

MERCHANT NEWS

Keeping you in the know

Important Information - Please keep in a safe place

This Edition of Merchant News

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Economic Update

December 2011

As you were

The year ended as it started, with the MPC leaving interest rates at 0.5%. In fact, the sum total of policy changes after 12 monthly meetings in 2011 was to increase QE by £75 billion. Despite the lack of action by the monetary authorities, however, there has been a very marked change in the economic climate. Relative to the forecasts of 12 months ago, growth prospects have deteriorated, inflation and unemployment are both higher and, according to the OBR forecasts, the Treasury's fiscal plans will be way off target. In addition, global GDP has disappointed, with the EU staring down the abyss of another recession, or worse. For businesses and households, a further period of restraint (rather than recession) is likely, making this the most protracted upturn since 1945. Going into the third year of recovery, GDP remains 4% down on the pre-recession peak of 2009.

In the past few weeks, the Bank of England in its Quarterly Inflation Report, the OBR's report in the Chancellor's Autumn Statement, and the OECD's economic review have all marked down their growth forecasts for the UK in 2012, with warnings that even the modest rates predicted will look optimistic if problems in the Eurozone are not resolved. Against this backdrop, there has been little the MPC could do, having played most of its best cards three years ago. An extension of QE is about all that is left and while more is widely predicted, no decision is expected until the early months of next year. Interest rates are now likely to be on hold throughout 2012 despite the above target inflation. And while the Chancellor offered selective support for some activities, there was no real fiscal easing and 'Plan A' for the public finances is still very much the primary policy objective.

The domestic economy wobbles

Just 18 months into the job, Chancellor George Osborne has learnt how stubbornly resistant the real world is to political policies and economic models. Just 12 months earlier, he thought growth in 2011 would be 2.1% this year and 2.6% next. In November, a chastened Mr Osborne has pencilled in 0.5% for 2011 and 0.7% for next year. And this has wrecked his fiscal projections of course. Slower growth means weaker tax revenues as well as higher spending (because unemployment is higher for example) and over the forecast period, the Chancellor will need to borrow an additional £111 billion and his ambition to eliminate the structural deficit will now stretch into the next parliament.

The growth forecast is in line the Bank of England view in November's Quarterly Inflation Report, which looked for 1% next year compared with the 2% in August's Report. Like the OBR, the Bank of England expects growth back at trend by 2013. The good news was on inflation which is now likely to come in below target by end-2012 and for the rest of the forecast period, which means Bank Rate should stay on hold until at least 2013. The combination of continued low interest rates with falling inflation will be key factors in sparking the household sector back into life after a long period of weak or falling spending.

For the moment however, all the recent data points to an economy that is slowing from the 0.5% in Q3. According to the CBI, the Retail Consortium and the ONS, conditions on the high street remain challenging in the run up to the key Christmas trading season. As the GDP breakdown revealed, consumer spending was flat in Q3 as inflation squeezed purchasing power and so widespread discounting was needed to sustain volumes. The housing market continues to tread water with approvals still around 25% below the number needed to keep house price growth in positive territory, although both the Halifax and Nationwide indices have shown a degree of resilience.

The labour market conditions underline the difficulties in the domestic economy. The latest official figures, covering the three months to September, point to a further deterioration. Not only was there the biggest decline (197,000) in employment for over two years but also an increase of 129,000 in unemployment, a rate of 8.3% and the highest since 1996. In this environment, pay growth has remained subdued. Average earnings (excluding bonuses) in the three months to September were just 1.7% higher than a year earlier, well below the rate of inflation. In such an environment, it is not surprising that the GfK consumer confidence index (-31 in November) is stuck at levels normally associated with recessions.

In industrial terms, the key PMI surveys in November for construction and services continue to hover just above the crucial 50 threshold. Although this points to growth rather than contraction, both are well down on the 55+ in the first three months of 2011. Most disappointing has been the downward slide of manufacturing. From a reading of 61 at the start of the year, the sector is now just 47.6, implying a fall in output to come. This is in line with a weakening in the ONS data and suggests manufacturing is bearing the brunt of the Eurozone turbulence.

And then there is the on-going inflation problem, which came in above target for the 21st consecutive month in October. But, encouragingly, at 5% the annual rate was lower than September, raising expectations that the peak has passed. In the new year, the 2.5% VAT increase drops out of the numbers and the annual rate of CPI inflation should be set on a downward path. Any fears that this could eventually convert into a deflation problem are offset by the inflationary consequences of the increased QE programme.

“The combination of continued low interest rates with falling inflation will be key factors in sparking the household sector back into life”

A chill wind from Europe

It was not unreasonable for the Chancellor to point to a deteriorating external environment for 'Plan A' being blown off course. He re-stated his commitment to getting the public sector finances back on track but took very few steps to keep to the original timetable. His package of measures, largely welcome and worthwhile, do not however amount to much of a fiscal stimulus and he has instead put back (to the next Parliament) the date for eliminating the structural deficit. From the Treasury's point of view, it means an additional £111 billion of borrowing more than originally planned, in effect digging the hole even deeper before he climbs out. His justification (and not to be under-valued) is that the UK is holding on to its triple-A credit rating, without which the debt would be even more burdensome.

“Not only was there the biggest decline (197,000) in employment for over two years but also an increase of 129,000 in unemployment, a rate of 8.3% and the highest since 1996”

But, in policy-making terms, far more important for the UK than the Chancellor's Autumn Statement are the efforts of the Eurozone authorities to protect the euro. There is no pain-free option and non-Eurozone countries will suffer collateral damage. Particularly sensitive is the position of the banks, with French and German institutions especially vulnerable. The threat by one of the agencies to look closely at the credit ratings of all the Eurozone countries will either add to the difficulties or provide the spur needed to find solutions. But a key transmission mechanism for the Eurozone's problems to the UK (apart from the loss of export opportunities) is the impact on the financial sector, either directly or indirectly.

Conclusion

It is beyond a shadow of doubt that the general economic picture is weaker now than was expected 12 months ago, and weaker than at comparable points (two years) after the end of previous recessions. This is partly because the legacy of the past (debt in particular) takes years to unwind and partly because the fragile global environment blocks off an obvious route to growth. But households have had the best part of three years to restructure personal balance sheets and the corporate sector is in good financial shape but not in a mood to spend. The public sector looks to be the weakest link going into 2012.

In this environment, the MPC was very unlikely to change its policy stance and the outcome of the December meeting was the same as for ten of the 11 other meetings this year. For 2012, more of the same is the most likely scenario. If we are lucky.

Dennis Turner

Chief Economist, HSBC Bank plc
12 December 2012



Fraud Prevention

Third Party Processing – Processing Transactions On Behalf Of Another Business Can Severely Damage Your Financial Well Being!

Due to tough economic trading conditions, otherwise upstanding merchants are being asked to process card transactions on behalf of third parties. **You must NEVER accept transactions on this basis.** Often these entities, whilst appearing to be genuine and providing plausible reasons for requiring assistance are often fronts for organised criminal gangs engaged in timeshare or ticketing scams.

If you are either offered a lump sum for allowing unlimited access and usage of your Card Processing facility or a commission for each payment you process, be wary that it is very rare for the third party to deliver the service that was promised. **These transactions are usually disputed or are fraudulent and could result in chargebacks and losses to your business.** Should this be the case you will be fully liable for reimbursing the cardholders where non-provision of the goods or services has occurred. This loss is typically **10 times** the commission you were offered for processing the transactions.

Third party processing also breaches your Card Processing Agreement with us, and identification of such activity will result in suspension and eventual termination of your card processing facility. This type of processing can also lead to criminal proceedings. If a third party approaches you or your staff to process their transactions, say no and contact us immediately with as much detail as possible on **0116 249 6302***.

If you feel your business may have already succumbed to such a deception or has recently received an approach, then please call us on **0116 249 6302*** immediately for assistance with as much information as possible so that we can take appropriate action.

*Lines are open between 9am and 5pm Monday to Friday only, excluding public holidays. We also provide a Textphone service on **0845 602 4818**.

**“This loss is typically
10 times the commission you
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Card Scheme Updates

Are You Turning Away Good Business?

No one likes to turn away good business, but that is what you may be doing if you are not accepting magnetic stripe only cards. This article aims to remind you that all valid cards, properly presented for payments should be honoured.

Although chip and PIN has now become the norm in the UK, in many parts of the world, such as the United States of America, magnetic stripe cards are still predominantly used. Cardholders from these countries have experienced difficulties using their cards in places where chip cards are more commonly used. With the UK expected to outperform global tourism growth by 50% before and after the 2012 Olympics, and predicted revenue from tourists estimated at £2.1 billion, by not accepting these cards you could be turning away good business.

Accepting and processing cards

Following the correct card acceptance procedures ensures that any unnecessary refusals, declines or incomplete transactions are minimised, and loss of a sale is prevented.

Please remember that cards may need to be processed differently depending on the technology of the card and your point of sale device.

You are reminded that you must accept the following card types:

- Magnetic stripe cards that require a signature for verification
- Chip cards that require a Personal Identification Number (PIN) to complete the transaction, or that require a signature, or neither (e.g. in a contactless environment)
- Cards that do not have embossed lettering or are not personalised with the cardholder's name; instead, the card may be smooth, or may contain a generic identifier.

When accepting a card that **does not** have a chip at your Point of Sale (POS) equipment you must remember to:

- Swipe the magnetic stripe through the machine.
- Request the cardholder to sign the merchant copy of the receipt to complete the transaction.
- Ensure that both the card number and the signature on the card match those on the receipt.

Following the above simple rules not only helps prevent unnecessary loss of business but also ensures that your customer has a positive experience. Remember it pays to swipe the stripe.

For more details on accepting cards without a chip, please consult your copy of our Merchant Operating Instructions, a copy of which can also be found by visiting the Customer Support Section of our website: www.globalpaymentsinc.com/uk/customersupport.html.



Compliance



Online Merchants – Can You Afford Not To Protect Your Customer Data?

“It is sensible for you to review and address any vulnerability against online fraud on a regular basis”

The online retail industry in the UK continues to grow, despite the overall challenging economic situation. This is very good news for all online merchants looking to drive their revenue and stay ahead of their competitors. Unfortunately online fraud is also on the increase, which can eat in to your hard earned profits.

The media is very quick to report high profile merchants whose websites are hacked and customer information, including card payment details, is stolen. New breaches occur daily to merchants of varying size; from those processing a handful of cards to those with much greater volumes. Consumers are increasingly becoming aware of such issues and a lack of confidence in the security of their information could stop them using their cards at your business. It is sensible for you to review and address any vulnerability against online fraud on a regular basis, and protect yourself from significant financial and reputational loss.

How safe is your customer data?

Criminals are becoming more sophisticated and skilful at finding and exploiting weaknesses on websites. Many merchants who suffer a data breach are not even aware that they are storing cardholder data, which can sometimes date back a number of years. The complexity of IT systems means that the data can still be present even when the main files have been deleted. As an online merchant it is your responsibility to ensure your website, systems, network and payment applications are protected from fraudsters and that all card payment data is protected.

We have negotiated with SecurityMetrics; a Payment Card Industry (PCI) approved Qualified Security Assessor (QSA), to provide a FREE scan of your servers to see if you are potentially storing card numbers, for further details visit: www.securitymetrics.com/portscan.adp.

What is a data breach?

A data breach is a deliberate attack on your payment system carried out by a computer hacker or a criminal looking to steal valuable customer information or causing damage and disruption to your business. In many cases the stolen data is then used by criminals to commit fraudulent transactions. Detecting and responding quickly to any data breach is crucial to reduce the financial costs and the reputational consequences if the attack is traced back to your business.

How does a data breach occur?

Data breaches can occur for many reasons including, but not limited to, computer systems not being integrated correctly or vulnerabilities in software. The two most frequent causes of breaches are the use of default passwords on hardware and software and Structured Query Language (SQL) Injection Attacks.

- Manufacturers of Point of Sale devices or website design/applications often supply software with default passwords. Often, these can be published on the internet and have been used by hackers to gain illegal access to systems. The risk of this can be reduced by changing the default username and password to something more complex, and by changing the passwords frequently.
- A SQL (the database systems programming language) Injection Attack is when retailer's database is infiltrated remotely and customer data extracted. Steps that should be taken to mitigate the risk of such an attack include constraining user input, using stored procedures and parameterised queries which can identify and mitigate vulnerabilities.

In addition to this, free or Open Source software and applications often have weaknesses in them that can easily be exploited by would be hackers.

How can I prevent a data breach?

There two main ways you can lessen the risk of a data breach occurring, the first is by complying with the Payment Card Industry Data Security Standard (PCI DSS). Since October 2009, compliance with the standard has been mandatory for all merchants who trade on the internet, including those who only capture card data via a website or by email. Additionally, any third parties used by you (for example web hosts, payment gateway or shopping cart providers) that store, process or transmit card data on your behalf must also be PCI DSS compliant. For further details on PCI DSS, you can visit www.pcisecuritystandards.org.

The second way is to follow industry best practices on data storage, these include such tips as:

- Not storing sensitive cardholder data on computers or on paper.
- Using encryption, anti-virus and firewall software on your network and PCs.
- Ensuring any wireless routers are password protected and encrypted.
- Changing default passwords on hardware and software.
- Choose strong passwords that use a mix of letters, numbers and symbols.
- Remembering to change passwords frequently.
- Regularly checking your website for any new or unknown web-pages or files.
- Informing your staff about the importance of data security and protecting cardholder data.

What to do if you are compromised

By following the best practices listed above and becoming fully compliant with PCI DSS, you will lessen your chances of suffering a security breach. However, if you still experience or suspect a security breach, which might involve cardholder data, it is vital that you take following precautions:

- Contact our helpdesk immediately on **0845 702 3344***; selecting the option for 'All Other Enquiries'.
- Do not access or alter compromised system(s) – do not log on or change any passwords.
- Do not turn the compromised system(s) off, instead isolate them from your network and unplug any network cables.
- Preserve all logs and similar electronic evidence.
- Perform a back-up of your systems to preserve their current state this will facilitate any subsequent investigations.
- Log all actions taken.

Additionally you should obtain professional advice from a PCI – Forensic Investigator. A list of approved companies can be found on the PCI Security Standards Council website: www.pcisecuritystandards.org/approved_companies_providers/index.php.

The protection of card data is taken very seriously both by HSBC Merchant Services, as your card processor, and the Card Schemes. Breaches can result in the Card Schemes levying fines, which begin at €10,000 for cardholder data compromises, so it only makes sense to be compliant and vigilant.

*Lines are open between 9am – 6pm Monday to Friday excluding public holidays. Communications may be monitored and/or recorded. Any recordings remain our sole property. We also provide a Textphone service on **0845 602 4818**.

“The two most frequent causes of breaches are the use of default passwords on hardware and software and Structured Query Language (SQL) Injection Attacks”



Technology Update / Commercial Opportunities

Introducing Global Iris™ – Our New Online Payment Processing Solution

Without a doubt, the internet is now firmly established as a continually growing marketplace and a potential source of customers for all manner of businesses. The UK Cards Association reported that in 2010:

- 36.6 million adults purchased goods and services over the internet, equating to 72% of the adult population.*
- 717 million card payments which were made online, for a total spend of £47.2 billion. 54% of these payments were made using debit cards and 46% using credit or charge cards.*

To help you harness this potential, we are introducing Global Iris™, which will provide you with a simple, convenient and secure online payment processing solution.

So what happens next?

If you are an existing Secure ePayments customer, you will be receiving a separate communication from us in due course, providing you with specific details relating to the switch over to Global Iris.

If you do not currently accept payments online, and you would like to take advantage of the growth opportunities this represents, call us on **0845 702 3344**** (selecting the option for all other enquiries) and our advisors will be happy to talk you through your options.

If you already trade online, using a Payment Service Provider to accept payments, and are interested in seeing how Global Iris could benefit you, please call us on the above number for more information.

*UK Cards Association Report 2010.

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“To help you harness this potential, we are introducing Global Iris™, which will provide you with a simple, convenient and secure online payment processing solution”



Global Access @dventure™

This service provides an online-reporting solution designed to give you access to critical transaction data.

Global Access @dventure (GA@) keeps you in control. It offers you immediate and convenient access to your current and historical transactional information over the internet.

There are no set-up costs and no installation is required, you just log into a secure website to access your data whenever is convenient to you.

The GA@ reporting tool can add real value to your business and allows you to:

- locate individual transactions, you can search on up to 180 days of transactional data by authorisation code, amount, card type and many other data elements
- store all your transactional information in one place, with no manual look ups needed
- stay up to date when reconciling to bank account credits
- build, export and save your own reports (in CSV, XML and TXT formats)
- keep track of how each of your outlets is performing by analysing card transactions.

Global Access @dventure – Your Advantage

What to do next

To find out more about Global Access @dventure please call our helpdesk on **0845 702 3344***, selecting the option for all other enquires.

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Procedural Changes



**Changes To Our Helpdesk:
0845 702 3344**

“We have changed the order of our helpdesk options”

We Are Here To Help You

With the introduction of Global Iris™ our new online payment processing solution, we have changed the order of our helpdesk options. When calling us please listen carefully to the options before selecting the most appropriate for your enquiry.

From February 2012 our options will be as follows:

- **Option 1 - Stationery** - Select if you would like to order additional stationery e.g. tally rolls.
- **Option 2 - Card Terminal or Polling Support** - Select if you are experiencing problems with your terminal. Please ensure you select the appropriate sub option that is relevant to your type of terminal. This option also covers all polling related queries.
- **Option 3 - Crediting and Invoice Enquiries** - Select if you have not received payments to your bank account or you have a query regarding your monthly invoice from us.
- **Option 4 - Secure ePayments Enquiries** - Select if your enquiry relates to our Secure ePayments facility.
- **Option 5 - Chargeback Enquiries** - Select for any chargeback queries e.g. if you have received a letter of advice relating to a chargeback or have been requested to provide a copy of a Sales Voucher to us.
- **Option 6 - Global Iris** - Select if your enquiry relates to our Global Iris facility.
- **Option 7 - For All Other Enquiries** - Select for all other general enquires, or if your query does not fit into one of the above options.

Variation of Terms

Our Terms of Services have been revised and a new clause, as detailed below, has been added to **Clause 20 – Miscellaneous**. This will become effective on Monday 5th March 2012.

20.11

You represent, warrant and agree that, as a condition of this Agreement, you will conduct your business in compliance with relevant anti-bribery and anti-corruption laws, including, but not limited to, the United Kingdom Bribery Act 2010 (collectively, the “Anti-Corruption Laws”). You further agree that any violation of an applicable Anti-Corruption Law is a material breach of this Agreement and, notwithstanding any other provision to the contrary and without prejudice to any other rights and remedies, may result in the immediate suspension of this Agreement pending its termination. Finally, you agree to promptly inform HMS of any convictions against the Merchant or any of its principal, officer, or director, under any Anti-Corruption Law.

Are You Using the Correct Merchant ID?

You are reminded of the need to use your eight digit Merchant ID in all communications with us. This includes calls to our authorisation service and any manual card transactions sent to us for processing.

Any fifteen digit Merchant IDs previously issued by HSBC Merchant Services are now invalid and can no longer be used.

You can find your eight digit Merchant ID printed on the first page of the monthly invoice we send you. If you are unsure of your Merchant ID, or you have any queries regarding this, please contact us on **0845 702 3344*** selecting the option for all other enquiries.

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“You are reminded of the need to use your eight digit Merchant ID in all communications with us”



Our Authorisation Service: 0845 770 0600

Please use this number when calling us for an authorisation, or in response to a referral or request to call. Calls to other numbers may result in a failed call that you will be charged for.

The line is open 24 hours, 7 day a week, 365 days a year. Calls to this number may be monitored and/or recorded.

Please ensure you have your merchant number and the card details available before you call.

Recovered Cards

Please remember that we are no longer able to accept reward claims for recovered cards without full details being completed on our Recovered Card Reward Form.

A copy of the latest form can be found on our website at the following address www.globalpaymentsinc.com/uk/customersupport/recoveredcard.html. The form also includes the address where all cards you may recover need to be sent for processing. Using this form enables quicker processing of cards and therefore increases the speed of payment to you for valid claims.

If you do not have access to the internet, please contact our helpdesk in **0845 702 3344*** and we will arrange for a form to be sent to you.

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Retail Specific News Update

Merchant News now includes a new section – Retail Specific News, which HSBC Merchant Services previously issued as a separate publication.

The Retail Specific section contains updates from the Card Schemes that you need to apply if you own your own Point of Sale equipment, rent card terminals from a supplier other than HSBC Merchant Services or use a Payment Service Provider to accept card payments on the internet.

If you rent a card terminal from us or use either our Secure ePayments or Global Iris products to accept card payments on the internet, these updates will be made automatically and no action is required by you.

HSBC Merchant Services LLP

Tel: 0845 702 3344
Textphone: 0845 602 4818

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.

HSBC Merchant Services LLP is authorised by the Financial Services Authority under the Payment Services Regulations 2009 (504290) for the provision of payment services.