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Transaction News

Happy New Year! Predictions 2015!

Included in this edition:

- Predictions!
- Predictions!
- More Predictions!

It is our pleasure to present the Predictions 2015 issue of Transaction News. We are proud that we had nearly 30 different service providers submit predictions for this edition. That's a new record for us.

The submissions run the gamut from the quick, or not so quick, demise of paper based processing transactions. It all depends on who you ask! We have contributions on fraud, electronic statement presentment and

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Predictions 2015 Participants

3 Point Alliance	Billing Tree
Compass Plus	IMM
Chargebacks911	nCino
TransCentra	CSI
Transactis	Malauzai
Bluepoint Solutions	CheckAlt
Beyond the Arc	The Payments Authority
ProfitStars	ESRA
Ion	EFTA
Source Technologies	Prairie Cloudware
Yantra	D3 Banking
Entersekt	Panini
eConsumerServices	INETCO

Year-End Payments Industry Predictions for 2015: Optimism and Transformation

Whether you're a corporate treasurer or CFO, it's to your advantage to begin 2015 with a sense of what will help or hinder your payments business as we head into the New Year.

We offer an optimistic look into the future with news of a resurging U.S. economy after nearly a decade of post-banking crisis sluggish growth. The Association of Financial Professionals (AFP) recently reported expectations for 2015 based on its AFP Business Outlook Survey that, "the U.S. economy will grow by a median of 2.7 percent, slightly faster than 2014." According to the same AFP study, "Treasurers and CFOs are bullish on the American economy in 2015, with the largest percentage [surveyed] predicting improvement since 2005."

So how will treasurers and other finance executives shift their approach, if at all, toward managing payments in 2015?

3 Point Alliance believes a lot of 2014 trends—such as outsourcing and increased spending on cybersecurity—will continue into 2015.

We highlight our five top 2015 payments processing industry trends here:

Cash Management
Achieving balance sheet efficiencies in 2015 will be both critical and challenging for companies due to potential threats to growth, namely rising healthcare costs, increased corporate borrowing costs and additional anticipated federal regulation.

To maintain positive cash-flow, corporate treasurers should consider:

- More effective cash management/forecasting: Do you truly know the risk of collecting invoices due?
- Efficient collections: Can you convert receivables into cash quickly? Do you have an automated receivables solution in place with invoice matching capabilities for faster posting with fewer errors?
- Streamline operational costs due to redundant or legacy payments systems
- Reduce manual processing steps via an integrated receivables hub
- Take an individualized approach to determining working capital objectives; consult with a trusted payment provider on future payment strategies that will optimize cash.

Outsourcing
Companies continued to seek third-party payment processing providers to handle their internal remittance and check processing function because of declining check volumes, the high cost of maintaining aging equipment, outdated software, and increased compliance-related expenditures to name a few. This trend will continue in 2015.

Although strategic options surrounding outsourcing remittance processing–in whole or in part—will vary considerably, billers and banks alike will continue to evaluate outsourcing payments due to known overriding benefits such as:

- Achieving economies of scale resulting in lower operational and overhead costs
- Ability to leverage streamlined payments systems which reduces cost-per-item
- Ability to rely on 'best practice' compliance and risk advice.

Payments Transformation

The Target security breach of 2013 combined with the introduction of ApplePay™ is transforming the payments landscape more quickly than many predicted going into 2014.

One, the industry is preparing for the introduction of the EMV standard chip and PIN cards in 2015 in response to the Target and string of other 2013 credit and debit card security breaches.

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"Eighty-six percent of financial institutions say they plan to begin issuing the new [EMV] cards in the next two years," according to the 2014 Debit Issuer Study, commissioned by PULSE.

Two, the introduction of ApplePay™ mobile payments earlier this year is stimulating more growth in contactless payments.

In addition to regulatory burdens, banks will be under increasing pressure to remain profitable in a shrinking payments environment which means they will have to look at other ways to generate revenues and will inevitably seek to white label many of their payment processes.

Compliance and Risk Management

More government regulations are expected in consumer protection (auto loans, mortgages, and prepaid cards), risk governance (for banks from The Fed), and internal security controls. Strengthening compliance will require companies to focus on improving specific processes that will keep companies up-to-date on current and pending regulations impacting the payments function.

To do so companies may want to:

- Re-align internal resources to cover the costs of these functions while staying focused on core competencies and being profitable
- Recruit additional specialized risk and compliance talent to improve risk management
- Source third-party providers who can spearhead this function and co-ordinate this service with internal staff.

Accelerated Investment in Cybersecurity Services

Since 2013, credit card security and data breaches have sadly become almost commonplace. And while evidence suggests that consumers have taken

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these events in stride, credit card issuers, merchants, banks and other industry stakeholders are still grappling with how to combat cyber-attacks.

According to an August, 2014 Gartner report, "Worldwide spending on information security will reach $71.1 billion in 2014, an increase of 7.9 percent over 2013, with the data loss prevention segment recording the fastest growth at 18.9 percent, according to the latest forecast from Gartner, Inc. Total information security spending will grow a further 8.2 percent in 2015 to reach $76.9 billion."

Other key 2015 trends surrounding cybersecurity include:

- The pace of investment in cybersecurity will accelerate and companies with best-in-class security will be more competitive; hackers will prey on companies that are the least protected.
- More regulations around securing customer data are expected from the federal government. Non-compliance increases the likelihood of monetary fines or penalties.
- Greater investment and focus on data management and analytics could stanch regulatory pressure as all payment-related data would be more secure, easier to access and provide robust customer details which taken together would satisfy regulators.
- Gartner's 2014 published forecast also included assumptions related to cyber security such as how security services would be delivered. According to Gartner, "By 2015, roughly 10% of overall IT security enterprise product capabilities will be delivered by the cloud."

- In addition to beefing up cloud capabilities, securing data across platforms, i.e. mobile, social and other information networks will become more important from now through 2016.
- Better, more sophisticated data management provides insight into consumer payment behaviors and preferences which can influence marketing strategies and potentially generate revenue.
- As beefing up security infrastructure, consider attracting specialized IT talent to enhance existing staff.

As the economy improves, companies may naturally want to take a deep breath after all of the dislocation caused by the 2008 banking crisis but challenges remain.

The payments function will be impacted by the need to bolster compliance efforts and data security while effectively managing cash within the context of an evolving payments environment. Despite these challenges, it looks like 2015 will be a profitable year.

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3 POINT ALLIANCE

Four for the Future – Collecting and Processing in 2015

Dave Yohe, Head of Corporate Marketing at Billing-Tree, one of the nation's leading providers of payment processing solutions, previews four trends that will affect the payment industry in 2015.

1. Payments really are going mobile

In North America the number of mobile transactions has almost doubled since 2013 to 17% of all transactions – one million people signed up for Apple Pay in the first 72 hours after its October launch! Google Wallet, which has been in the market place since 2012, has also come to the forefront of consumer thinking. Payment processors and collectors must incorporate mobile payment options for an increasingly mobile customer base in 2015.

2. EMV is coming

In October 2015 the liability shift of Europay, MasterCard and Visa (EMV) will take place in the US. Any company which processes card payments is required to offer a chip-and-PIN payment system – or risks being liable for counterfeit fraud. Europe rolled out EMV in 2004, switching liability to merchants in January 2005. 10 years later the US is using the same approach to convince merchants to leave magnetic swipe behind. Compliance remains a strict requirement for merchants switching to EMV and PCI DSS will continue to be an important consideration after making the move to the new payment method.

3. Tokenization – the combat fraud king

Visa CEO Charles Scharf recently told attendees at the Bank of America Merrill Lynch 2014 Banking & Financial Services Conference that tokenization is "the single biggest change that's been made in payment networks easily over the past 15 or 20 years."

With the emergence of new payment options such as EMV and mobile there will be fresh concerns about fraud prevention, but tokenization is the combat fraud king, covering a range of payment channels targeted by fraudsters – card present, card not present and mobile. 2015 will see big players like Visa and MasterCard pushing their tokenization services to payment processors of all sizes – incorporating a range of emerging payment methods.

4. Goodbye Passwords, Hello Biometrics?

Iris scanners and fingerprint readers seem more suited to espionage movies than the payment processing industry but if Visa and MasterCard have their way, both could soon become commonplace. These innovative technologies are known as biometrics. Plans are in place for current online authentication systems such as MasterCard SecureCode and Verified by Visa to possibly be phased out in the near future.

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2015 Will Be a Year of Choice

Whilst popular industry predictions tend to be around the death of one payment channel and the proliferation of another, these have yet to come into fruition and look unlikely to do so in the near future. Public announcements around payment trends in the industry are often built on hype: what we need in 2015 is a heavy dose of realism in order to accurately assess the marketplace and support actual consumer requirements versus our own inflated industry predictions. Sensationalist news announcements aren't addressing industry problems, speeding up the adoption of new technologies or driving new payment behaviors; instead in 2015 financial institutions need to focus on what will.

Payments technology has evolved to offer the consumer a greater amount of choice whereby one or multiple channels can be used to perform a transaction. In this omni-channel world it is not uncommon for the average shopper to use the Internet at home to research product prices, their mobile the following day to read reviews, then actually still shop in store, having taken cash out via an ATM in-branch. This is just one example to demonstrate how many channels can be used in a single purchase decision; of course some consumers would prefer to pay by card, others might prefer to shop online from the comfort of their sofa. The key word here is "prefer." Whilst we can offer incentives to drive consumer behavior, how they transact is ultimately their choice.

In 2015, cash and card transactions will therefore decline in relation to the growth in popularity of alternative payment types, however this will balance out. A single mainstream payments channel is unlikely to emerge again regardless of the predictions around the mobile device being king. Instead, the decision of how to pay will come from the individual consumer, based on culture, convenience and trust.

With this choice-oriented, consumer-driven payments landscape already set in motion, the Compass Plus predictions from last year still stand. In 2015, financial institutions will continue to shift away from legacy systems and siloed products towards a more integrated and flexible technology infrastructure. High publicity security breaches and system failures only hinder the adoption of different payment types and damage trust. In this highly competitive environment, financial institutions can't afford to lose customer loyalty and as such, bottlenecks caused by a lack of system agility need to be addressed to avoid these situations in 2015.

In a nutshell, whilst the payments industry is more fast-paced that it has ever been, change will continue to be incremental: as the mobile slowly moves mainstream, other channels will still prevail. In 2015, financial institutions should concentrate on being able to support this environment of continued change by killing off legacy systems and investing in their future.

COMPASS PLUS

Mutually Satisfying Efficiency, Compliance & Service: Finally the Rule, Not the Exception

There currently seems to be a lot of buzz surrounding what's next with mobile and how to fight new and ongoing security concerns, but I do see 2015 being a year of proactive efforts by financial institutions to deploy technologies that help them better secure documents and track key transaction processes – while enhancing compliance initiatives.

Electronic documents have been available for years, yet the idea of electronically routing them between departments or across branches is a much newer reality. Automated workflows allow financial institutions to raise the standard in how they track and oversee document deadlines and status.

Recording who touches each document session and what action was taken throughout the lifecycle of a transaction provides detailed audit trails that can be stored and used to clearly understand what took place in a transaction. All of this is done without human intervention, reducing errors. And, there emerges a new level of accountability in the timely completion of tasks – not just to satisfy acceptable transaction timetables, but also to establish internal parameters for efficiency.

Institutions adding higher percentages of real estate loans to their balance sheet should pay attention to another aspect of electronic documents. The need to securitize, collateralize or sell those electronic assets on the secondary market means loan portfolio purchasers will require an authoritative electronic copy of those assets. eVaulting creates an authoritative copy, which clearly shows the chain of custody control that allows for secure record ownership when transferring ownership or rights to an original electronic document asset. Once created, subsequent marked "copies" of the electronic original can be stored in other systems, such as imaging or enterprise content management systems without confusing the original copy's authenticity. This facilitates improved an electronic process with security while ensuring they retain full accessibility and control of their documents and contracts.

Financial institutions want the efficiencies that go hand in hand with a fully automated electronic process. I feel strongly that the technology and its associated acceptance have arrived, also enabling more mobile, self-service eSignature channels as well as electronic mortgage originations. Next year these technologies will be needed by banks and credit unions to stay competitive in the financial arena. It will be an exciting year where change to meet consumers' needs becomes the rule and not the exception.

By John Levy, Executive Vice President
IMM

IMM
The eSignature Company

New Channels Mean New Avenues for Friendly Fraud

While predictions were being made for the 2014 year in payment processing, the main prophecy included new innovations changing the way consumers make transactions. To say 2014 was the year of change in payment processing is an understatement; this is the year that yielded Apple Pay, Snapcash, and mobile transactions as a norm for consumers. These solutions were game changers for the industry, and 2015 is slated to continue this expansion of digital technology in payment processing as consumers become more comfortable with mobile transactions.

What some may not consider is the fact that fraud levels have encompassed the statistics of years past; these new channels of transaction present new methods for fraud.

Friendly Fraud is a type of fraud where the consumer makes an ecommerce purchase but then claims to the bank that it was not their authorized purchase, therefore accepting a chargeback and receiving a refund by the bank. It's a form of online shoplifting, and it can leave the merchant out of luck as consumers are given the benefit of the doubt. This circulation has become a habit for consumers and has grown 41 percent over the past two years, specifically targeting online merchants who are providing their services to them.

Although many think that the opened channels will decrease fraud, really it will surpass fraud statistics previously recorded. Fraud is an undeniable factor of online transactions, pitting the merchant and consumer against each other. A level of trust is being eroded with the increase in fraud.

In 2014, mobile transactions became a normal occurrence for consumers, according to CardNotPresent.com, and 37 percent of online purchases in the UK in 2014 originated on a mobile device.

In 2015, fraud will reach new heights as transactions begin to involve themselves in new mediums. Friendly fraud will double in percentage along with an increased amount of cardholders assuming a chargeback renders no harm to a merchant; consumer education must be implemented in order to solve these growing problems. The lack of awareness about consequences rendered after a chargeback is the first step to alleviating this problem.

Fraud contributes to half of the online chargebacks acquired by merchants. Merchants must then fight to remain neutral in order to not be blacklisted by other audiences. Merchants must understand the conditions of fraud and how ceasing to fight back can diminish their business and profits. The odds are stacked against merchants as consumers face very little oversight in initiating chargebacks with "zero liability" in credit offers. The fact that so few consumers are reaching out to merchants first is a problem that we expect to continue, opening the door for dishonesty.

Monica Eaton-Cardone
COO, Chargebacks911

CHARGEBACKS911
FROM DEFENSE TO OFFENSE

2015: The Year of "Banking on Demand"

In 2015, we will see significant changes in how the financial institution branch operates, and the "banker on demand" concept will emerge. The physical bank branch, increasingly obsolete, will continue to be replaced by apps as well as by various online banking engagements. Without developing a vision in line with the reality of banking's changing landscape and available disruptive technologies, institutions themselves will lose their competitive flavor and become obsolete themselves.

Doctors made house calls and the milkman delivered to our doorsteps for years until they were replaced by lower cost models of distribution. Incorporating "banking on demand" is today's lower cost distribution that recreates the personalized relationship in a modern way. Banks' relationships with businesses are invaluable. Rather than interact solely in the branch, financial institutions will fully embrace the mobile transaction concept in 2015. They will enable visitation at customers' business or home, provide a mobile app to see bankers in their area or request an appointment. The customer experience will be untethered and on call.

Ultimately, the financial institutions that will succeed in 2015 will be those who are forward-looking, leveraging technology innovation and embracing shifts in consumer behavior. Having a retail strategy in place that maximizes electronic interaction and transparency across the omnichannel will ensure millennials—who are tomorrow's customers—want to bank with an institution. Institutions that embrace the digital change and use it to mobilize a customer-first culture will experience a real competitive advantage. Those that operate upon secure cloud-based platforms free bank employees and leaders to engage customers and prospects in the field, blurring the lines of geographic access and availability beyond the brick and mortar branch.

By Pierre Naude, CEO
nCino

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Return on Insight

Single Platform Solutions for Lockbox and Remote Deposit Capture Will Prevail

In 2015, banks will increasingly move away from using separate platforms or services for lockbox and remote deposit capture in favor of a more efficient, consolidated single platform. Banks have already started to identify this opportunity, understanding that over time separate platforms are proving both more costly and hindering growth objectives. This can be attributed to the steady need for lockbox services and, at the same time, the growing value of RDC, which enables banks' corporate customers to clear checks, reduce costs and consolidate their banking relationships. It is also becoming clear to both banks and their corporate customers that checks received in their lockboxes and checks received in customers' offices (then imaged via RDC) should be managed for deposit and reporting in the same fashion. When it comes to retail or business banking, bank customers now wish to transact outside of the branch at a time and place convenient for them, and the combination of lockbox and RDC helps make that possible.

Banks will also continue their focus on the management of new and emerging electronic payment channels in 2015. The financial industry at large has addressed the introduction of new electronic methods for consumers and companies to receive bills and make payments in a somewhat piece-meal fashion. During 2015, banks will renew their focus on finding more advanced data consolidation technology to better support the merging of billing and payment channels. In addition to becoming a source of new revenue for the banks and an area of expense reduction for corporates, the standardization of transactions will enhance efficiencies across the entire payment lifecycle.

Additionally, with revenue growth in most bank treasury management units remaining low, generally in single digit figures, banks with significant growth goals will work in 2015 to identify their next big product offering, similar to what the purchasing card has meant to revenue growth for the past few years. Many will employ professionals with both the skills to discern what those critical product extensions will be and have the ability to either launch entirely new products or acquire promising technology from smaller firms to be the nucleus of the bank's new offering.

TransCentra

One-Time Tokenization Will Open the Door for Full Integration Between Digital Wallets, Cards

Toward the end of 2014, two trends in payments emerged that will intersect in the coming year, providing financial institutions the flexibility to offer more mobile payments options as well as help businesses and consumers complete more secure card transactions.

The first trend is the upcoming liability shift for EMV cards. The infrastructure requirements needed to incorporate chip-and-pin cards involves upgrading the entire payments infrastructure to handle dynamic data authentication, new authentication methods and the means for transmitting credentials. This new infrastructure also gives rise to incorporating tokenization into the environment that replaces a card holder's account information and payment credentials with one-time transaction proxies.

The second trend is the rise of digital wallets, which gained a ton of momentum with the launch of Apple Pay. The security requirements for Apple Pay and other digital wallets also demand that payments processors support tokenization.

While EMV is taking longer than many experts had hoped, the infrastructure required to create a tokenization of account information also will open the door to more possibilities with digital wallets. Currently, most systems create a static token; the long-term goal is to create one-time use token.

For regulated financial institutions, the fee potential is tremendous due to exceptions in the Durbin Rule, which provide interchange exceptions for one-time use tokens. Financial institutions could have more flexibility with interchange rates.

Other uses of digital wallets are the ability to turn any mobile device with the proper NFC capabilities into a “card present” reader. This would open up the ability for small businesses to use tablets as full card readers with the security capabilities of EMV terminals without needing an additional dongle. Additionally, the ability to conduct a peer-to-peer payment between digital wallets will be possible.

In the end, the lines between cards and digital wallets will continue to blur. Consumers will want to use any method that is simple, secure and widely accepted. Tokenization will speed up the process in which digital and physical wallets begin to merge.

Derrick Bretz is director of product management for CSI Payment Services, a role in which he leads strategic product development and quality improvement initiatives. Derrick's work enhances payment and commerce experiences and customer education through the use of data analytics.

Demand, Experience, and Mobility: The Trifecta for Biller Direct Growth in 2015

2015 will be the year that market forces align to push biller direct EBPP into an unquestioned position as THE choice for consumer bill payment. For a number of years, biller direct has been growing faster than bank bill pay, however third party aggregators were all the rage in 2013. Like many, I thought that they were really on to something, but by mid-2014 … no more. Manilla, Zumbox, Volly, Doxo had a short but valuable impact. They demonstrated that convenience and control are critical to the consumer payment experience and adoption. They also exemplified how hard it is to get consumers to a bill payment site in numbers significant enough for billers to share their content. Biller direct EBPP does not have that problem; virtually all billers have their bills available in an electronic format, and the # 1 reason why customers go to a company's web site is to pay a bill. So what happens in 2015 … the trifecta for biller direct growth and customer satisfaction!

First – Demand … In 2015, healthcare and insurance will see the biggest market growth. There are a few reasons why this industry will lead the pack. First, the Affordable Care Act has increased the number of customers in this industry. Insurance companies have seen their customer count increase as more people have access to affordable policies and are required to have coverage. Growth in the number of insured people has also led to an increase in the number of patients healthcare providers are now treating. Both providers and insurance companies have more customers, and therefore have more bills and payments to manage. Their customers want to easily manage their bills and make payments easily. Both of these factors will increase business demand for the efficiency of biller direct solutions.

Second – Experience. Another factor in the growth of biller direct solutions will be the improvements in user interface and experience. It has become increasingly important for customers to stay technologically up to date. They are more comfortable with modern interfaces and have more trust for these newer UIs. Additionally, customers want to use a system that is intuitive and easy to navigate so they can quickly manage bills and make payments. If the user interface is outdated and the experience proves to be difficult, customers will not use the system. Knowing this, billers will demand improved UIs and Uxs, and technology providers will make these enhancements. Upgrades to Biller direct solutions will make it better and easier for customers to manage their bills, which will ultimately lead to the demand for businesses to offer these improved solutions.

Third – Mobility. The final factor in biller direct growth in 2015 will be the growing demand for mobile payment channels. It is not surprise that customers love their smartphones. They can do almost anything on them, which has led to an increase in expectations to make payments via apps and mobile responsive websites. The natural progression of the biller direct model is leading to technology providers offering a mobile element to their solutions so billers can offer customers another payment option that fits their lifestyles. As more biller direct solutions offer mobile payment methods, more customers will use these systems, contributing to the growth of biller direct. This conversation is incomplete without the discussion of ApplePay. What does ApplePay have to do with biller direct bill payment? In 2015, the advertising and promotional investment that Apple and its partners will make in ApplePay is enormous and will be valuable for EBPP in terms of driving consumer awareness and adoption of all mobile payments (POS and bill pay). The difference between POS bill payments and EBPP is the dimension of time - view receipt and pay now, or wait for the bill and pay later! More on this when we make predictions for 2016.

2015 is shaping up to be an exciting year for EBPP and the Biller Direct model. We at Transactis are thrilled to be leading the industry as we continuously develop and upgrade our solutions to meet the ever changing and diversifying needs of business in all industries and the customers they serve.

By Rick Fiorito, Chief Revenue Officer
Transactis

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Mobile Banking Trends in 2015: Expanding Functionality

2014 has been a year of growth and change for mobile banking and 2015 will prove to be just as exciting for the mobile channel. There are many changes afoot, from the move towards stronger mobile growth to the inevitable emergence of e-wallet solutions. Additionally, a push towards greater leveraging of the mobile camera will come into play. 2015 will prove to be the year of substantial innovation related in mobile banking.

Mobile banking has been growing rapidly over the past year. A typical bank or credit union can see organic growth in active-users of between 3 percent and 5 percent per month. That pace will continue in 2015. The Internet banking channel is seeing anemic growth at best, and in some cases is contracting in overall usage.

Mobile banking is also becoming more functional as it now mirrors the functionality of Internet banking in many cases. At the current rate of growth in mobile and contraction in Internet, some financial institutions are going to pass the “magic-marker” in 2015, which means more of their customers and members will be using the mobile channel than the legacy Internet banking channel. The best-in-class financial institutions already see 25 to 30 percent of their mobile banking end-users as mobile-only - account holders that have stopped using Internet banking and rely solely on mobile. We will also see an emergence of a mobile experience on the desktop as more banks and credit unions decide to revamp their somewhat dated Internet banking solutions with a user interface that more closely matches the easier-to-use mobile experience of a smartphone or tablet.

With the launch of Apple Pay, e-wallets are becoming a reality. In 2015, we will see many banks and credit unions allow their cards to be used within Apple Pay. The process of joining the Apple Pay ecosystem can take some time, but 2015 will see many financial institutions complete this process. While the merchant network for Apple Pay is still not large and not a ton of consumers have the right Apple devices, this ecosystem will expand. Apple Pays growth will allow other efforts in e-wallets to proliferate. MCX and industry-specific solutions such as CU Wallet will also gain traction. The ultimate goal of having an e-wallet embedded inside a mobile banking app may be a ways off, but financial institutions can now start down the road to owning a piece of this space. It will be critical in 2015 for banks and credit unions to have a very clear strategy on how to stake out a piece of the e-wallet landscape.

The mobile camera will also be prominent in 2015. Already the killer-feature in mobile, the camera is quickly gaining popularity, as remote check capture is used on average 25 percent by active mobile end-users for deposits each month. Adding to this will be streamlined new account opening, where consumers and businesses will take pictures of their driver’s licenses and other primary IDs to open new deposit and lending accounts, dramatically reshaping the onboarding process. Imagine opening an account in under 10 minutes and you start to get the idea of what is coming. And PicturePay, where you take pictures of bills to make payments, is another great example of how the mobile camera can dramatically change a process, in this case bill payments. By leveraging the camera, PicturePay removes the single biggest barrier to bill pay usage - setting up billers, or what the industry calls payees. These examples highlight how powerful a mobile device will become and how important the camera can be to mobile growth.

It is going to be an exciting year in mobile banking. In 2015, financial institutions are going to leverage the channel in unprecedented ways.

By Robb Gaynor, Chief Product Officer
Malauzai

Is Your Institution Ready for the Revolution in the Payments World?

Bluepoint Solutions' CMO Andrew Tilbury shares the results of his latest research with a discussion of the key challenges facing financial institutions today. Drawing on data from multiple sources, he discusses the potential defenses for banks and credit unions against new competitors entering payments and banking.

Q: What do you think the biggest challenge will be for banks and credit unions in 2015?

Tilbury: The banking industry is in the midst of a revolution that threatens the future of traditional financial institutions. This threat does not come from the usual competitors – namely, other banks; it comes from new categories of firms that have historically stayed out of the payments and banking industries, but are now using recent technology innovations and shifting consumer preferences to challenge traditional players in their core lines of business.

At the heart of this challenge sits the Millennial generation, demanding the delivery of banking services in novel ways. The war to win the Millennials is in full swing, but many financial services executives are unaware how much it has progressed and aren't sure how to compete, let alone how to win.

Q: If this competition is coming from outside the industry, where is it originating?

Tilbury: Technology, Retail, and Telecom firms are all entering the banking and payments world with innovative products, respected brands, and massive customer bases. They have developed critical capabilities to deliver superior user experiences bundled with greater security, enhanced convenience, and expanded features that the majority of traditional financial institutions can't hope to replicate. Most financial institutions are playing catch-up and are trying to maintain their relevance by partnering with these innovators, but they need to quickly shift gears to become innovators themselves. Otherwise, the disruption of their traditional business models will continue and banks and credit unions will lose the fight for Millennials, and with them an entire generation of future growth.

Q: How worried should banks and credit unions be about non-bank companies stealing their customer base?

Tilbury: Extremely worried. There are already several precedents for non-FIs making inroads into banking. For example, eBay recently announced that it would spinoff PayPal in 2015 to be a stand-alone payments company. PayPal already has a customer base of over 150m and is one of the most widely recognized financial brands in the world. Previously, they had been working with financial institutions to partner on mobile p2p initiatives, but this changes everything.

bluepoint SOLUTIONS

Is Your Institution Ready for the Revolution in the Payments World?

On the retail side, Walmart is starting to offer banking products of its own; building on its success with pre-paid cards, Gobank is a service Walmart has recently launched with Green Dot that provides low-fee checking accounts. The reach of Walmart with a nationwide customer base, locations (remember that 90% of Americans live within 15 minutes of a Walmart store), name recognition, and volume of payments received, is so strong that you couldn't help but be concerned about how this will affect your institution's growth in the years ahead. Walmart has already dabbled in payments with various prepaid card products, but now it is positioning itself as a full-service financial services provider with an extremely attractive, low-cost value proposition.

Q: What role will social media play in the banking realm in 2015?

Tilbury: Social media channels have disrupted how people communicate with each other; now this disruption is spreading to how people interact with their financial institutions and is becoming a viable tool to manage a person's complete financial life. It is the fastest growing channel that consumers are using to engage with their financial institution; a 2014 study from Capgemini reported that 10% of consumers used social media channels to communicate with their bank or credit union. This is a relatively new development for financial institutions; they need to envision social media as not only a tool for branding and promotion, but also as a tool for real time communication and customer engagement. Social is especially important for connecting with Millennials, many of whom are more likely to reach out to your institution through Facebook or Twitter than they are to walk into a branch.

Q: Where is the opportunity for banks and credit unions to defend their market share from non-banks?

Tilbury: Thinking defensively is actually the biggest mistake I see financial institutions making, across all asset sizes. Rather than piggy backing off the technology innovations others are driving, banks and credit unions need to become innovators themselves. The new reality is that technology and innovation should be core competencies for all financial institutions. Then the question becomes, "How do I foster a culture of innovation?" You're beginning to see some high profile institutions such as Wells Fargo and Deutsche Bank engage closely with innovation labs. But there are much smaller examples of financial institutions that make innovation a key priority, such as CDW in Kansas. The institutions that innovate will be the market leaders for the next several years. They'll be more effective at fighting-off new market entrants as well as attracting customer segments looking to be on the forefront of technology.

Qwinstar 2015 Outlook: Equipment Companies That Cater To Repairing and Servicing OEM Machines See Opportunity

3 Point Alliance's equipment maintenance unit, Qwinstar, is heading toward an all-time double-digit sales and profit record despite –or, because of—OEM reluctance to repair, service and support payments processing machines both in the U.S. and Canada.

The general consensus for the payment equipment industry is that due to a mature installed base for legacy and other payment equipment, OEMs are no longer committed to various facets of machine aftercare that many companies still need.

Mike Atchley, Qwinstar's managing director, reports, "For instance, payment machines like the NCR 7780 were designed 20 to 25 years ago and are still in the field. Spare parts for these machines however were only produced for a 15 year life cycle. OEMs don't go into the market and reclaim parts the way we do, so we can support legacy equipment far longer."

This scenario combined with other key trends has created a positive outlook going into 2015 for third-party service organizations that like Qwinstar offer a comprehensive set of equipment maintenance solutions.

Looking Ahead: 4 Trends
3 Point Alliance sees four trends that are shaping activity in the payment equipment service sector heading into 2015.

Single Source Equipment Maintenance
Companies face challenges streamlining equipment services from multiple vendors. It's difficult to measure cost-effectiveness, align core needs with supplier core competencies, obtain quality cross-platform legacy, OEM and hybrid service; and balance performance, price, and value.

With a single source/vendor, companies can benefit from:

- Extensive parts inventory - second-source replacements, OEM-only, lease-returned, and/or generic parts
- Preventive monitoring and diagnostics – saving downtime and costly repairs
- Customize software to manage equipment logistics allowing users access to a 24/7 online tool
- Leverage third party expertise, overhead investment and innovation
- Visibility into the vendor's off-lease equipment and parts inventory.

Rather than commit to major capital expenditures which involves risk, working with an experienced vendor that offers a single source equipment maintenance solution allows companies to focus on their core business.

Qwinstar 2015 Outlook: Equipment Companies That Cater To Repairing and Servicing OEM Machines See Opportunity

Facility Automation & Logistics
Investment in equipment along with equipment-related systems and processes are not a top priority for many companies especially when the economy is sluggish and profit margins are tight.

Companies that cannot commit to buy new equipment outright are often able to work with existing equipment via a third party that can provide cost-effective equipment maintenance solutions to address challenges around facility management, logistics, spare parts, repair, diagnostics, and on-going expert service to meet a wide range of complex equipment needs.

Equipment Expertise
Because of the large installed base of legacy OEM payment machines – the IBM 3890, NCR 7766-7780, IBML and others – it takes specialized equipment knowledge in complex electro-mechanical machines to service and repair those machines.

With OEMs abandoning equipment service, companies will need to locate equipment experts that are fully trained (the learning curve is steep), have a nationwide footprint to provide coverage, can work on-site on multiple platforms, and have extensive tools to diagnose, monitor, report and track equipment issues.

Additionally, companies need to work with vendors that have exceptional relationships with manufacturers and distributors for access to spare parts inventory but also to leverage added value lease, buy-back and other financing options.

Flexibility
Companies require that vendors have the ability to tailor their offering – from top to bottom – to suit their needs whether customizing software tools, providing innovative repair solutions to save losing critical equipment, devising training programs, or managing inventory, purchasing and supplier efficiencies.

Companies are still risk-averse when it comes to capital expenditure investment in equipment or equipment-related purchases despite a rosy overall economic outlook in 2015. Many businesses find that maintaining existing machines at top performance levels is a key strategy to keeping costs under control.

3 Point Alliance has been a leading provider of remittance processing, disaster recovery, and equipment maintenance and equipment leasing solutions and services for over 20 years. For more information about Qwinstar visit: www.3ptalliance.com/qwinstar

3 POINT ALLIANCE

Allowing Increased Consumer Choice in Payment Methods Will Continue in 2015

More and more, the utility of a payment for a consumer is derived from factors beyond convenience. A major driver of in-person credit card purchases has been the convenience of pulling out a card and not having to worry about having cash on hand. However, when your credit card, debit card, pre-paid card and bank account information are all stored on your smartphone, your process of deciding which payment type to use is different. The same goes for online purchases. While credit card is the most accepted method for online purchases, consumers have grown increasing more comfortable using other payment types based less on the payment channel (online or mobile payments), and more on how they want to manage their finances.

The actual payment vehicles are becoming relatively indistinguishable. It is practically as easy for me to enter my credit card information online as it is to enter my bank information, and with new registration processes where you just snap a picture of your credit card or a blank check to register that payment type, it gets even easier. Plus, despite recent high profile data breaches, consumers have proven to be very comfortable storing their payment information so they don't have to enter payment details each time they want to buy something. As a result, consumers have a choice of any and every payment type whenever they make a purchase, regardless of channel.

For consumers, it comes down to personal choices about how they want to manage their money. Do I have the money in my account to pay for this, or would I prefer to use credit? Where do I get the most loyalty points for this purchase? Which payment method would best suit my personal budgeting and financial tracking? For merchants, this is an opportunity to shape customer behavior. In 2015, we will see more merchants aggressively pursuing ways to lower their payment processing costs while offering a seamless customer experience. Merchants can steer consumers towards lower cost payment types if they can show that the customer experience isn't diminished and there are benefits to using the merchant's preferred payment type.

Payment processing costs can vary dramatically for merchants, so a shift in which payment types consumers use can have a big impact on the bottom line. For example, credit cards typically cost the merchant 2% – 3.5% of the purchase price just to process the payment. An ACH transaction carries an average fee of about $.25, while a debit card carries a fee of about $.21 per transaction plus .05% of the transaction amount plus a $.01 fraud prevention charge. Check 21-based eChecks, by comparison, usually cost about $.15 or less per transaction.

Some merchants are choosing the stick over the carrot, and charging consumers for using more expensive payment types, like a $1 - $5 fee for using credit cards. Others are offering consumers additional discounts for using the preferred payment type or attaching loyalty programs that reward the merchant's desired purchasing behavior. Whatever the approach, as a result of the ease in choosing and using a different payment method, we will see more merchants in 2015 actively looking for ways to convert their customers to eChecks and other less expensive payment methods.

Leverage Data to Differentiate in a Crowded Marketplace in 2015

Banks, payments companies and retailers have never had more customer data available to mine for insights. While many companies want to embrace a big data mindset, possessing customer data, versus using that data to take action, are very different challenges.

In 2015, payments providers will turn to data analytics to help their products stand out in a crowded marketplace. Whether it is a bank trying to increase usage of a new card product, a digital wallet entering the marketplace, or a P2P payments application trying to increase its user base, more companies will use predictive analytics. The leaders will gain traction by increasing the effectiveness of marketing, identifying niche customer segments, and predicting the offers most likely to drive adoption.

For example, an issuer may want to increase participation in their newly enhanced credit and debit card rewards program. They can analyze their customer data, looking for previously hidden patterns among segments of the customer base. In addition to program participation, they can incorporate transaction data, as well as social media, customer feedback, and contact center data. Well-crafted algorithms can analyze this data to identify the most profitable customers and the incentives most likely to stimulate card usage.

This same data-driven approach can be taken to address customer acquisition, customer retention, operational risk and other key business needs.

Of course, analytics alone will not create value. Payments providers will need to act on the insights they uncover.

BEYOND THE ARC℠

Finding Middle Ground in Payments for 2015

What every bank, credit union, end-user organization and payments disruptor (like Apple) is chasing right now is the ability to enable consumers to conduct commerce on devices connected to the internet. But financial institutions will have to make some critical decisions in 2015 if they want to avoid being left behind.

The Most Important Trends in Payments Today

We recently hosted our 17th annual Concepts Conference with speakers and thought leadership from all over the country who gathered to talk about trends in payments across all channels. To no one's surprise, mobile payments and wallets topped the list. The message was that consumers need to be enabled to make commerce decisions that affect the purchase of goods and services using mobile devices. Naturally the conversation included ease of use, secure transaction and messaging, which coincides with what others in the industry are problem solving daily.

In addition, there was interest in and appetite for knowledge on virtual currency as we look at the diminishing use of paper checks in the U.S. and a global economy where people are interfacing with each other in business virtually. What's the future of virtual currency – how do we adopt it in the future? That's a trend we're spending a lot of time watching and educating our members on. We touched on cards, too – the physical plastic that's being used by consumers and how that's going to change going forward, with the adoption of mobile wallets and the move to the EMV standard of security via chip and PIN.

A lot of the companies that attended our conference were very interested in learning about business-to-business transactions and how to enable not just the payment of goods and services but also the movement of payment related information in a timely and effective manner, and in a way that is secure. It all comes full circle back to some of these other trends and how they might solve some of the challenges we've had related to fraud.

The EMV Challenge

We can't talk about trends in payments without mentioning the U.S. migration to EMV. About 30 percent of terminals are equipped to accept EMV cards, leaving millions of terminals that still must be converted. EMV – the use of chip and PIN on a physical, present card – is interesting. Currently in the U.S., most credit cards carried by consumers and business people are magstripe based. That's where we're having issues. If someone swipes a card at the POS, that information is held by the merchant, the merchant gets hacked, and we have fraudulent transactions.

EMV is a global standard, and the U.S. is actually the last to adopt EMV. But everyone is expected to adopt it to some extent. The interesting misnomer that people have is that it's a mandate, so for financial institutions, they are not being mandated to issue cards using the EMV coded chips. But as you look at the rollout and the shift in responsibility and accountability for those transactions, it will be interesting to see what financial institutions do. By adopting EMV and issuing the cards, they can reduce their liability for fraudulent transactions.

It's hard to say if we're on track as our touch points for credit cards in the U.S. are greater than many other countries that have had a smoother transition to EMV. But we have a lot of financial institutions looking for guidance. Every community bank, credit union, and re-

Finding Middle Ground in Payments for 2015

gional bank issues cards – whether they issue them themselves or through a partnership with somebody else. They're trying to decide when to move to EMV.

On average, that move to EMV costs roughly $5 more per card. That poses a challenge – it's very expensive. So financial institutions are calling us and asking if they have to issue these cards. The answer that we give them is "Yes, eventually you'll likely have to issue these cards." Eventually, here in the U.S., every merchant (including gas pumps) will have to be enabled in order to take that chip. Is it going to be a race to the end? I think it will be.

One credit union wondered if it was critical for them to deploy EMV cards when few of their customers travelled abroad. Their interim solution is to offer stored value cards on an ad-hoc basis to those who travel internationally.

People are looking for ways to keep their costs down as the terminals migrate to the EMV standard. The challenge that everyone is going to face is the shift in liability – that shift could come down as early as October 2015. Now, there will be decision-making. If for any reason somebody's card information gets stolen, we'll look at the players in that transaction – was there an EMV card issued to that consumer? Was the merchant equipped to receive EMV? Who was prepared to circumvent fraud? That's where this will get sticky, and financial institutions will be making an investment in EMV because they don't want to see that fraud liability shift to them. But some of the smaller institutions will move a bit slower and have broader conversations.

Data Security and Regulation

Unfortunately, in today's environment, when you swipe that card at Home Depot (for example) they hold onto that 16-digit card number and that's where the hacks are happening. Technically, the POS information should be held at the paying financial institution (whoever is underwriting that card). Our problem with our current system is that without chip and PIN, we don't have a way to change that process. But the card issuer should own that information, not the merchants who are simply providing a product for a payment. If there's some way for them to enable that transaction without ever having the credit card number, we would eliminate a lot of this fraud.

That's why tokenization has become a really interesting conversation. If a unique token is issued in lieu of passing along the 16-digit card number, and that token is only available to that cardholder at that merchant at that moment, then if someone hacks in and gets that token number, they won't be able to do anything.

THE Payments AUTHORITY Expect Answers.

Finding Middle Ground in Payments for 2015

They're not going to be able to affect an actual financial transaction using that token because it's now expired. In that case, when we get to a point where those transactions are safely tokenized, it really is going to sit with the financial institution who's issuing those cards.

Apple, PayPal and Google Wallets… ***Oh My!***
Many of the financial institutions that we serve are spending time on mobile and how they can enable account holders to conduct business safely and securely via mobile devices.

Apple Pay is a really interesting proposition. Apple is obviously a giant in providing products and technology to consumers, and making them consumer-friendly. I think it's a brilliant format – it's like a rebirth of NFC mixed with biometrics. Then, a token is generated that enables a consumer to use the credit card on their iPhone 6. It's a nice combination because Apple, although they're enabling the transaction and are part of the transaction with its front-end technology, hasn't had to go out and buy a payments company. Instead they are allowing people to use the plastic cards they have today in a more safe and secure environment. It's all very smart.

So what do I see happening in 2015? Obviously, we'll see something for the Android users – maybe it will be an app, or something similar to what Apple Pay is doing. PayPal, Google Wallet, and non-financial institutions may understand the consumers and what they need, but at the end of the day, it's the FIs who have the solid advisory relationship with the consumer. We're encouraging FIs to understand who these players are – they're disruptors, but it could be in a good way. They could be potential partners.

We're also encouraging FIs to go in and look at their work, especially coming through the ACH – take a look at inbound transactions and see what the company description field says. Does it say PayPal? Does it say Square, or Apple Pay? It gives them a better sense of who their account holders are, and of the solution providers they're exposed to, whether they're good or bad. From that, FIs can build a strategy to invite those people to the table, or identify an opportunity to provide a better solution to circumvent the use of those.

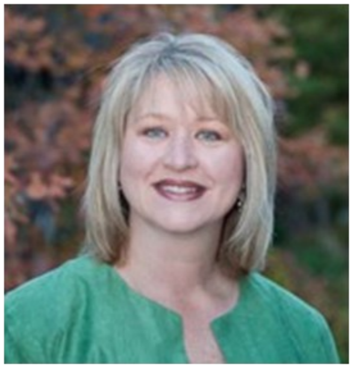
So I think there will be a lot of integration between FIs and these solution providers, and a lot more consolidation among those providers.

At the end of the day, what everyone's chasing – whether they're a bank, a credit union, a company end-user, or a solution provider – is the ability to enable consumers to use a small, pocket-sized handheld computer in a safe and secure manner to conduct commerce.

Amy Smith
President & CEO at The Payments Authority

Amy brings 26 years of banking and treasury management experience to The Payments Authority. She is an Accredited ACH Professional, a Certified Association Executive and graduate of Eastern Michigan University.

Professionals in every trade have an association they rely on for industry education, support and resources. The Payments Authority is the association for payments people, with expertise in ACH, check, card and wire transfer payment systems.



Payment Predictions for 2015 from ProfitStar

A rise in interest rates and new regulatory scrutiny of prepaid cards will present financial institutions with an opportunity to make checking accounts attractive again and stem recent declines in DDA and debit card ownership, but the only way to fully exploit this opportunity will be to provide evolved mobile apps that provide current-balance context and real-time counsel on all manner of money decisions: mortgages, car shopping, and everyday purchases. Financial institutions must capitalize and build upon the innovations that "neo-banks" are deploying to siphon both younger and higher-income consumer segments.

Despite its belated migration to EMV, the U.S. will continue to see net increases in card fraud. Online card-not-present (CNP) fraud will continue to skyrocket until tokenization reaches wider adoption. Though counterfeit card fraud will be blunted by EMV, lost-and-stolen card fraud will remain unchecked in the U.S., as most issuers go to market with chip-and-signature as the primary cardholder verification method (CVM) for their EMV credit cards. As a result, lost-and-stolen card fraud will approach $1B by 2018. Put another way, we're leaving $1B of preventable card fraud on the table by migrating to chip-and-signature rather than chip-and-PIN EMV.

Speaking of EMV, **2015 will inaugurate transitional concentrations of fraud in debit cards and smaller merchants**. The migration to EMV will not happen with the flip of switch, nor will it happen uniformly. EMV-enablement will take place gradually over time, beginning with credit cards and the largest box stores and ending with debit cards and the smallest merchants. In other words, over the course of 2015 (and perhaps thru 2017) the weakest links and last-to-adopt will suffer disproportionate amounts of fraud and fraud liability.

by Lee Wetherington, director of strategic insight, ProfitStars

ProfitStars®

A Paperless 2015

In 2015, the conversation will begin to shift away from the general acceptance and adoption of electronic signatures, since it is now the general societal expectation that this technology will be a part of the consumer engagement process. Instead, there will be a greater emphasis on the end-user experience and consolidation of disparate, consumer-facing interactions. Greater attention will be paid to electronic records and digital assets resulting from these processes to ensure the integrity of the information and proof of compliance for the signing event.

Organizations that are new adopters of electronic processes —many adopting these technologies over the past five years—will continue to gain momentum in their use of electronic signatures and records, replacing their legacy marketplace practices. Emerging industries, such as peer-to-peer, marketplace lending, internet finance and others, have a distinct advantage starting fresh rather than updating traditional or outdated systems and processes that are unwieldy for the rapid adjustments necessary in today's marketplace.

Various recent legislative changes have paved the way for entirely electronic transactions within several industries. Between the Federal Housing Administration's (FHA) recent acceptance of electronic signatures on most mortgage documents, the Consumer Financial Protection Bureau's (CFPB) anticipated mortgage eClosing pilot, the Small Business Administration's recent procedural acknowledging the validity of electronic signatures, and ongoing efforts of the American Association of Motor Vehicle Administrators, 2015 will be the year that electronic transactions become not quite so uncommon.

Millennials and baby boomers will continue to influence the manner in which technology and consumer interaction evolves, as these generations expect any service engagement, including their financial institutions, to provide multiple options for transaction, which absolutely include mobile and online channels. As consumers demand more convenience and accessibility, it will be critical in 2015 for financial institutions to envision enhanced online and mobile channels for traditional branch-related functions, customer service interactions, application processes and even simple everyday tasks.

Jeff Knott, 2015 Chairman, Electronic Signature and Records Association (ESRA); Assistant Vice President, Equifax

Loyalty and Rewards Propels Mobile Movement

2014 delivered memorable mobile commerce (mCommerce) activity. Revolving leadership at Google Wallet, Alibaba IPO, Apple Pay, PayPal's split from eBay, the Visa Checkout launch; ISIS' became Softcard, the CurrentC pilot are just a few of noteworthy events that shaped and continue to propel the mobile movement.

Industry insiders continue to indicate that during the next 12 months, mobile payments will truly explode in the US market. While I am not yet convinced we are on the cusp of mass consumer adoption, I do anticipate the following trends to take place in 2015:

- Consumer adoption will remain moderate;
- Consumer backlash will occur in response to beacon-based, push content;
- Continued market consolidation;
- Consumers will gravitate to spend-based loyalty rewards;

Amazon will battle PayPal for the top spot over Apple Pay, MCX and Google Wallet.

Applications offering the most frequent and recurring benefits will begin to gain popularity among consumers. However, there will not be one clear winner emerge, but rather two popular apps not unlike the iOS and Android device preferences. Consumer adoption of mobile payments should increase slightly in alignment with broader merchant acceptance. Target, Apple and other retailers have deployed beacons and are currently testing their effectiveness for increasing in-store purchases. Coca-Cola is testing beacons for asset tracking, thinly disguised as a free marketing service to local merchants. Consumers will ultimately resist this spam-like approach and significant governing will be required to monitor this micro-proximity push model. Declining credit card transactions and rates will result in more mergers and acquisitions among medium-sized merchant acquirers and independent sales organization. Consolidation among mobile payment platform companies will provide opportunities for PayPal and Amazon Payments shore up deficiencies in local merchant acquiring and customer loyalty.

Starbucks will continue to evolve its mobile payment/loyalty solution and license the platform to other, like-minded retailers for private label. Savvy consumers will seek and use mobile loyalty programs rewarding the most based on the amount spent, regardless of the number of visits.

Alipay will not succeed in capturing the mobile payment top spot in the U.S. unless they acquire PayPal. More likely, PayPal will leverage their debtless balance sheet and strong, post-eBay cash position to compete head on with Amazon Payments. Amazon will leverage its online accountholder, small merchant and prime base to create a seamless mobile/online payments and rewards service through partnerships and acquisitions.

Ronald Herman is the CEO and founder of Atlanta-based Sionic Mobile, the developer of the first beacon, cloud-based mobile reward, mobile payments platform, ION. ION is comprised of two mobile applications: ION Rewards which is the consumer-facing mobile rewards, mobile payments component, and ION Loyalty a merchant portal that enables retailers to develop and launch mobile loyalty campaigns, as well as accept mobile payments.

Predictions of How Federal Government will Influence Payments in 2015

With Republicans controlling both the House and Senate in 2015, we can expect a flurry of congressional activity in general and in the payments arena specifically. Beyond some likely symbolic votes, Republicans must show that they can govern and unlike in recent years, pass bills that can get through both chambers. Doing so will put the onus on President Obama to either sign or veto any such legislation.

Payments will continue to receive considerable attention from the Executive Agencies and the regulatory environment could well be robust.

Dodd-Frank/Consumer Financial Protection Bureau (CFPB)

It is a safe bet to assume that a Republican led Congress will continue efforts that we saw in the recently passed omnibus spending bill to chip away at aspects of Dodd-Frank legislation that the Republican majority believes to be particularly problematic. This will include attempts to amend the form and structure of the CFPB in order to make it more accountable to Congress. The attempts could include efforts to make the Bureau part of the typical appropriations process and/or change the governing structure from a sole Director to a 3 or 5 person panel. Democrats will likely fight such efforts, but Republicans may attach such a requirement to a bill that enjoys bipartisan support or a “must pass” type of bill.

CFPB

The CFPB will continue to flex its regulatory muscle. The industry will need to respond to the Bureau’s proposed rule on prepaid cards and perhaps look for proposed regs on mobile payments. The Bureau may also take another look at overdraft protection programs.

By Kurt Helwig,
President & CEO
EFTA (Electronic Funds Transfer Association)
http://efta.org

efta
electronic funds
transfer association

2015: The Year of True Branch Transformation

There is no denying that for nearly a decade, the banking industry has been all about mobile. From remote deposit capture to account opening, advancements in mobile technology continue to move at light speed. Some industry players have even made the argument that the bank branch is dead, as today's consumers increasingly rely on digital channels. Looking at the research, however, that is absolutely not the case. In fact, according to a recent Celent survey, consumers visit the branch twice as often as they access mobile banking applications. Why? Because they still value human interaction when it comes to their personal finances, making the branch the #1 sales and customer engagement channel among many global banks.

But while we believe the bank branch is here to stay, it *is* changing and 2015 will undoubtedly be the year of branch transformation. As banks try to navigate this new high-tech, high-touch retail environment, what will this transformation look like?

Recently, we've seen the rise of the "mini" branch – full-service branches that are significantly smaller than a conventional branch and conveniently located,, providing customers with the option of face-to-face banking while banks significantly reduce their footprint and operational costs. This trend will likely continue into 2015.

Next year, we'll also see an increase in the use of self-service kiosks to conduct transactions traditionally completed by tellers, empowering customers to decide how they want to bank. This trend also enables banks to create untethered, universal bankers that can fulfill more consultative, sales-focused roles.

Mobile banking will never completely replace the branch, but it will certainly remain a critical component of a bank's success. Banks that choose to ignore either channel, especially the branch, will face significant customer service and engagement challenges. Customers will continue to expect face-to-face interaction with their bank – and the wisest banks know this.

Suzi McNicholas is the vice president of Marketing for Source Technologies, a leading provider of integrated solutions for managing financial transactions and other secure business processes. For more information, visit www.sourcetech.com

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Innovate. Inspire. Achieve.

Financial Institutions Define Their Role In the Future of Payments – Finally!

The current payments ecosystem positions us for an even higher rate of exposure and breaches of personal and payment data well into 2015. Today, cards are issued to a consumer from financial institutions or retailers and those organizations may have little to no contact with that consumer until there is a problem such as a lost or stolen card or a breach at a retailer. This, combined with inherent vulnerabilities in the infrastructure, allows thieves to do their work and disappear into cyberspace before cardholders even know their accounts have been compromised.

This coming year we will see technology solutions introduced that will deliver much-needed enhancements to this ecosystem. Financial institutions of all sizes will begin to explore solutions that deliver new ways to pay online and in-store using a variety of digital devices; consumers will enjoy convenient and secure ways to pay using any payment mechanism they desire. This approach will allow banks and credit unions to leverage their position as the trusted provider of payments services.

These solutions will go beyond the much-hyped mobile wallet and shiny new devices in the marketplace today, placing financial institutions at the center of providing digital payment services. They will include tokenization of payment credentials for heightened security, and have the flexibility to deliver that tokenized information to any point-of-sale, online or in store.

Of course, brands with a loyal following, such as Starbucks, will continue to thrive independently, mostly on loyalty rewards rather than their digital payments prowess. And, solutions built mostly around specific device types and certain mobile wallets will find a niche in serving a minority of consumers worldwide. However, the digital payments game is the banks and credit unions to lose.

Kevin Kammer, CEO of Omaha, Neb.-based Prairie Cloudware

PrairieCloudware

Real Time Payments and Real-Time Risk Scoring in 2015

For a small segment of businesses and consumers, the vision of real-time payments has become a reality. Growing momentum within the U.S. for faster payments, combined with increasing clarity surrounding pricing, network coverage and compliance have many industry insiders, myself included, predicting 2015 as the year a mainstream, tangible real-time payment infrastructure emerges.

The emergence of real-time payments has the potential to positively impact organizations in nearly every line of business, and next year we should expect to see many fresh examples of how companies are saving time, money and resources by implementing this new payment system. Outside of the much touted peer-to-peer (P2P) use case, a few recent use case examples include insurance companies delivering claims payments instantly, check cashers crediting accounts instantly and online merchants purchasing goods and paying for them instantly.

Another industry that is greatly in need of faster payments is healthcare. This massive vertical will begin to adopt rapidly faster payments with more contextual information. Lack of contextual information in current check and ACH payment systems has historically been an ongoing issue in this industry. With faster payments that embed rich contextual information specific to this vertical, two problems will be resolved; first, the speed of payments and second, the availability of rich contextual information for decision making and analysis.

Just as a fast car needs good brakes, faster payments will need a real-time risk scoring system that takes into account all variables, both historic and contextual Most of the current risk scoring systems are rule specific and in many cases have hard coded rules. This will change as dynamic real-time transaction risk scoring systems will become more broadly available.

Suresh Ramamurthi, chairman and CTO of CBW Bank, and president and CEO of Yantra Financial Technologies

yantra

2015: Reconstructing the Digital Banking Market

In 2015, the digital banking market will continue to undergo a significant replacement cycle as financial institutions seek to replace disparate, legacy and first generation online/mobile banking systems. Leaders in the industry are seeking a more strategic digital solution that accommodates more points of access with less infrastructure and maintenance. There is also a growing preference towards “off the shelf" digital banking solutions. Even large regional institutions are seeking products that favor configurability over customization; especially those that give them control over a wide range of features within the application without requiring vendor assistance.

The key challenge in this evolution will be how to monetize digital channels. Digital has become the branch for many – if not most – consumers, and banks and credit unions are struggling to determine how to provide the same level personalized, relevant services in the virtual world that developed from the physical branch. For this reason, financial institutions looking for a competitive edge will require digital banking solutions that have the ability to group and analyze data, which can help them win wallet share, increase loyalty and gain access to new generations in need of financial services.

As banks and credit unions address the challenges of providing a consistent, relevant user experience to the consumer, many will look for an opportunity deliver more digital services to small businesses. Traditionally, financial institutions have underserved small businesses and few fintech providers offer more than repackaged consumer banking services for this segment. This is one of the most promising areas for monetizing digital channels, and savvy banks and credit unions will include options for addressing this need in their 2015 technology roadmap, or risk a distinct disadvantage from their competitors that do.

By: Mark Vipond, CEO, D3 Banking

2015 Predictions: Security Remains King

If 2014 taught the financial industry anything it's that you can never be too careful when dealing with consumers' money and personal information. Although many financial institutions and payments providers have chosen to increase security protocols over the past year, many of the popular approaches being implemented today continue to serve merely as a Band-Aid rather than a true solution to the problem.

Regardless of the method of security being used, in the wake of a year filled with high profile data breaches and wide-spread fraud attacks, protecting customers will continue to remain at the forefront of concern for today's payments industry. Just as the industy has consistently evovled in years past, 2015 will bring about changes, many serving as increased precautions against increasing instances of fraud.

Standardized Authentication—
In mid-December 2014, the Fast IDentity Online (FIDO) Alliance announced its FIDO v1 specifications, which aim to promote an open, flexible, interoperable group of strong authentication offerings to reduce the continued reliance on single-factor username and password logins, which are easily hackable. While this action may seem long overdue to some, the standardization is a huge win for the multifactor authentication space and the financial industry as a whole.

In early 2015, the payments industry will see initial FIDO deployments and pilots with banks, due in large part to Google, which has already jumped in as an early adopter of the FIDO U2F protocol. Although the standardizations may make some vendors uncomfortable at first (in part due to the cross compatibility and ease with which customers can replace them with something better), embracing the new specifications will significantly improve the financial industry and promote a more secure payments space.

The Continued Expansion of Mobile—
While 2014 proved to be a major year of growth for multifactor authentication (MFA) on mobile phones, 2015 will garner even greater enhancements as capabilities and mobile phone adoption continue to increase. In fact, many industry experts anticipate the Federal Financial Institutions Examination Council (FFIEC) will release new guidance in 2015 specific to MFA on mobile phones.

Approaching Q1 2015, most banks and payments providers already have nearly a third of their online customer base leveraging the mobile channel for day-to-day use. However, due to security concerns, the functionality being offered is severely limited. Fortunately, while this

Entersekt

2015 Predictions: Security Remains King

problem will need to be resolved within the next year, there are already a number of vendors focusing exclusively on marrying the mobile device with the necessary security to protect the financial industry.

Security as a Springboard—
With the continued focus on fraud protection from payments providers and the financial industry as a whole, 2015 will see security features used as a marketing tool to entice consumers. In fact, one of the leading payments providers has already begun running television ads promoting the general message of, "With us, you're more secure."

As a result of the increased use of security as a marketing ploy, MFA adoption will continue to rise as consumers are regularly exposed to each financial institution and payments provider's pitch. If these banks and payments providers are smart they will realize that today's consumers are now more open than ever to start partaking in protection of their identity—as long as the process is easy to understand, doesn't add unnecessary friction and is reliable.

The Rise of EMV—As the EMV liability shift comes into play in October 2015, the industry will start to see both issuers and merchants making a huge push for chip cards. Unfortunately, that still doesn't solve the problem when it comes to non-face-to-face transactions (online, mobile, etc.).

In 2015, expect to see much bigger push toward protocols, such as 3D Secure, which serves as an additional layer of security for debit and credit cards. Furthermore, expect to see newly enhanced versions of these protocols as payments providers anticipate a spike in demand for solutions that protect cardholders online.

While no one can accurately predict the future for the payments industry, the reverberations of 2014's significant growth in fraud and security breaches will absolutely have a major influence on the year to come. However, if today's financial institutions and payments providers do not bring themselves (and their customers) up to speed with the latest security protocols available, we may be doomed to repeat the low points of 2014 all over again.

Christiaan Brand, Co-Founder and Chief Technology Officer, Entersekt

Entersekt

"Tablet the branches"… and the rest.

Today, when it comes to retail banking, the new mantra is *omni-channel*. FI's know their younger, technology-loving, time-constrained and hopefully affluent (either now or in the near future) customers will be ready to flock elsewhere unless they are offered high-tech delivery channels with 24/7 access, yet understanding their less demanding customers can still be served in a more traditional manner.

Celent, a consultancy and research firm focused on the Banking and Insurance industries, has recently conducted three biennial surveys of North American FI's to understand retail banking priorities and technology adoption, the latest of which concluded in October 2014. Their Panini-sponsored white paper entitled, "Slow Going", published one month later (during BAI Retail Delivery 2014 in Chicago), presented and discussed their findings, and indicated:

- The number one retail banking priority has been improving top line *sales* results.
- Digital banking and omni-channel delivery are top technology priorities, but so far *mobile* banking has proven unable to generate sales.
- The *branch* still remains most banks' primary sales channel, but branch transformation only ranks fourth in terms of importance and third in terms of technology funding priority.

In short, customers are still in search of human *touch points* – especially for complex interactions required to understand financial products – yet, surprisingly, banks are focusing their efforts mainly elsewhere. FI's find themselves facing the opposing goals of nurturing sales, with the branch as the main vehicle to achieve this, while also steadily embracing the new technologies their most attractive customer segments are expecting – with the risk that by allowing a complete array of online and self service operations to their target audience, they are reducing reasons for customers to visit in person.

To maintain human touch points, most banks still employ their front line staff, but some may have left them with outdated tools. Instead, they require new technology to *empower* rather than replace them, and this can be done in at least two ways.

The first is to enhance their ability to deal with transactions more efficiently, while still serving their role in somewhat of a traditional setting, since branch transformation won't happen *instantly* for all FI's. This allows them to dedicate more time and attention to each customer's needs, possible upsells, and even consultancy opportunities. Lower value transactions are still an inevitable part of customer expectations because some prefer to avoid a machine or an automated voice – and since many are already using those channels, there certainly is an opportunity with the remainder. Despite *paperless branch* projects going mainstream with digital origination of contracts, application forms and other documents becoming the rule, branches still face the challenge of incoming paper documents such as checks, deposit tickets, ID cards, and tax forms. The more that technology aids teller and platform personnel in dealing with incoming paper, without requiring specific training on any new equipment, the greater the FI's flexibility in dealing with branch staff requirements, duty changes, and job rotation. This

"Tablet the branches"… and the rest.

allows the most talented staff to evolve into more sales-oriented roles.

The second way is to expect a more active role for the customer and shape a new branch around it. Recently, BAI Retail Delivery featured *branch transformation* as a central theme, and included assisted self-service exhibitions by Glory, Hyosung, Wincor Nixdorf, Diebold, NCR and others, some of which include videoconferencing functionality, proposed as candidate cornerstones of a new type of branch centered on sales and service rather than on transactions. Most of these integrated, multi-functional solutions foresee an ancillary role for bank personnel when it comes to educating customers on how to carry out transactions involving cash, coins, or checks on a complex self-service aggregation they could initially find intimidating. This support, guidance, and authorization function is systematically carried out on a *tablet*.

Tablets are becoming a natural choice for modern branches to serve customers more quickly and efficiently, to engage with them more deeply, and to improve the cross-selling potential thanks to complete visibility of their financial profiles. The *transaction* component is only a minimal part of the range of services that can be offered and probably one most banks would like to see managed solely by their customers, but also one that, if handled ingeniously, could become a springboard for more interesting, needs-based conversations and possibly new sales.

We ask ourselves whether the numerous functions these complex devices aggregate need to be presented together, or they can perhaps be split into several different, possibly untethered "access stations" – for cash and coins, checks, account openings, and more. All of these examples could be completed through tablet use and each of them could be simpler and more cost-effective for the FI to manage, and perhaps more appealing for the customer to use autonomously for subsequent transactions.

And if we exclude ever-present cash and coins, most of the other functions, including check deposit (via RDC) and videoconferencing for in-depth consultancy, could be brought into the customer's home or office with no need to visit the branch at all. And – why not? – even in *mobility*: the technology is available, it's all just a matter of creating the right mix and make it attractive and easy to use.

If strategically planned, the branch can showcase the opportunity of its own universal presence and availability at the customer's fingertips, using his or her own tablet – which in this perspective becomes a symbol of a new covenant between the FI and its customers. It serves as a way for the bank to demonstrate its willingness to modernize and create an experience *within* the branch as valuable as customers expect it to be, and at the same time its ability to extend its reach to customers *outside* its traditional brick and mortar, while still offering exceptional standards of service. The future won't be a choice between personal interaction *or* digital automation. Rather, technology will work as a *complement* to an unceasingly valuable in-person relationship.

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2015: Chargeback Management Will Continue to Increase as a Challenge

For consumers, 2014 was the year of making purchases by a swipe on your mobile device versus just the click of a button. eCommerce retail has risen to new heights with no signs of slowing down; a recent example being sales surpassing $2 Billion on the ever popular “Cyber Monday”. According to CardNotPresent.com, this past Cyber Monday’s sales increased 17 percent from the year prior and became the heaviest online spending day in U.S history. What made consumers profoundly immersed in this holiday spending season was the availability of a transaction. Transactions were made easier than ever before due to the success of online applications through a mobile account.

It's no surprise that consumers choose to shop electronically with the opportunities that are available to them such as PayPal, Spring, and Snapcash. These electronic payment apps allow consumers the ability to make purchases in the quickest and easier way yet, thanks to the fast-growing technological advances that are now introduced. An increase in the use of electronic transactions would be a valid prediction for the upcoming New Year, and we don’t expect that to change any time soon.

In 2015 consumers will become more accustomed to the online application purchasing process because of its popularity and accessibility. Thousands of retailers are reaching out to this marketplace because of consumer interest, but ecommerce merchants are finding themselves understaffed and unprepared for the correspondence increase in customer service and returns. Those customer service inquiries and returns may cause a consumer to then file a chargeback, which begins an endless cycle that could easily be resolved with the use of a third-party mediator between the merchant and consumer. With the addition of a mediator, merchants are then able to assist the consumer by responding to and refunding more quickly versus the initiation of a chargeback.

The predicted increase of online sales will provide more opportunities for dissatisfied customers who automatically assume a chargeback is the best option. 35% of cardholders assume that chargebacks render no harm to a merchant, when really this action can cause large penalties that will ultimately diminish their business. The amount of unnecessary chargebacks and inquiries will continue to increase if the public is not made aware of the repercussions of chargebacks. Consumers can face increased credit scores as a result of too many chargebacks, and e-merchants can lose the opportunity to sell goods and services online. Disputes for a chargeback are both costly and timely for the merchants and banks involved, and this problem could be resolved in with the use of consumer education. If online shopping is a priority for the New Year, then new legitimate mediation tactics need to be set in place!

Gary Cardone
CEO, eConsumerServices

Big Data = Big Wins in Customer Experience

As you look over 2015's various predictions, you'll find no shortage of those espousing the benefits of Big Data and how institutions will be leveraging the intelligence it provides to achieve some sort of business nirvana. In this article, I will be taking a small step back to look at the what, where, and why of transaction data—a financial institution's most valuable, yet often most difficult to access, source of intelligence on the end customer experience.

What is transaction data?
For anyone concerned about operational performance and consumer engagement, transaction data is your gold mine (or bitcoin mine, depending on where you see the greatest analogical value).

Banking, retail and payment processing networks play host to an "always on" data source—consumer transactions. Each transaction that travels across your ATM, POS, Mobile banking or Internet banking environments contains useful information on what the customer is experiencing, how networks and applications are responding and what the business value of each transaction is from a revenue or service perspective.

Where is transaction data?
Similar to traditional mining—getting access to and refining the "gold" in transaction data is where the difficulty lies. There are an ever growing number of complex moving parts in a transaction network, and today's banks, payment processors and retailers are also dealing with an explosion in the volumes and types of electronic consumer interactions they must support. For example, most banks now run a minimum of eight services per ATM, with many running upwards of 40 to 100. Back end transaction approvals need to come from a variety of value added service and host authorization connections, depending on the transaction type. Some may still go to the payments switch, but more now go to external applications servers and third party service providers. These increasing transaction volumes, infrastructure complexity and growing consumer expectations cannot be managed in a timely, cost effective way without real-time access to consumer-centric transaction data. It will be those financial institutions that find a way to access, and more importantly, make sense of, all this transaction data that will meet and exceed the high expectations of today's consumer.

Why use transaction data?
Forward thinking financial institutions have already started reaping the rewards from investing in tools that allow them easy access to transaction data. For example, last year one of the largest banks in the Middle East began leveraging a solution from INETCO and NCR that allowed them real-time access to the data contained within every transaction flowing through their ATM network. This solution provided the bank's IT Operations teams and ATM line of business executives with easy access to transaction data, made available through configurable dashboards, alerts and analytics. The bank's data "mining" efforts that previously took days or weeks, is now done in real-time—which in turn makes the intelligence gathered that much more actionable. The results: the bank reacts in seconds (rather than hours) to consumer related transaction issues, has improved ATM availability, and is able to optimize their ATM service offering through easy analysis of consumer usage patterns. They've also been able to leverage the rich consumer intelligence gathered from their ATM transactions to build data-driven marketing campaigns targeting off-us consumers in efforts to convert these users into new, higher-margin, on-us customers.

What's to come?
So it comes to the point of the article where a prediction is made. I expect to see banks move from talking about Big Data, to deploying tools that allow them access to, and an understanding of, transaction data. And with that improved intelligence, I see these banks enhancing the consumer banking experience while improving their own profitability.

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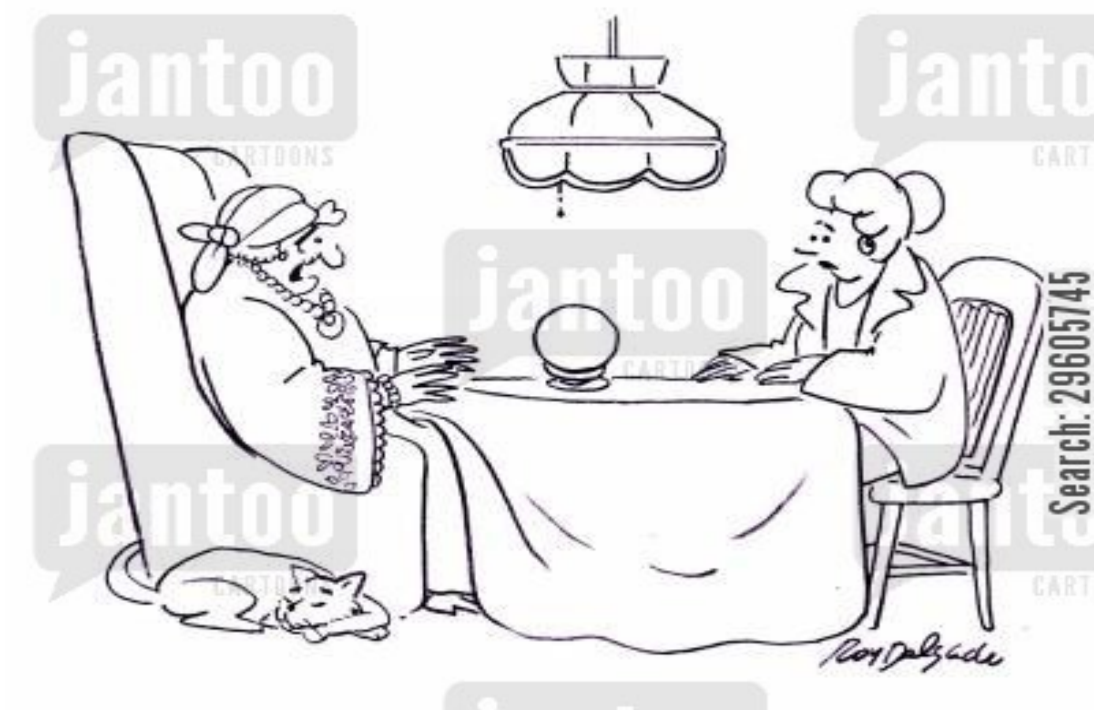

" He'll communicate . . . but only by text-message. "