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Should you consider building your PIN-based debit card

Issuers have traditionally embraced signature debit card use, and for good reason: they have experienced years of positive revenue results in their card portfolios. Nevertheless, there is now growing evidence that the signature debit card market is saturated, and that PIN-based debit cards are picking up. Consequently, issuers may wish to rethink their debit card strategies.

A recent Cards & Payments analysis indicated that debit signature card penetration grew only 2.9% from 2002 (77.5%) to 2004 (80.4%) for the top ten national issuers. Smaller issuers experienced greater percentage gains during the same time period, but also began to plateau once they hit the 80% portfolio penetration level.

There was a time when institutions focused on offline signature debit cards because they feared fraudsters could open accounts and use offline debit cards to spend more than the funds deposited, since the transactions typically took two or three days to settle. But today, with nearly all U.S. merchants securing real-

time transaction authorizations from issuers for signature-based transactions, and with most banks putting holds on account funds until transactions settle, institutions are less concerned about safety when it comes to issuing new debit cards to consumers.

Many institutions continue to believe that the today's market still provides issuers with major incentives to promote offline debit cards, using programs like Visa Extras. But mounting legal pressures on Visa and MasterCard could force down signature debit interchange income to issuers. At the same time, advances in POS check imaging are reducing merchants' cost to accept checks. These merchants are also likely to see an advantage in offering consumers their choice of payment alternatives. This could usher in more use of PIN debit, which could ultimately affect signature debit card volumes.

Save the Date

MAP's third Annual Users Conference is scheduled for July 25-26, 2006. A "Back to the Basics" theme, conference events include a day of golf, host of topics and industry speakers, Mariner's game and networking opportunities.

For more information visit our website at www.mapacific.com or contact Sandy Anderson, sandy.anderson@mapacific.com, at 886-598-0698 x7111 or Dori Alpert, dori.alpert@mapacific.com, at 886-593-0698 x7114.

Spring is a Great Season for Gift Card Campaigns

Credit union marketing plans always include the November-December holiday season for gift cards, but don't forget spring! "There are some great holidays to build gift card campaigns around, like Easter, Mother's Day, weddings, baby showers and graduations," said Herb Tajalle, MAP Product Manager.

By including the springtime holiday season in their gift card marketing plans, credit unions can optimize the earning potential of their card portfolios. Gift cards work well in the spring, which tends to not have as many card promotions as the second half of the year. It keeps credit union "in the radar" of their members, and encourages members to think of their credit unions first when they need a gift card or other card product.

"With spring card promotions, credit unions further build the debit side of their card portfolios—and have their members coming to them instead of to someone else," said Herb Tajalle.

Springtime gift card campaigns also help prepare credit unions for the end of year holiday season. Early promotions allow time to define new programs and also to "debug" them so they are in smooth running order when the Thanksgiving-Christmas season hits.

For credit unions not yet participating in the gift card program, it takes around six weeks to implement from the time that the gift card agreement is signed with MAP.

"This lead time is required for program setup and also for the ordering of the cards themselves," said Tajalle.

Credit unions can choose from six different gift card designs. For an extra one dollar per card, they can also add their logos. Some credit unions even opt to custom-design their own artwork for a greater per-card fee.

If you already have the gift card and have questions, or are considering adding the gift card to your card portfolio, contact MAP's Herb Tajalle at 866-598-0698 x7116.

News Capsules

- ▶ **Six Processors Control 79% of U.S. Credit Card Market.** With the recent merger of Bank of America and MBNA, almost 70% of the U.S. credit card market is held by just three issuers—Bank of America, Chase and Citigroup, according to CardWeb.com, which tracks credit and debit card trends. BofA, Chase and Citigroup together control nearly \$400 billion in U.S. credit card balances (excluding gas and store-issued cards). Discover, Capital One and American Express round out the top five card issuers, controlling an additional \$136 billion in card accounts. All six issuers combined control 79% of the total U.S. credit card market.
- ▶ **Imaging on ATMs Lags.** Many institutions have upgraded their ATMs to accept deposits, further reducing transaction handling costs by shifting them away from branches. But while depository capabilities have been added to most ATMs, imaging still lags behind. One of the major holdups to imaging technology has been back-office systems. Industry analyst group Celent predicts that credit unions might implement imaging sooner than banks because they can adopt the end-to-end capture and exchange of images more readily, since many of them already post checks online.
- ▶ **Consumers will Use Cards for Small Purchases.** A recent small payments survey revealed that 45 million consumers would use debit or credit cards for purchases under \$5, up 23% from a year ago.

Information Security Concerns Confront Retailers

ZDNet, an online news service, reported on March 26 that a popular software package used by retailers to control debit-card transactions may inadvertently store sensitive customer information, including PIN codes.

According to ZDNet, Visa had issued a warning to companies that process card transactions for some of the nation's largest retailers. Apparently, two versions of cash-register software made by Fujitsu Transaction Solutions are under scrutiny.

Among retail customers using the Fujitsu software are Best Buy, Staples and OfficeMax, but it is not known which companies use the software that Visa claims is flawed.

Visa's warning was first reported by The Wall Street Journal on Friday, March 24. It has generated concern in both financial and retail industries, because the software was flagged at a time when thousands of debit-card holders across the country have reported unauthorized withdrawals from their accounts.

ZDNews indicated that Bank of America, Washington Mutual and Citibank are among the financial institutions that have replaced more than 200,000 debit cards in the past two months and have told customers that thieves obtained vital debit-card information as a result of a security breach at a large merchant.

According to law enforcement and banking officials, one commonality among fraud victims was that most had shopped at one of Fujitsu's clients: OfficeMax. OfficeMax said it had found no evidence of intrusion, and Fujitsu also denied that its software had contributed to any security breaches.

Major credit-card companies have banned the storing of customer data and can fine merchants who do store such data—and merchants have worked to comply with these requirements. However, there is still a possibility that systems used by merchants can collect customer



data, including PIN information, without the retailers' knowledge.

To deal with this problem, card processors like Visa have vendor certification programs—and retailers have the ability to procure security audits of their systems. The recent security breach threat reemphasizes the fact that information security is everyone's business—whether they are a card processor, a financial institution, a retailer or a computer hardware or software supplier.

ATM Marketing

Credit unions are still not deploying marketing at their ATMs as actively as industry analysts once thought they would. There are several reasons.

First, regulatory requirements and branch traffic pressures have forced credit unions to commit dollars to ATM upgrades for depository capability and Triple DES encryption. As these dollars were spent, little budget was left for other ATM enhancements like marketing.

Second, initial pilots of advertising on ATMs have yielded mixed results. One initial trouble area was member “wait time” at the ATM. In the beginning, this was a real issue as members waded through advertising to get to their real purpose—making a cash withdrawal or a deposit. Now, wait time issues have been resolved, but there is still the member perception that they are being subjected to advertising when they could be executing their transactions.

With Triple DES and depository upgrades behind them, many credit unions will likely take another look at ATM advertising since it is now much improved. One reason to consider doing so is another “time bomb”



upgrade that credit unions must turn their attention to: IBM has terminated support for the OS/2 operating system that runs most ATMs, leaving organizations vulnerable when it comes to ATM software support. The ATM OS (operating systems) migration path that ATM manufacturers have selected is from OS/2 to Microsoft Windows—and the capabilities that the MS Windows operating system brings will make it very easy for credit unions to add graphics and other messaging that easily support ads and promotions. Everything has already been tested and verified in the MS Windows operating system environment—from check imaging to credit card campaigns—so credit unions don’t have to worry about the technology not working.

Credit union executives and managers will also be asked to squeeze more value out of their ATM investments. Adding marketing and promotional messages is one means of extending ATM value.

Since the days of the ATM marketing pilots three years ago, credit union marketing departments have learned several things. They now understand that members want to be communicating with their credit unions—not with some impersonal third party advertiser. Consequently, credit union marketing will

be doing most of the messaging and ad campaigns over ATMs. There are also new services available to CU marketing like First Data’s remote connect service, which allows institutions to add graphics and ads as well as print coupons on receipts via a straightforward, browser-based application. The First Data program is less than 1 year old, so it is too early to qualify results—but early indications are that the application will save institutions time and money since they don’t have to install graphics on machines themselves. Ads can be rotated three times a day and switched out every 60 days, to cut down on the message repetition that members experience at the ATM. Marketing can be assigned on a per ATM basis, a capability that allows credit unions to differentiate their messaging and their offers to different geographical markets.

MAP and Visa News

- ▶ **Surcharge-free ATM Network Expands for MAP Members.** MAP continues to expand credit union participation in its KeyCorp ATM network that provides 400 surcharge-free ATMs throughout Washington State. Recent changes regarding ATM networks have placed new pressures on surcharge-free ATM access, one of the core values that credit unions have extended to their members through the years. As your card processor, MAP is committed to providing your credit union with expansive, competitively priced ATM no-surcharge access via key partnerships with KeyCorp and others. For further information please contact David Pearson at 866-598-0698, ext. 7115.
- ▶ **Mastercard Certification for Card Embossing, Encoding and Mailing.** MAP's plastic affiliate, Alaska Option, obtained certification from MasterCard International. It is now authorized to emboss, encode and mail any MasterCard branded card from its secure personalization facilities.
- ▶ **Visa's annual report for 2005 is available online at its www.visa.com Website. Some of the 2005 highlights summarized in the report include:**
 - Sales volume topped \$1 trillion in 2005 for the first time;
 - Merchant acceptance soared to over 6 million locations in 2005, an increase of 7.8% over 2004;
 - Operating revenue rose to 2.6 billion in 2005, an increase of 10% over 2004;
 - 2005 net income was more than \$360 million.
- ▶ **Visa's 2005 Holiday SpendTrak program, which ran from October 31, 2005-January 1, 2006, was very successful. Here are several statistics:**
 - Sales volume of Visa-branded cards was \$25 billion dollars, up 17.5% from the same period in 2004;
 - The peak volume day was Friday, December 23, when 179 million transactions were processed over VisaNet without interruption;
 - Positive growth characterized both debit and credit cards, with debit growth outpacing credit by 2.5 times.
- ▶ **Visa launches new Best Practices for Small Business Rewards Program.** The goal is to encourage new and continuing use of corporate cards through rewards and incentives—and to achieve success by practicing industry-proven best practices. Contact Sandy Anderson at MAP (866-598-0698 x7111) for more information on these small business best practices.



Prepaid Debit Cards Cited as Tools for Money Laundering

In a first quarter, 2006 report, nine federal and law enforcement agencies combined to outline concerns that pre-paid debit cards could aid money-laundering efforts because the buyers are not traced and the cards can be used internationally. In the joint report, the agencies specifically cited stored value cards, especially those purchased anonymously, which provide significant money laundering potential. These cards can be used internationally, since major networks are accepted abroad.

The report also cited traditional money laundering channels, such as casinos, wire transfers and money orders—as it highlighted the dangers of gift cards, which in some cases carry PINs and can be used for ATM cash withdrawals—as well as payroll cards, which can pay terrorists or employees of fraudulent businesses, and cross-border remittances, which enable anonymous funds transfers abroad.

Organizations can take these steps to curtail the threat:

- Pre-paid credit card distributors should check the identification of pre-paid card buyers, since these cards can be run down, recharged with cash and then transferred to new users (which makes it virtually impossible for law enforcement to track the fraudulent activity).
- Specific attention should be given to PIN-based cards because the value on these cards can be converted directly to cash.
- Money laundering using prepaid debit cards can be detected because the cards carry their own distinct institutional numbering system on magnetic stripes, and purchase-and-use patterns can suggest potential laundering.

No Surcharge ATMs, a Shared Core Value

No surcharge ATMs are one of the core values credit unions have extended to their members throughout the years.

With mergers and conversions occurring on a regular basis the national ATM landscape now maintains a continual flux. The result is ongoing impact to cardholders and increased issuer management of ATM services. As your processing partner, we believe it is our obligation to provide you and your cardholders with no-surcharge network solutions that align with your corporate goals.

One of the ways we do this is through our participation and support of the Northwest Credit Union Alliance (NWCUA). Originally sponsored by the Washington Credit Union League, Member Access Pacific and local Washington-based credit unions, the NWCUA provides “No-Surcharge”, shared deposit ATMs throughout our region. In addition, Member Access Pacific also supports your CU ATM initiatives by offering a wide variety of “No-Surcharge” options via key partnerships with KeyCorp, CU24 and others.

You do not have to be a Member Access Pacific client to participate in the NWCUA or many of our “No-Surcharge” network alliances and solutions. If you would like further information, please contact MAP at 866-598-0698.



Letter from the CEO



Cyndie Martini, CEO
Member Access Pacific

Spring blossoms remind us of nature's brilliant preparations for what lies ahead. While there are clear differences between electronic services and Mother Nature, both share tactical processes designed to weather a deluge of threats and hardships, and both teach the same lessons: plan for the obvious, adapt, and use every available skill and asset, should unplanned events occur.

A watchful eye is vital when managing and assessing any ATM/Point-of-Sale (POS) network or processor. Like the seasons, change is an inherent industry characteristic. Mergers, new affiliations, pricing and re-pricing of interchange tables and rebate schedules have been known to launch dramatic new acts into play, some with healthy price tags attached. What was here today may appear bigger, better and greater tomorrow--But is it? Questions need to be asked and data measured to ensure all aspects of any new enhancement or improvement are as stated: a "step up" or advancement to your existing portfolio.

Even a slight change or seemingly innocent alteration today could generate significant consequences down the road.


Where do you begin? Start by asking leading questions, like: "How will this new change or service affect my portfolio, expenses and revenue?" "Will the suggested enhancement require additional support, marketing, technology or training?" "Do the new services or modifications affect my current affiliation, service or require a new addendum or agreement?" "How will this affect my membership and our relationship in the future?" Last but not least, ask: "Does the proposed new change continue to support our corporate goals?"

Preaching to the choir, you say? Maybe so. But futurists predict remarkable advancements and global expansion of transaction-related technology, network collaborations and cardholder volumes. Begin by preparing to direct, not weather, industry change impacting your membership, profitability, service and goals. An action plan, a list of questions and a team structure will ease the timeliness and complexity of any review process. Awareness and action are vital steps in minimizing risk, loss and exposure, and will nourish a solid foundation for growth and success. And, when you have a question or need assistance – call MAP.

Member Access Pacific continually explores, integrates and informs its Members on breaking news, new products, developments and industry trends. More importantly, we ensure you are always positioned with the knowledge and tools necessary to make the decisions that best serve your institution and cardholders.

Best regards and success in the coming months,

Cyndie Martini
President/CEO



MEMBER ACCESS PACIFIC USER'S CONFERENCE

2006

July 25-26, 2006 | Seattle, WA

3rd Annual

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