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Latest news from Card Academy

Seminars and workshops

Our Objective with Card Academy is to provide our participants with introductions and more in-depth seminars and workshops on issues related to International Cards.

All our Card Academy modules are flexible and can be customized to meet the needs of new employees as well as staff who have spent more years within the International Payment Cards Business.

- Compose your own agenda
- Define your personal Objectives

Our website is now fully launched

Please visit www.card-academy.com for further information on:

- Your local Card Academy
- Card Academy Modules
- Your Mentoring Plan



Yours sincerely,

Kurt Andersen

Managing Director, Card Academy

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Europe & World Wide news

PSD (Payment Services Directive) to cost Europe's banks EUR6 billion

Europe's major banks will spend up to EUR6 billion over the next 18 months in preparing for the Payment Services Directive, according to a survey conducted by consultancy Payment Systems Europe.

The study was conducted among a relatively small sample of 30 major banks and 'payment sector specialists' from across Europe. It found that over 40% of banks surveyed believe implementing the PSD will cost them more than €10m and almost a quarter believe it will cost over €50m. Significantly nearly 60% of those surveyed do not believe the PSD will deliver competitive benefits.

The PSD is intended to harmonise the legal framework for payments across Europe and is slated for introduction in November 2009. The Directive sets stringent rules for information disclosure, conduct of business rules and service provision between banks and their customers, and contains provisions for non-banks to handle payments and join the bankers' payment schemes and associations. Eighty per cent of those quizzed by PSE believe that these new 'Payments Institutions' will have a noticeable impact on the structure of the EU payments industry.

While the majority of larger institutions expect to be ready by the 1 November 2009, deadline, substantial concerns were raised by those surveyed over the readiness of smaller banks. (Source: *Finextra*, July 2008)

Citi launches Octopus credit card in Hong Kong

Citi is launching a combined contactless Octopus travel and credit card in Hong Kong.

Customers can use the Octopus function at over 50,000 terminals to travel on public transport and make low value contactless payments at participating retail outlets. The card automatically reloads the Octopus feature when it runs low.

The card also incorporates the Octopus rewards scheme, which enables users to collect and spend points given by participating merchants. In addition, users can earn cash rebates through their credit card spending which will be credited for Octopus usage.

Citi's involvement with Octopus follows recent similar partnerships with the Delhi Mass Rapid Transit System (DMRT), the Singapore Mass Rapid Transit System, and the New York City Metropolitan Transportation Authority.

Neil Gardner, director, cards business, Citibank Global Consumer Group, says of the Octopus initiative: "This co-brand card puts the two of us at the forefront of the e-money market and we are very confident that the card will be well received by the market as it is a unique transport-retail payment card that allows customers to manage all their needs."

Prudence Chan, CEO, Octopus Cards, adds: "For the first time, customers can enjoy a two-in-one card with unprecedented convenience and benefits."

Launched in 1997, there are now over 17 million Octopus cards in circulation, with more than 10 million transactions, worth HK\$85 million, are processed every day.

In 2006 Citi teamed with MasterCard and the Metropolitan Transit Agency to trial contactless payments technology at ticket barriers on the New York subway. The test programme - which currently includes readers in 80 fare gates at 30 stations - is set to be expanded later this year. The bank is also working on similar projects in Delhi and Singapore.

Last year Barclaycard launched a similar card after winning a deal with TranSys - the consortium which runs the Oyster card system - that gives it the exclusive rights to place Oyster on its Visa cards in London. (Source: *Finextra*, July 2008)

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Prepaid accreditation scheme launched to counter negative publicity

The Prepaid International Forum has launched an accreditation scheme in a bid to combat concerns over alleged money laundering, aggressive marketing and poor customer service in the nascent industry.

PIF - which has around 40 members, including MasterCard, JPMorgan Chase and American Express - hopes the scheme will ensure industry best practise, improving consumer confidence in pre-paid.

The forum says the establishment of the scheme was pushed by its members, who are "sensitive to the concerns expressed in adverse media coverage" about the pre-paid industry.

The new accreditation scheme will initially apply to members' issuer programmes and be correlated with the PIF issuer code of conduct. The scheme will be widened out to cover other industry participants "in due course".

Compliant firms will get an accreditation certificate and be able to use a PIF symbol on marketing materials.

Chris Reddish, chairman, PIF, says: "As the demand for pre-paid services gathers pace, it is essential that the industry takes the lead in establishing and policing the levels of service necessary to underpin consumer confidence and the continued growth of pre-paid."

Formed in June 2007 in anticipation of a global boom in pre-paid commerce, PIF covers the entire pre-paid commerce industry - from retailers and providers of voucher services to financial institutions and telecoms companies.

The association aims to serve as a principal point of contact between companies in the pre-paid sector and government agencies, regulators, consumer bodies and the media.

Research house TowerGroup estimates that around 375 million stored-value cards will be in circulation in Europe by 2010 - a 1000% increase over 2005 - while pre-paid card usage will rise 600% to EUR75bn, as banks seek new ways of driving profits following the introduction of the single euro payments area. (Source: *Finextra*, July 2008)

RBS trials MasterCard PayPass in London black cabs

The Royal Bank of Scotland (RBS) is piloting MasterCard's PayPass contactless payments technology in London black cabs.

The trial will enable customers to pay for fares of £10 or less by tapping their MasterCard PayPass card against specially equipped payment readers in 25 London-based cabs. The terminals can also be used for normal card transactions of over £10.

The bank says its research shows that half of people carry less than £10 in cash and would take more taxis if they could pay with a contactless card. Furthermore, 77% of taxi drivers said accepting card payments helped them meet customer demand, with 78% agreeing it is easier and faster.

Ron Kalifa, RBS, says: "With contactless, customers will appreciate the convenience and speed of the card as well as the freedom from worrying about whether they have enough money for their taxi fare. Meanwhile drivers will benefit too because payment is faster and there is potential to attract more customers who do not have cash available or would not normally take a taxi for 'lower fare' journeys."

Last year Barclaycard teamed with London-based Computer Cab to unveil a contactless payments terminal that can be installed in taxis, which utilises MasterCard rival Visa's 'wave and pay' technology.

Both MasterCard and Visa also began rolling out contactless payments technology in New York taxi cabs last year, whilst in 2006 US eftpos vendor Verifone said it was rolling out PayPass across all cabs licensed by the Philadelphia Parking Authority (PPA). (Source: *Finextra*, July 2008)



Competition and Interchange Fees

The latest weekly edition of Financial Insights' FinSights Advisor newsletter is titled "Will Competition Take A Bite Out of Interchange?" "New competitors are taking on Visa and MasterCard's interchange pricing scheme as both firms have been busy defending themselves against claims of duopoly pricing. The potential for competitive alternatives may never be better. Are card issuers and the networks (primarily Visa and MasterCard) vulnerable to competitive card-based alternatives? How will this story play out?"

Please visit <http://www.paymentsnews.com/2008/07/competition-and.html> where you have the opportunity to read and download an interesting pdf-file on the above subject. (Source: *PaymentsNews*, July 2008)

PayPal Launches Top-Up Prepaid Visa Card in UK

In the UK, PayPal has announced the launch of a new prepaid top up card, the PayPal Top Up card - a reloadable VISA card and that PayPal says can be used almost anywhere the VISA symbol is displayed. PayPal says the card "gives people control over their spending, allowing them to pay as they go. It's also ideal for consumers who do not have credit or debit cards, and want some way to spend their cash online." The Royal Bank of Scotland has partnered with PayPal and acts as the PayPal Top Up Card issuer.

The PayPal Top-Up Card is one of the most competitive cards in the market, costing just £4.95* to get started. Using the PayPal Top Up card will be convenient and practical with multiple ways to be topped up with money. It is the only prepaid card which can be topped up online in 3 clicks via PayPal and can also be reloaded offline at Post Offices and PayPoint retail outlets across the country. The card is particularly well suited for people who sell online, as it enables them to spend the balances stored on their PayPal account offline. (Source: *PaymentsNews*, July 2008)

US authorities bust card hacking gang in biggest ever ID fraud case

US authorities have indicted an international criminal gang thought to be responsible for the theft and sale of over 40 million credit and debit card numbers that were hacked from the computer systems of nine major US retailers, including TJX.

In what is believed to be the largest hacking and ID theft case ever prosecuted by the Department of Justice (DoJ), three US citizens, one man from Estonia, three from Ukraine, two from China and one from Belarus, as well as another individual who is only known by an online alias, have been charged with numerous counts of fraud and ID theft.

In an indictment returned yesterday by a federal grand jury in Boston, Albert "Segvec" Gonzalez, of Miami, was charged with computer fraud, wire fraud, access device fraud, aggravated ID theft and conspiracy for his role in the scheme.

Gonzalez, alongside Christopher Scott and Damon Patrick Toey, all from Miami, are accused of hacking into the wireless computer networks of retailers, including TJX, BJ's Wholesale Club, OfficeMax, Boston Market, Barnes & Noble, Sports Authority, Forever 21 and DSW.

The defendants then allegedly installed "sniffer" programs that would capture card numbers, as well as password and account information, as they moved through the retailers' credit and debit processing networks.

Once the data was collected it was concealed in encrypted computer servers that the defendants controlled in Eastern Europe and the US, says the DoJ. Some of the card numbers were sold to other criminals in the US and Eastern Europe over the Internet.

The stolen numbers were "cashed out" by encoding card numbers on the magnetic strips of blank cards. The DoJ says the defendants then used these cards to withdraw tens of thousands of dollars at a time from ATMs.

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Prosecutors say Gonzalez and others were allegedly able to conceal and launder their fraud proceeds by using anonymous Internet-based currencies both within the US and abroad and by channelling funds through bank accounts in Eastern Europe.

Meanwhile, in related charges bought in San Diego, eight people are accused of operating an international stolen credit and debit card distribution ring. (Source: *Finextra.com*, August 2008)

Verified by Visa (VbyV) system taking over e-commerce market

The Verified by Visa system has gotten relatively little publicity so far, however, as many users are set to discover, an increasing number of banks are making this extra security scheme mandatory for all credit and debit card purchases.

Despite the fact that banks still market VbyV as an optional opt-in system for online shoppers, many banks are keen to add an extra level of security to their online transactions and effectively force users to enrol once they try to avoid this option three times.

A similar service is provided by MasterCard under the name of SecureCode. Both these security schemes function using 3D Secure protocol checks and aim not only to cut back on the number of illegal transactions, but also shift liability for fraudulent transactions from merchants towards issuers, banks included.

Once prospective shoppers enrol with the VbyV or SecureCode programmes, they are assigned a password based on the verification of the cardholder's personal details and which they have to produce when making purchases at participating retailers. Cardholders who don't use their cards for online transactions are advised to sign up for this extra security measure, in order to prevent potential fraudsters from using the basic card details online.

However, a series of technical difficulties have arisen, mainly in connection with the validation process itself, which is done by redirecting customers from the vendor's page to a 'Verified by Visa' enrolment page run by the bank which issued the customer's card. Reports from clients say that in the event that they do not wish to proceed with the validation process, the issuing bank can interpret this as a sign of fraudulent activity and block the transaction and the card completely. (Source: *Epaymentsnews*, August 2008)

Banks of Ukraine have increased the volume of issued plastic cards

The National Bank of Ukraine informs that the overall quantity of plastic cards issued by Ukrainian banks in the first half of the 2008 has risen by 9% - from 41,162,500 cards to 44,700,100 cards.

Thus during the first semester of the year 2008 the amount of technical equipment that serves payment cards has grown respectively: quantity of ATM's – by 2,694 to 23,625, payment terminals – by 10,933 to 105,310, imprinters – by 19,355 and reached 73,761.

In particular the quantity of ATM's with the function of cash depositing has gone up by 414 to reach 590, with the distribution function – by 1,973 to 22,419, with the function of both – by 307 and achieved 616 cash machines. Speaking about payment terminals, the number of the trading terminals among them has increased by 9,089 and reached 76,322, the quantity of the banking ones has risen by 1,904 to reach 28,988.

Let us remember the volume of operations using payment cards, issued by the Ukrainian banks, amounts to 311,5 million approximately. (Source: *Rixtar*, August 2008)



Scheme news

Visa Europe enhances its processing capability by signing BT contract

Visa Europe today announced it has signed a five year managed services contract with BT to migrate its transaction network onto BT's 21CN Global network. The agreement will move Visa Europe onto an efficient Internet Protocol (IP) based network, promising its 4,600 member banks in 36 countries a superior level of service through increased support, improved business continuity and enhanced network security.

Visa Europe has a technically advanced card processing platform built specifically for Europe and handling more than 6 billion transactions in 2007. It not only provides cross-border inter-bank switching, but it is also the primary domestic processor in 16 European markets.

BT and Visa Europe have established a strong relationship over the last seven years, developing the processing technology to match its increasingly active and expanding user base. The latest agreement will see Visa Europe improve operations through the use of a single supplier and a flexible network making further upgrades and developments far simpler than were previously possible.

Steve Chambers, CIO of Visa Europe said "Visa Europe processed transactions worth €1.3 trillion during 2007 so scalability and resilience go hand in hand for us. The trust of our customers is of paramount importance, and BT has given us the reliability, security and flexibility to successfully service our member banks and their customers going forward."

Francois Barrault, CEO BT Global Services, said "Visa Europe has a huge responsibility to its member banks and their customers and require support from a global provider with a reputation for unrivalled infrastructure performance. Visa Europe's transaction network is on the front line of its service offering, and BT provides focused and scalable support for this mission critical infrastructure." (Source: *Visa Europe, July 2008*)

American Express Reports Second Quarter Financial Results

American Express has reported second quarter 2008 financial results - with revenue up 8% but income from continuing operations down 37% vs. the same period last year. Amex revised downward its prior forecast of 4-6% earnings growth - saying "that outlook was based on business and economic conditions in line with, or moderately worse than, January 2008. The environment has weakened significantly since then, particularly during the month of June." The average merchant discount rate declined slightly from 2.57% to 2.56%. (Source: *Payments News, July 2008*)

MasterCard Incorporated Reports Second-Quarter 2008 Financial Results

MasterCard Incorporated has announced financial results for the second quarter of 2008. The company reported net income of \$276 million, or \$2.11 per diluted share, excluding a special item, and a net loss of \$747 million, or \$5.74 per diluted share, including the special item -- a \$1.0 billion after-tax charge related to an antitrust litigation settlement with American Express. The company's total operating expenses, other income, effective tax rate, net income, and earnings per share, excluding the special item, are non-GAAP financial measures that are reconciled to their most directly comparable GAAP measures in the accompanying financial tables.

Net revenue for the second quarter of 2008 was \$1.2 billion, a 25.0% increase versus the same period in 2007. Currency fluctuations (driven by movement of the euro and the Brazilian real relative to the U.S. dollar) contributed 5.4 percentage points of the increase in net revenue for the quarter. Fueling the higher net revenue in the second quarter versus the same period in 2007 were:

Growth in MasterCard's gross dollar volume, which increased 12.8%, on a local currency basis, to \$655 billion;

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- A 13.6% increase in the number of transactions processed, to 5.2 billion;
- An increase in cross-border volumes of 18.9%; and
- Pricing changes contributed approximately 5 percentage points of the net revenue growth.

Worldwide purchase volume during the quarter rose 14.0%, on a local currency basis, versus the second quarter of 2007, to \$493 billion, driven by increased cardholder spending on a growing number of MasterCard cards. As of June 30, 2008, the company's financial-institution customers had issued 951 million MasterCard cards, an increase of 11.0% over the cards issued at June 30, 2007.

The special item for the second quarter of 2008 represented:

- A \$1.65 billion pre-tax charge related to the settlement of U.S. federal antitrust litigation between MasterCard and American Express, which equates to approximately \$1 billion on an after-tax basis.

Special items for the second quarter of 2007 included:

- A \$3.4 million reserve recorded for a litigation settlement; and
- \$90 million in other income related to a settlement received under an agreement to discontinue the company's sponsorship of the 2010 and 2014 World Cup soccer events.

Excluding special items, total operating expenses increased 14.6%, to \$830 million, during the second quarter of 2008 compared to the same period in 2007. Currency fluctuations contributed 4.5 percentage points of the increase in expenses for the second quarter of 2008. (Source: MasterCard, July 2008)