

## ISSUE # 23, 2009

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## Latest news from Card Academy

### Card Academy modules

Examples of Card Academy modules:

- Introduction to International Cards
- Card Products (Debit/Credit/Commercial)
- Play the Cards (interactive session)
- Acquiring
- Issuing
- Private Label Cards
- Loyalty Cards
- EMV/Chip
- PCI/DSS Compliance
- Chargeback
- Processing
- Interchange
- Marketing
- Country Profiles (workshops)

and much more...

Tell us about your thoughts, needs or requirements. Don't hesitate to get in touch with us!

Yours sincerely,



Kurt Andersen, Card Academy



## The Nordic and Baltic States news

### **Rahaxi Platform to Connect China Pay Clients With European Travel and Hospitality Sites Using China Union Pay Cards**

Rahaxi Inc. an international card payments processor and technology company, has announced expanded revenue streams on its recent agreement with ChinaPay by providing access to Europe's internet-based leading travel and hospitality sites to Chinese internet consumers.

In Today's economy, e-commerce merchants are seeking new revenue streams that were previously unavailable. Rahaxi, together with its Partner Chinapay, a subsidiary of China Unionpay(CUP), have created a platform that will enable European Banks and Merchants to connect its gateway to accept Chinese Credit Cards for the first time. All CUP card holders can now book online flights and make hotel and car reservations, prior to departing to Europe. Previously most CUP cardholders needed to use travel agents in China and were restricted to group tours. This lets the individual card holder make their own plans when visiting Europe on business or pleasure.

In recent news regarding China Unionpay and their partnership with Sumitomo Mitsui Financial, which will enable 100 Japanese companies to accept CUP cards online... Reportedly expecting first year sales to reach 4 billion yen (\$44.3 million US) purchasing cosmetic and clothes, Rahaxi and China Pay's offering to European Banks and Merchants should easily exceed this as the average traveler spends approximately 2900 Euro on an average for a four to five day visit. Analysts forecast as of Dec-2008 the number of cardholders reached over 1.8 billion, making China by far the largest card market in the world by card numbers.

Paul Egan, CEO and Chairman of Rahaxi Inc., explained, "We are expected to work with over 500 e-commerce travel and hospitality sites in our first year. This is a first for European Merchant sites being able to accept China Pay clients using CUP (China Unionpay) cards over the internet outside of China. We have been working with China Unionpay for the last four years and have now extended our Unionpay offering from the Retail terminal to the internet. We believe Banks and Merchants will embrace this new revenue stream. China's Card market now boost over 1.73 Billion credit and debit cards in Circulation up 18% from last year making it the largest growing card market in the world today. We believe the opportunity to purchase goods and services by CUP card holders over the internet will boost revenue as merchants and Banks begin the process. Together with our partner China Pay, Rahaxi's platform opened the door for European Merchants to the most lucrative online market in the world." (Source: *Rahaxi, January 2009*)

## Europe & World Wide news

### **First Data, WestLB Partner for Merchant Acquiring in Germany, EU**

First Data has announced signing a partnership agreement with WestLB to launch a new business, First Merchant Solutions, to provide card acceptance services for retailers in Germany and across Europe. "As part of this new venture, WestLB, a German regional state bank with a strong European presence, will provide the licenses and payment services infrastructure while First Data will provide a comprehensive range of merchant acquiring services."

The creation of the Single Euro Payments Area (SEPA) is a central factor in simplifying the regulatory, commercial and technological environment to benefit international merchants, service providers and acquirers. Against this background, the retail sector has needed a valid, cross-border card acceptance agreement that enables retailers to benefit from greater efficiency, more competitive pricing and the assurance of settlement and payment flow to any desired account within the SEPA region.



"First Merchant Solutions embodies our efforts to fulfil the retail sector's market needs, which have been evolving in Europe as a result of SEPA," said Steffen Kowalski, a member of WestLB group's executive management team. "With this cooperation, First Data's acquiring solutions will be offered in Germany as well as 37 other countries and territories across Europe."

"WestLB is one of the leading regional state banks providing payment services and the ideal partner for our offering," said Carlos Gómez-Sáez, managing director of First Merchant Solutions. "The business will also draw on First Data's extensive payments experience in Europe and worldwide reputation as a provider of innovative payment solutions to merchants."

As a result of the agreement, merchants will benefit from First Data and WestLB's extensive payments experience and international expertise. (Source: *PaymentNews*, January 2009)

### **Jobs to go as UK's Alliance & Leicester quits pre-paid card market**

The UK's Alliance & Leicester is closing down its pre-paid card business, putting up to 36 jobs at risk. The bank says it has moved to withdraw from the pre-paid market following its acquisition by Spain's Banco Santander in October.

A review of operations concluded "the pre-paid card business of A&L is not a core part of Santander's UK strategy and will cease operations".

The decision will result in layoffs among the 36 staff working in A&L's pre-paid card unit, although some will be kept on in the short term to oversee the operation's closure.

The bank says it is in consultation with the affected employees and their representatives and some may be offered positions elsewhere within the Santander group.

It is also talking to existing customers to ensure an orderly wind down of the programme and insists no date has yet been set for cards to be cut off. It has refused to say how many pre-paid customers it has.

A&L has been at the forefront of the UK's pre-paid card market, establishing a dedicated unit in December 2009. The Prepaid Card Company Ltd (PCCL), was initially 80% owned by A&L, with the remaining 20% owned by Cupera International Ltd (CIL).

The deal saw the new subsidiary purchase Cupera for £4 million in cash and loan notes and retain the pre-paid card assets and existing employees of the CIL Group.

A&L has been one of the UK's leading pre-paid card issuers. In June 2006 it teamed with MoneyCard to launch a Visa card designed for use by commercial clients that previously provided paper payments to customers or employees.

In 2006 the bank launched a pre-paid card for use by commercial clients as an alternative to providing paper payments to customers or employees. This was followed up in 2007 by a pre-paid offering for public sector organisations that can be used to deliver welfare payments.

Last September the bank teamed with payments vendor Indigosolutions to launch a pre-paid foreign currency card with SMS top-ups for holidaymakers. (Source: *Finextra*, January 2009)

### **Private Label Credit Cards in the US**

The 6th edition of Private Label Credit Cards in the U.S. examines the complex relationship between banks, which are severely restricting their consumer lending; retailers, which want to get their cards into as many hands as possible; and American consumers, who may have changed their shopping habits forever—or until the latter part of 2009, when Packaged Facts expects spending to rally.

Packaged Facts estimates growth in private-label credit cards at 3.3% in 2007, bringing the market to nearly \$114 billion in receivables. The 2004-2005 periods saw a rally during which the acquisition blitz was in full swing and the leading third-party issuers were making substantial investments in marketing, new product development, and customer relations management for their new retail portfolios. However,



receivables for private-label credit cards are expected to decline by 3.5%, or \$4 billion, for a total of \$109.7 billion in 2008 receivables.

Market trends and features that continue to be, or have become, major forces in the private-label segment of the credit card market include:

- The acquisition blitz: Third-party issuers have been acquiring retailers' card portfolios, and at the beginning of 2008, only four major retailer holdouts remained. By the end of 2008, there may be just two leading retailers still managing their card programs in-house.
- Co-branding: More retailers than ever have signed on to offer store cards that can also be used elsewhere. Whereas incentives were once retailers' primary promotional tool, partnering with Visa and MasterCard gives customers access to the card associations' rewards programs.
- Household penetration rates are fairly low and usage rates even lower. The good news is that active private label credit cardholders are extremely enthusiastic shoppers.
- Apathy toward high-tech payment options. Card-specific technology is not expected to play a major role in the retail card market in the foreseeable future.

But there have also been notable shifts in the market since 2006. New to this edition:

The retail industry is reeling from the bumpy economic environment, with almost 6,000 store closings predicted for 2008. GE Money put its private label business up for sale. Alliance Data, too, is looking for buyers. There have been no takers, as financial institutions are in no position to take on more risk in the form of shoppers who are increasingly unable to pay their bills.

Meanwhile, with practically no major portfolios left to acquire, issuers are trying to grow their businesses by focusing on customer relations management. In fact, this strategy is highly recommended by analysts in a recessionary environment. However, many retailers are reportedly dissatisfied by issuers' services in this arena and may even seek to reclaim their card assets.

Exploding debit card use has hurt the credit card industry in general, and in an uncertain economy consumers may be even more reluctant to incur unnecessary debt from discretionary purchases like clothing. However, retailers (Wal-Mart, supermarkets) selling everyday items like groceries may feel the squeeze a bit less.

The forecast for private label is more bleak than sunny, but online shopping, rewards programs, improved customer service, stimulating usage by under-targeted consumer groups can all contribute to growth. Issuers willing to take on more accounts can also expand their businesses by courting smaller retailers that don't currently offer store cards. (Source: *BusinessWire.com*, January 2009)

## **Heartland Payment Systems hacked**

Payments processor Heartland Payment Systems Inc. said Tuesday its system used to process Visa, MasterCard, American Express and Discover Card transactions was breached last year, but asserted that merchant and customer data were not affected.

Robert H.B. Baldwin Jr., president and CFO, said the company found evidence of an intrusion last week and immediately notified federal law enforcement officials as well as Visa and MasterCard.

Heartland, based in Princeton, N.J., said the breach did not involve merchant data, cardholders' Social Security numbers, unencrypted personal identification numbers, addresses or telephone numbers. And the company said none of its check management or Canadian or payroll systems or the recently acquired Network Services and Chockstone processing platforms were affected.

Baldwin said in an interview that the only information breached were card numbers and cardholders' names, or one or the other.



Heartland said it was alerted by Visa and MasterCard of unspecified suspicious activity surrounding processed card transactions and enlisted the help of auditors to investigate. The investigation last week uncovered "malicious software" that compromised data in Heartland's network, it said.

"We understand that this incident may be the result of a widespread global cyber fraud operation, and we are cooperating closely with the United States Secret Service and Department of Justice," Baldwin said.

Heartland is increasing security in its systems and will establish a program to flag "network anomalies" as they occur and enable law enforcement to arrest those suspected of interfering with computer systems. (Source: MSNBC, January 2009)

## Scheme news

### Visa Europe says close to EC deal on interchange fees

Visa Europe's CEO Peter Ayliffe says he expects to reach an agreement with the European Commission (EC) over interchange fees charged for cross-border card transactions by the end of the year.

Last March the EC launched a probe into whether the interchange fees charged by Visa Europe "forbid restrictive business practices such as price fixing".

The investigation's launch followed the expiry of a 2002 antitrust agreement between the card company and the EU's Competition Commission when Visa agreed to reduce levels of interchange fees for processing card transactions in return for immunity from legal action.

It also came on the heels of an EC ruling against Visa's rival MasterCard at the end of 2007 that concluded multilateral interchange fees charged for cross-border transactions "violate EC Treaty rules on restrictive business practices".

In June 2008 MasterCard suspended its interchange fees to avoid daily penalty payments of 3.5% of its daily global turnover in the preceding business year. However, MasterCard is still appealing the decision to the European Court of First Instance.

Now, following months of discussions, Visa Europe chief Ayliffe has told Reuters reporters that dialogue with EC Competition Commissioner, Neelie Kroes has been "very constructive" and he expects a deal "as soon as possible" this year.

The confusion over interchange fees has also had wider consequences, hampering the implementation of the single euro payments area (Sepa).

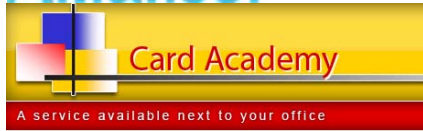
In September the EC was forced to soften its stance on cross-border interchange fees in a bid to kick-start the Sepa direct debit payments system, highlighting serious concerns about the delayed initiative. (Source: Finextra, January 2009)

### MasterCard Paper Dispels Myths and Highlights Benefits of Electronic Payment Networks

In light of the ongoing discussion and debate about the role of credit in today's economic environment, MasterCard Worldwide has issued a paper that dispels misperceptions about payment systems and explains the tremendous economic value that electronic payments bring to the economy as a whole and their role in advancing commerce.

The paper, entitled "Benefits of Open Payment Systems and the Role of Interchange," underscores the enormous benefits delivered by electronic payments, which have become so ingrained in everyday life they are often taken for granted or misunderstood. Few people ever stop to consider the complex and sophisticated system that allows transactions to occur within seconds, almost anywhere in the world. "Perhaps the easiest way to grasp the value of electronic payments is to envision a world without them. Clearly, if electronic payments came to a sudden halt, many facets of commerce – travel, trade and the





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Internet just to name a few – would face dire consequences,” MasterCard President and CEO Robert W. Selander says in the introduction.

The paper also discusses the role of interchange – a relatively small fee ultimately paid by merchants for the benefits of card acceptance. Interchange is critical to ensuring the system provides maximum benefits to all participants, including consumers and merchants in a fiercely competitive marketplace. MasterCard has created this brochure as a resource for all those interested in the payments industry. To access the paper, please visit

<http://www.mastercard.com/us/company/en/ourcompany/interchange.html>.

*(Source: MasterCard, January 2009)*



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## Contact and Partner information

Here you find information and links to Card Academy and our partners. We currently have Agent agreements covering Finland and the Baltic states.

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**Would you like to know more about business opportunities outside the Nordics and the Baltic states..**

Tell us about your thoughts, needs or requirements. Don't hesitate to get in touch with us!

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