

File -
Debit Card -
Forbes Article

Zent, Carol

From: Zimmerman, Nancy
To: Beidler, Melissa; Havenor, Linda; McMahan, Pat; Ramage, Michelle; Mueller, Susan; Zimmerman, Nancy; Edwards, Irene; Schall, Fran; Zent, Carol; Williams, Terry; Tindal, Dawn
Subject: FW: Forbes article on debit cards - and Visa response
Date: Thursday, December 12, 1996 8:55AM
Priority: High

From: Jones, Greg
To: Zimmerman, Nancy
Subject: FW: Forbes article on debit cards - and Visa response
Date: Wednesday, December 11, 1996 4:26PM
Priority: High

Attached is a copy of the December 2, 1996 Forbes article that misleadingly condemns debit cards as a risky proposition. Despite the fact that Visa provided the reporter with good information on the debit market and the growth of Visa check card in particular, the reporter editorialized and produced a one-sided and inaccurate story that will serve to scaremonger rather than educate.

I have also attached Visa's response to the Forbes reporter. After speaking with Michael Beindorff today, we believe it is important to encourage all Visa account executives to speak to their debit issuing banks to urge them to write to Forbes to condemn their misleading reporting. If a number of banks weigh in heavily, we hope to make a strong point with Forbes and may be able to ask them to revisit the issue.

Visa U.S.A. Corporate Relations would be happy to assist interested members - or members may wish to take their lead from the Visa letter attached. Please don't hesitate to contact Susan Forman - 415/432-3510 - if you have questions.

Thanks for your help.

1: FORBES ARTICLE:

Banks are pushing new ATM cards that double as a Visa or a MasterCard. Avoid 'em.

Carte blanche for crooks

By Alexandra Alger, Forbes, Dec. 2, 1996

CHANCES ARE that yet another chunk of unsolicited plastic has popped up in your mailbox. It is not just another credit card. It's a combination new ATM card and charge card. You can use it to withdraw cash from automated teller machines, as you do with your current ATM card. Or you can use it to charge purchases, without having to use your PIN(personal identification number).

"It's as convenient as a credit card, but it's not credit! The amount of your purchase is immediately deducted from the

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Fran Schall

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balance in your checking account," says the brochure sent out by one major bank. And therein lies the danger-it's a debit card. We don't like it for three reasons:

It could give a thief carte blanche to your checking account. In case of fraudulent use of your debit card, you are the one who is instantly out-of-pocket, not the bank. You may have to fight the bank to recover your money, and you could lose it completely if you don't report the loss right away. Meanwhile, your bank balance and credit line could be depleted, and your checks could be bouncing all over town.

You lose the credit float, of 30 days or so, that you get with a zero-balance credit card.

You lose the option of withholding payments-important leverage in case of disputed charges.

Banks are flooding the mails with these new cards. Visa has launched a multimillion-dollar national TV campaign to promote its debit cards, starring football superstar Deion Sanders. Some 4,000 U.S. banks, S&Ls and credit unions are issuing MasterCard- and Visa-affiliated debit cards-double the number of a year ago. Most of the nation's biggest banks have already joined the party, including California's Bank of America and New York's Chase Manhattan Corp. (to its new Chemical Bank customers). Citibank is planning its blitz next year.

For banks, what's not to like? Merchants pay card issuers an "interchange" fee-typically 1% to 2% of the transaction value. Some banks even charge customers \$1 to \$1.50 a month just to have the card.

Debit cards also help wean bank customers from costly check-writing. It costs banks \$1.10 or so to process every check, but only 27 cents to handle a debit card transaction, says Edward Neumann, director of Dove Associates, a bank consulting firm in Washington, D.C.

Bankers insist that the cards are good for customers, too. "The key is convenience-that's what we're selling," says John Russell, a spokesman for Banc One in Columbus, Ohio, the first bank to offer a debit card and now the largest issuer of them (over 4 million).

But we think this convenience comes at too high a risk. Some debit-card crooks are subtle. They'll use swiped debit cards occasionally, charging up relatively small amounts. As long as the account holders overlook the charges on their bank statements, the party continues. The thief has a kind of annuity.

Roy Funderburk Jr. learned about this the hard way. The 53-year-old mail carrier from Alexandria, Va. was going over his bank statement when he noticed two debit-card charges in one day at an Exxon station he occasionally used in Washington, D.C. That sent him back to statements for previous months. What he found were \$1,000 in bogus gas station charges made over a nine-month period. No charge was more than \$20. He hadn't lost his Visa debit card, so was baffled about the misuse.

Funderburk's branch manager at American Security Bank (now NationsBank) told him not to worry, he would be reimbursed for his losses. But a month later Funderburk got word that he'd only be recompensed for the fraudulent charges made within the previous 60 days-\$247. He was out \$761. Funderburk was furious. He went to the Washington Police Department, the Secret Service-even the FBI. The latter two told him they only looked into cases involving at least \$5,000.

Finally, on the advice of a lawyer, he took the bank to small-claims court. He struck out there, too; the judge shook his head and told Funderburk the bank didn't owe him anything under federal bank rules, and there was nothing he could do.

The story has a happy ending. Out of the blue, an American Security lawyer called Funderburk about settling. Funderburk said he just wanted his money back, without interest. Fine, the attorney said. Within hours the money was back in his checking account. But what an ordeal!

How had the thief pulled off the thefts? All he needed to get started was the number on Funderburk's debit card, perhaps from a discarded receipt. A phony card could be made, using that number.

Still, Funderburk was lucky. Banks will normally assume liability for fraudulent use only if you notify them within two days after you miss your card. In that case your loss is limited to \$50-often, you won't be charged at all. But wait any longer, and you could be liable for as much as \$500 of your own checking account losses. If you fail to report the fraud within 60 days, the bank doesn't have to give you a cent.

Your chances of getting hit are uncomfortably high. Last year Visa and MasterCard issuers shouldered \$19 million in fraud-related losses on their debit cards, says the Nilson Report, an industry newsletter in Oxnard, Calif. PIN-related ATM fraud accounts for \$100 million to \$200 million in annual losses.

That is small potatoes compared with the estimated \$3 billion in annual credit-card fraud losses (Forbes, Aug. 26). But, says John Wisniewski, a postal inspector in Pittsburgh: "The bad guys are just starting to figure out how to misuse them."

One of the more ingenious ATM scams involved a bogus telephone. At an ATM in Miami, Fla. crooks put plastic sleeves into the card slots. When customers saw their cards were swallowed by the machine, they picked up the telephone provided to dial the posted customer service number.

But the phone was provided by the thieves, and the posted number put customers in touch with a thief, not a bank employee. The thief then asked customers for their PIN as identification and promised that replacement cards would be mailed out in a matter of days.

The crooks then plucked out the stuck ATM cards with tweezers and were off to the races.

Our advice is to avoid the ATM-debit card. When your ATM card expires, request a simple replacement instead of the new combo card you'll be mailed. In our view, the risks of the combo far outweigh the potential rewards.

2) VISA RESPONSE:

December 4, 1996

Ms. Alexandra Alger
FORBES
60 Fifth Avenue
New York, NY 10011-8802

Dear Ms. Alger:

I am writing in response to your December 2 article, "Carte blanche for crooks," which provides a predominantly one-sided and misleading view of check cards (also known as debit cards).

First and foremost, you perform a great disservice to your readers in not mentioning any of the following benefits check cards offer as a convenient alternative to cash and checks:

- * Faster than writing a check;
- * Eliminates need to use up cash/carry cumbersome checkbooks;
- * More private since personal information such as phone number, driver's license and address are not required for transaction authorization as with a check;
- * Easy to use when travelling since check cards can be used at the more than 13 million locations Visa is accepted worldwide (in the case of the Visa check card) -- unlike checks, which are difficult to use out of state, let alone out of the country;
- * An asset for personal financial planning, since every transaction appears on the cardholder's periodic bank statement, which means that cardholders are able to keep better track of expenditures when using the check card

instead of cash.

Second, you describe a check card as "a combination new ATM card and charge card...you can use it to charge purchases, without having to use your PIN." This statement is misleading because consumers do not "charge" purchases when they use a check card, as they would with a credit card. Instead, the check card provides a convenient alternative to cash and checks by allowing consumers to access their checking accounts to pay for goods and services at the point of sale. The amount is deducted within one-to-three days and is reflected on the cardholder's monthly checking account statement.

Third, you state that check cards "could give a thief carte blanche to your checking account." As with any bank-issued card, cardholders must take care to ensure proper and careful usage at all times. Part of the responsibility that comes with plastic bank cards, be they credit, ATM or debit cards, relates to responsible usage and accountability. While check cards can be susceptible to some of the frauds that occur with ATM or credit cards, cardholders can substantially reduce that risk if they are careful. By reporting the loss or theft of a debit card to the issuing financial institution in a timely manner, cardholder liability is minimal. In addition, if cardholders make certain to check their periodic bank statements against their check card receipts, errors can be detected and fraud will be deterred.

Fourth, you say that consumers "lose the credit float, of 30 days or so, that you get with a zero-balance credit card." Check cards are not meant to replace credit cards, but rather to supplement them by providing consumers with another payment option. Check cards provide a convenient alternative to purchases for which consumers would otherwise use cash or checks.

Fifth, you claim that with check cards, "you lose the option of withholding payments - important leverage in case of disputed charges." In fact, while Regulation E - set by the Federal Government to govern debit card (or electronic funds transfer) transactions - does not require that financial institutions resolve errors involving disputed transactions with a merchant, Visa provides a great deal of protection in this area through its problem resolution facility (Chargeback) found in its Operating Regulations. Visa works with and encourages its check card issuing members to take advantage of this facility, thereby giving consumers increased purchasing protection.

By way of background, Visa USA Operating Regulations outline procedures for financial institutions when returning a disputed or incorrect transaction to a merchant. These Regulations apply to both Visa credit card and Visa check card (debit) transactions. Visa Operating Regulations will support an issuing financial institution charging back transactions on behalf of its cardholders in situations where the dispute arises from the merchandise being defective or not as described. Most financial institutions take advantage of the flexibility of the Visa Operating Regulations in order to provide the best possible customer care. If a cardholder uses a check card to pay for merchandise that turns out to be defective, he or she must contact the merchant for a refund. The financial institution issuing the card may be of assistance. It is important to note that, if the consumer had paid with cash or by a check that had already cleared and could not be stopped, the consumer also would have to deal with the merchant.

Sixth, you mention that "Some banks even charge customers \$1 to \$1.50 a month just to have the card." While some banks do charge a nominal fee, many consumers find it well worth it in view of all the benefits that check cards deliver to consumers. And, if a consumer prefers not to pay the fee, he or she has other payment options, such as cash and checks.

You conclude your article by advising consumers to "avoid the ATM-debit card...the risks of the combo far outweigh the potential rewards." But, how can your readers make an informed decision when you have provided no discussion of the "potential rewards" (such as time savings, easier travel, enhanced privacy) and only an exaggerated, misleading view of the "risks"?

Check cards provide a beneficial payment option for consumers: a convenient alternative to cash and checks. Since the key to a successful check card experience lies with consumer education, I urge you to provide your readers with a more balanced and accurate assessment of check cards and their features.

Please feel free to call me at 415/432-3510 if you have any questions or if I can provide additional information.

Yours sincerely,

Susan Forman
Director, Marketing Communications
Visa U.S.A.