



PASSPORT TO PAYMENTS

ICBA Bancard's Card Conference & Expo

September 26-28, 2010

Visit www.icbabancard.org/passport to learn more.

General Session Highlights:

ICBA's regulatory expert **Karen Thomas** shares the view from Washington and the trickle-down effect on Main Street banks. Visa chief economist **Wayne Best** offers the 18-month economic outlook. And **Mark Sievwright**, Fiserv's strategic marketing guru examines the future of cards in a digital world.



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Getting in on the Rewards Game

When issuers ask Laura Kreps, senior business leader for MasterCard Worldwide, why they should play in the rewards space she gives them the facts: Cardholders with a rewards program spend three times as much as non-rewards program cardholders.

Customers who select credit cards for their rewards features are also more affluent and use their credit cards to pay their monthly bills, according to an Aite Group research report. These characteristics may add up to high-transaction, frequent card users and a corresponding valuable source of interchange income for the bank.

It's no surprise then that Cashmere Valley Bank set out last summer to remind its customers of the sweetness of its MasterCard Airlines Rewards Plus program.

The \$1 billion-asset bank in central Washington launched an ad campaign that was "positive, fun and caught people's eye," says card services plan manager,

Patty Browning of the campaign's catchy theme—"It May Be Vanilla, But It's Never Been So Good." The bank took to the airwaves to tout its program's features which include: no annual or cash advance fee, no penalty or default rates, and 0 percent APR for six months, with rates as low as 8.25 percent thereafter. The effort paid off. In the month's *(continued on page 4)*

A Perspective on the Durbin Amendment

By Lee Manfred

Editor's Note: The following editorial is based on the original Durbin amendment submitted to the Senate. Significant changes to the bill are summarized in the accompanying sidebar on page 5.

On May 20, the Senate approved its version of the Financial Regulatory Reform bill which included the Durbin Amendment, a late addition to the bill that could bring profound change to the payment card industry in the U.S. The Durbin Amendment is a clear victory for merchants and a setback for issuers and payment networks. The extent of that victory or setback will depend on the reconciliation with the House bill and then how the Fed ultimately decides to implement its provisions. As drafted, however, the Durbin amendment is an example of bad lawmaking on many levels. First, its attachment to the FSR bill is clumsy at best in that it deals with a business controversy unrelated to the financial crisis the bill is intended to address. Second, the Durbin Amendment is simplistic, failing to consider the many complexities inherent in the long-running controversy between merchants and the payment networks/banks. Most importantly, the amendment does not contemplate any of the negative unintended consequences it will likely have on most stakeholders, including many merchants.

Problems and Ambiguities

The amendment's language has a high degree of ambiguity in some areas, and overly broad definitions in others. Below we highlight some of the provisions that are problematic including areas where the Fed will have difficulty in establishing a practical set of final rules. *(continued on page 5)*

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Push Forward or Pull Back



In the last 24 months, many of my fellow community bankers have found themselves at a crossroads with their payments strategy. The economy has been unpredictable, leading consumers to reassess their finances, and Congress and our regulators to propose sweeping changes to nearly all aspects of our business.

It's enough to make any issuer wonder...

Do I push forward technological advances like mobile payments, PayPal and others with the promise of new revenue streams? Do I expand my debit and credit card programs? Or should I pull back given the reality of greater regulatory and legislative challenges?

The staff at ICBA Bancard has the answers for you—answers that will help you find a

strategy that is just right for your bank. And they've put together a first-rate Conference and Expo, Sept. 26-28 in St. Louis Mo., aptly titled **"Passport to Payments"** to help community bankers like you and I delve into the issues and chart a profitable course. They're promising an event that offers:

- Dynamic interactive workshop sessions led by seasoned professionals from Visa, Fiserv, FIS, MasterCard and others to help improve your credit and debit card performance.
- Best-in-class product demos and onsite portfolio analysis to gauge ROI, improve customer retention, generate fee income and enhance operational efficiency.
- Collaborative roundtables addressing emerging products and services, marketing strategies, compliance tactics, and fraud prevention to grow and preserve your business.

• High-level keynote presentations on the politics of payments, what's next for the industry, and how to protect your investment.

And they've put their money where their mouth is with a 100% Money-Back Guarantee on your conference fee.

Visit www.icbabancard.org/passport for more information about this can't-miss event. And set your calendar for **September 26-28, 2010**. Register by July 31st to take advantage of early-bird pricing (\$249).

I hope to see you there

Sincerely,

John H. Buhrmaster
ICBA Bancard chairman

TCM Agent Banks Happy with Service, Request Stronger Sales Tools

Unfamiliarity of feature benefits of their Visa Platinum card program and economic conditions are hindrances to credit card growth, according to a recent TCM Agent Bank survey. Interest rates and pricing also continue to be an issue for many. Half of survey respondents requested more powerful marketing tools to help them overcome these challenges.

The survey, sent to 555 Agent Banks, was conducted in part to determine satisfaction with service provided by the newly linked client services teams of ICBA Bancard and TCM Bank, N.A.

More than 90 percent of respondents said their needs are being met, while three out of four indicated that service is either "good" or "excellent." Fifty percent of the banks that responded said that TCM's strongest point is the way it communicates information to Agents.

Many also noted that they would like better marketing tools. In particular, they suggested that more e-mail and direct mail support from TCM could help them accelerate portfolio growth.

The 10-question survey was sent out, region by region, over a two-month period with a follow up e-mail one week after the initial request urging non-responding banks to complete the short questionnaire. In all, 45 percent of Agent Banks completed the survey.

"Make Your Agent Program a Success"

After regional surveys were tallied, TCM followed up by phone with each responding bank that provided contact information. TCM's "Make Your Agent Program a Success" PowerPoint presentation was sent to 50 Agent Banks to reacquaint them with the program's features and benefits. In addition, 20 banks

received the three-minute Visa Platinum Card marketing CD.

TCM also e-mailed the PowerPoint presentation to Agent Banks that did not respond to the survey, along with news about its updated Website www.TCMBankNA.com.

"Surveys like this one help us find out whether our Agent Banks are getting the most value from their program," said Shana Baert, operations and administrative support for TCM Bank. "We appreciate the feedback they provide, and we're pleased that so many of them rate our client service very highly. In today's tough environment, we're more strongly committed than ever to helping them compete effectively."

Joe Shallow is ICBA Bancard's executive vice president, business development.

Safeguard Customers, Investment with CAP Insurance

Steve Ello, ICBA Reinsurance

Few community banks have an appetite for risk. Odds are your bank has carefully screened its customers and issued credit cards to individuals with low debt-to-income ratios, high credit scores and timely payment histories. These best practices are fundamentals of a healthy credit card portfolio. But there is one more thing you can do to protect your customers and your investment.

Hats Off to CAP Insurance

ICBA Bancard's Credit Account Protection (CAP) program safeguards your bank's credit card portfolio should your customer die, become disabled, unemployed or need to take family-medical leave. Depending on the circumstances, CAP insurance will pay the customer's credit card balance completely

(up to \$10,000) or make the minimum payment until the customer is able to return to work.

The insurance costs the customer a few dollars a month and there is no underwriting aside from an age requirement. This benefit alone is significant for individuals who may have a pre-existing condition that would exclude them from purchasing traditional insurance or, at the very least, make it unaffordable.

If your community bank is enrolled in the CAP program, your lenders can offer the product to customers when they open a credit card account. FIS will also advertise the program to your existing credit card customers twice a year via a free statement insert (insertion fees apply). In addition

to avoiding credit card charge-offs and delinquencies, community banks that participate in CAP also earn a revenue stream.

Good health and employment are not guaranteed and the last thing individuals or their family wants to deal with during an already challenging time is one more overdue, outstanding bill. CAP helps customers meet their financial obligations and avoid collection calls during difficult times.

Steve Ello is president of ICBA Reinsurance.

To enroll in the CAP program or learn more, contact ICBA Bancard at (800) 242-4770.



Ask Marlene!

Below are a few questions commonly asked by our credit and debit issuing banks.

Q: Does ICBA Bancard offer community banks a no-liability merchant program?

Answer: Yes, ICBA Bancard and long-time partner FIS have recently developed an Agent Merchant Acquiring program so banks can participate in the merchant business without worrying about contracts and risk. Your bank can offer merchant

services and terminal support to small businesses in your area, keep a portion of the revenue, and leave the servicing and risk management to FIS. Call ICBA Bancard Client Services to learn more (800) 242-4770.

Q: I want to customize my bank's card plastics. Can ICBA Bancard help?

Answer: ICBA Bancard's online tool, called "Card Designer" lets you create a new, customized credit or debit plastic before you decide to buy. Card Designer's safe, protected site allows you to upload your bank's logo; choose from 200+ stock photos, artwork and designs; and even change your card's tipping color and background. You can also upload your own artwork; request approval of your design or design the back of your card! Go to www.icbabancard.org/build and click on the link to "Branding: Card Design" to access Card Designer.

Marlene Wagner is ICBA Bancard's client services liaison.

10 Steps to Inspire Credit Cards Sales



By Nancy Brook
First Interstate Bank

The average American carries four credit cards, according to a 2007 MSN Money report. If your customers are not making purchases on your bank's plastic you could be missing out on a great opportunity to earn additional revenue while providing your customers a needed benefit.

A decade ago, our senior managers at First Interstate Bank recognized that credit cards could evolve into a growth center. When I started at the bank in 2002, the Credit Card Division was turning a modest profit from its 20,000 cards on file. Working together with our bankers, we have turned the business into a 65,000-card profit center earning more than \$1 million annually—even during tough economic times.

Key to our success has been turning staff into a formidable sales force. As you broach the subject of card sales with your employees you may encounter resistance. Common excuses include: "I'm too busy doing my 'real work'" or "Customers don't seem to want to carry our card." Turning naysayers into salespeople does take some finesse, but with a little effort, shifting negative attitudes can be easier than you think. Here are a few suggestions to get you started.

- 1. Ask: would you want this card?** Your bank needs to have a compelling card offer. You don't need to have the lowest APR, but you do need to be competitive. Do research on the Internet at least quarterly to see how your card compares to other issuers.
- 2. Tout your customer service excellence.** Your bankers need to be confident that their customers will be well taken care of. One of the best ways to do this is to share success stories. Did your credit card staff help a customer in an emergency? Remind them that customers will not likely receive this kind of community bank treatment from a national issuer.

- 3. Get senior management buyin.** Present a case to management on how building a card base can help grow revenue and increase customer loyalty. With bankers, numbers speak. ICBA Bancard has a tool called ACE that can help you define the opportunity and outline scenarios to help your bank reach benchmarks. Schedule monthly meetings with your executives to go over branch sales results and ask for their support

to encourage branch sales and set expectations.

- 4. Establish credit card champions.** Have the branch managers assign a champion—someone who can talk about credit cards, report successes and share the information you provide. Keep in touch with the champions through monthly phone calls, newsletters and at least annual branch visits.

(Read the rest of Nancy's tips online at www.icbabancard.org/bc)

Top 10 Debit Win List

By Greg Borchard, Visa Inc.

Issuers often ask, "With so much to do and so little time to do it what should I focus on to increase consumer debit sales volume and revenue?" My answer, outlined in the Top 10 list below suggests strategies to help community banks maximize their debit portfolio success:

Benchmark your portfolio. Use the Visa Consumer Debit Products Peer Group Scorecard – available at Visa Online www.visaonline.com – to determine your portfolio strengths and opportunities and compare penetration, activation and usage (PAU) figures to the Visa System average and then focus resources on underperforming areas.

Quantify your portfolio opportunities. Visa has developed Performance Measurement Calculators (which include a PAU Sensitivity Model) that can help quantify PAU improvements, the slightest increase of which could have a significant impact on your bottom line. Focus your resources on the areas of greatest opportunity. The model is available at no charge on Visa Online or through ICBA Bancard.

Evaluate and implement quick-win opportunities. If your portfolio is under-penetrated, for example, consider an ATM card or DDA-only account upgrade to debit. Position the new card as a superior product and use the card carrier (the highest read piece of collateral cardholders receive) as a marketing vehicle. Include activation and usage offers and/or information about your debit rewards program, if applicable. The earlier an individual begins using the card, the more likely the person will become an entrenched debit user, research shows.

Evaluate your online POS network strategy. Oftentimes consolidating networks can save money which is why some issuers have only one online POS network on their cards. This strategy can help issuers achieve discounts by reaching higher volume tiers and simplifying operational procedures. Interchange rates have also changed, warranting an evaluation from a net revenue per transaction basis. Quantify the net revenue and strategic advantages of each of the bank's networks and choose networks carefully.

Reinforce the benefits of debit over cash and checks. Debit is convenient, provides budgeting and spending control, and also offers important consumer protections that cash and checks don't have. Plus a cardholder has the opportunity to earn rewards if your community bank offers this program—all benefits of the card that should be promoted.

(Read the rest of Greg's tips at www.icbabancard.org/bc)

Fraud Prevention: Making Sure Crime Doesn't Pay

As would-be thieves become more sophisticated in their data caper attempts, issuers have had to ratchet up their information security methods. Gone are the days when criminals rifled through trash bins to access sensitive data, replaced by computer hacking, phishing or the more recent practice of texting unsuspecting individuals.

Unfortunately, there's no single solution to combat this multi-level war on fraud. And as a result, the payments industry has been forced to develop a layered strategy; from account number masking on paper receipts to advanced real-time analyses of each transaction that flows through the processing systems. Card issuers and financial institutions are also teaming up to offer electronic and mobile alerts that empower their customers to monitor their personal accounts for fraud. These combined efforts have helped the industry stay a step ahead of criminals and maintain

fraud at relatively low levels.

As we enter into the summer season, it's a good time for issuers to remind their customers about best practices to

safeguard their personal information from unforeseen rogues.

Alan Nevels is ICBA Bancard's senior vice president, operations and card risk.

Cardholders should:

1. Keep all contact information up-to-date with their financial institution.
2. List the service numbers noted on the back of their cards and keep the list separate from their wallet or purse.
3. Employ bank and transaction alerts to identify suspicious activity sooner.
4. Let card issuers know when and where cardholders are traveling so their accounts can be flagged and watched more judiciously.
5. Inform issuers immediately if cards get stuck in the ATM card slot as the machine could be rigged to capture cards.
6. Be aware of suspicious people standing around the ATM. They may be attempting to capture PIN data.
7. Be mindful of how service staff handles their card when paying for meals or goods and services.
8. Avoid responding to text messages seeking sensitive information such as social security numbers or PINs.
9. Be wary of ATMs that appear to be in poor condition.
10. Block or cover key pads when entering PINs.

Source: Bancard/Bankrate.com



Ask Karen!

Q: What consumer resources are available regarding the Credit Card Act of 2009?

Answer: The Federal Reserve Board set up a Website dedicated to guiding consumers when choosing and using a credit card. This site, maintained by the Fed, will be updated as appropriate. Go to www.federalreserve.gov/creditcard for more information.

Review credit card agreements at www.federalreserve.gov/creditcardagreements
To review the Jan. 31, 2010 Credit Card Survey go to: www.federalreserve.gov/creditcard/survey.html

Q: When Visa talks about ID theft assistance, what exactly does that mean?

Answer: It refers to a unique partnership with the consumer network, Call For Action, for cardholders who feel their identity has been compromised. Victims of identity theft can receive access to free, confidential counseling for assistance in recovering their identity and preventing future ID theft.

Call for Action is an international, nonprofit network of consumer hotlines. Contact them at (866) ID-HOTLINE. The Website www.callforaction.org also offers theft resources and consumer tips.

Karen Stephenson is a client services liaison at TCM Bank.

Our goal is to keep interest in our cards.Patty Browning,
Cashmere Valley Bank

immediately preceding, new account applications doubled and outstandings jumped 14 percent over the previous year to roughly 6 million.

“Our goal is to keep interest in our cards,” Browning says of the bank’s recent campaign. (Read more about Cashmere Valley Bank’s rewards strategy at www.icbabancard.org/bc.)

Since partnering with ICBA Bancard and MasterCard in June 2008, Engelhard, N.C.-based East Carolina Bank has witnessed a debit portfolio increase by nearly 27 percent—from 11,618 to 15,900. Even more impressive is that a majority of this increase is from new accounts, says Mimi Van Nortwick, senior vice president for the \$898 million-asset bank. Its commercial card base has increased as well to over 600 percent from 95 cards in June 08’ to 600 commercial cardholders in March 2010, Van Nortwick notes. And the number of customer cards has also risen considerably from 11,523 in 2008 to 15,300 as of March 2010, an increase of over 30 percent.

Convenience is the catalyst behind customers’ conversion from cash and check to debit, suggests Van Nortwick, but the bank’s aggressive marketing strategy emphasizing the benefits of debit including its management attributes also may have driven those customers to select ECB’s plastic, she offers.

There’s “a lot of momentum” to incentivize customers, says Kreps, noting that more than 65 percent of card programs in the U.S. have a rewards component to their offering.

When a recent study revealed ECB’s average cardholder was nearly 47 years old, the bank adjusted its strategy to “ensure our programs and bank would remain sustainable as these customers age and begin to spend less,” notes Van Nortwick.

The bank’s solution? A new Rewards Checking program to attract younger customers who frequently make debit transactions, Van Nortwick explains. Users, who make 10 debit purchases a month, pay at least one bill online monthly, and sign up to receive e-statements will qualify for rewards. Qualifying customers will receive a 4.01 percent APY and nationwide ATM fee refunds. (Read more about East Carolina Bank’s strategy at www.icbabancard.org/bc.)

The Cost of Admission

Even a higher-than-average redemption rate did not sway Cashmere Valley Bank’s decision to maintain a rich rewards program. If anything, the redemption review two years ago resulted in a more enriched program, a decision that Browning maintains breeds “consistency for customers” and ensures a steady stream of high interchange for the bank.

To make redemption even easier MasterCard has launched a program where cardholders can obtain a redemption card whereby points are loaded and can be redeemed at the point of sale wherever MasterCard is accepted. “It provides a forum for community banks so they don’t have to build the fulfillment infrastructure for the rewards,” Kreps suggests.

Kreps hasn’t seen much cutting back for point-based rewards programs overall (typically a dollar a point for credit and two dollars a point for debit), either. But there are ways to reduce costs, particularly for debit where interchange revenue may not be as high, she says. One option would be to segment target and reward the bank’s most profitable customers, offering them two times the point value on purchases in new merchant categories of spend rather than typical earning ratio, for example.

Merchant-funded rewards programs also continue to be popular, low-cost options. MasterCard Marketplace is available to all community bank customers and allows cardholders to set preferences and receive discounts on purchases, increasing their spend and point earning on rewards programs.

Regardless of a community bank’s strategy rewards and offers need to be more relevant for consumers and their purchasing behavior, Kreps says. Some community banks allow their customers to “donate” their cash-back earnings to the local school in exchange for the bank offering to match the funds, for example.

Even the most attractive rewards program won’t be utilized if it’s not marketed effectively, say experts.

All of ECB’s employees as well as its board of directors are issued an ECB debit card. This allows our employees to better understand the benefits of our card.Mimi Van Nortwick
The East Carolina Bank

“Our best marketers are our employees,” says Van Nortwick. “All of ECB’s employees as well as its board of directors are issued an ECB debit card. This allows our employees to better understand the benefits of our card, so in turn they can better explain the benefits to our customers.”

Scott Broughton is ICBA Bancard’s senior vice president, client services.

• **Scope, Part 1** – While touted as interchange regulation, the amendment discusses “issuer and network interchange transaction fees,” which could be read to apply to network switch fees and assessments, as well as issuer interchange revenue. Network access fees (i.e., those fees paid by banks to payment networks) have been intensely competitive for years, so their inclusion in this amendment is puzzling.

• **Scope, Part 2** – The amendment lumps all debit cards into one category, “whether authorization [is] based on signature, PIN, or other means.” This language suggests that all debit and prepaid cards should receive the same interchange, even though they target different customer needs and have different features and attributes.

• **Cost, Part 1** – The language is fairly detailed in defining costs as “incremental,” and attributable to a particular transaction, and excluding costs not specific to a particular transaction. That said, a 2007 STAR Network study of issuer costs, performed by First Annapolis, showed that the average cost of a signature debit transaction was \$0.228, while the average cost of a PIN debit transaction was \$0.103. More importantly, some issuers had costs three times or more higher than others. Given this huge disparity in costs, the definition chosen by the Fed has the potential to unfairly enrich efficient issuers, while penalizing higher cost issuers.

• **Cost, Part 2:** Irrespective of debit card type, transaction costs also vary widely based on the type of merchant at which the purchase is made, due to a variety of factors including the POS environment, retail channel, nature of the goods sold, transaction size, fraud exposure, return/dispute profile, and many others. If the cost is to be attributed to a particular transaction, then each of these factors would appropriately be considered in determining if the fees are reasonable and proportional. The logical outcome is an extremely detailed and potentially unwieldy schedule of fees that will likely still contain inequities within and across merchant segments.

• **Cost, Part 3:** In limiting the scope of costs considered to incremental costs, the bill fails to address the cost of building, developing, and maintaining the network itself. Absent the financial incentive to do so, banks and networks (and any for-profit entity) have no incentive to make future investments in payment system efficiency and innovation.

• **Considerations:** The bill requires the Fed, in issuing its rules, to consider “the functional similarities between electronic debit transactions and checking transactions that are required within the Federal Reserve Bank to clear at par.” At first blush, this provision seems to call for a very low interchange fee, i.e., close to par. Perhaps naively, it can also be read more optimistically by card issuers and networks, as requiring the Fed to consider the similarities and differences between debit cards and checks. There are real and material differences—guaranteed payment, cross-border utility, no NSF checks, network fraud screening, shorter tender time, increased efficiency, consumer preference, and the like—and the Fed should consider all of the qualitative attributes of debit payments in issuing its rules. Further, the Fed should consider fully merchants’ costs of check acceptance in evaluating this issue.

• **Profit:** Profit is a term never used in the amendment. Price, and by extension, profit, is usually a function of three factors: cost, competition, and as discussed in the previous paragraph, value. This amendment, however, only considers cost. In a free market system, governments should not be the arbiters of “reasonable and proportional” profits. Potential (Maybe Likely?) Outcomes: The Durbin amendment is fraught with the potential for unintended consequences, for all affected stakeholders:

• **Consumers:** The intended beneficiaries of this legislation (although we should acknowledge it is about punishing the banks for the financial crisis) will likely emerge losers in the transition.

(Read the rest of A Perspective on the Durbin Agreement at www.icbabancard.org/bc)

The Conference Committee on Wall Street Reform legislation made significant changes to the amendment originally adopted by the Senate. While the key provision—the regulation of debit interchange by the Federal Reserve—still remains, the significant changes are summarized below:

The Federal Reserve is tasked with setting debit interchange rates in a manner that is “reasonable and proportional” to the transaction.

The Fed has the ability to consider fraud costs in this calculation, but does not appear to be able to consider operational costs.

Issuers are obligated to prevent fraud and comply with a new set of regulations to be issued by the Fed on fraud.

Issuers under \$10 billion in assets are “carved out;” however, ICBA maintains this exemption will not prove meaningful as these provisions are implemented in the marketplace.

The “honor-all-cards” rule was strengthened to reduce the ability of merchants to discriminate against community bank-issued credit and debit cards.

The provision allowing merchants to impose minimum dollar amounts for credit card acceptance was capped at \$10, and the maximum dollar amount provision is limited to federal agencies and institutions of higher education.