

Presidential Influence



By Kim Fernandez

While candidates' economic platforms mainly focus on banking and credit, implications include electronic payments

With millions of voters facing foreclosures, bankruptcy, and layoffs, financial issues are in the hot seat this election year. As talk of a recession continues and cries for increased regulation grow louder, all eyes have turned to Barack Obama and John McCain to gauge what might happen should either man become president in 2009.

So far, neither candidate has stated clear opinions on issues facing the electronic payments industry nor voiced his support for or opposition to legislation that faces industry professionals over the next year.

Industry experts, however, say that each man's views on banking in general might speak volumes about how he might feel about the issues facing electronic payments. And while there shouldn't be a huge impact on the industry based on this election alone, the person in the Oval Office might set an overall tone in financial services, which can't be discounted.

Credit Concerns

According to industry insiders, Obama appears to be more ready to demand banking reform than McCain, who hasn't come out with a strong stand about it either way.

KEY NOTES

- ▶▶ If the next president imposes more taxes on businesses, those companies may look to electronic payments as a money-saving solution.
- ▶▶ Because of the weakened U.S. dollar, international suppliers want to be paid in stronger currencies—a boon for companies specializing in international transactions.
- ▶▶ The makeup of Congress, rather than the outcome of the presidential election, will likely determine the fate of proposed interchange regulation.

“Over the last six months, Obama has accused credit card companies of unfair and deceptive business practices,” says Eric Remer, CEO, PaySimple. “He’s also come out supporting a credit card consumer’s prospective bill of rights,” which would restrict interest rate increases to future debt, prohibit universal defaults and interest on fees, prohibit unilateral changes, and require prompt and fair crediting of cardholder payments.

To address predatory credit card practices and “stop credit card companies from exploiting consumers with unfair practices,” Obama also plans to establish a five-star rating system for credit cards and require issuers to display their rating on all application and contract materials. In addition, he has offered what he calls “six core principles for reform” that would give oversight of many financial institutions to the Federal Reserve and has supported streamlining financial regulatory agencies.


“He’s dropping the gauntlet with this,” says Remer. “When you start with the issuers and you make blanket statements like issuers are being deceptive and things of that nature, where does it go from there?”

Like other industry members, Remer fears this stand could lead to a backlash against electronic payment companies, which may also find themselves facing more regulation and a general atmosphere of mistrust.

On the other hand, he says, McCain has remained silent about credit card reform or a proposed consumer bills of rights, which are currently being floated as potential legislation. McCain’s campaign Web site doesn’t mention credit reform beyond a paragraph supporting a plan to ask states to anticipate problems with student loans and work to mitigate them. The lack of information forces the industry to rely on his past voting record to gauge his views.

“He was chairman of the Commerce Committee for several years, and things have really been status quo,” Remer says. He voted against measures that would have curbed certain rights of cred-

SPECIAL OFFER!
We offer special credit card processing rates to other ETA Members!


international
CyberTrans
ETA MEMBER

Defining The Future of Transaction Automation

Programs Available for ANY SIZE Merchant!

Call Today!
NO COST, NO OBLIGATION
Rate Analysis, and see how much you can **SAVE!**

877.804.3300
www.cybertrans.com

it card issuers and has generally exhibited a pro-business mindset and a reluctance to support governmental interference when it comes to credit.

McCain does, however, support a movement to allow mortgage holders to swap some nonconventional loans for more traditional financing, so long as they secured the unconventional loan after 2005 and can exhibit creditworthiness, demonstrate current or future hardship under their current financing terms, and prove their ability to conform to the terms of a new loan going forward.

He also expresses his support of a Department of Justice task force to investigate wrongdoing by mortgage lenders and prosecute actions it found to be illegal. This task force, he says, would work hand-in-hand with state attorneys general investigating similar cases on a state-by-state basis.

Electronic payments professionals say they're keeping a close eye on calls for banking reform and increased credit card regulation. While they don't directly affect payments, they could have fallout that might have an effect on payments

Electronic payments professionals are keeping a close eye on calls for banking reform and increased credit card regulations

companies. And an overall atmosphere of more regulation might eventually fall on electronics payments as well.

"Regulation is a big question mark," says Adam Tiberi, vice president of global product management, Travelex. "In Europe, we're seeing a lot of regulations going on in payments. We're seeing efforts to make banks more transparent in their fees. I don't know if that may happen in the U.S., or if that's something one candidate or the other is going to push."

Tax Developments

One area Tiberi is watching is the potential for extra taxes to be levied on

corporations or small businesses. That's because if more taxes are imposed on businesses, those companies will look for other areas to cut costs. And one no-brainer way to do that is to make greater use of electronic payments, particularly internationally, and step away from paper checks.

McCain, to date, has expressed his support for a 10 percent cut in the corporate tax rate, and the ability of businesses to immediately write off capital expenses. He's also called for a two-tier tax system and larger standard deduction for individuals and families, a summer suspension of gas and diesel taxes, and making the 2001 and 2003 income tax cuts permanent.

Obama has proposed hiking the federal capital gains tax from its current 35 percent to 39 percent. He also says people in the top two tax brackets could anticipate higher taxes and that people earning more than \$250,000 per year would pay more taxes for Social Security. At the same time, he has proposed tax breaks for people earning less than that amount, and increased corporate taxes across the board.

"I think we'll see an extra focus on moving from paper to electronic payments," says Tiberi. "Companies will be trying to get their costs down. If the government does impose extra taxes on small corporations, that's going to increase the focus on becoming more efficient and reducing costs."

Those cost-cutting concerns go hand-in-hand with anxiety over the declining American dollar and international trade.

"A lot of U.S. companies, particularly smaller ones, are naive, particularly when it comes to making international pay-



COMPLIANCE DAY

November 5-6, 2008 - Hyatt Regency DFW - Dallas, TX

Who Should Attend?

The acquiring industry -- sponsoring banks, processors, ISOs, third-party service providers, software and gateway providers

Why Attend?

Compliance Day is the only event where you can immerse yourself in all aspects of payment card compliance.

Compliance Day is the best opportunity of the year to meet directly with representatives of all the card companies in one place.

Register online at www.electran.org.

ments," he says. "The U.S. dollar is weakening and is at an all-time low against other currencies. Suppliers in other countries no longer want to receive U.S. dollars; they want stronger currencies. That's going to continue regardless of who's elected."

That, according to Tiberi, could spell great things for electronic payments companies, which may see a boom in international electronic payments. At the same time, the climate of mistrust in finance may very well carry over.

"Corporations are asking for transparency in processing," he says. "A lot more companies want a lot more transparency and accountability in terms of fees and what we're charging for our services. Banks are seeing a similar push for their current clients."

Legislation and Interchange

Now that legislation mandating that acquirers report merchants' card transactions to the IRS has become law, and there isn't much else on the horizon that would affect the industry, many are paying attention to interchange.

The Credit Card Fair Fee Act of 2008 was introduced by Representative John Conyers (D-Michigan) earlier this year. If passed, it would require lenders with "substantial market power" to work with retailers on credit card transaction processing fees. When agreements on those fees could not be reached, both sides would be subject to binding arbitration overseen by the FTC and the Justice Department.

Sponsors of the bill said at its introduction that it was not an attempt to regulate the industry. Instead, they said, it would encourage competition by encouraging fee negotiation. They also called the current method of setting fees "secretive" and that the legislation would "encourage transparency."

"This could mean the pendulum has started swinging," says Remer. But, he says, payment companies will ultimately find the best ways to work with clients even if this or other legislation is passed to encourage transparency.

"The credit card system is so important in our economy that there will be ways in which companies like ours and

companies larger than ours find ways to succeed," he says.

Marc Abbey, managing partner at First Annapolis, gives the interchange regulation little chance of passage, and says that while neither Obama nor McCain has come out with a position on it, more will depend on the makeup of Congress than on the outcome of the presidential elections.

"I haven't heard a lot of political conversations about how people in the industry feel about the presidential candidates," he says, adding that he doesn't believe either candidate will have a huge impact on the business.

Tiberi agrees. "I think whether one or the other is elected, the American economy is going to continue on a certain trajectory," he says. "The trends we're seeing are the market becoming more efficient and reducing costs." And those, he says, might spell very good news for companies in electronic transactions. **TT**

Kim Fernandez is a contributing writer to Transaction Trends. Reach her at kim@kimfernandez.com.



Sweet Savings. More Service. Only with HBNet.

Did you know your payment transport service could cost less and deliver more? It can. With HBNet, transaction fees diminish and surprise charges disappear. You pay one monthly all-inclusive price. Period. Even better, you enjoy 24/7 service and support, automatic network upgrades, and scalable solutions that grow with your business. Visit www.Hypercom.com/OHreally today – and discover more sweet ways to succeed with HBNet on your side.

HYPERCOM
trusted TRANSACTIONS

HBNet
A Hypercom Company