

# Eyes on the Road, Expanded Coverage, & EMV

In interviews with 3 Cleveland Fed board and council members, *Forefront* gleans more about new trucking technologies, healthcare's increasing focus on the consumer, and ways the payments industry is defending against 'crooks.'

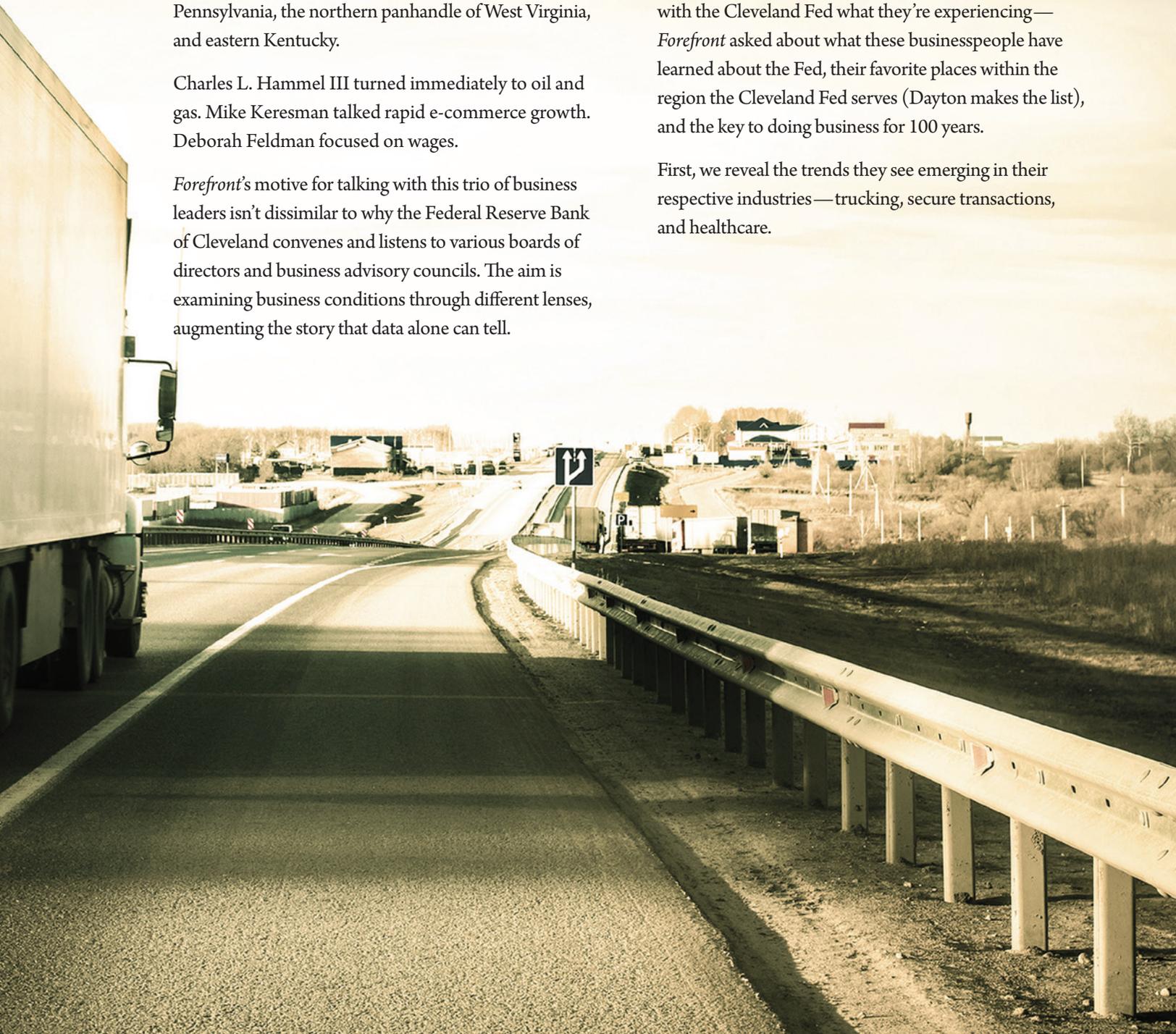
We started with asking how business conditions have changed recently in the region we serve: Ohio, western Pennsylvania, the northern panhandle of West Virginia, and eastern Kentucky.

Charles L. Hammel III turned immediately to oil and gas. Mike Keresman talked rapid e-commerce growth. Deborah Feldman focused on wages.

*Forefront's* motive for talking with this trio of business leaders isn't dissimilar to why the Federal Reserve Bank of Cleveland convenes and listens to various boards of directors and business advisory councils. The aim is examining business conditions through different lenses, augmenting the story that data alone can tell.

In this, the second installment of Q&As with members of the Bank's boards and councils—who regularly share with the Cleveland Fed what they're experiencing—*Forefront* asked about what these businesspeople have learned about the Fed, their favorite places within the region the Cleveland Fed serves (Dayton makes the list), and the key to doing business for 100 years.

First, we reveal the trends they see emerging in their respective industries—trucking, secure transactions, and healthcare.



**“There’s a lot of incentive to bring the cost of healthcare down while providing good care.”**

**Forefront:** *What impact have you seen since the Affordable Care Act rolled out?*

**Feldman:** The aspect of the Affordable Care Act that has resulted in the increased coverage through the exchanges and the expansion of Medicaid in Ohio has certainly meant a significant infusion of dollars for hospitals. Children’s hospitals were not affected directly because children already were covered by CHIP (Children’s Health Insurance Program), but for the adult hospital system, the expansion of coverage and particularly Medicaid has been a significant positive. Prior to the expansion, if you were a childless adult in Ohio at a certain income threshold, you probably had no coverage at all, and if you went to a hospital and were uninsured, the ability of the hospital to collect payment was very small. With the expansion of Medicaid, there is coverage for these individuals.

The second area the Affordable Care Act has impacted is the pace of change in the health care delivery system. The entire continuum, from payments to delivery of care, is really up for grabs right now in terms of which side will lead. Who’s going to drive the actual delivery? For example, is it the insurance companies that are going to have narrow networks that will direct their customers to only certain healthcare facilities? Is it the hospitals that are going to some extent become insurance companies and contract with employers so they are driving the care to their own networks? Is it the consumer who, because of price transparency, can make his/her own decision about where he/she is going to seek care?

**Forefront:** *What trends have you observed lately in the business of healthcare?*

**Feldman:** There’s a lot of incentive to bring the cost of healthcare down while providing good care. This increased focus on price is driven by another trend: the movement toward high-deductible health insurance plans.

We’re seeing a lot more consumer-driven behavior in healthcare. The industry is becoming much more retail in its organization. Traditionally, it has been focused around providers, and I think you’re seeing it being organized more and more around consumers. You’re seeing comparison of costs online, you’re seeing retail clinics everywhere from Walmart to Walgreens, and you’re not just seeing those clinics wanting to take care of ear infections and stubbed toes. They want to manage chronic conditions that in the past have been the purview of physicians and hospitals. The consumer wants convenience and access.



**Deborah Feldman**

Deborah Feldman is president and chief executive officer of Dayton Children’s Hospital, which administers care to 290,000 infants, children, and teens each year. Feldman has been a member of the Cincinnati Board of Directors for the Federal Reserve Bank of Cleveland since January 2013. The Cleveland Fed has three boards, including one in Cleveland and another in Pittsburgh.





### Charles L. Hammel III

Charles L. Hammel III is president of PITT OHIO, a Pittsburgh-based transportation solutions provider. The company delivers both asset-based transportation (using trucks it owns) and nonasset-based transportation (where providers arrange for transportation, but don't own the trucks). Hammel joined the Pittsburgh Board of Directors in January 2012.



**Forefront: What trends are emerging in the business of trucking and supply chain service?**

Hammel: One is acquisitions. It seems that the bigger players are getting bigger by buying out other companies, so the number of transportation companies is shrinking. Private equity firms have a lot of cash, and they are coming in and initiating a lot of the acquisitions. A newer trend that's emerging in trucking is the safety equipment that's becoming available on new trucks, including collision avoidance and video. Video capture monitors the front of the truck and the road ahead and turns on if there's a hard-steering event or heavy braking. So we're able every day to see all the close calls or all the issues the driver has faced. It's helped us considerably when we do have an accident.

**Forefront: Your family-owned company is nearly 100 years old. What advice might you offer to other business owners who want to achieve the longevity your company has?**

Hammel: There's no silver bullet. There's no one thing that you do. There's a series of things. First and foremost, every company needs to view its company as an employee-run organization. Everything we do is going to benefit the employee, from working conditions to how they're treated to being able to give them higher and further education and a more-than-competitive salary and benefits. Really concentrate on keeping your employees happy and motivated. Customers change, your objective changes when your environment changes, you've got to use different methods and technology. What can never change is your value system. You'll always want to treat your employees better than they've ever been treated before.

**Forefront: You're in the business of secure transactions, among others. Several security breaches involving large corporations have made the news recently. What's your take on these?**

Keresman: The first question to ask is, why are these breaches happening now? They didn't happen before because if you stole somebody's credit card number, what would you do with it? The reason there are breaches today is there's a place to use the credit card information—online. Mobile and Internet commerce has given crooks a chance to use stolen information as currency and buy things. There is quite a bit of money to be made via fraud. That has to stop, and EMV [cards, which contain embedded microprocessors that provide security features not possible with traditional magnetic stripe cards] are one way to help stop that. What they do is they make it very hard to counterfeit credit cards. However, chip cards do not address Internet fraud.

**Forefront: EMV cards are beginning to proliferate in the United States just as they have in other parts of the world. What other methods do you expect to see retailers, customers, and bankers use to protect valuable data?**

Keresman: Retailers are doing things like tokenizing data. So, instead of storing credit card information as it is, they're going to camouflage it, so if somebody does steal it, it's gobbledygook. If the numbers on the card are rearranged, for example, and somebody steals it, it doesn't mean anything. Merchants also are turning to companies like ours to protect their business online. When a consumer hits the "buy" button, we're connecting that user to the issuing bank so the issuing bank has the opportunity to validate the cardholder. The issuer can challenge the consumer, if the transaction looks suspicious, and ask a security question. It happens in less than half a second, and it gives the bank an opportunity to validate or authenticate the cardholder.



## Mike Keresman

Mike Keresman is chief executive officer of CardinalCommerce, a company based in Mentor, Ohio, specializing in mobile commerce and payment solutions to meet clients' card-not-present needs. Keresman has been a member of the Cleveland Business Advisory Council since early 2011. Business advisory councils advise the Cleveland Fed's president and senior officers on current business conditions.



## Following our industry-specific questions, Feldman, Hammel, and Keresman shared their views on our region and the Fed.

**Forefront:** *What change in business conditions have you noticed in our region (Ohio, western Pennsylvania, the northern panhandle of West Virginia, and eastern Kentucky) so far this year compared to 2014, and what impact is it having?*



**DF:** In Ohio and more so the Dayton region, I would say things seem more positive. People in general have a more positive outlook about the economy. We are gaining jobs, but our wages are still stagnant. The jobs that are replacing those that were lost are not replacing the incomes that were lost, and I think that issue continues to be an important part of the economic picture. So we see folks who are doing well continuing to do well and even better, but folks who were impacted significantly by the recession are not replacing their jobs with the same wages.



**CH:** Throughout the different industries we do business with, everything is pretty much the same with the exception of the oil and gas industry. The oil and gas industry seems to have fallen on temporary hard times with the price of oil being as low as it is. That has created a fair amount of layoffs in that industry and also has affected suppliers negatively. Those who supply the oil and gas industry, their business is down. But the one positive side is the slowdown has made more drivers available for trucking companies. The trucking industry has been in a severe driver shortage, and as the oil and gas activity grew, the shortage worsened.

So, there's a little temporary relief with drivers because of that, but the downside far outweighs the upside.



**MK:** Our business is far more global and national than it is regional. We had a record year last year, and it's driven by e-commerce. We know that retailers across the country are shrinking their physical footprints. More and different kinds of business are going online. The Internet is growing quickly relative to the brick-and-mortar world. It doesn't take much to take a retailer out of a physical location. They see a 10-percent to 20-percent drop in sales at a store, and they start questioning whether that store should stay or whether to consolidate more online.

**Forefront:** *What's something you realized about the Federal Reserve that you didn't know before you joined the board/council?*

**DF:** Probably the amount of independent research that's done. Each of the boards is doing a tremendous amount of research. Also, I've learned that inflation is an area on which the Cleveland Fed is focused.

**CH:** That the Federal Reserve operates around 2 data points—unemployment and inflation—and that all of its decisions are made around the numbers that represent those 2. I had also imagined that it wasn't as independent as it is, and I always thought the Fed's boards were mostly financial people. It's really made up of some bankers, plus people from lots of other industries: the chemical industry, the transportation industry, the paint industry. The members are all different to really provide a feel for business conditions.

**“The variety of council members that represents a cross section of the region ideally can help confirm or offer thoughts that might buck trends.”**

**MK:** Several things. First, the amount of information it has and the depth and quality of it, and how the Fed is able to take raw data from different segments of the economy and create meaningful information to assess the economic health and well-being of the country and what might make the economy better. I also didn't realize the variety of sources the Fed officials use and how the advisory council helps add a different perspective.

**Forefront: *What's the greatest impact you see the contributions of the board/council make?***

**DF:** It's really a reality check. The Fed is to be commended for trying to keep its ear to the ground. When you have so many very smart and well-educated economists, I think it is easy to become part of a bubble where you're only interacting with people who look at things a certain way. These boards do provide the Fed with direct information, and it's a great way for the Fed to keep grounded in what's really happening in the economy.

**CH:** We're able to provide real-time information on economic conditions from a variety of industries. In my work, I get to see what happens around transportation and some suppliers, but being able to be around others and their industries and listening to what they face from labor shortages to technology changes, it helps me to put things in a better perspective. I don't have a single lens that I'm looking through. It just keeps me more well-rounded.

**MK:** I think the council gives the bank a perspective that doesn't necessarily show up elsewhere. You might see, for example, that retail sales are flat or slightly down overall, but it might be hard to see that sales are shifting to different distribution channels such as mobile or Internet commerce.

**“There aren't hidden agendas. They're looking to help the economy and make sure there's a stable banking system.”**

The various participants offer the Fed insights, some of them subtle, beneath-the-headlines aspects of the economy. The variety of council members that represents a cross section of the region ideally can help confirm or offer thoughts that might buck trends. It gives the Fed some anecdotal evidence of what companies see that doesn't yet show up in a statistic.

**Forefront: *What's something you wish more people understood about the Federal Reserve?***

**DF:** I don't believe most people understand what the Federal Reserve does. In reality, its people have a very simple but complex mission: the dual mandate of low unemployment and low inflation. I would guess that most people think of it as an inflation-fighting organization, and they don't recognize that it has this employment goal as well.

**CH:** I wish they knew that the decisions that the Federal Reserve is making are not emotional decisions. They're fact-based, they're wide-ranging. Fed officials understand at a granular level what's going on, and all of that goes into their decisions on whether to move the interest rates.

**MK:** It is about as unbiased, straightforward, and honest a part of regulation as we have. I think Fed officials really do a pretty good job of measuring how our economy and banking systems are performing, and that is valuable to policymakers. The presentation of information has almost no political bias. I like the idea that it's straight. There aren't hidden agendas. They're looking to help the economy and make sure there's a stable banking system. They're the unsung heroes in our economic system.

**Forefront: *What's a favorite spot of yours in your part of our Fourth Federal Reserve District, and why?***

**DF:** My town, Dayton, Ohio. It is just a wonderful example of how Ohio communities have everything you can offer to have a wonderful quality of life. We have a park system here and bike trails along our rivers that are difficult to surpass. They allow a great recreation experience. We have wonderful communities with very, very affordable housing that makes living here easy and affordable for families. We're resilient, too: We've been through tough times, and we've overcome a lot. I'm very proud of what our community has been able to manage through and how we have rebuilt our economy.

**CH:** There's one spot that I feel really takes on a different feel to it when you're there, and that is the riverfront trails in Pittsburgh. You can drive by these trails, but when you get down and ride your bike and jog and walk them, it just gives the city and the rivers a whole new feel. Where 30 years ago, the rivers were polluted and didn't have much life in them at all, today they just teem with aquatic life. It's been rundown for so many years, and today it feels like a different place.

**MK:** Northeast Ohio is blessed with a lot of nature, and, in particular from mid-spring to mid- to late-fall, it's one of the best places in the world to be as far as climate and nature, with the lake, the hills, the trees, the grasses. You can boat, golf, walk in the park, and have picnics. One could go anywhere in the world, but for those 5 or 6 months, this is as good as anywhere. ■