Harland Clarke / EFT Webinar 4/14/2013
Card@Once In-branch Instant Card Issuance
TRANSCRIPT

Greg Kuyava, Manager of Sales, Card Services, Harland Clarke
Tom Hedrich, Vice President of Business Development, EFT Source

Andrea (Operator): Good day ladies and gentlemen, and welcome to the Harland Clarke *Card@Once In-Branch Instant Card Issuance Webinar*. As a reminder, today's conference is being recorded. It is now my pleasure to turn today's call over to Greg Kuyava. Please go ahead.

Greg Kuyava: Thank you, Andrea. And, thank you, everyone for joining us today. As, Andrea has mentioned, today's call is on our instant issue solution called "card issuance". There will be two hosts for today's call – myself, as well as, Tom Hendrich.

The format for the outline for today's call will be simple. We are going to provide you some simple market insight into instant issue and what your customers may be looking for. We will then get into more details as options for this type of service. And then, we'll do a much deeper dive into to the product and service of Card@Once.

My name is Greg Kuyava. As I mentioned, I will be one of your hosts for today. I am with Harland Clarke Card Services. Many of you may be very familiar with Harland Clarke as a leading check printer, as well many of our other products and services, from marketing services, to opportunity analysis and market research, as well as electronic marketing and statements. Some of you maybe knew that we are also a card provider offering and manufacturing personalization and prepaid cards.

We're very excited today to present to you our instant issue solution and our partner in this endeavour, EFT Source. I'm going to turn it over to Tom Hendrich – oh, one more thing I need to note.

At the end of this presentation, we will be taking questions. There are two ways you can submit a question. You can either do it through the chat room by typing a question, or – and please, type it to all the panellists; or via the telephone. Andrea will come back at the end of the session, and give you instructions on that.

With that, I'm now excited to turn this over to our partner in this Instant Issue Solution in Card@Once , EFT Source's and the V.P. of Business Development, Tom Hendrich. Tom?

Tom Hendrich: Thank you, Greg. I appreciate that and, again, this is Tom Hedrich with EFT Source. I am responsible for sales and business development. I have been at EFT Source for about eleven years. We are a privately held company that's been around since 1977; headquartered in Nashville, Tennessee, with the second site in Colorado Springs.

We are focused exclusively on serving the secure card personalization needs of the financial institution services industry, so our VISA / Mastercard / Discover certified. We stared the service bureau, and we have grown into the card issuance business, if you will.

We support about three thousand financial institutions nationwide and a variety of strategic partnerships, of which the Harland Clarke relationship is one of our most critical and significant.

With that introduction, I'll go to the next slide and – a few of the takeaways, again, I trust that you all can read and see this clearly on the presentation. I just want to talk about a couple of high level points on this.

I think one of the key things that we talk about is the financial institution, and again, how significant the branches remain in the distribution of services to your customers.

A couple of key points come out of some of the recent research that we have uncovered and experienced. 74% of the account openings still take place in the branch; a lot of dialogue about online ordering and opening up accounts. But, again, the vast majority of them are still done within the branches.

We are living in a period of time, I guess if you will, where the world is measured in milliseconds. And, consumers, waiting for their cards, is no longer a very good alternative. They don't like waiting five to ten days for a card, or longer from that stand point. Again, the opportunity to enhance services, I think, that can convenience the customer is a significant part of this.

Challenging economic times – I really don't have to tell you about that. I think you know the regulations and the uncertainty in the market place is driving a lot of our activity in the market place. It makes it very difficult to kind of differentiate yourself and attract new customers.

One of the key things coming out of the instant card issuance is the overall experience of the customer. And, Greg, if you have anything to add, please jump-in as you see fit along the way.

Greg Kuyava: Sounds good.

Tom Hendrich: Next slide…Why instant issuance?

It's been out in the marketplace for probably twenty-plus years. We've moved in to the instant issuance market in the last year and a half, and our strategic alliance with Harland has helped us a great deal with that.

I think clearly we talked about or alluded to our previous slide the improved cardholder experience. The customer likes to walk out with a fully personalized active card. That does a couple of things beyond just the enhanced experience. We're talking about activation rates; probably in the 95% area overall.

And, utilization, in a recent study by one of the installations that we have, 90% of the customers use the card in the first eight hours. Again, talking about activation utilization, security is improved as the card is not going in the mail, so it will not be lost or stolen. In fact, you're handing it to the customers in that point in time.

If you're talking about activation utilization, at least you'll up profitability associated with interchange fees. Typically, you're picking up about five or six days of activity, where the card and PIN perhaps are in the mail. And, in this case, they're activating and using in the first eight hours.

We have a lot of people using it all, so there are a lot of customers using it for the emergency card replacement, lost, stolen, compromised cards – telling a customer that a compromised card would

take about five to ten days to replace is not a very positive experience. Again, enhanced experience with that, and reduced expense associated with that. Typically, those full and expedite cards can cost financial institutions $25 to $40, so it's an expensive alternative that can be replaced with the instant card issuance solution.

Competitive advantage – more is being written daily about this – I think JP Morgan Chase, November of last year, announced their plan to move instant issue into two-thousand branches. If it's not in your area yet, it's probably coming. I think it needs to be on the radar r elative to your thoughts and strategies, and supporting DDA and acquiring new customers.

Greg Kuyava: And Tom, I think that competitive advantage is a great transition into our next two slides. From a competitive standpoint, instant issue has always been a large financial institution, product, and service. There are a number of reasons for that, and what we're going to cover here is what does the market look like today from options?

As Tom has mentioned, instant issue has been in the market for twenty-plus years, but it's been basically one-solution – multiple companies providing basically the same solution.

It's been a software-for-sale solution. Meaning, in order to get into instant issue, they require the financial institution to purchase a large software package up front. They require them to either dedicate or purchase a server in order to process that card. Then, there's always the hardware that actually prints the cards out.

In essence, the financial institution is setting up a mini card-processing business or facility within their own financial institution. The onus of setting up that mini card-processing company within your financial institution falls on your own resources, your operations and your I.T. department. Then, the ongoing expense of having to maintain updates to the software; implementation of the software – if the system is down, maintaining that – also, is on the financial institution.

So, what it came down to at the end of the day is: could you make the significant investment up front? If you checked that box off "yes", could you continue to make the investment and resources internally both personnel? And, could you maintain and manage the system moving forward?

All that have really changed in the last couple of years, in particular with what we've been able to bring in the market. The different way of looking at instant issue is that the software for sale is no longer your only option; we now provide a software-for-service.

The biggest benefit to this is we eliminate the actual software purchase upfront. We're actually going to be providing a web-based solution, a web-based platform that does not require you to implement and use your I.T. resource to set this up. We actually use the dedicated server within our own VISA and Mastercard certified facilities, so there's no need for you to set up this internal card-processing facility within your F.I. And, the ongoing maintenance – we handle that for you as well.

So, there's no large investment software up front, no large I.T. investments in trying to put this program together, and no ongoing maintenance to the system. We really have changed the dynamic around instant issue, and we changed the dynamic on who can operate and issue. It's no longer a "JP Morgan Chase" product and service. It's now affordable for the community size financial institutions, as well.

With that, I'd like to transition to more specific details around Card@Once.

As I mentioned, there is no software purchase for our program. You will be purchasing hardware that includes the printer, the router and the firewall. It's a single unit. It has a security USB drive that drives the encryption that is within the printer, itself. There is no sensitive card information that is housed in the actual unit. There are no service contracts or marketing or maintenance agreements that are being signed.

You simply have your upfront cost of the printer, and then your ongoing consumables – your card stock, ribbon, and how you're going to manage the inventory. We also provide cardholder selected PIN solutions if you don't currently have that, so we can also enhance how your cardholder is selecting their PIN ongoing.

And then, as Tom had mentioned, we are a full, ongoing personalization provider, so not only do we provide the instant issue solution to distribute the cards in new account openings side of it, but we can also handle that card order from cards that are about to expire on a monthly basis. You can consolidate the number of providers you have for your card program. The other software for purchase solutions – they're not personalization providers, so they cannot handle that back-in monthly reissue card orders.

I'm going to transition this over back to Tom to give us some more details specifically about Card@Once and why this is such a great solution.

Tom Hendrich: Thanks again, Greg, I appreciate that.

Moving along, we've been in the market about eighteen months or a little bit longer than that, in our partnership with Harland Clarke. We're having good success. We're over four hundred and forty installations today, probably another hundred in the pipeline, and another fifteen-hundred that are in the decision-making process or evaluation process.

That gives you some idea of the kind of traction that we're getting in the marketplace. Why are we experiencing that? I think this is really a summary of that. We're late entry into the market– it's been around for twenty years– we're using the latest technology, the greatest software-as-service model overall. These are some of the direct outputs associated with that.

It's simple and easy to operate. We have never been on-site to do an install. We coordinate that in doing a conference call, basically, so you don't need people on-site. There's very little training, and it's very intuitive.

From a service standpoint, we've had great reliability in the equipment. There's a three-year warranty to it, and it's good for three-hundred-thousand cards. If you're looking at your branch activity, you get some sense for how long we're anticipating this equipment being reliable and good for you.

It's a very small footprint. Again, you're not buying a server and building a network. It is just the printer that we are driving remotely. The entire system is PCI certified, so all the data is never in the clear, from the point of entry to the point when it is transmitted to us over the internet. It's all encrypted, and it passes the PCI certification process.

Quite frankly, it's the most economical in the market today. With that, I'm going to talk a little bit more about the process and how it works.

What you see here is basically the stand-alone ordering solution. You would actually have a user name and password; come to our web portal service that is all secure; enter the card data, and that card data consists of the cardholder name, PAN, and if there's a selection of the PIN associated with that will generate the offset, and provide that back as a refreshed file overall.

It's very simple. We work with you in that data entry screen. We pre-fill the first six digits or the BIN number, and you're really entering the last ten of the number. We also have a check-digit routine to prevent any transposition of that.

Transmit the data to us. We pull it in behind our firewall, and enhance it with the CVV values and the offsets. We send the print message back to the printer, and it outputs the card. Once the card has been successfully printed, we close the loop to you that the card has been issued. Then, we move into the activation of it.

That very simply is why we have the traction and how it works. Greg, I'm going to turn it back to you for summary.

Greg Kuyava: Thank you, Tom. And, I just want to hit upon one more thing about the PCI certification; again, differentiate with our program versus a lot of the others.

A lot of the other programs will be PCI compliant. Meaning, the pieces, the product that they provide, is fully compliant with all PCI standards and regulations. However, because we take ownership of accepting the order from you, processing in our facility and communicating it back to the printer, we actually own the whole process. This means that we can go from a PCI compliant program to a fully certified program, where we take the responsibility on an annual basis to go through that audit.

The other programs out there that are PCI compliant – the onus, once again, would fall on the financial institution if they wanted to be able to show a fully PCI certified solution. At the end of the day, you're the one responsible for setting up the program internally. That would mean that you'd be responsible to go to the actual audit and the expenses that come along with that. The security on our program – meaning the certification around it – means the PCI standard is higher than a lot of other programs that are out there.

Some of the printing options available – we actually have two printer options. The first printer option simply utilizes the black ribbon. You would host pre-printed card stock in the back of the printer that is fully locked down. What we would then do is we would thermal print right out into card, itself, the PAN number, the sixteen digit account number, the individual's name, the expiration date on the front.

Then, on the backside, we could put the CVV or CVC – the three-digit security code. Both the front and the back will have a protective overlay that protects the very sensitive card information. With the black printer, you can expect about two hundred and fifty cards for each black ribbon.

The other printer that we provide is a CMYK four-color ribbon. We use this four-colored process. We call that our "edge-to-edge solution". What's utilizing in this particular card printer is a white

card stock that has the association logo, the hologram, and the signature panel on the back. Then, we would print on demand from a library of pre-designed cards that the financial institution has created. That would print on the card.

As part of the new account opening process and as part of the new account opening experience, not only would they be receiving their card at the end of the account opening process, they can also select which photo or which design they want to have their card printed on it. Again, we print not only the image itself, but the account number, the individual's name, the expiration on the front; we can print all the network logos, terms and conditions on the back, as well as the three-digit security code. Once again, in this process, there is a protective overlay that goes on both the front and the back to protect that information.

Last but not least, additional considerations for our particular program, as we transition into our next slide – where you want to put the machines, and have web portal access.

One of the benefits to our system because it is web-based, there are no licensing agreements, and there are no licensing seats that you need to purchase. As long as the individual has access to the internet, you can have unlimited number of employees having access to the system, allowing them to create new cards – maybe for auditing purposes, for inventory, or just simply maybe administrative maintenance. You could do that.

You kind of want to determine what your access to the portal is going to look like. Is it going to be one printer per branch, or is it going to be one printer that's going to service a particular region or multiple branches – kind of a hub and spoke.

The other thing that you'd want to consider is where you're actually going to get this pertinent card information that we need in order to process it – the PAN, the sixteen-digit account number, the cardholder name, and the expiration date.

Lastly, what you want to do from allowing that cardholder to select their PIN. Is there an existing system that you have in place that can be utilized with Card@Once? Or, are you going to utilize our PIN pad solution?

The EFT processor system considerations – is that where your new account opening platform resides? Is that where you're going to get the PAN; how the PIN offset that is being generating with this card is going to be communicated?

Also, you want to make sure that as the new card order is going through instant issue, you communicate to the EFT processer a "do not mail" indicator letting them know that this card has already been distributed; that they need to activate that.

Last but not least, if you're going to use our edge-to-edge solution and you're going to allow that cardholder to choose from a multiple set of images, you'd want to do some kind of image indicator field to the E.F.P. processor. So, two years in the future, when that card is about to expire, you can then have that same image printout for that particular cardholder.

Then, how are you going to handle the re-issue considerations?

With that said, that concludes our comments and the presentation for today. We are now going to open it up for some questions. Andrea, if you won't mind coming back on and giving everyone some instructions on how to queue up on the phone, and we'll start looking at the questions that are coming through on the chat line.

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Q&A

Andrea: Thank you so much everyone. At this point, if some of you would like to ask a question via the phone line, you can do so now by pressing the star key and followed by the digit one on your Touchstone phone. If you are using a speakerphone, we do ask that you pick up your handset to press your mute function to allow your signal to reach our equipment.

Once again, that is star-one to ask a question via the phone line. We'll pause for just a moment to give you the chance to signal. While we wait, do we have any web questions?

Greg Kuyava: Yes, we do, Andrea. I appreciate that, as our phone lines are queuing up. There's a first question coming in. Tom, I'll let you handle this one, but I'll read it out.

"The assignment of PAN, CVV codes, and PIN offset must be integrated with host core provider. How does this solution interface with host, and in this particular case, with FIS?"

Tom, if you won't kind of describing how the information is pulled out and how we put it back into it; that would be fantastic.

Tom Hendrich: Yes, I think kind of directly heading that on, we have roughly one key core integration today with the company CSI. We have a number of integrations in development. One of them is with FIS, but it's their Horizon platform, so I don't know what FIS platform is being referenced here.

The integration, again, is a web service. I've had a very small financial institution write their own. I'm not a programmer; I can't write code. But, part of the web service magic is that it's free and easy to do. Basically, the individual's taking the data off the core platform, which will be the numbers identified here – the PAN, cardholder name, and expiration date, depending on what they're doing with the PIN – and then I provide a refresh-back to that.

Once I provide that back to the core, there is an activation message sent. I think that's what's being asked, and that's our best answer to that. Do you have anything to add to that Greg?

Greg Kuyava: Yes, and thanks Tom for that response. What I want to add is the functionality of Card@Once, and what it allows for this non-integrated solution. What that does is that an integrated solution will require additional I.T. resources to connect the integration with that core provider. And, in order to set up that integrated solution, there may be additional cost on the core side.

A fully-integrated solution may require additional I.T. resources, as well as additional out-of-pocket expenses, either from a onetime set up or it could even be an annual. Our non-integrated solution is one possible way to handle instant issue providing the benefit of not having to worry about that.

Three simple pieces of information – that's already provided from you card-ordering platform. PAN, name, and expiration date, less than twenty seconds of data entry – we fully calculate and verify that the PAN is correct, and an immediate notification will be sent back if it was entered incorrectly, which allow that employee to then re-enter that order.

So, non-integrated solution can be just as convenient as an integrated solution, and it can save time and money up front. I just wanted to add that comment there.

We've got another question. "Can the cardholder picture and signature be incorporated into this process?"

I'm going to answer this in two ways. First way is an individual picture of a cat, dog, kids baseball team, kids dance class, favorite vacation spot – the system itself has the capability to do that, however the Card@Once solution does not have that functionality with it.

Harland Clarke, along with EFT Source does provide that opportunity for you to put a picture of your cat or dog on the card through our standard service bureau personalization process. We'd be more than happy to set up a one-on-one call and talk you through that. However, within the instant issue solution, that is not available. At this time, it also does not allow for the cardholder picture and signature to be incorporated from a security standpoint.

Tom, do you have anything you'd want to add on that?

Tom Hendrich: That's really good. Again, we do have a photo I.D. solution that can go on the card. It's just not been linked to the instant card issuance solutions. It involves a webcam to capture the photo I.D. and reference number being assigned, taking that data and outputting it on the card. It's a late 3rd quarter or 4th quarter enhancement that we're working on, of this year.

Greg Kuyava: Okay, excellent. There was another question.

"What is the cost for the program?"

What we can do is we would ask you to reach out to your Harland Clarke representative and we'd be more than happy to send you a full schedule of our pricing. I know that we're coming down to the bottom of the hour. I want to see, Andrea, if anyone has queued up from a telephone standpoint. We'll maybe get those questions, and then we'll get back to some of the chat questions, as well.

Andrea: We currently do not have questions on the phone line, but once again ladies and gentlemen, that is star-one. Let's take some more web questions.

Greg Kuyava: Excellent. Thank you, Andrea. Tom and I will stay on the phone and get to as many of these questions as we can. It looks like we only have a couple left, so certainly feel free to continue sending those.

Another question is, "Would there be support for the branches if the branch printer breaks down for some reason? Would you be able to call for immediate assistance, or manually order the card for the customer?"

Tom?

Tom Hendrich: Yes and yes.

[laughter]

I'll take the second part of the question first. The ability to order manually is still there. That's one of the benefits of being a service bureau as our core, assuming again, that I have a transmission or a batch transmission either coming in nightly or daily. You can always opt for that, and we can fallback to card-in-the-mail.

But, the key thing on support for Card@Once is that you will have a 1-800 technical support number to call. We're monitoring the entire network at all times. We're doing the network monitoring and network support. I can see every printer that I have installed on several large Google Maps. The dots are green when I'm connected and when I have the internet connectivity to it. The dots are jumping when I print in a card. And, they're red, when I have a problem.

We'll be proactive and we'll call you to try to bring the printer back online. If we can't get by that, then we'd get on the phone or you'd get on the phone with one of our technical support persons. We'll troubleshoot it. If we can't fix it in a half hour over that conversation, we can FedEx out another printer. That is called rapid-replacement rapid-support, and that's what's behind it all.

Greg Kuyava: Excellent. Thank you, Tom.

Tom Hendrich: Sure.

Greg Kuyava: A couple more questions –

"The way you would handle an auto re-issue card with the same image – they choose an edge-to-edge. All they have to do is select an edge-to-edge."

This is more of a comment than a question but I just want to stop and talk about this again. If you're using our edge-to-edge solution and there are multiple images that the cardholder can choose from – you will want to coordinate with whoever is handling the monthly re-issues – some sort of design I.D. that identifies the card design that they chose when they first opened up the account.

When the time comes to re-issue that card, that file automatically generates two years or three years down the road, that design I.D. is already within that file. Then, whoever's handling your card re-issuing at that time, will simply be able to indicate which image they chose two years earlier, and make sure that that gets printed on the card, and it goes forward.

There's a question, "Will this support EMV cards in 2015?"

It's coming in from a couple of people. Tom, would you like to give us an update on EMV?

Tom Hendrich: I sure will, Greg. Thanks. Yes, in fact, several of the printers, I think we're up to about forty that we already have in stock, are prepared to support EMV. Our first EMV live clients were actually running on this technology. That is the plan.

The source for this printer is a French company. It's been around for twenty years, and they are very familiar with EMV / EMV contactless dual interface cards. That was one of the decisions we made when we looked for a partner for the hardware; they'd had experience with that. Yes, it will be positioned, and we will be positioned to support EMV.

Greg Kuyava: That also handles one of the questions that came in which is, "Will you be able to switch to the chip-based cards in a few years?"

We'll be well ahead of a few years. In just in the industry standards, so everyone on the phone knows. What we're hearing out of Mastercard or VISA is that there's a six-month queue in order to even to just start the process. If you are considering EMV and you need to get that up and running, it will be pertinent at this time to start working with your card association to move through the waiting process, so you can start that, which is about six months out now at this time.

That may change from month to month – how long that timeframe is – but that's what they're sitting at.

There's a question; "Can this only be used for new accounts and emergency cards only?"

Replacement cards, card breaks, card – for whatever reason comes down – certainly can be used as replacement card. Most Card@Once or instant issue solutions are an inefficient way to handle monthly re-issues, simply from the standpoint of – You need to constantly monitor if you're going to send through it a large number of cards to it one time. If you're thinking of handling your re-issues on a monthly basis, and you've got hundreds or maybe even thousands of cards that are going through, you need to dedicate the resource to not only watch the machine and make sure that nothing happens to it while that large order is going through, but now you have to manually handle those cards. Put them in envelopes and make sure they get sent out in the mail; all of that type of thing.

The recommendation is always to instant issue, emergency replacements, lost or stolen cards, broken, new card orders where the cardholder is sitting there at the new account opening. Allowing your re-issue partner, which could very well be Harland Clarke and EFT Source, to handle the monthly re-issues or even incursions. Large incursions where there might be tens of thousands of cards being sent out – those type of things.

Let's see, "Will the banks still need to audit the card stocks to comply with PCI for what happens at the branch?"

There is a series of regulations that VISA and Mastercard put in place and rules that you need to follow in order to handle card stock within the branches. When considering instant issue, those will be part of the discussions – how we're going to handle inventory, not only from what we keep internally as extra inventory, but also how we're going to handle it when we need to replenish the machine.

Often times, a lot of those procedures and processes that you need to put in place are already in place with the way that you're handling cash. Those are all handled within the regulations VISA and Mastercard set forth.

I'll check the phone line one last time. Andrea, is anyone queued up?

Andrea: We do not have any questions via the phone line.

Greg Kuyava: Okay. And, I'm looking over the list of questions. There is one question here.

"I assume the card is only live if synched with a PIN."

Tom Hendrich: Greg, I think to give insight into that, there is an activation part, depending on what the EFT processer is. What I have learned in the last eleven years is that there are all kinds of alternatives and how that initial record is loaded and activated. I think that would have to be a specific conversation with that financial institution and the Harland Clarke representative.

Greg Kuyava: Excellent. With that settled, it looks like we made it to all the questions on the chat. I want to once again – Tom, thank you for your time and for being my co-host today. I certainly want to thank the attendees on the call, and sticking with us through this whole time, and all of your great questions. We will send out a PDF of this presentation to you in the next couple of days. For those that are requiring additional information and would like to take a deeper dive, please contact your Harland Clarke account executive; we'll be more than happy to send out that information.

Tom Hendrich: Thank you, Greg; thank you all for participating.

Andrea: And with that, once again ladies and gentlemen, that concludes today's call. Thank you for your participation, and have a great day.