



**FIDELITY NATIONAL
INFORMATION SERVICES**

Debit Cards – Protecting Your Investment

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OVERVIEW

- Review Current Threats & Concerns
- Offer Suggestions For Success
- Protect Your Investment

AGENDA

- Debit Card Fraud
- Revenue Opportunities (Signature vs. PIN)
- PIN Networks
- Other Threats to Interchange Revenue
- The Value of Rewards



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FRAUD

CARD FRAUD TRENDS

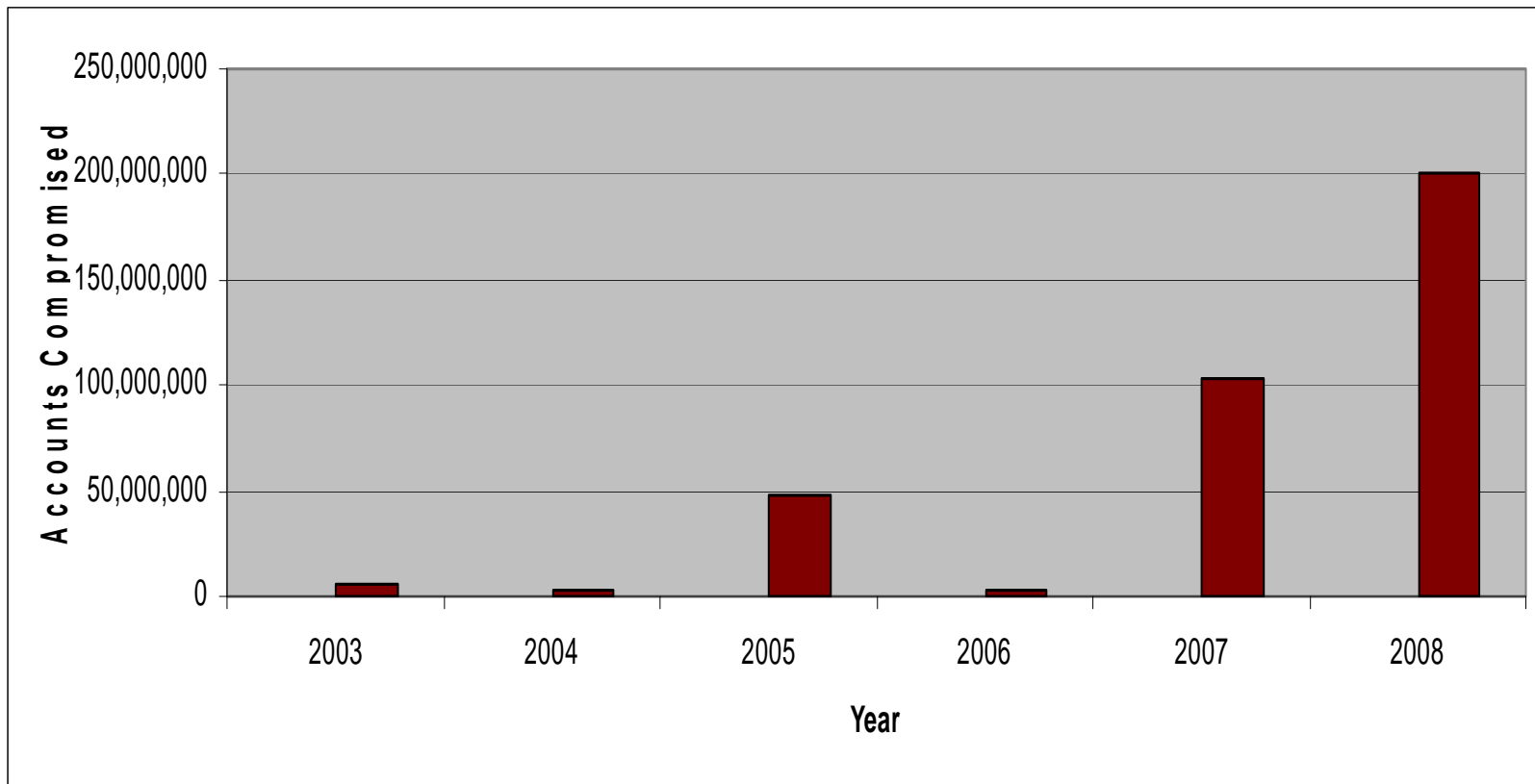
- US card fraud continues to impact issuers
 - Sophistication of data breaches and economic trend has issuers worried about resurgence
- CNP fraud has increased in all regions
- Data breaches seen to be increasing in all regions
- PCI compliance not yet complete and not foolproof in any case
- Merchants' POS environments are still vulnerable and unpredictable
 - Wireless capture of data offers criminals additional opportunities

CARD NOT PRESENT

- CNP fraud is a form of counterfeit fraud
- Least risky transaction to criminal
- Least risky to financial institution?
 - Chargebacks carry costs
 - Some merchants have a 'dispute all chargebacks' policy
 - Impact pushes members to alternative payments
 - Less or no interchange
 - Less sophisticated fraud monitoring tools
- Most likely outcome of a data breach

2008 INDUSTRY BREACHES

Heartland and Unnamed Processor dwarfs data breaches in aggregate over previous 5 years



Source: Attrition.org, Proprietary sources

HEARTLAND DATA COMPROMISE

- Largest data breach publically announced
- Estimated at over 150 million accounts with significant confirmed fraud
- Dwarfs Hannaford (at 4.2m accts) and TJX (initially reported to be 46m accts)
- Heartland certified “PCI Compliant” in April 2008. Visa & MC have since removed.
- Visa released a total of 41 lists and MC released 33 lists
- U.S. Secret Service is leading the investigation

OTHER SIGNIFICANT COMPROMISES

RBS Worldpay ATM Fraud

- Fewer than 100 cards
- Coordinated fraud across 130 ATMs in 49 different cities
- Stole over \$9m in approximately 30 minutes

Unconfirmed Processor

- Computer system of processor was improperly accessed
- Only data at risk is the account number and expiration date
 - No track data
 - No CVC2/CVV2 data
- No fraud reported
- Visa released 29 lists and MasterCard released 14 lists

DEBIT CARD FRAUD



Cuban gas ring in Miami – tied to Hannaford breach in early 2008. Modified vehicle for gas theft.

DEBIT CARD FRAUD



DEBIT CARD FRAUD MITIGATION

- Goal is to identify and prevent third party fraud
 - Aggressively pursue credit union interests and delight cardholders with pro-active service
- Make sure your processor employs robust fraud models (Falcon, PRM)
- Models and score-based rules are used to identify high risk authorizations
 - Authorizations can be declined at point of sale
 - Cardholder can be contacted
 - Account can be temporarily blocked pending validation of activity

DEBIT CARD FRAUD MITIGATION

- Maintain single Fraud Management platform to evaluate all plastic card transactions (Credit, Debit, Prepaid)
- Manage consolidated 24/7 operations
- Incorporate additional data to strengthen defense in depth approach (VAA)
- “Flash Fraud” rules supplement score-based rules
 - Target flash fraud trends
 - Reduce other known high risk activity (not score based)
 - Minimize impact to legitimate cardholders



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REVENUE OPPORTUNITIES

SIGNATURE vs. PIN

SIGNATURE POS INTERCHANGE

- Average signature POS interchange is around 145 bps of the ticket amount.
- Average ticket amount is about \$40.
- $145 \text{ bps} \times \$40 = \0.58 interchange revenue/transaction
- Interchange rates increase for certain merchant categories
 - MOTO & Internet - 185 bps
 - T&E - 170 bps
- Processed as “credit” by merchants
- No cash-back at the POS

PIN POS INTERCHANGE

- PIN POS interchange rates depend on the network
- Average is \$.20 - \$.25 per transaction
- Processed as “debit” by merchants
- Cash-back at the POS is allowed
- Many networks support PIN-less transactions – Internet bill-pay
- Average interchange for PIN-less bill-pay is higher (\$.75 - \$.80)
- # of merchants accepting PIN-less transactions is growing

PIN vs. SIGNATURE

- On average Signature POS pays higher interchange
 - \$50 purchase
 - \$.73 signature revenue
 - \$.25 PIN revenue
 - \$100 purchase
 - \$1.45 signature revenue
 - \$.25 PIN revenue
 - \$100 bill pay
 - \$1.85 signature revenue
 - \$.80 PIN-less revenue
- PIN transactions have added features such as PIN verification and cash back



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PIN NETWORKS

EFT NETWORKS IN THE U.S.



PIN NETWORKS

- Factors to evaluate when selecting a network:
 - Interchange rates – primarily POS
 - Coverage – ATM and POS
 - Surcharge-Free ATMs
 - Deposit Sharing ATMs
 - Allow PIN-less?
 - Compliments your business model
- Some networks are owned by large EFT processors
 - Who Benefits?
 - Financial incentives for exclusivity
- Re-evaluate networks on a regular basis (18 months)



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OTHER THREATS

PIN-LESS DEBIT

- Currently supported by several PIN networks
- Primarily allowed as a bill payment option
- Expanding into other merchant categories such as QSR and Restaurant.
- Issuer typically receives lower interchange
- Cardholder may lose rewards points, buyer protection/chargeback rights

ACH PRODUCTS

- Decoupled debit cards – Tempo
- Uses ACH to settle transactions to cardholder's DDA
- Cardholder's DDA does not have to reside with the card issuer
- Card Issuer gets the interchange generated by the POS transaction. DDA owner gets nothing
 - *“Decoupled debit is a major breakthrough that will fundamentally reshape the U.S. debit card market.” Mike Grossman, CEO Tempo*
 - *“Financial institutions that have ignored their debit products in the past will be forced to educate, market and innovate or they will lose significant transaction revenue.” Paul Tomasofsky, Two Sparrows Consulting*
- Other ACH products include PayPal & Bill Me Later

MERCHANT STEERING

- PIN Pads added at the POS by most retailers
- Cardholders are “steered” into selecting to process the transaction through a PIN network
- Cardholders must press “cancel” (sometimes more than once) in order to select signature debit/credit.
- Issuer typically receives lower interchange
- Cardholder may lose rewards points, buyer protection/chargeback rights



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LOYALTY PROGRAMS

DEBIT REWARDS

- Today's cardholders want value
- Today's cardholders are sophisticated and can determine the difference between real value and low value
- 40% of all debit issuers offer rewards
- Debit rewards on Signature transactions shift PIN transactions, cash & check to the higher value interchange transactions

ENTERPRISE REWARDS

- Rewards the Total Customer Relationship
- Any Relationship Can Be Scored
 - Total # of accounts and total deposits
 - Bill Pay Activity
 - New Account Openings
 - Enrolling in Direct Deposit, Overdraft Protection
- Typically Credit or Debit Program is the Foundation for Earnings
- Rewards schedule based on Profitability and Strategic Value of Each Account

THE VALUE OF REWARDS

- Benefits to the Issuer
 - Open more deposit relationships
 - Enhance other enterprise product relationships
 - Stimulate debit card usage
 - Shift to a preference for Signature card transaction from PIN, cash and check transactions
 - Increase transaction activity on all your cards
 - Provide value needed in today's economy
 - Meet needs of your diverse customer base



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**THANK YOU FOR YOUR TIME
QUESTIONS?**