



Card Academy Bulletin

ISSUE # 05, April 2008

Card Academy

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Latest news from Card Academy

Card Academy supported the annual Visa Bank Card Business School in Cambridge, UK

Again this year we had the great pleasure of supporting the annual Visa Bank Card Business School in Cambridge, UK. More than 160 students took part in this year's school, representing more than 40 different countries.

Card Academy is now fully launched in the Nordics and Baltic States, and we are very much looking forward to serve our customers in this area.

The ambition is to "bridge the gap" between International Card Schemes and the needs of employees in local branch offices. Through Card Academy we aim to bring a number of key partners together. This in order to bring a more cost-effective educational offer to employees within this sector, and to extend the reach and effectiveness of resources spent on education in general.

Please feel free to contact us on globalinfo@card-academy.com for further information on our Academy Modules.

The Card Academy Bulletin

This is a confidential, high-level industry news and business intelligence update bulletin. For further information on any of the items contained within the bulletin or to discuss the potential impact of these items on your business, please contact Card Academy on our dedicated support centre e-mail address globalinfo@card-academy.com.

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The Nordic and Baltic States news

Swedbank and Danish COOP to launch a joint banking alternative

Offering "green" car financing and Fairtrade Savings accounts Swedbank and Danish COOP has launched a new bank in Denmark – "Bank by Heart" or "Bank med hjerte" as it is in Danish language. This new is entirely based on the internet and exclusively for those 1.6 millions Danes who hold a membership with FDB, Danish COOP.

Swedbank sees this as a very good opportunity for them to get a foothold in the Danish market place, as they are a new entrant with no previous existing business in this market place. For further information please visit www.bankmedhjerte.dk . (Source: *Børsen*, April 2008)

Lower prices for using international cards in Denmark

PBS is lowering the price for using international cards. This will help increase the number of merchants who accept international cards. The winners will be consumers and merchants and the many tourists and commuters who currently visit Danish merchants but leave empty-handed.

It will be cheaper for Danish merchants to accept international cards when PBS lowers its rates as of 1 July 2008. First and foremost, this will affect the price for using the foreign-issued payment cards that tourists bring with them and the international debit cards that many young people now carry around.

"Currently, you can only use your international card in one in three merchants, so lowering prices will help change that. It will increase the volume of card payments at the expense of cash transactions, which is good news for both merchants and consumers," says Lars Fruergaard, Director of Sales and Marketing at PBS A/S (Payment Business Services).

PBS' goal is that during the course of 2012 it should be possible to pay by international card in at least two in three merchants in Denmark. (Source: *PBS*, March 2008)

Tivoli MasterCard

Citibank Denmark is sponsoring the Tivoli's season-card. Together with Tivoli Gardens in Copenhagen they have developed the newly introduced Tivoli MasterCard from Citibank. With this card you have free entrance to Tivoli, discounts on a number of special events and a number of other interesting benefits.

The new MasterCard also provides you with a 1% discount on all purchases. (Source: *Citibank DK*, March 2008)

Europe & World Wide news

ID Data gets £2.2m bid for credEcard unit

UK smart card systems vendor ID Data has received a £2.2 million bid for its credEcard pre-paid card unit from Contis Group, a newly formed company that is being established by its chief executive Peter Cox.

ID Data acquired credEcard for £250,000 in shares in May last year. Under the terms of the deal ID Data will receive an estimated payment of £1.4 million in cash and Contis shares - around five per cent of the new company's stock - for the unit and will be repaid £800,000 it has ploughed into credEcard so far in development funding.

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The credEcard business made a pre-tax loss of approximately £1.1 million on turnover of £200,000 since being acquired and is also expected to report a loss for the year ending 31 March 2009.

The offer is subject to ID Data shareholder approval and the new Contis Group completing its funding arrangements. ID Data says irrevocable undertakings to approve the transaction have already been received from shareholders representing 53% of its company stock. (Source: *Finextra*, March 2008)

Starbucks to Add Rewards to Popular Prepaid Card Program

Since its introduction in 2001, the Starbucks Card has revolutionized the way customers pay for their daily coffee experience. With more than 193 million cards issued in the U.S. and Canada since its introduction, there are approximately five million active Starbucks Card holders at any given time. This spring, every registered card holder will enjoy an elevated experience every time they use their cards.

In April, Starbucks will begin providing registered Starbucks Card holders these immediate, value-added benefits when they use their card at participating Starbucks stores in the United States and Canada:

- Complimentary customization on select syrups (including flavors such as vanilla, hazelnut and cinnamon) and milk alternatives (such as soy or half and half). For instance, a Tall Vanilla Soy Latte would be the same price as a regular Tall Café Latte because the soy and the vanilla are free.
- Complimentary Tall beverage of choice (including Frappuccino® blended beverages) with the purchase of one pound of whole bean coffee (on the same visit).
- Free refills on brewed coffee (on the same visit).
- Two hours daily of free, in-store Wi-Fi, starting this spring in company-operated stores in the U.S. (per registered cardholder).
- The opportunity to join Starbucks in supporting charitable causes.

"Already, one in seven customers uses the Starbucks Card, and now we are taking the first steps toward recognizing these customers by providing them value beyond any other coffeehouse," said Schultz. "It is the personal relationship our customers have with our brand, our stores and our baristas that is the foundation of our success. Through this initiative, we are making it even easier to make the Starbucks Experience your own." (Source: *PaymentsNews*, March 2008)

Co-Branded Multi-Application Contactless Cards

The Smart Card Alliance Transportation Council has published a new white paper titled "Co-Branded Multi-Application Contactless Cards for Transit and Financial Payment" that describes "an approach that leverages co-branded card marketing programs and the multi-application capabilities provided by smart card technology. The white paper is intended for mass transit agencies that are considering implementing a new contactless fare payment program or enhancing an existing program through collaboration with the financial community. It is also intended for financial payment card issuers, processors, and service providers who are considering working with mass transit agencies."

Currently, five types of contactless payment systems are used or contemplated for use by mass transit agencies. They are:

- Traditional fare payment systems that incorporate a stored value model. These systems (often referred to as transit applications) use contactless smart cards to carry a data file that is read and updated by readers on buses, fare gates, and platform ticket validators.
- Traditional payment card industry systems that use existing financial networks to process transactions and load value onto traditional fare payment cards. These systems typically use

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standard magnetic stripe credit and debit cards, although contactless technology is now being introduced by a variety of retailers (such as quick service restaurants) that generally process small transaction values.

- Enhanced payment card industry systems that incorporate an intermediate back office step. This step calculates the correct fare before the transaction is processed through traditional financial networks.
- Basic combined systems that use contactless media. With this system, the contactless payment media carry two types of data files. One is the transit application data file used in traditional fare payment systems. The other is the credit/debit cardholder information needed to process transactions using traditional financial payment card industry systems.
- Enhanced combined systems that give customers a choice of fare payment methods. Methods include the contactless fare card used in traditional fare payment systems, the multi-application card used in basic combined systems, and the standard credit or debit card used in traditional financial payment card industry systems.

This white paper focuses on the basic combined system and provides an overview of an approach for transit/financial payment convergence that leverages co-branded card business models and the multi-application capabilities provided by smart card technology. The white paper is intended to provide a framework for reviewing the opportunities for a co-branded multi-application transit/financial payment card and an understanding of the key considerations for implementing such a program. The white paper explores the following:

- Current transit payment system architecture and trends and financial industry card marketing programs and contactless initiatives.
- Definition of a basic combined system that leverages existing transit and financial payment technologies and infrastructure.
- Case studies of three overseas programs, the Oyster/Barclaycard, Taipei smart card program and TaiwanMoney card, that have implemented co-branded multi-application contactless transit/financial cards.
- Key commercial, operational support and technical considerations that financial issuers and transit agencies should discuss when contemplating the implementation of a co-branded multi-application transit/financial payment card.

(Source: *PaymentsNews*, March 2008)

UK retailer EAT installs integrated contactless payments system

Fast food joint EAT has become the first retailer in the UK to introduce a fully integrated contactless payment system at the point-of-sale.

EAT's customers will be able to pay for transactions of £10 and under by tapping MasterCard Paypass or Visa Paywave cards against the new Common Sense-supplied card reader. The external reader, which features a large LCD screen to display payments information to shoppers, is integrated with Commidea's fixed counter top Chip and PIN terminals. Barclaycard Business will act as merchant provider.

The first system has been installed at EAT's Moorgate branch in the City, with a further 24 London branches set to roll out the technology over the next few weeks.

Commidea says EAT has 350,000 customers per week and an average transaction value of less than £5 - leaving the merchant ideally placed to benefit from contactless technology.

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UK payments association Apacs has estimated that over five million contactless cards will have been issued by the end of 2008 and that they will be accepted in at least 100,000 merchants across the country.

Scheme news

Visa Europe's new manifesto seals its full commitment to the single market for payments in Europe

Visa Europe's unique membership-owned association structure enables it to fully realise the European Union's ambitions for a Single Euro Payments Area (SEPA), as it enters a fundamental period with the migration towards SEPA, the implementation of the Payment Services Directive, and the roll-out of chip and PIN technology.

In this rapidly changing environment, the Visa Europe Manifesto makes the following pledges to European consumers, retailers, member banks and regulators.

- To be the leading European payments brand
- To drive SEPA-compliant debit cards as a key tool to reduce cash usage
- To invest in fully unbundled European processing platforms
- To invest in and roll-out a complete, SEPA-compliant product portfolio
- To fuel the innovation of European payments
- To maintain an uncompromising commitment to security

Visa Europe also announced that European banks have now committed to issue 30 million V PAY cards, up from 20 million in December 2007, and is on target for 40 million cards by the end of 2008. Major issuance commitments have been secured in Austria, Belgium, Bulgaria, France, Germany, Italy, the Netherlands and Switzerland. There are already 250,000 V PAY cards in circulation, and this is set to rise to 2m by the end of 2008.

The Visa Europe manifesto can be downloaded on www.visaeurope.com . (Source: Visa Europe, April 2008)

Visa International IPO

Visa Inc. launched its initial public offering (IPO) on the New York Stock Exchange, while Visa Europe maintains its independent status as a membership association owned and governed by its 4,600 European member banks.

Taking account of the specific features and the needs of the European payments market, Visa Europe remains an independent incorporated company operating the Visa brand and products in Europe with an exclusive and irrevocable licence in perpetuity.

Visa Europe's decision to retain a membership-owned association structure enables it to remain fully dedicated to the development of an internal market for payments in Europe. As a truly European

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payment system, Visa Europe can better meet the unique needs of its European member banks and their customers, in particular at a time when key investments need to be made to help create the internal market for payments (SEPA). At the same time, Visa Europe enjoys global interoperability.

One example of a product developed specifically for the European market is V PAY, their innovative and secure chip and PIN only debit card that allows its holders to make payments across Europe. V PAY cards are already being issued in Germany and Italy, and 22 banks from eight European markets have already committed to issuing more than 20 million cards putting Visa Europe well on course to meet its target of 40 million V PAY cards by 2010. (Source: *Visa Europe, March 2008*)

Visa jumps on market debut

Shares in US card network Visa jumped more than 35% in their market debut on the New York Stock Exchange (Nyse), with the stock - which was priced at \$44 per share - opening at \$59.50.

Visa said that it had raised \$17.9 billion in the largest initial public offering (IPO) in US history and the third largest initial public offering worldwide.

In a statement Visa chairman and CEO, Joseph Saunders, says: "We operate in a large global market undergoing a significant shift from cash and check to electronic payments. We believe Visa is well positioned to build upon our past success and take advantage of this migration to electronic payments."

Visa disclosed plans to become an independent publicly listed company in 2006, although under the restructuring Visa Europe remained a membership association, owned and governed by its European member banks. (Source: *Finextra, March 2008*)

MasterCard International

MasterCard has praised the decision of a US appeals court to dismiss an interchange fee lawsuit brought by a group of merchants, saying the ruling reaffirms the "legality" of the current fee structure.

The Court of Appeals for the Ninth Circuit upheld a lower court ruling that dismissed a suit brought by a group of merchants claiming that MasterCard, Visa USA and a group of US banks, had conspired to set the interchange fees charged to retailers every time a payment card is used.

The merchant group - which is led by hair salon operator Sheri Kendall - had claimed that the current interchange fee structure in the US violated antitrust laws.

In July 2005, the federal court of the Northern District of California dismissed the lawsuit. The decision was appealed to the US Court of Appeals, which upheld the dismissal.

MasterCard general counsel and chief franchise officer Noah Hanft welcomed the decision and says the case was dismissed on grounds that the "merchants had failed to present facts that established a conspiracy".

Hanft says the the court rejected claims the interchange fee effectively "sets a floor" for each bank's merchant discount fee. The court concluded that a decision by banks to recoup their costs "suggests a rational business decision, not a conspiracy".

"No US court has found interchange to be illegal," says Hanft.

The merchant group is one of a number of trade groups that have been angered by interchange fees charged on card transactions and have filed dozens of lawsuits against MasterCard, Visa and many card issuing banks over the levy.

Last year The Merchants Payments Coalition (MPS) accused the credit companies of using a portion of the interchange fee - which is meant to cover processing costs - for marketing campaigns instead. The coalition said in July that a study had shown that card companies and banks spend only about 13% of

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the interchange fee on actual processing. The rest goes on marketing, profit and other services like rewards programmes.

However merchants are set to get a greater say in the setting of interchange fees with the introduction of new legislation in the US that will allow them to negotiate interchange charges imposed on card transactions.

The Credit Card Fair Fee Act is the first attempt by US Congress to address credit card interchange fees and is the outcome of a hearing held last year by the House's anti-trust workforce.

The US move follows action by the European Commission against MasterCard over interchange fees charged on cross-border card transactions.

The EC said in December that the multilateral interchange fees (MIF) charged for cross-border transactions made with MasterCard and Maestro debit and credit cards violated EC Treaty regulations and gave MasterCard six months to scrap the fee structure or incur daily penalty payments.

However MasterCard has applied to the European Court of First Instance to annul the EC's decision. (Source: Finextra, March 2008)

American Express buys GE Money corporate payment services unit

American Express has signed an agreement to acquire Corporate Payment Services (CPS), the commercial card and corporate purchasing division of General Electric subsidiary GE Money, in a deal worth around \$1.1 billion in cash.

CPS was created in 1992 to issue GE's corporate travel and entertainment cards and purchasing cards to employees. It has since expanded to serve more than 300 large corporate clients. CPS now has around 350 employees largely based in Salt Lake City.

The unit generated over \$14 billion in 2007 global purchase volume and maintained \$1.1 billion in receivables at year end 2007, says American Express. Its billed business has grown at a compounded rate of 18% over the last five years.

The sale also includes the purchase of GE's patented vPayment technology, which provides fast and efficient payment for large ticket purchases. The platform provides single-use account numbers for each transaction that expire once the purchase has been authorised.

Under today's deal, GE has also signed a multi-year agreement to continue to use the CPS services and will continue to be the unit's largest single client. (Source: Finextra, March 2008)

American Express ditches contactless keyring

American Express is discontinuing its Express Pay contactless payments key fob following poor customer take-up of the device.

The chip-based keyring attachment, which the card issuer first began trialling in Phoenix in 2002, uses radio frequency identifier technology to transmit payment instructions to merchant terminals.

An American Express spokeswoman told that take up of the key fob was limited and showed that customers prefer to use contactless technology via a traditional card.

American Express hasn't stated how many customers use the device, but the key fobs have only been available in selected markets - including New York and Phoenix - and through the company's Web site.

The card issuer is now sending letters informing customers that key fobs will be deactivated on a rolling time frame with the programme ended by 31 July.

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Although Amex is discontinuing the keyring appliance other firms are still pushing the devices. Last October Visa launched its Micro Tag, a chip-based keyring attachment embedded with its payWave contactless technology that can be used instead of cards to pay for low value purchases. Meanwhile keyfobs featuring Mastercard's contactless system, PayPass, are also available to Citibank cardholders. In addition, Royal Bank of Canada's credit cardholders have been using Speedpass keyrings to pay for purchases at ExxonMobil petrol stations since 2001. The device transmits payment instructions to specially fitted terminals at ExxonMobil petrol stations in Canada. RBC rolled out the fobs to its debit cardholders last year. (Source: *Finextra*, April 2008)

Discover to acquire Diners Club for \$165m

US credit card firm Discover Financial Services has signed a deal to buy the Diners Club International card payments network from Citi in a deal worth \$165 million.

Discover says the Diners Club network - which generates more than \$30 billion per year at eight million locations in 185 countries outside the US - will increase global acceptance of its own cards.

"We expect this acquisition to significantly improve our competitive position by giving us global reach and accelerating growth in our payments network revenues," says David Nelms, CEO, Discover.

The US card firm says the Diners Club network will be fully integrated with its own card network over the next two to three years.

The integration will allow Discover cardholders to use their cards at merchants that accept Diners Club cards around the world. At the same time Diners Club customers will be to use their plastic on the Discover Network in North America.

The deal covers Diners Club's staff, brand, trademarks and agreements with 44 network licensees. However Diners Club licensees in North America and globally are not included in the acquisition. Also, assets and employees in France are not currently included in this transaction but Discover says this is expected to change "shortly".

Once the deal is completed, Discover says it will not issue cards or extend consumer credit in international markets.

The acquisition is expected to close within 90 days, subject to regulatory approvals and customary closing conditions.

Ed Eger, head, international cards, Citi, says the bank decided to sell in order to streamline operations and focus on its card issuing businesses around the world.

Citi will remain a "significant long-term issuer on the Diners Club network as part of the transaction", says Discover. (Source: *Finextra*, April 2008)