

### **Background**

The report assesses the existing commercial infrastructure of on-line Electronic Benefits Transfer (EBT) in the context of multi-state, multi-program EBT. The findings are based on interviews of respondents involved with the EFT commercial infrastructure.

### **Key Issues**

Key issues for the Food Stamp Program include: (1) EBT operating rules and standards; (2) strategies to manage processor capacity and peak transaction loads; (3) the cost and technical complexity of creating interfaces among state systems, the EBT processor, and other stakeholders (e.g., third parties); and, (4) technical and cost challenges in retrofitting existing retailer payment systems to support food stamp EBT. The Report reviewed all available technology options and found that on-line continues to be the best way to build a national EBT system.

### **Third Parties**

An important trend is the emergence of third party service providers. The trend underscores the need for retailers to build EBT on their existing payment system platforms. This solution may increase price competition and thus result in reduced costs. As more third parties move to support the EBT application, the duties of the EBT processor will likely shift from terminal driving toward card issuance functions. With this shift, a corresponding need is created for operating rules and standards that clearly define the roles, responsibilities, and accountability of each stakeholder in the system. Respondents encouraged government leadership in this area.

The functions played by regional EFT networks and third party processors are changing but both will be critical to the future of food stamp EBT. The roles each will play will depend on the desire and ability of food retailers to maintain existing business and physical relationships while adding the EBT service; and, a case-by-case economic analysis by the EBT vendor of transaction acquiring costs from a third party versus the local network.

### **Market Penetration**

While in absolute terms the FNS authorized retailers in the study were significantly underserved by POS debit (8.6%), those retailers with debit account for a disproportionate share of monthly food stamp redemptions (33.3%). This is significant in several ways. Existing debit-capable retailers will likely add EBT to their platforms. Planning for case conversions and roll-out can benefit by taking account of the marginal contribution of each store to area monthly redemptions. The study presents geo-mapping techniques that can assist in this process. In general, 96.3 percent of debit-capable authorized food retailers in this study currently meet or exceed the FNS regulatory lane deployment requirements.

### **Retrofitting**

The range of equipment configurations in retailer stores will make retrofitting for EBT a complicated effort. This emphasizes the importance of states carefully assessing existing store payment infrastructures when planning EBT systems. Equipment vendors are considering EBT in the design of newer generation terminals and some retailers are moving toward integrated payment systems in which EBT is anticipated.

## Cost Implications

While EBT transaction processing closely mirrors commercial debit, the differences make price comparisons very difficult. In particular, EBT introduces additional responsibilities and technical challenges for the EBT processor (i.e., recipient training, help desk support, non-standard interfaces, reporting requirements). Interviews with EFT processors, terminal vendors and regional networks suggested several strategies for aligning EBT pricing more closely with commercial on-line debit. These include: (1) enabling competition for merchant acquirer services; (2) making volume purchases to capture scale economies through equipment and transaction price discounts; and, (3) developing flexible fee structures which enable the EBT vendor to pursue the most economical means of acquiring transactions.

There is general agreement among the stakeholders interviewed that current commercial settlement practices will incorporate EBT with relative ease. Critical to this, however, is the establishment of standard EBT settlement procedures by the Government.

## Developing Trends

Trends in the commercial environment that may influence the development of EBT include: continued network consolidation, development of super-regional networks and interstate bank mergers (which bring increased processing efficiency and multi-state presence); reduced processing and membership fees; and, the potential expansion (beyond ATM sharing and on-line POS debit) to support new products and services (which bring cost sharing potential). Third party processors (non-bank players) are becoming major EBT stakeholders in the payment services industry. Independent sales organizations (ISOs), who have historically represented acquiring banks as merchant acquirers for credit services, are entering the debit community. And changing POS debit pricing structures may influence the positioning of stakeholders vis-a-vis compensation for services.

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