

That Kind *of* YEAR

2007 was a year of surprises, progress, deals and more deals

At the start of 2007, the writers and editors of *Transaction Trends* gazed into our crystal ball and surveyed the road ahead. From that vantage point, 2007 promised to bring changes on many fronts and progress on many more. No disappointments there. Here are some of the stories we covered during the year.

Big Deals and Small

Even before the year got started, Morgan Stanley announced it was spinning off Discover to shareholders in a deal that took much of the rest of the year to consummate. The move comes after Visa declared it would become a public company and it gave momentum to Discover's shift to a new acquiring model that promises to increase the brand's ties to the payments industry. It also set the tone for other big news with widespread industry impact.

In April, First Data announced it was going to be acquired by Kohlberg Kravis Roberts & Company (KKR) for about \$29 billion, a transaction that

took the nation's largest payment processor private, even as the credit card companies were becoming publicly traded enterprises.

And while these were the groundshaking deals, there were plenty more. Metavante picked up Valutec at the beginning of the year, putting it squarely in the gift and loyalty card business. At about the same time, Hypercom completed its acquisition of TPI Software. CyberSource bought Authorize.Net, Citi beefed up its presence in the prepaid market with the purchase of Ecount, a player in the Visa and MasterCard-branded prepaid sector.

Other deals of note included First Data's purchase of Instant Cash Services, a debit and ATM payments network, from Wells Fargo and Fiserv's acquisition of NetEconomy, a financial crime management and compliance solution provider. Heartland picked up cashless vending developer eSecure Preipherals and Transaction Network Services got into the card-not-present market with its purchase of Australia-based Dialect Payment Technologies.

And that's just a sampling of the year's deals.

Security

The security shock of the year came in January, when TJX, a multi-brand chain of discount retailers like TJ Maxx and Marshalls, revealed that it suffered a massive computer breach on a portion of its network that handles credit card, debit card, check and merchandise transactions in the United States and abroad. The notice dropped jaws and made headlines on the basis of its sheer scale, which involved data about as many as 45 million credit and debit cards, along with another half-million files involving customers' personal data that didn't involve cards.

The data theft, which began months before the company made its announcement, led to a wave of fraudulent transactions from Florida, where thieves racked up \$8 million in fraud using the stolen TJX data before they were caught, to Asia, where customers reported TJX-related fraud showing up on card accounts.

On the positive side, Visa, MasterCard, American Express, Discover and JCB moved into full swing with the PCI Security Standards Council, created to promote compliance with the unified PCI Data Security Standard. The council got its advisory board in place and launched what has proven to be an effective education and awareness campaign, prompting then-chair Seana Pitt to tell *Transaction Trends* in April that industry awareness was up 75 to 85 percent in the first six months of council activity.

In other security news, Visa began a full-court press in 2007 to get Level 4 merchants compliant with the PCI Data Security Standard, asking acquirers to get plans in place by mid-year to bring their small customers into the fold, and also began a push—publicly supported by ETA—to get terminal software compliant with its Payment Application Best Practices (PABP) standards.

And, of course, *Transaction Trends* covered a host of risk- and fraud-related topics, from the best ways to manage the underwriting process and the art of risk management to specific tips on dealing with risk and fraud events like data security breaches.

Differentiation Still Key for ISOs

Much of *Transaction Trends'* coverage during the year targeted the strategies and products ISOs are adopting to help them stand out from the crowd. We focused particularly on the emergence of prepaid and ACH-related products and services, but also looked at vertical market specialization and customer service. Our writers also delved into the expanding market and the potential for merchant cash advances to expand the product offerings by ISOs. And we looked closely at the best-in-class management practices and explored the issue of business ethics in-depth.

Driving Technologies

Our coverage of new markets included some that are opening up thanks to new technology, including chip-based cards, NFC technology, contactless, mobile payments and more. *Transaction Trends* writers looked at potential new markets involving taxis, restaurant pay-at-the-table applications and devices, expanding card acceptance at quick service restaurants, and gift and loyalty programs, all driven in one way or another by the enabling power of technology.

Even before the meeting officially convened, more than 120 compliance pros convened for the third edition of Compliance Day, an event that brings together leaders from the major card companies to talk directly to those responsible for compliance. And while the PCI Data Security Standard was one of the main topics for discussion, the session covered a wide range of topics from security to risk assessment to penalties for non-compliance.

The meeting itself opened with Fox News analyst Stuart Varney and an

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Law and Regulation

As we do every year, ETA and *Transaction Trends* followed many legal and regulatory developments throughout the year and kept a close eye on legislative activities that have the potential to affect the payments industry.

In particular, we watched as Congress took the first look at proposals to require reporting of transaction data, ostensibly to help the tax agency do a better job of collecting taxes from merchants. We looked at the ongoing legal maneuvering between the card brands and merchants over interchange, the Visa Check/MasterMoney antitrust litigation, legal aspects of Level 4 merchant compliance, the laws that apply to merchant cash advances, FACTA violations and the FTC's enforcement of rules that govern our business activities.

ETA Events

ETA's Annual Meeting and Expo drew more than 3,000 payments professionals to Las Vegas in April.

informative and inspiring look at the strengths of the U.S. economy and the vital role of electronic payments in the growth of the economy. Thought Leader sessions brought in speakers who are visionaries or standouts in their fields who brought to their presentations a range of experience and insight applicable to nearly any field. They included former Washington Redskins defensive end Charles Mann, former Small Business Administration administrator Hector Barreto and entertainment executive and author Ross Shafer. Mann brought lessons from the gridiron to his new role and a co-founder of ISO Alliant Merchant Services. Shafer struck a more motivational tone in his closing presentation, lacing the talk with anecdotes and humor from his days in television and his current role as speaker and author. Barreto, in his session, encouraged the audience to take advantage of the opportunities of serving small businesses, especially those in minority communities.

The 2007 meeting also offered two Super Sessions. Author and security consultant Bruce Schneier gave a survey of the state of data security today and ETA's Technology Committee organized and hosted a Prepaid Super Session, focusing on the multifaceted business of prepaid and stored value cards.

The most popular destination at the event, of course, was the Expo floor, where more than 181 companies competed for the attention of attendees over the three-day exhibition.

The 2007 Strategic Leadership & Networking Forum brought 350 of

Joseph was followed by economist, television commentator and former White House economic advisor Todd Buchholz, who offered up a sometimes humorous and decidedly optimistic view of the trends in the U.S. economy, explaining what he termed "hyper-competition," a condition in which conditions change rapidly, intermediary businesses are under extreme pressure and the people in an enterprise have to be smarter and more productive for the company to thrive.

The Forum Public Policy session featured Claudia Swendseid, senior vice president at the Federal Reserve Bank

Mark P. J. Sievewright, corporate senior vice president at Fiserv, took Forum participants on a tour of the technological future, noting that the payments industry has never been able to stand still and, for the most part, hasn't.

Sievewright first looked at current technology-based payments innovations, noting that, in the near term, check-based innovations from electronic check presentation to check conversion (ACH) and check imaging are driving growth in electronic payments. And in the near future, he predicted, additional applications using the ACH network will bring other positive changes, including perhaps the ability to use online banking to complete transactions at the point of sale (Secure Vault Payments, or SVP).

A little further down the road, he argued, chip/pin technology will become widespread in the United States because of its benefits in combating fraud.

"And gift and stored-value cards will have a profound impact on our business in the long term," he added.

All of these developments and others, Sievewright said, will open new opportunities for those who are ready and willing to adapt and run with the changes.

Key Interviews

Throughout 2007, *Transaction Trends* writers had the opportunity to interview many people representing many companies, including a number of top-level leaders who agreed to provide in-depth, one-on-one interviews in a Q&A format. They included Intuit CEO Steve Bennett, MasterCard's Walt McNee, First Data's Ed Labry (who was named ETA's Distinguished Payment Professional), and Google Checkout's Benjamin Ling. They offered much insight and even a little controversy.

In the next issue of *Transaction Trends*, we'll take a look at what 2008 may bring and look back at our 2007 forecast to see how we did. **TT**

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the top industry executives to Palm Beach in September, where a stellar group of speakers provided the big-picture outlook that forms the backdrop for the industry, focused on economics, global business, technology and public policy.

The Forum kicked off with NOVA Information Systems CEO Pamela Joseph, who gave her audience a strategic primer on developing an international strategy, advising Forum participants to:

- ◆ Start with low-risk businesses
- ◆ Find the right partner
- ◆ Look for markets where card acceptance infrastructure already exists
- ◆ Hire the best talent and have people from the country where you're working
- ◆ Be prepared for working in new and different regulatory and legal environments
- ◆ Be aware that international markets are rapidly adopting new technologies—more than in the United States.

of Minneapolis, and Peter Moll of Howrey, LLP.

Swendseid gave the Forum participants a high-level view of the Fed's role as a financial regulator, followed by a Fed's-eye view of the payments landscape. Her conclusion: A thoughtful look at current trends reveals that there is significant room for the electronic payments industry to grow, even if the MasterCard/VISA processing business begins to reach maturity.

Attorney Peter Moll, an expert in payments industry legal issues, offered up the analogy of the "perfect storm," noting the convergence of a dynamic competitive landscape, rapidly evolving technology, the ubiquitous nature of payment cards, and the dependence of business on electronic payments, along with a flood of complex legal issues.

Focusing on the legal issues, Moll pointed to the ongoing controversy over interchange, antitrust issues, consumer protection, data security, privacy, intellectual property and, of course, taxation.