



INSIGHT

from the Payments Industry Expert

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We specialize in establishing best practices in payment card acceptance and processing and reducing the associated cost of accepting card payments.

Vizant is focused on client advocacy, vision and clarity in a payment card ecosystem fraught with ever changing and complex rules, regulations and associated costs. Our newsletter is concentrated on informing our Clients of the current happenings and ongoing innovations and changes in the intricate world of payments. We maintain an unrelenting and proactive merchant centric focus, serving as a watchdog for the entire payments industry.

Our expertise is widely recognized and concentrated around payment card acceptance and processing. Our proficiency in navigating within the payments system structure and working with the numerous service providers is unmatched. Our sole mission is to insure that our Clients operate in the most efficient and cost effective payment card acceptance environment possible. Whether the payments your organization accepts are credit, debit, prepaid, consumer or commercial payment cards, we are the Experts.

Our team of professional advisors and consultants is here to assist you with any question or commentary around any of the topics addressed in this newsletter.

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Payments Insight

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About Vizant

Vizant is a specialty Consultancy and Advisory Firm operating as the only Independent entity in an industry that is replete with multiple interconnected parties. These many related payments industry entities all earn fees from the vast array of costs associated with the acceptance and processing of payment cards. Our mission it to

Current Payments News

Push to Ban Credit Card Surcharges Sputters

American Banker (07/11/13) Wack, Kevin

Legislation to ban retailers from imposing surcharges on credit card transactions has stalled in about 15 U.S. states. New rules from MasterCard and Visa allowing merchants to impose checkout fees as part of a proposed settlement of litigation over interchange rates prompted a wave of state legislation that would have rescinded the effect of those rules. However, few retailers have actually instituted checkout fees since Visa and MasterCard began permitting them in January out of concern that the surcharges would alienate customers, but merchants contend that having the right to charge such fees gives them more influence in negotiations with card companies. "These bills, if they pass, threaten to dilute the ability of merchants to push back against high merchant fees charged by card networks," says attorney Craig Wildfang. "It's just a bad policy to prevent merchants from using price signals to their customers as to what it's actually costing them to use their credit card." Although Utah passed a ban on credit card surcharges this year, its law expires next year, and Pennsylvania, Michigan, and New Jersey are still considering legislation banning surcharges. Meanwhile, Texas recently passed a law banning checkout fees on debit card purchases.

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Payments Players Face Four Key Decisions as EMV Shift Nears

Pymnts.com (07/10/13)

There are four major decisions U.S. financial institutions face with the deadline looming for implementing EMV standards, including choosing a method of determining the authenticity of EMV cards. This takes the form of a choice between offline authentication schemes, in which authenticating information and cryptographic certificates live on the card's chip, and online authentication, in which the certificates are created by the chip or a mobile device and verified online. Another major EMV decision is settling on a cardholder verification method. There are three main cardholder verification methods: chip & PIN, chip & sign, and simply having no cardholder verification in place. Chip & PIN is by far the more secure method, but is unfamiliar to most U.S. consumers, while chip & sign is very similar to the existing credit card swipe verification method used in the United States. Even eschewing cardholder verification has its place, primarily when dealing with low-value transactions at unattended terminals, such as in mass transit scenarios.

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Where Small Is Beautiful—And Risky

Digital Transactions (07/13) Vol. 10, No. 7, P. 22 Giesen, Lauri

In the 1980s there were about 150 U.S. electronic funds transfer (EFT) networks, but their numbers have dwindled to fewer than 20 today. Some believe EFTs will be completely eclipsed by the bigger networks or see their numbers whittled away by consolidation and acquisition. However, others say that coming changes in the payments industry—the shift to EMV, the mandates of the Durbin Amendment, and the rise of mobile payments—offer opportunities for the still

create transparency in the Payments Industry Ecosystem. We work every day to insure that a level playing field exists for all organizations who accept payment cards. We work to reduce, control, and manage all of the cost components associated with the acceptance of payment cards.

Our client list ranges across all industries and sectors: both for-profit and non-profit, from Fortune 500 companies to regional and small businesses to professional sports team to small charitable organizations. We are recognized as the "The Premier Independent Expert" and currently own seven (7) US Patents around our analytical process for evaluating and controlling payment acceptance costs.

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largely regional EFTs to thrive. Shazam, which has more than 1,000 members in 32 states, is one of the few nonprofit networks left, which allows it to plow income back into investments in new technology and price reductions for its members. The Armed Forces Financial Network says its experience catering to customers who have to move frequently, often overseas where EMV is already in full effect, gives it an edge over other U.S.-based institutions. CU24 focuses its efforts on educating and offering services to credit unions, with CEO Mansel Guerry pointing to an interchange-fee schedule he says is competitive with that offered by Visa. Finally, Jeanie, owned by payment processor Vantiv, is working on EMV migration as well as mobile banking and payment technology and PIN-less debit payments.

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Check Usage Survey Reveals Key Behavioral Insight

Green Sheet (07/08/13)

Paper checks may be on the cusp of obsolescence in the United States, according to a WePay survey of more than 1,000 small business owners and 2,000 consumers. Fifty-eight percent of polled businesses said customers regularly want to pay with plastic, while consumers reported a 27 percent drop in check usage in the last three years. Many surveyed consumers also said they will only shop at businesses that offer multiple forms of payment, and both the 18- to 44-year-old demographic and the 45-and-older segment surpassed the 50 percent buy-in mark, suggesting consumer demand for noncheck payments may have reached a tipping point. The increase in demand implies a possible corresponding noncheck payment adoption trend, and NACHA says it is urging small businesses to eliminate paper check usage. The U.S. Federal Reserve also noted a precipitous decline in paper check usage in its 2010 triennial study, from 61 percent in 2000 to 26 percent in 2010. The central bank also has been gradually increasing paper check fees for banks while shrinking the number of its processing outlets. The en masse adoption of mobile commerce also is a factor in the diminishing relevance of paper checks to small businesses.

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Aggregate

Transaction World (07/13) Vol. 13, No. 7, P. 6 Osterman, Jim

Payment aggregation is spurring significant debate. Aggregation may enable small businesses to accept credit cards while charging only a flat transaction fee or percentage. However, although Equitable Payments' Darrah Brustein notes that it may make sense for some small merchants, "there's never going to be a one-stop solution for every single one." Many aggregators hold money from a sale for two to four weeks before it is sent to the merchant's account. Small merchants also may face chargebacks, putting their cashflow at risk because they lack the resources of a major retail entity. Aggregation companies typically market themselves actively to small businesses but lack service after the sale. This could include the absence of a toll-free customer service line, while some require clients to handle problems via email or might not offer anything. "Many providers still like to hide things in fine print because they feel like they'll scare a merchant away if they tell him everything, but that's the wrong kind of thinking," says Merchant Maverick's Amad Ebrahim. He urges merchants to turn to the Internet to access as much information as they can. Many experts forecast that in time, the market will evolve into a single solution as payments companies enhance their business models to provide small business the credit card acceptance ability they need.

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PCI: Impact on Mobile Commerce

BankInfoSecurity.com (07/05/13) Roman, Jeffrey

New payments technology presents security challenges and other obstacles for PCI Data Security Standard compliance, says PCI Security Standards Council European regional director Jeremy King. He characterizes card security as an afterthought despite exponential expansion in mobile commerce rollouts, and says the council is collaborating with expert groups to recognize suitable safeguards. Among the frequently cited vulnerabilities the PCI Council is addressing with community assistance are poor or weak passwords, and poorly installed and poorly integrated software, King says. He also observes an increase in retail and processor breaches orchestrated by organized criminal gangs. "Our theme this year is focusing on third-party processes, which gives you some indication that people are worried about the relationship between the merchants and the third-party provider, and are there weaknesses that the criminals are exploiting," King notes. Although he lauds EMV for strengthening face-to-face transactions and lowering face-to-face fraud, King stresses that addressing card-not-present fraud requires adopting and implementing PCI-DSS and fully embedding PCI-DSS and PA-DSS within payment systems. He also notes the United States and other global markets have payment card security challenges in common, with new technology representing the largest shared challenge.

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Amazon.com, 7-Eleven Sue Visa and MasterCard Over Fees

Bloomberg (06/26/13) Smythe, Christie; Van Voris, Bob

Amazon.com and 7-Eleven, along with nearly 30 other companies, have filed a lawsuit against Visa, MasterCard, and several major banks over card swipe fees. The lawsuit comes after the retailers and their fellow plaintiffs rejected a \$7.25 billion settlement of the long-running antitrust case brought by merchants over card interchange fees. More than 7,000 of the companies involved in the antitrust case have dropped out, deeming the settlement unacceptable and saying it leaves card issuers too much leeway to raise their rates in the future. Other retailers, including CVS Pharmacy and a coalition headed by Target and Macy's, also have filed their own lawsuits. In their complaint, Amazon and 7-Eleven accuse Visa and MasterCard of collusion and conducting a price-fixing scheme with interchange fees, charges both companies have long denied.

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Exploiting Prepaid and Alternative Currencies

Prepaid Press (07/13) Vol. 12, No. 6, P. 22 Hauben, Arlene

Criminals are exploiting prepaid cards' anonymity and versatility for illegal purposes. Sources say a new type of mobile card reader has been developed for use by U.S. Immigration and Customs Enforcement agents that could recognize the value on prepaid cards and allow law enforcement to get a court order to temporarily freeze and hold the funds if criminal activity is suspected. However, Visa objects to the readers, saying they "would ruin the customer experience." Meanwhile, last year a newspaper in Florida reported there were about 100,000 cases of tax refund fraud nationwide, including a case in which criminals hacked into accountants' files and identified senior citizens who were due refunds from the Treasury that had been loaded on prepaid cards and could not be traced,

according to officials. Hackers also can potentially gain unauthorized access to accounts at banks and then divert money to other bank accounts or prepaid debit cards opened by the operators in the names of the identity theft victims. At Chase, hackers gained unauthorized access to about 40 personal bank accounts and then attempted to steal some \$60,000 by transferring it to prepaid debit cards. Meanwhile, the Treasury Department recently moved to shut down Liberty Reserve, a payment processor that allegedly gave criminals a way to move money earned from fraudulent schemes, including credit card fraud.

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EMV Migration May Lead Customers to Switch From Cards to Mobile Payments, Study Finds

Bank Systems & Technology (06/19/13) Camhi, Jonathan

Consumers will migrate from payment cards to mobile payments following EMV deployment in the United States, predicted 49 percent of payment industry players polled at the recent ACI Americas Exchange conference. "It was...surprising, to see data that so strongly indicates a belief that consumers will move away from physical cards in lieu of mobile," says ACI Worldwide's Dan Heimann. Nineteen percent of respondents described growing use of mobile banking as the trend having the most profound effect on the banking and retail sectors in the next six to 12 months, versus 15 percent who cited adoption of uniform standards that would accelerate the U.S. EMV migration. Furthermore, 32 percent said the biggest obstacle to EMV migration would be implementing new hardware such as point of sale terminals and ATMs. Another 26 percent cited educating businesses and consumers and raising awareness about EMV as the biggest challenge, while 24 percent listed fulfilling compliance and liability shift deadlines. Just 10 percent of respondents anticipate mass adoption of mobile wallets in the next two years, compared to 35 percent who expect mobile banking to dominate, 27 percent favoring mobile payments, 14 percent for EMV chip-based cards, and 13 percent for online and mobile bill pay services.

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Supreme Court Sides With American Express on Arbitration

Washington Post (06/21/13) Barnes, Robert

The U.S. Supreme Court ruled 5 to 3 in favor of American Express that disputes be handled via individual arbitration, a blow for retailers arguing that the card company thwarted attempts to affordably pursue an antitrust complaint. The retailers objected to AmEx's requirement that they take all versions of the company's credit card, including those not requiring the entire balance to be paid each month. The plaintiffs say AmEx used its monopolization to force the merchants to accept the cards at rates roughly 30 percent higher than rival companies. However, the standard contract with AmEx mandates that disputes be handled through individual arbitration, and the merchants say such a course of action would be economically infeasible. An appeals court ruled that the only way the retailers could challenge antitrust actions was through a class-action suit, which the high court disallowed in its ruling. "The Supreme Court took another big step down the road of permitting companies to use arbitration agreements to entirely insulate themselves from class-action liability," says Vanderbilt University law professor Brian Fitzpatrick. In his majority opinion, Justice Antonin Scalia wrote, "the antitrust laws do not guarantee an affordable procedural path to the vindication of every claim."

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U.S. Banks Team Up to Improve Digital Payments Safety

Finextra (07/02/13)

The Clearing House is collaborating with its 22 member banks to develop an industry-wide dynamic credentialing system to make digital payments safer through a pilot program. "As an industry, we want to do what we can to ensure that privacy and fraud protection are built into all types of digital payments," says TCH chairman Richard Davis. The TCH pilot will test the open standard system to see if it can increase customer account information protections by reducing the amount of sensitive information, such as card numbers, stored across multiple retailers, virtual wallet providers, and others. The program will assess customers' ability to use their smartphones to make a transaction within a mobile wallet and at the point of sale, with the participant's account number replaced by the issuing bank with a randomly generated temporary number for processing the payment. TCH says this measure shields the account data behind bank firewalls and reduces the likelihood of digital payment fraud.

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Old Fraud Tricks Work Despite New Technology

ISO & Agent Weekly (06/26/13) Heun, David

The rise of new payment innovations such as smart cards, mobile payments, and cloud-based computing has not thwarted the effectiveness of tried-and-true fraud methods, with Mako Networks' Simon Gamble observing that malware that specifically targets payment terminals is spreading. The primary area of weakness remains superannuated, susceptible point of sale hardware, indicated by a lack of PCI compliance among many merchants. Gamble says many merchants think their systems adhere to PCI, yet only some system elements may actually be compliant. Aite Group analyst Julie Conroy says payment terminal security is so problematic that forensics teams will frequently unearth multiple pieces of malware in a merchant system. "These merchants are surfing the Web on the same computer they are using as a payment terminal, and that's when many of these malware attacks can occur," she notes. Consultant Bernie Pasierb says malware is a particularly thorny issue for smaller retailers, and remediation is often a case of changing passwords and maintaining the system properly. Meanwhile, consultant Susan Matt says the U.S. transition to the EMV chip-card standard does not excuse merchants from not staying in compliance with PCI rules. "It is still a matter of securely moving data, no matter who is handling it," she says.

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Brave New World of Payments

BankNews (06/13) Vol. 113, No. 6, P. 51 Scheibach, Michael

The Electronic Transactions Association's recent Annual Meeting & Expo showcased new payments trends, including expected exponential growth in the mobile point of sale market, the U.S. rollout of EMV technology, and the continued emphasis on security, writes BankNews executive editor Michael Scheibach. Financial institutions with small-business customers can leverage the EMV migration to offer branded EMV terminals to retailers, restaurants, and micro-businesses, bolstering their relationships and guaranteeing their role in future mobile POS payments. Credit, debit, and prepaid card-issuing banks have to supplant those cards with products enabled with EMV contact or contactless technology, but Scheibach says "rather than an added burden...this process

provides an opportunity to expand card services, particularly with EMV-enabled prepaid cards for the underbanked and unbanked." Banks that offer mobile banking services can exploit an opportunity to deploy new payments solutions and authentication protections integrated with their existing apps. Scheibach cites Mozido's mWallet as an especially innovative solution, as it enables consumers to connect mobile stored-value accounts to bank accounts, debit cards, credit cards, and prepaid cards. Mozido's David Luther also notes the company's Enterprise Cloud Payment Network offers banks the ability to brand their mobile solutions and to enhance the mWallet with custom services.

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