



Merchant Services

Windy City Summit 2011: Expanding your Merchant Card Acquiring

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Market Drivers

Common Merchant Challenges



“No matter how my customers choose to pay, I need to be prepared to accept it.”

“Complying with PCI standards is overwhelming and expensive—I need help.”

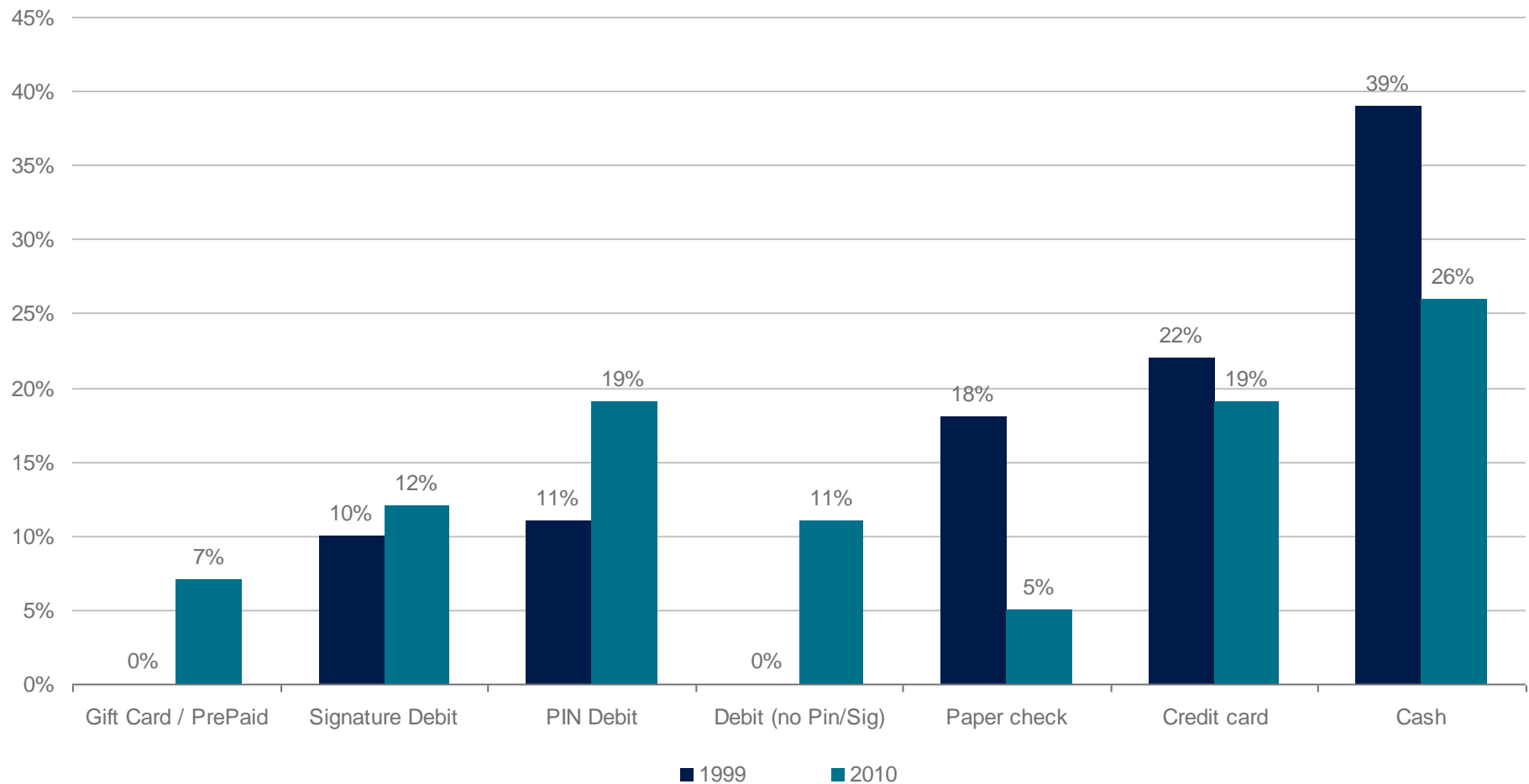
“I don’t have time to wait for funds to be credited to my account”

“When I have a line of customers, I need fast transaction approval and no system downtime.”

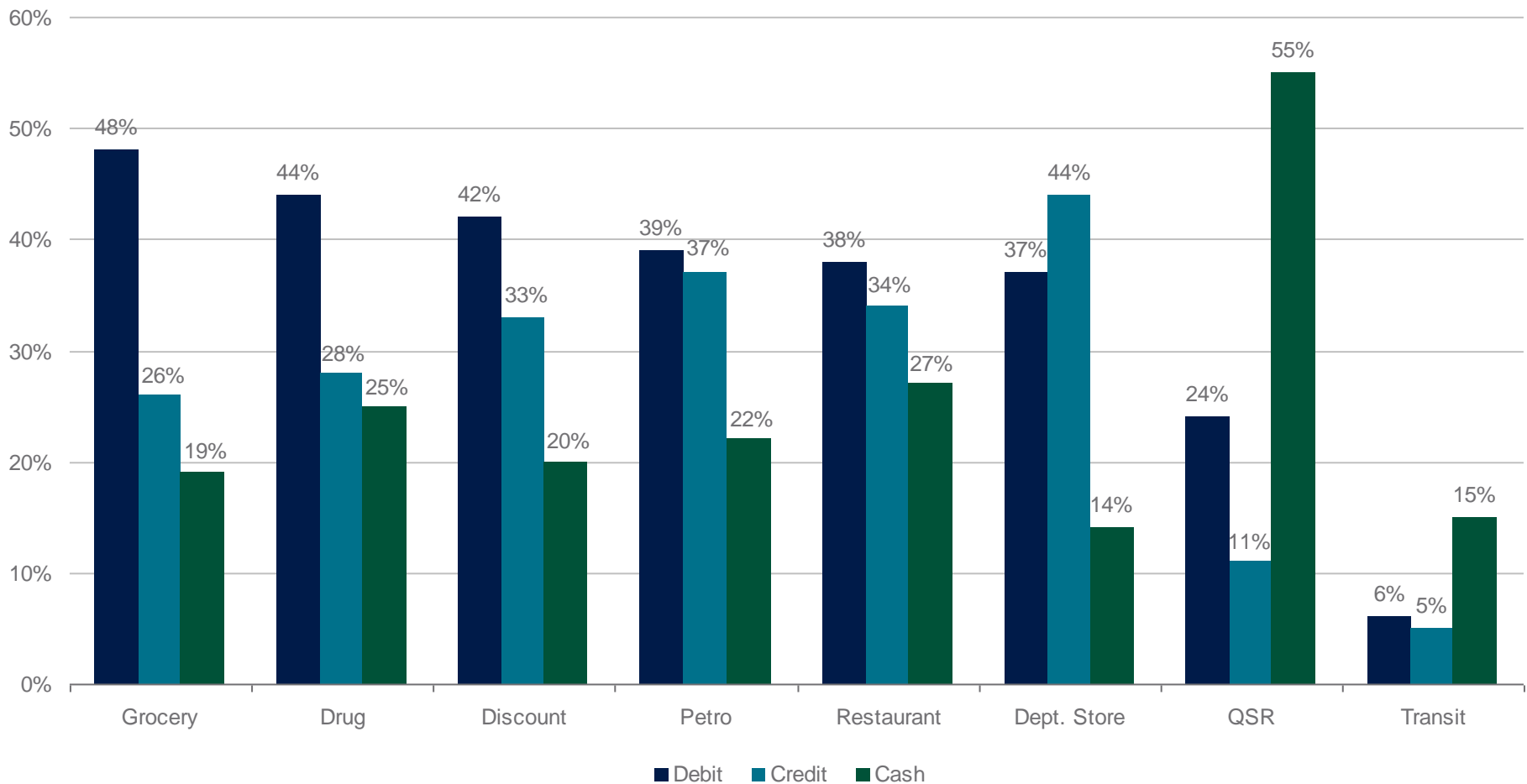
“Trying to choose a processor and buy all the related devices is confusing.”

Significant Growth in Prepaid and Debit Transactions

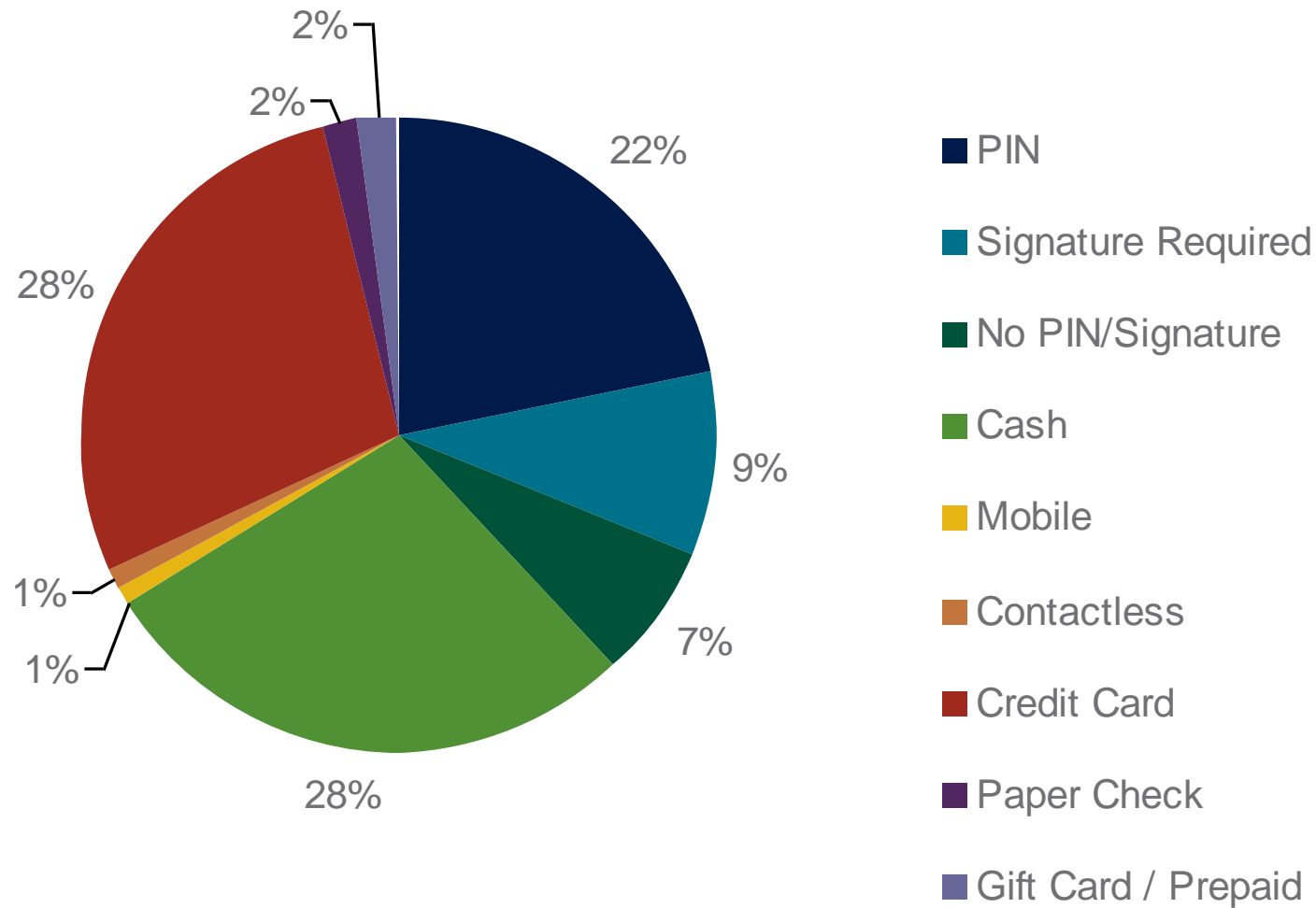
In-store payment trends 1999 - 2010



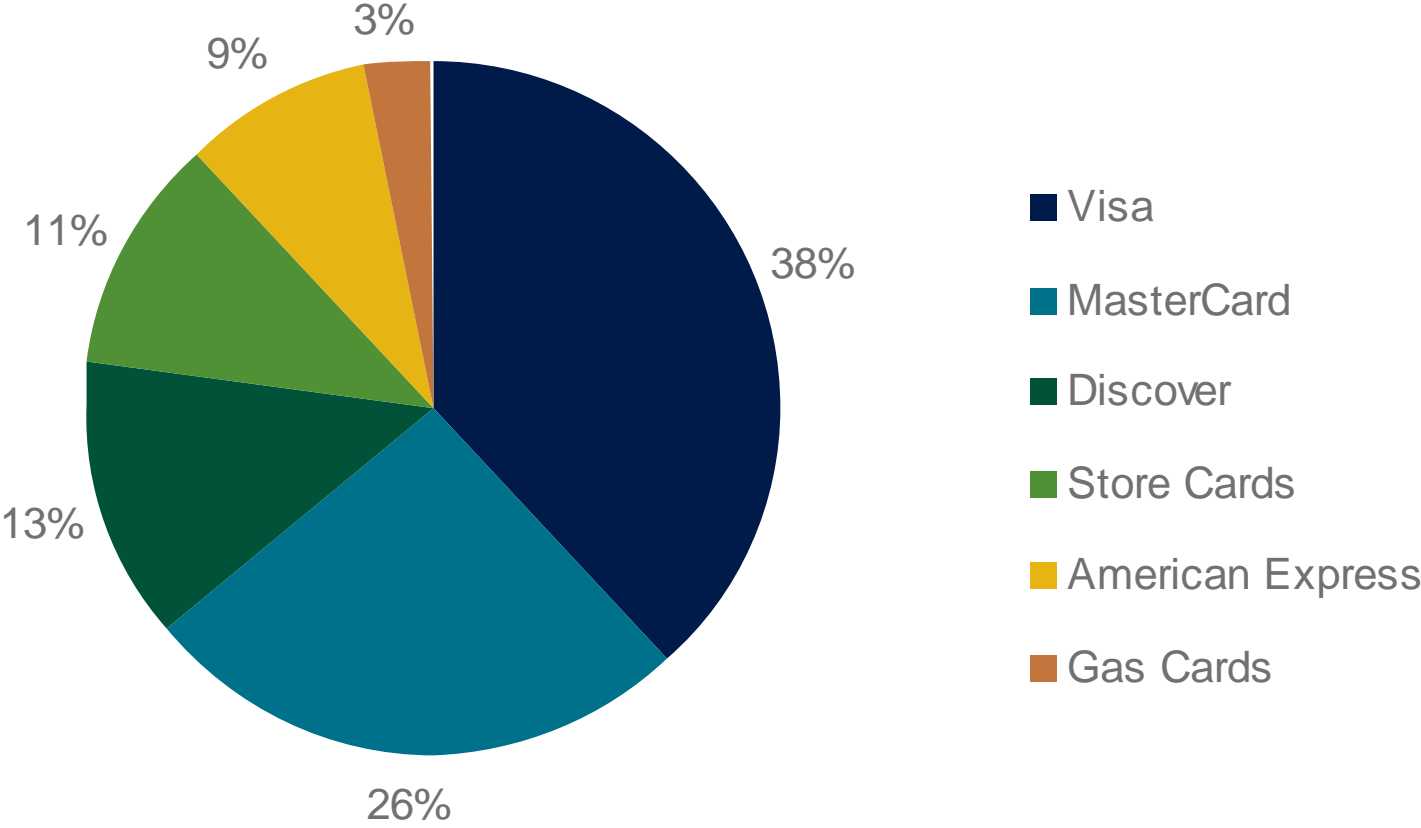
2010 Cash/Credit/Check Transactions by Merchant Category



2010 Consumer Payment Methods (transactions)



2010 Share of General Purpose Cards (transactions)



8 | Source: BAI / Hitachi Consulting: "2010 Study of Consumer Payment Preferences" September 2010 and First Data Corporation "Payments 101: Credit and Debit Card Payments" October, 2010.

The Rise of Electronic Transactions

CONSUMERS

- Convenience
- Efficient money management
- Rewards for using cards
- Purchase protection
- Theft protection

MERCHANTS

- Reduce operating costs
- Increase sales
- Improve cash flow
- Operational efficiency
- Customer service improvements

Credit and debit cards have increasingly become the preferred methods for consumers to pay for goods and services, making these forms of electronic payments an indispensable way for merchants big and small to conduct business.

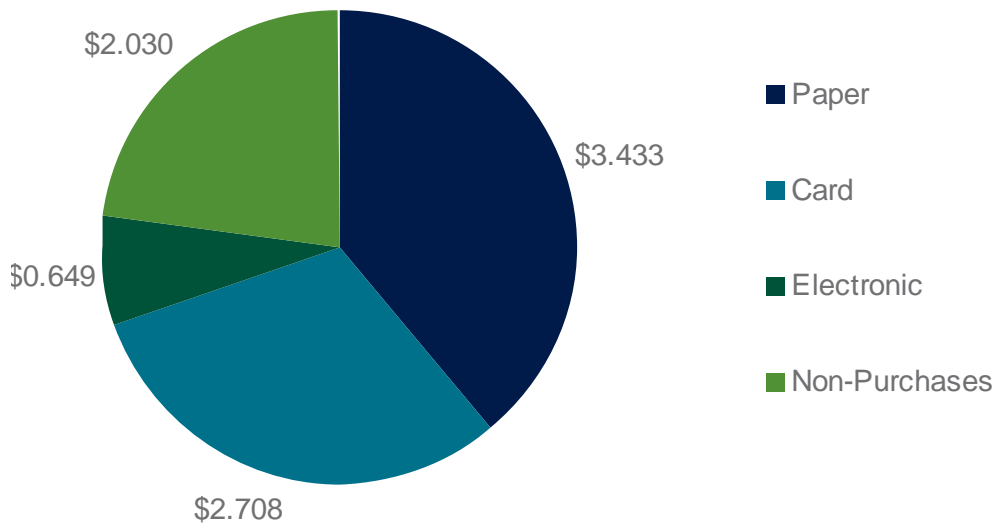


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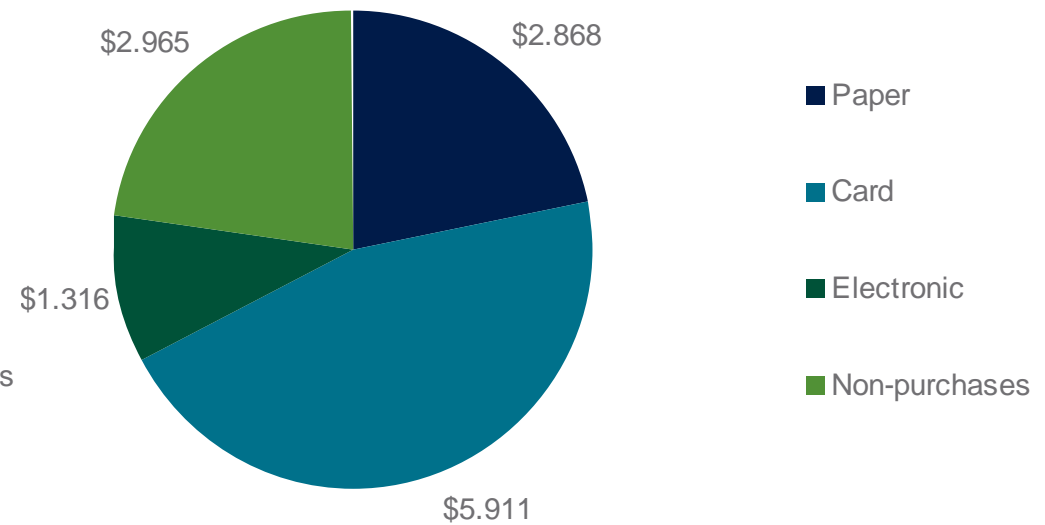
What Does The Future Hold

Future U.S. Personal Consumption Expenditures (in \$Trillions USD)

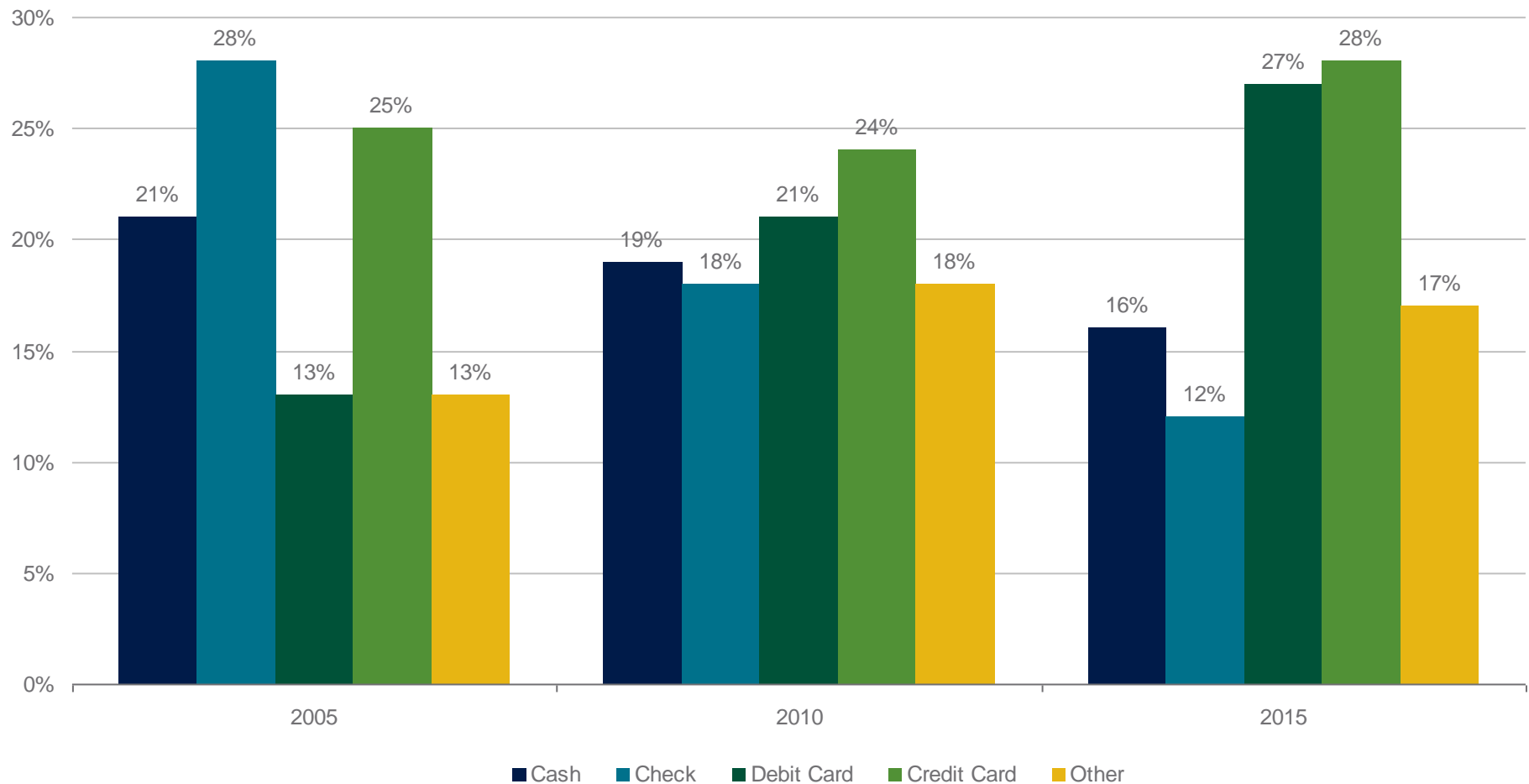
2005



2015



Future US Consumer Payments – Volume by Payment Type



Trends to watch

- Multi-Function Cards

- Card that gives card holder access to multiple accounts on a single piece of plastic (i.e. credit & debit, personal & business account, credit accounts with different payment terms, etc.)
- Combat diminishing wallet share

- Mobile payments

- Payment functions delivered directly from the handset to an acceptance device Payments made via mobile phone
- Replace leather wallet with electronic wallet

- Contactless cards

- Enables consumers to wave or tap a card instead of swiping

- Fraud Protection

- Verification/Authentication
- PCI Compliance
 - Encryption/Tokenization



Alternative payments

- Electronic Check Acceptance



- ACH or Check 21 debit from consumer's checking account

- Stored Value/Money Transfer



- Pre-load funds to non-bank proprietary balance account or debit card to transfer money online

- eWallet



- One online account to access and pay multiple web merchants

Alternative Payments

- Instant Credit



- Real-time credit approval at time of transaction (deferred billing)

- Online Banking



- Pay via online banking bill pay function

- Virtual Card



- One-time or reloadable debit or credit card number generated via Internet to purchase online

- Internet PIN Debit



- Customer keys debit card and floating PIN at merchant website

Durbin Amendment – Brief Summary

- July 21, 2010 Dodd-Frank Wall Street Reform and Consumer Financial Protection Act signed into law. Section 1075 – Durbin Amendment
- The amendment includes provisions relating to debit and prepaid interchange and to certain network rules applicable to merchants.
 - *Debit and prepaid interchange - the amendment provides that the amount of any fee established by a network to compensate an issuer or the network for its involvement in a debit or prepaid card transaction must be “reasonable and proportional to the cost incurred” by the issuer or network with respect to the transaction. The debit interchange provision does not apply to any issuers that have assets of less than \$10 billion.*
- The amendment prohibits a payment card network from inhibiting the ability of a merchant to:
 - *Provide a discount or in-kind incentive for payment through the use of a card or device of another payment card network*
 - *Provide a discount or in-kind incentive for payment by cash, check, debit card, or credit card*
 - *set a minimum or maximum dollar value for the acceptance of credit cards.*
- Proposed Fed Rules:
 - *The Board is requesting comment on two alternative interchange fee standards that would apply to all covered issuers: one based on each issuer's costs, with a safe harbor (initially set at 7 cents per transaction) and a cap (initially set at 12 cents per transaction); and the other a stand-alone cap (initially set at 12 cents per transaction). Under both alternatives, circumvention or evasion of the interchange fee limitations would be prohibited. The Board also is requesting comment on possible frameworks for an adjustment to the interchange fees to reflect certain issuer costs associated with fraud prevention.*