

Financial Services Clipsheet | January 2, 2009

Company News

Amazon & Bill-Me-Later *12/31 AuctionBytes.com* Amazon.com will no longer accept Bill-Me-Later as a payment method effective 12/31/08. Amazon made the announcement to sellers abruptly on Monday, 5 months after adding the service to its market & 1 month after Bill-Me-Later was acquired by rival eBay for \$945m. Amazon.com had invested in Bill-Me-Later last year (it held a 10% stake) & had launched it as a payment option on its site in July. When eBay announced it was acquiring BML in October, BML said that while it could not answer for Amazon, it expected to continue to have a long relationship with Amazon. Bill-Me-Later issued the following statement in response to our inquiry: Effective 12/31/08, Bill-Me-Later will no longer be offered as a payment option for Amazon.com customers. Based on the change of control of Bill-Me-Later, Amazon exercised their right in deciding to discontinue offering Bill-Me-Later as a payments option. 1,000 online stores, catalogs & travel partners, offer Bill-Me-Later, because our payment service offers a convenient, flexible way for millions of consumers to shop. We think Bill-Me-Later provided a valuable service to shoppers on Amazon.com, & we would welcome the chance to work with Amazon.com in the future. eBay had said in October that it expected to add the BML service to the eBay market & the PayPal Merchant Services platform next year. BML offers transaction-based credit to online shoppers at the time of checkout. Consumers provide BML with their date of birth & last 4 digits of their SSN, & BML's engine decides whether to approve & extend credit for the transaction - the average authorization time is less than 3 seconds.

Count-Me-In can't pay money it collected for Little Leagues *12/31 LATimes* More than ½ a dozen Little Leagues & other sports organizations in California are among 220 groups nationwide facing losses after an online payment company stopped handing over dues & other funds it was collecting. The missing payments, which Washington-based Count-Me-In Corp. acknowledged total \$5m, have left many of the organizations wondering how they will make up the difference, particularly given the tough economic times. 'I've lost sleep over this,' said Jeff Bacon, Encino Little League, which is owed \$100,000 in membership fees. 'Everyone is very offended by what this has done or potentially could do to the kids, & to kids around the country who may not be so fortunate as the ones in Encino.' No criminal charges have been filed. But lawsuits have been filed in several states, & the Connecticut attorney general urged parents to stop making credit card payments through Count-Me-In's website - a feature the firm said it had disabled 2 weeks ago on its own. Terry Drayton, Count-Me-In's CEO, expressed regret for his clients' anxiety but was in discussions with 3 possible investors to raise funds to pay back their money. He acknowledged that the company made mistakes but said all the missing funds went toward operating costs - primarily the computer software used by the company's clients - & that none of it was stolen. 'How did we get here? We made some errors with the lack of financial oversight. At the end of the day this is my responsibility. I'm CEO & my job is to fix it.' 600 school & sporting groups across the country use the firm's software to process their online registration fees & other payments. In the 8 years that the firm has been in business it has collected \$175m & disbursed \$170m. The company withholds a fee of about \$3 per transaction & is supposed to return the rest to its clients. Drayton acknowledged that the accounts had been combined & that funds owed to certain clients were instead used to pay company salaries & other amounts owed to third parties. Drayton said he became aware of the problem 2 years ago, but said it took him until May to go over 8 years of transactions to figure out how much was owed to whom - information he would need to show a potential buyer. Not all of Count-Me-In's customers are willing to wait. The Alameda Education Foundation is suing the company for \$40,000 in Alameda County Superior Court. The NJ-based Montclair United Soccer Club filed a complaint in Washington demanding \$142,000, & the Avon Junior Athletic Assn. is seeking \$47,000 in a case filed in Indiana. 3 clients in Alaska - the Nordic Skiing Assn. of Anchorage, Campfire USA Alaska Council & the Matanuska Soccer Club - have petitioned a Washington bankruptcy court to force Count-Me-In into involuntary bankruptcy. A number of others across the country have filed complaints with their state attorneys general. Although Drayton said he understood his clients' anger, he argued that the court actions would make it more difficult for him to raise money to pay them. 'The only thing that I am focused on right now is returning the money we owe all our clients,' Drayton said. 'To do that we do need to find a strategic investor or partner in order to purchase the business.' Although some sponsorship is available, many Little Leagues & other youth clubs rely heavily on membership dues to cover operating costs. Tom Watson, Carlsbad Youth Baseball in San Diego, said 90% of parents paid for their children's fees with credit cards through Count-Me-In & the group was missing \$70,000. 'It's going to be a challenge for us to operate our programs. The kids & their parents are going to suffer.' Bacon, Encino league, & Eric Van Gilder, Sherman Oaks Little League, said their leagues were fortunate to have sizable reserves, so programming would not be affected in the spring. But they said expenses would have to be limited until the matter is resolved. 'It's disheartening,' said Van Gilder, whose league is owed \$80,000. 'Auto dealers are some of our biggest sponsors & it is going to be difficult to turn to them for the same kind of commitment.' Other California groups reporting losses include the La Costa Youth Organization (\$180,000), Orange County-based Earthquake Lacrosse (\$40,000) & San Dieguito Youth Softball (\$15,000). Organizations said they would honor all registrations but were urging families to dispute the charges on their credit card & request refunds, so that the families can write the leagues a check. The groups said that the credit card companies were cooperating & that they were beginning to recoup some losses, but added that it was a time-consuming process. A number of clubs said they had worked with Count-Me-In for years. They first noticed a problem in fall, when the company began to be late with some payments. According to the clubs, the firm apologized & blamed processing delays. Soon, the company admitted to customers who asked that it did not have the money to pay them. 'It's just kind of mind-boggling,' said Todd Pladson, Eastlake Little League in Washington, which is missing \$67,000. 'They were taking in all of this money. Well, where did it go?'

Facebook plans for platform payment system put on hold 12/30

Paypers.com Social networking website Facebook has temporarily abandoned its initiative to launch a platform payment system which would enable retailers to conduct e-commerce transactions & accept payments directly inside their Facebook applications. Facebook announced the beta test version of the platform in 12/07. It was originally billed as a means to allow Facebook users to carry out transactions & purchase virtual & physical goods & services without resorting to 3rd party payment platforms such as Paypal. Facebook Payments was designed to act as a revenue generator for Facebook via payment processing commissions, & a means for the social networking website to gather consumer data to facilitate direct transactions such as the purchase of Facebook's virtual gift offerings. One year after the initiative was made public, the payment system has not yet been developed & Facebook representatives have confirmed that no further developments are currently conducted regarding the project.

RBS WorldPay breached 12/23 AtlantaBusinessChronicle The Atlanta-based payment-processing arm of Royal Bank of Scotland Group said its computer system was penetrated last month & the personal information of up to 1.5m people might have been compromised. RBS WorldPay, a subsidiary of Citizens Financial Group said law enforcement agencies are investigating a 11/10 breach of the company's cyber security. The breach affects holders of pre-paid payroll cards & open-loop gift cards, which are gift cards that are endorsed by credit card companies like Visa & Mastercard. The personal information associated with pre-paid payroll cards could have been accessed. Payroll cards are similar to a debit card. Instead of cutting a check or direct deposit, companies load wages onto a reusable payment card that works like credit or debit cards. 7m payroll cards were in service in the US in 2006, according to RBS WorldPay. The breach affected the personal information of 1.5m cardholders. Up to 1.1m SSNs could have been accessed. 'Privacy is important to RBS WorldPay & we regret any inconvenience this may cause affected individuals,' Ben Barone, RBS WorldPay said. 'We have taken important, immediate steps to mitigate risk & none of the affected cardholders will be responsible for unauthorized activity on their account resulting from this situation. 'We are working with leading computer security firms to safeguard our system, & with law enforcement agencies, which we hope will result in the criminals being brought to justice.' Affected customers are being notified the company said & information is posted on its site. The PIN for all cards requiring a PIN have or will be reset. 100 cards have been subject to fraud thus far. 50m gift cards are sold in the US each year, according to RBS WorldPay, which is 1 of 10 providers. \$1.2b in gift cards are issued each year. Customers will not be accountable for unauthorized charges. The company will offer customers whose SSNs have been compromised free 1-year membership in for credit monitoring service. Gift cards purchased by customers will retain their value & the company said customers may continue to use the cards. Affected gift cards that have not been purchased are to be deactivated.

SVPCo & Eastern Bank 12/29 PRNewswire Eastern Bank, the largest independent, mutually-owned bank in New England, is connected to the SVPCo Image Payments Network. Eastern is connecting to the network through the SVPCo Gateway DTA, which enables institutions to send & receive bulk files of images on a peer-to-peer basis through the network. The bank is using SVPCo's FTP option, a secure, low-cost, Internet-based connection that makes it easy for institutions to link to the SVPCo Image Payments Network & exchange check images. 'SVPCo will enable us to migrate check processing operations from paper to electronic payments,' said Bob Murray, Eastern. 'With paper check prices continuing to rise, SVPCo represents a terrific opportunity to minimize costs & streamline our operations.' The Image Payments Network offers financial institutions a variety of connectivity options. The SVPCo Distributed Traffic Agent (DTA) enables financial institutions with larger volumes to transmit check images directly to each other. The SVPCo Gateway DTA is a cost-effective solution designed for institutions with smaller volumes or who are interested in gradually ramping up their image processing capabilities. The Image Payments Network can be accessed through an institution's correspondent banking relationship or through a third-party processor. 'Utilizing the SVPCo Gateway DTA, Eastern Bank has executed a cost-effective image exchange strategy that fits its specific volume needs,' said Susan Long, SVPCo. 'We're pleased to welcome another bank to the network, & we are ready to help institutions of all sizes develop & implement a customized image exchange strategy.'

Banking & Payments

Check imaging by small businesses 12/29 AB Jack Henry & Associates is looking to ISOs as a marketing channel for the check imaging service it has started rolling out for the smallest businesses. The vendor has started offering its Dep@sit remote deposit capture service to the 'microbusiness' market segment - companies that may have only 3-5 checks a day to deposit. David Foss, Jack Henry ProfitStars, said ISOs, which primarily offer card processing to small merchants, represent a 'huge' opportunity for vendors in the check imaging market. 'It's not a big part of our current market, but the ISO market is a big opportunity.' The vendor says its service requires no software installation on the users' computers & only flatbed scanners, which are becoming common in homes & small offices as part of multifunction printers. Jack Henry is aiming at people who may not have formal business banking services or a dedicated check scanner, such as Mary Kay or Avon sales representatives or independent lawn maintenance people. 'There are millions of microbusinesses out there. They don't qualify as a commercial business, but they are in fact commercial businesses.' Jack Henry plans to offer the service to its core banking & CU customers through its units which serve them, & to others through ProfitStars. The company said the service includes a self-enrollment feature that lets businesses work with an ISO instead of a bank. Banks & CUs can integrate the service into their online banking offerings for single sign-on access. John Leekley, RemoteDepositCapture, said pricing & fraud prevention could be concerns. 'Most small businesses can deposit checks without a fee,' so the service may not be attractive to customers of an ISO, which ordinarily would expect a slice of the transaction fee revenue. An ISO could offer the service as an add-on, 'maybe even a loss leader, because it really has the potential to lock in those customers.' The self-enrollment feature

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raises the risk that the payment portal could be used for check fraud.

Brit McPherson, ProfitStars, said the service, which Jack Henry hosts, includes analytical tools that let the customer institution set limits on the number of checks, or the dollar amount, an individual user can deposit. 'It's very flexible.' Foss said that 900 of Jack Henry's customer institutions offer remote capture, allowing 17,000 merchants to turn their checks into images. The vendor is processing 11m remote deposit transactions a month, & each month it is adding 1m transactions & 800 - 1,000 merchants. Foss projected it would be processing 20m transactions a month by mid-2009. Jack Henry expects microbusiness remote capture to be primarily a customer attraction & retention tool for the institutions that offer it. 'It won't add a lot of transaction volume, but the big deal for us is that it gives our bankers the opportunity to go after those microbusinesses.' 2 banks are live on the service now but he could not name them, because they plan to use the service as a competitive advantage. \$4b-asset Riverside National Bank of Florida in Fort Pierce, is to go live with the service next month. John Edgar, Riverside, said, 'Microbusiness capture can extend our bank's geographical coverage beyond our branch network, attract new deposits, & provide another competitive differentiator in the markets we serve.' Banks are cautious about offering image capture for consumer checks, because of the fraud risk. 'But they will offer it to microbusinesses, because that's a market they are trying to address anyway. In the CU space, we expect it to be a big hit with consumers,' because CUs often have a narrow geographic scope, & this would be a way to provide convenience for their members. 'That's what CUs are all about.' Leekley expects institutions to strengthen their efforts in check imaging next year, as a result of the credit crisis & the industry's thirst for deposit growth. 'A lot of banks have not been as aggressive as they should be,' even though affluent consumers & entrepreneurs have shown themselves quite willing to adopt technology that offers convenience or productivity improvements. Some bankers want to charge fees for these services to businesses but they are missing the point about a larger benefit. 'There are banks out there that are connecting the dots & recognizing the value of RDC. The fees can be miniscule compared to the value of the deposits retained or grown thanks to RDC. They make loans off those deposits. Without the deposits, the loans would never be possible.' Dana Gould, Financial Insights, said Jack Henry & its competitors have flocked to consumer & small-business check capture since USAA FSB of San Antonio introduced its service in 12/06, targeting its far-flung customer base of mostly military families. 'A lot of people have been talking about it for some time now, but it's hard to get a handle on how popular it is or how successful,' since the numbers in the consumer image capture niche may be too small to brag about at this relatively early stage of adoption. 'They would report it if they had large numbers of people jumping in.'

Banks & fraud 12/23 BS&T Despite the decline in the number of checks written over the past few years, check fraud continues to be a major concern for banks & retailers. One of the benefits arising from the adoption of Check-21 that can help improve fraud prevention is part of the image exchange & archive process. Image exchange & archiving offers many advantages, including cost reductions in storing & delivering check images versus their physical documents. Float time is reduced, resulting in improved availability of funds, & a reduction in the risk of lost items and, more important, the risk of fraud. The full benefits of image exchange & archiving have not yet been fully exploited for fraud-prevention purposes. When banks & financial institutions use a common, shared image archive service or facility, fraud detection tools can be applied not only to 'on-us' checks, but to all check images if the images are shared among members. This shared service or facility opens up a multitude of opportunities for members to combat fraud on a whole new level. Banks can verify the authenticity of checks at the time of acceptance at the branch level, or even at POS, which would significantly reduce the time it takes to determine if a check is fraudulent, implement follow-up procedures for suspects or even be able to decline the acceptance of a check. When a check is received by a bank or retailer, technology would be able to look up reference images in the centralized database to examine the authenticity of the check & prevent signature forgery or counterfeits. Signature & check stock verification technologies can process the image of the check quickly & efficiently to identify suspicious items. The technology offers the benefit of improving customer service & satisfaction by enabling banks to proactively inform their customers of potential fraud.

Online banking & personal financial management 1/1 BTN Banks left behind in the move to next-generation online financial suites may finally get their chance to move to 'PFM Lite' in 2009. Several major online banking platform providers, including Fiserv, Intuit's Digital Insight & S1, have launched or plan to introduce upgraded platforms that will integrate transactions with new budgeting & investment features. & in the case of Fiserv & S1, advanced graphical interfaces as well. Fiserv takes a major step with its Online Advantage platform; it provides an integrated bill pay & PFM tool set with a rich Internet application (RIA) interface & splashy GUI for bank clients' online pages. With three undisclosed banks live & 5 more in the implementation queue, the company says Online Advantage is the first full online banking integration between the Checkfree billpay transactions system & the Corillian online banking platform, which both came under the Fiserv umbrella in late 2007. Fiserv's unveiling follows October's release of Digital Insights's FinanceWorks consumer PFM platform—a descendant of the Digital Insights software that Intuit acquired in 2007. FinanceWorks created a small-business version in December that has 200 banks in the pipeline. 450 are scheduled to deploy the consumer platform. The Fiserv & Digital Insight upgrades come at the tail-end of Web 2.0 interface updates at competitors such as Online Resources & Harland Financial. Next up, S1 in March, when a new interface debuts complete with user-customizable screens & interactive Web applications. 'That's going to allow our clients to apply their look & feel to the interface. We take care of the underlying code.' With Web 2.0 & other PFM tools, banks can finally compete from a 'look & feel' standpoint with the popular third-party sites, says Mark DeCastro, Financial Insights. That involves customization which 'seems to be the trend, allowing end users to design their online banking application into something that works for them.' These upgrades are a long-awaited answer to the aggregated financial sites from the likes of Mint.com, Wesabe plus the trail blazed by some larger banks, including Wells Fargo & PNC, which offer advanced banking

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options & cleaner GUIs; users across the board expecting more site widgets & single-page Flash views. 'The reason Web 2.0 is so important,' says Fiserv's Bob Homer, 'is that it does engage a consumer with just-in-time information in a new way.' These new solutions indicate that banks are finally overcoming the bitter taste from failed screen-scraping aggregation practices earlier this decade. 'With our consumer FinanceWorks solution the key differentiator from Mint is that it's within the financial institution,' says Intuit's Tobin Lee. 'We're pulling from 5,000 sources of data [for aggregation], & it's going to be the customer's primary hub of financial activity.' DeCastro says the new PFM tools follow a similar strategy as the third-party sites which attract Money & Quicken software users who want simpler budgeting & spend-tracking tools. 'These products we've seen allow you to do a bit of aggregation, & to create reports to show your spending habits, either on what you spent or what's down the pike,' says DeCastro. These new online banking platforms can integrate easily with new offerings such as remote deposit capture services, & in Fiserv's case can serve as a new source of marketing analytics. Despite the dismal outlook for financial services this year, Intuit expects Digital Insights's FinanceWorks to be a growth engine in 2009; Intuit bought Digital Insights in 2/07 to re-enter the online banking vendor space while maintaining its direct-user business model for Quicken Online & Quicken software. In a recent quarterly earnings call, Intuit officials predicted the firm would reach a double-digit % jump in revenue in its financial institutions business, as banks turn to e-banking & billpay tools to boost deposits & fees. 'If you look at the overall scheme of things, attracting & retaining & growing deposits is a #1 priority,' says Aite's Gwenn Bezdard.

Banking & Payments abroad

Canada – online shopping 12/23 eMarketer A climate change? In 2007, Canadian retailers sold C\$13.8b of consumer products & travel bookings online. But by 2012 eMarketer projects that Canadian B2C e-commerce sales will reach C\$22.8b. That means that between 2007 & 2012, Canadian B2C e-commerce sales will show a compound annual growth rate of 10.6%. Not bad numbers in a tough economy. But the numbers could be better. 'Until Canadian consumers show a larger appetite for buying big-ticket physical goods online, such as home furnishings & consumer electronics, the Canadian e-commerce market will remain small compared with other G7 countries,' says Jeffrey Grau, eMarketer. Consumers in Canada are avid online product researchers, on par with their US counterparts. But they are much more likely to make a subsequent purchase in-store rather than on a website. 'The fact that Canadian Web retailers are required to charge sales tax is certainly a disincentive to online buying.' Because of the tax structure, Canadian shoppers have never seen much of a price advantage to buying online. This is one reason why Canadian e-commerce has grown at a more gradual pace compared with the explosive growth that occurred in the US. 'The upside of this is that Canadian market is enjoying a longer period of solid growth albeit on a much smaller scale.' Another factor that has depressed the growth of B2C e-commerce in Canada is the lack of product selection online. Many prominent Canadian retailers have not found the ROI compelling enough to run an online sales channel. 'While Canada has 1/10 the population of the US, the cost of running a transactional Website is about the same. This creates a challenge for small to medium-sized retailers with fewer financial resources.' Canadian retailers are in a better position than foreign merchants to understand the needs & interests of local consumers. & like consumers across the world, those in Canada prefer to shop with indigenous retailers.

Canada - push is on to cap charges on Mastercard & Visa cards 12/30 HamiltonSpectator Fleming is a meticulous bookkeeper, so she assumed right away the extra \$4,000 charge in November in credit card processing fees was some kind of mistake. She's worked at toy & book import & distribution company Lion Rampant for years & knows the business inside & out. The only thing she could find, after numerous calls to fee processor Paymentech & the bank was a notice from Visa of a hike in certain kinds of transaction fees. '\$4000 & we're doing nothing we haven't done for 15 years,' still shocked a month later. Derek Nighbor said Lion Rampant's experience is common. Nighbor, Retail Council of Canada (RCC) said many merchants are just now realizing the costs of doing business are skyrocketing due to increased credit card transaction fees. 'There are so many layers to the fee structures, you need to be a Philadelphia lawyer to figure it out. There are no rules. There is no recourse. All they have to do is tell you what they are doing. We've seen the most egregious & aggressive behaviour on the part of the credit card companies ever since they went global & public. 'It's a virtual duopoly & they have a lot of muscle.' At issue are the fees Visa & Mastercard, in particular, charge merchants for shoppers to use the card. Most retailers pay anywhere from \$2 to \$4 per \$100 in spending. Catherine Swift, Canadian Federation of Independent Business, said members are particularly concerned about attempts by Mastercard & Visa to tap into the national debit card system. The introduction to consumers of a new premium card that offers more rewards for high spenders has increased business costs. 'They have market control & they've upped the fees & they've made them less transparent. Do you think a merchant has an option not to take Mastercard or Visa?' Tyler MacLeod, Hamilton Chamber of Commerce, said enough small businesses have called to complain about the issue to merit starting an informal poll to get members' thoughts. If there's enough concern, the chamber will strike a committee & examine the issue in more detail. 'No question, the effects (of a hike in fees) will be felt. Our concern is that this is a bad time to put this kind of burden on merchants.' Mastercard issued a statement in October that said: 'By attempting to make merchant fees a political issue, the RCC & the CFIB are essentially calling upon politicians to intervene in commercial matters between private-sector entities. RCC's & CFIB's intentions are to reduce the value of consumer rewards on payment card programs & pocket the windfall without passing along the savings to consumers.' Swift said the issue has more impact than just retail or tourism. 'Everybody uses credit cards it is a biggie.' Nighbor said the RCC has made the credit card issue its #1 priority of 2009 & would like to achieve what Australia has managed to do: cap credit card fees. 'It took them 5 years to get there, but they did it.' Swift said the CFIB is calling for more transparency & a federal investigation on the impact of Visa & Mastercard getting into the debit industry on the economy. 'Just shining the light can have a lot of impact. That would be our first choice. Let's face it, in the end, the consumer will pay for it.'

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Ghana - m-banking 12/23 AccraMail Ghana Commercial Bank (GCB) will introduce m-banking services next year to enable customers to transact banking businesses even outside the banking halls. This service is aimed at bringing banking operations closer to customers, especially very busy ones, who do not have time to visit the bank during normal working hours. Samuel Sarpong, GCB, disclosed this at the opening of its 148th networked branch at Kisseiman in Accra. The opening of the Kisseiman Branch solidified GCB's position as the leader in the banking industry in the country. Sarpong said the bank was upgrading its software & expressed the hope to complete it by March next year to allow for modern facility for efficient delivery. The bank embarked on building offsite ATM at various vantage points throughout the country to ensure that customers with ATM cards could access cash anywhere & at anytime. GCB was not oblivious of the stiff competition in the banking industry, adding that the bank had embarked on retraining of its staff of 2,000 to enable them to deliver efficient services to customers. Refurbishment of branches & building of more units was ongoing to increase the bank's ambience. Sarpong said apart from the normal savings, deposits & withdrawal services, the bank offered royal banking, electronic & Mastercard services with the hope of introducing visa card transactions next year. GCB remained resolute in its contributions to charities & other social projects.

Hong Kong - the stinking, cashless society hurts the little guy most 1/2/09 Standard Something weird & shocking is going on: money is going out of fashion. It's true. A sign went up at my local car park forbidding transactions in actual cash. The small print explained that the company from now on will only accept payment in non-cash forms 'for your convenience.' I hate that phrase. Whenever I see it on a corporate sign, it always means the same thing: 'We are going to inconvenience you, but we are going to claim the opposite is true, because we believe all our customers are idiots.' The cashless thing worries me. PayPal has just announced it is launching junior accounts to hold pocket money. My own daughter, aged nine, started carrying a card to use on the school vending machine. Stop! Has anyone thought to ask: is a cashless society a good thing? I decided to conduct an experiment to answer this question. I determined to spend one entire day without a single coin or banknote in my pockets to see how long I could survive. The designated day dawned. I woke up, emptied my pockets, armed myself with one stored-value card & one credit card, & marched out of the house. Transaction one was paying to get to work. Hmm. Tricky. I found that smaller vehicles, such as some minibuses, taxis & aged rickshaw men, took cash only. However, big corporate forms of transport like trains & double-decker buses accepted cards. I managed to get to work, but not in my preferred fashion. For transaction 2, I allowed myself to have breakfast as a reasonable reward for showing up at the office. (Well, I think that's reasonable, but maybe you'd better not tell my boss). Tasty smells came from several roadside stalls, especially from one woman selling sandwiches filled with freshly scrambled eggs & corn beef hash. But she had no card-reader. I had to walk to a cluster of chain-stores, including McDonald's, which accepted plastic payment for plastic food. Transaction three should have taken place on my way back to the office. A street musician played the erhu beautifully. But he didn't accept credit cards. Transaction 4, lunch, was the same problem as transaction two. I had to bypass a stall selling deep-fried, stuffed chilies to go to a boring, proper restaurant. Transaction 5 bought me something to read on the long ride home. A curbside news vendor offered me an out-of-date imported magazine at a deep discount. I had to decline & walk for 10 minutes until I found a 7-11, where I bought, with a card, a similar magazine - at 3 times the price! The final verdict? Yes, the cashless society is here. & it stinks. It prevented me doing business with all the hardworking people who deserved it: the scrambled egg woman, minibus driver, taxi driver, fried chili woman, street musician & newspaper vendor. I was forced to give my transactions only to the big businesses: transport corporations, McDonald's & 7-11. & I ended up spending more than usual. The buyer loses. The vendor-on-the-street loses. The faceless corporations win. Cashless equals heartless. Incidentally, a lawyer tells me that signs saying 'no payments in cash' can be ignored. 'No court would punish a person for honestly paying a bill.' Anyone want to join me to fight this trend?

India - changing era of banking 12/31 FinancialExpress You would no longer see bank account holders in India waiting in long queues at the bank teller counter to get a draft or to withdraw their own money. Gone are the days when a bank would take days to transfer cash from one branch to another. Today, things are as simple as typing an SMS or dialing for a piping hot pizza. For the Indian banking system, change has been quite constant for the last 2 decades to achieve efficiency & customer friendliness amidst rising competition. Today, banks no longer restrict themselves to traditional banking activities, but are explore newer avenues to increase business & capture new markets. Either as a part of reforms process, which, in a larger context is linked to the ongoing economic reforms, or in an efforts to adopt the best international banking practices, the banking industry has seen radical transformation in the areas of business portfolio restructuring, hiring strategies, domestic & overseas expansion plans, treasury portfolios & creation of a technological platform. With a strong regulatory regime pushed forward by the RBI, the initiatives include strengthening the prudential norms in line with the international best practices, improving credit delivery, planning sophisticated products, strengthening corporate governance practices & promoting financial inclusion, strengthening the urban co-operative banking sector while improving overall customer service. To start with, while strengthening the prudential norms, a great deal of attention was paid to tackling the huge non-performing loans that had burdened the banking system. As banks started tackling the sticky assets, their asset quality began to improve helping them to expand their credit portfolio. Features like the introduction to Basel II requirements & the possibility of larger freedom for foreign banks in the country have opened the way for newer ideas & innovation. 2 major concerns related to corporate governance practices followed by banks. These related to concentrated ownership & quality of management that controlled the banks. Corporate governance practices were, therefore, strengthened. The other major achievement, was the sharp increase in the flow of credit to agriculture & SME. In a bid to bring about a vast section of the population into the banking system, the RBI launched a financial inclusion programme & banks were asked to introduce 'no frills' accounts. According to RBI data, 13m 'no frills' accounts were opened

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in a short span of 2 years. The aim is to no longer confine the banking services to just metropolitans or semi-urban areas in India. The reach has now been widened to cover the remotest regions of the country. The confidence in the urban co-operative banking segment was eroded in the early 2000s following a run on a multi-state co-operative bank. In order to restore the confidence & overcome the problem of dual control over urban co-operative banks, a mechanism of the TAFUCBs (a state-level taskforce on urban co-operative banks) was put in place. The use of technology combined with some other initiatives helped improve the customer services by banks. Branch expansion, installation & use of ATMs helped banks expand their reach. The banking system has made efforts to be more customer-friendly by facilitating doorstep banking. With the entry of new generation private sector banks & foreign banks into the country, existing banks have introduced services such as phone banking, m-banking & net banking. An interesting development was the setting up of credit information bureaus to obtain & share data on borrowers in a systematic manner for sound credit decisions by the banks. With a view to strengthening the legal mechanism & help credit information bureaus collect, process & share information on borrowers, the Credit Information Act was enacted in 5/05. Along with investment in technology & in manpower quite a chunk is being invested on the advertising & branding fronts. Banks like Union Bank of India, Canara Bank, State Bank of India & Bank of Baroda have taken the lead in this new trend. Banks have started approaching B-schools for student placements & even public sector banks are trying to benchmark their compensation structure against market trends. 'A change in the Indian banking space in the last decade is that banking services have become accessible to the customers. Alternate banking channels have gained popularity in the last 10 years,' says Chanda Kochhar, ICICI. She adds that the easy availability of retail & the corporate loans at competitive rates has fuelled the growth of Indian banking sector. 'I foresee that cellular phone technology will play a very important role in lowering the cost of banking transactions in the next decade. The penetration of banking services to all parts of the country is expected to gain momentum through the usage of mobile phones.' Partho Mukherjee, Axis Bank: 'Parameters such as technological support & system enablement for better customer relationship management have changed the face of the Indian banking sector in the last 10 years.' In the decade, banks have adopted a cash management approach rather than merely serving the credit needs of the consumers. Bankers see a major change taking place in the payment mode. Public sector banks praise the RBI for making this happen. 'From a regime of regulated rates, banks have moved to an era full of freedom, thanks to a number of prudential norms put in place by the RBI. Liberalisation has strengthened the banking system to a great extent. More IT-based systems have been put in place by the state-owned banks. These banks are capitalised more to face the challenges posed by foreign & private sector banks,' said Renu Challu, State Bank of Hyderabad. 'From non-mechanised & manual operations to core banking, the banking industry has come a long way,' said KR Kamath, Allahabad Bank. 'The new prudential norms have helped banks manage their operations efficiently. With the global financial crisis challenging the way banks in developed countries have practiced risk management norms, Indian banks are expecting many more changes to strengthen the domestic financial system.

Kenya – cheque truncation 1/2/09 BusinessDaily A big shift in the way Kenyans pay for goods & services is on the cards as banks move to reduce transaction costs & curb rising cases of fraud in the financial system. Beginning July, consumers may be barred from writing cheques worth more than Sh1m - a move that is expected to halve the volume of cheque-based transactions in the country. 'Individuals, companies & government agencies making payments of more than Sh1m will be required to use electronic EFTs or RTGS,' said Kenya Bankers Association's John Wanyela. Implementation of the plan, which is supported by the Central Bank of Kenya (CBK), is expected to begin with the Government before it is introduced to the private sector. People familiar with the matter said plans are under way to process all outward government payments through an electronic system dubbed G-pay. Government is a major issuer of cheques that accounts for more than ½ of all transactions in the central clearinghouse. CBK said it had opened talks with Treasury on implementation of the G-pay system, signalling that the plan may come into effect at the beginning of the next financial year in July. 'The system will improve efficiency in payment processing & mitigate risks associated with issuance & usage of cheques.' KBA estimates that the capping could reduce the value of cheques passing through the ACH by up to 60%. 24.2m cheques with a face value of Sh4.3 trillion passed through the clearinghouse last year, a 7.6% increase on the previous year. Wanyela said check capping is under way in Uganda & Tanzania is expected to follow suit soon under a framework agreed by East African Community member states. Analysts said the move could transform the national payment system & speed up the transition to electronic transactions. Besides cheque capping, bankers are pushing for introduction of 'cheque truncation,' - the electronic movement of scanned cheque images to the clearinghouse instead of physical transportation of cheques - to cut costs. KBA says the move will help tackle delays caused by movement & sorting of the paper cheques, & reduce the number of days required to clear cheques from 3 to 2. All banks are expected to upgrade their operation to acquire the capacity to offer EFT & RTGS services before the system is introduced. 'We have researched this project & established that it is feasible,' said Wanyela. IT experts said implementation of cheque truncation would depend on completion of the ongoing internet bandwidth capacity expansion through construction of undersea fibre optic cable. 5 different projects are under way in the Indian Ocean to connect East Africa to the global network by end of year. Vimal Shah, Kenya Association of Manufacturers (KAM), whose membership is only second to government as users of cheques, supports both initiatives, but wants a more guarded implementation timeline to minimise take-off hitches. Shah says the capping at Sh1m should be made voluntary in the initial phase as the country develops the bandwidth capacity that can support real time transactions. 'The proposed cheque capping should only be made obligatory once we have enough bandwidth capacity, which may not be the case by June,' said Shah. A Seacom official - one of the companies that is racing to land a fibre optic cable on the Kenyan coast - however said the cable will offer enough capacity to meet all East & Southern Africa bandwidth requirements for the next decade. Research by BMI Technology has shown that Kenya will require bandwidth capacity of 70 GB/s by 2010, while the anticipated Seacom's capacity is 1,280GB/s. 'Inadequate national fibre optic backbone may be the only bottleneck to the success of

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the project,' said the Seacom official who did not want to be named on grounds of protocol. Bankers say the planned changes will add speed to the payments system, reduce costs & minimise fraud associated with use of physical & high value cheques. Last month, the central bank warned of the rising volume of fake cheques & counterfeit currency notes in the national payment system. The value of fake notes in the banking system rose by 42.31% this year. The value of fake currency in circulation hit Sh799, 500 in the year to 6/08, up from Sh561, 800 in a similar period the previous year. Rose Detho, CBK, warned last month that fraudsters were issuing fake bankers' cheques to unsuspecting forex bureaux operators. In a circular sent to all forex bureaux, Detho said the fraudsters had pocketed 'colossal' amounts of money by presenting fake bankers' cheques to the money changers leaving them with worthless pieces of paper. 'The new system is expected to improve safety & efficiency in the cheque clearing & settlement process & is part of the modernization project that is underway. It is expected that cheque truncation will reduce the clearing cycle, cut clearing costs & increase the overall flow of value in the economy.' Cheques accounted for 77.2% of total non-cash transactions last year - a confirmation that plastic money & electronic transfers are yet to strike a chord with the consumers. In the year to 6/08, the average daily volume of cheques settled through the bankers' clearinghouse was 51,800 valued at Sh10b. EFTs or credit based payments stood at Sh676m in the same period. Cash remains the most preferred means of payment, with currency in circulation increasing to Sh99.9b as at the end of June, an 11.1% growth from the previous year's issued currency. CBK is working on a comprehensive legal policy framework that will recognise & encourage the growth & integration of other electronic money transfer systems including through use of mobile phones.

Kenya - banks vs M-Pesa 12/23 *NairobiStar* The unexpected M-Pesa probe ordered last week by Finance Minister John Michuki may have been influenced by an informal cartel of local banks unhappy with the threat posed by Safaricom's mobile money transfer service poses to their business. 4 big local banks have formed an ad hoc committee to try & get M-Pesa stopped. The bankers pitched their case to Michuki at dinner on 12/8. They argued that M-Pesa was similar to a 'pyramid scheme' & that people could lose their money if it collapsed. Michuki ordered Central Bank of Kenya to audit the M-Pesa service saying that government & even parliament had become jittery over its increasing usage & popularity. 'Pyramid schemes can use it. I am not sure M-Pesa is going to end up well but I stand to be corrected.' Since then, Safaricom's Michael Joseph has made several loaded references about the threat to M-Pesa. 'I don't know who prompted the probe, but there are other forces who would like to see M-Pesa gone,' Joseph said at the launch of the '12 in 12 days' promotion last Thursday to celebrate Safaricom hitting 12m subscribers on its network. Joseph welcomed the probe as it would reassure his customers adding that M-Pesa had complied with all the anti-money laundering & Know Your Customer requirements. 'We consulted with the Central Bank & we got their blessings on all the things that regularize M-Pesa,' said Joseph. At the Safaricom Dealer of the Year awards, Joseph insisted that M-Pesa would not go so long as he was CEO. Safaricom has been lobbying behind the scenes to ensure that M-Pesa is properly understood & protected. Joseph went to the Finance minister's office the day after the probe was announced & Michuki has now moderated his position on M-Pesa. The problem for the banks seems to be the extraordinary popularity of M-Pesa. Launched in 3/07, it has 5m registered users & 5,000 registered outlets. It has transferred Sh60b since it started. In September M-Pesa transferred Sh9.61b & in October Sh10b. Safaricom's stated revenue for SMS, Data & M-Pesa in its half year accounts released last month was Sh 3.75b Sh925m of that was generated by the M-Pesa business. By comparison the banks only have 750 banking outlets & 3m bank accounts between them countrywide. Some banks are alarmed by the growing popularity of the service. They are fearful of M-Pesa becoming a 'mobile wallet' in the future which Safaricom's Michael Joseph has said is his dream. The ad hoc committee has opened up the assault on M-Pesa on 3 fronts. One is to lobby MPs to investigate the risk of a collapse; the second is to pressure CBK to insist that M-Pesa be stopped until there is legislation to regulate it; while the third initiate court cases across the country by aggrieved M-Pesa customers. Safaricom insists that there is no risk of a default. 'It's not a pyramid scheme. The money is not with Safaricom, it is in a trust account managed by Commercial Bank of Africa which Safaricom cannot touch,' said Safaricom. The M-Pesa account at CBA now has a balance of close to Sh3b. 'I don't know & I'm absolutely not aware of how any of our members would be trying to block M-Pesa,' said Wanyela, Kenya Bankers Association. 'The only concern with M-Pesa was whether we can have a level playing field. If Safaricom are providing a financial service, they should come into the sector. If they are providing communication services they should stay in the sector so that we all play in the same field'. Another source said the banking industry is divided over whether M-Pesa is good or bad. Some banks believe it would be better to embrace M-Pesa rather than to reject it. M-Pesa was originally set up by Vodafone in the UK as a pilot project to increase financial access in developing countries. It was partly funded by DFID, the aid arm of the British government. The Kenya model of mobile money transfer is still unique & is being closely watched around the world. Vodafone rolled out M-Pesa in Tanzania in April but the take-up has been much slower than in Kenya. The maximum amount that can be transferred in Kenya is Sh 35,000 & the maximum that can be held in an M-Pesa account is Sh 50,000. Safaricom says it does not intend to substantially increase these limits as it is providing a service for the un-banked or the under-banked.

Russia – internet payments 12/31 *ecommerce-journal.com* This year proved fruitful for the largest ecommerce payment system in Russia known as WebMoney. The company adopted a number of measures directed at improving its services & enhancing its popularity & presence in other markets. Yet, irrespective of the company's ambitions to match against PayPal, & its background of 10 years operation in the sector WebMoney has still much to do in order to be treated not only as a Russian Internet payments provider but as a respected international service. Skimming through the information about WebMoney available in Russian Internet resources you are likely to run across dedicated websites that advise the public about all the events & latest developments taking place in life the payment processor. Most of these sites which by the way bear the brand name of the company are supported or most likely sponsored by the company itself. One of them is owebmoney.ru,

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a Latin transliteration of the Russian phrase that means 'about WebMoney'. The site proves to contain abundant information about all the innovations, agreements & partnerships & tutorials on how to work with the system. owebmoney.ru lists most important developments & updates implemented by the company during the passing year. We would like to draw our readers' attention to the article foreword: 'The situation in the world of digital money was as uneasy as the general environment. E-gold was forced to go into anabiosis. Rupaya was sold to RBK & probably that it will soon disappear at all. In Russia & in the Western countries new payment systems started operating though they will not manage to make their way to the leadership. It is pleasant to note that there are at least some businesses that show enviable stability in this mad world. Surely, we are talking about WebMoney now'. Well, the style does not provoke surprised faces as long as arrogance becomes more & more a commercial strategy & credo of the company & its affiliates. Well, we will cover it in more details a little later, but let us point to their achievements first of all. This year the company launched a new processing service that allows businesses to accept WebMoney payments on their websites in a much simplified way. With the new rules online merchants in Russia & the Ukraine no longer need to register in the system. They get their personal cabinet where they can adjust their settings & look through the statistics. The system handles the processing while merchants just receive their regular wire transfers on their bank accounts in accordance with the agreement on payments reception. At the end of the year WebMoney announced its extension to Europe having launched its new project WebMoney.EU. The service allows European institutions & banks to issue their own digital money including WM title notes in strict compliance with the legislation of the EC. WM notes can be exchanged, united & used to make payments for the services & purchases on the sites of the merchants signed to WebMoney.EU.

UK – e-commerce 12/24 eMarketer UK e-commerce revenues will remain strong in 2009, as Internet stores continue to weather the recessionary storm better than brick-&-mortar counterparts. In 9/08, eMarketer forecast that UK B2C online sales in 2009 would be worth £68.4b & we have seen no reason to alter that forecast. Major online retailers that upgrade to offer true multichannel shopping & delivery/return options, & value for money, will gain market share while a number of 2nd rank e-shops stagnate or go out of business. But market leaders will spend more than in 2008 to ensure they attract & keep consumer attention. Most online retailers will continue to court shoppers with money-off promotions & discounted delivery charges, & at least one supermarket chain will experiment with large-scale e-mail distribution of promotional coupons for grocery products bought in-store. Mobile marketing will take significant steps next year-albeit from a small base-as more UK advertisers, heartened by the growing number of 3G mobile users, move to exploit this always-on medium. Data from the Office for National Statistics suggested that 19% of adults ages 16 & older accessed the Web via their mobile phone in the 3 months prior to polling in early 2008-& this was before the highly successful UK launch of the 3G iPhone in July. The 2009 mobile growth spurt will take 2 main forms: sophisticated usage of SMS, short codes & barcodes in direct-response campaigns, & microsites designed for mobile users. 11/08 research by mobile marketing agency Sponge found that 40% of UK e-retailers polled had a transactional Website that was mobile-friendly. 50% said they planned to create such a site in the next 12 months. One in 5 online retailers reported having used mobile microsites to drive promotions in 2008. So the mobile channel really is opening for business. In 2009, the pioneers of mobile-including youth brands such as Coke & Walkers, & information providers such as the BBC-will finally be joined by large numbers of advertisers eager to make their debut on the small screen.

Cards, ATMs & POS

Subway fare hackers to partner with transit agency 12/22 physorg.com A trio of MIT students who found a way to hack into the Boston subway system's payment cards have agreed to partner with transit officials there to make the system more secure. The Electronic Frontier Foundation announced the agreement Monday, 2 months after MBTA dropped a lawsuit against the students, who were represented for free by the EFF, a civil-liberties group that frequently takes up cases involving security researchers & computer hackers. The transit agency had sued to stop the students from presenting findings at a computer-security conference. The students - Zack Anderson, RJ Ryan & Alessandro Chiesa - have argued they were trying to help the MBTA by giving it advance notice of their planned talk last summer & keeping specific details of their hack secret. But the MBTA worried of widespread fare fraud if students discussed how they were able to avoid hundreds of dollars in value to MBTA's 2 primary payment cards - CharlieCard & CharlieTicket. Before they could take the stage at the DefCon hacker conference in Las Vegas in August, the students were slapped with a lawsuit & a restraining order preventing them from giving the talk. Everyone found out what they were going to say anyway: All 87 slides of the students' presentation were online, having been given out to conference attendees on CDs before the lawsuit was filed. MBTA argued it needed time to fix the problems, but the issue touched off a legal battle about whether the students' free-speech rights were violated & prompted the EFF to take up the students' case. The judge eventually lifted the gag order & the transit agency dropped its lawsuit in October. The 2 sides have been working since then on how they would collaborate to make the fare system more secure & have the students' work taken seriously, said Jennifer Granick, EFF.

Credit card companies slash credit limits 12/31 DJ As if access to credit wasn't tight, credit card companies are slashing consumer credit lines & closing inactive cards - a move that could harm borrowers' credit scores & restrict access to loans. 'Card issuers are playing defense,' trying to limit their risks in 'the poor economic climate & against the prospect of continued consumer defaults,' said Greg McBride, Bankrate.com. But the lenders' actions could bring more worries for consumers. 20% of banks reduced credit limits on existing credit cards of prime borrowers & 60% of banks lowered limits for nonprime borrowers, according to the Fed's survey of loan officers in October. 'We are taking a more aggressive look at accounts to control risk given the economic environment,' said BofA. 'We are closing accounts with zero balances that have

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been inactive for more than a year & may adjust customers' credit lines up or down' based on 'their risk profile & performance.' JPMorganChase said 'we will lower credit lines for customers who are showing signs of increased risk or inactivity.' AmEx, US Bancorp, Wamu & Wells Fargo said they would reduce cardholders' credit limits because of perceived customer risk, such as high balances or late payments on credit cards, according to a July credit card survey by Consumer Action. These actions not only restrict your borrowing power, but they can substantially hurt your credit score. 30% of your credit score is based on the % of your credit limit you've actually used, or the 'credit utilization ratio,' said Gail Cunningham, National Foundation for Credit Counseling. A lower credit limit can lead to a higher utilization ratio & negatively impact your score. For example, if your balance was \$2,500 on a \$10,000 line of credit & was then slashed to \$5,000, you have gone from using 25% of your credit limit to 50 'without spending an additional dime.' While scores depend on individual situations, they often come down to how risky you appear to credit issuers. & the % of credit limit used could carry more weight in determining your FICO credit score when Fair Isaac's new rules are released in 2009, said Careen Foster, Fair Isaac. Banks are required to notify customers of changes to credit terms, including fees, interest rates & credit limits. Borrowers should review credit limits on every statement. Once a lender decreases your credit line, you have 2 options: pay off debt & reduce your balance or call the credit card issuer to ask for a credit line increase. Consumers can call credit card issuers to ask why their credit limit was slashed or ask for an increase but 'it is up to the card issuer's discretion,' McBride said. Long-standing customers with good credit & low balances should ask to speak with a manager & emphasize your loyalty to the company. Many banks are closing inactive cards to avoid the liability of keeping credit lines open to people who haven't used them in the past but might tap as financial situations worsen. This can have a negative impact on your credit score by increasing the ratio of outstanding debt to available credit. A loss of a long-standing credit card may shorten your credit history. To avoid this situation, consumers should use cards at least once a month 'even for a token purpose' & pay the balance in full.

Card issuer performance 12/29 Barrons As bad as things are in the financial sector, America's credit-card companies may not have seen the ½ of it. More & more consumers are falling behind on their monthly card payments as unemployment rises. The industry's prime source of funding - the asset-backed-securities market - froze up in September, & shows few signs of thawing. In recent weeks, the federal government slapped tough curbs on certain credit-card industry practices commonly used to boost revenue, restricting, for instance, the raising of rates on existing balances that are current. 'We're looking for a pretty material deterioration through 2009,' says Donald Fandetti, Citigroup. Charge-offs of bad card debt, or losses, have risen to an annualized 6.6% of balances from 4.6% a year ago & may keep climbing until 2010, when unemployment is expected to peak, according to Fandetti. With the housing market in decline & the economy contracting, the charge-off rate is almost sure to exceed the historical high of 7.5% - & many in the business are bracing for double-digits. All of which is good reason for investors to be wary of the group, despite low valuations on the stocks. The industry's most prominent members are AmEx; BofA; Citigroup; Capital One; Discover; & JPMorganChase. Analysts are paying keen attention to data on credit-card securitizations, one of the best sources of clues about consumer behavior & the health of card issuers. November brought a disturbing acceleration in delinquencies & loan losses among a variety of issuers. Of particular interest are 'excess spreads.' A measure of a securitization trust's profitability, the excess spread is the income retained by the card issuer after accounting for credit losses & other items. These profits now average 6.7% of principal balances, down from a norm of 8%. Typically, if the spread drops below 4% or 4.5%, this triggers a process by which cash is reserved - trapped in industry parlance - to protect bondholders, instead of flowing to credit-card companies. If the excess spread dips to zero, the credit-card issuer must pay off the bondholders & bring the trusts' assets back onto its balance sheet. That would create a 'significant liquidity event' for issuers - because the trusts typically cover billions of dollars in obligations, observes Chris Brendler, Stifel Nicolaus. The market for credit-card securitizations stood at about \$335b at 10/30. For early amortizations to occur, charge-offs & funding costs would both have to spiral higher. Still, the risk 'is worth paying attention to, as we head into what will likely be a very challenging 2009.' Look for more credit-card issuers to buy banks & seek bank-holding status - making them eligible for TARP reinforcement. The securitization trusts being watched closely include those backed by Advanta, a specialty-finance outfit that markets cards to small businesses, & Wamu, a thrift that was on the brink of failing before being rescued by JPMorganChase in September. Advanta & Wamu have loan-loss rates above 10% & excess spreads in the 4% range. Citigroup has an excess spread of 5.38%. One indication of the health of an issuer is the payment rate, or consumer's monthly payments, as a portion of total balances. According to Stifel Nicolaus, the average for 6 big card companies is an annualized 16.7%, down from the industry's historical norm around 20%. AmEx has the highest payment rate, 21.6%, & BofA the lowest, 13%. 'If we are going into double-digit unemployment, the payment rate means a lot,' says Janet Braggs, Dwight Asset Management. Charge-offs of bad card debt, or losses, may rise from 6.6% of balances today to more than 10% by 2010. Among pure-play issuers, Capital One is best-positioned for the storm. With the asset-backed securities market all but shut, credit-card issuers relying on bank deposits. Capital One, best-positioned among the pure-play card outfits in terms of funding sources, recently added to its deposit base by announcing that it will buy Chevy Chase Bank. The move follows its acquisitions of North Fork in 2006 & Hibernia in 2005. Discover, which said that it expects IQ charge-offs to hit 6%, up from 4.4% a year earlier, plans to apply for bank holding-company status - as AmEx did - in order to get federal money under TARP. As long as the asset-backed-securities market stays closed, credit-card companies' interest in bank acquisitions will be strong. Betting on the potential prey probably will pay off better than wagering on the hunters.

Cards in Congress 12/31 AB When the Federal Reserve Board adopted tough new restrictions on credit card practices two weeks ago, many in the financial services industry were hopeful that Congress would focus on other financial services priorities. But lawmakers still appear interested in pushing for significant card reform. Leaders of both banking committees have pledged legislation next year to rein in practices, &

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the Judiciary committees are actively exploring ways to restrict interchange fees. Legislation on both fronts faces an uphill battle given the more pressing issues facing Congress & the key Democrats who could block reform, but some lawmakers are doing their best to make the issue a priority. 'Despite the Fed's massive rule changes, credit card issues will remain a hot legislative item next year,' said Scott Talbott, Financial Services Roundtable. The Fed rules weakened - but did not stop - the legislative drive to reform card practices. Exactly what form it will take remains unclear. Rep. Carolyn Maloney (D-NY), chair of the House financial institutions subcommittee, has said she wants a bill that puts many of the Fed's restrictions into law & includes a faster implementation timeline. (The Fed's rules do not take effect until 7/10.) 'Congress should act sooner to protect American consumers by giving credit card protections the permanence & force of law.' She has pointed to places where the Fed rules fell short. Her bill would let cardholders set their own credit limits, prohibit the marketing of cards to minors, let consumers reject a card before activation without harming their credit score, & require issuers to give regulators more data. The bill would legislate Fed rules such as the ban on universal default & double-cycle billing. The House has approved Maloney's bill once, by 312 to 112 in September, & with bigger majorities in Congress next year, Democrats would easily have enough votes to pass a bill - at least in the House. 'It would not surprise me to see a bill pass the House Financial Services Committee & even the House again,' said Brian Gardner, KBW. The Senate remains harder to gauge, however. Even with greater control of that chamber, Democrats lack a filibuster-proof majority. At least 2 Democrats on the Senate Banking Committee - Tom Carper (DE) & Tim Johnson (SD) - would probably oppose tough restrictions on credit card companies.' There are still members of the committee, key Democrats from states where card companies are significant employers & key parts of the local economy, & we think those votes would be tough to get,' Gardner said. But tough legislation has backing outside the banking panel. Sen. Carl Levin, D-MI, the chairman of the Permanent Subcommittee on Investigations, has held several hearings on card practices & said the Fed rules are insufficient. 'The Fed's new regulations reining in the credit card industry are a good first step, but they don't prevent a number of unfair, deceptive & predatory practices that saddle many American families with crushing debt,' Levin said. His subcommittee is investigating card debt collection practices & has requested GAO study the issue. His staff is examining concerns about the tightening of credit availability. likely to raise its head again is an effort to regulate interchange fees, which banks & the card networks staunchly oppose. Sen. Dick Durbin (D-IL), assistant majority leader, & Rep. John Conyers (D-MI), House Judiciary Committee chairman, are expected to reintroduce legislation addressing interchange fees. 'It remains a threat,' said Talbott. Congress took its furthest step toward intervention in July when the House judiciary panel supported an interchange fee bill on a 19-to-16 vote. Though this step worried banks, the amended bill was left with little teeth, & lawmakers had voted so rapidly on so many changes that they were left at odds over the legislation's purpose. Though the bill had been intended to give retailers negotiating power on interchange fees, a provision creating a three-judge panel to resolve disputes when interchange negotiations broke down was dropped in committee. Despite the confusion over how to handle interchange, merchant groups have engaged lawmakers on the issue, claiming they have little bargaining power to negotiate the fees, which they say unfairly drive up the cost of doing business. Merchants have launched fiery ad campaigns targeting key congressional districts to capture the attention of powerful lawmakers & are expected to continue those efforts next year. 'Interchange is an interesting issue. It's less partisan than others; it's retailers fighting the card companies,' said Gardner. Given other priorities & the issue's complexity, enacting a bill could be tough. 'I suspect we'll definitely be talking about interchange legislation, but I think given what happened with the House Judiciary Committee, the committee indicated it's not an easy issue to reconcile, I suspect it's not something we will see reach enactment.'

E-Commerce, M-Commerce & M-Banking

M-commerce & remote payments 12/23 Mercator Mercator released *M-commerce & Remote Payments: Consumers & Merchants are getting it, but will they Use It?* Despite today's economic headwinds, smartphones & mobile data usage are swiftly increasing their presence in consumer's lives. Retailers, large & small, online & brick-&-mortar, are experimenting with & enjoying positive returns from their mobile marketing & sales initiatives. Remote m-payments, payments made using the mobile channel without payment-related POS hardware, represent a new channel for retailers to reach the always-on Gen X & Gen Y consumer. The report examines how merchants are approaching the mobile channel & how the smartphone is giving merchants the opportunity to place their store in the consumer's pocket. The report examines the remote payment opportunity & forecasts growth for this underappreciated channel. The report concludes with a wide-ranging discussion of the implications of m-commerce & remote payments on the payment industry stakeholders. Software only m-commerce offerings are evolving into remote payments mechanisms for closed loop applications by a range of digital content & physical goods retailers. Mercator forecasts smartphone based remote m-payments to reach \$389m in 2009, \$1.7b in 2011, & \$8.6b in 2014. With 40m mobile web users expected to rise 50% in 2009 & 75% of mobile subscribers accessing data services (principally SMS) this channel is getting wider & richer faster than anticipated. The lock mobile network operators have held on m-payments is weakening quickly as applications & mobile web replay a mobile version of the Internet's 'smart devices, dumb pipes' model. Remote m-payments are an opportunity representing hundreds of millions of new annual transactions & PayPal appears to be positioning itself to take the lead in this new category. 'Smartphones have kick-started m-commerce into gear & because of their access to the consumer, merchants have fired up their mobile storefronts. Payments are following & they are not willing to wait for NFC to arrive,' says George Peabody, Mercator. 'The remote payment proposition has been largely off the radar of many in the payments industry. But merchants with an eye on customer experience management & relationship building see mobile as a direct avenue to their consumers. Innovation & opportunity will highlight the next few years as consumers download mobile malls onto their handsets & transaction volumes grow.' Companies mentioned in this report include PayPal, Visa, Mastercard, ClairMail, RIM, Apple, Google, Palm, Verizon, Sprint, AT&T, Symbian, Handango, WalMart, Moosejaw, REI, The New England Patriots, Best Buy, Amazon, Papa John's, Pizza

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Smart phones seem to be recession resistant 12/31 *physorg.com* As consumers pull back on spending, at least one tech product is staying hot enough that it could defy the recession: smart phones. Overall handset sales are slowing, & some of the biggest makers of the devices are ratcheting down sales projections for 2009. But a growing number of cell phone users such as Alexis Walsko of Minneapolis are trading up to smart phones, which offer Internet, e-mail, texting, music, video & sometimes touch screens. Smart phones have accounted for 90% of the growth in the number of US cell phone users over the past year. Walsko loves her BlackBerry Pearl so much that she thinks everybody will eventually want one. 'You can't stop checking them, because it's like having the world at your fingertips. I wake up in the middle of the night to check e-mail.' Brian Ulrich upgraded from an ordinary cell phone to a BlackBerry Storm because he thought it was cool - & because, as a manager for UnitedHealth Group, he needed remote access to his corporate calendar & e-mail. His wife got a BlackBerry Pearl with a conventional keyboard at the same time. 'Now she's doing Web, e-mail & text & doesn't know how she got along without it,' Ulrich said. His only major complaint: Updating the BlackBerry's software online can be time-consuming. The migration of smart phones from the corporate suite to the home is helping to take the sting out of slowing cell phone sales. Manufacturers are expected to ship 177.2m phones in 2009, down from a projected 186.5m in 2008, according to Strategy Analytics. From 10/07 - 10/08, smart phones went from 5% to 10% of US cell phones, according to ComScore. Apple's iPhone just dethroned the venerable Motorola Razr as the top-selling consumer handset in the US, according to NPD Group. Some experts believe that as cell phone prices continue to decline, the % of smart phones will continue to rise. Strategy Analytics projects that 30% of cell phones will be smart phones by 2012. That's great news for cell phone companies, which can charge more for data services & Web surfing. 'There's really been an advertising push to get consumers on these more sophisticated phones,' said Jaimee Steele, ComScore. 'That makes sense for cell phone service companies because they get more revenue if consumers use more online content.'

Many RFID cards poorly encrypted 1/2/09 *heise-online.co.uk* Karsten Nohl, a security investigator who had a hand in cracking NXP's Mifare Classic chips, says many RFID smartcards from other manufacturers are vulnerable to a simple hacker attack. He told the 25th Chaos Communication Congress (25C3) in Berlin that 'Almost all RFID cards use weak proprietary encryption systems' & only the latest types were any better. For example, several generations of Legic, HID & Atmel cards have holes in their armour. RFID cards are used today to control access to buildings, rooms, cars or electronic devices. Mifare chips are widely used in payment systems, such as those in short-distance public transport. The general expectation is that such RFID tags, all operating on the same frequency of 13.56 MHz, will eventually be used as generic identifiers for products & people, & they are in use in passports & credit cards. The chip manufacturers have so far criminally neglected the standard of encryption used by these chips & the standard of the reading systems, which ought to satisfy the requirements of data protection & system security. Using as an example the Mifare Classic card, he & his comrade-in-arms in the Chaos Computer Club (CCC), Henryk Plötz, demonstrated that its encryption could be compromised by simple proxy or relay attacks. In principle, he said, an attacker need only determine, say with an emulator, that an appropriate SmartCard was within range. All doors would then be open to him. For example, freely available OpenPICC hardware, a counterpart to the OpenPCD RFID reader, could be used for hacking these cards. This emulator, said Nohl, can be carried in a trousers pocket, & can generate & send a suitable RFID tag ID number. All that is needed is to eavesdrop on a legitimate authentication, initiate the same routine later on, & respond with the recorded communication. Random numbers are required, but as a rule these tiny radio chips have insufficient processing power to generate them reliably. In the case of many RFID cards, therefore, these supposedly random sequences of digits have proved to be easy to predict. A further weakness is that readers do not use existing protocols to check the distance between themselves & a nearby chip. Such protocols require a measurement of the time taken for the radio signals to travel out & back which would add considerably to the cost of card readers. Nohl reported that many RFID cards do not put up much resistance to more sophisticated cryptographic attacks, such as algebraic, statistical or brute force attacks. It is usually sufficient to determine the purely statistical vulnerabilities in the encryption applications. In order to help hackers make tests on the security of radio chips, the 2 researchers have published the TI EVM tool, which supports various protocols. They have announced OpenPICC2 as a powerful emulator, which doubles as an e-book reader. Nohl recommended that the makers of RFID solutions use standardised encryption algorithms & protocols & not to prescribe the use of their radio systems for tagging humans. Tested norms should furthermore be worked out for 'secure RFID'.

Online spending trends outperform brick-&-mortar across several retail categories 1/2/09 *PRNewswire* comScore released online spending data by category for the online holiday shopping season, which showed that trends in online spending outperformed offline in several key product categories. The study compared comScore e-commerce data to overall (online & offline) consumer spending data published by Mastercard Advisors SpendingPulse Unit for the period of 11/1 - 12/24 vs. year ago. SpendingPulse is an information service provided by Mastercard Advisors. A macro-economic indicator, SpendingPulse reports on national retail & service sales & is based on aggregate sales activity in the Mastercard payments network, coupled with estimates for all other payment forms, including cash & check. According to comScore, the top growing online product category for the season was Sport & Fitness, which grew 18% versus year ago. The category continues to benefit from consumers' focus on health & fitness & consumers feeling more comfortable purchasing higher-priced fitness equipment, such as treadmills & elliptical machines, online. The 2nd fastest-growing category was Video Games, Consoles & Accessories, which grew 14% on continued demand for popular consoles, such as the Nintendo Wii, Microsoft Xbox 360 & PlayStation 3. Apparel & Accessories,

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the only other product category with positive online growth, generated higher sales as a result of retailers' aggressive discounting & promotions, & helped by unfavorable weather across much of the country. A comparison to the Mastercard data revealed that the online trends in several product categories outperformed consumer spending in those categories, including: 'For an online holiday shopping season that recorded a disappointing 3% decline in sales, a positive note is that e-commerce trends outperformed overall consumer spending in several product categories, which is to say that e-commerce continued to capture an increasing share of consumers' wallet. 2008 was a challenging time for many retailers, & the beginning of 2009 may not be much better. But when the consumer economy eventually does rebound, e-commerce is poised to benefit from its emergence as an important consumer sales channel.' comScore analyzed non-travel e-commerce spending by household income segment for the holiday shopping season, revealing that growth in online spending only occurred (up 7%) within households making at least \$100,000 in annual income, while lower income segments logged significant declines in spending. Those households earning less than \$50,000 per year appear to be the most affected by the current economic environment, with their online spending declining by 13% versus year ago.

M-banking developments 1/5 AB Bankers & technology vendors are rethinking their approach to delivering financial services through mobile phones. The early thinking focused on creating a single application with many capabilities, much like an online banking site that can be accessed through a phone. But with more smart phones & operating systems coming to market, financial companies & vendors are developing a growing number of customized applications for more specific tasks, from making payments to finding an ATM. As a result, m-banking technology is starting to look less like a Swiss army knife & more like a ring of keys storing a variety of functions. Perhaps the best example: Citigroup Inc. is offering three mobile financial tools, each for a different purpose, & it has several more in the works. Steven Kietz, Mobile Money Ventures LLC, Citi's joint venture with South Korea's SK Telecom Co. Ltd., said in an interview last week that large, monolithic applications do not let customers bank through their phones in the manner that best suits to their individual needs. Offering multiple applications will 'let the customers use the features they want in the way that is most convenient for them,' Kietz said. Citi's offerings include a m-banking application, using software from mFoundry Inc., for demand deposit account holders, & a tool, based on technology from Qualcomm's Firethorn Holdings LLC, that lets customers manage credit card accounts. In addition, Citi was the first banking company to integrate mobile P2P payments into its demand deposit accounts through a partnership with Obopay, that uses either a downloadable application or text messaging. Kietz, who was a Citi executive vice president & the general manager of growth ventures & innovation in its global consumer group until last week, said the company is planning to roll out more applications that will likely function separately. These will include software customized for Apple's iPhone, a version of its online banking service designed to work with the browsers built into phones, & 'more specialized applications on the small-business & commercial side,' Kietz said, though it is too early to discuss details of those plans. 'We have many new access points coming.' BofA has developed a pair of specialized applications: one for the iPhone & one for Google's Android mobile phone operating system. The applications are designed to take advantage of the global positioning system chips in the handsets to show nearby branches & ATMs; they can launch a phone's browser & B of A's m-banking tool. 'The rationale behind launching this application is that this offers one place for customers to access m-banking, & to find the nearest BofA locations.' Analysts said that the mobile market is still evolving, & that bankers must develop a variety of tools & delivery methods to determine how customers want to use their handsets. 'You've got to throw a lot of stuff out there against the wall before you can see what sticks,' said Emmett Higdon, Forrester. 'We're still too far out in front of the customers here. What can the customers really do with it today? Very, very little, even if they understood what they could do.' Drew Sievers, mFoundry, said the goal should be to establish common standards that bankers & other developers could use for a wide range of applications. 'A bank can have a single code base that works on a lot of phones.' The mFoundry toolkit is based on extensible markup language & JavaScript, an open-source language that operates on many different combinations of hardware & software. Using such standards on the back end lets bankers provide 'an extensible solution, which solves the multivendor problem for them,' Sievers said. 'It lets customers be exposed to, discover, & use applications that are offered by our competitors.' Kietz compared the idea of a single, all-inclusive mobile offering to the accounts that banks tried to popularize years ago to give customers a single statement incorporating checking, savings, credit, & investment accounts. The one-size fits all approach proved not to be the answer then & it seems that the same is true with m-banking now, because different people have different needs. 'If a customer wants to have a way to quickly do funds transfer to a child at college, or to pay a nanny & use our P2P, or quick access to bill pay, well, it will be the customer-driven marketing, the customer-driven use case, that will drive it.'

Information Security

Internet criminals 12/29 BBC-Online If 2007 was witness to the rise of the professional hi-tech criminal, then 2008 was the year they got down to work. 'The underground economy is flourishing,' said Dan Hubbard, Websense. 'They are not just more organised they are co-operating more & showing more business savvy in how they monetise what they do.' Statistics gathered by firms combating the rising tide of computer crime reveal just how busy professional cyber thieves have been over the last 12 months. Sophos said it was seeing more than 20,000 new malicious programs every day. 2008 was the year in which Symantec revealed that its anti-virus software now protected against 1m viruses. The vast majority of these malicious programs are aimed at Windows PCs. Viruses made their debut 20 years ago but the vast majority of that 1m have been created in the last 2-3 years. Criminal gangs generate so many viruses for 2 main reasons. Many variants of essentially the same malicious program can cause problems for anti-virus software which can only reliably defend against threats it is aware of. In the past security firms have tended to focus on the big outbreaks. By staging a series of small outbreaks the criminals hope to go unnoticed while their family of viruses racks up victims. Another statistic from Sophos reveals how the tactics of the online criminal groups are changing. Before 2008 the

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preferred method of attack was a booby-trapped attachment circulating by e-mail. Provocative, pornographic & personal subject lines were used to trick people into opening the attachment. Anyone doing so risked having hi-tech criminals hijack their home computer & turn them to their own nefarious ends. In 2008, said Graham Cluley, Sophos, the main attack vector started to shift. Attackers have tried to subvert webpages by injecting malicious code into them that will compromise the computer of anyone that visits. By 12/08, Sophos was discovering a newly infected webpage roughly every 4 seconds. The type of page being booby-trapped had changed. Prior to 2008 gambling, pornographic & pirated software sites were much more likely to be unwitting hosts for the malicious code used to hijack visitors machines. In 2008 the criminals turned their attention to mainstream sites that had very large audiences & were vulnerable to the code-injection attack. For Mikko Hypponen, F-Secure, 2008 was the year in which some hi-tech criminals got much more sophisticated. The best example of this was the virus known as Mebroot. 'We saw it very early in the year & it continues to be a very complicated case.' One of its most remarkable features is its built-in bug reporting system. When Mebroot is detected or malfunctions revealing its presence it sends off a report to its creators who then turn out a new version with the bug fixed. 'It's amazing that the bad guys were capable of pulling this off.' Dan Hubbard, Websense said 2008 was notable for some hi-tech criminals turning away from viruses completely & embraced another way to make money. Many were turning out bogus security programs that look legitimate but do not work. Once installed they purport to carry out a detailed scan of a machine & always turn up many instances of spyware & other malicious programs. Cleaning up a machine using one of the bogus security programs always involves a fee. 'They are testing legal boundaries that are a grey area right now.' In 12/08 the FTC won a restraining order to shut down several firms that ran so-called 'scareware' scams. Research by Israeli security company Finjan suggests that up to 5m people around the world have fallen victim to such scams. A US court granted the FTC an injunction which stopped those behind the scareware products advertise their products, from making false claims about their efficacy & froze assets in the hope that duped customers could be refunded. 2008 saw other big successes against criminals. In November spam volumes around the world plummeted briefly following the closure of US network firm McColo. Despite this, said Hypponen, 2008 was a good year for the bad guys. The successes came due to action by ISPs, other net bodies & the media rather than from the action of law enforcement agencies. This was mainly due to the trans-national nature of hi-tech crime that made it very difficult to quickly carry out an investigation & make arrests. 'The vast majority of these cases do not seem to go anywhere.'

Fraudsters run one-stop shop online to sell data-stealing code 12/29 DTN Online fraudsters are running an online trading post for highly sophisticated code that allows criminals to more easily steal consumers' log-on credentials, SSNs, PINs & other confidential information, according to RSA Security's Anti-Fraud Command Center. The fraudster Web site, which RSA analysts call a 'Web Injection Shop,' sells so-called HTML injections, or bits of code that can allow phishing perpetrators to mimic the look of a financial institution's Web pages, including pages that ask for log-on credentials. The code allows fraudsters to add fields to the pages to ask for information the legitimate pages don't ask for. The injections usually accompany Trojans, code that fraudsters install on the computers of unwary users when they visit certain sites or click on unknown e-mail links. While these HTML injections are nothing new, the creation of what RSA calls a 'production-scale central repository' for them is. The sophistication of the code & of its merchandising online has led the security firm, part of EMC, to called the trend 'fraud as a service,' or FaaS, after the more familiar & legitimate trend toward software as a service (SaaS), in which companies sell solutions for specific online functions. The Web site sells 2 types of injection, according to RSA. With one, fraudsters can weave new content into a financial institution's actual pages. The new content typically consists of fields asking for mother's maiden name, PINs, SSNs or other sensitive data. The other type allows the buyer to insert a completely fabricated page into the user's browser, again asking for information not requested by the legitimate site. With yet another product offered by the new fraudster site, buyers can install code on users' machines that searches for the balance field when users log on to their bank accounts. This so-called balance grabber then copies & transmits the account balance back to the fraudster's server. Armed with this information, online criminals can set prices for log-on credentials according to the richness of the balance to be plundered. The going price for HTML injections is \$10 - \$30 each, depending on the target institution & the type of code, according to RSA's report. The report says these injections could follow a path similar to that of phishing kits, online tools that standardize the launch of phishing attacks. These tools have dropped in price as they have proliferated in underground forums. 'When the fraudster market is saturated by HTML injection offerings, their price may drop since HTML pages are fairly simple to design.' 207 financial-institution brands were attacked in phishing campaigns in November, up from 167 in October, the report says. The total includes 23 banks whose sites had not before been targeted by fraudsters. Regional US banks were the target of 48% of the attacks, with CUs accounting for 30% & banks that operate nationwide accounting for 23%.

Experts uncover weakness in Internet security 12/30 physorg.com Researchers in California & at the Centrum Wiskunde & Informatica (CWI) in the Netherlands, EPFL in Switzerland, & Eindhoven University of Technology (TU/e) in the Netherlands have found a weakness in the Internet digital certificate infrastructure that allows attackers to forge certificates that are fully trusted by all commonly used web browsers. As a result of this weakness it is possible to impersonate secure websites & email servers & to perform virtually undetectable phishing attacks, implying that visiting secure websites is not as safe as it should be & is believed to be. The experts hope to increase the adoption of more secure cryptographic standards on the Internet & therewith increase the safety of the internet. When you visit a website whose URL starts with 'https', a small padlock symbol appears in the browser window. This indicates that the website is secured using a digital certificate issued by one of a few trusted Certification Authorities (CAs). To ensure that the digital certificate is legitimate, the browser verifies its signature using standard cryptographic algorithms. The team has discovered that one of these algorithms, known as MD5, can be misused. The first weakness

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in the MD5 algorithm was presented in 2004 at the cryptology conference 'Crypto' by a team of Chinese researchers. They had managed to pull off a 'collision attack' & were able to create 2 different messages with the same digital signature. While this initial construction was severely limited, a much stronger collision construction was announced by the researchers from CWI, EPFL & TU/e in 5/07. Their method showed that it was possible to have almost complete freedom in the choice of both messages. The team discovered that it is possible to create a rogue certification authority (CA) that is trusted by all major web browsers by using an advanced implementation of the collision construction & a cluster of 200 commercially available game consoles. The team of researchers has thus managed to demonstrate that a critical part of the Internet's infrastructure is not safe. A rogue CA, in combination with known weaknesses in the DNS (Domain Name System) protocol, can open the door for virtually undetectable phishing attacks. Without being aware of it, users could be redirected to malicious sites that appear exactly the same as the trusted banking or e-commerce websites they believe to be visiting. The web browser could then receive a forged certificate that will be erroneously trusted, & users' passwords & other private data can fall in the wrong hands. Besides secure websites & email servers, the weakness affects other commonly used software. 'The major browsers & Internet players - such as Mozilla & Microsoft - have been contacted to inform them of our discovery & some have taken action to better protect their users,' reassures Arjen Lenstra, head of EPFL's Laboratory for Cryptologic Algorithms. 'To prevent any damage from occurring, the certificate we created had a validity of only one month - 8/04 - which expired more than 4 years ago. The objective of our research was to stimulate better Internet security with adequate protocols that provide the necessary security.' The discovery shows that MD5 can no longer be considered a secure cryptographic algorithm for use in digital signatures & certificates. MD5 is still used by certain certificate authorities to issue digital certificates for a large number of secure websites. 'Theoretically it has been possible to create a rogue CA since the publication of our stronger collision attack in 2007,' says Marc Stevens (CWI). 'It's imperative that browsers & CAs stop using MD5, & migrate to more robust alternatives such as SHA-2 & the upcoming SHA-3 standard.'

Other

Wikipedians are closed & disagreeable 12/31 *NewScientist* Disagreeable & closed to new ideas - that's the picture that emerges of Wikipedia contributors from a survey of their psychological attributes. Yair Amichai-Hamburger at the Sammy Ofer School of Communication in Herzliya Israel, & his team gave a personality test to 69 Wikipedia contributors. The Wikipedians were more comfortable online than in the real world. But he was surprised that contributors scored low for agreeableness & openness to new ideas, given that contributing to the website is based on sharing knowledge (*CyberPsychology & Behavior*, vol 6, p 679). Amichai-Hamburger speculates that Wikipedians make their contributions online because they struggle to express themselves in social situations.

Credit card companies willing to deal over debt 1/3 *NYT* Hard times are usually good times for debt collectors, who make their money morning & night with the incessant ring of a phone. But in this recession, perhaps the deepest in decades, the unthinkable is happening: collectors, who usually do the squeezing, are getting squeezed a bit themselves. After helping to foster the explosive growth of consumer debt in recent years, credit card companies are realizing that some hard-pressed Americans will not be able to pay their bills as the economy deteriorates. So lenders & their collectors are rushing to round up what money they can before things get worse, even if that means forgiving part of some borrowers' debts. Increasingly, they are stretching out payments & accepting dimes, if not pennies, on the dollar as payment in full. 'You can't squeeze blood out of a turnip,' said Don Siler, MRS Associates, a big collection company that works with seven of the 10 largest credit card companies. 'The big settlements just aren't there anymore.' Lenders are not being charitable. They are simply trying to protect themselves. Banks & card companies are bracing for a wave of defaults on credit card debt in early 2009, & they are vying with each other to get paid first. Besides, the sooner people get their financial houses in order, the sooner they can start borrowing again. So even as many banks cut consumers' credit lines, raise card fees & generally pull back on lending, some lenders are trying to give customers a little wiggle room. BofA has waived late fees, lowered interest charges and, in some cases, reduced loan balances for 700,000 credit card holders in 2008. AmEx & Chase Card Services say they are taking similar actions as more customers fall behind on their bills. Every major credit card lender is giving its collection agents more leeway to make adjustments for consumers in financial distress. Debt collectors, who are typically paid based on the amount of money they recover, report that the number of troubled borrowers getting payment extensions has at least doubled in the last six months. In other cases, borrowers who appear to be pushed to the brink are being offered deals that forgive 20 to 70 percent of credit card debt. 'Consumers have never been in a better position to negotiate a partial payment,' said Robert Manning, the author of *Credit Card Nation*. 'It's like that old movie 'Rosalie Goes Shopping.' When it's \$100,000 of debt, it's your problem. When it's a million dollars of debt, it's the bank's problem.' The recent wave of debt concessions is a reversal from only a few years ago, when consumers usually lost battles with their credit card companies. Now, as bad debts soar, it is the lenders who are crying mercy. Credit card lenders expect to write off an unprecedented \$395b of soured loans over the next five years, according to projections from The Nilson Report, an industry newsletter. That compares with a total of about \$275b in the last 5 years. All that bad debt is getting harder to collect. In the past, troubled borrowers might have been able to pay down card loans by tapping the equity in their homes, drawing on retirement savings, taking out a debt consolidation loan, or even calling a relative for help. But with credit tight, consumers are maxed out. 'Knowing that the sources of funding have dried up, having someone pay the balance in full isn't a viable strategy,' said Tim Smith, Firstsource, one of the biggest debt collection companies. Lenders are reluctant to admit they will accept less than full payment, lest they encourage good customers to stop paying what they can. Industrywide data is scarce. Unlike the huge mortgage loan modification programs that are taking place, which address thousands of mortgages at once, workouts for credit card customers are still being handled on a case-by-case basis. In addition to debt forgiveness, debt collectors are allowing many delinquent

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borrowers to pay down their debt over the course of a year rather than the standard six months. Paul Hunziker, Capital Management Services, said that before this downturn, his firm put only ¼ of all borrowers into longer-term repayment plans. Now, it puts ½ on such plans. Some lenders are also reaching out to borrowers shortly after they fall behind on their payments to try to avoid having to write off the account. Others are reaching out to customers who seem likely to fall behind. Just as lenders competed for years to be the first card to be taken out of the wallet, they are now competing to be the first ones paid back. & realizing that millions more consumers are likely to default on their credit card bills in the coming months, the banking industry has started lobbying regulators to make it more advantageous to lenders to extend payment terms or forgive debt. In an unusual alliance, the Financial Services Roundtable & the Consumer Federation of America proposed a credit card loan modification program, which was rejected by regulators. Under the plan, lenders would have forgiven 40% of what was owed by individual borrowers over five years. Lenders could report the loss once whatever part of the debt was repaid, instead of shortly after default, as current accounting rules require. That would allow them to write off less later. Borrowers would have been allowed to defer any tax payments owed on the forgiven debt. Landmark changes to bankruptcy legislation passed in 2005, for which the industry aggressively lobbied, seem to have hurt card debt collections. Credit card industry data indicate the average debt discharged in Chapter 7 bankruptcy has tripled since 2004. & in Chapter 13 bankruptcies, secured lenders like auto finance companies routinely elbow out unsecured lenders like card companies, trends that have contributed to the card lenders' willingness to settle. Borrowers should not expect sweetheart deals. Card companies will offer loan modifications only to people who meet certain criteria. Most customers must be delinquent for 90 days or longer. Other considerations include the borrower's income, existing bank relationships & a credit record that suggests missing a payment is an exception rather than the rule. While a deal may help avoid credit card cancellation or bankruptcy, it will also lead to a sharp drop in the borrower's credit score for as long as 7 years, making it far more difficult & expensive to obtain new loans. The average consumer's score will fall 70 - 130 points, on a scale where the strongest borrowers register 700 or more. For the moment, it may be easier for troubled borrowers to start negotiating a modification by contacting the card company or collection agency directly. Credit counselors can help borrowers consolidate their debts & get card companies to lower their interest payments & other fees, but they currently cannot get the loan principal reduced. Another option is for a borrower to sign up a debt settlement company to negotiate on her behalf. But regulation of this business is loose, & consumer advocacy groups warn that some firms prey on troubled borrowers with aggressive marketing tactics & exorbitant upfront fees.