



Maine Association of Community Banks **Understanding Your Bank** **Card Program**

April 14, 2009

In the bottom right corner, there is an abstract graphic consisting of several overlapping, light blue lines that form a series of connected, irregular shapes, resembling a stylized path or a network diagram.

EFT “201”

- **For years ATM / Debit has been looked at as a cost of doing business**
- **More recently FI’s have started to see that it can be a revenue source**

❖ **Cost reduction**

- Contract Renegotiations / RFP Process
- Telecommunications Technology Options
- Network Priority Routing
- Better Understanding of “Pass Thru” Expenses

- **For EFT, 5 years is usually min standard**
 - 6 or 7 year deals provide additional opportunity
- **Attempt to Achieve Coterminous Expiration Dates**
- **Renegotiation / RFP Time**
 - Generally; 2 years or less (notice periods / automatic renewals)
 - Earlier if unique situation exists i.e. acquisition
 - Letter of non-renewal

Contract Renegotiations // RFP Process - cont'd



- **Competition** – (but getting less through numerous acquisitions)
 - 4/1/09 – FIS Acquires Metavante
 - 3/30/09 – Advent International acquires 51% of Fifth Third
- **Pressure Existing Vendors**
- **Compare / Evaluate Feature Functionality**
- **Integral Role For Third Party**
 - Good Guy / Bad Guy
 - FI has to live w/ Vendor when negotiation is done
 - Focused Product Knowledge
 - Aggregated Volumes Across Multiple FI's

Contract Renegotiations // RFP Process - cont'd



- Contract Negotiation Skills
 - Hot buttons
 - Often is Vendor Specific – Personal Relationships
- Invoice Audit
 - Familiarity
 - Knows when something isn't right at first glance
- **Volume Based Competitive Pricing**
 - Tiering
- **Signing Bonuses**

Contract Renegotiations // RFP Process – cont'd



- **Performance Standards** – define purpose ahead of time
- **Integration With Core Processor**
- **Innovative New Product Development**
 - Software Distribution, Report Writers, Custom ATM Screens / Receipts, ATM / VRU PIN Change, EJ download, Remote DES Injection, Advanced Fraud Monitoring, etc...
- **Early Out Opportunities**
- **“Landmine” removal**
- **Don’t underestimate the value of “If you can do this, we can agree now”**
- **Review contract expiration dates now to avoid automatic renewal situation**

ATM Telecommunications Technology Options



➤ **Dial-Up / Wireless**

➤ **Leased Line**

- BSC
- TCP / IP
- MPLS

➤ **WAN**

- TCP / IP
 - Avoids Encapsulation
 - Take Advantage of Full Functionality

Network Priority Routing

➤ **Generally “Regional” Network Focused**

- NYCE, Pulse, Star, CU24*, Co-Op

➤ **Issuer Determined** (supposedly)

- Merchants Do What Merchants Do
 - Cardholder Manipulation
 - “Least Cost Routing” Method

➤ **Understand “NET” Fee / Revenue Implications**

- Interchange +/- Switch Fees
- 
- A decorative graphic in the bottom right corner consisting of several overlapping, stylized lines in shades of blue and grey, resembling a network or data flow diagram.

Better Understanding of “Pass Thru” Expenses



➤ The Infamous “Pass Thru”

– Who Can Understand It??

- Regional Networks
- Visa / MasterCard
- Processor (Be aware even re: V/MC)



EFT “201”

❖ Revenue Improvement

- Debit Marketing
 - Profitability Right Back to Pre-Walmart Levels
 - Debit \$\$\$ Volumes Passed Credit in '07
- Debit Rewards – prefer non processor based
 - 51% offer up from 37% in '06
 - Cash Focus 42% up from 16% in '06
 - Look to freshen up program
- Reward Checking
- Additional Products / Services
 - HELOC, HSA, Flexible Spending & Payroll Cards
 - Fee Assessment

EFT “201” cont’d

- Business Offerings
 - Remote Deposit Capture
 - Agent Merchant Processing
 - “Open Loop” Gift Cards – 61% offer + addt'l 16%
considering but only 1% of consumers purchase from FI's. ???
NOTE: “NYCE” rule re: PIN
- Consider Discover Debit



EFT “201” cont’d

➤ “Paradigm Shift”

- Shift from Cash to Electronic Transactions
 - Cash/check '96 - 75%, '04 - 58%, '08E - 51%
- Over last 5+ yrs, actual decline in check presentment has exceeded Fed’s estimates
- How much to continue to invest in imaging when the check channel is declining at such a rapid pace
- Canadians believe that U.S. is solving the wrong problem. Rather focus on influencing consumer behavior

EFT “201” cont’d

➤ Fee Types

- Processing
 - Transaction / Card Management
 - Telecommunications
 - Card Production
 - “Miscellaneous” (Value Adds)
- Interchange
 - Plus Tier 1 / Tier 2 (Oct '05)
- “Switch”
 - Plus increase .05 to .06 / .055
 - Cirrus decrease .08 to .06 / Add MC .05 ATM Program Support Fee
- Pass Through

Processing Fees

- **Know what your contract says**
- **Be careful of value adds**



Interchange

- **First developed to compensate the appropriate party for the risk they were assuming**
- **Flows opposite in ATM VS Debit**
- **Published Rates**
 - Debit / Credit a nightmare to figure out
 - Generally referred to as “blended rate”
 - MasterCard maintains approx 10 bps advantage
 - Walmart has their own interchange “Tier”

Interchange cont'd

➤ **Net Issuer / Net Acquirer**

- Has an impact on network membership & priority routing decisions



Switch Fees

- **A “royalty” fee for an issuers transaction to cross the networks “switch”**
- **Published rates**
 - Pulse lowest (\$.00 / POS & \$.045 / ATM)



Pass Through

- **Question everything!**



EFT “201” cont’d

➤ Surcharge Free Networks

- Allpoint
 - Cardtronics — Majority ISO owned
 - Expensive
- SUM (NYCE / Metavante)
 - Issuer report
- Starsf (Star / First Data)
 - Allpoint
 - Generally even more expensive
- MoneyPass (Elan / USBank)
- Selective Surcharge (ME, VTCUL, etc...)

EFT “201” cont’d


➤ Fraud

- PIN VS Signature
 - PIN Debit is actually fastest “growing” payment form ('98-'03 PIN 21%/Sig 30% / '04-'08E PIN 25%/Sig 20%)
 - While PIN Debit is NOT yet as universally accepted, price differential to merchants will continue to drive growth
- Prism (Nestor) VS Falcon (HNC/Fair Isaac)
- Tools are out there, just not being used effectively
- Trends not being effectively communicated
 - Check / Debit / Internet Banking person(s) all define fraud differently respective to their “worlds”

➤ **Questions / Comments???**



A business week study, in which some 700 companies were polled, shows that nearly 80% of managers complain that they have insufficient or imprecise information for important business decisions. The same number of managers also reported knowing of bad decisions that were made on the basis of insufficient information.

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Thank YOU!!

Performance Processing, Inc.

43R Frederick Street

Suite 1

Hanover, PA 17331

jscull@performanceproc.com

717-637-7444

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