

June 2009 Edition

Important information – Please keep this in a safe place

JOINT VENTURE EXTENDS EXCLUSIVE MARKETING RELATIONSHIP

I am pleased to announce that Global Payments has acquired full ownership of HSBC Merchant Services. The Global Payments' association with HSBC in the UK has developed into a 10 year marketing alliance designed to provide a wide range of high-value payment solutions and world-class service to our merchants.

With a provenly effective infrastructure now in place, both parties felt that this would be the opportune moment for Global Payments to take over full responsibility for the business to continue to focus solely on providing unbeatable payment processing services to our UK merchants and Internet merchants globally.

We remain a trusted partner of HSBC, who will continue to put all referrals for card acquiring services to us, and we continue to use the HSBC brand where appropriate.

All my employees remain in place and our senior management team has benefited from the move to the UK of our President of International Merchant Services, Joe Hyde, who has been with Global Payments for over 9 years.

What will our merchants see? A continuing commitment to service delivery that meets and exceeds your expectations enhanced by a single-stream focus on merchant services solutions.

Our support staff are available to answer any specific queries but, should you have any unresolved issues, please email me at enquiries.hms@hsbc.com.

I know this development will further enhance our infrastructure to allow us to continue to deliver the best to the people who matter – you our merchants.

Regards

Darren Wilson
CEO, HSBC Merchant Services



“ A continuing commitment to service delivery that meets and exceeds your expectations ”

THIS EDITION OF MERCHANT NEWS

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Economic Update

Written by Dennis Turner

Chief Economist, HSBC Bank plc

08 June 2009

Is the medicine starting to work?

Efforts by the policymakers to get the economy moving again and end the recession have largely focused on stimulating spending. All-time low interest rates and the fiscal easing are aimed at reducing the debt burdens and increasing the purchasing power of households and firms. But economists have always argued that it takes months (perhaps up to 18) rather than weeks for the full effects of such initiatives to feed through, so it is probably premature to make a judgement now on the effectiveness of the measures.

But there is an extra dimension to this recession. Even if firms' order books begin to fill up, they may not be able to step-up production without additional working capital to buy raw materials and cover the interval (sometimes running to several months) before they get paid. This credit typically comes from banks. Similarly, house prices and interest rates are now much lower than they were a couple of years ago, thereby improving affordability substantially. But if purchasers cannot get mortgage finance, prices will continue to fall.

Not only was the credit crunch instrumental in the precipitous slide into recession, but it will also have an impact on the pace and direction of recovery. The steps taken to boost economic activity will be blunted unless the banking system can be restored to something like normal health.

Turning on the tap

Having reduced the price of credit by cutting Bank Rate to just 0.5%, the MPC has been trying to ensure that the necessary quantity of credit is available. There is no point cutting the price if people cannot get the finance that they need, and so a bold programme of quantitative easing (QE) was announced in March. This took the form of purchases by the Bank of England from banks and other financial institutions of financial assets, mostly government securities. So far, the first tranche of £75 billion of electronically-created central bank money has been spent over the past three months, at a rate of just over £6 billion a week. The Bank has agreed to spend up to £125 billion, although there is provision to go up to £150 billion.

It had become clear from the Bank of England's quarterly survey of credit conditions and the monthly lending statistics that something more than interest rate cuts was needed. Following the turning-off the credit taps in the final months of last year, the early months of 2009 had brought little respite. At the same time, demand remained weak, and spreads were widening. Such a depressed credit market was likely to pose a threat to economic recovery.

“ As the pressure on the banks looks to be easing, so the general business climate now appears to be shifting very slowly ”

There is a widely held view that banks have been both unwilling and unable to lend – unwilling because of a deteriorating credit climate and unable because of liquidity constraints. This second problem looked like being aggravated by the exodus of foreign lenders from the UK market as the financial turbulence increased last autumn. The initial nervousness about the withdrawal of some foreign institutions from the UK, in particular the impact on lending to SMEs, is probably misplaced. Although foreign banks had played a major part in the pre-recession credit boom, much of their lending was concentrated in the property and retailing sectors. In both of these industries, the appetite for lending is now constrained and likely to remain so for some time to come.

A second reason why the absence of foreign banks may not be an issue is that UK banks were previously expanding overseas at about the same rate as foreign banks were growing in the UK. In 2005-06, for example, outstanding loans by foreign banks to UK residents increased by £83 billion while UK banks' lending to foreign residents rose by £73 billion. This international expansion is being reversed by some UK institutions, with the funds previously used overseas being available for the home market. But even if the withdrawal of foreign banks turns out not to be a major issue, there remains the role that will be played by secondary lenders, who were especially active in the mortgage and consumer finance markets. Looking into the medium term, the question is how much wholesale funding they will be able to attract.

Sentiment shifting subtly

As the pressure on the banks looks to be easing, so the general business climate now appears to be shifting very slowly, away from outright pessimism at the turn of the year to guarded optimism. Sterling has strengthened, gilt yields have gone up, equities have firmed and credit spreads have narrowed. And in the real economy, some crucial indicators are moving in the right direction. The closely-watched PMI surveys of business sentiment have improved steadily from the all-time lows seen at the start of the year. Indeed, in May the balance reported from the services sector topped the 50-mark for the first time in a year, indicating that activity had actually expanded. Meanwhile, both the Halifax and the Nationwide surveys reported a rise in house prices in May, while the high street is far from dead.

Overall, it seems not only that there are grounds for believing that financial institutions will be in a position to supply the credit to support an increase in demand for facilities from households and firms, but that the measures to stimulate demand are taking effect. The evidence remains fragmentary, however, and the jobs market and the parlous state of public finances remain major causes for concern. In addition, if the process of unwinding the QE programme is mishandled, the Bank of England could again find itself fretting about inflation. That, in turn, could translate into markedly higher interest rates, which could stifle the nascent recovery, leading to a 'double dip' recession).

But the fiscal and monetary stimulus has been unprecedented, and the initiatives to ensure the credit tap is turned on were timely and imaginative. Little by little, the conditions for a recovery seem to be falling into place. The recession technically could be over by the end of the year. ■



New product available - Electronic Management Information (eMI)

Knowledge is power

“ eMI is a brand new business tool from HSBC Merchant Services enabling you to manage your business on every level. ”

Electronic Management Information (eMI) is a brand new business tool from HSBC Merchant Services enabling you to manage your business on every level.

eMI allows you to view online electronic reports of your card processing transactions taken.

- Access is 24 hours x 365 days
- Completely secure and easy to access
- Track up to 6 months history of transactions
- Reports on all major card types including American Express and Diners Club
- Transaction data recorded from all card points of sale including internet transactions
- Filter and customise your own reports. For example you can export into Excel
- You gain greater control of costs and fraud.

eMI will be subject to a monthly fee included on your merchant invoice. The price is tailored to your business needs.

To find out more about how eMI can benefit your business and/or to apply for this tool, please call us today on 0845 702 3344*.

*Lines are open every day (except Christmas Day) 8am to 11pm Monday to Saturday. 10pm to 5pm on Sundays and 10am to 4pm on public holidays. Communications may be monitored and/or recorded.



New Card from Visa

Introducing V PAY.

The new chip and PIN only European debit card from Visa.

Providing merchants with maximum security.

What is V PAY?

V PAY is a new European Visa debit card solution from Visa. A V PAY card is a Chip and PIN only debit card. It complies with the highest security standards for a cash-free payment.

Currently 40 banks in nine countries (including France, Germany and Italy) are aiming to issue 41 million V PAY cards.

What this means for you

As the issuance of these cards across Europe increases, you can expect to see this card type presented more frequently.

If you rent a terminal from HSBC Merchant Services, you will be pleased to know it has already been enabled to accept V PAY cards*.

To maximise your acceptance channel, all you need to do is display the updated decals enclosed with this newsletter, as the V PAY image is included within these decals.

Displaying this distinctive logo in your window, and at your point of sale, is a great way to advertise to our European visitors that you are able to accept the V PAY debit card product.

Acceptance procedures are very simple, you just need to request the cardholder to insert their card into your reader and enter their PIN.

Benefits of accepting V PAY at a glance

- All transactions are either accepted or declined - there is no option for a transaction to be referred
- Fraud risk is minimal as all face to face transactions require a PIN entry to complete the transaction
- By displaying the revised decals, you are welcoming European V PAY cardholders to visit and spend with you.

* If you own your own point of sale equipment, a further update will be issued to you.





Compliance Section

The UK Card Association - Be Card Smart Online

The UK Card Association run a communications campaign called “**Be Card Smart Online**”. It is a campaign that raises awareness of the steps that consumers can take to stay safe whilst shopping online and is fully supported by Visa, MasterCard and the Home Office.

To find out more please visit their website at: www.becardsmart.org.uk

Maestro SecureCode

You need to flow this data now or remove Maestro from your payment page

Following our communications to you earlier this year, you are reminded that if you are an e-commerce merchant that accepts Maestro cards, you must be able to flow SecureCode data. You were required to implement SecureCode for Maestro e-commerce transactions by 31st March 2009.

In July 2009, MasterCard will commence an audit of e-commerce merchants. MasterCard will be checking to see whether SecureCode is available on your e-commerce site. As part of this audit they will also be checking that all Switch decals have been removed and replaced with the Maestro decal. You can continue to display the Solo decal.

If, following the audit, MasterCard identify that you are still not complying with the Maestro SecureCode requirements and continue to offer Maestro as a payment option, you are very likely to receive a financial penalty. As previously advised, these financial penalties could be substantial (up to USD 25,000) and applied from July 2009. This is a reminder that any financial penalties will be passed to you.

By offering SecureCode for both Maestro and MasterCard and Verified by Visa for Visa, you will be protecting your business from certain types of chargebacks. With more cardholders opting to take up, and expecting to use on-line authentication, it is imperative that you are in a position to support these security features.

If you have not already implemented SecureCode you must either remove Maestro from your payment page or deploy SecureCode immediately.

HSBC Merchant Services will always work closely with you to help you understand and implement card scheme mandates.

MasterCard Europe Interchange and Rules

Implementation date: 1st July 2009

MasterCard has announced that their European interchange fees and rules will be available for merchants to view on their public website. Please visit them at this website address after the 1st July 2009: <http://www.mastercard.com/us/company/en/ourbusiness/interchange.html>.

Please note - you can also already view Visa's Interchange rates for Europe on the following website: <http://www.visaeurope.com/aboutvisa/overview/fees/interchangefeelevels.jsp>

MasterCard Surcharging

Implementation date: 1st July 2009

MasterCard has confirmed that merchants are able to apply different surcharge amounts to Credit Card transactions, Commercial Card transactions, Debit Card transactions and Maestro transactions. The existing requirement for any surcharge to bear a reasonable resemblance to the merchant's cost of accepting the card still remains.

Trading on the internet and the Payment Card Industry Data Security Standard (PCI DSS)

Regardless of your size as a merchant by the 1st October 2009 if you accept card payments online, it will be mandatory for you to comply with the requirements of PCI DSS.

Failure to comply with this mandate could leave you increasingly vulnerable to data breaches and the associated risk to your business.

Furthermore, the card schemes could levy a financial penalty on you for non-compliance or even prevent you from accepting card payments on the internet.

If you are not PCI DSS compliant, or are unsure, you should discuss this with your payment service provider as a matter of urgency.

In addition, if you are categorised as a level 4 merchant, and identified by us as accepting card payments on-line, we have or will be writing to you individually advising you of the specific action you need to take if you have not already done so. This activity will be followed up by either e-mail, faxes or further letters from us or our partner Qualified Security Assessor (QSA), SecurityMetrics.

The cost of achieving and maintaining your compliance with PCI DSS is very small compared to the risks to your business of being non-compliant. Your non-compliance could ultimately render you unable to accept card payments online, and as well as non-compliance fines other risks include the risk of security breaches and consequent costs involved in investigating, remediation and fines.

For further information on PCI DSS please see www.pcisecuritystandards.org or www.securitymetrics.com. ■

MasterCard Event - The Big Lunch

On Sunday 19th July 2009

MasterCard has partnered with the Eden Project to launch a major UK-wide social programme called **The Big Lunch**.

This national initiative is aimed at bringing the country together, by asking everyone to sit down with their neighbours for lunch in their street in a simple act of community on Sunday 19th July 2009.

This campaign is live and adverts are showing now on TV.

To find out more about this and how as a merchant you can promote and support your local community's event, please visit www.thebiglunch.com.



System Enhancement

Secure ePayments -
Cardholder Payment Interface
(CPI) enhancement

“ By processing transactions using this code you are reducing your risk of chargebacks and fraudulent transactions ”

Over the next month your cardholder payment page will be automatically updated with a card security code (CSC) box, also known as CV2 or CVV or CVV2.

The CSC code box will be displayed between the card issue date and card issue number. This enhancement will enable you to capture your customer's card security code.

By processing transactions using this code you are reducing your risk of chargebacks and fraudulent transactions and this complies with the previously communicated card schemes mandate for accepting Card Not Present transactions.

HSBC Merchant Services LLP

Tel: 0845 702 3344

HSBC Merchant Services LLP is a limited liability partnership registered in England number OC337146.
Registered Office: 51, De Montfort Street, Leicester LE1 7BB.
The members are Global Payments U.K. Limited and Global Payments U.K. 2 Limited.
Service of any documents relating to the business will be effective if served at the Registered Office.