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## SMART LEADERS

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Nothing is sacred except  
that the guest returns

## FAST LANE

RBC Life Sciences'  
Clinton Howard on why  
you can't just bring in bodies  
to grow your business

# Man on a mission

HOW TOM SANDERSON  
CREATED A NEW MISSION  
STATEMENT TO GUIDE  
TRANSPLACE INC. TOWARD  
GREATER GROWTH

# Electronic payments

As the payments industry copes with growth, businesses cover legal bases. **Interviewed by Curt Harler**

**C**ompetition in the U.S. banking industry is undoubtedly increasing. Banks that can provide product innovation without sacrificing security, efficiency and reliability will remain successful in the payments landscape of the future. Yet there are reasons for businesses that are not directly involved in the financial industry to be on top of the changing landscape in the electronic payments industry.

*Smart Business* recently spoke to Zahara Alarakhia, attorney at the Dallas law firm of Munck Carter, P.C., for insights into the changes in the card payments industry.

## What are the new dynamics of competition for banks in the payments industry?

Service businesses will compete with traditional banks on brand, cost and service standards. Technology vendors are offering solutions for cash management integration and function as intermediaries for capital flows. There is a proliferation of nonbank e-billing services that continue to expand their proposition to consumers. All of these initiatives come from outside the banking system.

While banks face regulatory challenges, many of the new nonbanking players have a greater ability to innovate and take advantage of emerging opportunities. They have no responsibility to ensure that the underlying banking framework is secure in the battle against fraud and anti-money laundering.

For instance, the concept of micro-payments is transforming the way things are done in the payments industry. The forefront leader in revolutionizing this concept is PayPal. As each new generation spends an increasing amount of spending dollars with online retailers, PayPal's consumer base expands. Now, PayPal is itself crossing boundaries and developing an existence away from retail Web sites. It has launched a service called PayPal Mobile where people can text money to each other. This takes the whole payment experience to a different level.

Prepayment cards are another example of the revolution that is being led by nonbank players. Large numbers of corporations use prepaid cards as a paperless payment solution that cuts costs, reinforces brand awareness and improves efficiency.



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## What are the market forces that are driving the change in the payments industry and reshaping its future?

Technology is reshaping consumer expectations of access, timing, speed and cost. The Internet is the perfect example. The Internet has revolutionized how we communicate and interact in our daily lives. Also setting the pattern for the future is mobile technology. Today, I can take pictures, play music, surf the Internet, write e-mails and make payments through my smart phone.

Technology has enabled customers to research, compare and form and break relationships with financial institutions while demanding new channels and greater control over their transactions. Customers are redefining banking to mean anytime access to transactions and information. Increasingly intolerant of poor responses from banks, knowledgeable and more demanding customers are no longer blindly loyal but ready to move around frequently, shopping

around for the best products/services and reliable advice.

## What are the legal and regulatory considerations in managing risks of fraud or abuse in the payments industry?

Security breaches are becoming more common, identity theft is an issue, and privacy and data protection are of concern to all organizations. The theft of 46 million credit card and Social Security numbers from TJX Companies, Inc. by a hacker in December 2006 underlines a number of important issues in security and regulation. And customers are becoming more aware of fraud and identity theft.

Unlike the nonbank payment institutions, banks have faced mounting federal and state legislation in the past few years, especially in the areas of privacy, data protection and telemarketing. Know-your-customer (KYC) continues to be an issue for banks. In October 2001, the Basel Committee on Banking Supervision issued customer due diligence for banks, which was subsequently reinforced by a general guide to account opening and customer identification (CDD) in February 2003. The CDD paper outlined four essential elements necessary for a sound KYC program. These elements are:

- (i) customer acceptance policy;
- (ii) customer identification;
- (iii) ongoing monitoring of higher-risk accounts; and
- (iv) risk management.

The purpose of the KYC standards is to protect the integrity of the banking system by reducing the likelihood of banks becoming vehicles for money laundering, terrorist financing and other unlawful activities. Educating consumers on the latest threats, encouraging them to monitor their accounts and establishing ways for them to cost-effectively interact with their banks can be very effective in dealing with most types of fraud and can provide a competitive advantage to banks in the payments industry. <<

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