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A Merchant's Prescription on how to move forward

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Southwest Airlines Highlights

- **40 Consecutive Years of Profitability**
- **Only Investment Grade Airline in North America (BBB-)**
- **\$18.1B in Sales in 2012**
- **109M Passengers in 2012**
- **25% share of the US Domestic Travel**
- **+46,000 Employees**
- **700 Aircraft**
- **98% Remote Payments**
- **February 2012 – First Southwest Flight to Atlanta**
- **Founder and Executive Chairman Emeritus, Herb Kelleher is the Chairman of the Board of Directors at the Federal Reserve Bank of Dallas**



Remote Payment Needs – A Merchant's Prescription

Merchants need three **S**'s for **SucceSS**

- **Simplicity**
- **Seat at the Table**
- **Security**



A Merchant's Prescription to move forward

Simplicity

- Reduce Consumer friction at checkout
- Minimize # of wallet interfaces
- Operating Rules must be simplified for Merchants/Acquirers
- New Wallets must solve a Consumer problem in order for consumers/merchants to adopt



A Merchant's Prescription to move forward

Seat at the Table

- Price of payments must be bilaterally determined - CNP rates are currently +20% vs. US Average rates
- Consumer Choice – Transparency in payment prices: Discounting/Surcharging creates market forces
- Network Operating Rules must be Bilateral Agreements
- Minimize merchant complaining/litigating/legislating with a merchant vote
- Merchants will compete in Payments 2.0 (MCX)



A Merchant's Prescription to move forward

Security

- Consumer Trust
- Merchant Data Protection
 - ROI on Mobile Payments is +90% based on Offers
 - Merchants will always protect merchant SKU data
- Tokenization – Don't design something that we have to spend Billions indemnifying/protecting (PCI)
- CVM's = Complex/Costly, not enough standardization



Example of where help is needed - CVM

CVM = Cardholder Validation Method

CVM's should not be a merchant by merchant decision. CVM's should be decided for the greater good of payment network to ease Consumer friction and in many parts of the world solutions are mandated by the regulators.

Today - Merchant owns risk of .com fraud

- Creates bad checkout scenarios for Consumers (AVS, CVV/CID, PIN vs Signature)
- Creates undo friction/expense for consumers/merchants – how do I check out here?
- Kills ubiquity of acceptance

Future – Payment Networks should own risk of mobile fraud

- Leverage technology for two-factor multi channel CVM (More secure than a signature or MAG Stripe)
- Higher risk CVM's should have higher price (currently it is inverse)
- Minimizes fraud, number of merchant centric-solutions and eases consumer checkout



Next Steps – Admit it, Quit it and Forget it

Admit it -

- CNP and MOTO rules can't be layered upon to create Mobile Rules/Pricing. We have to explicitly address unique mobile needs.
- We may need the help of a trusted regulator!

Quit it -

- Quit combining payment data and offers data – they should be independently negotiated terms. Merchants will not let go of SKU data for mobile payments.

Forget it -

- Merchants - Lawsuits and Legislation
- Networks/Issuers – Leverage, Legacy Pricing/Rules, and Status Quo

