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With various risks accompanying current payment forms and systems, businesses and consumers are gravitating toward new methods. Convenience and security are two of the driving factors in developing new payments. At the hearings, the FTC will examine several of the payment forms that are gaining acceptance and may dominate in the next Tech-ade. A couple of examples in the restaurant industry illustrate that sector's pro-active approach to security issues.

VeriFone, Inc., a San Jose-based producer of electronic payment devices, released VeriFone On the Spot payment systems solution in May 2006 to respond to one of the restaurant industry's biggest security gaps: the point in the meal when the server steps away with the patron's credit card to scan it. On the Spot, one of Verifone's Vx 670 products, offers a solution to this potentially insecure transaction. The portable device, connected to a wireless network, is presented by the server to the restaurant patron at the point-of-service so the patron has possession of his/her credit card when paying the restaurant bill.

According to Rob Regan, General Manager of VeriFone Hospitality Systems Group, this device "has been a missing piece in the world of payment card acceptance." "Restaurants want to be more pro-active, to provide more security for guests," says Regan, and they like a technology that "secures payment at the point-of-service" and thus "removes liability from the restaurants." According to Regan, "We looked at what we had done in the quick service market, and we asked 'how do we deliver a secure solution like that in the right way for restaurants?'

In particular, VeriFone's On the Spot device eliminates a practice known as "skimming," which occurs when a server walks away with the customer's credit card and scans the card into a separate reader that transmits the card data elsewhere, ready to be used for fraudulent acts such as fake credit card production. Un-watched credit cards are also a target for server entrepreneurialism, where the server adjusts a tip to his/her advantage. Restaurants simply do not have the resources to track this sort of fraud on their own, says Regan.

To ensure that VeriFone On the Spot's wireless operation is not open to security risks of its own, the system uses Wi-Fi Protected Access (WPA) to strongly encrypt data when it is transmitted straight through the device. According to Regan, WPA-secured connections have never been cracked, and they are recommended by major credit card companies. Regan said that along with reliable security, a mobile payment device had to be "very small and very durable" to catch on in the restaurant world. According to Regan, "Technology advancements played a big role" in the creation of the On the Spot device, and the convergence of wireless networks and a demand for secure payment systems made it "the right place at the right time" for this product.

For customers who use debit cards—which comprise more than 50% of restaurant transactions—On the Spot includes a keypad for entering in a PIN number, which are encrypted at an even higher level to prevent fraudulent uses of the debit card. On the Spot "eliminates the server ever having to touch the card," says Regan, "You wouldn't want to give your social security card or driver's license to someone, so why give your credit card up?"

At a restaurant in Washington D.C.'s Georgetown neighborhood, one manager has eliminated her need to rely upon another frequent source of payment insecurity: cash. Some consumers might be accustomed to having their credit cards turned away at dining establishments that prefer not to deal

with the costs imposed by credit card companies. However, few are probably acquainted with the opposite situation: having one's cash turned down in favor of a credit card.

This is what Snap Café restaurant manager Margarita Uricoechea decided to instate after years of worrying about the insecure aspects of dealing with cash. According to Uricoechea, it was a risk to go out of town and leave the business in the hands of someone else with cash revenue readily available. Furthermore, Uricoechea worried about situations when she was forced to carry around a large amount of cash, such as going to the bank. She pointed to an instance when she lost 500 to 1000 dollars. Finally, the simple hassle of making change for large bills made refusing cash an increasingly tempting proposition.

With all of this in mind, Uricoechea decided to look into implementing a credit card only policy at Snap. "Is this a stroke of genius, or am I missing something," she recalls asking herself. She vetted the idea to her lawyer to make sure it was legal—it was, according to the U.S. Treasury—and she then called the companies of the credit cards her restaurant accepts to negotiate a lower rate from them. Uricoechea pointed out that the companies would triple their volume because of her credit card only policy, and they agreed to lower their rate per transaction. "Cash has a price too," Uricoechea notes, pointing to the worrying and the frequent trips to the bank. On April 15 of this year, Snap Café began enforcing a credit card-only policy.

"People tend to think a small business only takes cash," Uricoechea acknowledges, but she encourages the credit card policy and points out that it has ramifications for regulators too. A cash-only policy enables tax-avoidance, because it is easier not to report cash earnings. Although Uricoechea acknowledges that Snap customers are often surprised and sometimes dismayed at the credit card only policy, she says that business has not declined and that people ultimately give in. As far as Uricoechea knows, restaurants have not been eager to follow her lead, though she would encourage it.

Check back in during the Tech-ade Hearings when more new payment methods will be discussed.

Relevant panels:

Changes in Payment Devices and Systems
Wednesday, November 8, 2006, 9:00-10:30am

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