

ATM & Debit NEWS

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EFunds Using ATMs For Growth

EFunds Corp., whose processing business has grown as its biggest customer, Co-op Network, has increased its transaction volumes, is doing its part internally to fuel growth by expanding its ATM operations. In its latest move, eFunds acquired Hanco Systems Inc.'s ATMs and merchant-ATM contracts.

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News Briefs

Pulse Gets New Switch, TYME

The Houston-based Pulse electronic funds transfer network announced Feb. 7 that MasterCard International will provide its switching and settlement services, replacing J.P. Morgan Chase & Co. This follows the completion of Pulse's merger with the Brown Deer, Wis.-based TYME network. As a result of that merger, ATM and point-of-sale transactions within TYME converted to Pulse's pricing structure effective Feb. 1. That means the POS interchange rate, which under TYME's policy required acquirers to pay card issuers 5 cents per transaction, increased to 10 cents. For ATM transactions, issuers now pay acquirers 34 cents to 54 cents per withdrawal instead of TYME's flat 43 cents.

Bank Dumps Certain ISO Deals

Humboldt Bancorp., the Eureka, Calif.-based banking company victimized last year by a \$5 million ATM cash theft, is ending its business relationships with ATM independent sales organizations that also resupply ATMs. Humboldt CEO Theodore S. Mason says the bank told an undisclosed ISO client that it would not renew the ISO's cash-supply contract. Michael B. Schwartz, the main suspect in the theft who died in December, operated the Direct Connect ISO and had a cash-supply contract with Humboldt through his Schwartz Armored LLC cash-supply company. Humboldt is still trying to recover about \$1.4 million of the cash, says Mason.

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ATM News

Traveler's Express Using ATMs To Sell Its Money Orders

The nation's two leading money-order services appear locked in a race to offer their services using ATMs. Western Union Financial Services Inc. has for a year offered money orders from ATMs at 7-Eleven convenience stores. Now, Traveler's Express/MoneyGram is testing the concept at three Wal-Mart stores in New Orleans.

Traveler's Express, a subsidiary of Phoenix-based Viad Corp., recently entered into a partnership with North Canton, Ohio-based Diebold Inc. to offer consumers money orders at Diebold ATMs. The money orders can be purchased with a debit card or by inserting cash into a cash acceptor, says Ann Jackson, a Traveler's Express marketing executive.

The Traveler's Express-branded money

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Prepaid Cards

Schools Embrace Marketer's Solution For Using Campus Cards Off-Campus

Colleges and universities for years have faced complaints from students and faculty about the limited benefit of offering a stored-value function on a campus-identification card that only can be used on campus. While numerous organizations, including banks, have tried over the years to enable schools' ID cards to be used off campus as well, none succeeded in gaining broad school support.

A Boston-based company, Student Advantage Inc., appears to be on its way to bucking that trend. Whereas a year ago Student Advantage's SA Cash card had been adopted by seven schools (*ADN*, 4/15/01), participation last fall increased to 16 colleges and universities, all of which merged the SA Cash card system with their on-campus stored-value programs for off-campus acceptance.

A 17th school, Princeton University, is scheduled to participate in the SA Cash program this fall. While Student Advantage exceeded its goal last spring of having 15 schools participating by fall, company officials are not making predictions for the 2002

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Authentication Trends

Biometrics Use In EFT Market Faces Setbacks

Biometrics, in which a part of an individual's body is scanned for identification, hit a high point in the electronic-transactions industry last year when InnoVentry Corp. boasted that about 1,200 of its check-cashing machines used facial biometrics as its primary customer identifier. More recently, numerous biometrics companies have experienced skyrocketing stock prices in the aftermath of the Sept. 11 terrorist attacks.

The prospects, though, for using biometrics to identify users of transaction devices such as ATMs and payment terminals have since waned.

The bubble burst when InnoVentry went out of business last fall. Few other companies have been willing to tackle the high cost of identifying ATM users and other customers using biometrics, which has not been able to overcome unsatisfactory failure rates.

Dallas-based 7-Eleven Stores Inc. last year rejected the use of biometrics to identify check-cashers with its new Vcom check-cashing program, which enables individuals who do not have debit cards to cash payroll checks using ATMs. The convenience-store giant

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Authentication Trends



Biometrics Use In EFT Market Faces Setbacks

Biometrics < 1 instead will dispense its own magnetic-stripe cards to identify Vcom check-cashers after they have signed up and are approved. Once approved, the Vcom users choose a PIN to use with their card to access the Vcoms.

There is deepening skepticism among electronic funds transfer analysts and industry executives that biometrics is a viable alternative to mag-stripe cards. Supporters of biometrics, however, remain optimistic that biometrics will find its niches in the electronic-payments world.

But one former InnoVentry executive is not among those enthusiastic about biometrics. Ken Rees, former InnoVentry chief operating officer and now president of the Dallas-based CashWorks check-cashing ATM company, says biometrics did not perform adequately.

PINs Fare Better

While biometrics works well in controlled environments, its failure rate when identifying users is higher than the failure rate for mag-stripe cards requiring PINs, and that translates into unnecessary lost revenue, says Rees. "Accuracy is a significant problem in a real-world environment (of using biometrics)," he says.

At some locations, up to 30% of attempts to identify users of InnoVentry's terminals failed, while most locations had failure rates of about 5%, Rees says. Many of those failed attempts involved individuals who already were enrolled in InnoVentry, which generated revenue by charging a set percent of the value of each cashed check.

Mag-stripe card programs using PINs typically have a failure rate of less than half a percent, notes Rees. "Cards with PINs are pretty secure and a smart way to do business," he says.

CashWorks is piloting a check-cashing product that does not use biometrics

identification. Instead, CashWorks uses a point-of-sale terminal PIN pad to enroll a customer, and the system employs existing, low-cost ATMs to dispense cash (ADN, 1/31).

Rees says the InnoVentry experience also showed that many consumers are still resistant to biometrics scanning. "Intrusiveness is still a big factor with biometrics," he says.

But accuracy probably is the biggest problem for mass adoption of biometrics systems for electronic transactions, says Jean-Paul Carbonnier, an analyst at the Needham, Mass.-based TowerGroup consultancy. Carbonnier's biometrics study, completed last November, found relatively high failure rates. For example, there is about a 2% failure rate to identify individuals using fingerprint scans, the study found.

There are population segments who, for physical reasons, cannot rely on various forms of biometrics, such as burn victims with no fingerprints, Carbonnier notes. That means processors of electronic payments must offer backup identification systems, such as issuing mag-stripe cards along with using biometrics. Using dual ID systems is expensive and redundant, he notes.

Customer convenience also is critical to the growth of biometrics. Even if biometrics systems had lower failure rates, individuals still would need a payment card backup. "Even if your bank went biometric, you would still need a card to access everybody else's ATMs," says Carbonnier. "All this makes biometrics commercially nonviable for payment systems at this point."

Transaction Niches

Biometrics deployers, though, claim to be finding niches for transaction systems. Rick Scalley, a vice president at Real-Time Data Management Services Inc., a Norfolk, Va.-based kiosk manufacturer, says he believes biometrics-based multi-function ATMs have a bright future.

Real-Time Data builds ATM kiosks with fingerprint pads. The company so far has about 55 units in operation among 26 credit unions. "Our credit unions like it," says Scalley. "They like the additional sense of security."

The Cost Of Biometrics

Type	Hardware*
Facial Scan	\$1,000
Iris Scan	\$1,000
Hand Scan	\$1,000
Fingerprint (Optical)	\$700
Fingerprint (Chip)	\$200
Voice Recognition	\$150

Source: TowerGroup estimates. *Maximum costs per unit.

Credit-union clients benefit because they can automate more banking services at member locations, such as at employee work sites, says Scalley. For example, the added layer of biometrics-based security allows credit unions to offer far higher withdrawal limits for special transactions, such as members needing downpayment funds toward the purchase of a new car.

Accuracy Improving

The accuracy level for the Real-Time data finger scans is about 98.5%, which Scalley says improves each year. The real benefit is that biometrics identifies ATM users, and not just the debit card number, he says. The machines cost about \$35,000.

Another company, Oakland, Calif.-based Indivos Corp., is experimenting with the use of fingerprint scans for automated payments at an undisclosed fast-food chain's stores. Indivos Senior Vice President Frank Pierce says the program has a failure rate of about 2%.

Unlike the InnoVentry approach, the Indivos system, which uses registered debit or credit card accounts, is voluntary. Users still can swipe a debit or credit card, or pay with cash, for their meals if they don't want to enroll in the scan program or if the finger scan doesn't work, he says.

The fingerprint-scanning device costs about \$100, and the system also has the potential for other uses, such as offering employers a security system for employees to access cash registers, says Pierce.

But these are very limited uses in an electronic-transaction industry with millions of card-swipe devices in place, notes Carbonnier. "The problem is finding a system that's reliable, and cheap and convenient enough," he says. ○

EFunds Buys Hanco As Processor Looks To Add More ATMs

While eFunds Corp.'s largest client, Co-op Network, is bringing in more ATM transactions to process, the Scottsdale, Ariz.-based processor is growing its own ATM-management business to increase revenue.

On Feb. 1, eFunds announced the purchase of Hanco Systems Inc.'s U.S.-based owned or leased ATMs and merchant contracts. The Atlanta-based independent sales organization's 2,500 ATMs bring to 11,000 the number of machines owned or managed by eFunds, which is targeting ATMs as a way to secure interchange and surcharge fees, management and branding contracts, new deployments and improved positioning of existing machines.

Gus Blanchard, eFunds chairman and CEO, says acquisition talks are under way with other, undisclosed ISOs. He says his goal is to manage up to 14,000 ATMs by the end of the year.

In October, eFunds acquired the Access Cash International ATM ISO and its 8,500 ATMs and ATM contracts. Prior to the Hanco announcement, Blanchard said by March eFunds will have all Access Cash ATMs moved to the eFunds processing platform, resulting in several million dollars in savings. EFunds plans to consolidate Hanco's operations into Access Cash over the coming months.

In addition to eFunds' efforts to bolster its ATM business, the company's processing unit is expected to pick up more business from Co-op. In January, the Southfield, Mich.-based SC 24 and Naperville, Ill.-based Member Access credit-union EFT networks joined forces with Co-op, which is branding thousands of Access Cash ATMs to allow surcharge-free access to its credit-union members' cardholders.

For 2001, eFunds reported net income of \$37.6 million, up 717% from \$4.6 million in 2000. Revenue in 2001 reached \$518.2 million, up 24% from \$417.9 million the previous year. The results include a special \$2.5 million net credit for the reduction in reserves established for estimated future losses on government contracts and \$3.2 million of special charges related to the closure of operations in Bothel, Wash. ○

Prepaid Cards



Schools Embrace Marketer's Solution For Using Campus Cards Off-Campus

Schools < 1 fall semester. "We're hopeful to add quite a few, but we haven't set a goal," says Brian Farley, Student Advantage vice president of university and community relations.

There are about 1,500 U.S. colleges and universities whose campus cards support stored-value functions. Student Advantage's shot at securing contracts with those schools increases the more it demonstrates its marketing prowess to sign up merchants and keep cardholders interested, observers say.

"We go to conferences every year and we talk to different colleges, and it seems like their experiences in getting involved with a bank is that the bank would do none of the marketing," says Michael Kendzejeski, director of ID card services at Johns Hopkins University. "Student Advantage has merchants of the week, free discount offers and other little perks. And they send emails to students announcing specials that kind of keep the program alive and active."

Johns Hopkins' Homewood, Md., campus began participating in SA Cash last fall. The campus has more than 10,000 students and faculty, Kendzejeski says.

More than 300 merchants now participate in the SA Cash card program, Farley says. In his view, Student Advantage's role is to help schools promote their own overall card program. "It's an area that is not core to their mission, and it could be expensive," Farley says. "We've seen good results in year-over-year active users and sales volume, and overall increases in card deposits."

Rather than set specific rate policies, Student Advantage negotiates with each merchant and school individually. John Hopkins, for example, gets a percent of the transaction fee Student Advantage negotiates with each merchant. Illustrating how much off-campus merchants want access to campus ID pro-



Student Advantage's Farley: "We've seen good results in year-over-year active users and sales volume, and overall increases in card deposits."

grams, Student Advantage can charge participating retailers two to three times more than the typical discount fee they pay for bank card acceptance.

Participating merchants are required to deploy a Hypercom or VeriFone dial-up payment terminal programmed with SA Cash software. While Student Advantage processes SA Cash transactions initiated off campus, Moline, Ill.-based Nobel Electronic Transfer processes bank credit and debit cards swiped in the merchants' terminals.

Kendzejeski says John Hopkins pays Student Advantage LLC about \$5,000 to cover on-campus merchant dial-up fees, plus another \$5,000 to \$7,000 to cover marketing costs. "I don't think the commission we get will offset our annual licensing fees," he says. "But we never would have gone off campus if it hadn't been for them."

Robert Huber, who operates a Scottsdale, Ariz.-based campus-card consulting company, says Student Advantage is starting to earn schools' confidence. "It's a more intelligent approach to evolve this whole industry," he says. "The best form of advertising in any industry, especially colleges, is word of mouth, and Student Advantage has made great inroads over the past year to make a very happy customer base that is now telling this the rest of the world about the company." ○

"It's a more intelligent approach to evolve this whole industry."



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ATM & Debit NEWS

Vendor News



Traveler's Express Joins Western Union In Using ATMs To Sell Money Orders

Traveler's < 1 orders are dispensed through the Diebold ATMs using a proprietary Traveler's Express printer connected internally to the ATMs, says Jackson. Diebold is providing the software that links to the printer. The ATM manufacturer also is providing transaction-processing services for the money orders and for standard ATM operations in an agreement with Bentonville, Ark.-based Wal-Mart Stores Inc., she says.

Under its agreement with Diebold, Traveler's Express money-order purchases are automated clearing house transactions that are settled from a Diebold account. No surcharge is assessed for the transactions.

Traveler's Express' use of ATMs appears to be more limited than that of Western Union's. Traveler's Express wants to offer consumers 24-hour access to money orders at agent locations and to lessen the use of clerks to process money orders at agent locations, such as Wal-Marts, says Jackson. "A lot these major retailers are trying to reduce personnel costs," she says.

Debit Card Access

Western Union money orders currently are being dispensed through 100 Vcom multifunction machines in 7-Eleven convenience stores (ADN, 6/07). But Western Union, a subsidiary of Greenwood Village, Colo.-based First Data Corp., also is establishing a system in which its wire-transfer product can be used through ATMs. Traveler's Express has no current plans to offer its MoneyGram wire-transfer product through ATMs, says Jackson.

Traveler's Express ATM money orders can be purchased using a debit card, which cannot currently be done at the company's 32,000 agent locations. Jackson says those locations, a majority of which are in check-cashing stores, do not have point-of-sale devices that can be used to purchase money orders.

Like the Traveler's Express ATM money orders, the Western Union money orders are

Money-Order Rivals		
Company	Agent Locations	ATM Sites
Traveler's Express/MoneyGram	32,000	3
Western Union	40,000	100

Source: ATM&Debit News.

dispensed using proprietary printers built into the Vcoms. Western Union money orders can be purchased with cash using cash acceptors as well as with debit cards, says a Western Union spokesperson. The Vcoms are produced by Diebold competitor, Dayton, Ohio-based NCR Corp.

Wal-Mart has set a charge of 46 cents per Traveler's Express money order bought at one of its ATMs, says Jackson. The fee charged for money orders bought at Vcoms was unavailable.

Traveler's Express is nearly ready to market the ATM money orders to thousands of its retailer, financial institution and check-cashing store clients, says Jackson. Consumers seem to prefer automated money orders to clerk-based purchases, says Jackson. About 84% of money-order purchasers at the Wal-Marts say they prefer using ATMs to clerks when buying money orders, an internal survey found.

The target markets for Western Union and Traveler's Express are the millions of unbanked consumers and individuals with bank accounts who use money orders to pay bills, says Jackson.

Money orders are a multibillion-dollar business for both Western Union and Traveler's Express, industry sources say. And both companies are keenly interested in expanding agent locations without adding burdensome personnel costs.

The Western Union spokesperson says it was only a matter of time before its chief competitor began its own money-order dispensing program at ATMs. "It did not come as a surprise to us," she says. ○

Concord Signs License Deal

Concord EFS Inc. has purchased 200,000 VeriCenter terminal-management licenses, VeriFone Inc., the Santa Clara, Calif.-based payment terminal manufacturer, announced. Terms were not disclosed. Concord uses the VeriCenter download-management module to download applications simultaneously to multiple VeriFone terminals. The module can be used with all VeriFone terminals. VeriCenter 2.0, when used with VeriFone's Omni 3300 and Omni 3700 multiapplication terminals, also supports value-added modules. These include message management for two-way e-mails between the server and the terminal, compressed downloads and remote diagnostics.

Tidel's Rash On Health Leave

James T. Rash, CEO of Tidel Technologies Inc., the Houston-based ATM maker, is taking a leave of absence for health reasons and temporarily will be replaced by Tidel's chief operating officer, Mark K. Levenick, who will serve as interim CEO, the company announced Feb. 5.

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