

**Testimony of William Tauscher
Chairman and Chief Executive Officer
Blackhawk Network Holdings, Inc.
Before
United States Senate Special Committee on Aging
“Private Industry’s Role in Stemming the Tide of Phone Scams”
November 19, 2014**

Chairman Nelson, Ranking Member Collins, distinguished members of the Committee, thank you for providing me the opportunity to testify today on the subject of private industry's role in preventing victim-assisted fraud against seniors. My name is Bill Tauscher and I am Chairman and Chief Executive Officer of Blackhawk Network Holdings, Inc. I look forward to describing today Blackhawk's innovative and aggressive approach to deterring, preventing, and mitigating this pernicious type of fraud against seniors and other consumers. Blackhawk is grateful for the Committee's attention to this important subject over many months and your leadership in raising awareness about it.

About Blackhawk Network Holdings, Inc.

Blackhawk is a leading payment network utilizing proprietary technology to offer a broad range of prepaid products and payment services in the United States and 21 other countries. Our companies support the physical and digital distribution of a variety of prepaid products, including gift cards, general-purpose reloadable ("GPR") cards, corporate reward cards, incentive cards, rebate cards, prepaid telecom handsets, and airtime cards across a global network totaling over 180,000 stores worldwide. Our GPR program, however, reaches under 20,000 locations in the U.S. And, our Reloadit packs are sold in over 10,000 locations, including Safeway, Albertsons, Giant Eagle, Kroger, BiLo, Casey's, Dave's, Winn Dixie, Harveys, Sweet Bay, Meijer, Food Lion, Hannaford, Save-a-Lot, Supervalu and WaWa stores. Our network provides significant benefits to those who purchase the products and services we offer and to our distribution partners who sell those products. For consumers, we provide convenience by offering a broad variety of quality brands and content at retail locations and online, enhanced by customer promotions and loyalty incentive programs that may be offered by our distribution partners. For these partners, we provide a significant, high-growth and highly productive product category that drives incremental store traffic and customer loyalty. Blackhawk serves in a variety of capacities in the prepaid market. We are a program manager for bank-issued network-branded card products. We are licensed money transmitter that issues Discover-branded reward cards and the Reloadit™ pack (a GPR card reload and bill payment product). And, we are a distributor for both store-specific and network-branded gift cards.

Blackhawk's heritage of innovative prepaid developments began in 2001, when it was a subsidiary of Safeway Inc. Since our inception, we have looked at the industry with fresh eyes, always seeking to solve customer needs to grow our partners' business. Our first consumer insight led to a pioneering breakthrough -- to provide gift cards where they were more convenient for consumers, including grocery stores. Over the years, we have continued to research what consumers want and have rapidly brought these innovations to market. In addition to expanding our product line to capitalize on the full spectrum of prepaid products, we have also greatly expanded the brands we offer and the locations -- both digital and brick-and-mortar -- where we offer them.

Blackhawk's Reloadable Financial Services Products

Consumers have realized that prepaid financial service products offer value, convenience and flexibility. As the industry has evolved, Blackhawk has brought together a broad selection of GPR cards in one place, developing a proprietary reload network that is one of the lowest-priced, and most convenient. We are proud to distribute to our retail partners and to process transactions

for a diverse set of GPR card products, including those offered by NetSpend, PayPal, Green Dot, AccountNow, Univision, T-Mobile, and others. In addition to offering a large selection of GPR products under one roof, Blackhawk also offers PayPower™, our own proprietary GPR card brand with desirable features, such as free direct deposit and online or phone bill pay, and competitive pricing.

Blackhawk makes it easy and secure for consumers to add value to their GPR cards by choosing any of these three different load methods:

Quick Load: Under the quick load option consumers can purchase a Reloadit pack at a retail location to load anywhere from \$20 to \$950. After purchasing the Reloadit pack, the consumer reloads the GPR card by going online or calling a toll-free number to provide a 10-digit PIN number found on the back of the Reloadit pack, a scratch-off PIN. This is how Reloadit and similar products were originally setup to operate for ease of use and consumer convenience. Ninety-nine percent (99%) of consumers who use this method do so in legal, non-fraudulent ways that serve their needs, such as funding a GPR card held by a child or grandchild who is away at college or by a contractor or household helper who is using a GPR card. Blackhawk's introduction of Reloadit Safe was a refinement of the product. With the further enhancements we will introduce in March next year (including the elimination of quick load with the scratch-off PIN and the introduction of enhanced fraud mitigation efforts, described in greater detail below) we will substantially improve fraud mitigation for Reloadit.

Reloadit Safe: Recently, Blackhawk has added a new method for consumers to reload GPR products participating in our Reloadit network. We have created the option for consumers to use the Reloadit Safe, which allows cardholders to store their funds and decide when they want to load funds to their GPR cards and how much. The Safe also enables Blackhawk to mitigate fraud through a variety of tools we explain in greater detail in this statement. Unlike the quick load option, the Reloadit Safe requires customers to provide an email address and other identifying information (presently, name, address, Social Security number and date of birth) upon set-up, as well as a self-assigned PIN – different than the scratch-off PIN. The self-assigned PIN must be used at time of reload (not the scratch-off PIN). The Safe also requires the customer to enter the full GPR card number into the Safe prior to transferring funds. We view the innovation of the Reloadit Safe as an effective bulwark against victim-assisted fraud. With the Safe, consumers who do not have the GPR card they want to load with them (such as when a child or grandchild has the GPR card at college) can safely load funds to that GPR card remotely through Reloadit. And, with enhancements that we will roll out in March next year (including elimination of quick load with the scratch-off PIN), Blackhawk will have enhanced monitoring capability and the ability to analyze accounts and account activity more effectively. This will allow us to identify fraud more quickly and prevent it more effectively, while still allowing consumers to retain Reloadit as a tool for accessing their funds and transferring them. I will provide more details on these enhancements later in this statement.

Swipe at the Register: In addition to offering quick load and Reloadit Safe options to load GPR cards with the Reloadit pack. Blackhawk provides customers in an increasing number of locations with the option of funding their GPR card accounts via swipe at retail locations, rather than through the scratch-off PIN. Approximately 50% of all retail locations in our program offer

reload on swipe today. But, not all retailers can support this functionality today. We are currently assisting many of our retail partners in converting their point-of-sale hardware to accept “swipe at the register.” This technology allows for the elimination of loads using scratch-off PINs and allows the Reloadit packs themselves to be swipe loaded, and then to have the consumer later call Blackhawk or go online at Reloadit.com to transfer the funds into the Safe for later use.

Blackhawk’s Commitment to Preventing Fraud

Our research indicates that less than 1 percent of transactions involving Reloadit packs constitute potential fraud. Nevertheless, Blackhawk is committed to preventing all instances of fraud against consumers and, accordingly, has implemented significant measures to prevent and mitigate different types of fraud, including victim-assisted fraud.

The key components of our anti-fraud efforts include:

- monitoring GPR card and Reloadit pack activations and transaction monitoring using Blackhawk data and sophisticated anti-money laundering and fraud detection software, 24-hour Risk management resources and risk-based funding delays;
- educating and training our retail partners and their employees about victim-assisted fraud;
- ensuring consumer awareness of fraud threats; and
- coordinating with law enforcement and regulatory agencies.

Monitoring GPR Card and Reloadit Pack Activation and Transaction Monitoring. With respect to activation monitoring, Blackhawk performs proactive analysis of GPR card registrations and their associated attributes. We have developed and deployed a sophisticated point of sale monitoring system that provides alerts to Blackhawk Risk Management personnel in cases where potential fraud is detected based on suspicious activity, such as an unusual number of sales of Reloadit packs in a specific store or region or atypical amounts of funds to be loaded. If such cases are observed, Blackhawk Risk Management personnel have the ability to block the purchase of Reloadit packs from a particular store or stores in our network and to delay funding for a cash transfer of money to a GPR card from an individual Reloadit pack. We have many documented incidents where Blackhawk’s monitoring technology has successfully thwarted fraud attempts.

Educating/Training Retail Partners. Although we have found Blackhawk’s human resources and data analytics systems to be very effective in preventing victim-assisted fraud, we recognize that a critical backstop to our efforts is ensuring that our retail partners and their employees are attuned to potential fraud threats. We frequently issue fraud alerts to our retail partners on new and trending fraud scams and so that store employees can spot potential fraud at the point of sale. We also provide periodic webinar training for our retail partners on fraud and anti-money laundering awareness. At the individual store level, our merchandisers provide information to store employees when setting up card displays and restocking the racks on which our products are sold. We also train store employees to call our 24-hour toll-free risk support hotline if

potential instances of fraud arise. We evaluate the efficacy of our retailer training by conducting “secret shopper” programs around the country.

Ensuring Consumer Awareness. Of course, making sure consumers are aware of potential fraud threats is also an integral part of ensuring that they are not victimized. We have long included a “Protect Your Money” page on our Reloadit and PayPower websites explaining that the products can be the target of fraudsters looking to scam consumers. The page provides useful tips to prevent fraud and theft, a list of common scams involving Reloadit packs of which consumers should beware, links to government resources on phone scams and other types of fraud, and a toll-free number for consumers to call if they believe they are the target of a scam.

More recently, we have added a conspicuous “splash” message to our Reloadit.com homepage that every customer will see before using the site to transfer funds or pay bills. The message instructs a consumer to refrain from providing the PIN number on the back of the Reloadit pack to anyone over the phone the consumer does not know or has not met in person. The message also identifies common scams and provides a customer service line for a consumer to call if the consumer has been asked by someone else to provide Reloadit as a form of payment.

Coordination with Law Enforcement. Even as we work to educate retail partners and consumers about potential fraud threats, Blackhawk has also proactively engaged with law enforcement officials and regulators to detect and respond to new types of scams. Since October 2013, we have coordinated with the U.S. Secret Service and local law enforcement agencies from New York and New Jersey to combat phone scammers believed to be operating in New York and Florida. More recently, we have engaged with the U.S. Department of Homeland Security and the Treasury Inspector General for Tax Administration to address a fraud ring that has perpetrated a variety of victim-assisted frauds, including the “grandchild in jail” scam in which prepaid reload products have been implicated. We are committed to continuing open communication and coordination with law enforcement to prevent fraud and help hold accountable those who attempt to perpetrate fraud.

Ongoing Enhancements to Blackhawk’s Anti-Fraud Regime

The current option for Reloadit customers to open a Reloadit Safe or to use swipe at the register technology, coupled with our extensive technology and educational measures, exemplifies Blackhawk’s commitment to preventing fraud against vulnerable populations and to deterring scammers from targeting the Reloadit pack as a useful vehicle to commit fraud. However, the implementation of these technologies and processes are only part of a progressive fraud mitigation strategy to prevent victim-assisted fraud targeted against seniors and other potentially vulnerable populations.

We are pleased to announce today that by March 2, 2015, Blackhawk will implement important changes to the overall function of our Reloadit pack product. On that date, customers will still be able to buy a Reloadit pack at a store, but will have to first associate the pack to a Reloadit Safe rather than using a quick load to directly fund a GPR account. To be clear, effective March 2, 2015, the Reloadit product with PIN functionality alone (Quick Load) will no longer be able to be used to transfer funds to a GPR account. The PIN on the pack will only be used to verify the pack. Blackhawk will require that customers using Reloadit packs to fund their GPR card

accounts must register a Reloadit Safe that will receive the funds from the Reloadit pack. The Reloadit Safe will require the customer to add a complete 16-digit GPR card numbers to the Safe. The Safe technology will verify that the GPR account entered is registered and has passed the customer identification process prior to transferring funds.

Further, Blackhawk will be enhancing the Safe to allow us to monitor Reloadit Safe activations and activity based on the device the customer uses to link to her account (e.g., smartphone, tablet, computer). In practice, this means that the customer will be identified by the device from which the Customer is accessing the Safe and loading a GPR card. Customers will only be able to create one Safe per device. Once the device is used to create a Safe, that device will not be able to create another Safe. These tools, along with an enhanced ability to monitor Safe funding and transaction activity, will allow Blackhawk to intervene in possible fraud scenarios prior to funds being transferred from a Reloadit Pack or withdrawal.

Beyond this updated experience for the consumer, Blackhawk is implementing a variety of new security technologies behind the scenes to monitor suspicious activity related to reloading of GPR card accounts. We will identify a Safe account with a zip code at time of its creation and monitor zip codes of the locations where associated Reloadit packs are purchased. "Geographic Reasonability" thresholds (based on mileage between account zip code and pack purchase zip code) will alert Blackhawk when Safe accounts are funded with Reloadit packs activated from various parts of the country. Our advanced fraud monitoring systems will track the device fingerprint in real-time and will analyze velocity load limits based on customer behavior. Reloadit Safe transaction activity will also be monitored based on the history of the customer's use of the Safe. This data will help allow us track usage patterns and allow our Risk Department to identify suspicious activity and stop fraud (through contacting the retail store selling the pack or by preventing loads and transfers). We will be able to blacklist accounts and users who appear to have engaged in excessive transfers or misused the product. And, each Safe will have daily transaction limits. Today, the daily load/spend limits are \$2,850, with bill payment sub-limits set at \$1,000 per day. The enhanced Safe features will allow us to impose lower limits on new users, new devices, new Reloadit Safes that are opened. Further, Blackhawk will continue to impose risk-based funding delays to assist with money recovery if scams are somehow successful. These added layers of security will allow Blackhawk to control the movement of money to a registered GPR card account with an intensified level of security.

We are also working with the retailers in our program to increase the availability of swipe reload capability for customers at the register. Although customers can currently use swipe technology at approximately 50% of all U.S. stores in our program that sell GPR cards, Blackhawk is working proactively with its retail partners to increase the number of swipe reload locations. We will have 100% of our retail locations who sell Reloadit accept swipe reloads by the end of 2015. While the conversion of in-store hardware to accept swipe reloads is an expensive undertaking for our retail partners, we believe that it is a worthwhile for them to provide consumers with this other option for reloading their GPR cards and reducing instances of fraud.

At the same time as Blackhawk is expanding the fraud prevention tools in Reloadit Safe and making swipe reload more available, we are also continuing to augment our efforts to educate customers and retail employees to spot potential victim-assisted fraud. We recently created and asked our retail partners to post signage in stores directing customers to refrain from providing

the Reloadit pack PIN number to anyone they do not know and identifying common victim-assisted scams. In addition, we provided our retail partners a new guidance document for employees that outlines examples of scams targeting both customers and stores, as well as tips on how employees can protect their customers when confronted with suspicious situations. We are working with the National Adult Protective Services Association to broaden the reach of our education efforts to help reduce the amount of fraud committed against senior citizens using prepaid products. And, we are looking at additional opportunities to educate seniors and others about scams.

Conclusion

We recognize that fraud cannot be totally eliminated. Combatting it takes vigilance. Working with our retail partners, law enforcement agencies, regulators, consumers, and others, Blackhawk has substantially improved its mitigation of victim-assisted fraud targeted at our customers. However, we are not satisfied. We are focused on and invested in preventing fraud from occurring, and in deterring would-be fraudsters from attempting to exploit our products for illicit uses. We are investing substantial human and financial resources to implement more layers of fraud protection and to adapt to ever-changing threats. In addition to ensuring that all locations in our network that sell these products allow swipe reloads, we believe that our enhanced Reloadit Safe functionality further enhances both fraud prevention efforts and law enforcement tools for bringing fraudsters to justice. Thank you again for raising awareness about this important issue and for giving Blackhawk the opportunity to share our perspective.