

**STATEMENT**

**OF**

**JANET LANGENDERFER  
SENIOR DIRECTOR, CREDIT CARDS  
NATIONAL RAILROAD PASSENGER CORPORATION  
40 MASSACHUSETTS AVENUE, NE  
WASHINGTON, DC 20002**

**SUBCOMMITTEE ON FINANCIAL SERVICES  
AND GENERAL GOVERNMENT**

**OF THE**

**SENATE COMMITTEE ON APPROPRIATIONS**

**WEDNESDAY, JUNE 16, 2010  
2:30 P.M.**

**192 DIRKSEN SENATE OFFICE BUILDING**

Good afternoon and thank you for the opportunity to provide this testimony. My name is Janet Langenderfer. I am the Senior Director of Credit Cards in the Finance Department at Amtrak. I work for the Treasurer and have responsibility for everything having to do with customer payments made by credit and debit cards.

## **INTRODUCTION**

I am here today to discuss how we believe the proposed financial reform legislation may benefit Amtrak and its customers. Amtrak sold more than \$1.8 Billion worth of tickets, food, and beverages to customers traveling between 500 stations located in 46 states in fiscal year 2009. Our customers use a credit or debit card for more than 90% of those purchases; and as a result, our systems process approximately 30 million authorization requests, sales and refund transactions each year. Clearly, Amtrak's customers want to pay with a credit or debit card, and therefore it is critical that Amtrak continue to offer them as many payment choices as possible.

Customers expect their card to simply work when using it at Amtrak; they do not realize that Amtrak is actually creating a financial transaction that will be entered into the banking system – bringing with it all of the rules and regulations of any other banking transaction. Controls and consistency are necessary to protect the security and integrity of the system. However, it is challenging to understand the rules established for the financial transactions we are trying to support.

The total cost of accepting payment cards results from a complex structure of direct and indirect costs. The Amendment proposed by Senator Durbin incorporates language that addresses certain direct costs for payment card acceptance that will reduce the cost of these transactions and therefore benefit Amtrak and its customers. The remainder of my testimony will demonstrate some ways that payment card transaction rules impact Amtrak and its customers today.

## **THE DIRECT AND INDIRECT COSTS OF ACCEPTANCE**

In Fiscal Year 2009, Amtrak paid more than \$33 Million to outside companies to process \$1.6 Billion worth of payment card transactions. To provide a frame of reference, this is a “blended rate” of 2.27% and is 0.11% more than what we paid in FY2008.

As you may know, every single transaction is priced independently based upon the type of card used, the sales channel used, and the technical properties associated with the transaction. Our April 2010 statements for the four major card brands contained more than 200 line items. We work aggressively to analyze our monthly statements, looking for opportunities to cut our costs. But the savings do not show big returns; one effort in FY2009 saved us about \$2,500; another one \$200. On the other hand, as customers have moved (with society as a whole) from traditional travel agencies to the internet, sales on Amtrak.com have saved us more than \$50,000 each year just in payment card fees.

You can see that a company like Amtrak pays its payment card fees based on a complicated rates matrix applied to each transaction. We have worked with the payment card brands to the extent possible to qualify for the best category of rates. We have been more successful with some brands on this than with others. Under the proposed legislation, we have the option to encourage a customer to use our lowest-cost card, thereby lowering our overall costs significantly. This would likely create an environment that would encourage competition among the various brands to negotiate more favorable rates. I would see this as a benefit to Amtrak, to its customers, and to the taxpayer at the end of the day.

### **Example of Debit Card Customer Challenge**

Here is an example of indirect costs we incur related to the application of the payment card contractual rules rather than the direct costs we pay. A customer makes a reservation and offers a debit card to pay for it. For one reason or another, the transaction is not completed. It could be because there were not enough funds available in the account, or because the transaction did not pass the Amtrak fraud prevention screens, or because the customer changed his or her mind about which train to take. In any event, Amtrak will work with the customer to either use another form of payment or hold the reservation until the customer is able to complete the payment. When this occurs, Amtrak sends an automated payment reversal transaction to the payment card company so that the customer's money is not held by the bank and unavailable for his or her use.

However, banks do not always apply the reversal transaction to the account immediately and the customer does not have access to his or her funds. The customer will request our help, but only the bank can release the money. As you can imagine, this is a significant inconvenience for our customer and it is very costly for Amtrak.

### **FAST AND ACCURATE TRANSACTIONS**

My job at Amtrak is to make sure that every customer's credit or debit card transaction is processed quickly, accurately, securely, and cost-effectively. I think as consumers ourselves we can all appreciate what it means to have our purchase processed quickly and accurately. The payment card company rules also include technology requirements (hardware, software, and telecommunications), and regulations regarding how to issue receipts, how to handle returns and refunds, how to prevent fraud, and many more. And by the way, each company generally sends out its own update every six months. It is the responsibility of Amtrak's management team to make sure that our front-line employees and our electronic systems incorporate all of these rules into our own policies and procedures so that each purchase feels seamless to the customer. But following the rules isn't easy and transactions don't always get processed quickly and accurately.

I'd like to provide a specific example on this topic that may not be familiar to everyone. Amtrak has some large corporate customers who use one credit card for many employees traveling on the trains. During the course of a month, there are many sales, refunds, and exchanges for travel between the same two cities – the train number and the price are the same. In an effort to improve data sharing between travel companies and their customers, the payment card companies began requiring that additional data regarding each transaction be submitted within the payment transaction record – every time. The concept is great; however, the implementation is very difficult, and the transaction fees are some of the highest. In the past, inconsistent application of the rules has led to challenges where customers are not receiving the information that Amtrak has sent; creating some of the problems the program was designed to fix. This demonstrates the need for full life-cycle data accuracy and prompt delivery to all transaction participants.

### **SECURITY COSTS AND CONSIDERATIONS**

When it comes to security, everyone understands that payment transactions must be handled carefully and theft of payment card information is scary to everyone. While we focus a great deal on prevention, the Amtrak Police Department, a nationally recognized agency, has a dedicated fraud investigation unit focused solely on credit card fraud. Together our company does everything we can to keep all of Amtrak's and our customer's data secure. This involves a major ongoing investment in information technology which is neither simple nor inexpensive – but security has always been a high priority at Amtrak.

We look at security in two general categories: fraud prevention and compliance with the Payment Card Industry Data Security Standards, often called “PCI”.

### **Fraud Prevention**

At the macro level, fraud prevention is managed through a payment card company process where a bank may reverse a customer’s purchase after Amtrak has already been paid for it. For example, if you report your card stolen and it is later fraudulently used to purchase a ticket on Amtrak.com *with* a valid approval by the credit card issuer, you would not be charged for the ticket but Amtrak *would!* According to payment card company rules for a “Card Not Present” environment, Amtrak *is* held responsible because as “the merchant”, we cannot prove who was using the card at the time of the transaction.

More than 70 percent of Amtrak passengers now elect to purchase their tickets through Amtrak’s card-not-present sales channels (rather than going to the ticket counter). Today Amtrak has few options for avoiding a fraudulent transaction at one of its card-not-present sales channels and therefore, if the bank will not guarantee a card’s validity, we do not accept it. We require that the customer come to the station and complete the transaction there. This is much more costly for Amtrak, and very inconvenient for the customer.

Amtrak works to prevent fraud through a series of industry best practices. As a result of recent efforts, we have reduced chargeback losses from 0.5% in Fiscal Year 2001 to 0.04% in Fiscal Year 2007. It remained at 0.04% through FY2009 even though sales on payment cards have increased by 50% during that same period and despite the fact that more customers are using card-not-present channels. These are laudable numbers – but they come with hidden costs, increased interchange fees, more customer service costs, and potentially lost revenue from customers who do not want to be inconvenienced in this manner.

### **Payment Card Industry Data Security Standards - “PCI”**

The PCI standards, for anyone familiar with them, are like many other standards – continually evolving. Formal changes are announced every 2 or 3 years and interpretations are published more often. To date, Amtrak has spent close to \$4 Million on IT projects specifically to meet PCI compliance; however, there is no separate financial accounting for the significant amount of staff time spent on PCI-related issues such as revising contracts, policies, and procedures.

I offer one final example to demonstrate the issue. As you can imagine, Amtrak has contracts with tens of thousands of vendors. This includes vendors who build train engines, those who process card payments, and those who write software. According to the PCI standards, Amtrak is required to re-negotiate its contracts to include new language regarding PCI security, where the vendor is responsible for any violation of the PCI standard whether they are aware of it in their own system or not. Needless to say, the investment in the process to modify these contracts has not been easy – and yet it is part of our jobs and we haven’t tracked the costs separately.

### **CONCLUSION**

In conclusion, Amtrak accepts debit and credit cards from customers for almost all of our sales. The costs of accepting these cards are difficult to manage due to the complexity of the rate structure and the rules established by the payment card companies. The amendment proposed by Senator Durbin addresses certain direct costs for payment card acceptance. It puts us in the position to offer our customers the choice to use a payment type that provides them and Amtrak with the best service and cost combination. With that opportunity, Amtrak will be able to negotiate on an even basis with each payment card company for pricing that is appropriate for

selling train tickets, food and beverages. It will also allow us to negotiate on the topic of rules that will help our customers.

We believe that the provisions of Senator Durbin's Amendment are reasonable, and we support it.

Thank you.