



INSIGHT

from the Payments Industry Expert

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BREAKING NEWS ON DURBIN AMENDMENT

On Wednesday morning, July 31st, a federal judge rejected the Dodd-Frank imposed Durbin Debit Card transaction fee rules. US District Judge Richard Leon, in a 55 page ruling, said that the Federal Reserve improperly established debit card fees and did not act appropriately and as Congress had desired when it passed the Durbin Amendment. He stated that the debit fees were inflated by billions of dollars and the rules failed to provide various network options for merchants to process debit card transactions. However, the current rules will remain in place pending new regulations.

The Durbin amendment had approved caps on fees on debit card transactions and went into effect on October 1, 2011. It had been attached, at the 11th hour, to the Dodd Frank Wall Street Reform and Consumer Protection Act. In November 2011, the National Retail Federation and other trade associations filed a lawsuit stating that merchants would be substantially harmed by the fees set by the Durbin Amendment.

It is apparent now that the Durbin Debit Fee rules, which were assumed to be settled law, are now in a state of flux.

Vizant will monitor this situation very carefully and continue to advise and consult with our Clients as events transpire.

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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

"Forum Calls for Single EMV Debit Code"
 "MasterCard Simplifies SMB Payment Acceptance"

Current Payments News

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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Consolidation of Mobile Payments Landscape Will Drive Uptake

eMarketer (07/25/13)

The mobile payments landscape is rapidly evolving but remains fragmented, according to "Mobile Payments: An Updated Forecast, Early Successes, and Visions for the Future," a new eMarketer report. Payment processors, tech firms, mobile carriers, banks, credit card companies, retailers, and startups all see a multibillion-dollar opportunity in mobile payments, the report notes. However, there are currently are relatively few users of mobile wallet technology. Half of U.S. smartphone owners are familiar with the concept, but only 16 percent of this group have used it within the past six months, according to a Chadwick Martin Bailey study. The opportunity to save money is driving the early adopters of mobile payments, notes a PricewaterhouseCoopers survey, but convenience is what will keep customers coming back and paying with their smartphones. PayPal has a large lead over the rest of the field in terms of consumer awareness and usage. "We think that the value of connected devices is that we're going to be able to bring the power of connected commerce to the physical realm; not necessarily the point of sale, but the entire store," says PayPal's Patrick Gauthier.

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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

with the acceptance and processing of payment cards. Our mission it to 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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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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Barriers Piggyback Payments Convergence

Green Sheet (07/24/13)

Accompanying the convergence of mobile technologies and electronic payments are difficulties such as data security vulnerabilities and slow consumer and retailer adoption. Although Network Merchants' Nicholas Cucci expects the mobile commerce market to total \$235.4 billion by year's end, market obstacles have made payment providers reluctant to roll out new solutions. He thinks fraudsters can exploit contactless in-store payments with inexpensive equipment, using methods as simple as passing cardholders to capture card data. Mopay is trying to address this weakness via a collaborative pilot project with Telefonica and Vodafone Group, in which mopay customers in the German market can make in-store, mobile-based transactions with just one tap from mobile devices, and create an anonymous authentication ID. A more understated barrier to broad m-commerce adoption is perceived economic issues by micro-merchants and small businesses that will eventually retard consumer adoption. MasterCard's solution is Simplify Commerce, which aims to supply a wrap-around payment acceptance scheme for smaller merchants that also offers easy integration and security.

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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,"

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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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Will Indictments Curb Card Fraud?

BankInfoSecurity.com (07/26/13) Kitten, Tracy

Federal authorities have announced indictments against four Russians and a Ukrainian for their roles in a seven-year cybertheft scheme that stole the information of 160 million payment cards and resulted in hundreds of millions of dollars in losses. The hackers face 35-year sentences and more than \$1 million in fines, but security experts remain uncertain whether the indictments will do anything to fight back the tide of digital payment card theft. Former FBI assistant director Shawn Henry believes the indictments will serve as a deterrent to other cybercriminals. However, Information Law Group co-founder David Navetta and Aite Group analyst Shirley Inscoe say criminals will remain undaunted. Navetta expects criminals to continue to seek out payment card information, especially that stored in the databases of payment processors such as those targeted by the recently indicted hackers. However, Navetta also notes that "increasingly, the focus has been on widespread, scalable, and automated attacks on the tens of thousands of smaller, less sophisticated merchants whose security is weak, who have common vulnerabilities, and who are viewed as easy targets." Navetta says the payment card community will have to come together to collectively address the issue of card theft.

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Complying With PCI Won't Guard All Data

ISO & Agent Weekly (07/25/13) Vol. 9, No. 27, P. 1 Reutzel, Bailey

Keeping merchant data secure has become a key responsibility for ISOs, says consultant Deana Rich. The data security standards of the payment card industry do not always protect sensitive non-payments data and important paper records as diligently. During the recent annual conference of the Midwest Acquirers Association, Pueblo Bank and Trust's Betsy Bohlen warned ISOs about the huge risk and liability when merchant data is made available. The easiest way to keep merchant data secure is to add physical security. Until all companies go paperless, they will need to take steps such as locking file cabinets, shredding documents, and making sure passwords are strong. "Look at the manual workarounds before you worry about the big expensive systems and builds," Rich says. Meanwhile, federal Lawmakers now are focusing on the issue of protecting consumers' personal information, adds attorney Holli Targan. Protecting personal information is a "very hot topic on the federal legislative level," says Targan, noting that the federal government defines merchants as consumers.

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If MFA Becomes Law, What Then?

Green Sheet (07/19/13)

The proposed Marketplace Fairness Act (MFA), which would require U.S. e-commerce retailers and others to gather sales tax data, is now working its way through Congress. The legislation, which passed the Senate in May, calls for

retailers with gross yearly revenues of more than \$1 million and that sell products and services in states where they do not have physical presences, to collect and remit state and local sales taxes in those states. The act therefore targets "remote sellers," such as e-commerce and businesses that engage in interstate commerce. If signed into law, MFA would create a new compliance obligation for businesses and would require online shopping cart providers to integrate new tax collection policies within the online checkout functionality of their software. "If I'm a merchant and I'm dealing with customers from 50 states, and let's say every state has on average 10 different tax zones, I could be dealing with up to 500 different tax zones," says USA ePay CEO Ben Goretsky. Avalara's Matthew Grattan estimates that depending on the "rooftop address" of a given transaction, there could be as many as six different taxing authorities that levy taxes on a transaction.

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Where Small Is Beautiful—And Risky

Digital Transactions (07/01/13) 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 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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The Biggest mPOS Surprises of 2013

Pymnts.com (07/25/13)

ROAM CEO Ken Paull says tablets and cloud-based payment solutions will become increasingly important this year. Paull finds it surprising that some of the major providers of hardware and software for mobile payments that he would expect to have already become substantial players in the mobile POS sector—such as Amazon, Apple, and Google—have yet to make a big impact in the United States. However, he believes it's "only a matter of time before each of these companies play a key role in this ecosystem in some way, shape, or form." According to Paull, a key missing ingredient is a significant effort to create value-added services surrounding the central core mobile payment apps. "Such value-added services were a natural progression in the countertop payment terminal space, and so I believe it's only a matter of time before the same evolution takes place in mobile payments," he says. Meanwhile, Paull notes the mainstream mobile wallet space is currently underdeveloped. He anticipates momentum for mobile POS to shift toward major enterprises in the coming months and years, as well as more integration with backroom functions. "Cloud-based solutions are

also very much on the horizon," Paull says. "They've been coming for a while and now everyone's jumping on the bandwagon."

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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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The POS: A Work in Progress

GSQ (07/13) Vol. 16, No. 2, P. 6 Green, Paul H.

The point of sale continues to be in a state of transition, largely driven by technological changes and innovations. The way merchants perceive and boost wallet share is being revolutionized by technologies stemming from the introduction of electronic authorization, while Verifone's Erik Vlught observes that wide mobile technology adoption is changing the fundamental consumer experience. He says the payments industry's focus has shifted from making faster, smaller, and cheaper devices to offering customers an improved shopping experience. RemoteDepositCapture.com CEO John Leekley agrees, noting that acquirers and their partners "need to leverage hardware and software solutions to create unique value for customers." Merchants cited omnichannel retailing and in-store, mobile POS as the two most important technology trends expected over the next five years, according to a RetailNext survey. Meanwhile, TechNavio found that the global market for POS hardware and software is expanding at a yearly rate of 7.84 percent, and consultant Paul Martaus says he sees a huge opportunity to promote EMV as a solution that can ease the hardship of PCI Data Security Standard compliance. On the other hand, Harbortouch envisions full-scale, fully integrated POS systems rather than terminals as the technology of the future. New technologies also could enable merchants and other businesses to meet the needs of underbanked and unbanked customers.

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Forum Calls for Single EMV Debit Code

ISO & Agent Weekly (07/11/13) Vol. 9, No. 25, P. 3

The EMV Migration Forum is recommending the use of a single common debit code for U.S. EMV debit transactions, and it says it will provide a detailed proposal to that effect later this summer. The approach would mean providing a single debit payment application identifier for use on all U.S. debit cards, which would represent each of the debit networks enabled on that particular card. Forum members say they came to this conclusion after considering the Durbin Amendment, which calls for merchants to have at least two debit networks to choose from for routing transactions. The Durbin Amendment mandate makes the United States the only country in the world using EMV smartcards with more than one debit network, thus necessitating the creation of a new coding scheme for debit cards. The forum members note their stance does not represent an endorsement of any one specific technology, and say the new code should work with all existing solutions. The Forum's call for a single debit code was endorsed by the Merchant Advisory Group, which has previously called the need for a single debit code essential.

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MasterCard Simplifies SMB Payment Acceptance

Pymnts.com (07/15/13)

MasterCard recently unveiled Simplify Commerce, its response to the open standards movement in payments. The product provides a suite of tools that small and medium-sized merchants can use to accept online payments. In an interview, MasterCard's Debbie Barta says the solution gives merchants the tools to accept electronic payments from any major payment brand, which he says can lead to additional revenue and a larger customer base. It also provides both a merchant account and a payment gateway in a single, secure package, thereby curbing a merchant's Payment Card Industry Data Security Standards compliance obligations. In addition, merchants and developers can leverage the MasterCard-provided application programming interfaces available in the company's sandbox, activate the merchant account, and start accepting payments. Accurate payments represent a high priority of Simplify Commerce clients, according to Barta, so having those funds available is critical to merchants' day-to-day operations and ensuring working capital available for business use. She notes the solution also enables merchants to know when their money will be available.

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