

Payment Security - A Journey In Time

by [Steve Brown](#)

The first immigrant landed on Ellis Island Jan 1, 1892. Her name was Annie Moore, she was 15Ys old and she had just arrived in the US from Ireland. From that point forward, Ellis Island in NY was the busiest immigrant inspection station in the US until 1954. Like Annie, upon arrival immigrants had numerous required steps to gain access to their American dream (including a ticket of health and a sponsor's letter of invitation). The final hurdle was a visit to The Money Exchange. There, people would use gold, silver, or foreign currency concealed within the soles of their shoes or the hems of their skirts, to purchase means of transportation to their final destination. Only then were they allowed to depart Ellis Island.

Fast forward to the 21st century and an immigrant could replace that hidden treasure trove with a mobile phone. Flash a smartphone at a payment terminal and voila! It's done...or maybe not. It's a great idea, but with the exception of Starbucks, mobile payment readers have yet to be widely installed.

There has been plenty of recent buzz about Apple Pay, the mobile point of sale app that Tim Cooke, Apple's CEO recently revealed. Its success is not by any means a slam dunk though. The technology for Apple Pay is hardly new, it uses NFC technology which dates back more than a decade. Competitors such as Google already incorporate NFC into their devices and yet few consumers use the technology due to a shortage of readers on the other side of the counter. Merchants and big banks alike have quietly resisted this mobile revolution. Tim Cooke claims that he has enlisted well known retailers like Macy's, McDonald's, Walgreens, Subway and Whole Foods to accept the new payment method. It's a start, but in the end merchants signed up so far only represent 220K US locations, a small percentage of the 9mm merchant universe. Right now NFC technology is deployed among fewer than 10% of merchants, according to information technology research company Gartner.

As with the bigger stores, Mom and Pop operations are reticent to spend \$500 on the necessary readers and software. They are not alone; Walmart, the world's largest discount department store will not turn on NFC machines either. Walmart decided that they prefer the Merchant Customer Exchange and it plans to roll out its own mobile wallet in 2015.

In the absence of merchants united behind a common technology, Apple Pay and Google Wallet may struggle to gain traction. Furthermore, there is the customer's dilemma. Will they jump at the opportunity to pay bills using their phones? A recent survey conducted by Creditcards.com suggests that 62% of Americans never use their phone to make a purchase and 64% of adults 65Ys and older don't intend to in the foreseeable future. Even 30% of the millennial generation is resistant.

Millennials love their pet phones and use them while shopping. But mostly they use them to compare prices because there is still doubt over the security of mobile payment. Every day seems to bring an announcement of another enormous data leak and this does not help matters.

Fortunately the giants of Silicon Valley are working feverishly to improve the technology. The next Google Android operating system slated for release in October will have encrypted data by default.

Google already offers encryption as an option but most consumers haven't activated the feature. Going forward encryption will be automatic, making it difficult for thieves to read data on a stolen phone. Revelations surrounding National Security Agency spying activities caused the tech giants to develop systems that protect customers from snooping strangers. This all still has to shake out, but no matter how it ends up it is probably better than stuffing coins into your shoes.

BANK NEWS

Marketing Blitz

Research by The Financial Brand on 100 of the biggest credit unions in the US finds they spend an average of about 0.10% of assets on marketing, or an average of \$8 to \$16 per member.

Profit Drivers

A Bank Director survey of directors and senior bank executives of banks across the country finds the primary drivers of their bank's profitability over the prior 12 months were: loan volume (84%); fee income (49%); cost cutting (36%); deposit volume (27%); acquisition (15%) and other (14%).

Customers

A study by Oliver Wyman finds the primary sources people go to when deciding what bank to switch to from their current provider are: family and friends (30%); visiting a bank branch (20%); visiting bank websites (18%); speaking with a bank representative (18%) from personal experience (14%) or searching online (11%).

Odd Approval

The Commodity Futures Trading Commission (CFTC) has reportedly approved a trading platform for bitcoin derivatives called TeraExchange.

Strategic Planning

The OCC indicates a bank's strategic plan should: cover at least a 3Y period; contain a comprehensive assessment of risks that impact the bank or could impact the bank during the plan period; articulate overall mission statement and strategic objectives for the bank; articulate how the bank plans to achieve its objectives; explain how the bank will update risk governance as risk profile changes under the plan; review, update and approve as necessary changes in the plan due to changes in the bank's risk profile or operating environment not contemplated when the plan was developed.

Best Opportunity

A survey by Area Development Online finds the Top 10 states for doing business in order (based on business environment, labor climate, infrastructure and global access) are: GA, TX, SC, AL, TN, LA, IN, NC, OH and MS.

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