

Crucial Deal for RevolutionCard on Merchant Side

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Article text:

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Revolution Money Inc. did not achieve its goal of having its alternative credit card accepted at 1 million merchants by the end of last year, but a deal announced Monday will go a long way toward helping it reach that plateau.

Under the contract with Chase Paymentech Solutions LLC, the merchant processing arm of JPMorgan Chase & Co. has begun offering its customers the ability to accept the RevolutionCard. Revolution Money, a unit of America Online founder Steve Case's Revolution LLC, said Chase Paymentech's high concentration of online merchants would especially benefit from the card's security features. (Unlike conventional credit cards, the RevolutionCard does not bear the user's name or account number; instead of signatures, transactions are authorized with a PIN.)

And both companies said Revolution's relatively low per-transaction fee for merchants, 50 basis points, would appeal to all types of retailers as they try to minimize costs in the recession.

"This is a validation of the fact that despite the tough economy, merchants are looking for solutions that are cost-effective," said Jason Hogg, Revolution's president and chief executive. "Chase is the largest acquirer, so working with them obviously gives us a fantastic acceptance scale," and the processor "is really positioned as a great partner because of their online presence."

Observers, however, continued to express reservations about the critical next step for Revolution: getting consumers to use its cards.

"It's another real nice step forward on the acceptance side, but we're still waiting for the compelling consumer proposition at a pretty difficult time," said Bryan Derman, a partner at the consulting firm Glenbrook Partners LLC.

Diane Donoghue, an executive vice president and the general manager of retail network services for Chase Paymentech, said, "We have excitement and enthusiasm from both" online and brick-and-mortar merchants about RevolutionCard. "The card-not-present merchants seem to really want to capture that opportunity as quickly as possible. ... It's a lower transaction cost for the merchants, and I think in the economic times of today, every merchant's looking for that."

Hogg said that "at peak times we've had over 5,000 consumers a day that have been joining Revolution," but he would not disclose the number of cardholders it currently has or the transaction volume his network processes. Revolution will work with JPMorgan Chase to increase consumer awareness through point of sale signage and merchant training, he said.

He argued that the recession has sharpened consumers' appetite for Revolution's security features and merchant incentives, such as automatic discounts on gas.

"If you think about the fact that in this economy we're providing a solution where consumers are getting a more secure solution ... and some form of immediate benefit when they use their card, our consumers appreciate that."

Revolution, of St. Petersburg, Fla., previously signed deals with other merchant acquirers, including Fifth Third Bancorp, Royal Bank of Scotland Group PLC's RBS WorldPay and the e-commerce processor CardinalCommerce Corp.

Hogg and Fifth Third said Monday that the banking company's deal to sell a majority stake in its merchant acquiring unit (see story on page 1) would not affect its agreement with Revolution. Kevin Kabat, the chairman and CEO at Fifth Third, said: "Due to the way we structured the new company, it will have the same systems. There are no changes from that perspective. The relationship is very positive and will continue to be."

Revolution said in September that it was accepted at nearly 300,000 merchants and that it was "on track" for 1 million by yearend. Hogg estimated Monday that once Chase Paymentech gets its customers up and running, the RevolutionCard will be accepted at "well over half a million and somewhere near a million" retailers.

He said he could not provide an exact number, because of the fallout from the breakup of the Chase Paymentech joint venture this year. The venture had 600,000 merchants before JPMorgan Chase and Kohlberg Kravis Roberts' First Data Corp. split those customers, 51% to 49%. On Monday Chase Paymentech would not say how many merchants it currently has.

The processing unit was the largest merchant acquirer before its split in November, according to PaymentsSource; in 2007 Chase Paymentech processed \$700 billion worth of transactions.

Adil Moussa, an analyst at Aite Group LLC, estimated the two largest networks, Visa Inc. and MasterCard Inc., are accepted at about 7 million U.S. merchant locations. Discover Financial Services has said it is accepted at 99% of the locations that take Visa and MasterCard.

Moussa said that the deal with Chase Paymentech means that Revolution Money will have "a much larger distribution channel for their cards," but the biggest challenge remains finding cardholders. "It's two things that they need to be doing simultaneously, and they need to be finding outputs, people to use those cards."

Donoghue said the breakup had no impact on her company's relationship with Revolution Money, which she said had started about a year ago as part of its "payments-agnostic" approach to serving merchants.

At Chase Paymentech, "we want to be out in the forefront and offer as many choices as we can," Donoghue said. None of its merchants have started accepting the RevolutionCard, but Chase Paymentech has finished building the systems for them to do so. Donoghue said she expects merchants to start accepting it "any day now."

Hogg said the agreement, signed last year, has a 10-year term. Revolution's technology will let Chase Paymentech "enjoy similar margins with what they do with the major networks," he said. "Our goal is not to make our main revenue stream with interchange." Neither he nor Donoghue would elaborate on the financial terms.

Observers said that they expected the Chase Paymentech deal to help boost Revolution Money most with card-not-present merchants - and perhaps with those consumers who are concerned about security when making online purchases.

Derman said Chase lends a certain imprimatur to Revolution Money. "Certainly for other online alternative payment players, when they got a deal with Paymentech there was probably some underlying demand for their product," he said. "They could tap into what seems to be a growing cohort of people who are looking for a more secure way to pay online."

But he expressed reservations about the merchant-based incentives program that Revolution Money is touting. "I think that can work either way, but I sort of question how compelling that can be compared to a more unified rewards program," he said. "I think the consumer education challenge is higher if you do it merchant by merchant."