Vizant INSIGHT
from the Payments Industry Expert

Does the Company or Person Initiating a Payment Actually Understand the Costs Being Borne by the Payment Accepting Organization?

Susan places an online order with Amazon for $200.00 and proceeds to the shopping cart. There, she makes a choice from the three (3) payment cards she has stored with Amazon. Card 1 is a Chase VISA Debit Card linked to her checking account. Card 2 is an American Express branded Platinum card. Card 3 is a Capital One Rewards Master Card. What is the basis for Susan checking out with any one of the 3 cards?

Susan's decision is most definitely NOT based on what Amazon would like her to do. Amazon's preference is that she proceeds through the checkout and uses her Chase Debit Card. Why? The answer is simple to those in the industry, but not to the consumers who actually use payment cards.

Susan's choice may be based on a multitude of factors, including but not limited to, the following: 1) the cash balance in her checking account; 2) her vacation plans and the need for miles and/or points on her Capital One rewards card; 3) the interest rate on one of her credit cards; 4) the balance on her American Express Card; 5) the billing cycle on one of the credit cards, i.e. when will the payment be due; or 6) no preference at all. She may just use the card that automatically pops up as the last one used.

All of this begs the question: Do consumers ever consider the merchant's point of view when a payment card type is used to make a financial transaction? Or do they even know that the merchant bears a cost to accept their payment type? The sad truth is this: since there is very little consumer awareness, education or knowledge around payment cards and the merchant side of things, consumers do not care.

Consumers, like Susan, make a basic assumption: any company must factor in all of their operating costs, from salaries to marketing to rent to utilities to any and all costs and fees, into the price of their product. This is exactly why merchants are in an uproar over the ever increasing costs of payment acceptance. Not only have they failed to factor in the costs of payment card acceptance, they never could have planned on the expensive Consumer Rewards Cards, Commercial Cards and the problematic American Express Card.

How did this all come about? Many years ago, we were a mostly cash and check society. Then credit cards became very popular. Cash, checks, and the early years of payment card acceptance were not burdensome to most organizations. However, roll the clock forward, and we are now primarily a credit card, debit card, e-check and ACH payment society. The result: the cost to accept all types of financial payments has skyrocketed over the last 10 years.

If an organization wants to operate in a cost efficient and best practices payments environment, it must understand payments for what they truly are: a very large part of the cost to do business. They must evaluate, analyze and study their approach to payments. There is no singular solution. First, they must have a deep understanding of payment types, payment habits and payment channels. Second, they must truly understand the "total cost" to accept financial payments; third, companies need to

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About Vizant

Vizant is a thought leader, intellectual resource and innovator in the financial payments industry. As the nation's only independent specialty consultancy and advisory firm focused solely on serving those that accept financial payments, we provide our clients with an unprecedented level of advocacy, guidance, and leadership. Most know how to recoup and reduce their payment costs without impacting top line revenue. Fourth, they must know the preferences of their customers and, fifth, they must know how to manage, manipulate and migrate payment types and payment decisions.

Only a company that is a thought leader and true expert in all aspects of financial payments can truly navigate through the payments ecosystem. Vizant has been engaged by leading companies across the United States and in almost every industry and market sector to evaluate, consult, advise and implement solutions that result in companies attaining maximum cost efficiency in the area of financial payments. We are unique in the realm of professional services providers, as we provide our guidance and insight on a strictly "results based performance" business model.

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Vizant Technologies Launches Press Room

We are proud to announce the launch of Vizant's Press Room! Visit http://vizant.com/press-room/ to stay up to date on Vizant's new clients and happenings.

The Press Room will be home to Vizant's press releases, where readers can find the new client announcements and certain actions Vizant is taking in the industry. The client announcements will go into detail as to who just signed with Vizant, and how we will work with them to better their financial payments. Readers can find the Press Room under the Payments News tab on the Vizant website.

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Featured Articles

Payment Technologies Are Converging With Social Media

Payments technologies increasingly are intersecting with social media, with a recent example being the facilitation of payments by Twitter and Facebook in 2013. Last

importantly, we back it all up by implementing solutions that deliver financial rewards to our clients, all with a results based pricing model.

Our reputation as a payment card expert is well established, but our holistic approach to "all things payments" ensures that we assess all payment channels, payment types and payment methods. We perform a comprehensive and unbiased review of your organization's existing payment acceptance environment and provide specific and actionable solutions that will collectively result in the reduction of your costs to accept all kinds of financial payments.

We serve clients across all market and industry sectors, ranging in size from $5.0 million to $20.0 billion in payment transaction volume. The international client list we have built over the years includes B2B and B2C companies, professional sports teams, leading universities and distinguished not-for-profit institutions.

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year also saw social commerce making steady progress in the United States. For example, Loews Hotels and Resorts launched an option for travelers to book their stays directly through Twitter in November. Analysts envision that in the future there will be a seamless environment in which consumers also can facilitate transactions in addition to their regular social exchanges. However, this trend has to evolve further. "Apart from technology, consumer behavior is yet to accept social media as a pure transaction medium, the security risk perceptions are still very high," notes consultant Avishek Mukhopadhyay. "Things will change once the millennial generation comes of age and are old enough to do transactions. As of now there are no standard security protocols for performing social media transactions."

Mukhopadhyay is examining the areas of peer-to-peer payments, banking within social networks, personal finance management tools, and social commerce to characterize some of the trends in the payment/social media convergence space. "As of now, large-ticket transactions are still not happening through social media and peer-to-peer payments are happening in smaller amounts," he observes. "Usage of social media analytics in payment is almost nil." Smart Transactions Group's Peter Matthews says MasterCard and Visa currently have a firm grip on the payments industry because open payment systems demand ubiquity with both retailers and consumers able to use the system. He says the key challenge for social media is to set up a payment system that is designed for micro payments. "PayPal, MasterCard, and Visa are all too expensive, so I forecast someone will adopt sQuid or another closed e-money platform for a community-based payments solution," Matthews says.

Also requiring exploration is helping buyers by letting them know how their "friends" or "followers" on social media channels grade products, known as social proof. SeatID CEO Eran Savir says the social proof concept has demonstrated its viability in both day-to-day social interactions and e-commerce. "A rapidly increasing number of people share and socialize online as part of a cognitive process that helps them make up their minds in regard to what products to buy, which hotels to book, how to travel, etc.," he notes. Savir predicts the broad deployment of social proof in five years. "Business proprietors understand that it is to their definite advantage to encourage potential customers to bring social experience to their online purchasing processes," he says.

From "Evaluating How Payment Technologies Are Converging With Social Media"
Transaction World Magazine (02/14) Vol. 14, No. 2, P. 8 Gupta, Ritesh

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Open Loop Prepaid Payment Predictions for 2014

The open loop prepaid market will continue its transformation into two distinct business models this year. One model will have prepaid cards serve as portable bank accounts, offering a welter of additional financial services to longer-term customers, while in the other model cards will provide fundamental prepaid debit functionality for one-time use by anonymous consumers. Aite Group analysts predict continued growth in the general purpose, reloadable prepaid debit card market, driven by prepaid players offering open loop cards equipped with bank-like financial services. Plastyc CEO Patrice Peyret foresees the rollout of prepaid products with checking account-like functionality by both established players and upstarts, as well as traditional retail-based cards "that people buy and abandon after a few months." In addition, some companies will offer both types of products.

Prepaid providers have until recently held back on lending products, but their maturation is being fueled by diversification of both providers and their user bases. Traditional prepaid card providers will assess activation, reload, and monthly service fees, and consumers seeking a fast solution will continue paying them. Meanwhile, higher-end prepaid providers will cut as many fees as possible to differentiate themselves and compete for customers. However, both types of prepaid providers also will accelerate efforts to get consumers to use their cards at the point of sale as frequently as possible, because they want to reap profits from interchange fees.

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The bulk of prepaid debit is still driven by off-the-shelf retail cards, but recently the market has expanded into new channels running the gamut from government programs to employers using cards for payroll disbursement. This trend will be sustained in 2014 as an even wider variety of organizations, including healthcare and insurance providers, adopt prepaid. Although most analysts agree that mobile payments will start to catch on in 2014, Yankee Group analyst Jordan McKee cautions that prepaid will add no value to the mobile wallet until apps move beyond basic payments. Still, he predicts that mobile apps will become more deeply embedded within the overall "shopping journey."

From "Open Loop Predictions: A Tale of Two Business Models"
Prepaid Press (02/14) Little, Rivka Gewirtz

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Survey Says Firms Are Taking A Slow, But Steady, B2B Path

Online business-to-business (B2B) payments are steadily advancing on checks, as technology makes the new methods easier and less expensive to use, according to the Association of Financial Professionals' 2013 AFP Electronic Payments Survey. Checks still represent almost half of B2B payments, but in 2013 their rate of use dropped nearly 30 percentage points from 2004, when 81 percent of payments were made by check. However, businesses face several obstacles to implementation with online payment tools, and checks are now easier to convert into an electronic form, allowing them to remain useful. Still, experts say businesses that move forward with online B2B payment methods can increase growth, improve fraud control, and realize efficiency gains.

The B2B payments market is increasingly moving toward electronic operation and management, the AFP survey found. The electronic trend is particularly prominent among large companies with more than $1 billion in annual revenue, most of which now use checks for less than half of their B2B payments. Small and midsize enterprises still use paper for 60 percent of transactions. Even with checks, businesses are increasingly using electronic conversions, for example, check imaging to convert paper checks into automated clearinghouse debits. Still, 32 percent of financial-services professionals polled in the survey had problems persuading suppliers to accept e-payments, and 81 percent said customers were not interested in paying electronically. Integration and implementation also present challenges to online B2B payment methods.

In the future, online B2B payments are expected to continue gaining momentum. Over the next three years, survey respondents predict the percentage of companies using mobile imaging to accept payments will triple to about one-third. Furthermore, 47 percent of respondents were concerned that the continued popularity of checks in the United States could make businesses less globally competitive. Looking ahead, 99 percent of respondents hope that remittance information and payments will be sent together electronically. Today 74 percent of businesses send remittance data in a separate email. As electronic payments processes become more streamlined, analysts say adoption of the technology will grow.

From "AFP Survey: Firms Taking A Slow, But Steady, B2B Path"
Pymnts.com (01/13/14) Goode, Eileen

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Chip Card Fight May Lead to New Security Measures

The debate over secure card technology and who should bear the costs of consumer fraud has been rekindled by recent, massive data breaches, with an emphasis on chip-embedded debit and credit cards. "We have an escalating rate of fraud that is creating a business need to address [this] more aggressively than five or 10 years ago," says Smart Card Alliance executive director Randy Vanderhoof. Industry experts note the migration to EMV cards has been in development for years. Three years ago, Visa and MasterCard made similar announcements about who would be liable for fraud if the industry fails to adopt the new cards and terminals by October

2015. After that deadline, merchants who have not upgraded would incur fraud costs if their system is breached, while banks would be responsible if customers are still using magnetic stripe cards while retailers have upgraded their systems. Vanderhoof reports that so far there are between 10 million and 15 million EMV cards in the United States.

EMV-accepting payment terminals have been deployed by some major retailers, and Vanderhoof calculates that although about 10 percent of in-store payment systems have been upgraded to take chip cards, probably less than 1 percent have been activated to accept the cards. Small retailers may need more persuading to invest in new chip card terminals, given their cost. "They're not going to want to buy these machines if they're not convinced the banks are going to do the right thing," says National Retail Federation general counsel Mallory Duncan. He estimates that merchants will have to replace payment terminals at an average of about $1,000 per unit, noting "you're talking billions of dollars if you multiply that out." There is no obligation to deploy chip technology, which stokes the conflict between merchants and issuers. "We have to rely on the payment brands, financial institutions, and merchants to all come together and agree this is the best investment for everyone," Vanderhoof says.

Merchants are lobbying for the adoption of cards that both have a chip and require a PIN to authenticate payments. "We have to have authentication of the cardholder," Duncan stresses. "Chip does nothing about whether or not it's really you presenting that card." Visa and MasterCard control most signature-based transactions, while at least 10 networks are responsible for processing PIN transactions. "They don't want to use the PIN because using the PIN potentially subjects them to competition, and they don't know what competition will bring," Duncan says. Others contend assigning PINs to each customer will only add costs to an already costly process. Even widespread adoption of chip cards will not curb fraud, which compounds banks and retailers' skepticism. However, Duncan concedes that merchants will adopt EMV if customers start using chip cards more and more.

From "Chip Card Fight May Lead to New Security Measures"
USA Today (02/03/14) Malcolm, Hadley

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Current Payments News

Debit Card Uncertainty Could Delay EMV

Industry experts warn that the U.S. EMV migration could be held up by unaddressed debit card issues due to uncertainty from litigation surrounding the Durbin Amendment. Consultant Mansour Aaron Karimzadeh says issuers have no desire to produce and distribute debit cards without the finalization of rates and routing regulations, and their hesitation is compounding merchants' reluctance. Paragon Application Systems' Deborah Spidle says the finalization timeframe remains an unknown partly because of the court case over Durbin, and confusion among players concerning how the case impacts them is rife. “Meanwhile, you have these liability shift dates, and a lot of people are very confused because they don’t understand what they’re supposed to do,” Spidle points out. Bell ID's Todd Freyman says issuers do not want to opt for an EMV strategy and then have to alter it later to comply with the final rules, although he thinks the revisions will be minor, perhaps a small software configuration tweak. Smartcard Alliance executive director Randy Vanderhoof is confident the EMV transition is progressing, and he says this year the industry will address the issue of testing and certifying apps loaded onto EMV-outfitted terminals.

From "Uncertainty Could Delay EMV"
ISO & Agent Weekly (01/27/14) Whalen, Elizabeth

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Real-Time B2B Payments Supplant Traditional Letters of Credit

Real-time business-to-business (B2B) payment systems offer cost and efficiency advantages that might soon help them overtake traditional letters of credit. Although letters of credit are necessary for many businesses to operate, they can be costly, particularly for those with large annual transaction values. Small and midsize firms are often unable even to obtain letters of credit. In addition, letters of credit raise fraud concerns, especially internationally. Cloud-based B2B payment systems work differently from traditional letters of credit, with funds kept in a bank and transaction data stored in a separate data center. Funds can be sent out on demand so that users do not tie up working capital to secure transactions. B2B payment systems also typically offer lower fees than banks, sometimes less than one percent. In addition, real-time payment systems can be tailored to send documents and invoicing data for a client's specific needs along with payments. B2B payment systems also can be integrated with enterprise resource planning systems to enable communication between buyers and sellers. Finally, B2B payment systems are fast and always available, whereas traditional letters of credit can force payees to wait more than five business days to access funds.

From "Could Real-Time B2B Payments Supplant Traditional Letters of Credit?"
Pymnts.com (01/27/14) Goode, Eileen

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3 Ways U.S. Payment Technology Could Change in the Future

The U.S. lags behind other countries in terms of deploying advanced payment technologies that offer greater security. For example, chip-embedded cards that make counterfeiting or copying tougher are common in Britain and Canada, and Target CEO Greg Steinhafel is urging U.S. banks and stores to embrace such technology. Meanwhile, mobile payments have taken off in India, Kenya, and Japan, and Gartner projects $235.4 billion in global m-commerce payments in 2013. Aite Group analyst Rick Oglesby anticipates U.S. merchants implementing an even stronger mobile payment system in coming years, while consultant John P. Pironti expects momentum for contactless mobile payments to build. Experts think these systems could offer better security by enabling banks to pinpoint users' whereabouts. In addition, biometric payment technology in South Africa, which uses fingerprints and voices analyzed by computer for authentication, could be a sign of things to come in U.S. payments. Oglesby says the increased use of biometric identification by mobile phones will lead to the integration of such technologies within mobile payment systems.

From "3 Ways U.S. Payment Tech Is Behind the Times"
MarketWatch (01/28/14) Hill, Catey

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Report Says Many Card Issuers Lacking in Security

Many major bank and retail card issuers are suffering from significant security lapses, according to a new study by Javelin Strategy and Research. In terms of overall security, the average score for the approximately 30 banks, retailers, and credit unions Javelin surveyed was 55 percent. Javelin analyst Al Pascual says just 17 percent of all polled issuers offered EMV cards, while only 4 percent of institutions required personal information besides Social Security numbers for account authorization. Javelin estimates card fraud impacted 7.5 million Americans in 2012, amounting to nearly $8 billion in losses. The study suggests that more banks need to alert customers when a card-not-present transaction occurs in an account, in view of the growth of CNP fraud. Pascual says less than a third of the surveyed banks currently offer such notification, while the three reviewed retailers "didn't have authentication, overall, that was up to snuff with general purpose cards." Banks that earned positive scores in fraud detection offered round-the-clock account suspension following a fraud incident, promoted zero liability for fraudulent transactions, and offered identity fraud resolution assistance to cardholders.

From "Many Card Issuers Found Lacking in Security: Report"

PaymentsSource (01/23/14) Heun, David

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Apple Pushes Deeper Into Mobile Payments

Apple is tapping its expanding base of iPhone and iPad users and the many credit cards on file through its iTunes stores to lay the groundwork for a mobile payments service for physical goods. "We believe a revolutionary payments solution is now a very real opportunity that [Apple] could choose to pursue," notes Apple stakeholder Carl Icahn. With a mobile service, Apple would enter a competitive but rapidly growing market for providing consumer payments via mobile devices. Forrester Research estimates that U.S. shoppers will spend $90 billion through mobile payments by 2017. Apple enables shoppers to pay for certain items in its retail outlets by scanning them and paying with an iTunes-linked credit card, and it has rolled out new technologies that could permit iPhone-based payments. But payment for physical goods and services is currently barred by Apple, so users still have to manually enter credit card details. Forrester analyst Denee Carrington describes Apple as a "sleeping giant" of the payments world. "They have the capability; they just haven't tied it all together," she observes. Apple could potentially offer iPhone users an option to automatically fill in credit card data based on an iTunes-registered card.

From "Apple Pushes Deeper Into Mobile Payments"
Wall Street Journal (01/24/14) MacMillan, Douglas; Wakabayashi, Daisuke

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