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Card Services For Credit Unions

The Payment Revolution:
How Payment Strategies Impact Your Credit Union's Future

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Callahan & Associates, Inc.
1001 Connecticut Ave, NW
Suite 1001
Washington, DC 20036
Ph: 800.446.7453
F: 202.223.1311
Callahan@CreditUnions.com
www.CreditUnions.com

For questions about the contents of the Report, please contact Lydia Cole at (202) 223-3920 ext. 161 or lcole@creditunions.com

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Evolving Payments Landscape Requires A Flexible Strategy

Looking forward, the economic and regulatory futures remain uncertain but optimistic. With the CARD Act of 2009 signed into law, and potential interchange income legislation put forward, credit unions are focusing on providing the best member service in the most cost-effective manner in an evolving landscape.

Payment systems, a broad term encompassing credit, debit and online services, are key areas that help credit unions improve both sides of the profit equation: they drive revenue through non-interest income and reduce expenses through lower processing costs. In recognition of the growing importance of these services, CSCU and Callahan & Associates, Inc. teamed up to survey the current status of payment systems at credit unions. This report, *The Payment Revolution: How Payment Strategies Impact Your Credit Union's Future,* looks at four critical areas for credit union focus in the next few years:

- Credit and Debit Cards
- Mobile Banking
- Online Payments and Services
- Security and Fraud

Surveyed credit unions indicate that credit cards and debit cards remain their top areas of focus, but online bill pay comes in a close third. Each chapter provides an overview of the current state of the system or service, articles on marketing techniques, and best practices from credit union peers.

Whether you are considering offering new services or looking to increase the performance of your existing program, this report is meant to provoke ideas, stimulate discussion, and ultimately, provide action steps for your credit union. This report would not have been possible without the support of CSCU. As always, we welcome your feedback.

Thank you,
Callahan & Associates, Inc.

By Nick Connors and Lydia Cole, Callahan & Associates

Understanding Consumer Payment Method Trends and Recognizing Opportunities for Credit Unions

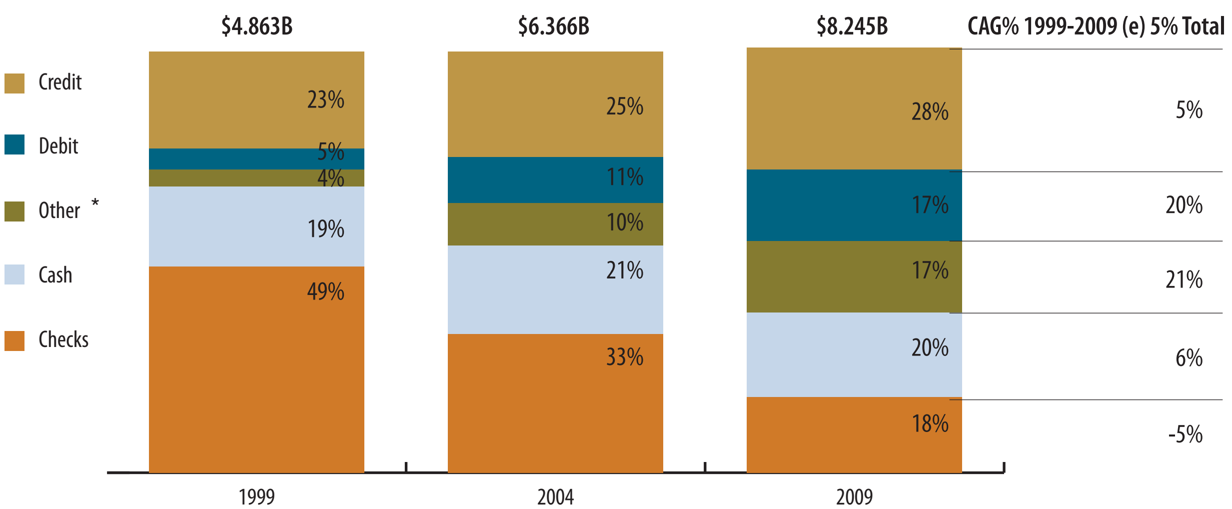
The era of the check may be coming to an end. As we entered the new millennium, checks accounted for 49% of all U.S. consumer payment volume (the trends in this article represent consumer payment trends and do not include business and commercial spending). According to the Nilson Report, in 1999, checks posted more than double the volume of the next most prevalent payment method, credit cards. However, in recent years the check has begun to fall off. Five years later in 2004, checks accounted for only 33% of payment volume. To carry this trend forward another five years, forecasts show check volume falling even further to 18% as of 2009.

Card Usage Increases as Total Volume Also Grows

As check volume drops off, what method of payment are consumers now using to make their payments? Cash has remained a relatively constant component of payment volume, accounting for 19% in 1999 and forecast to stay at 20% in 2009. Credit card usage has been increasing over the last decade. Credit cards accounted for 23% of payment volume in 1999, and are forecast to grow to 28% in 2009. However, this growth is not enough to account for the major declines experienced in check volume by itself.

The real growth is in debit transactions. Accounting for a mere 5% of payment volume in 1999, debit transactions more than tripled their share in the last decade, accounting for an estimated 17% in 2009. These growth figures are even more impressive when you look at the total dollar volume of transactions, which has grown from

Payment Segment Share & Growth: Credit Union Strategic Relationship Opportunities



Sources: CSCU, The Nilson Report, VISA

* Other includes ACH transactions and prepaid cards.

$4.8 trillion in 1999 to an estimated $8.2 trillion in 2009. Not only do debit cards account for a larger percentage of the total volume than they did previously, but total volume increased 70% over the past decade.

Another key category that has experienced significant growth similar to debit cards is the "Other" category that includes ACH transactions and prepaid cards. In 1999, "electronic" payments in the form of debit cards, credit cards, and ACH payments accounted for 32% of payment volume. In 2009, these three categories are forecast to account for 62% of payment volume, nearly doubling their percentage composition of a decade prior. While these trends are similar to those experienced when business and commercial transactions are also included, it is important for credit unions to track these trends on the consumer level, as that is much more indicative of what credit unions will experience with their membership base.

These shifts in payment trends seem to indicate that convenience is becoming even more important for consumers. We see an increase in individuals turning to debit, credit and prepaid cards, and also embracing online and mobile banking, as well as other emerging technologies. As payment methods evolve over the next decade, it will be critical for credit unions to deliver the "right" mix of these solutions to better serve members' growing needs, while minimizing expenses and maximizing profitability.

Payment Methods in Credit Unions

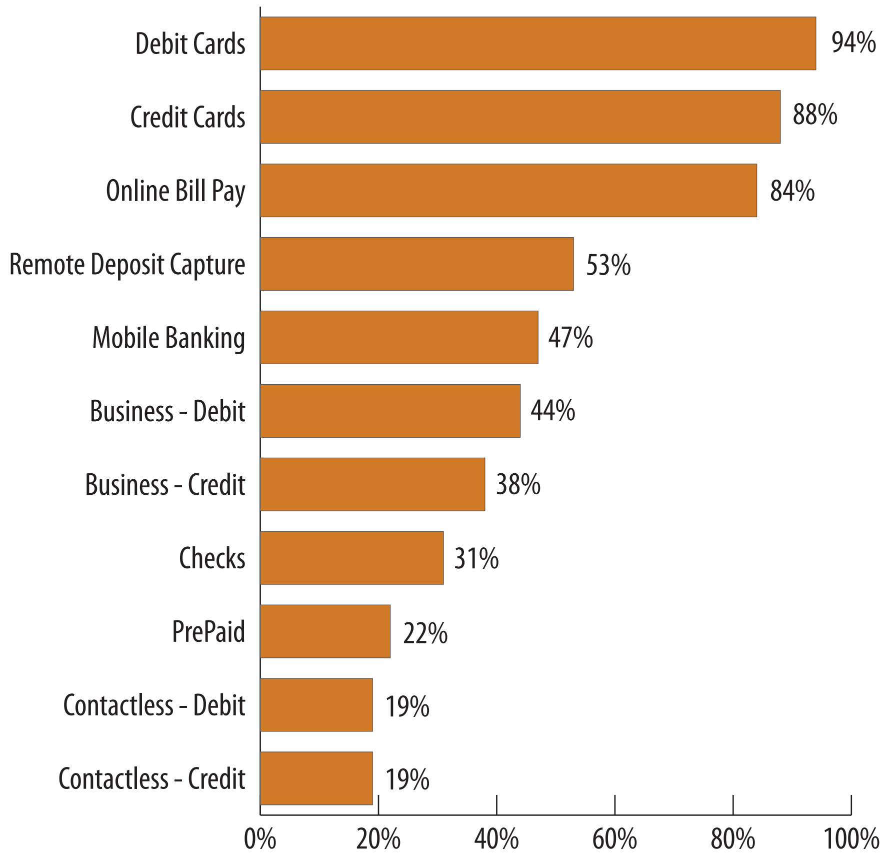
Today, payment options offered by credit unions vary by both size and commitment to providing services desired by members. At the nation's 153 credit unions over $1 billion in assets as of March 2009, nearly all offer credit cards, checking accounts and bill pay. Mobile banking is offered by one-third of credit unions over $1 billion and growing quickly. For credit unions below $20 million in assets, the statistics are different. Just over half offer checking accounts, and less than 30% manage a credit card program. Mobile banking among the credit unions below $20 million is rare. Increasing convenience for members and building long-term relationships are the dual goals of most payment systems. Understanding the offerings and recognizing opportunities based on your membership will be the foundation of future growth and success. ■

Credit and Debit Card Overview

In early 2009 CSCU conducted a survey among the credit union industry focused on current and future payment systems trends. In 2004, U.S. consumers used cash for 21% of transactions and debit or credit in 36% of transactions. 2009 estimated figures from Visa and The Nilson Report indicate those numbers will adjust to 20% and 45%, respectively.

Credit unions, responding to the Callahan & Associates/CSCU survey, emphasized the importance of credit cards and debit cards. 94% of respondents indicated that debit cards were extremely or very important to their credit union in the next five years. Credit cards and online bill pay were also top contenders.
The articles in this section offer macro-economic data, credit union industry data, and results from the proprietary survey to provide insight and guidance in building a comprehensive payment systems strategy for your credit union. ■

How Important are the Following Payment Options for Your Credit Union in the Next Five years?
(% ranked very important and extremely important)



Source: Callahan & Associates / CSCU payments survey

By Ray Springsteen, Callahan & Associates

The Value of Credit Cards in Credit Unions

Credit cards are the largest non-cash payment form in the U.S. according to a study by First Annapolis. The study shows that one-third of cashless payments were from credit cards in 2008. For credit unions and their members, credit cards represent more than an important form of payment. Credit cards are a key driver of member relationships and one of the fastest growing loan products.

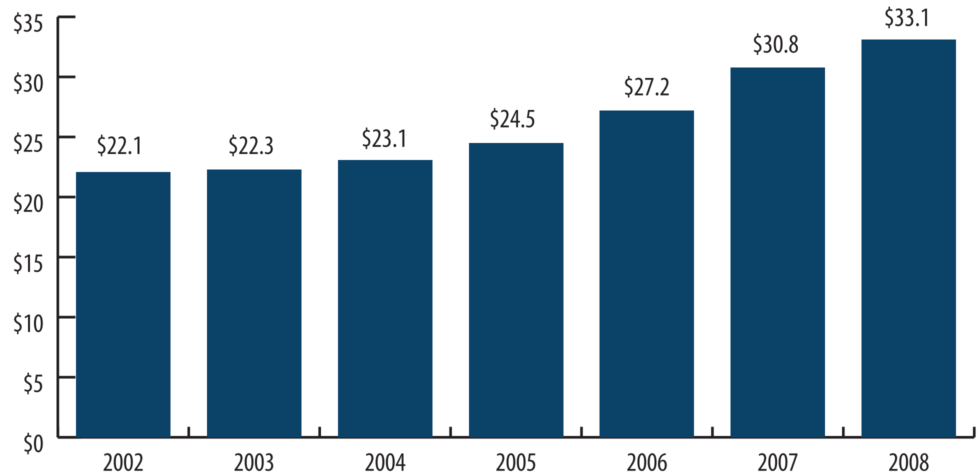
Card Balances on the Rise

Credit unions now have $33.1 billion in credit card loans on their balance sheet, up 7.5% from 2007. The growth can be attributed to credit unions continued commitment to lending during the year. While other financial institutions pulled back on customer credit limits, most credit unions did not significantly change loan practices. Also, during the spring of 2008 credit card practices from other financial institutions that are unfriendly to consumers became increasingly visible due to Capitol Hill testimony. Credit unions, with card programs that have lower fees and lack 30% penalty rates, benefited from the national publicity. Resulting legislation, known as the CARD Act, was signed into law by President Obama in late May. The changes, based on the Credit Card Holder's Bill of Rights will not dramatically change credit union card programs as most of the conditons and terms set by the legislation were already in place at consumer-friendly institutions, including credit unions.

Credit Cards in Member Relations

In the typical credit union, 14.3% of members carry the credit union's credit card according to Callahan data. Credit unions with a greater focus on the value of the

Credit Card Balances Increase 7.5% in 2008 ($ Billions) | Data as of December 31



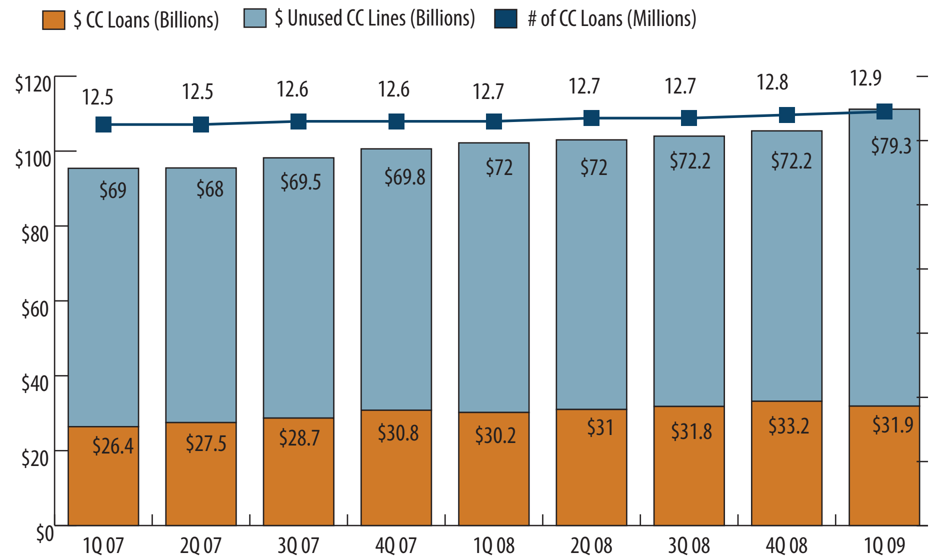
Source: Callahan & Associates

Recommendations for Your Credit Union's Program

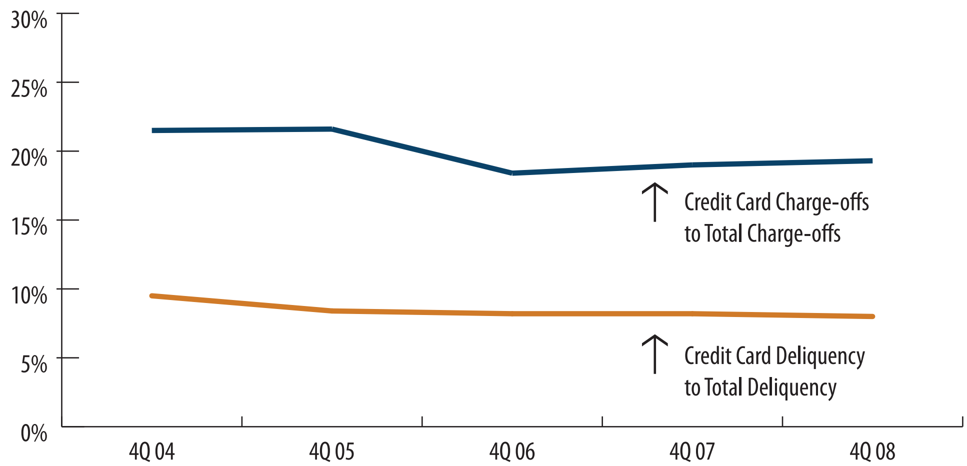
- Credit unions with deeper credit card penetration have a higher number of share and loan accounts per member. Do analysis on your members to undertand the influence of the credit card.
- Provide your front-line staff with real-life examples of how using the credit union's card can save them money in finance charges and fees.
- While the recently passed CARD Act will eliminate some differentiation of programs, make sure your members' know that you weren't forced by the government to offer consumer-friendly terms.
- Credit unions with deeper credit card penetration have a higher number of share and loan accounts per member. Do analysis on your members to understand the influence of the credit card program. For example, in 2008, CSCU member credit unions averaged $326.44 total revenue per active credit card account.

The Value of Credit Cards in Credit Unions (cont.)

Outstanding Credit Card Loans and Unused Credit Card Line | Data as of March 31 for All U.S. CUs



Credit Card Deliquency and Charge-offs Growing at Slower Pace than Total Credit Union Figures



card for relationship products tend to have a higher penetration. For example, Northeast Credit Union ($600M in Portsmouth, NH) offers a 50 basis point reduction on an auto loan when the member qualifies and takes a credit card. Callahan data shows that those credit unions that have a higher penetration in credit cards also have a higher usage of other credit union products. Credit unions with 25% or higher credit card penetration have members using, on average, 2.74 loan and share accounts each. Credit unions with a credit card penetration of less than 10% have members using just 2.08 accounts each on average.

Keeping Delinquency and Charge Offs in Perspective

Card Services for Credit Unions' data shows that the average credit union generates 76% in finance charge revenue on credit cards. For many credit unions, the credit

The Value of Credit Cards in Credit Unions (cont.)

card is one of the most profitable programs. While the average delinquency rate in credit union cards has grown to 1.99% as of March 31, 2009, it is growing at a slower pace than credit union delinquency overall. Credit card delinquency accounts for 8.0% of total delinquency, down from 15% of total delinquency in the beginning of the decade. Net charge-off rates for credit cards is 4.09% as of March 31, 2009. This is high by credit union standards, but is about half the 7.79% credit card charge off rate at banks according to March 2009 FDIC data.

Strategies for Enhancing Cross Selling

"You have been pre-approved for a credit union credit card." How often do your loan officers say this during a non-credit card loan closing to qualified members? Credit unions with an active approach to their credit card program are the organizations with higher credit card penetration and usage.

Some examples of credit unions with active card sales programs:

Confidence booster through training — Andrews Federal Credit Union (MD) creates scenarios with its credit card compared to the other major bank competitors in the market. The Andrews credit card saves the members hundreds per year in fees. The value of the training is that it helps front line employees see the true dollar value of their card to members compared to Bank of America and regional competitors.

Show members the value — Pentagon Federal Credit Union (VA) has a tool on its website called the credit card comparison. The tool allows members to type in the current balance they have on their credit card and the interest rate they are paying. The product then automatically takes the current Pentagon FCU rates and highlights the cost savings. Pentagon has a credit card penetration of 42%.

Management through Measurement — Smart Financial Credit Union (TX) and Service Credit Union (NH) both measure credit card performance at the branch and individual level. One of the reporting methods that each uses is a measure of the amount of cards active within 90 days after the sale of the card. The goal of the measurement is for two reasons:

(1) a focus on the number of units sold (2) measure of those cards actually in usage.

Credit unions and their members have an interdependent relationship. Credit cards are an important component of this relationship. While delinquency is rising on card programs, the value of the credit card as an access point to the member account and as a driver of member relationship continues to grow. ■

Sample Branch-level Credit Card Activity Report

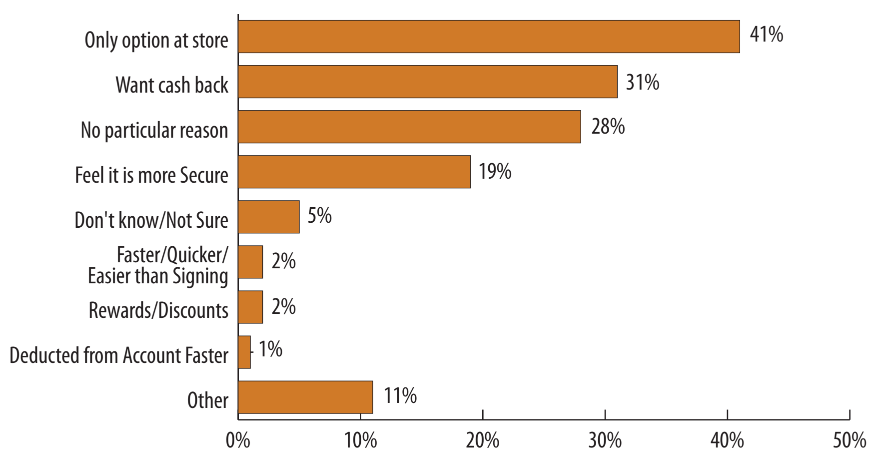
Branch #	Branch Name	# of new card opened 90 days ago	# of cards opened 90 days ago with a balance	Total Balance on Cards	Average Balance	% of new cards with balance
1	Pease	15	10	$15,231	$1,523	66.7%
2	Woodlands	12	9	$17,569	$1,952	75.0%
3	Bardstown	17	7	$5,986	$855	41.2%
4	Cambellsville	10	5	$11,598	$2,320	50.0%
5	Sugar Land	9	7	$10,264	$1,466	77.8%
Total		**63**	**38**	**$60,648**	**$1,596**	**60.3%**

By Denise Senecal, Callahan & Associates

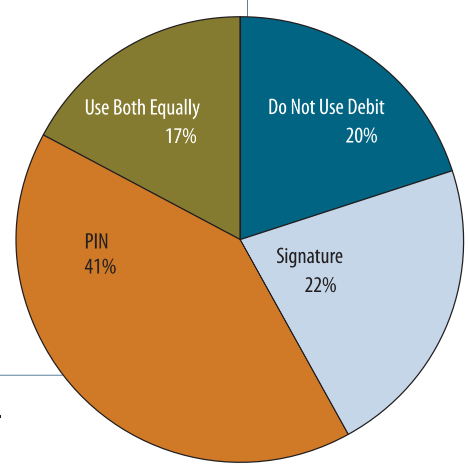
PIN or Signature? Understanding Member Preferences

In an online survey of over 12,000 credit union members, respondents were asked whether they used a PIN or a signature on occasions when they used their debit card, as well as the reasons why. Twice as many members report using their PIN (41%) rather than their signature (22%) when using their debit card, with another 17% saying they used both methods equally. Members gave a wide range of reasons for using their PIN vs. a signature, many of which reflect confusion between the direct benefits to the member of the two methods. Many members say it is the only option available at the stores/merchants where they shop. Almost three in ten say there is no particular reason for using PIN over their signature, which is an opportunity for credit unions to better educate members. In a tough regulatory and economic environment, encouraging members to use their signature in transactions is a simple step to increase interchange income.

Why Do You Use PIN?



Do You Use PIN or Signature More Often?



Recommendations for Your Credit Union's Program

- Educate your members on the differences between PIN and signature. A specific campaign with a reward, such as a sweepstakes, can also help promote general usage.
- 19% of members use PIN because they feel it is more secure. Be proactive in marketing your member-friendly fraud policies.
- Offering rewards on signature transactions can provide a long-term financial incentive for members to actively choose the signature option. Be sure to read Householding Rewards Points on page 17 to read what Envision Credit Union offers their members.

- Top VISA issuers report their average offline (signature)/online(PIN) sales volume mix is 64.5% offline and 35.5% online. From a transaction perspective, the average is 68.3% offline and 31.7% online.

Open-ended member comments illustrate members' views regarding the benefits of PIN over signature, as well as some of the misconceptions in place.

Doesn't allow to go over limit and seems like it posts to the account faster so helps me keep track of spending

Faster than waiting for a paper to print and sign and feel it is more secure since anyone can sign a name

I think it lessens the financial transaction fee, which ultimately helps keep goods and services priced lower

The credit option takes too long to come out of account and is subject to interest and the debit option takes it directly from account no delay ■

By Denise Senecal, Research Manager, Internet Strategy Consortium

Member Credit Card Selection and the Online Channel

Credit union member research illustrates important opportunities to use the online channel to differentiate credit union card options.

Recent headlines regarding questionable credit card company billing practices, due to the passage of the CARD Act in late May, provide a great opportunity for credit unions, most of whom have consumer-friendly practices already in place. Many consumers simply do not understand billing practices and the many ways that credit unions offer a better alternative to other card issuers. A recent online survey conducted by Callahan's Internet Strategy Consortium provided insight into the ways credit union members are both managing and acquiring their cards online.

Importance of Online Card Research And Acquisition Tools

The internet is clearly an important channel for acquiring new credit card users. Many members report going online to research credit cards in the past two years, and 40% of those who obtained new credit cards applied for them online. Members report experiencing challenges as they do so, particularly in terms of comparing card options. Unfortunately, when members went online for research, more ended up selecting another issuer instead of the credit union. Many of these members had received an introductory rate offer in the mail from another issuer, but may have experienced difficulties making comparisons with their credit union card.

Three quarters of members who researched online reported challenges. The most frequently mentioned issues included comparing card options (31%), understanding terms/conditions (29%), and getting details about rates (29%). More younger members cited challenges overall (36%), particularly in terms of difficulties in understanding terms/conditions, comparing card options, and details about rates, in addition to questions about rewards programs.

Members who conducted online research were most likely to have obtained a new credit card during this period. While it is not known whether these members were more motivated since they took this step, or whether information obtained via this channel affected their decision, this data does reinforce the need for thorough online information and tools to enhance card selection.

Online researchers are motivated to obtain a new card, but what will they find on your credit union website? Close to four in ten members say they want an online tool to help them compare card options. The website is an ideal media for creating an interactive tool. As an example, Capital One's card selection tool gives the illusion of personalization, even when selecting basic card features.

Credit unions should provide detailed information online related to the following:

- ✓ **Security and fraud limits:** many banks actively promote these benefits, even when they just provide the minimum benefits required by law.
- ✓ **Online application:** make sure members can see what information is needed.

Recommendations for Your Credit Union's Program

- Four in ten members say they want an online tool to help them compare card options. Provide detailed information online including rate comparisons and fraud information for researching members.
- 29% of surveyed members obtained a new credit card from 2007 through 2008. One-quarter chose the credit union's card, while the remaining members selected a card from another issuer. Understand why members don't choose your credit card by doing research on local and national competitors.
- Sometimes you don't need to make your card more attractive. The top three factors for choosing the credit union card are the lower interest rate, no annual fee and an existing relationship with the credit union.

Credit Card Selection and the Online Channel (cont.)

- ✓ **Response time:** tell members how long it takes to get approval.
- ✓ **Rate comparisons:** illustrate the impact a single point difference can have over time on the member's ability to pay off debt.
- ✓ **Fee comparisons:** provide examples of the types of fees, along with comparable bank fees.
- ✓ **Main menu item:** many consumers simply do not consider the credit card a loan, and will not hunt for it under "loan" menu items.

Schools First FCU provides online information to help members compare different card options at the credit union on their website at: http://www.schoolsfirstfcu.org/creditcards/creditcardfaqs.asp. NIHFCU takes the comparison a step further, allowing members to compare CU card benefits to other financial institutions: http://www.nihfcu.org/filestore/section/20/Credit_Card_Comparison_Apr_09_new_fees.pdf

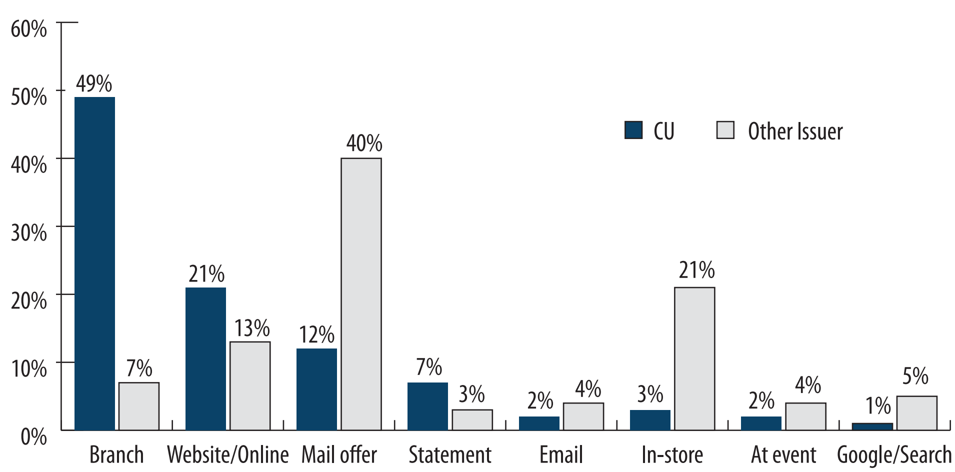
The data from members who selected other issuer's cards shows that members are willing to use the online channel to apply for credit cards. Members receiving an email or online offer typically applied online. Given the convenience of applying online and the reduced cost for the credit union, there are many benefits to be gained by ensuring an easy-to-use application is available.

Information Channels for New Card Accounts

Close to one-third (29%) of the members surveyed obtained a new credit card between 2007 and 2008, with 7% selecting the credit union card and 22% selecting another issuer's card. The different ways that members heard about the credit card reflect both information channel preferences, selective targeting by other issuers, and the credit union credit card promotions.

Members selecting the credit union card more often heard of the card offer via the branch (49%), while members using other issuers were targeted by mail (40%), and

How Members Heard About Credit Card



Credit Card Selection and the Online Channel (cont.)

tended to have higher income levels. The credit union website was more often cited by members who selected the credit union card (21%) compared to those selecting another issuer's card (13%). Younger members were more likely to hear about the offer through a website/online or a Google search compared to older members.

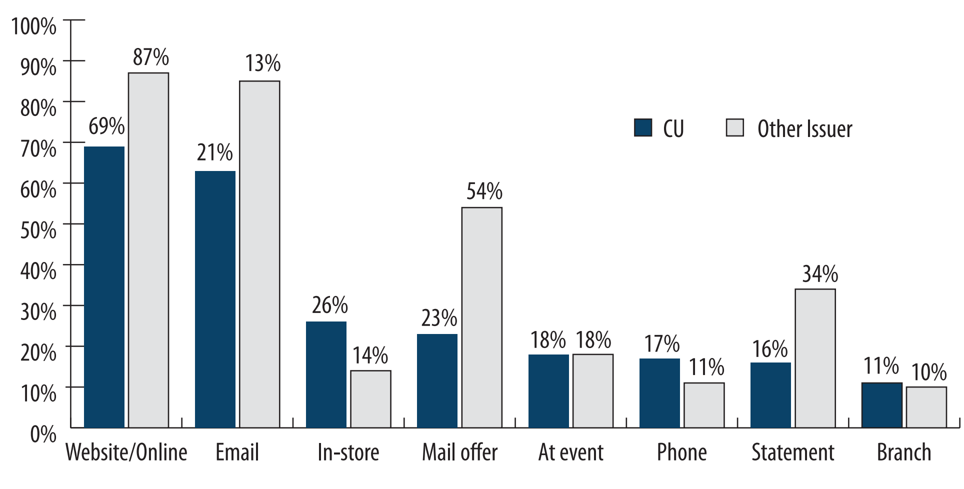
Leveraging the Online Channel for Credit Card Applications

While members surveyed online clearly have a higher comfort level with this channel, close to half (43%) reported applying for the credit card online, far more often than any other method. While this varied significantly by issuer (see chart), age and income were also a factor. Younger members (those under age 40) were more likely to apply online (52%) than members aged 40 to 60 (41%), although the proportions are still high given the online membership surveyed. Members with incomes under $45K tend to apply through in-person methods, compared to members with incomes $100K+ who tend to apply online.

The data by issuer reflects the impact of how members heard about the credit card, and then how they applied. Credit union card users typically heard and applied for the card via the branch. Members receiving another issuer's card offering via the mail tended to apply online. While the data reflects the importance of promoting cards at the credit union branch, it also highlights an opportunity for credit unions to promote their cards via a combination mail/online offer. Given that the online channel is a more efficient way to process applications, credit unions could benefit from the cost savings and offer greater convenience to members.

The following chart illustrates the willingness of members to apply online, regardless of the channel used to promote the card offering. Members who received offers by email or online offers typically go ahead and apply online. But a significant number of members who received mail offers also applied online. Statement inserts also represent another low-cost opportunity to promote cards and lead members to an online application.

% of Members Applying Online - Based on How They Heard of Offer



Credit Card Selection and the Online Channel (cont.)

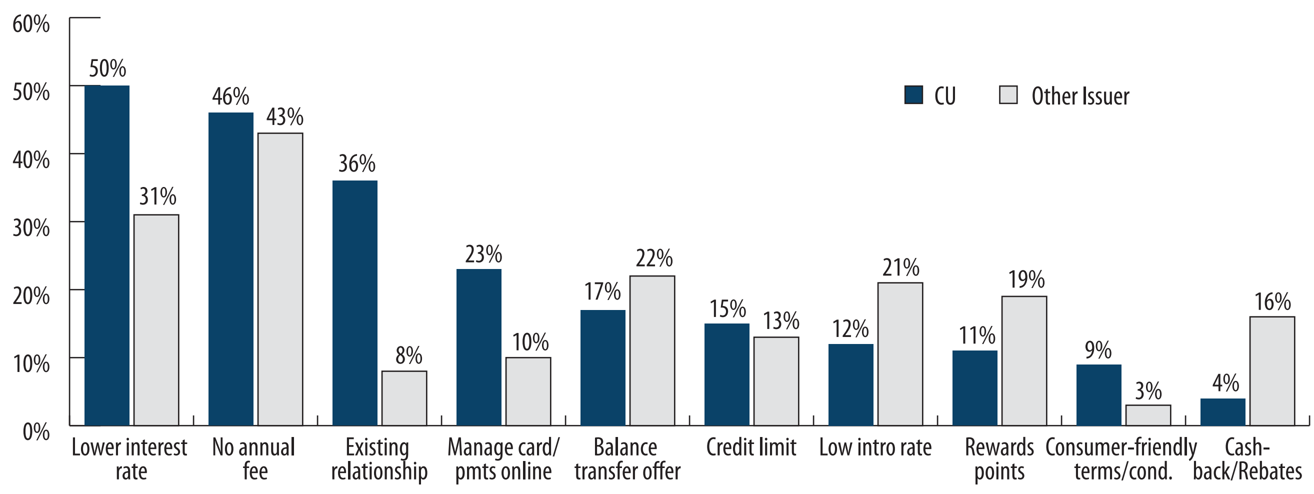
Members Focus on Lower Cost Features Over Rewards

Members' reasons for selecting a particular card reflect member debt reduction strategies and targeted promotions by other card issuers. Members selecting the credit union card cited the low interest rate (50%) and existing relationship (36%). Members who selected another issuer's card more frequently cited a special offers or rewards, such as a balance transfer offer (22%), a low introductory rate (22%), or rewards (19%).

Factors cited also varied by age and income, although the top two factors of a lower rate and no annual fee were consistent. More higher income members ($86K+) mentioned balance transfer offers (24%) and rewards points (21%) compared to members at lower income levels ($46K and lower). This may be because they receive more of these types of offers than lower income members. Younger members and lower income members more often cite the amount of the credit limit. Younger members are also more interested in the ability to manage cards online.

Both the current economic situation and recently passed legislation have a strong impact on both credit card selection factors and card marketing in the future. The credit union website should support credit card marketing and educational efforts by providing comparative data to guide member decisions. Credit unions should leverage this cost-effective channel to meet the needs of consumers using the online channel for both research and card acquisition. ■

Top 3 Factors for Card Selection - By Issuer



By Cassie Ricks, Card Services for Credit Unions

Six Steps to Succeed with Gen Y

Gen Y, or those born between 1977 and 1994, are the sons and daughters of the Baby Boomers. It is estimated that by 2009 they will have a buying power of $500 billion. Coupled with the fact that they will be 64% of the market by 2014, it is imperative that credit unions understand their mindset and capture their loyalty.

The Millennials (Gen Y) are a very diverse group that is highly wired and financially aware. They grew up in a positive political and economic climate, where they were empowered by parents. This is also the first generation of "Everybody Gets a Trophy"– thus leading to their need to be rewarded for participation rather than achievement, which fuels their love of rewards.

Technology has played such an important role in shaping this generation by allowing them to create and maintain elaborate networks and giving them what they want, when they want it. For this group, customization is the norm – not a novelty. They expect products and services with embedded solutions.

Credit unions are in a unique position to engage the Millennials, thereby deepening loyalty and moving them through the member lifecycle. This generation is optimistic, and proud of the 'badge value' of their lifestyle (school, job, religious organization etc.). They are also group-oriented and can easily be enticed by credit unions' inclusive "membership." In addition, the co-operative structure of credit unions allows them to feel they're in control.

Below are some best practices for marketing to the Millennials:

Know and Communicate your Audience

- High School - Parents as decision maker – student as the influencer
- College Students - Student as decision maker – parent as influencers
- Young Professionals – Self as decision maker – friends as influencers

Ensure You Meet Their Needs

- A competitive payment strategy is essential
- Their technical expertise is stellar and they demand online and mobile banking opportunities
- Consider student debit cards and other youthful products

Appeal to their Lifestyle and Habits

- Overcome the young adult audience's propensity to ignore mailed offers
- Member service is paramount
- Communication that is not self-serving is essential – cards on their birthdays, waiving of that month's interest charge, welcome to the neighborhood notes, etc.

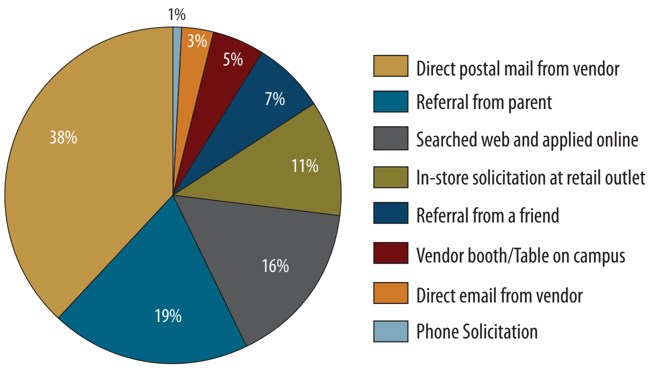
Recommendations for Your Credit Union's Program

- If you want to enter the Gen Y market, consider a dinner with the high-school or college age students of the credit union staff. Offer pizza in exchange for their feedback on your offerings.
- While marketing to students is important, don't forget the young adults employed by your SEGs or within your community. With a steady job, they have the opportunity to become profitable members of the credit union, and may need additional products, such as an auto loan, more quickly than those in college.
- As we go to print the CARD Act, signed into law in late May 2009, will affect marketing and offering cards to Gen Y. Talk to your processor about the new regulations.

For more on Gen Y, contact Callahan & Associates' team of young professionals dedicated to building awareness and action for credit unions to capture the Gen Y market.

Six Steps to Succeed with Gen Y (cont.)

How Young Adults Choose First Credit Card Vendor



Source: Sallie Mae
* With the passage of the CARD Act of 2009, some of these methods may not be practical, or may be reserved for those over 21.

Demystify Credit

- In a recent survey of Millennials over the age of 18, 62% of them could not recall what the APR was on their most used credit card
  - » Take advantage of tools like CSCU's FLEX, a quarterly financial literacy newsletter specifically geared towards this age group that can be branded by credit unions.
- Address their skepticism that card companies are not looking out for their best interest and provide simple facts on how to build credit and why it's in the card issuers' best interest for them to have good credit
  - » Websites like www.whatsmyscore.org and www.practicalmoneyskills.com are great resources for this age group
- Make the font size of "fine print" more readable. When it's very small, it makes them feel like you are trying to sneak something by them
  - » Since much of the fine print is required by law, consider creating a website that helps cardholders "decode" what it means in layman's terms

Promote Incentives and Rewards

- Use incentives that are relevant and of high perceived value
  - » Music downloads, ringtones, MMS video, etc.
  - » Do not invest too much in the premium – remember that some may only want the premium and not activate or use the card once they receive it
- Offer rewards
  - » Remember that customization is important to them, so if possible allow them to customize their reward
- Provide merchant offers that are of interest to this segment

Ensure an Effective Message

- Group visuals and a youthful tone will work best
- Be creative, fun and unique
- Use attention-getting, but relevant, graphics and design elements
- Have a youth section on your website
  - » Check out Shell FCU's website for a great example of this www.shellfcu.org

When marketing to the youth, just remember that the more student-focused the experience, the better the channel will work to drive applications and/or usage behavior, because it is perceived as relevant. You should also take advantage of technology to engage and convert student prospects. ■

Householding Rewards Points – Deepening Relationships and Building Loyalty

Envision Credit Union was one of the first credit unions to offer rewards on debit card signature transactions. Available to members since early 2004, the rewards program provides 3 points for every $5 of signature debit charges. To help increase loyalty and usage, points do not expire. Members receive updated point accumulation information on their monthly statement and online. Beyond just a checking account, members are able to tangibly see the benefits of belonging to Envision.

Debit Rewards

When the program was launched, the credit union used traditional methods to notify members, including in-branch promotions, statement stuffers and the newsletter. They also put an emphasis on their website, including redesigning parts to highlight the debit and credit card offerings. As members were used to general consumer credit card rewards, it was smooth acceptance for debit rewards. Linda Sojat, AVP of Card Services, notes, "There was some confusion as points only accrue on signature transactions. But once the members were educated, we did see a bump in our interchange income." Envision's employees were also enlisted to remind members to accrue points using signature transactions.

Envision Credit Union

$230 Million, Tallahassee, FL

31,400 Members

4.5% 12-Mo. Credit Card Loan Growth

21.9% Credit Card Penetration Rate

10.0% 12-Mo. Growth in Non-interest Income

Householding of Rewards Points

The credit union began offering a platinum rewards card in late 2007. Members receive 1 point for every dollar in credit card charges and can combine their credit and debit card rewards.

When their card processor began offering a householding mechanism – allowing members to combine debit and credit rewards among all cardholders at the same residence, the credit union jumped at the opportunity for their members. Members link their accounts through the processor's website. Once the addresses from the various cards have been matched, members can accrue points from all of their credit union cards. Members are able to select prizes and redeem points online.

Over 85% of share draft accounts have an active debit card, and 21.9% of members carry the credit union's credit card. Sojat says, "It is clear that having rewards has made a difference in distinguishing our program and extended loyalty to the card. We had to reissue 11,000 cards due to the Heartland Compromise, and we received many, many calls from members who were initially missing their points."

For credit unions thinking of offering rewards on any of their cards, Sojat suggests, "Allow the householding of rewards to expand penetration throughout the household. Make sure to work with your core processor and online banking processor to add the rewards points to monthly statements. That will eliminate additional notifications of rewards balances. Most of all, go with a quality rewards program. Members won't use a program that doesn't offer a variety of rewards and isn't easy to use." ■

Triggering a Portfolio Rescore: Understanding Risk in the Current Environment

Understanding the risk in your portfolio is critical in today's marketplace. As members' financial circumstances change, institutions need to adjust lines and rates as necessary to balance the members' best interest and the interest of the institution. Yet manual rescoring of large portfolios can be time-consuming and inefficient. Trigger alerts, offered by the service bureaus, can provide an alternative, saving time and money, while best serving your portfolio.

In late 2008, SAFE Credit Union re-scored their portfolio of 35,000 account holders. After receiving the current FICO scores from their service bureau, staff sorted through and assessed 937 problem accounts totaling $4.5M in credit. Henry Wirz, CEO, says, "Like most lenders in this financial market, we've realized that credit cards have become a fairly significant risk." The credit union notified the members by mail that due to deterioration in their creditworthiness, their line of credit would be reduced or closed. Wirz notes, "That was a mistake we learned from. We were too aggressive." A few months after notifying members, 418 of the 937 accounts had become delinquent or had been charged-off. The credit union acknowledges that with a gentler touch, some of those "problem" members may have stayed current on their cards.

In an effort to re-score their portfolio in a more effective and efficient manner, the credit union uses their service bureau to compare the current credit scores of card holders to their credit score previously. If there are significant changes, with the exact "triggers" designated by the credit union, the service bureau provides the description and additional details on the account holder. The credit union notes that there is a danger of getting too much data from the service bureau – in some circumstances it would then be difficult to act upon additional accounts. With addtional data points (available from the credit bureau), staff would need to devote additional time to the process. Wirz says, "We're not Bank of America; we don't have a huge staff to do this work. By doing it every two months, we have a bigger list to work on, but it is more efficient – and we aren't re-scoring 35,000, saving time and money." By completing the process every two months, there are about 100 potential problem accounts, of which the credit union expects to take action on maybe half.

Depending on the data provided by the service bureau, the credit union also designed varying degrees of action for a more structured approach. Wirz notes, "Initially, we are using the program to deal with negative changes. As we move forward into a more benign credit environment, the same process can identify members with positive changes to their credit score that may warrant increased lines of credit or qualify for new products or services." ■

SAFE Federal Credit Union

$1.5 Billion, North Highlands, CA

127,690 Members

27.1% Credit Card Penetration

4.11% Credit Card Delinquency Rate

By Lydia Cole, Callahan & Associates

Understanding the Credit Union Opportunity in Business Cards

The U.S. small business universe core is comprised of 26.8 million small businesses with annual revenues of less than $25 million. The small business credit card and debit card opportunity is significant and relatively untapped for credit unions. There are challenges to this opportunity, though, including low card acceptance from businesses and difficulties integrating cards into small business payment processes. These challenges can be overcome, however, with increased awareness and proper education from card providers.

As of December 31, 2008, credit unions posted $26.5B in outstanding member business loans, up 18.3% from the previous year. Commercial real estate remains the largest portion of the credit union business lending portfolio, representing 93.7% at year end. Currently, 25.8% of credit unions offer member business loans, up significantly from 16.8% at year-end 2003.

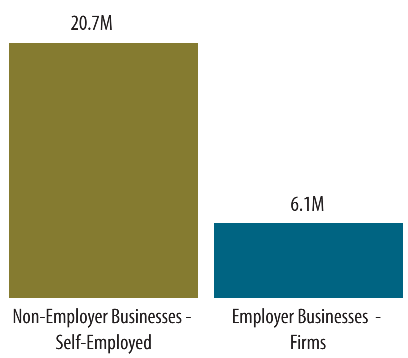
While more credit unions have entered this lending sector, not all have had record growth or volume. Only 13.1% of credit unions reported more than $1.0 million in outstanding member business loans at year-end.

While data on payment methods designed for small businesses is not available, the majority of credit unions with an MBL program do offer a business share account. As 92% of small businesses rely on checks, with an average of 10.5 transactions per month, a share draft account will complement a business lending program. However, having a variety of payment methods, including credit, debit, and online services is the best way to build a business services suite of products. Now is the best time to get involved in this market. History has shown that each economic slowdown results in a significant spike in the number of small businesses. Your members already trust you for their personal financial and will likely prefer you for business finances. ■

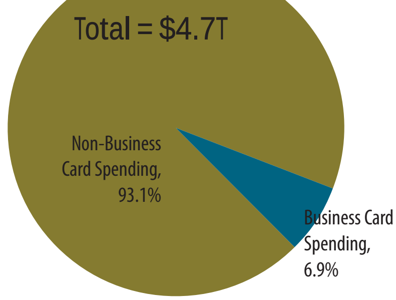
Recommendations for Your Credit Union's Program

- Businesses, like members, have changing needs – monthly, quarterly, and annually. Understanding your business members' lifecycle is critical to maintaining the relationship.
- Rewards matter! Allow the householding of points on business plastic to deepen the relationship with both the business owner and their family.
- While the majority of businesses rely on checks, offering services such as bill pay, remote deposit capture and financial management tools will deepen loyalty and reduce expenses.
- Train your staff in recognizing which members could be business members. Cross-selling a card to a member who appears to be using their household checking account for business purposes can open a new relationship.
- Security is top of mind with small businesses; products, services and messaging that address fraud, identity security and protection resonate

Number of U.S. Small Businesses



Small Business Commercial Consumption Expenditure (CCE) 2007

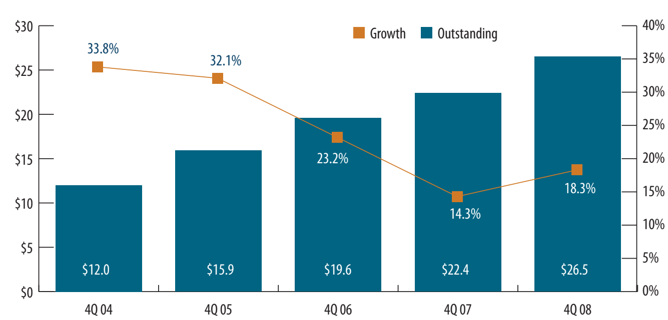


U.S. Small Business Payment Methods

	% Using	Ave # of Trans.	Avg $ Spent*
Check	92%	10.5	$8,502
Credit Cards	46%	8.0	$1,961
Non-bank DDA (Paypal, Vendor Direct)	42%	3.2	$2,926
Cash	38%	5.2	$674
Bank DDA (Bill Pay, Other ACH)	35%	3.2	$3,090
Debit Cards	23%	8.2	$1,479
Other	14%	3.9	$1,813

Source: CSCU/Visa *per Month

Business Loans are the Fastest-Growing Segment of the Credit Union Loan Portfolio | For all U.S. Credit Unions at December 31



Building a Business Credit and Debit Program

America First Federal Credit Union has offered business accounts since 1986. Their reputation and offerings have grown over the past 20 years to include business credit and debit. Joanna Kellerstrass is the business account services manager at the credit union and oversees three employees, all of whom handle the accounts and business loans under $50,000. In addition to their team, the credit union also employs a commercial lending department of ten and a specialized SBA-section of four. Kellerstrass says, "Our business lending efforts have been evolving and growing on a regular basis."

Assisted by an extensive branch network, 80 – 90% of business accounts come from existing members with personal accounts. The credit union currently has over 17,000 business accounts with no traditional marketing. Those businesses are mostly family-run, with less than 100 large corporate accounts included in the credit union's business lending.

Kellerstrass says that the payment systems options – business VISA debit card and business VISA credit card are the most popular products. They see about 50 new cards each month with a current portfolio of $8M on each type of card. "Some business members carry a balance; others use their card for monthly cash flow," Kellerstrass notes.

America First Federal Credit Union

$4.8B in Assets , Ogden, UT

490,280 Members

9.9% 12-Mo. Loan Growth

15.9% 12-Mo. Credit Card Loan Growth

21.9% Credit Card Penetration Rate

Their business services accounts have grown despite no traditional marketing. The relationships are built on individual interactions in branches. Even without incentives to tellers, business services are successfully being cross-sold. One key way to increase penetration in business payment systems is to allow branch managers the authority to issue cards. Every branch manager at America First, including those running grocery store branches, can offer a debit and credit card for business accounts with a maximum limit of $15,000 for each card, given credit approval. Using the extensive branch network and efficient call center, the credit union emphasizes their value of service and availability to businesses not served by competition.

Training front-line staff in the credit union's business services offerings is determined by their branch manager. The credit union offers extensive courses in business services and SBA lending. Additionally, the business services staff participates in monthly branch staff meetings and travels to the branches to meet staff and provide perspective on working with business members.

Kellerstrass does note, "Business credit cards require more due diligence and underwriting." The credit union requires a personal guarantee from the business owners(s) on any loan. The credit union recently revised their business account packaging and pricing to include a no-fee business checking account and provide a true business credit card with reporting capabilities, merchant discounts and extensive fraud protection. With a standardized set of products, the credit union will see increases in penetration and increased returns of member value. ▪

Mobile Banking Overview

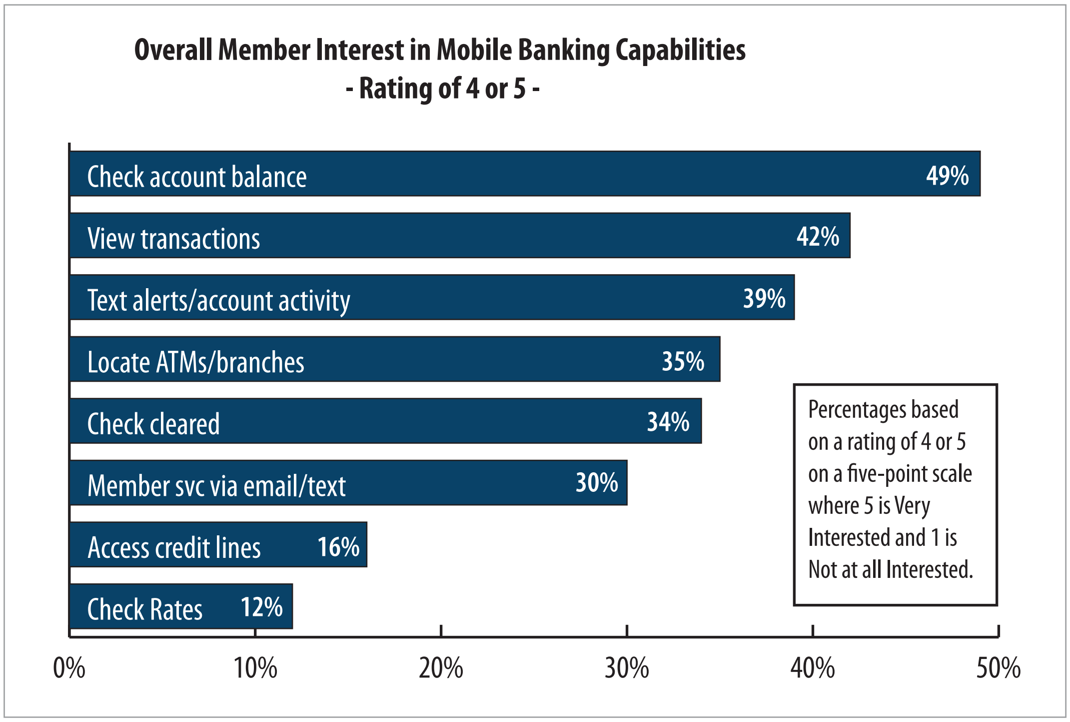
Industry partnerships among the major mobile banking providers and other credit union industry suppliers are making it easier and more affordable for credit unions to implement mobile banking. Is this the right time for your credit union to offer mobile banking? Here are some factors to consider for your mobile adoption strategy:

Membership composition: Texting is more universally used as opposed to mobile internet access, although some credit unions could have a large number of members who carry internet-enabled phones, especially if their employer is technology-based.

Ease of Implementation: These factors include a consideration of compatibility for dominant local cell phone carriers, and devices. Another issue is the ease of integration between online banking and mobile banking, and support needs.

Need of current vs. target segments: While the credit union may have fewer current members expressing interest, you should consider whether the service will help you attract or retain important member segments.

- Retain important member segments like Gen Y and small businesses. Credit unions should not assume that only members currently using online banking will be interested in mobile banking.



By Denise Senecal, Callahan & Associates

Credit Union Mobile Banking Projected to Rise

Mobile banking adoption by credit unions continues to trend upward, with the majority of credit unions surveyed by Callahan & Associates are planning to invest in mobile banking technology over the next two years. Overall, about one-tenth of responding credit unions reported that they currently offered some type of mobile banking. However, about one-third of respondents did not currently offer mobile banking and anticipate no investments in mobile technology in 2008/2009.

Out of the Gate: No Clear Cut Technology Winner

Credit unions are split between adoption of WAP/browser-based mobile banking programs, SMS/Text messaging programs, and downloadable apps. While fewer credit unions mentioned plans for download software, adoption of this technology may increase as more carriers implement pre-loaded software on their mobile phone options, especially with the explosion of the iPhone. While fewer credit unions mentioned plans for downloaded software, adoption of this technology may increase as more carriers implement pre-loaded software on their mobile phone options.

Some of the front-end issues that credit unions need to consider when selecting a technology include:

- Level of security: fraud and multi-factor authentication
- Compatibility with other systems such as online banking
- Desired transaction capabilities
- Member interest and need for information vs. transaction capabilities

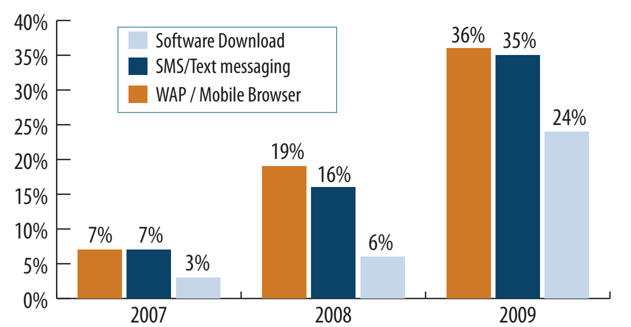
Member Preferences Vary

Currently, online members indicate they are more interested in receiving information than in conducting transactions but interest levels vary within different segments. Across most of the tested services, one-third or more of online members expressed some interest. These include text-based functions such as account activity alerts (39%) or reaching member service via text (30%). Members are also interested in locating ATMs/branches (35%) or seeing if a check has cleared (34%).

In line with their higher mobile activity levels, younger members have greater interest in all of the mobile banking capabilities. However, there are significant numbers of members across all age groups (30% - 69%) who are interested in the ability to check account balances.

Recommendations for Your Credit Union's Program

- Mobile banking appeals to certain users. Read Mobile Banking – Demographics Matter starting on page 23 to decide if the technology is right for your members.
- Understand mobile banking risks and the best steps to reduce exposure. Steps include controlling access capabilities, limiting internal to external transfers, and user time-out features.
- Don't expect high usage immediately. Developing member awareness can take time. Look for 5-10% in the first year. Offering the right services for your members through a comprehensive delivery network is a long-term process.



Note: Multiple responses permitted. Some credit unions plan to offer multiple technologies.

By Denise Senecal, Callahan & Associates

Mobile Banking – Demographics Matter

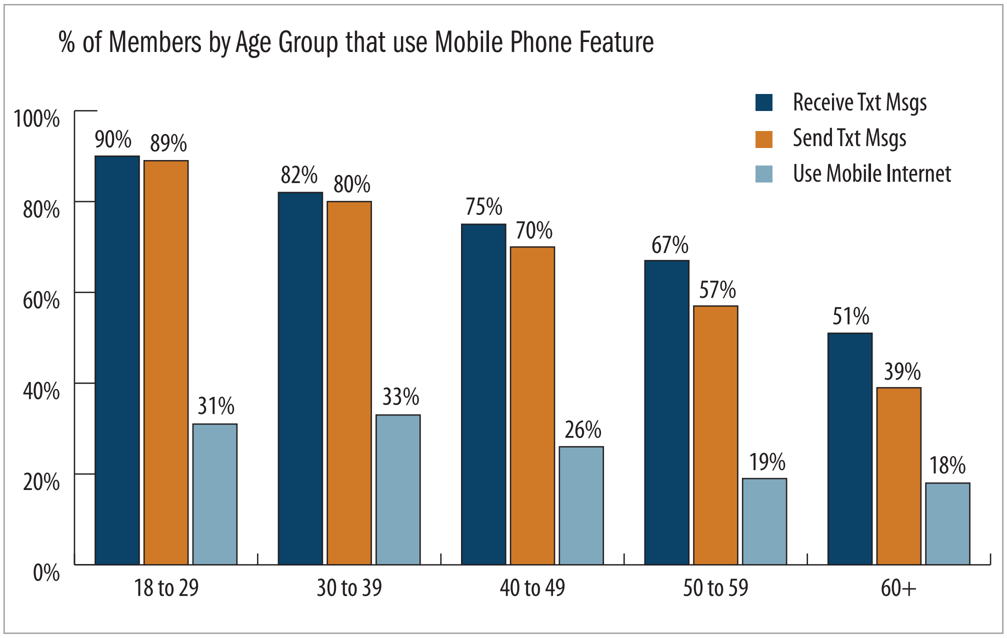
A recent survey of credit union members provides insight into the types of mobile phone features that members are currently using, in order to investigate future barriers to adoption of various mobile technologies. The online survey of more than 11,000 credit union members from nine credit unions examined needs and preferences among online members—the segment of your membership most likely to be the early adopters of mobile banking technology.

Members are already using mobile phone features that are similar to the types of technologies that credit unions are considering for mobile banking. Current usage patterns of these features provide insight into the potential barriers and segments of interest for credit unions.

Comfort with Mobile Features Varies with Age

As expected, members are much more familiar with text messaging than accessing the Internet through their mobile phone. As the chart below shows, experience with text messaging varies by age, although at least half of the members in each age group are using text messaging to some extent. Members who are under age 39 are most likely to be sending and receiving text messages. Among members older than 40, more are receiving text messages than sending them.

Mobile Internet usage is far lower overall, with a maximum of only one-third of members in the under 39 age group. Mobile Internet usage drops off sharply after age 39, with lowest experience levels in the over 50 group.



Recommendations for Your Credit Union's Program

- Whether you will be offering a software download, a mobile browser or text banking, do a survey of members to develop a comprehensive solution.
- Do your local competitors offer mobile banking? While you may be the only institution offering the service, it won't guarantee new members. Advertising a comprehensive delivery network - online and physical - can help overcome member concerns of convenience.

Mobile Banking – Demographics Matter (cont.)

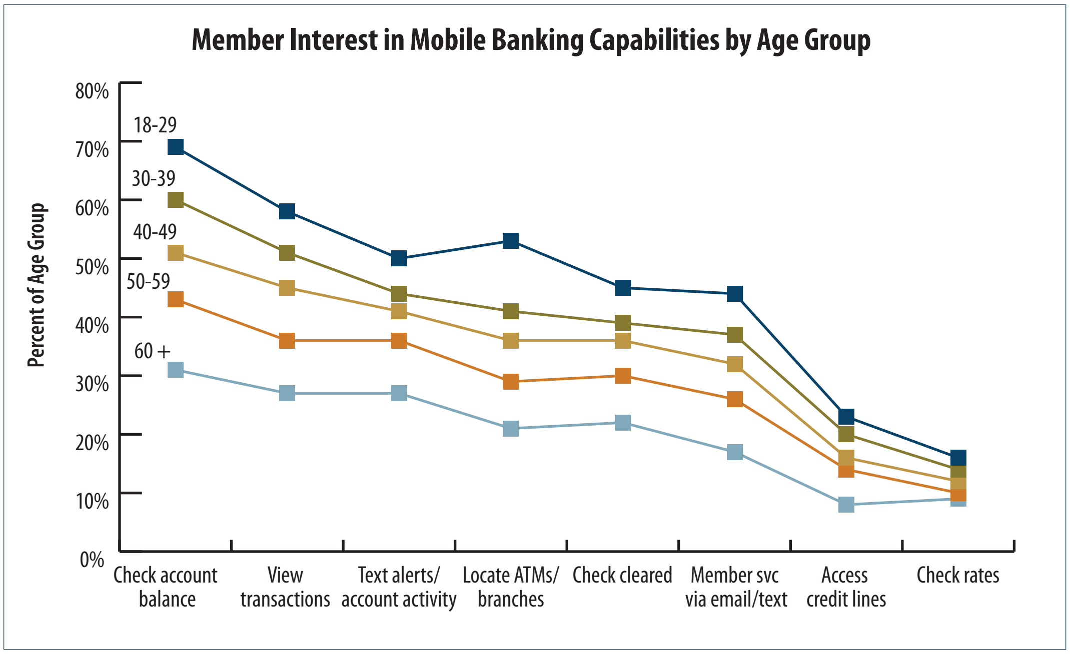
Understand Your Membership's Demographic Profile

It is important to consider the demographics within your own credit union to fully understand the likely adoption curve. There is a wide variation of mobile Internet use by credit union. While the basic curve is the same across age levels, the proportion of members who access the Internet through their mobile phone ranged from a low of 19% to a high of 42%. For example, one community-based credit union saw similar levels of mobile Internet usage across the segments ranging from age 18 through age 49, with usage dropping in the over 50 segment. For other credit unions, the decline in usage came after age 39.

Consider Your Target Segments

The survey results do not necessarily tip the balance in terms of one technology over the other, rather they illustrate that the functionality provided by text-based products versus mobile Internet-based products will attract different segments. Some credit unions recognize that this is not an "either-or" decision and plan to implement a comprehensive offering including SMS/text, mobile browser and downloadable apps.

In prioritizing technology implementation, credit unions must also consider the relative value of the various segments they want to attract and retain. While mobile Internet users make up a lower proportion of members, they are also potentially one of the best prospects for increasing credit union service usage. Their high use of self-service channels and higher incomes make them a very attractive market for credit unions. ▪



Offering Multiple Mobile Options for Different Member Segments

As Bill Stravros, VP Marketing, Proponent FCU, explains, "We decided to offer mobile banking to cultivate relationships with younger members. These members communicate heavily using text and we wanted to provide an option for them."

Proponent offers an on-demand text messaging service which provides current balance information and recent transactions, upon request, using an 800 number. They also offer an active text messaging service, which provides automated updates such as balance information based on alerts requested at enrollment. Access to both mobile options is based on using one of two checking accounts, which offer access as part of the relationship benefits.

The two services offer strong benefits for members who closely manage their accounts. The active text message service provides instant text messaging shortly after an event such as a withdrawal occurs, enabling members to more closely monitor their checking accounts. The on-demand service increases convenience for members to access this information whenever they need it.

To sign up for either mobile option, members must go to a Proponent-branded website (provided by their vendor, MShift) and enroll using their internet banking login and password. Members can then select which options they want to use and register their phones. They can update their options on this website as their needs change. Neither service involves the texting of account numbers for security reasons.

Stavros notes that it is important to have your frontline staff using the mobile banking service so that they can better explain and promote the service to members. Stavros advises credit unions to have a minimum testing period of two weeks before launch, to enable staff to become familiar with it.

Proponent FCU

Nutley, NJ

Assets: $396,060,813

Members: 26,835

Online Payments and Services Overview

Bill pay adoption continued to rise through 2008, across the industry with the biggest gains made in the $10M to $20M and the $20M to $50M asset groups; adoption rates rose approximately 4 and 3 percentage points respectively.

Further, adoption rates for credit unions over $250M in assets is nearly 100%. There are several reasons for this healthy growth. First, rising home banking adoption is driving, or influencing, growth in bill pay adoption. Second, demand for bill pay continues to increase. Callahan's Internet Strategy Consortium found that among the 14,670 members surveyed, bill pay penetration is up to 43%, higher penetration than credit cards, auto loans, and money market accounts. Finally, bill pay is frequently considered to be a driver of or indicator of a member's choice of primary banking institution; either way, usage of bill pay suggests a sticky relationship with the credit union.

Remote deposit capture technology, although in its infancy, is taking home banking to another level. USAA, San Antonio, TX, was the first to roll out the technology in 2006 with their Deposit@ Home product and reported immediate success. But credit unions, by number of instituions have been the early adopters. Lead by credit union suppliers' well-developed solutions, credit unions are becoming a resource to members and small businesses that desire this convenient technology, while eliminating concerns over the need for multiple locations.

Consumer online payment options such as Google Checkout, PayPal, and BillMeLater present notable challenges to credit unions reliant on interchange income, but also opportunities to deepen member loyalty. These topics, and credit union case studies, are studied within this section.

Bill Payment Technology Adoption by Credit Union Peer Group | Data as of December 31, 2008

	under 10m	10m-20m	20m-50m	50m-100m	100m-250m	250m-500m	500m-1b	over 1b
% adoption	8.39%	43.31%	71.00%	91.15%	95.54%	99.68%	98.94%	97.26%
# of CUs	3,337	1,173	1,375	768	672	308	189	146
								Total # of CUs 7,968

By Alix Patterson, Callahan & Associates

Alternative Online Payments: An Assessment of the Threats and Opportunities for Credit Unions

Overview

The 2007 Electronic Payments Study, which analyzed 2006 payment volumes, is still the most recent, comprehensive look at the entire swath of electronic payments. The part of interest to us in this section is primarily "emerging payments". These are new "front-end" methods to the consumer, but they use traditional funding and settlement systems behind the scenes.

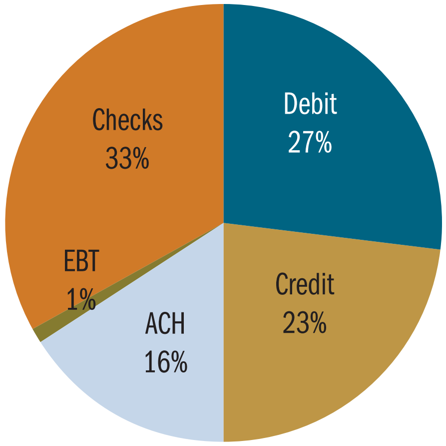
The study tracked these "emerging payments" as part of the credit, debit and ACH volumes because of their backend use of traditional settlement systems, but also separated out the data so we can look at substitution trends in payment types. Within this segment, online bill payment (including Biller Direct, 3rd party online bill payment companies and financial institution online bill payment services) makes up a majority of the transactions with 97 percent. "New payment types", which includes P2P, proprietary ACH cards, mobile payments and deferred payments, made up only 3 percent of transactions.

So, why devote four pages to such a small segment of the electronic payments industry?

Here are 4 reasons for credit unions to keep an eye on alternative online payments.

1. Trends show that consumers are adopting alternative payments at an increasing rate. PayPal's processing volume rose from $36 billion in 2006 to $60 billion in 2008! That's an additional $24 billion in electronic transfers in just two years which can lower interchange income to credit unions, a key source of non-interest income.
2. Merchants are actively exploring ways to lower interchange fees and get around the costs of compliance with the Payment Card Industry data-security standards (PCI DSS) by adopting these new services. Merchant adoption of alternative payments rose 23 percent in 2008 according to Rosetta, a marketing and research company, with 37 percent of the largest retailers accepting one or more of the payment methods detailed in these pages.
3. Online retailing is showing to be more 'recession-proof" than traditional retail. A recent Javelin research study projects second quarter 2009 online spending to rise 8 percent from first quarter. The same company projects alternative payments to process 18 percent of online transactions in 2009, and this number to rise above 30 percent by 2013. The move to online alternatives from traditional credit and debit is projected to accelerate since these

Distribution of the Number of Noncash Payments Data



Source: Federal Reserve- 2007 Electronic Payment System

Alternative Online Payments: An Assessment of the Threats and Opportunities for Credit Unions (cont.)

forecasts were made before the economy weakened and credit tightened.

4. Today's recession has consumers considering "cash-like" options in greater numbers than ever before. The most recent data from the Federal Reserve shows that revolving credit fell by 9.75 percent in February 2009. VISA reported that debit usage overtook credit card transactions in the first quarter of 2009 for the first time. And our own survey of over 10,600 credit union members showed a rising concern about their financial future and a desire to find new ways to save.

What do these trends mean for credit unions? Let's take a look at 6 consumer options from two angles:

1. How does it work? 2. What does it mean for credit unions?

PayPal

PayPal is the dominant force in the online payments space. They currently have over 70 million active users in 190 markets, and process transaction in 19 currencies around the word. Their payment processing volume has increased rapidly over the last two years, to over $60 billion in 2008. Originally designed to facilitate payments between merchants and consumers who had no other way to conduct business, today PayPal is facilitating payments for some of the largest merchants online as well.

PayPal processes transactions both through credit and ACH networks. They earn fees for transaction processing as well as on funds held in escrow while the payments wait to be transferred to the traditional banking system. PayPal president Scott Thompson was recently quoted as saying "While I wouldn't say we're the greatest service ever invented for banks, I do think we've enabled electronic transactions that otherwise just wouldn't have happened."

If consumers use their credit cards to fund their PayPal transactions, traditional banks and credit unions still earn interchange income from that transaction. However, if a consumer chooses to just debit their FI account, there is no revenue opportunity for FIs. Today, PayPal actively defaults to the ACH option and actively promotes the option which could affect interchange income for credit union cards.

Google Checkout

Google Checkout is the second most widely adopted "e-wallet" by consumers today (behind PayPal). Rather than maintain their own payment systems, Google Checkout acts as an intermediary between merchants and consumers, who want to use their traditional credit or debit card to make purchases, but don't want to share that number with many individual merchants.

A consumer sets up a Google Checkout account by providing an existing credit and/or debit card number to Google. Then, when they shop at participating merchants, they can simply select Google Checkout as their method of payment. They do not have to disclose any payment information to the merchant. Google Checkout offers a fraud protection policy so consumers are covered against unauthorized purchases and offers to hide a consumers' email address from the merchant to ward off spam.

Google is attracting merchants by offering discounting on the processing fees in exchange for AdWords: for every $1 merchants spend in AdWords, $10 in sales are processed for free. For small business owners that derive much of their traffic through Google searches, this is a compelling value proposition. Also, Google Checkout does not share the credit card number with the merchant so the merchant does not have to worry about PCI DSS compliance, a similar benefit across most of these alternative payment systems.

Google Checkout may bring more security conscious members into the online shopping sphere through its promotion of added security and spam prevention. This could mean increased credit or debit card usage from your members who traditionally have not shopped online. Or, those who already shop online may just want additional security. In net, Google Checkout is probably neither a threat nor an opportunity for credit unions.

BillMeLater

BillMeLater (BML) offers consumers a deferred payment option when shopping online without having an actual credit card. A consumer sets up an account with BillMeLater and the company runs a credit check at that time. When they are ready to buy a product on a merchant site, BillMeLater uses an instant credit decisioning model to accept or reject a consumer's purchase at the point of sale.

At checkout on participating retailers' sites, a consumer can select this payment option simply by entering their birth date and the last four digits of their social security number. BillMeLater transfers the money immediately to the merchant and takes on the billing, collections and risk components of the transactions. Merchants are also able to offer special financing options designed to encourage larger purchases.

BillMeLater estimates its transaction fees are 30-40 percent lower than a traditional credit card transaction for the merchant. It also claims to raise the average ticket price by 75 to 150 percent. The company was purchased in November 2008 by eBay to complement the PayPal online payments model.

BillMeLater is essentially a "plastic-less" credit card, albeit one with varying financing options based on the retailer used. One attraction is that consumers are not disclosing private information to an unknown retailer at check out. Their information is captured and stored by BillMeLater so there are additional security benefits over using a credit card at checkout.

However, the product is not a specific line of credit – each purchase must be individually approved. Therefore, the consumer could be rejected if their credit standing has changed or the transaction is larger than the amount authorized by BillMeLater—an amount they don't know in advance. Additionally, consumers who do not immediately pay in full could be subjected to a high interest rate that they do not know at the time of purchase. BillMeLater's business model relies more on earnings from consumer interest payments and fees rather than merchant processing fees.

What does this mean for credit unions? BillMeLater is a direct competitior for both interchange and income for credit unions when members use BillMeLater for financing a purchase. Members are potentially using another method of revolving credit without an actual card or fixed credit line. If the claims are true (and the research has been substantiated by 3rd party research firm Javelin), the increase in ticket price could be a dangerous precedent, particularly in today's economic environment.

eBillMe

eBillMe is a cash-like payment system that consumers can use to pay for online purchases. When a consumer selects eBillMe as their payment option at checkout, they are presented with an "ebill." They are then directed to log-in to their financial institution's website, set up eBillMe as a new biller (only the first time they use the service) and pay through their bill payment system as they would any other utility bill.

eBillMe is linked to MasterCard Worldwide's RPPS backbone network. When they receive notice of payment, usually within two to three days, the merchant receives guaranteed funds and can ship merchandise. According to the company, tickets are averaging $240, which is high for a cash-like service. No data is available about shoppers who abandon the sales process by not submitting payment for the bill.

Merchants like this option because fraud is the responsibility of the financial institution initiating payment and they do not have to store credit card data and comply with PCI DSS. Acceptance fees for eBillme range between 1% and 2% of the transaction although the company has offered discounts to drive adoption by merchants. One problem they face is the delay between online order and their confirmation of funds received.

The current economic crisis has ramped up eBillMe's marketing engine to focus on "debt free shopping." They have a new website called the Debt Free Shopping Mall available at http://shopdebtfree.ebillme.com/. For members who are interested in cash-like options for online purchases, eBillMe is a good alternative that keeps their financial relationship with their PFI intact. There is not a revenue model for credit unions in this relationship but there is no loss of interchange income (the consumer having already chosen to use a "cash-like" option) and the member has not shared their private information with a 3rd party biller.

Secure Vault Payments

When the idea for Secure Vault Payments was first launched, digitalmoneyworld.com composed the question "Secure Vault Payments: The PayPal, Google Checkout, Amazon FPS, Merchant Account Killer?" NACHA's online-payments pilot went live March 31, 2008 with one bank and one merchant. Since then, they have about a dozen institutions in pilot phase, including Harvard University Employees Credit Union, and a handful of merchants.

The process for the consumer is similar to eBillMe. When a consumer selects Secure Vault Payments at checkout, they are redirected to the log-in page for their online banking program. The user then is presented with a payment page within the bill pay program. When the transaction is authorized, funds are transferred using ACH—one way this service differs from the other payments that are using traditional credit and debit settlement systems. SVP levies an "authorization fee" of 1.35% on merchant payments and real-time payment authorization.

Currently, the question seems to be who come first, the merchants or the banks. Banks must sponsor merchants to join the system and they then earn a flat fee of 50 cents on bill payments paid by acquirers (the bank from which the consumer originates payment). Since transactions are authenticated by authorizing banks, all transactions are guaranteed to merchants. According to their website, SVP is now focusing on enrolling universities and non-profits. They are also touting a "green" marketing message by focusing on the elimination of paper from the payments process.

Some banks view SVP as a threat to their current interchange income. To combat this perception, SVP (and Moneta, see the next story) focus on the ability to attract net new consumers to online shopping (and payments) to generate enough volume to offer an alternative revenue stream for financial institutions.

Moneta

Moneta is one of the more recent entrants into the alternative payments space. The company is privately held after being spun off from CheckFree in early 2008. Moneta uses the ACH backbone to transfer funds. Billed as "PayPal-like functionality", Moneta appeals to debit-oriented consumers who want to pay for transactions online with available funds.

A consumer registers with Moneta just as they would with PayPal and must provide access to a bank or credit union account to fund transactions. When the consumer chooses Moneta on a merchant site at the point of sale, they are taken to the Moneta log-in within a secure frame on the merchant's website. There, they enter their Moneta user name and password and authorize the flow of funds from their designated account to the merchant. The FI is paid 50 cents for the transaction by Moneta and the merchants are charged a transaction fee that is stated to be 50 percent lower than PayPal. The risk of insufficient funds is assumed by either the merchant or the bank, depending on when the problem is detected. For consumers, the value proposition is in the much faster flow of funds, with same-day settlement.

The dilemma they face is driving both merchant and consumer adoption. According to marketing Carol Kleywegt, director of marketing, Moneta is currently targeting large banks to help drive consumer adoption of the service and offering FIs a source of recurring revenue to replace interchange income they may be losing. According to a white paper published by Moneta, "While gross unit revenue would be less than from traditional payment cards, it would be considerably less risky, less expensive revenue. And, if cannibalization isn't a myth and is a real dynamic that will play out for most banks, then banks are better off doing it to themselves then having it done to them."

Wrap-Up

So as a whole are alternative online payments a threat or an opportunity for credit unions? The potential problem lies with services like PayPal and BillMeLater that push payments away from traditional credit or debit models and the affect on interchange income to credit unions. Google Checkout and eBillMe on the whole may represent an opportunity, or at least the possibility of deeper member loyalty, for existing payments methods including online bill pay. Secure Vault Payments and Moneta could threaten the traditional interchange revenue model, but are trying to address that concern by offering financial institutions an alternative payment stream and by focusing their services on those who don't currently use the credit and debit methods for online purchases. ■

By Lydia Cole, Callahan & Associates

The Value of Remote Deposit Capture in Credit Unions

With the passage of the Check 21 Act in October of 2003, financial institutions faced permissible imaging through the Federal Reserve, allowing them to increase the use of imaging technology. Many larger banks have taken advantage of the imaging process, linking branches and operations centers across the globe. In late 2006, USAA Federal Savings Bank was the first major institution to announce an "easy-to-use, secure new service" that allows all of their customers to deposit checks using a common scanner and followed up with an iPhone application to deposit checks using the phone's camera in June of 2009. However, commercial banks have primarily focused on introducing image capture services to businesses while credit unions have developed solutions focused on members.

Evolution of Checks

There were nearly 33 billion checks written in 2006. However, the number of checks used fell by 7 billion from 2003 to 2006, decreasing at an annual rate of 6.4%. Checks processed through credit unions fell at nearly double the pace, decreasing 11.9% annually from 4.2 billion checks in 2003 to 2.7 billion in 2006. With the steady decrease of checks, credit unions may not be able to justify the cost to offer a consumer level imaging service on their own, but will need to network through their corporate credit union or a credit union service organization (CUSOs).

In a recent American Banker article, the Federal Reserve was quoted as saying they had reached a "tipping point" in September 2007 when more check images were accepted for clearing than paper checks. By December, nearly 60% of the Fed's forward presentments were arriving as images. The Electronic Check Clearing House Organization reported that as of November 2007 the financial system was handling images at an annualized run rate of 9 billion per year, with volumes expected to peak in early 2009. Southwest Corporate Federal Credit Union indicated that transactions processed with their branch and teller capture products increased to more than 5 million in November 2007 from 2.5 million in November 2006. These industry trends indicate that imaging is the way of the future.

Three major trends in imaging will drive changes to the way checks are processed at financial institutions.

1. Branch and Teller Capture

Reducing courier pickups reduces transportation expenses for credit unions with a large or geographically diverse branch network. If the credit union has a large number of deposit-by-mail transactions, employee costs may be reduced or eliminated. While branch capture systems are focused on back office operations, the front line can also be a part of imaging trends through teller capture. These systems can also increase processing speeds, reduce teller errors due to fewer keystrokes, and decrease staffing levels or allow representatives to focus on cross-selling.

Recommendations for Your Credit Union's Program

- Are you targeting consumers or merchants? Understand how Remote Deposit Capture will integrate with your existing products or services. Will access be included with every new checking account? Will small businesses need to pay by item?
- Work carefully with your supplier on risk management. Develop the credit union's acceptable risk level across all Check 21 solutions, including any image-enabled ATMs or kiosks.
- Be prepared for success! With the right type of membership and little marketing, Digital Federal Credit Union saw great results. Read about their first year of offering RDC starting on page 37.

The Value of Remote Deposit Capture in Credit Unions (cont.)

2. ATM Image Capture

Image-enabled ATMs can help credit unions clear checks faster, reduce fraud and speed payments to members. Processing images enables fewer pick-ups from the ATM, reducing delivery charges. The faster processing time allows credit unions to extend the time period for same-day credit for deposits. Used in branches, these ATMs can provide members with an alternative service channel during times of heavy traffic, such as during paycheck deposit days.

In a recent Internet Strategy Consortium survey of over 12,000 members nationwide, 48% used ATMs to make deposits. For those who did not, 35% wanted to be sure their accounts were credited correctly and another 17% had concerns about accuracy. Most image-enabled ATMs ask members to approve the amount and print a thumbnail image of the deposits on the ATM receipt, ensuring accuracy and member comfort.

Image-enabled ATMs are also a viable alternative when considering new retail delivery channels. The machine's expanded capabilities offer greater convenience than traditional ATMs. Over time, increased familiarity and use will help reduce perceptual barriers towards ATM deposits. These capabilities can also be leveraged to increase confidence and use in shared branching options.

3. Consumer-level Remote Deposits

Extending imaging to members also means extending control of the deposit process. Certain members, such as active home banking users or frequent ATM depositors, will appreciate the convenience of depositing from home or work. Other members will continue to rely on the branch. In the 2009 Credit Union Technology Spending Survey, 6% of credit unions indicated they have implemented or currently are implementing a deposit system based on a common scanner. While small or micro-businesses are able to use consumer-level services, they may find it time-consuming to scan more than a handful of checks using a typical flat-bed scanner. ▪

Extending Your Imaging Solution

Hanscom Federal Credit Union ($600M in Hanscom AFB, MA) has imaging on their mind. An early adopter of branch capture, Hanscom FCU has added envelope-less imaging ATMs as teller replacement units in one branch. They are also currently in beta testing for a remote deposit capture (RDC) service. Scott Post, SVP of Strategy and Delivery at Hanscom, views RDC as an "absolute necessity". By implementing this technology, the credit union believes it will be able to grow existing member relationships, as well as offer the service to new members as an advantage over competition. Additionally, the credit union currently recieves a large number of deposits by mail and expects to lower costs with increased member usage.

Deciding to extend your imaging solution depends on many factors. A single-SEG credit union may benefit from placing an imaging ATM or Kiosk in the lobby of their SEG's headquarters. A larger credit union that includes military personnel, such as Hanscom, may see increased member retention and higher service marks if their members are able to deposit checks from anywhere with a simple flat-bed scanner.

Hanscom Federal Credit Union

By Denise Senecal, Callahan & Associates

Ramping Up Your Bill Pay Marketing: Leveraging Current Consumer Trends

Focus on Financial Management, Budgeting and Savings

A recent Internet Strategy Consortium (ISC) survey of 10,664 online members found that members are concerned about their financial future, including saving more in general (42%) and rising costs (40%). In addition, four in ten members were interested in online tools to track expenses 42%) and/or budgeting tools (42%). Online bill payment is one way for members to track all of their payments to more carefully manage their money.

In this time of stricter credit standards, consumers are becoming more aware of the potential impact of a single late payment on their credit rating. Related fees and interest rate increases can further damage a member's financial position.

Leverage Fast Payment Options for Late Fee Avoidance

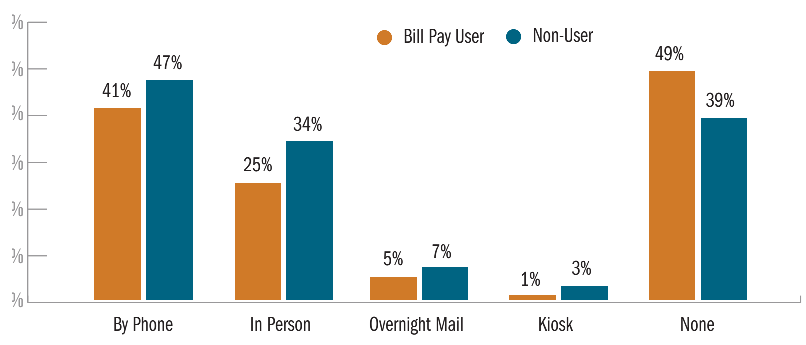
Credit union bill pay options can be positioned as enabling members to schedule payments on a tighter turnaround, providing benefits for families on a tighter budget. For members worried about their credit rating and the negative impact of late payments, bill pay could help them schedule payments to avoid late fees.

Another ISC study of 14,687 online credit union members showed that more than half of the members reported trying to avoid a late payment within the last year, with many paying a fee to make their payment on time. Women (61%), households with children (65%), and those under the age of 40 are more likely to have taken measures to avoid a late payment. Typical methods used included sending a payment by phone (44%), going in person (29%), sending it by overnight mail (6%), or using a payment kiosk (2%).

Of those who used a particular method to avoid a late payment, about half said they paid a fee to make an expedited payment. This did not vary by bill pay user segment. The fee amount varied, but was typically $10 or $15 (47%). Few paid more than $20 (7%).

Some bill pay vendors, such as ORCC, are offering expedited payment capabilities, which enable members to make a same day payment for a fee. These fees are typically priced lower by credit unions than other financial institutions, saving members money while still being a source of non-interest income. Credit unions can offer significant value to their members by enabling them to make payments faster and with less lead time. However, for this initiative to be

Used Expedited Payment Method to Avoid A Late Payment



Recommendations for Your Credit Union's Program

- Focus on the efficient money-management benefits of bill pay, including the ease of seeing all of your pending payments at once.
- Emphasize that your bill pay program allows members to schedule payments to ensure they are all paid on time.
- Remind members that bill presentment, e-statements and online payments are a good way to reduce paper and help save the environment.
- Inform members about the security features of the credit union online bill pay. Also give details regarding their limited liability should fraud occur.

successful, credit unions will need to ensure they have the right support systems, including:

- Ability to sign-up online or by phone with quick activation
- Detailed information online, both within and outside the online banking log-in
- Technical capabilities - many bill pay providers are enhancing this capability to enable faster payments
- Performance guarantees to reassure members that payments go through on time

Promoting Environmentally-Friendly Practices

There is a growing focus by consumers and the media on environmentally friendly practices such as reducing the use of paper. A recent Burst Media survey found that more than four out of five (81.9%) respondents have incorporated some level of green activity into their lives. Familiarity with electronic billing and statements continues to grow - the Internet Strategy Consortium survey found that 55% of members received at least some of their bills electronically, even among the non-bill pay users. Many credit unions are actively marketing the environmental benefits of e-statements, but bill pay should be included in this sales message as well.

Bill pay is also attractive to younger members for environmentally friendly reasons. An e-Marketer survey found a correlation between environmental sensitivity and a willingness to use online channels for e-commerce, social networking, and content consumption and sharing.

Focus on Bill Pay Security Features

While consumers are increasingly using online payment options, it does not necessarily mean they are familiar with the features and benefits of the credit union bill pay program. Online security concerns may help push members towards a single-source bill pay system. Almost half of the online members in the ISC survey reported using a biller website during the previous year. As members increase their use of multiple biller websites, the need to input personal account information or credit card account information online at various sites could be a cause for concern. In addition to the hassles associated with memorizing multiple passwords, recent incidents with various retailers have highlighted potential problems and security breaches.

Tie Bill Pay to E-Accounts and Required E-Channel Usage

As online-only accounts and rewards programs continue to grow, consumers are becoming increasingly familiar with account requirements that involve the use of online channels and debit usage. Oregon Community CU's Remarkable Checking account with a 4.05% APY requires the use of online banking, e-statements, and 10 debit transactions per month. Although not a requirement, 24% of these account holders use bill pay, compared to only 10% of their other checking account users.

This growing familiarity and usage means that credit unions should consider adding a bill payment requirement for either a higher yield account or certain types of e-accounts for checking. This may give members an additional incentive to start using the credit union bill pay program and consolidate their payments. The ISC survey found that 10% of credit union online members were using other bill pay providers, and their satisfaction with their bill pay provider was lower than members using the credit union's bill pay.

Action Steps:

- Offer benefits to members for increasing their relationship with the credit union through bill pay.
- Require bill payment usage (paying a certain number of bills per month) for e-accounts.
- Position your bill pay program's tools and features as better than the competition, and make it easy to sign-up. ■

By Denise Senecal, Callahan & Associates

10 Steps to Encourage Bill Pay Usage

Below are 10 steps credit unions can take to encourage more active use of their online bill payment by members. A survey of almost 15,000 members at twelve credit unions showed a wide variety of reasons for not using the service. The most important recommendation of all then, is to understand what *your* members' objections are. While security and speed of payments were the two most frequently mentioned reasons for not using bill pay in aggregate, your credit union's unique member demographics or the way you currently explain the service may be more important in influencing future adoption. So, talk to your members to find out which of the recommendations below will drive the biggest change in member habits.

Communications

1. Do your members really understand it's free? A Forrester study found that "quitters" often stopped using bill pay because they didn't want to pay for it.
2. Train your front line and encourage them to use the services. They can't sell what they don't know!
3. Put security front and center—make sure users can easily find the information and that it is written in ways they can understand.

Training

4. Focus on activation, not just enrollment. Provide financial incentives to use, not just sign up. Routinely send follow-up reminders.
5. Gradually ease users up the service change to fee-based services like expedited payments.
6. Provide recurring training or online demos for setting up billers.

Features

7. Start with the basics to avoid scaring new adopters with fancy bells and whistles. The primary goal for your newest enrollees should be to build their confidence in the service's reliability and ease of use.
8. Offer e-checking accounts that encourage use of online channels.
9. Make payment timing transparent—if not same day, offer alerts to notify users of payments and new bills.
10. Consider offering online tools to help consumers port their bill pay information from another financial institution, for example, Yodlee's BillPay Account Accelerator. ■

Serving Members through Remote Deposit Capture

DCU (Digital Federal Credit Union) is a fan of "BIG ideas". These ideas often constitute a wave of innovation that changes member experiences. Remote Deposit Capture has been one of their BIG ideas they've actively pursued and investigated since 2004.

Identifying the need for a convenient deposit product was easy: many of their members are not in close proximity to branch locations. Furthermore, over half of their members are active home banking users. DCU's executive team has tried to find more convenient access points for their members for several years. Significant transaction volumes occur at foreign ATMs, shared branching locations and through the mail. Shared branching deposits each represent a cost to the credit union. In addition to the high processing expense, there is no guarantee of satisfactory member service at these locations.

Digital Federal Credit Union

Marlborough, MA

$4.5 Billion

370,000 Members

47.1% Online Banking Penetration

Development

With the help of Eastern Corporate Federal Credit Union (EasCorp), a home-based remote deposit capture (RDC) prototype was developed and evolved into PC Deposit. Deposits can be made within the online banking system, a service that members view as reliable and safe, without the need for additional hardware beyond a standard flat-bed scanner. Commercial businesses are also eligible to join and their usage of PC Deposit may develop a new source of fee income for the credit union.

Additional benefits to remote imaging include quicker float time, faster availability and decreased time in returning checks. While these are benefits, they were not significant in DCU's decision to move forward. All of their "BIG ideas" fall back to their mission of serving members.

A Two Phase Testing Process

DCU started testing the system with a group of staff members who would be integral to the overall support system and also closely matched the perceived typical user. Based on the internal testing, the staff created a list of Frequently Asked Questions and invested in training for the various support options that DCU provides (email, live chat and dedicated phone support).

After internal testing, the product was released to 2,000 members who were chosen based on approval criteria and high online banking usage. This control group did not receive any notification they were chosen – the PC Deposit link showed up on the interface and they could choose to use it. This program ran for four weeks to allow staff time to integrate themselves. In mid-March, the product was released to all online banking users. The only marketing was a news item in the January newsletter. The credit union plans to immediately market the product only to users of ATMs, shared branching locations and those who mail-in deposits.

Risk Mitigation

To use the service, the member logs into the home banking application and clicks on a link. With the exception of commercial or DBA members, there is no registration process. Members only need to agree to disclosure statements. DCU approves each member to use the service based on the following criteria:

- product and service relationship
- current loan and deposit balances
- credit bureau and Chex Systems information

Members receive approval notice within 24 hours by email. While some members may be declined, DCU decided they would be lenient and take some risk on members who may not fully meet the criteria, as the member may not come back to try again later if declined the first time. As the program allows credit union staff to set individual deposit maximums and holds, the risk can be mitigated.

Results

The one struggle was appropriate staffing. Introducing a new, advanced delivery channel requires immediate member support. While credit unions may implement a remote deposit capture product as a way to ease shared branching or other remote deposits, the staff cannot be immediately reallocated, potentially leading to shortages and increased pressure on employees.

After a full year of availability, DCU has seen active member usage and significant inflows of deposits through their online service, branded PC Deposit. The credit union made a conscious decision to do limited marketing around the service, but did reach out to members who use more expensive deposit options, including shared branching, by mail, and visiting a branch, to make them aware of the service. Craig Roy, VP of Support Services, expands, "For those members using the most expensive options – shared branching and foreign ATM users – we offered an incentive (up to $30) for them to try PC Deposit, marketed by mail and email. Over the course of the campaign, we did see an uptick in registrations and deposits from those specific members." DCU is currently analyzing member behaviors after that incentive to see if they have, at least for the majority of their deposits, used PC Deposit since.

Member Usage

Outside of targeted members, others who are occasional users of home banking or bill pay are finding the information on PC Deposit and signing up to use it with frequency. Roy notes, "We currently have 24,000 members who have signed up to use PC Deposit, which is about 15% of our online member base.

Generally speaking, 5,000 PC Deposit users make a deposit each month. In an average month we receive 8,800 – 9,000 items deposited totaling $13.5M." Initial member analysis by the DCU team demonstrates that the typical user, as expected, is active in home banking and bill pay, and uses the credit union as their Primary Financial Institution.

RDC, as a technology, was touted as instrumental in moving more transactions online and redefining visiting a branch as a relationship-building experience, rather than a set of transactions. DCU hasn't seen this happen yet. Roy notes, "We did see mail deposits decrease in volume in January and February of this year, but then it spiked in March. This may be seasonal or a side-effect of the economy. We haven't been able to effectively measure the affect of RDC on other transaction centers."

He continues, "In 2009 we have established an organization-wide goal to increase the number of active users each month to 7,000, with a stretch goal of 8,000. We will also be moving from 3 batching cycles per day to real-time posting and allowing loan payments. This will help generate more usage each month."

From an industry perspective, demographics of a given membership will affect the usage by members. DCU acknowledges that young people, known as Gen Y, would be more comfortable with the technology. They have also launched a significant student lending program to grab more of this key group of potential members.

DCU, with their innovation and collaboration, offer the industry a look at the future of banking. Whether online, in-person, or at an ATM, their members will be able to deposit funds at any time, deepening their relationship and at the same time enabling the credit union to stay on top of today's ever changing online technology. ■

	Time Available	Users	Deposits (#)	Deposits ($)
Control Group	45 days	300	800	$600K
Initial Release	10 days	2,000	1,000	$1MM
Wide Release	1 year	24,000 total/ 5,000 in one month	8,800 – 9,000 /month	$13.5M/month

Leveraging Bill Pay to Build Relationships

For community-based iQ Credit Union, bill pay is considered a key part of their efforts to strengthen the member relationship and increase member value. According to Jim Morrell, SVP/CIO, "We really think of bill pay as a mutually beneficial aspect of our relationship with members. Not only is it easy and fast, along with security features, the member has better control of their payments. The reason we place so much value on bill pay is that we see higher balances and loans with these members, which adds to our overall profitability and increases our return to members."

Almost two-thirds of iQ Credit Union's checking account users are active home-banking users. Almost one-third (32%) of the home-banking users also use bill pay, for an overall penetration of 21% of all checking account users. iQ's bill pay program, provided by Online Resources, is accessed through online banking. Members can sign up instantly online and make payments of up to $10,000. The majority of payments are sent electronically on a two-day turnaround.

iQ Credit Union

Vancouver, WA

Assets: $412,844,302

Members: 42,711

Home Banking Users:

67% (of checking accounts)

In April 2008, iQ launched ORCC's expedited payments feature. iQ's members can schedule and submit a payment that is guaranteed to be posted the same day, for a $9.95 fee. iQ receives part of the revenue from the fees, although they consider the greater benefit in terms of increasing bill pay awareness and usage. The fee represents a significant savings for members, as some credit card late fees are as high as $35, with additional costs incurred if the interest rate on the balance is raised. Additionally, some mortgage services charge $25 to $35 for their own expedited payments by phone or online.

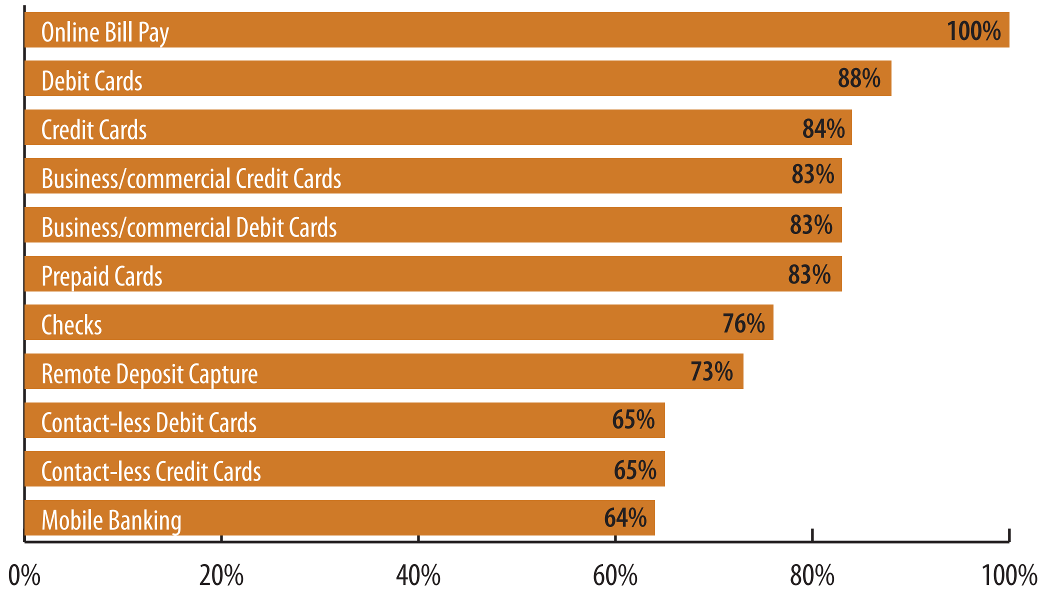
iQ has seen increasing numbers of members use the service each month. "We anticipate seeing usage continue to increase, particularly in these challenging economic times, says Morrell. He also expects greater usage as merchant enrollment and awareness continues to climb. ■

Security and Fraud Overview

Security in Payments

Security for payments programs is a concern for every credit union. In the Callahan/CSCU survey, credit unions viewed contactless credit cards as the least secure method of payment and online bill pay as the most secure form of payment. In this section, we look at the changing face of fraud and how two credit unions manage security and risk for their members.

How Secure do you Believe Each of the Following Payment Services are: % = those that selected "extremely secure" and "very secure"



Source: Callahan/CSCU Study

By Card Services for Credit Unions

The Best Defense Against the Changing Face of Fraud

With the rise in the use of plastic as a preferred method of payment comes a correlated rise in fraud risk. Card-issuing financial institutions, large and small, combat this nemesis continually. While larger issuers obviously have greater exposure due to the sheer volume of cards issued, community financial institutions have increasingly become the targets of fraud as well. Looking for new opportunities, fraudsters are operating under the misguided notion that credit unions are somehow less protected than the megabanks when, in fact, financial institutions of all sizes now have dedicated fraud prevention teams and are pursuing the latest technologies in their ongoing battle against data theft.

Credit unions, large and small, must allocate the necessary resources to combat and prevent fraud. And, in the unfortunate instance of a breach, these resources then must shift their focus to post-breach efforts, which include block and re-issue decisions, risk exposure analysis, and cardholder communication options. These efforts can be extremely time consuming, cumbersome to manage, and costly, often requiring additional staffing resources and time commitment.

Fraud goes high-tech

As payment card transactions have increasingly become electronic, fraudsters have capitalized on the vulnerability of unprotected electronic data and incorporated high technology into their own schemes. While the fraud "phishing" of yesterday was fairly primitive and more of a nuisance than a threat, the "cloned" Web sites created by today's high-tech fraudsters bear an incredible resemblance to the real Web site, making it very difficult for consumers to differentiate fact from fiction, and pose a significant challenge for those managing online payment security. And, whereas counterfeiting used to be a more localized event on a smaller scale, the high-tech capabilities of today's criminal organizations enable fraudsters to identify and take advantage of weaknesses in retail inventory and accounting systems and circulate large numbers of counterfeit cards internationally – and within minutes.

Fraud prevention is always the first line of defense

Like most problems, the best way to prevent fraud is to stop it before it starts. To do so, the first line of defense against card fraud is the authorization system. Critical fraud deterrence strategies, such as AVS (Address Verification Service), CVV/CVC, CVV2/CVC2, and exact expiration date matching, should be active within the authorization system. Then, when any data mismatches occur, the transaction authorization can be declined. Other less common controls available include name matching, daily limits and using various parameters to block suspicious transactions, such as merchant category codes (MCC), country codes and dollar amounts.

By now, most credit unions are aware of the enormous responsibility of maintaining data integrity and understand the importance of having a comprehensive 24/7 fraud detection system in place. These neural networks should include rules-based processing, predictive fraud scoring and the ability to block authorizations in real time as they occur. Declining fraudulent transaction authorizations at the point of purchase is paramount because fraudsters typically stop using stolen cards as soon as their first transaction is declined.

Investigate, challenge and recover

In addition to pursuing every available avenue of recovery – including reviewing fraudulent transactions to ensure they were authorized if above the floor limit, requesting copies of the draft and obtaining affidavits of fraud from the cardholder – procedures should also be implemented to challenge incidents of "friendly" fraud and negligence, such as disclosure of a PIN.

In large-scale compromise events, Visa®'s Account Data Compromise Recovery Process (ADCR) can help issuers offset compromise-related costs and potentially recover a portion of the losses associated with the re-issuance of cards. While this may help mitigate some of the expenses an issuer may incur as a result of a breach, it is not a panacea. Card associations must continue to pressure merchants to be responsible in the way they store data, and to comply with industry standards.

Analytics on confirmed fraud: an often overlooked tool

Spotting flash-fraud patterns and possible points of compromise requires that issuers be able to analyze broad ranges of data. This data can consist of neural network scores, authorization level information, monetary and non-monetary data, and fraud trend information. This kind of database can then be queried to more effectively write rules for processing and proactively react to large compromise events. Because time is of the essence, a solid analytics strategy can provide an early warning system to public and non-public data breaches, allowing mitigation strategies to be developed ahead of the curve.

Comprehensive suites finding their way to market

Invoking a combination of system parameters, neural networks, recovery services and advanced analytics provides financial institutions with a comprehensive blanket of fraud protection. Obtaining and securing those resources, however, can be difficult, if not impossible, especially when looking for the convenience of one-stop shopping.

"While the largest financial institutions have spent millions to develop advanced fraud mitigation strategies, smaller issuers need the ability to take advantage of similar tools," said Tony Ficarra, executive vice president for FIS' e-business division. "Processors are responding by developing multi-pronged solutions to combat the most common types of fraud, while allowing institutions to focus on the most important aspect of their card programs, the member relationship. ■

Personal Experience with Fraud Helps with Detection

To Jane Smith, manager of fraud prevention, Saginaw Medical Federal Credit Union, daily vigilance is the cost of protecting her Central Michigan credit union from fraudsters.

Smith and her staff of four rotate daily the responsibility of monitoring and/or reviewing every excessive and denied transactions report, every Verified by Visa report and certainly every Falcon alert, for signs of trouble.

"On average, it probably takes my team 45 minutes a day to scan for the signs of what we suspect is "true fraud," as opposed to those things members do that could look suspicious," she says. "And Falcon alerts add to that. We follow up on every Falcon, and that can take some time. If we see enough evidence to go to a temporary block, we'll call the member, tell them when the card will be blocked, and why."

In the credit card business for six years herself, Smith acknowledges two great advantages to her job with Saginaw Medical: "We utilize great FIS technology that gives us instant decisioning when a potential problem is detected, and automated back-up when we need to take action. That enables us to continue the personal touches, even as our portfolio grows and fraud along with it. Also, as a credit union with $90 million in assets and 4,600 credit cards in circulation, our size makes close personal attention realistic for us and our members."

Saginaw Medical Federal Credit Union

$93 Million, Saginaw, MI

11,700 Members

47.8% Credit Card Penetration Rate

Smith explains that they know many of their health-care community members well, remind them to inform the credit union if they plan to travel or work abroad extensively, and often do know when a member is out of the country just because of frequent personal communication. "That tends to be an advantage of credit unions in general," she says. "We know our members."

But "true fraud" has grown a great deal in her six years, and the risks are significant, even deep in the heart of Michigan. "We saved quite a few thousand dollars one day," Smith recalls, "when a Falcon alert called our attention to a $5,000 transaction out of Great Britain. I was standing at the fax machine reading it, when second, third and fourth alerts came in involving three more cards, each with a $5,000 charge from Great Britain, all within 10 minutes. We immediately began checking other accounts for smaller test transactions."

Imagine her surprise when she found her own VISA card number among 13 in their portfolio that had those fraudulent test transactions, all from a legitimate business. "It was a good experience for me," she recalled, "because it put me emotionally right in there with my members. I experienced the sense of personal violation they feel. I was astonished. But we were right there and we caught it."

Even though one hates to generate concern for members when a potential problem is seen, Smith is inclined to immediately go to a temporary account block and try to contact a member, rather than immediately permanently blocking an account, which is irreversible.

"These days, with all the publicity about credit card fraud, members know they're protected financially from fraud, but they're still very worried about identity theft in general, and a lot of them do have a tendency to just want to cancel every account when a potential problem is seen with one," she says. "That's one reason it's so helpful to assure them that we monitor transactions daily. It's a real differentiator for an organization of our size."

Most members are very grateful for any contact, even about a permanent block. But Smith acknowledges a few complain about the inconvenience.

"In February, with the massive Heartland breach, we had to block and re-issue more than 800 credit cards," she said. "We sent letters in that case, but this is where our technology really saved us. FIS' Compromise Manager blocked all compromised accounts, called all affected members, and re-issued all cards, all automatically.

"Having full service automated core processing is what allows us to take the time and effort to monitor our accounts as closely as we do. It gives us and our members the peace of mind we all should have."

Securing Members' Accounts and their Peace of Mind

Identity theft and fraud complaints increased 20.7% last year according to the Federal Trade Commission's annual report on Identity Theft and Fraud Complaint Data. In 2008, 1.2 million consumers reported complaints about identity theft and fraud, with losses totaling $1.8 billion. Losses to members from identity theft and fraud are protected at almost every credit union. Do your members know this?

For Motorola Employees Credit Union (MECU), concerns about fraud and identity theft made some members hesitant to use the credit union's cards and Internet services. While the credit union offered protection against these types of losses, some members didn't understand the protection and turned down the products. In response to this issue, the credit union created a program called Total Protection Guarantee.

Total Protection Guarantee is given to every member at no cost. The service packages the credit union's existing fraud protection and insurance services. According to John Fiore, CEO of MECU, the Total Protection program helps the credit union overcome member objections about using electronic products. Fiore says that explaining the credit union's share insurance and fraud protection in one 'guarantee' helps the member understand the value of the credit union's products. Plus, it makes the member more likely to open and use the credit union's electronic services.

Motorola Employees Credit Union

$663 Million , Schaumberg, IL

39,000 Members

49.2% Credit Card Penetration Rate

MECU takes the program one step further. The credit union conducts identity theft training for members through "Lunch and Learn" seminars at the credit union's main office. These sessions help the credit union train members on identity theft issues and explain the Total Protection Guarantee.

A page on the credit union's website explains the dedication of the credit union to protecting members. The Guarantee includes:

- 100 % Fraud Coverage with a zero dollar liability on any MECU payment method or service
- Bill Pay Protection that covers late fees or finance charges if there are any problems with payments
- Advanced Online Account Security that uses multi-factor authentication
- Federal Share Insurance and Excess Share Insurance to insure savings up to $500,000

The program has increased the members' usage of the credit union's electronic banking products. The credit union's credit card program is used by 49.2% of credit union members, more than triple the national average of 14.3%. MECU's bill pay product is used by 26% of the member's checking accounts and Internet banking is accessed by 56% of members.

Fiore says, "We want to make sure our members understand that we take their privacy and their account very seriously. Creating a guarantee that members can relate to has helped make this something they can believe in."