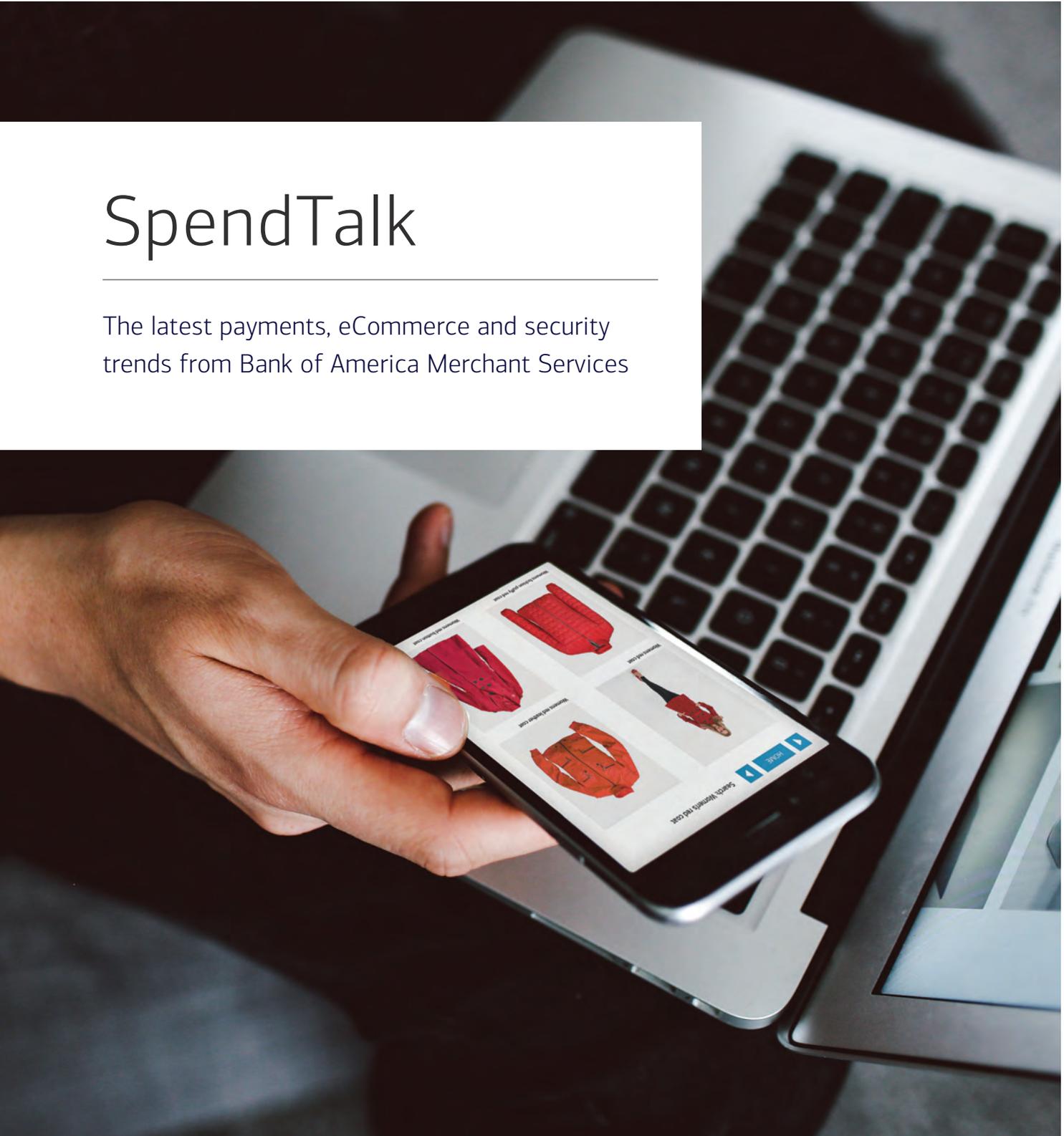




WINTER | 2019

SpendTalk

The latest payments, eCommerce and security trends from Bank of America Merchant Services





WINTER | 2019

Welcome back to SpendTalk

from Bank of America Merchant Services

At Bank of America Merchant Services, we're often asked for our perspective on the trends that are reshaping global commerce and, specifically, payments. Throughout the year, in face-to-face meetings, publications and industry forums, we eagerly offer up our proprietary analyses and insights to help businesses make sense of rapidly evolving changes in consumer behavior.

SpendTalk is a seasonal publication from Bank of America Merchant Services that shares our take on a number of these trends. In this edition, we dive into the importance of creating a seamless customer experience throughout the purchase journey and look at how digital payments help increase efficiency and inspire trust in consumers. We also provide a quick roundup of the key points from our chargeback webcasts and an overview of changing authentication standards in Europe.

Consider SpendTalk a springboard for discussion with your Bank of America Merchant Services business consultant. It's Bank of America Merchant Services' privilege to serve you and help your business stay on top of the latest payments, eCommerce and security trends. Let's keep the conversation going.



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Simplicity reigns across channels

More than ever, customers expect a seamless experience throughout their purchase journey



It's never been easier to be a consumer. Businesses around the world are making every effort to streamline the shopping experience for customers.

Consider Starbucks, where customers can reload a gift card online, in a store, through the Starbucks app or over the phone. Mobile ordering is a cinch because the app remembers your preferences and frequent orders. At Target, customers who use the retailer's REDcard can pay, redeem coupons and earn rewards all at once. And Amazon is credited as a pioneer in painless shopping with its 1-Click ordering process.

Mobile apps and online ordering and delivery are becoming increasingly common, and consumers' preferences are adapting as fast as the technology that supports them changes. That means the digital shopping experience plays a major role in customers' overall purchase journey — and that journey can strengthen or sever their loyalty to a company. Businesses that are making it easier on consumers and expanding their digital offerings are seizing market share and amassing valuable insights into their customers.

Customers care

Nearly 60 percent of consumers agree that technology has significantly changed their expectations of how companies should interact with them.¹ And 73 percent of consumers have stopped buying from a company because a competitor provided a better experience.

"Customers expect buying to be easy, and experiences that aren't easy are quickly abandoned," says Matt Detert, product strategy director at Bank of America Merchant Services. "It's not so much about novelty as it is about saving people time, money and mental energy. Shoppers want an experience that requires the least amount of brain power and the fewest number of steps."

Businesses today are finding they need to offer a seamless experience and channel integration no matter how the customer chooses to shop. Why? Customers expect their experience to match across channels. They want mobile shopping to be as simple as buying online, in-store or when they call in. To meet customers' expectations, merchants need to understand their customers' preferences and create a consistent experience across platforms.

Consumers have grown accustomed to quicker and sometimes nearly invisible payments for all kinds of purchases, Detert says. Uber, for example, revolutionized the payment process for ride-sharing and changed the customer experience along with it.

"When you take an Uber ride, you don't even think about paying," he says. "The end of the transaction happens without you having to do anything. You don't have to think about amount, the tip, when to push the button — it's just over."

Developing and implementing a seamless customer experience cannot be achieved without overcoming sometimes significant

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THOUGHT STARTER

Are there any gaps in the way your customers interact with your business across channels?
Are profits hiding in your payments data?

cost and technical integration challenges. Improving the customer experience requires investment and connecting back-end systems that support both digital and brick-and-mortar channels. That can be daunting to many mid-to-large businesses, particularly if they run complex operations on outdated technology platforms. The investment and effort can pay off, however, in retention of existing customers and attraction of new ones.

“Online experiences have gotten easier over last five years,” Detert says. “Consumer expectations track with that. At a minimum, you have to offer the same level of convenience and ease your competitors do just to stay in the game.”

Unearthing the secrets to success

Improving the customer purchase journey through integrated platforms and updated payment methods doesn't only make buyers happier — it can also yield a wealth of valuable data for businesses. With an ever growing array of purchasing channels, customer interactions produce important information that drives the need for analytics.

“Data analysis can help predict customer behavior, such as their reaction to promotions,” says Simon Blanchard, an associate professor of marketing at Georgetown University. “It helps to test the effectiveness of specific campaigns and make predictions about whether change is going to manifest itself the way we expect it to.”

Data-driven insights into customer habits and preferences can help companies know their customers better. With this elevated level of knowledge, businesses can make informed decisions that boost their performance and help them identify opportunities for growth.

For example, through payments data, an auto parts dealer might learn that millennials represent a larger share of its customers than baby boomers — revealing that its marketing efforts have been targeting the wrong demographic, and may need to be recalibrated.

Payments data can also help to reduce costs for businesses. Internal operations such as chargebacks, authorization rates, transaction routing and consumer authentication all contribute to the total cost of payment. Analyzing your data frequently may help you identify areas for improvement. For example, a close look at your data might indicate that upgrading technology at the point of sale to enable chip card-acceptance could help reduce chargeback expenses.

Data analysis can help companies get a 360-degree view of their customers, build smarter loyalty programs, more precisely measure campaign performance and help reduce costs. All of these insights give businesses a deeper understanding of their sales trends that are critical to driving performance.

Solutions that work

No matter where your organization is on the road to meeting your customers' heightened expectations or leveraging data analytics, it's always beneficial to scan for pain points. These could be inconsistencies or dissonance in the customer shopping journey or missed opportunities to alter business strategies based on data-driven insights. Even small improvements to address these opportunities can yield measurable results that strengthen your organizations' competitive positioning.

Companies and consumers find convenience in real-time payments

Digital payments increase efficiency and inspire trust in consumers



Paying bills once required a pen, a checkbook, envelopes and stamps. But thanks to new technology and evolving consumer preferences, digital methods are increasingly replacing the analog process of bill-paying, and not just for consumers.

The digital flow of funds is occurring in the other direction, too, as more businesses are embracing the opportunity to make payments instantly, directly and securely to consumers via online methods.

Direct to consumer

The growth of the gig economy and other on-demand services means real-time, direct-to-consumer payments are more important than ever before. In 2017, an estimated 74 percent of households in North America with consumers ages 18 to 65 received an online direct disbursement, according to research from Visa² and the total dollar volume of disbursements is up 48 percent from 2014 to 2018 per Aite Group.

Industries such as health care, government, transportation and insurance are already beginning to shift toward direct funds disbursement so consumers can receive payments quickly. For example, homeowners who've experienced a fire, flood or other emergency would welcome the ability to receive insurance payouts electronically, rather than having to wait for and process a physical check. This type of transaction is called "push payment."

Across industries, more companies are likely to begin offering these push payment options, according to Robin Reodica, product strategy director for Bank of America Merchant Services. "We are collaborating with merchants to solve for faster payments for things like employee tips, student stipends and rebates to customers and business partners," Reodica says.

For example, following underwriting and approval, lenders can disburse funds immediately to borrowers facing emergencies or pressing needs, such as home repairs or medical expenses.

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“Digital methods are increasingly replacing the analog process of bill-paying, and not just for consumers.”

Another popular use case is funding a delivery driver. The driver joins a service and picks up food orders from restaurants to deliver to customers. The driver is then paid by the service provider at the end of each week for the trips completed. With faster payments, the driver can be paid by the service provider at the time of each completed trip with funds going directly to the driver's debit card.

Enhancing relationships

Consumers want to work with businesses they can trust—and real-time payments go a long way toward building that trust. “For businesses, real-time solutions eliminate manual

check-processing, which boosts their efficiency,” Reodica says. “And they can also build customer loyalty by providing speedy payments, trusted payment infrastructure and enhanced security layers.”

Reodica notes that both consumers and small businesses are willing to change companies they do business with if switching means they can receive faster payments—a strong indication that digital payments are here to stay. According to Reodica, “providing faster payments to consumers, employees, partners and service providers makes the difference in today’s market.”

2014 to 2017 YOY growth in U.S. funds disbursements by payer category

Payer category	2014		2017		YOY growth	
	Total transactions (in millions)	Total dollar value (in USD billions)	Total transactions (in millions)	Total dollar value (in USD billions)	Transactions	Dollar value
Alternative income	845.4	\$2,817.1	956.5	\$3,635.6	13.1%	29.1
Employer	205.2	\$376.9	291.8	\$702.2	42.2%	86.3%
Financial services	29.5	\$81.7	109.1	\$239.1	269.2%	192.8%
Government	246.8	\$629.3	389.6	\$1,260.1	57.8%	100.2%
Merchant	363.6	\$186.3	835.3	\$221.0	129.7%	18.6%
Total	1,690.5	\$4,091.2	2,582.2	\$6,058.0	52.7%	48.1%

Source: Aite Group survey of 1,663 U.S. consumers in Q2 2015, Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017, and Aite Group estimates

THOUGHT STARTER



Is the way you disburse funds to your customers, partners and employees as modern and efficient as it should be? Talk to Bank of America Merchant Services about ways we can help you.

4 must-see takeaways on chargebacks from our latest webcasts

As part of our continued client support and education efforts, we hosted several webcasts on chargebacks over the past quarter. In case you missed them, here's a quick roundup of the key points we shared.

1. Limit authorization disputes.

Always authorize.

Authorization codes verify the availability of funds, helping decrease the risk for fraud.

Never force-post a sale.

If a transaction receives a decline response, request another form of payment and gain valid authorization.

Capture authorization.

Ensure your point-of-sale system captures authorization responses and prints the authorization code on the transaction receipt.

2. Avoid fraud disputes with best practices and security tools.

Always use EMV®.

And if the chip read fails, ensure proper fall-back to swipe or key-entered authorization.

Use Address Verification Service.

If your employees must hand-key a transaction, be sure to input the billing zip code.

Validate and authenticate.

When hand-keying card-not-present transactions, use fraud protection tools such as Address Verification Service (AVS), Card Validation data (CVC 2, CWV2, CID) and 3D Secure technology.

3. Collect compelling evidence to increase your win rate on certain fraud disputes.

What is compelling evidence?

Compelling evidence helps prove transactions were made by the cardholder. It's primarily used to defend against fraud claims for card-not-present transactions, but it can also be used to support cardholder disputes, depending on the reason code.

Why collect it?

It can prove original transactions are valid, chargebacks are invalid and merchants acted in accordance with procedures and policies.

What constitutes compelling evidence?

- Signed documentation (such as a sales draft) for the receipt of goods or services.
- Correspondence exchanged between the merchant and the cardholder.
- Transaction history with undisputed cardholder activity.

4. Be aware of signature capture and Visa Claims Resolution developments.

Major card brands frequently update their regulatory requirements for merchants. Here are two big changes:

Signature capture is no longer required.

- Token and EMV technology have rendered signatures obsolete for validating transactions.
- As of April 2018, Visa and Mastercard no longer require merchants in the U.S. and Canada to obtain signatures at the point of sale for credit and/or debit transactions.
- Merchants may still choose to obtain signatures to comply with state law or as compelling evidence for dispute resolution.

Get ready for streamlined claims resolution.

- Visa introduced Visa Claims Resolution (VCR) to reduce timeframes and touchpoints, and streamline processes, in the dispute process.
- As part of VCR, merchants are required to respond to all chargebacks, regardless of whether they are refuting or accepting liability.
- To meet the reduced timeframe requirements, merchants should consider enrolling in an online dispute management tool to send and receive their documentation electronically.

If you'd like to receive invitations to our educational webinars, please email letstalk@bankofamericamerchant.com

Global Corner: Raising the standard for authentication



In addition to Brexit, business headlines in Europe in recent months have focused heavily on data privacy and security reforms.

Along with General Data Protection Regulation (GDPR) requirements, European merchants are also preparing for new consumer authentication rules later this year. The Strong Customer Authentication (SCA) requirement goes live in Europe on Sept. 14, 2019, protecting consumers with more secure online payment standards.

Merchants will be required to put processes in place that allow card issuers to authenticate consumers using unique pieces of personal identification from at least two of the following factors:

- Something a customer would know (personal security information such as memorized passwords registered with the issuer, or a PIN code)

- Something a customer has possession of (a mobile phone, for example)
- Something individual about the customer (biometrics, for example, including fingerprint, iris scan, face/voice recognition)

While the requirement will help prevent fraudulent payment activity across Europe, customers may experience increased friction in the payment process as issuers comply with the new rules. Merchants need access to the latest version of 3D Secure technology, backed by a strong fraud screening program, to optimize their customers' experience.

SCA is part of the EU's Revised Payment Services Directive (PSD2), which went into effect across the EU in January 2018. While this does not impact U.S. merchants at this time, it could be implemented more broadly in the future.

The Strong Customer Authentication (SCA) requirement goes live in Europe on September 14, 2019.

The benefits of adopting a global payments strategy



For the third consecutive year, Cyber Monday 2018 shattered records with \$7.9 billion in online sales, making it the largest online shopping day in U.S. history.³ With Cyber Monday breaking online sales records in 2017 and 2016 as well, it's no secret that eCommerce can be a boon for businesses looking to grow sales.

What's less obvious, though the implications are beginning to stand out, is the emergence of a digital global economy in which consumers disregard national borders while shopping. Already, more than a third of global shoppers make online purchases on non-domestic sites. That includes a quarter of U.S. shoppers.⁴

With these figures expected to rise each year, merchants are presented with an enormous growth opportunity. "The most successful companies will be the ones that can meet the new global demand and serve an increasingly diverse customer base," says David Ades, executive vice president, general manager and head of North America sales at Bank of America Merchant Services.

To do this, merchants will have to develop a global payments strategy that keeps costs low, minimizes fraud, improves sales and creates a frictionless buying experience for customers, no matter their location around the globe.

Accept multiple currencies and payment methods

A major challenge of selling to customers in different countries is meeting a variety of payment expectations. Consumers want

to make purchases with familiar payment methods, whether that means using their local currency or one of the growing number of alternative payment methods.

"We call them alternative payment methods (APM), but they're really the dominant payment tender used by consumers in those markets," says Ades. Alipay, WeChat Pay, Mobile Pay and more already account for the majority of global online retail payments.⁵ Soon the APM market is expected to surpass \$10 trillion.⁶

With hundreds of APMs already available and many more entering the fray each year, merchants must focus on accepting those that are most prevalent in the markets they wish to target. For example, in Sweden, about 40 percent of all eCommerce sales are made through the APM Klarna.⁷ If a business wants to develop a consumer base in this region, accepting Klarna is crucial.

Understanding consumer payment preferences enables businesses to offer the most relevant payment types by region, which in turn satisfies the customer and helps establish brand loyalty.

Sjoukje Goldman, a senior lecturer in strategic marketing and research at Amsterdam University of Applied Sciences, says it all comes down to trust. "Consumers trust companies that have done the research and accept the currencies and payment methods they're used to," she says.

The **Alternative Payment Method market** is expected to surpass

\$10 TRILLION⁶

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“The most successful companies will be the ones that can meet the new global demand and serve an increasingly diverse customer base.”

Reduce friction with an integrated approach

Developing an effective global payments strategy goes beyond accepting multiple currencies and payment methods. With multiple platforms come more friction points as merchants face the prospect of building different processes around each APM, including integrating fraud mitigation add-ons specific to each region in which they do business.

Effective management of chargebacks, authorization rates, transaction routing and consumer authentication is another challenge for global businesses. On top of all this, the legal climate differs from country to country, and companies must deal with a variety of contract expectations and taxation laws.

Integrated eCommerce solutions can help minimize the friction caused by multiple platforms. These solutions help companies build a payment infrastructure that accepts the currencies and APMs most relevant to their global goals. What's more, they simplify processing by offering one API, one settlement contract and one financial statement.

“To unlock their growth potential, businesses must combine a global strategy with a local approach,” says Kevin Lotfi, senior vice president of global solutions at Bank of America Merchants Services. “An optimized payment solution should provide the necessary infrastructure for merchants to do business in the countries of their choosing, without the difficulty of dealing with multiple integration and connection points.”

Under this model, dynamic pricing allows consumers to use their desired method of payment, giving them a familiar, reassuring shopping experience with no unnecessary friction points. Merchants benefit from additional revenue streams and a more global market presence.

Consolidate reporting to help reduce costs and protect against fraud

As with any market, new global customer bases must be scrutinized to identify unneeded costs and areas of opportunity.

Consolidated reporting can help companies analyze payment trends by location and payment type, as



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“The companies that get a foot in the door now are the ones that will benefit most down the road.”

well as providing a complete view of the purchase process from gateway to settlement. It can also help keep tabs on interchange rate management, card network advocacy, payment routing optimization, clearing speed and processing costs. Real-time access to such data, including funding, disputes and fees, can further drive business decisions.

Operating in many different countries, and accepting a multitude of payment options, carries the possibility for increased levels of fraud. A fully integrated global eCommerce solution will use algorithms to learn about new global transactions, ultimately keeping optimization rates high and fraud rates low.

“A fine-tuned solution clamps down on fraud without turning away good transactions,” says Lotfi.

An upward trajectory for borderless eCommerce

Global eCommerce, already a potent force for businesses, will only grow more prevalent over the coming years. APMs will likely continue to ascend in popularity, further marginalizing credit cards as means of digital payment. And payment will become even more frictionless for consumers as transactions move toward invisibility, and biometric authentication becomes better established.

As eCommerce virtually eliminates borders between businesses and consumers, expanding digital commerce is a requirement for business growth. Says Ades, “The companies that get a foot in the door now are the ones that will benefit most down the road.”



To discuss your global payment needs, contact your Bank of America Merchant Services business consultant, call 855.833.3614 or visit us online at www.merch.bankofamerica.com

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Methodology

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About Bank of America Merchant Services

Bank of America Merchant Services connects businesses and their customers by doing payments better. The company delivers payments, eCommerce and security solutions, as well as consultation services, to businesses throughout the United States, Canada and Europe. It processed more than 16.6 billion transactions at approximately 705,000 merchant locations in 2018.⁸ The company is a joint venture that combines the technology and innovative products of First Data with the relationship strength and prominent global brand of Bank of America. To learn more, please visit merch.bankofamerica.com.

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¹ State of the Connected Customer: Second Edition,” Salesforce Research, 2018.

² Visa, “North America insights on real-time payments, 2018. <https://usa.visa.com/visa-everywhere/innovation/north-america-insights-on-real-time-payments.html>

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⁴ Forrester, “Cross-Border Services Will Help Cross-Border eCommerce Reach \$627 Billion by 2022,” 2017.

⁵ Bruce Dragt, Payments Journal, “Alternative Payment Methods Are Taking Over Global Online Businesses,” 2018

⁶ Forrester, “The Future of Payments: The Invisible Valuable,” 2018.

⁷ Hui Research (<http://www.hui.se>).

⁸ Per the Nilson report, March 2018, Issue #1127 and Bank of America Merchant Services data, June 2018.



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