, showed in that November speech just how high the stakes are:

"If we act now, I believe we can harness this wave of innovation for greater financial inclusion, capital and operational efficiency, and economic growth for generations to come," Giancarlo said. "If we do not act, however, this coming wave of the Internet will lay bare the shortcomings of the West's aged, analog financial systems."

The "coming wave of the Internet" he referred to is what he called the "Internet of value," a movement that bids to replace account-based money transfers—such as those we have now with cards and checks—with token-based transactions, which in theory require no intermediaries. The exchange of tokens is a direct transfer of value, the digital equivalent of one person handing a dollar bill to another person.

"A digital dollar," Giancarlo said in that speech, "would make sending money as simple, as immediate, and as cost-free as sending a text message."

When we wrote about Giancarlo last February, we referred to the somewhat jocular sobriquet his ardent advocacy for a digital dollar had already earned him, "Crypto Dad." Now, 12 months later, that vision seems closer, less pie-in-the-sky, as national governments examine the concept and as a new administration settles in in the United States. Will Joe Biden become the new face of Crypto Dad?

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WALMART LAUNCHES A FINTECH

Unlike many fintech startups, Walmart's Inc.'s new financial company is expected to be a formidable player right out of the gate. The retail giant unveiled plans last month to partner with Ribbit Capital to create a fintech that will provide what Walmart describes as "modern, innovative, and affordable financial solutions."

Walmart, which will own the majority of the unnamed entity, will have a readymade customer base through the giant retailer's millions of customers and employees, payment experts say. More than 265 million customers and members visit Walmart stores in 26 countries, in-store as well as via Web sites. The retailer also employs more than 2.2 million workers worldwide.

"What makes the announcement so significant is Walmart's scale—they will instantly pose formidable competition, and their low-cost retail reputation is a model of what their product offerings will be like," Greg McBride, chief financial analyst for Bankrate.com, says by email.

"Most fintech startups are starting from scratch, but this one won't be," McBride says. "Walmart has 4,700 stores and 1.5 million employees in the [United States], not to mention tens of millions of customers that represent the target market of their fintech offering."

Walmart says it partnered with Ribbit because of its fintech expertise. Ribbit's investment portfolio includes the no-fee mobile-investment platform Robinhood, consumer-technology platform Credit Karma, and Affirm, which provides innovative payment options for customers. Ribbit was founded in 2012 with the goal of investing in entrepreneurs in financial services.

"We know that we have an opportunity to create a suite of digitally enabled financial products that are tailored to the unique needs of our customers and associates," a Walmart spokesperson says by email. "We'll be able to move fast to create solutions in retail and beyond."

With Walmart declining to provide any further details about potential products, speculation is swirling about the direction the new company will take. The retailer already

Walmart is working with Ribbit to create its latest financial-services offering.

offers myriad financial services to its customers and employees, including its Walmart Money Card with Green Dot Corp. and the Bluebird Card with American Express Co.

In addition, Walmart offers check cashing, money transfers, installment financing, and its Walmart credit card through partnerships with third parties, all of which the retailer says it will continue to support.

"It will be interesting to see which direction the company chooses to go," says Ben Jackson chief operating officer for the Innovative Payments Association, a Washington, D.C.-based trade group, by email. "Does it build out in the credit arena, following Ribbit's earlier investments in Affirm and Credit Karma? Does it dip its toe in investing, like Robinhood, and try to win young, upwardly mobile people? Or does it try to build a new, all-in-one app that would provide a digital option for its in-store money centers?"

Whatever services Walmart's fintech does offer, they are certain to be low-cost, says McBride.

Walmart's new fintech venture is not the first time the retailer has attempted to create a financial-services subsidiary. In 2005, the merchant applied to establish an industrial loan company, largely to lower its cost in processing card transactions at its stores. The move unified banks and anti-Walmart forces to pressure legislators at state and federal levels to take steps to block the move.

For now, creating a fintech seems to be a less controversial way for Walmart to push deeper into financial services. "With the rise of fintechs, it is possible to offer a wider variety of financial tools without holding a banking charter directly," Jackson says.

—Peter Lucas

THE MEGAMERGER THAT WASN'T

Mega-merger fever hasn't subsided in the payments industry. A combination of FIS Inc. and Global Payments Inc., which in December broke off talks to merge in a deal that could be valued at $70 billion, would represent a continued push for yet more economies of scale in a business whose profitability relies crucially on size, observers say.

"It's an example of a continued scale play," says Jared Drieling, senior director of consulting and market

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intelligence at The Strawhecker Group, an Omaha-Neb.-based consultancy.

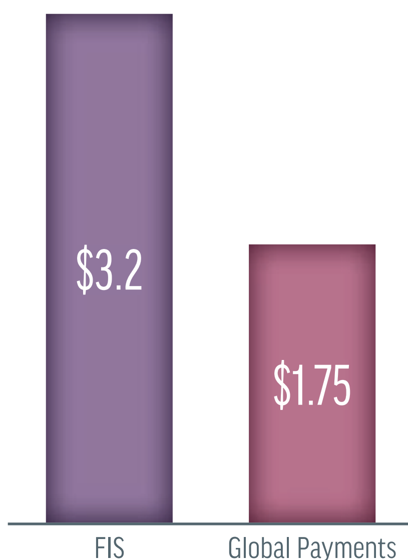
The two big processing companies had hoped to announce a deal, and both entertain hopes of resuming negotiations, according to press reports. Global Payments, headquartered in Atlanta, will not comment on the report. Jacksonville, Fla.-based FIS did not respond to a request for comment.

Both companies in 2019 completed big acquisitions that brought vital new capabilities to their portfolios. The two deals, in which FIS paid $35 billion for merchant processor Worldpay and Global bought acquiring and issuing processor TSYS Inc. for $22 billion, were part of a mega-merger trend that swept through the payments industry, reshaping competitive strategies for large and small players.

A third major combination last year, in which Fiserv Inc. acquired First Data Corp. for $22 billion, created another processing giant (for more on the continuing impact of the megamerger trend, see page 22).

A TALE OF TWO GIANTS

(Third-quarter 2020 revenue, in billions)



Source: The companies

A merger of Global and FIS could accelerate that trend as players compete to build size and reach to add volume while controlling unit costs, observers say. The deal would also add new strengths for FIS. Global, for example, would bring integrated-payments strengths as a result of a string of acquisitions it has executed with companies that specialize in weaving payments capability into management software.

The recently acquired TSYS assets, including the Cayan point-of-sale technology, could also help FIS launch slick new products that meld payments with business management and marketing. "FIS doesn't have a Clover or a Square," notes Drieling, citing two examples of such technology.

Because of the sheer size of the parties involved, observers also point to the possibility of involvement by federal antitrust authorities. If the two companies ultimately strike a deal, "I think it could pass muster with the Feds, but there will be scrutiny," says Drieling.

Still, if the merger is clinched, one consideration will rank above all others, the one the mega-mergers all have in common. "It's more merchants. It's a scale game," says Aaron McPherson, founder of AFM Consulting LLC and a former FIS executive.

—John Stewart

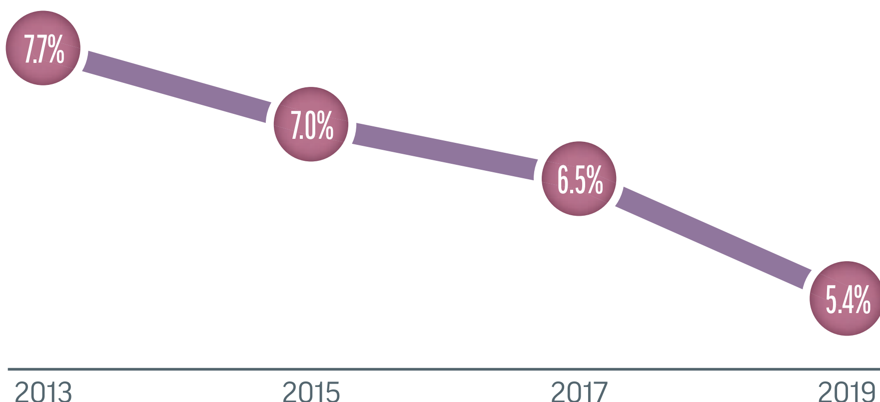
GREEN DOT'S LATEST BID FOR THE UNBANKED

As part a strategy to widen its market for banking solutions, Green Dot Corp. last month launched GO2bank, a mobile-banking application intended to help the 7.1 million unbanked households in the United States manage their finances.

Green Dot says the program is meant to eliminate the costly fees many unbanked consumers are charged for financial services. In 2019, nearly 12% of unbanked consumers used fee-based financial services for

DRIFTING DOWN

(Percentage of U.S. households considered unbanked)



Source: Federal Deposit Insurance Corp.

such services as check cashing, money orders, and bill payment, according to a 2019 study from the Federal Deposit Insurance Corp.

The new app includes overdraft protection of up to $200, up to 7% cash back rewards at more than 90,000 retail distribution locations—including CVS, Dollar General, Walgreens, and Walmart—a 1% annual percentage rate yield on Go2bank savings accounts, and access to a GO2bank credit card with no credit check or annual fee, as well as a debit card.

In addition, Go2bank includes account access through a network of more than 19,000 no-fee ATMs and the capability to lock and unlock accounts using the mobile app. Go2bank users receiving direct deposit can also access funds up to two days early. Users receiving government benefits can access funds up to four days early.

Green Dot, which serves more than 33 million customers through its retail and direct-to-consumer products, views GO2bank as part of a long-term strategy to deliver services that attract new customers and retain their loyalty, a company spokesperson says via email.

"GO2bank is built to be the go-to destination for seamless, affordable, useful banking – combining the security, stability, and experience of an FDIC-insured bank with the innovation and agility of a leading fintech," Dan Henry, chief executive of Green Dot said in a prepaid statement.

Green Dot is supporting the launch with a national TV ad campaign featuring two commercials, as well as a new Web site, digital advertising, social media, and direct mail.

—Peter Lucas

PAYPAL VS. CFPB: IT AIN'T OVER TIL IT'S OVER

PayPal Holdings Inc. may have prevailed in its lawsuit against the Consumer Financial Protection Bureau, but the overarching legal battle is likely to continue.

The ruling, which was handed down Dec. 30 by U.S. District Judge Richard Leon and vacates the CFPB's rules on prepaid cards and digital wallets, will probably be appealed by the CFPB, says Ben Jackson, chief operating officer at the Innovative Payments Association, a Washington, D.C.-based trade group.

"The CFPB is likely to appeal because [Leon's] decision will create a lot of challenges to the CFPB's authority," Jackson says. "The ruling says in essence that the CFPB can't mandate when it comes to disclosure and that is a difficult precedent for the regulator." PayPal filed the suit in the U.S. District Court for the District of Columbia in December 2019 (for more of Jackson's take on this case, see page 12).

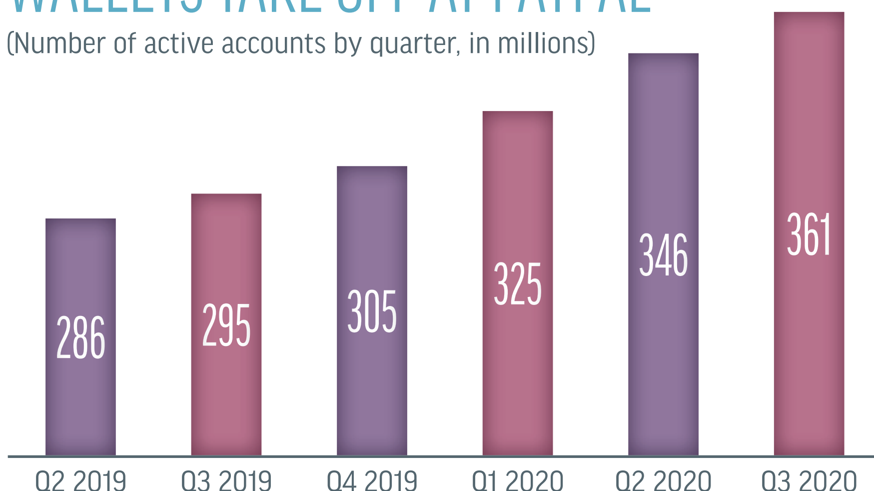
In his ruling, Leon says that the CFPB overstepped its authority when it implemented its final, 1,600-page rule, which went into effect in April 2019. Among other stipulations, the rule states that for a payment product to qualify as a prepaid card it must be able to hold funds, as opposed to acting as a pass-through vehicle for those funds.

PayPal argued in its lawsuit that the rule improperly included digital wallets under its definition of general-purpose reloadable cards and that there is a clear distinction between the two products.

Leon's ruling says "[M]ere reference to 'necessary' or 'appropriate' in a statutory provision authorizing an agency to engage in rulemaking does not afford the agency authority to adopt its regulations as it sees fit with respect to all matters covered by the agency's authorizing statute. And any 'additional requirement'

WALLETS TAKE OFF AT PAYPAL

(Number of active accounts by quarter, in millions)



must still be within the confines of the means authorized by Congress.”

Leon further argues that it is clear Congress did not provide the CFPB statutory authority to issue mandatory disclosure clauses.

A CFPB spokesperson said the bureau does not comment on pending litigation.

Should the CFPB appeal Leon’s decision, it could of course win or lose the appeal, Or, says Jackson, the appellate court could return the case to Leon to clarify the basis for his decision, Jackson says.

The door for the appellate court to return the case was left open by a footnote in his conclusion, which states that because he ruled against the CFPB, that does not mean he concluded that the rules in question were “arbitrary and capricious” or that a short-form disclosure requirement “violates the First Amendment” free-speech rights, as PayPal alleged.

If the appellate court sends the case back to the federal district court, it could pave the way for a new regulatory environment when it comes to prepaid cards and digital wallets.

“Should the case go back to Leon, it could open a whole new can of worms because it could prompt Congress to grant the CFPB more regulatory power or clarify its regulatory power, which if that happens, could lead the CFPB to write new regulations,” Jackson says. “At issue is what are regulators allowed to require of the companies they regulate. This could be the beginning of a long appeals process.”

—Peter Lucas

TRUMP’S PARTING SHOT: A PUZZLING BAN ON CHINA-BASED APPS

An executive order by former President Donald Trump banning a pair of major Chinese payments apps came in the waning days of his administration and may leave more questions than it answers, observers say.

The order, issued two weeks before Trump’s term ended, prohibits transactions on eight China-based apps, including the hugely popular Alipay and WeChat Pay digital wallets. The order’s intent is to protect U.S. consumer data from being harvested by Chinese authorities, according to the order’s language. Such data could potentially be used to “track the locations of federal employees and contractors, and build dossiers of personal information,” Trump said in the order.

But the action’s effect is likely to be considerably muted, observers say. For one thing, it doesn’t take effect until mid-February, nearly a month after Trump left office, leaving an open question whether the succeeding Biden administration will enforce it.

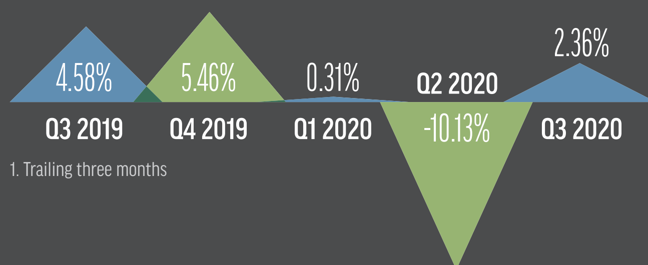
Also, while some 4 million U.S. merchants accept Alipay, mostly from Chinese tourists, experts say the number of U.S. users of either Alipay or WeChat Pay is very small. Alipay, for example, was downloaded 207,000 times in the United States in 2020, according to data from the research site Sensor Tower, as quoted by *The Wall Street Journal.*

“This [executive order] will have almost no impact on U.S. retailers and merchants as usage of these two payment apps in the U.S. by U.S. citizens is extremely low. The impact will be on U.S. citizens visiting or doing

MONTHLY MERCHANT METRIC

Growth in Same-Store Sales Year Over Year

Annual volume change/growth of retained (non-attrited) accounts for given period divided by total portfolio volume from same period of the prior year.



1. Trailing three months

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

Source: The Strawhecker Group © Copyright 2021. The Strawhecker Group. All Rights Reserved. All information as available.

business in China," says Thad Peterson, a senior analyst at Aite Group, a Boston-based consulting firm.

Most experts contacted by *Digital Transactions* contend the Biden administration is likely to quash the order, particularly if it is seen as complicating other negotiations with China. "Biden may not care to pick a fight over this when there are more consequential issues to deal with," notes Aaron McPherson, an independent payments analyst.

Adds Aite's Peterson: "I would be surprised if this wasn't overturned quickly. It punishes U.S. citizens and encourages China to look elsewhere for business relationships, which they're already doing."

Eric Grover, principal at Minden, Nev.-based consultancy Intrepid Ventures, agrees a reversal is likely, but also sees a contrary possibility. "Biden's perceived as soft on China. He just might therefore let it stand," he says.

'I would be surprised if this wasn't overturned quickly. It punishes U.S. citizens and encourages China to look elsewhere for business relationships.'

—**THAD PETERSON**, SENIOR ANALYST, AITE GROUP

Alipay is a service offered by the Chinese conglomerate Ant Group Co., which has made forays into the U.S. payments market before, most notably when it offered $1.2 billion in May 2017 to acquire Dallas-based money-transfer network MoneyGram International Inc. Fearing the deal would hand too much power in U.S. financial services to a foreign entity, federal authorities quashed the deal the following January.

WeChat Pay is part of the giant Tencent Holdings Ltd. conglomerate.

Trump in August issued an order similar to Tuesday's ban prohibiting usage of the WeChat app along with China's TikTok messaging app, again on the grounds that the apps posed a risk to the privacy of U.S. users' data. Federal judges have blocked both bans. DT

—John Stewart

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HOW TO DEFEAT RANSOMWARE

BY GIDEON SAMID
gideon@bitmint.com

STOLEN DATA PRESENTS A BURDEN TO THE THIEF. He needs to bring it to market, find a buyer, and compete with other hackers. Ransomware gains, by contrast, are paid in a lump sum by the victim, the money is Bitcoin-protected, and any other data crime can be executed on top of the exploit.

It's a no-brainer, though these attackers are quite a brainy bunch. More victims pay every year, which is expected. The attackers can adjust their demand to a sum so low that, economically, it would be cheaper to pay the ransom than bother with a costly, tedious recovery.

The countermeasures are deterrence, defense, and recovery. Deterrence may be based on a "shame-ledger" for ransom-collecting Bitcoin accounts, and smartly tailored laws. Defense is largely based on behavior and data patterns. The former is a cat-and-mouse game: the attackers cleverly hide their actions as a bona fide computational task, while the defenders seek to flush them out. Too often, the attackers out-imagine the defenders.

Data patterns are largely based on the "known signatures" of attack viruses. All the attackers need to do is to write new viruses. A more sophisticated method being developed by BitMint is to hunt high-entropy bit strings. Unencrypted data, especially text, and payment forms are highly sub-randomized, while malware is highly-randomized. By constantly scanning data through an entropy-meter device, one will focus on a small fraction of the stored data, which has a greater likelihood to be malware. Flagged data strings can then be individually analyzed.

Recovery is either "low tech" or "high-tech." A clean backup is the natural means of simple recovery. Alas, attackers now embed dormant ransomware viruses that sneak into the backup and are activated when reloaded. You better have an older, and clean, backup.

High-tech recovery is based on Skeleton technology (U.S. Patent 10,523,642). The network is anchored on a "core skeleton" that is immunized to malware. When compromised, the network is disinfected and restarted from the protected core. The Skeleton subnetwork is constructed from nodes that have only one port of data entry, and all the data that flows through this port is hardwired-decrypted. This means that the only meaningful information flowing into a core node is information that was match-encrypted in a similar core node.

Decryption is so disruptive that no malware can survive its onslaught. The secret recovery key shared among the nodes of the core cannot be extracted from the ciphertext traversing between these nodes because the nodes use Trans-Vernam ciphers, which don't commit to the plaintext that generated them—and are, hence, secure against the coming quantum computer attacks.

A hacker then will have to steal the crypto key from the secure enclosure where it is housed. Tamper-resistant technology will hinder this effort. (U.S. Patent 9,471,906). Moreover, the key reservoir used by the core nodes may be written off the digital grid. Via a nanotechnology-constructed "rock," data is being captured through the chemical bonds of the chip, not as a hackable bit string (U.S. Patent 10,467,522).

The catastrophic breach of the federal cyber systems, attributed to Russia, exposes a fundamental strategic weakness in recovery technology. It is hard for security professionals to admit they might have to resort to it. People who exercise daily and live a healthy life should still make sure there is a good hospital nearby.

Defense is a battle of wits. Defenders cannot reasonably hope to win every round. Given that ransomware is so attractive to its practitioners, they will keep trying. By contrast, an effective recovery will dry out this revenue stream and de-motivate the attackers. DT

THE REGULATORS WILL STRIKE BACK

BY BEN JACKSON

bjackson@ipa.org

PAYPAL HAS WON THE FIRST ROUND in what is likely to be a long fight with regulators.

On Dec. 30, Judge Richard Leon, of the U.S. District Court for the District of Columbia, handed down a summary judgment in the case of PayPal Inc. vs. the Consumer Financial Protection Bureau. The ruling on its face was narrow, but it could have wide-reaching effects.

In short, Leon granted PayPal's motion to throw out two parts of the CFPB prepaid accounts rule: the short-form disclosure and the restriction on when prepaid providers could offer their customers credit. His reasoning on both was essentially that the regulations exceeded the scope of the powers granted to the bureau by legislation.

The ruling's consequences will fall broadly into three arenas: the practical, the legal, and the policy.

Practically, the ruling will not mean much in the near term for most prepaid providers. PayPal likely will stop providing a short-form disclosure on its digital-only products in the short term, and other digital wallet providers may follow suit. While the short-form rule is vacated for all companies, most of them have already printed collateral that includes the short form, so they are not going to redesign, reprint, and recall packaging.

It is worth remembering the original version of the prepaid rule was short, mostly about disclosures for general-purpose reloadable cards sold at retail, and supported by many providers. They thought the Schumer Box-like disclosures would help shoppers compare products (and, of course, all thought their own product would come out on top in those comparisons).

Legally, this case is far from over, according to most experts. The bureau may not appeal immediately as we transition between administrations, but the 60-day window for filing an appeal will last after the transition. The decision circumscribes the CFPB's power to require specific disclosures and credit restrictions. If the ruling were to stand, other financial services might challenge the regulations that govern their products. So, the regulators will likely appeal because the decision could affect their power.

It is important to note that the decision is a summary judgment, and Leon writes that he did not reach conclusions on a number of issues brought up in PayPal's suit, including the question of whether the short-form disclosure violates the First Amendment.

Any appeal could work out in a number of ways. The decision could be upheld or overturned. It is also possible that an appeals court would send it back to Judge Leon to consider all the issues and require rulings on all the aspects of the suit.

The Innovative Payments Association would recommend that programs operate as if the rule is in place until the case is finally resolved to avoid being whipsawed between changing requirements. As noted above, for most providers, the logistics would be too great for immediate changes.

Even though the case will not play out immediately, it may have near-term effects in the policy arena. The industry will expect more scrutiny from a Democratically controlled Congress. Both the House Financial Services Committee and the Senate Banking Committee will look at the bureau's efforts to protect consumers, and this lawsuit will come up. If Congress feels current laws do not give the regulators enough power, they may decide to write new legislation to grant the bureau and other regulators the ability to rein in the industry.

Despite its first-round win, it is too soon to claim victory for PayPal or the payments industry. Compliance teams should add this case to their watchlists and be prepared to explain the good work their companies do. DT

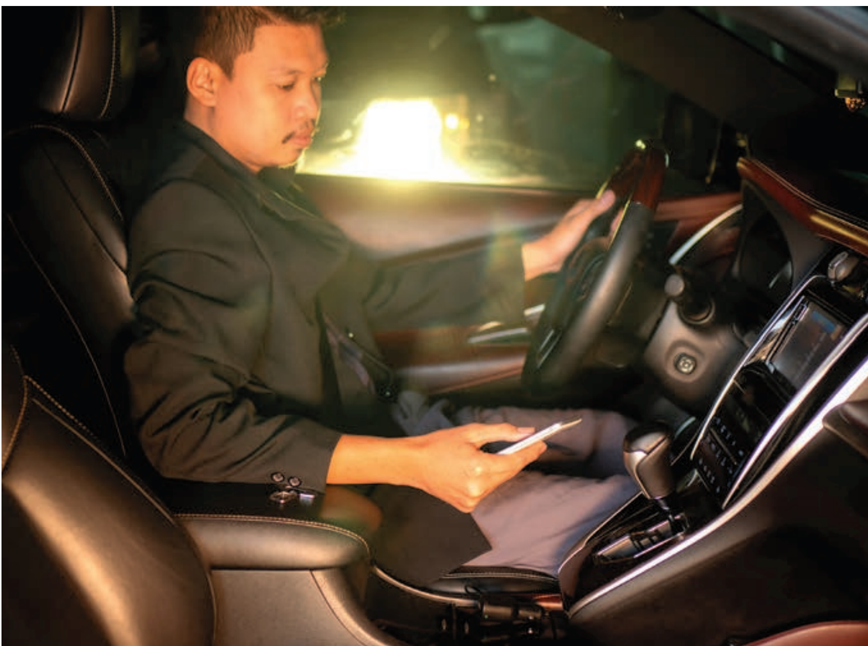
PARKING APPS LOOK TO UPSHIFT

When the pandemic ends, demand for parking places is likely to skyrocket. That augurs well for apps that find just the right spot—and let you pay for it.

BY **JOHN STEWART**

"THERE'S AN APP FOR THAT" has become a cliché, but most users and experts agree mobile apps have drained the difficulty and frustration out of scores of everyday tasks. And perhaps none have done this in a more mundane market than have parking apps.

These gizmos will let you find a space, tell you how to get to it, reserve it, and pay for it. And after you've parked your car and are off attending to business, they'll let you reserve more time if you need it.



Even parking garages, with their entry and exit gates and multiple levels, are susceptible to this technology. Last month, Atlanta-based ParkMobile LLC announced an integration with a major provider of garage parking systems to let ParkMobile app users scan a paper ticket to pay for their time and lift the exit gate. No muss, no fuss—and no touching of any equipment outside of the driver's control.

These apps aren't new. ParkMobile, owned by the German luxury-car giant BMW, started up in 2008. The largest parking app developer, it now claims 21 million active users. PayByPhone Technologies, based in Vancouver, British Columbia, is close to 20 years old, and since 2017 has been part of Volkswagen Financial Services AG. PayByPhone is used by more than 3 million drivers.

Two other big app developers for parking are Arrive Mobility Inc. and SpotHero Inc., both based in Chicago. The former is 14 years old; the latter, nearly 10.

These standalone mobile wallets charge transactions to a card embedded by the user. They make money typically by levying a "convenience fee" on top of the cost of parking.

With ParkMobile, for example, the fee is 35 cents, a sum sources say is fairly standard across the board.

'ZILCH' DEMAND

But while the apps aren't new, current conditions are. On the one hand, the pandemic has put a premium on contactless transactions, something mobile payment apps offer across a wide variety of markets. That appeals to drivers already struggling to find the closest—and, perhaps, cheapest—place to park.

On the other hand, many companies have sent their workers home, depressing parking demand in city centers and suburban metroplexes. "The appetite for downtown parking garages is zilch because of Covid," observes Raymond Pucci, director for merchant services at Mercator Advisory Group Inc., a Marlborough, Mass.-based consulting firm.

"Transaction volume writ large is still down due to the lack of people going in to work," agrees Jon Ziglar, ParkMobile's chief executive. But the mix has changed, he adds, with the app accounting now for more than 50% of users' transactions rather than about 35% pre-Covid.

'Our vision is we want to be like the Visa and Mastercard for transactions for the vehicle.'

—**JON ZIGLAR**, CHIEF EXECUTIVE, PARKMOBILE

"We've seen Covid massively accelerate adoption," Ziglar says, adding that "volumes are coming back rapidly."

Cities are bagging or removing parking meters, he says, leaving drivers no choice but to use a mobile app. And such commuters as there are would rather drive than mingle on mass transit with other straphangers. In New York City, "when they do come in [to work], they drive, so demand for parking has increased," says Ziglar.

At PayByPhone, transactions have been rebounding since they tanked at the start of the pandemic last March, says North American chief executive Roamy Valera. The app went live in

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13 new cities in the summer, bringing new transaction volume. And, as with ParkMobile, the contactless feature has shifted more transactions to the app.

It's also brought in more users. "Contactless has increased adoption," Valera says. "Once [drivers] use the app, they find it's a significant reduction in friction." As an example, drivers don't have to return to the meter to buy more time. "They can extend their stay with the app," Valera says.

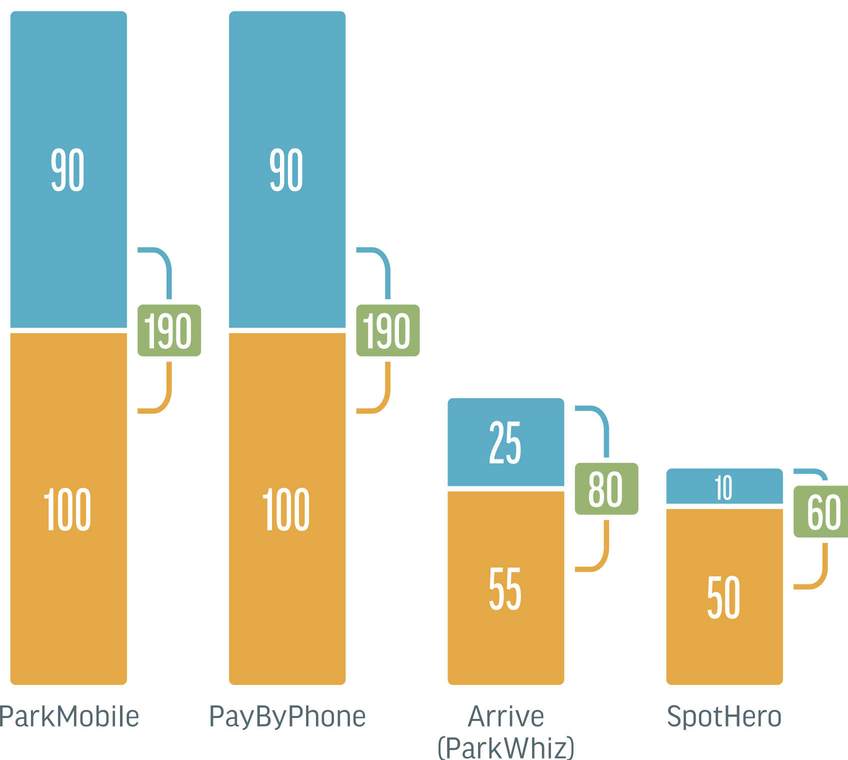
'CRITICAL MASS'

But payments analysts warn against over-optimism. Thad Peterson, a senior analyst who follows mobile payments at the Boston-based consultancy Aite Group, estimates that, for all the new users adopting these apps, the Covid setback means it will be three to five years before all the apps collectively reach what he calls "critical mass"—a state in which at least half of all parking transactions occur within the app.

"The evolution is going to be bumpy, but it is starting to happen," Peterson notes.

Much now depends on the course of the pandemic. As vaccines reach more people, lockdowns and other restrictions will begin to be lifted and regular routines will start to reassert themselves. That will help parking apps because more people will use them, Pucci says. "When people do go back to the office, there will be more people driving than taking public transit," he notes.

And these drivers will return to a limited supply of parking lots and garages, making it harder to find spaces and underscoring the utility of the parking apps, Pucci adds.



But he agrees with Peterson on the timing for this rebound. "I wouldn't be optimistic this year," he says. "We're talking about three to five years."

'ACHIEVING UBIQUITY'

In the meantime, the parking apps are finding niches where their utility and convenience can command usage and loyalty. "Colleges have been a very strong market," notes PayByPhone's Valera. ParkMobile, meanwhile, has moved into concert and event venues, such as sports stadiums, as well as parking garages. It also enjoys the advantage of geographic spread with availability in more than 500 cities,

"Achieving ubiquity is one of our goals," says Ziglar, formerly an executive with the merchant processor Elavon Inc., part of U.S. Bancorp. "Our vision is we want to be like the Visa and Mastercard for transactions for the vehicle."

But if the full flowering of parking apps will take another three to five years, one big question some experts pose is whether the apps will continue to function as independent mobile utilities, rather than become features within general-purpose mobile wallets like Apple Pay. In November, for example, ParkMobile, while remaining a standalone app, announced an integration with Alphabet Inc.'s Google Pay wallet. That's just the start, experts say.

The parking apps "will get absorbed into the wallets," says Aite's Peterson. "The worst open system will always defeat the best closed system." DT

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RANSOMWARE MAKES A COMEBACK

The attack on TSYS last December was a sobering reminder of the vulnerability of payments companies to this insidious fraud. But there are steps you can take to protect your network.

BY **PETER LUCAS**

CRIMINALS ARE BUSINESSMEN, too, which is why they are always looking for ways to maximize the return on their efforts. It's no surprise, then, that criminals are embracing ransomware, a type of malware that locks up a company's data with encryption, enabling the criminal to demand a ransom for the decryption key that unlocks the data.

While ransomware is not new, its popularity is growing among criminals. There are two primary reasons for this. First, ransomware allows criminals to realize the payoff from their attack sooner, as they don't have to spirit out data undetected, then find buyers for it on the black market.

Second, criminals can demand the ransom be paid in cryptocurrency, usually Bitcoin, which makes the payoff more anonymous. Since cryptocurrency is unregulated, it's easier to move large amounts of it without attracting the attention of bank regulators or law enforcement. That's especially helpful for cross-border transactions, since criminal rings are often located in countries known for illicit online activity.

Also, once the cryptocurrency has been transferred to the criminal's digital wallet, it can be converted into fiat currencies such as dollars, further masking the criminal's trail.

These are not occasional assaults. More than 4,000 ransomware attacks have occurred daily since Jan. 1, 2016, according to a multi-agency report from the United States government that includes input from the Federal Bureau of Investigation and the Secret Service. That's up fourfold from the 1,000 attacks per day seen in 2015.

"Ransomware has evolved into a very sophisticated, capitalistic enterprise for criminals," says John Stark, president of John Reed Stark Consulting, a Bethesda, Md.-based

cybersecurity consultancy. "It's an easier, faster way to commit cybercrime."

The frequency of attacks has gotten worse during the coronavirus pandemic. By some estimates, the number has increased by as much as 10-fold since the pandemic hit the United States last March.

A big reason, says Ed Dubrovsky, managing partner and chief operating officer for Cytelligence, a Toronto-based cybersecurity firm, is that with more employees working at home, criminals have a whole new set of back doors into corporate networks.

If a company has any data a criminal thinks it will pay to unlock in the wake of malware attack, intruders will probe those back doors for any weakness, Dubrovsky says.

BAD BUSINESS

For processors, it's not just the sensitive consumer and account data they hold, but their size that makes them prime targets for malware attacks. It's no secret there has been a lot of consolidation in the processing industry in recent years. These mergers have occurred for solid business reasons, but they have also created a size problem when it comes to cybersecurity.

The issue is that the larger a processor becomes, the larger its defensive perimeter needs to be. And the larger the defensive perimeter, the greater the risk that a weak spot in it will be missed by cybersecurity.

In December, for example, Total System Services Inc., which was acquired by Global Payments Inc. in 2019, came under attack when criminals found their way into TSYS's network through Cayan, a payments company TSYS bought early in 2018 for more than $1 billion. The attack reportedly did not affect systems that handle payment card processing.

"As processors grow in size, especially through acquisitions and mergers, the task of growing their cybersecurity defenses becomes Herculean," says Jeff Montgomery, senior vice president for cyber risk services at Sysnet Global Solutions a Dublin, Ireland-based cybersecurity firm.

As attacks have increased, so too have the sums criminals are demanding. A few years ago, the average ransom demand was in the low five figures, but today criminals can demand six-, seven-, and even eight-figure ransoms, depending on how deep they think the victim's pockets are and how much it would cost to evict the attacker. "One of the largest ransomware demands we've seen was for $46 million," says Dubrovsky.

While criminals can never be sure that a victim will pay up, they know companies are more likely to send the money if the ransom is set below what a response to the attack would cost, says Gideon Samid, chief technology officer for Bitmint, a McLean, Va.-based provider of cybersecurity solutions. (Samid is also the author of *Digital Transactions'* monthly "Security Notes" column. See his take on ransomware on page 11).

For criminals, that strategy is better than pricing the ransom so high a company cannot afford pay it. That can leave the attacker with no choice but to permanently lock the data,

BEST PRACTICES FOR DEFENDING AGAINST A RANSOMWARE ATTACK

- Update software and operating systems with the latest patches. Outdated applications and operating systems are the target of most attacks.
- Restrict users' permissions to install and run software applications and allow only approved programs to run on a network.
- Never click on links or open attachments in unsolicited emails.
- Back up data on a regular basis. Keep it on a separate device and store it offline.
- Enable strong spam filters to prevent phishing emails from reaching end users and authenticate inbound email to prevent email spoofing.
- Scan all incoming and outgoing emails to detect threats and filter executable files from reaching end users.
- Configure firewalls to block access to known malicious IP addresses

Source: Cybersecurity and Infrastructure Security Agency

erase it as it exits the network, or make the data public to prove his credibility.

In such instances, the victimized company typically goes out of business, but the criminal gets nothing, which is bad business for the criminal, cybersecurity experts say.

HIGH-PRESSURE TACTICS

With the potential to hit a home run on every attack, ransomware is no longer the domain of lone-wolf hackers. Large criminal enterprises are behind more and more attacks. Some criminal enterprises are actively recruiting hackers who have mounted successful attacks.

Others are going a step farther, gaining entry into multiple company networks and selling that access to other criminals, rather than launching a ransomware attack themselves.

"There are criminal enterprises that are franchising the opportunity to launch a ransomware attack because it is a more efficient way to monetize their efforts," says Andy Barratt, managing principal, enterprise solutions for CoalFire Systems Inc., a Westminster, Colo.-based cyber-risk management advisory firm. "We've seen access sold for $250,000. For a criminal organization that acquires access into, say, 10,000 companies, that's a lot of potential money."

Indeed, no longer are criminals just threatening to withhold the key to unlock encrypted data or erase it if the ransom is not paid. They are instead applying new high-pressure tactics.

Attackers will make public some of the data they have locked up to demonstrate they will not hesitate to release all the data if the ransom is not paid. Another new tactic is public embarrassment. They threaten to publicize the attack through social-media channels if their demands go unmet.

Both tactics can undermine consumer confidence in the company under attack and its brand. "Ransomware affords criminals a lot of creativity when it comes to extorting money," Montgomery says.

But some criminals are pushing the envelope even further. Today the likelihood that a criminal will sell data, even after the ransom has been paid, is greater than ever, cybersecurity experts warn.

"The way cyber attackers operate changes quickly, and trying to keep up with it can be like playing whack-a-mole," says Rustam Lalkaka, director of product for Cloudflare, Inc., a San Francisco-based Web-performance and security company.

Even if an attacker promises not to sell copies of any of the data it accessed or launch another ransomware attack in the future, victimized

DDoS ATTACKERS WILL DEMAND A RANSOM, TOO

As with ransomware, distributed denial of service (DDoS) attacks, are making a comeback. The reason: the opportunity to hold a business for ransom. But, unlike ransomware attacks, DDoS attacks flood a network with so much bogus traffic, customers and employees can't use it.

While DDoS attackers have always demanded a ransom, the hefty ransoms being asked for in ransomware attacks have now filtered down to DDoS attacks. As a result, the average ransom demand for a DDoS attack is going up, cyberbersecurity experts say.

"A DDoS attack is a way to hold a company under water until they pay," says Rustam Lalkaka, director of product for Cloudflare Inc.

DDoS attacks overwhelm a targeted company's Web server with more traffic than the server can handle, which slows the server's performance or freezes it up. The attacks are launched using multiple Internet bots, which are software applications that send simple, repetitive tasks to an Internet server using different nodes. Since the incoming traffic originates from different nodes, it is difficult for the server's traffic filters to halt the attack.

"Once a DDoS attack starts, the victim has to be able to differentiate good traffic from bad traffic, and that's where cybersecurity experts come in," Lalkaka says. "The key is being able to see the volume of the attack so data can be gathered on how the attack is working and the damage it can cause, before a mitigation plan can be put into place."

If nothing else, payments providers need to remember there are a lot of cybercriminal crews looking for ways to extort a ransom. "DDoS attacks [for ransom] are becoming more common as criminals look to increase the pressure on companies to pay," says Jeff Montgomery, senior vice president, cyber risk services for Sysnet Global Solutions.

companies choosing to pay a ransom should never be lulled into a false sense security, cautions Samid. "Once a company pays the ransom, it becomes a target for attack from other criminals," he adds.

THE LAYERED APPROACH

Experts point to two effective defensive strategies for fending off an attack: layered security measures throughout the network, which help to contain an attack once it is discovered, and the immunization of core data so it can be recovered in the event of a breach.

Installing defenses that cut off potential escape routes once an intruder is detected can also help eradicate a threat after it occurs, cybersecurity experts say.

Layered defenses include monitoring employee behavior on the network and limiting employee access to the network. Monitoring employee behavior is critical because employees can unwittingly have their computers compromised by hackers, who can steal an employee's access credentials to move through the network.

Establishing a baseline for how an employee moves through the network can help identify an intruder in the network, says Mohit Tiwari, chief executive and co-founder of San Francisco-based Symmetry Systems Inc., a provider of cybersecurity solutions.

"Companies that have connections to third parties should also identify what the third party is doing to protect data at their end, then layer-in their own defenses around those connections," Tiwari says. "Assume every third-party connection can be broken, if it is not broken already."

Multifactor network authentication for employees is another must. So too is educating employees about the security protocols for remote access to the network.

'NO EASY ANSWERS'

While criminals often target devices used by employees, bosses should not automatically blame employees for failing to follow security protocols until they know for certain how a breach occurred. "You can't expect employees to be perfect, and blaming them is bad for morale and creates paranoia about opening emails or attachments," says Tiwari. "Besides, there are a lot of other access points [beside] employee devices."

Businesses should also identify core data sets and layer-in security around them in the event of an attack. Creating a redundant database for core assets on a separate, secure server with limited access can also protect core data and ensure recovery in the event of an attack.

Finally, businesses must be vigilant against attackers who breach their system but lie dormant, waiting for an opportune time to strike. In some cases, dormant attackers may have masked their route into the network through encryption to evade detection.

"There are no easy answers when it comes to safeguarding a network, because all criminals need to gain entry is a crack in the defenses," says Cytelligence's Dubrovsky. "The best way to secure a network is through vigilance. You can never let your defenses down." DT

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THE MEGAMERGERS' SUBTLE IMPACT

More than a year has passed since three giant mergers promised to change the payments world. Change has come, but not where many expected to see it.

BY KEVIN WOODWARD

ALONE, ANY OF THE SIX COMPANIES INVOLVED IN THE ROUND OF MEGAMERGERS IN 2019 IS HUGE. Recall that Global Payments Inc. acquired Total System Services Inc. (TSYS) in a $21.5 billion deal and Fiserv Inc. merged with First Data Corp. in a $22 billion deal. And, in a transaction valued at $43 billion, FIS Inc. acquired Worldpay Inc.

Now, the scale of these three combined companies transcends previous notions of big. And in payments, scale is paramount. The three companies—Fiserv, FIS, and Global Payments—had combined 2019 annual revenues of $25.4 billion. Annual reports for 2020 were not yet available in mid-January.

The two most pressing questions are, with a full year of operations as merged companies completed, how have these companies changed the payments arena, and what impact have other payment-processing players experienced? The answers, for now, are the same: it's mixed.

In the 18 months since the last of the megamergers closed, the three companies have largely made the leadership changes in the c-suite and lower levels necessary to put their next steps into action, says Peter Michaud, director of consulting at The Strawhecker Group, an Omaha, Neb.-based consulting firm.

"Now it's about implementing the tactics as part of their strategies," Michaud says. With very strong financial positions, they can continue to absorb the lessons from their first full year, he says, while they move forward on their plans.

SYNERGIES AND GROWTH

For example, a year ago, when just six months had passed since the Fiserv-First Data merger, Fiserv reported that First Data accounted for 61% of the combined company's $3.67 billion of internal revenue in 2019's fourth quarter. Nearly a year later, merchant acceptance led Fiserv's 2020 third-quarter results with 6% growth.

A big contributor to that was Clover, the point-of-sale system First Data acquired in 2012. Systems that offer payment processing in addition to important operation services like scheduling and inventory management have only gained in popularity, especially as merchants add order-online amidst the Covid-19 pandemic.

Much of what may lie ahead for these behemoths will have to do with the ability to sell products across their customer categories. In mid-2020, for example, Jacksonville, Fla.-based FIS said the integration was largely complete and its ability to cross sell was helping shape new product development ("The $43 Billion Payoff," July 2020).

No doubt, that tactic and many others are anticipated. Not only can it boost growth, but it can reduce costs, too. "The merged companies report substantial revenue synergies (e.g., from cross-selling deals and referral agreements between the issuing and acquiring side of the house) and cost synergies by saving on operational expenses," reports Ron van Wezel, a senior analyst at Boston-based Aite Group. "The combinations also profited from the strong growth in

digital payments, accelerated by the pandemic."

Buoyed by their vast resources, these large entities are bound to exert all kinds of pressure on the market. Van Wezel doesn't have data on their effects on pricing, "... but given the strong competition among the giants as well as other competitors in the space, transaction pricing is under pressure. Companies focus more on value-added services to compensate."

STRATEGIC MOVES

At North American Bancard LLC, a Troy, Mich.-based payments provider, Ryan Malloy, senior vice president of partner sales, has not witnessed much change in pricing. "When I look at new accounts coming in, thus far things have been pretty similar to where they were," he says.

While changes may be coming from the card brands—they postponed planned 2020 interchange adjustments because of the pandemic—current pricing has been rather consistent, he says.

Michaud, though, has seen some opportunities in pricing. Beyond the big three processors, Elavon, the processing arm of Minneapolis-based U.S. Bancorp, appears to have found some pricing maneuvers to increase its competitiveness, he says. "Elavon has made strategic moves to capture some of this," Michaud says.

Generally, however, the ripples these giant mergers have created so far have been subtle. "In the merchant acquiring/payments processing business, not much has changed as a result of these mergers," van Wezel says. "The former Worldpay/First Data/[Global Payments] businesses continue compete with the Stripes, Adyens, Worldlines of this world. All have deep pockets and competition remains fierce."

France-based Worldline S.A. itself is no stranger to mergers. It acquired point-of-sale manufacturer and payments provider Ingenico Group S.A. in an $8.6-billion deal in late 2020 ("Worldline/Ingenico Is Just Getting Started," January).

Malloy has a similar view. "From our perspective, you're seeing consolidation at the top end and at the bottom end, but it's not as public," he says. "You're probably getting close to where there won't be a ton of more top-end consolidation."

It's a pattern that is not unlike what happens in other industries connected to consumers and retail. How consumers and businesses are buying merchandise is changing, he says. "We're seeing a lot of consolidation to try to improve bottom-line results," he adds. "We may see more at the top end."

In particular for NAB, which relies on partners to resell its services, it's on the smaller end that more opportunities seems to be forming. "We are seeing smaller players finding more opportunities than they had before," Malloy says, allowing many of NAB's partners to grow their portfolios and do well.

All in all, the megamergers have had a positive impact on NAB, he says, adding, "There are so many opportunities in this business to grow your portfolio and grow your partner base."

Speaking of partners, the independent sales organization channel remains important. Most processors are reluctant to disclose how many ISOs they work with, but some will talk about overall partner numbers or provide an approximate number. What has been the impact of the megamergers on ISOs? "I don't think we know yet what the long-term effect is,"

'I still think the dust is settling. You come out of the chute with your strategies and then you implement, and then you adjust.'

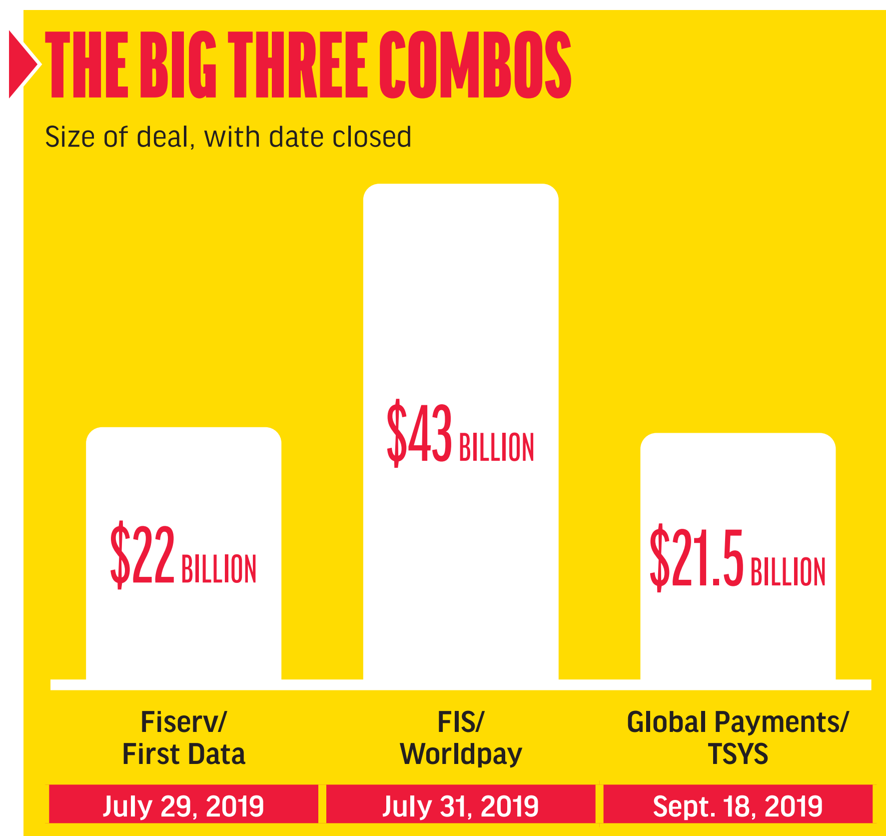
—**PETER MICHAUD,** DIRECTOR OF CONSULTING, THE STRAWHECKER GROUP

Michaud says. “In this ecosystem, the ISO serves a purpose. They have the feet on the street.”

That distribution channel has a role in merchant acquisition and retention. The sales agent can have the benefit of providing a little more instruction or attention, Michaud says. “That will be very beneficial for any merchant,” he adds.

That can really come into play when a merchant wants to use a point-of-sale system or PC-based system with integrated payments. Processors may view ISOs as if they were value-added resellers, Michaud says.

Independent software vendors are another coveted channel. These are companies that cater in providing PC-based systems, often for specialized merchant types, such as dry cleaners, medical practices, and craft breweries.



‘A SCALE PLAY’

ISOs likely won’t be affected all that much by the megamergers, van Wezel says, though Fiserv offers the Clover POS system and Global Payments sells the TSYS-developed Vital line of devices. “ISOs are already broadening their services to compete with Stripe and other payment facilitators. There won’t be a lot of impact on them from the mergers, but the increased competitiveness in the space is definitely impacting their business,” he says.

“The processors would like more ISVs because they’re dealing with a company,” Michaud says. “The ISOs serve a purpose. They provide one-to-one service and should enable them to get to higher-margin business.”

For example, Atlanta-based Global Payments formed an integrated payments unit in 2014 following the acquisitions of PayPros in 2014 and Accelerated Payment Technologies in 2012. A commentator on SeekingAlpha.com in 2017 suggested the APT acquisition altered the merchant-acquiring industry by serving as the starting point of big acquirers pairing up with integrated software vendors and value-added resellers to deepen their relationships with merchants, *Digital Transactions* reported then.

At the end of 2020’s third quarter, Global Payments counted more than 4,000 ISVs in its partnership portfolio. “Our integrated business, as we noted in our prepared comments, is tracking to budget for the year notwithstanding the pandemic,” Cameron Bready, Global Payments’ president and chief operating officer, said in an October call with analysts to discuss the 2020 third quarter results.

“New partner production is up 70% year-over-year,” Bready added. “And I would say the overall partner pipeline is as strong as it’s ever been in that business. And we’re pretty optimistic about the momentum we have heading into [the fourth quarter] and 2021 in our integrated channel.”

Combining sales agents with integrated-payments products works well for NAB, Malloy says. “We have found by combining feet on the street with some of the technology we have seen a ton of success,” he says. “They have that personal

> **'We love the consolidation because it forces everyone to up their games and make their solutions for both partners and merchants as good as they can be.'**
>
> **—RYAN MALLOY,** SENIOR VICE PRESIDENT OF PARTNER SALES, NORTH AMERICAN BANCARD LLC

relationship. Where we've seen ISVs struggle in the past is there is no one there to translate that value to the merchant."

Van Wezel suggests the three combined companies may not compete more strongly than when they were six individual ones. "I am not sure that the combined entities are better able to compete for merchant business than the individual companies," he says. "There is no major differentiator for the combinations compared to the individual companies."

The other big question is if there is room for more large-scale mergers. The answer, apparently, is yes. Though it didn't materialize, FIS and Global Payments allegedly had merger talks last year, but, as *The Wall Street Journal* reported, these talks broke off ("The Megamerger That Wasn't," Trends & Tactics). As Michaud's colleague Jared Drieling, Strawhecker senior director of consulting and market intelligence, put it at the time, "It's an example of a continued scale play."

THE NEXT ROUND

Big mergers, especially when scale is the paramount goal for many payments companies, are still possible. "There are definitely a lot of companies that could fill any niches coming," Michaud says.

The likely next round will include companies with front-end authorization and back-end settlement in place, he says. He argues consolidation will continue if only because, even if the big five processors—Michaud includes Chase Paymentech and Elavon along with FIS, Fiserv, and Global Payments—garner, say, 80% of the market, there's still 20% of the merchants they're not reaching, and the providers to those merchants could be acquisition targets.

Say a buyer rolled up payments providers Clearent LLC, based in Creve Coeur, Mo., EVO Payments Inc., and Repay Holdings LLC, both based in Atlanta, Michaud suggests. Together, they don't come to even the smallest of the big five, he says. But that doesn't mean these positions are fixed.

"It's an always-changing flux," Michaud says. "The smaller ones are going to get bigger. The bigger ones have flattened on growth, but still can grow in margins and earnings."

Likewise, van Wezel sees no end to the M&A trend. "We will certainly see continued consolidation in this industry, but I would expect FIS, Fiserv, and [Global Payments] to acquire smaller competitors in key markets rather than merge among themselves. Scale is great, but organizational complexity has a downside, too," he says.

Likewise, NAB's Malloy sees no end to M&A activity. Without getting into any NAB-specific perspective, consolidation will be easiest on the processing side of the payments business, he says. It's the most obvious pat of the business, he says, and caters directly to scale.

"That's where we're going to see the massive, headline deals," Malloy says. "We love the consolidation because it forces everyone to up their games and make their solutions for both partners and merchants as good as they can be." Indeed, the trend so far has been a positive for NAB, he says.

2021 may be a critical year for FIS, Fiserv, and Global Payments, as they work to wring out of their big mergers the results they claimed the deals would generate.

"I still think the dust is settling," Michaud says. "I don't know if it's fully settled yet. You come out of the chute with your strategies and then you implement, and then you adjust." But, at some point, he adds, "you have to look and see if you're meeting the goals." DT

DECISIONS, DECISIONS

Is your bill-pay provider setting you up for success? Use this checklist to decide.

BY **MICHAEL KAPLAN**

Michael Kaplan is the chief revenue officer and general manager at PayNearMe Inc., Santa Clara, Calif.

ACCORDING TO POPULAR LEGEND, the first online payment was made in 1994, for a Pizza Hut pepperoni and mushroom pizza. Whether that holds true or not, online payment processing has grown by leaps and bounds since the 1990s. Roughly 440 million consumers took advantage of mobile-payment options in 2018, and that number was projected to grow to 760 million this year, according to statistical database Statista.

Looking specifically at bill payment, another 2018 study found that consumers made 6 out of 10 bill payments electronically, a figure guaranteed to rise due to consumers' pandemic practices.

What does this mean for your company? In part, it calls for an immediate reevaluation of your current remote payment systems and practices. The bill-payment vendor you're using may no longer be the best fit—and may, in fact, be holding your company back from reaching its full potential.

Now that we've entered a new year still heavy with the prospect of distanced-everything, including shopping and bill paying, there's no better time to consider whether your bill-payment provider is setting you up for success. To do that, use this checklist of five important factors found in a forward-thinking payment platform:

☐ FACTOR 1

Accommodates all payment tenders and channels customers use.

Forget the old catchphrase "cash, check, or charge." Today's consumers can choose from numerous payment tenders, including card, automated clearing house, cash, and mobile-first payment options such as Apple Pay and Google Pay.

Add a variety of remote payment channels, including Web, mobile, text, interactive voice response, agent, and digital wallet, among others, and consumers have more payment tenders and channels available to them than ever before. With this in mind, it's important to meet your

customers where they are, however they choose to pay.

Your customers have different preferences for payment, depending on a host of factors. For instance, some payers may prefer to mail a check or log on to their account and pay using a credit card, whereas others may love the convenience of using their Google wallet.

Your bill-payment provider should have the capability to accommodate a wide range of customer preferences in a way that makes payments quick and easy, time after time. The vendor also must have the technical lightfootedness to adapt as new payment types and channels emerge.

Here's a case in point. Financial pundits used to claim, "cash is dead," as they advised companies to put resources toward electronic-only payment streams. However, this advice ignored the realities of a large portion of current bill payers. One in 15 households is un-banked, without access to a bank account, debit, or credit card.

And approximately one in six households is underbanked, meaning they live paycheck-to-paycheck without significant reserves on hand to cover unexpected expenses and avoid overdrafts, according to the Brookings Institute.

For these consumers, the ability to pay bills with cash is essential.

A forward-thinking bill-payment provider must accommodate cash payment and, even better, think creatively about remote cash-pay options. For instance, some vendors make it possible for customers to pay bills with cash at retail locations the customers frequent regularly. The customer simply shows the checker a scannable code on his or her smart phone, pays the checker the cash, and collects a receipt. The cash is digitally transferred to complete the payment.

When your bill-payment provider has knowledge of both consumer preferences and technical capabilities, your company will reap the rewards of customer satisfaction and reliable, on-time collections.

☐ FACTOR 2
Anticipates and addresses security risks.

Remote, independent bill payment can save your company big bucks on brick-and-mortar payment centers and customer service staffing—unless, of course, you lose money through security breaches and fraud.

A top-tier payment provider should help protect your company's reputation and assets through comprehensive risk mitigation, fraud prevention, and compliance support.

'You may be in a contract with a vendor that ties your hands for the moment, but that only means you have more time to conduct a thorough assessment of your needs.'

Look for a vendor that offers real-time account validation and risk analysis to prevent payment reversals and fraud. NACHA will require account validation for all ACH originators of WEB debit entries effective March 19. Demanding that your bill-payment provider achieve this in time for the change takes that security step to the next logical level.

Additional protection can be accomplished through automation tools like business rules (coded if/then statements). The vendor can put a rule in place, for example, that says "IF a customer has two or more insufficient funds errors within a year, THEN the customer must only have the option of paying with a debit card or cash."

In addition to preventing fraud, business rules can substantially reduce your need for manual processing and paperwork caused by both chargebacks and overpayments. A forward-thinking bill-payment vendor has business rules, as well as other automated tools, pre-designed and on hand to be turned on or off depending on your specific needs.

Finally, your provider should hold industry-recognized certifications, such as PCI-DSS, and undergo third-party audits to demonstrate its team's knowledge of and proficiency at securing your customers' data.

Additionally, they should offer regular compliance training for their own employees and ensure their agents know how to use their technology tools to stay compliant. Covid-19 and work-from-home have thrown some curveballs into typical compliance practices, especially for customer-service agents, so this is especially relevant right now.

☐ FACTOR 3
Has a track record of reliability.

Many payment platforms pause their services on a regular basis to perform

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updates to their system. Updates are good and necessary, but downtime is a disaster for companies offering their customers 24/7 bill payment. Your offices might be closed on Sundays or in the middle of the night, for example, but many of your customers are still taking care of business at home, including paying their bills.

Keep in mind that downtime isn't just inconvenient, it's costly. Industry analysts have estimated that network downtime can cost companies an average of $5,600 a minute. Of course, that varies from business to business and industry to industry, but it demonstrates the seriousness of shrugging off unnecessary downtime.

When your customer is ready to pay, your systems and applications must be ready and waiting. Look for a vendor that mitigates or eliminates planned downtime, such as scheduled maintenance or product releases. It's essential to find a payment platform that can deliver on that promise to ensure your company is prepared to compete in the 24/7 business cycle.

☐ FACTOR 4
Enhances consumer engagement.

Engaging with your customers builds your brand, rewards loyalty, enhances the company's reputation—and helps them pay their bills on time. Wait, what? Consumer engagement improves bill paying? That's right, with the support of your bill-payment platform, your engagement programs can provide the reminders and tools to help customers pay on time, online and successfully, each time.

Here's one example: The vendor can send customized payment reminders by text, email, or push notification at designated times before, on, and after the payment date. These can be further customized for customers with a history of late payments so they get more reminders or more urgently worded reminders. Also, the vendor can send reminders translated into the customer's native language.

More advanced payment platforms also use smart, personalized links embedded in the payment-reminder messages. The customized links send customers directly to their payment screens without having to type in passwords or account numbers. This drastically improves follow-through on bill payment because the customer can act immediately and complete the task quickly, with only a few clicks or taps.

Additional messaging features can communicate welcome messages, announce new rates or products, deliver transaction receipts, or provide links to enroll customers in auto-pay, which is the ultimate driver of on-time bill payment.

With the help of your provider, you can be extremely creative at engaging customers in these types of win-win behaviors, and at a very minimal cost to your company.

☐ FACTOR 5
Tracks and makes available the data you need.

For you to make the best, most informed decisions for your company and plan for its success, you need data about your customers, including how, when, and where they pay their bills. Your bill-payment platform should help you with that task, providing clear, consistent, and thorough reporting.

For instance, the vendor should track payment data either in real time on a per-payment basis or in batches daily or monthly. The vendor also should report on SMS/e-mail engagements with customers and click-through or response rates of those communications.

All reporting should be customized to display the information most helpful to your business, and the vendor's dashboard should allow you to sort or filter by categories like payment data or payment status. Having a supportive, service-minded payment provider in your corner is key to helping you determine the best data-collection strategy and reporting schedule and format to meet your needs.

DECISION TIME

If your current bill-payment provider falls short on one or more of these factors, there's no better time to consider other options and make the switch. You may be in a contract with a vendor that ties your hands for the moment, but that only means you have more time to conduct a thorough assessment of your needs and to interview several candidates to determine whether another vendor might be a better fit. Transitioning to a new vendor will take both time and planning, so factor this into your decision-making.

No matter your decision, the goal is to come out of this process knowing you have a bill-payment provider able to support your company in its growth and success. With trends in remote bill payment pointing skyward, that's a strategy to prioritize in 2021. DT

How to claim your share of a $2-trillion market.

MERCHANT FEEDBACK: THE NOT-SO-SECRET KEY TO SUCCESS

Payments providers must move beyond merely transactional relationships to build lasting business.

BY **AUGUSTO LINS**

Augusto Lins is president at Stone Pagamentos SA, Sao Paulo, Brazil

THE GLOBAL PAYMENTS MARKET is becoming an increasingly attractive space for competition. In 2019, global payments revenue was a massive $2 trillion, which is drawing increasing attention from new players that wish to rapidly jump in the payments and fintech space to grab market dominance.

Just within the U.S. merchant-acquiring space, the shift to electronic transactions has brought success to marketplace platforms like Amazon, eBay, and Etsy, increasing the pressure on traditional payments and fintech players to provide their merchant customers with exceptional customer experience and digital selling options. That, in turn, will allow them to better compete and thrive in a cutthroat marketplace.

Merchants traditionally have not been closely involved in a fintech player's strategy and product-development process. But there is now an opportunity for payments-technology providers to work closely with their customers to develop solutions that meet merchants' expectations and help them grow. Fully understanding merchants' needs will help payments providers build superior products and create a technology strategy that allows them to solidify their relationship with the customer as well.

A RELIABLE ROADMAP

In today's increasingly digital marketplace, payments providers can look to merchants for invaluable insight and implement a product-development approach that delivers a reliable roadmap for market leadership.

According to a Harvard Business Review survey, it is up to 25 times more expensive to acquire a new customer than to retain an existing one. But, more important, pleasing direct users helps businesses to advance their product-development strategy while strengthening the customer relationship. By improving customer retention rates just by 5%, businesses can boost their bottom line by as much as 95%.

Investing in existing customers has long been recommended as a top strategy for business success. By allowing merchants to share feedback that guides the product-development process, payments vendors can build deeper and stronger relationships with their customers, who will enjoy getting the opportunity to contribute in the development of the very solutions that they'll be using every day.

Building customer intimacy and loyalty that goes beyond today's transactional relationships between merchants and payments vendors will create long-term revenue opportunities and enable the creation of superior payments tools. This will help traditional and smaller fintech and payments players to compete with their larger marketplace-platform rivals, which already benefit from their ability to invest heavily in technology and tap into vast resources to grow their business.

Technology, especially payments technology, is rapidly changing, which means payments processors need to keep up to ensure merchants are able to better interact with their key consumers. Merchants in the United States don't always have great technology at their disposal, and they lag in their use of modern payments technologies compared to players in other major markets like China.

As U.S. consumers become more demanding in their need for digital-payments access and purchasing power, there is an opportunity for payments-technology providers to work closely with their merchant customers to identify and implement much-needed technological improvements.

Payments providers can upgrade a merchant's tech suite to help it with its business needs, whether this is enabling digital or social selling or allowing access to better credit or banking technologies. Investing in technology is bound to enhance a merchant's return on investment, but this requires an investment from the payments provider to work closely with merchants.

LISTEN AND UNDERSTAND

Customer-centricity is a term that many businesses understand well, but the payments and fintech space hasn't always paid close attention to it. Traditionally, payments and fintech players have relied largely on the ability of their technology stack to appeal to their customers.

Creating a business model that helps to reach, connect, and engage with merchants is a great way to ensure your business's success. This, again, requires payments vendors to actively listen to customers and understand their business needs.

Payments players need to invest more in their customer service, logistics capabilities, and operational footprint to reflect the needs of their customers. Payments companies that incentivize their sales, customer-service, and technology staff to be more customer-centric will undoubtedly drive revenue growth and market leadership.

Stone's pole position in the Brazilian market can be attributed to using customer feedback to build out its unique operational footprint and distribution model, which allows the company to be close to its customers. There is no reason this approach cannot be replicated in markets like the United States.

For too long, businesses in the payments and fintech space have operated in a heavily transactional manner with their customers. The U.S. payments market is ripe with opportunity and enjoys a healthy merchant population, which is in need of business modernization, enhanced technology, and customer-centric processes.

Achieving sustainable growth in the U.S. payments space is not an easy task, as there are many players in the marketplace and the list of competitors is only growing. Payments-technology players that take the time and energy to invest in their customer relationships, in addition to implementing a strategic customer-feedback process, will have a significant advantage compared to newer players that can't harness these valuable relationships.

Routinely relying on customer feedback and insight will help payments vendors gain that first-mover advantage repeatedly to bring intelligent solutions to their merchant customers and create a business model that is futureproofed and set up for success. DT

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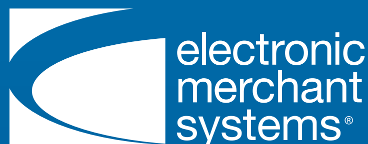

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