



News

Industry Update.....	14
Insuring against compromise.....	53
Negotiating the economic currents.....	54
U.S. court trims AmEx's clause.....	54
ACH network gets more mobile.....	56

Features

GS Advisory Board:

Challenge breeds opportunity – Part I.....	26
--	----

SellingPrepaid:

Prepaid in brief.....	40
eCommLink refocuses, targets global remittance.....	42
Data breach leads to payroll card fraud.....	43
Stored value – That's the ticket.....	43

E-book review:

PCI Compliance for Dummies.....	58
---------------------------------	----

Trade Association News:

Standing together against online fraud.....	101
And the nominations are.....	101

Views

Coming in from the cold at NEAA By Patti Murphy, The Takoma Group.....	30
The HMS odyssey By Ken Musante Moneris Solutions Inc.....	34

Education

Street SmartsSM

Rules by which to thrive, not dive By Jason Felts Advanced Merchant Services Inc.....	70
How to write right By Nancy Drexler, SignaPay Ltd.....	78
Dead-on delegation By Vicki M. Daughdrill Small Business Resources LLC.....	81
Keep an eye on the store Adam Atlas, Attorney at Law.....	84
The lowdown on downloads By Dale S. Laszig, DSL Direct LLC.....	88

February 23, 2009 • Issue 09:02:02

Data breaches, more than bad publicity

Network breaches, long the Achilles' heel of data-centric business spheres like the payments industry, seemingly have become more flagrant of late. Breaches are also proving to be more expensive for victims and society as a whole.

The Tucson-based Ponemon Institute reports organizations that experienced data breaches in 2008 spent, on average, \$6.6 million in responding to those incidents. According to the research firm's annual U.S. Cost of Data Breach Study, released Feb. 2, 2009, the typical data breach last year cost companies \$202 per compromised record, compared to \$197 per compromised record in 2007.

Meanwhile, there's an emerging sense among law enforcement officials that financial data breaches aren't merely instances of fraud, but a means by which far more sinister crimes (such as terrorism and drug trafficking) are financed.

Against this backdrop, consider the consternation created among owners and operators of small online businesses (many processing fewer than 1,000 card payments a year) and their network services providers by initiatives like the Payment Card Industry (PCI) Data Security Standard (DSS), which is designed to ensure proper security of personal financial information associated with credit and debit card payments.

Patrick Harris, who operates a Web development and hosting firm called Cyberian Frontier, warns that the current push for PCI compliance among smaller e-commerce businesses could force large numbers of them out of business. The card companies are "pulling the rug out from under many of these small businesses by making it impossible for them to make money without investing large sums in PCI compliance," he said.

John Bartholomew, Vice President of Sales for Security Metrics in Orem, Utah, concurs that PCI may have the effect of weeding out the field. "We'll certainly see a reduction in the number of folks who are certified to handle card data, and rightfully so," Bartholomew said.

Bartholomew believes the PCI DSS has significantly reduced fraud. "There are lots of people who are better off today because they took all the proper steps [to secure card data] and they are maintaining them," he said.

Costly proposition

While PCI compliance may be costly, it's also becoming increasingly expensive for firms to clean up after breaches involving private consumer information, like credit card numbers.

According to Ponemon's data, the largest cost component in any network breach is loss of business due to abnormal customer churn. Over the last four years the cost of churn has grown by more than \$64 on a per-victim basis. That works out to a nearly 40 percent increase, the firm noted.



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Notable Quote

Working for the FDIC was an unusual experience. The very first weekend, the FDIC paid all staff overtime and had us track hours on time sheets. I had not received overtime pay since college.

See story on page 34



Inside this issue: *CONTINUED*

Company Profiles

A lemons to lemonade processor	47
Red Flag residual stream.....	49

New Products

Giving salons, spas the Midas touch	95
RDC, scanner tandem for small merchants	95

Inspiration

Cut back without cutting out	99
------------------------------------	----

Departments

Forum.....	5
Datebook.....	102
Resource Guide.....	104
Advertiser Index	118

Miscellaneous

Sarcasm Sells – Editorial cartoon	5
QSGS: Quick Summary Green Sheet.....	8
Bottom Lines.....	14
Water Cooler Wisdom	99

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President and CEO:

Paul H. Green paul@greensheet.com

General Manager and Chief Operating Officer:

Kate Gillespie kate@greensheet.com

CFO/Vice President Human Resources & Accounting:

Brandee Cummins brandee@greensheet.com

Managing Editor:

Laura McHale Holland laura@greensheet.com

Senior Editor:

Patti Murphy patti@greensheet.com

Senior Staff Writer:

Dan Watkins dan@greensheet.com

Staff Writers:

Sue Luse sue@greensheet.com

Michael Miller mike@greensheet.com

Joe Rosenheim joe@greensheet.com

Ann Wilkes ann@greensheet.com

Asst. VP of Production, Art Director:

Troy Vera troy@greensheet.com

Production:

Lewis Kimble, Production Manager lewis@greensheet.com

Asst. VP of Advertising Sales:

Danielle Thorpe danielle@greensheet.com

National Advertising Sales Manager:

Rita Francis rita@greensheet.com

Advertising:

Kat Doherty, Advertising Coordinator kat@greensheet.com

Circulation:

Vicki Keith, Circulation Assistant vicki@greensheet.com

Correspondence:

The Green Sheet, Inc.

800-757-4441 • Fax: 707-586-4747

6145 State Farm Drive, Rohnert Park, CA 94928

Send questions, comments and feedback to greensheet@greensheet.com

Send press releases to press@greensheet.com

NOTE – Please do not send PDF versions of press releases.

Print Production:

Hudson Printing Company

Contributing Writers:

Adam Atlas atlas@adamatlas.com

Vicki M. Daughdrill vickid@netdoor.com

Nancy Drexler nancyd@signapay.net

Jason A. Felts jasonf@gotoams.com

Dale S. Laszig dale@dslldirectllc.com

Ken Musante kmusante@hbms.com

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Reaching out to Jason

A reader sent the following e-mail to Jason Felts, who has been the author of Street SmartsSM since April 2008:

I just read your Street Smarts article on GS Online; I really enjoyed the information. I am new to the payment card industry and was wondering if you could direct me to other readings that would be helpful in understanding how to be a successful merchant level salesperson.

I am specifically looking for books that explain how to price merchants correctly or on how to sign up and handle certain markets (like doctor offices or lawyer offices, et cetera). Thank you in advance for your time, Jason.

Brian Rossetti
Bluestone Payments

Here is Jason's response:

Welcome to the industry, Brian! I'm not sure if you are aware but the Street Smarts articles are archived on The Green Sheet's Web site. Reading them would provide you a wealth of information: www.greensheet.com/gs_publications.php?flag=street_smarts. Also, Paul H. Green, The Green Sheet Inc. President and Chief Executive Officer, has written two books, Good Selling!SM and Good Selling!SM 2. I am also referring you to The Green Sheet for further suggestions.

If I can ever help you directly, please let me know.

Jason Felts
Advanced Merchant Services

Brian,

Paul Green's books are available in PDF format. To download them, please visit our Web site's book review page: www.greensheet.com/gs_publications.php?flag=book_reviews. Other helpful books are also listed on that page. In addition, you can use Fast Finder on our home page to search issues of The Green Sheet for key words. The search function will list all archived articles that contain the exact phrase you have entered in the search field. You might try entering "doctor," "lawyer," "professional office," or even "vertical market" to find specific information on pursuing medical and legal professionals.

Attending industry events is also an essential part of a merchant level salesperson's education. They offer workshops, presentations and panel discussions on important happenings in the payments industry and on aspects of building a solid business in the industry. These meetings also include networking opportunities galore with professionals willing to share their knowledge.

Editor

Correction

The news story "Friendly fraud raises fears," which appeared in *The Green Sheet*, Feb. 9, 2009, issue 09:02:01, should have been preceded by the following editor's note:

This story was adapted from "The Recession Is Sending Rates of Friendly Fraud Up, Processors Say," published by *Digital Transactions News*, Jan. 28, 2009. Copyright Boland Hill Media LLC. All rights reserved.

The online version of the story has been amended to include the note; however, the print version went to press before the matter came to our attention. *The Green Sheet* sincerely regrets this error.



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Cover Story

1

Data breaches, more than bad publicity

Network breaches, long the Achilles' heel of data-centric spheres like the payments industry, are becoming more flagrant and expensive. And there is an emerging sense among law enforcement officials that these compromises aren't just motivated by fraud. Are they being used to finance more sinister crimes – like terrorism and drug trafficking?

Feature

40

Mid-recession prepaid boon

The prepaid sector continues to gain traction as companies look for alternative value-added services and products in the tightening economy. This edition of Selling Prepaid takes a look at one company's restructuring efforts to help facilitate that trend, and how a stored-value ticketing program may revolutionize the way consumers can access live entertainment and events.

View

30

Coming in from the cold at NEAA

The Northeast Acquirers Association Winter Seminar & Outing held at Mt. Snow, Vt., from Jan. 27 to 29, 2009, occurred in a real blizzard. The weather kept about 40 registrants from attending, but for those who did make their way, the event was a blast. There were educational and networking opportunities along with loads of indoor and outdoor fun.

News

53

Insuring against compromise

Some ISOs and processors are now offering data breach insurance programs to their merchants after some insurance companies have indicated ISOs don't need to be licensed to do so. But according to industry attorney Holli Targan, ISOs offering such insurance may be unwittingly subjecting themselves to state insurance regulation. Targan explains how to avoid that trap.

View

34

The HMS odyssey

Humboldt Merchant Services became a subsidiary of the First National Bank Holding Co. conglomerate when FNB purchased the company in 2003. But in 2008, FNB was declared insolvent, and the Federal Deposit Insurance Corp. took control of HMS. Having drunk from the hydrant of FDIC ownership, Ken Musante has a cautionary tale to tell.

News

54

Negotiating the economic currents

The Electronic Transactions Association and The Strawhecker Group recently released the US Economic Indicators Report. This quarterly compilation of data is designed to help payment professionals understand the financial environment in which they operate, where opportunities lie and where the danger signals are.



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News

54

U.S. court trims AmEx's clause

In January 2009, the U.S. Court of Appeals for the Second Circuit of New York reversed a lower court's decision requiring merchants to waive class action litigation when signing an agreement with American Express Co. The impetus for the decision stemmed from the individual merchants' inability to shoulder the costs of lawsuits and arbitration.

News

56

ACH network gets more mobile

In 2007, NACHA – The Electronic Payments Association formed the Mobile Banking Work Group. The new body is charged with evaluating the rules for mobile applications on the automated clearing house network and suggesting rule changes to enable and track secure mobile transactions.

Education

70

Street SmartsSM: Rules by which to thrive, not dive

Many of today's business-to-business merchant level salespeople (MLSs) have never weathered a true economic downturn. It's not hard to hit quotas in the good times, but what do you do when the economy slams on the brakes? This article offers some rules that will help you keep in business and thrive.

Education

78

How to write right

Good writers are more successful than bad ones. And good writing connotes education, intelligence, sophistication, maturity and attention to detail. Following are some do's and don'ts for making your letters, sales materials, ads and other written communications more effective.



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Education

81

Dead-on delegation

2009 is in full swing, the economy continues to struggle and generating new customers is a top priority for every business. Owners of successful businesses exhibit nine distinct management skills. One of them is the fine art of delegation.

Education

84

Keep an eye on the store

Whether or not ISOs and MLSs carry liability on merchant portfolios, it is in every organization's best interest to monitor its merchants to help avoid liability that can lead to loss of residual income. This article highlights what ISOs and MLSs can do to educate their merchants and reduce the risk of loss.

Education

88

The lowdown on downloads

In the payments industry, 'download' refers to a file sent from a host processor to a credit card processing device. And the good news is that downloads are becoming faster and easier than ever. New technology reduces wait times and offers new, time-saving strategies to get POS terminals programmed and out the door.

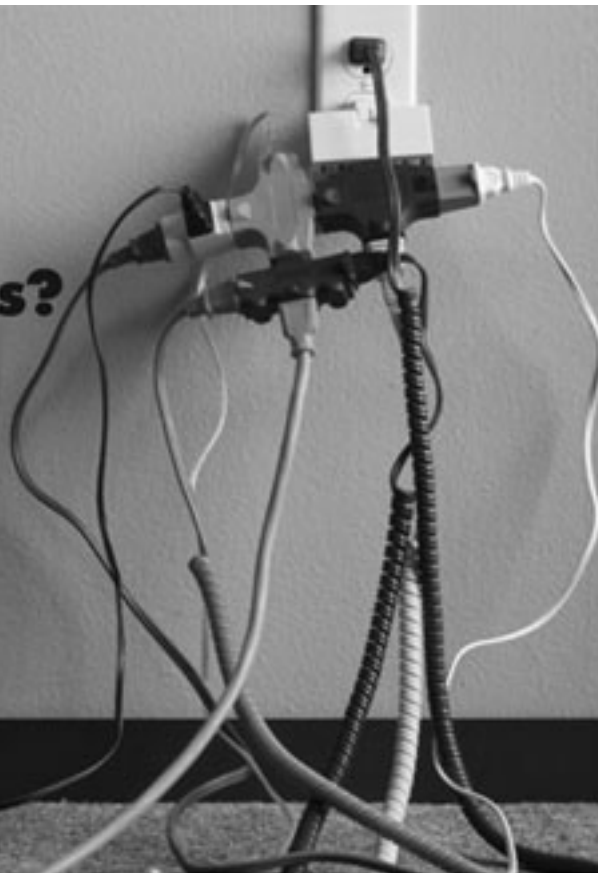
Inspiration

99

Cutting back without cutting out

Unemployment is up, consumer spending is down and government bailouts of formerly sound financial institutions are pouring out. But for ISOs and MLSs, it is important to appreciate ways in which we continue to be prosperous and to reduce expenses without eliminating lifestyle amenities.

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IndustryUpdate

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NEWS

AmEx joins EMVCo

American Express Co. joined EMVCo, the Europay, MasterCard and Visa (EMV) International standards body, in February 2009 as its fourth owner-member. AmEx joins **Visa Inc., MasterCard Worldwide** and **JCB International** in EMVCo, whose primary role is to manage, maintain and enhance the specifications for EMV smart card, or chip-enabled credit card, payment systems.

The addition of AmEx aligns with EMVCo's intent to attract further industry participation in the development of EMV specifications. AmEx acquired a one-fourth share of the EMVCo from the respective holdings of the other card brands and will have an equal interest in the organization.

"EMVCo welcomes AmEx as its fourth global payment systems member," said Tad Fordyce, Chairman of the EMVCo executive committee. "AmEx will be able to lend expertise at both the technical and management levels, which will directly support the EMVCo goal to enhance global chip standards and offer secure and interoperable payments at the POS around the world."

Fraud up, costs down

According to the **Javelin Strategy and Research** 2009 Identity Fraud Survey Report, the number of identity fraud victims increased 22 percent to 9.9 million adults in the United States, while the total amount of fraud increased only \$48 billion – or 7 percent – in 2008. The report said fraud detection and resolution efforts

are working well; as a result, the mean costs of identity fraud plummeted 31 percent to \$468 per incident last year.

"Javelin's 2009 Identity Fraud Report highlights that fraud is increasing but is being caught more quickly; consumer costs [related to fraud] are declining; and crimes of opportunity, such as information from lost wallets, still comprise the vast majority of incidents," said James Van Dyke, President and founder of Javelin Research.

"The good news is research shows consumers have more control than they may think, and more of them are taking active steps to protect themselves. Additionally, the financial industry has made significant strides to resolve fraud incidents for their customers and put stronger controls in place to limit fraud, which is lessening the impact of the crime."

Alternative for small fuel merchants

The National Payment Card Association, a payment settlement provider, recently launched a payment system called GasCapRewards. The new decoupled debit card payment system offers retailers fixed transaction fees and immediate price rollbacks at the time of purchase. These rollbacks are self-funded from the savings generated by the elimination of credit card interchange fees.

The NPCA charges merchants a flat fee per transaction that can be connected to a loyalty card, third-party card or driver's license. Transactions are processed through the Federal Reserve automated clearing house. The decoupled debit platform requires a user ID number for

BOTTOM
LINES

HEADLINES
FROM THE
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- According to a **National Retail Federation** poll conducted by **BIGresearch**, the concern that "gift cards seem impersonal" is the most common reason consumers would be hesitant to buy one, with 22.7 percent of those surveyed citing it as a factor; 10.9 percent said they'd rather buy items on sale, and 9.8 percent were concerned the card would expire or have added fees.
- **EMarketer Inc.** estimates the U.S. Internet population will grow to nearly 200 million users (63.4 percent of the population) in 2009. According to the study, some 221 million people will be online (69.2 percent of the population) by 2013.
- According to the **The NPD Group**, U.S. retail sales of toys generated \$21.64 billion in 2008 compared to \$22.32 billion in 2007, a decline of 3 percent. With a loss of 5 percent, the fourth quarter of 2008 showed the most significant decline in sales for the year.
- According to a report from **Sageworks**, auto dealer sales decreased the most among retail categories for the year 2008. Auto dealer sales were down 11.77 percent in 2008, compared with a 3.18 percent uptick in 2007.

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IndustryUpdate

authentication and is processed as an ACH transaction through the NPCA's network.

ANNOUNCEMENTS

Wallet in a phone

Mobile commerce solutions provider **Blaze Mobile Inc.** released a new version of its Blaze Mobile Wallet, a downloadable mobile commerce application compatible with an iPhone or iPod. The product enables users to manage online purchases, banking and money transfers, and also provides a mapping service.

CO-OP offers CU's mobile solutions

CO-OP Financial Services is offering credit unions low cost, turnkey entry into the mobile banking and contactless cards payment arena, two of the newest technological advancements quickly gaining popularity with increasingly tech-savvy consumers.

CO-OP introduced its mobile banking offering in October 2008 with mFoundry's financial services platform to deliver mobile banking offerings to credit unions via a downloadable client application.

iDeposit, you deposit

Gulf Management Systems Inc. introduced iDeposit Plus, a Web-based remote deposit service that lets businesses deposit checks electronically and collect automatically on returned checks. The service includes automatic check representation, reducing fees by as much as 90 percent.

Canadian receivable operations expanded

J.P. Morgan Treasury Services expanded its receivables operations for both paper and electronic transactions across Canada, providing a one-stop process for both U.S. and Canadian account holders. This new capability enables clients to speed up their receivables payments throughout North America.

Debited and less indebted

Venture capital firm **KPG Ventures** invested \$2 million in the **National Payment Card Association** to help the company further develop and expand its low-cost debiting system. The NPC's merchant-friendly, user ID-based payment system avoids the interchange fees of credit card companies by processing transactions through the Federal Reserve ACH. The technology is currently deployed at fuel and convenience stores across the country, but the KPG investment will propel NPCA systems into supermarkets and drugstores.

Parascript introduces new check recognition software

Parascript LLC, an image analysis and pattern recognition software firm, introduced CheckUltra, a next-generation check recognition solution that offers higher recognition rates and a significant reduction in labor and human errors associated with check processing. CheckUltra is specially designed to improve check processing efficiency in image exchange, remote capture and proof-of-deposit environments.

Retrofitted bridge to cyberspace

Internet Protocol payment company **Precidia Technologies Inc.** introduced its Transnet Payment Engine, which channels POS purchases to certified payment processors via a router that is compatible with Toshiba TEC America electronic cash registers.

The device eliminates gateway fees, allows merchants to choose payment processors and provides top-flight security designed to facilitate merchant Payment Card Industry Compliance (PCI) Data Security Standard (DSS) compliance.

PHT joins PCI SSC

Medical payment processor **Preferred Health Technology Inc.** is now a member of the PCI SSC. Its new position entitles the company to a voice in establishing pay-

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Industry Update

ments industry regulations – particularly regarding the hot-button issue of data security. The council currently has over 500 member organizations.

Experts to speak at Data Security Summit

Payment processor **Propay Inc.** is gathering some of the brightest minds in the payments industry to speak on the latest industry trends and best procedures for protecting sensitive customer data at the 2009 Data Security Summit, March 18 to 19, at the Snowbird Resort in Salt Lake City, Utah.

Representatives from the payments industry and law enforcement agencies will be on hand to network with attendees and talk about the latest updates from their respective organizations.

"The landscape of the payments industry is ever-changing, and the need to educate the market on best practices and the latest technology is essential to the survival of every company," said Greg Pesci, Propay Executive Vice President of Business Strategy.

"This Summit is an opportunity to bring experts and non experts together to educate each other on the trends in the market and the pains customers and businesses are

experiencing in regards to digital transactions."

All aboard the PayDay Express

Processor and value-added reseller **Secure Payment Systems Inc.** is offering an upgrade to its 90 Days Same as Cash service, which allows merchants to accept up to four customer checks, deposited in 30 day intervals, for a single retail transaction. Under the enhanced version, called PayDay Express, payments are conducted electronically with consumers automatically debited at each 30-day juncture, rather than having merchants deposit the checks manually.

Visa aberrantly robust in 2009

Defying economic trends, **Visa** reported a net operating revenue of \$1.74 billion in 2009 – a 17 percent increase from its \$1.49 billion yield at this point in 2008. That figure is the product of growth in all revenue categories, including an 8 percent increase in service revenues (\$793 million), a 13 percent increase in data processing revenues (\$554 million), and a 33 percent upsurge in international transaction revenues (\$505 million).

The company anticipates net revenue growth in the high single digits for the rest of 2009, but cautioned that revenue growth could be challenged in 2010 if the current economic conditions persist.

Voltage enhances encryption service

Voltage Security Inc. instituted enhancements to its Voltage SecureData that support more environments and platforms including end-to-end encryption across distributed environments used by retail and payment processors. The service will make it easier to comply with regulations and protect sensitive customer information from the moment it is obtained.

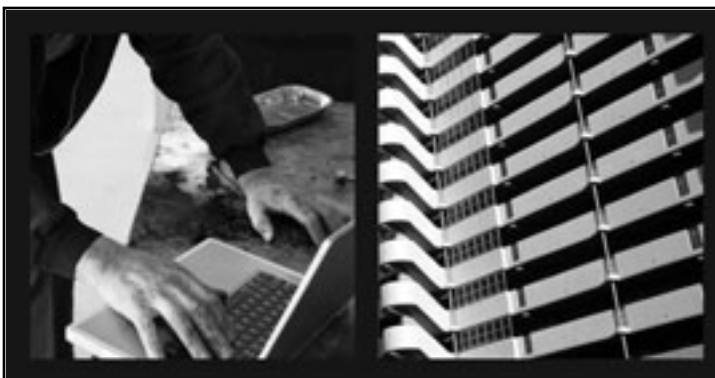
PARTNERSHIPS

Bling Nation in another nation

The Chilean economic development agency **Corfo** has given a \$500,000 grant to help cultivate a partnership between Chilean engineering company **Micrologica Systems Ltd.** and payment network provider **Bling Nation Ltd.** The partnership, Micrologica Innovation, is investing \$2 million in product development, including mobile payment devices and software applications to enable online payments on smartphones, wireless POS machines and contactless payment tags. Corfo offers American technology companies grants to conduct research and development work in Chile.

Micros teams up with Goals Soccer Centres

UK sports venue operator **Goals Soccer Centres PLC** and **Micros Systems Inc.** partnered to implement information technology aimed at increasing business effi-



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Industry Update

ciency. Micros Systems, a information technology services provider for the hospitality and retail industries, will provide Goal Soccer Centres with systems to improve efficiency and centralize the management of its 30 locations.

Oberthur, Xiring team up

Smart card solutions company **Oberthur Technologies S.A.** signed an agreement with authentication solutions provider **Xiring** to enhance its Subscriber Identity Module (SIM)-based two-factor authentication for secure online services. SIM-based authentication allows mobile operators to deploy SIM Token Password technology, which is compatible with smart phones and all standard computer operating systems.

"The need for protecting the identity of individuals on the Internet is increasing," said Olivier Leroux, Director of Oberthur's Card Systems division. "With our enhanced SIM Token solution, mobile network operators can now offer secure online solutions based on SIM cards."

Omega to sell RDM's remote deposit products

Omega Transactions Corp. has teamed with **RDM Corp.** to resell RDM's electronic check conversion soft-

ware and hardware products, allowing the ISO to provide customers with remote deposit capture services for electronic check deposits.

The software is not limited to use with any particular bank, so merchants won't need to change their existing banking arrangements. To kick off the introduction of RDM products, Omega Transactions will offer a 90-day-free trial of Simply Deposit, a product developed specifically for small businesses.

Partnership offers new image clearing option

Payment processor **COCC** and **Bankers' Bank Northeast** formed an alliance to deliver image cash letters from COCC's client institutions for settlement to BBN. The partnership introduces additional image presentation options for COCC clients, as well as access to BBN's OnWe Network for local, regional and national presentations.

ACQUISITIONS

UBC procures more accounts

United Bank Card Inc. will acquire over 5,000 merchant accounts, valued at \$11 million, from Optimal Payments

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Doin' it right

Apriva Inc., a payment gateway focusing on Internet protocol (IP)-based transactions, is dedicated to providing Payment Card Industry (PCI) Data Security Standard (DSS) compliance for data in motion. To that end, Apriva joined the PCI Security Standards Council (SSC) on Feb. 4, 2009, and will work with the council to enhance the PCI DSS and other PCI data protection standards.

"We offer a program with our terminals called Certified Secure, and we're one of the first companies to be certified and fully compliant with data in motion," said Bill Clark, Executive Vice President of Apriva. "We're also very active in securing transaction transport from the POS terminal systems [PTS] all the way to the processors. Joining the Council was a natural extension because we're interested in helping to drive those standards and add value where we can."

An active voice

As a participating organization, Apriva has access to the latest standards issued by the PCI SSC and will be able to provide feedback on the PCI DSS in conjunction with other council members. Bob Russo, General Manager of the PCI SSC, said the council is committed to helping everyone in the payment chain protect consumer data. And he added that Apriva's participation in setting standards demonstrates the company is devoted to playing an active part in attaining this goal.

"We are pleased to announce our participation in the PCI SSC," said Paul Coppinger, President of Apriva. "We

look forward to providing significant contributions to the collaborative effort to advance the security of payment data." The PCI DSS, endorsed by all five card brands, requires merchants and their service providers that store, process or transmit payment card data to adhere to information security controls and processes that ensure data integrity.

Clark saw joining the PCI SSC as another avenue for being involved in developing and implementing new security solutions in the payments industry. Apriva is also a member of the Electronic Transactions Association and the Financial Services Technology Consortium, whose goal is uniting financial service professionals to work in a noncompetitive, open forum to share problems and challenges, and develop next-generation technologies.

Ahead of the curve

"More than anything, it's important to know where these businesses are going so that we can try to stay ahead of things," Clark said. "We ensure all of our partners, carriers, deployment houses and processors who utilize our software and processes that we are here to help with the PTS and PCI compliance.

"Our goal is to help guide those standards. Our information technology people are working with the PCI SSC's research and development folks on new products and technology related to the evolution of data in motion.

Additionally, our Chief Security Officer will be actively working to make sure that

we understand what the council's processes and goals are moving forward."

An expanded market footprint is a side benefit to Apriva's membership in the PCI SSC, Clark said, but there is another, more important priority for the company. "We have a lot of resellers that rely on us to provide secure and dependable solutions," he noted. "So we see our involvement with the PCI SSC as just a way of extending that capability and to stay in sync with the industry's product and technological evolution."

Standing out

Clark also mentioned that what makes Apriva unique among many other wireless service providers is that it provides more than just a data connection. The company currently has six security software patents related to keeping data out of the clear.

"We provide security software on the device as well as in our gateway," Clark said. "That's what has helped us become PTS- as well as PCI DSS-compliant. We also provide assurances that those devices are certified with all our integration software."

Apriva plans to unveil a secure networking product at the ETA's Annual Meeting & Expo in Las Vegas in April 2009. The device offers end-to-end IP security and is placed right at merchant POS terminals.

"We are focused on providing end-to-end secure transactions wherever possible," Clark said. "With multiple players in the data stream, it's not always possible to have complete customer data security, but certainly we are moving very quickly in that direction." ■

Corp. "This deal was a long time in the making and represents the hard work and dedication of the staff and management of both Optimal Payments Corp and United Bank Card," says UBC Chief Executive Officer Jared Isaacman. "To complete an acquisition of this size in such difficult economic times is a testament to the strength of United Bank Card."

Trustwave acquires Mirage

Trustwave, a leading provider of on-demand data

security and payment card industry compliance management solutions to enterprises worldwide has agreed to acquire Mirage Networks, a developer of patented network access control (NAC) technology. The terms of the deal are confidential.

"Mirage Networks' NAC technology and expertise in endpoint compliance and behavioral policy enforcement will complement our current suite of security services," said Robert J. McCullen, Chairman and CEO

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IndustryUpdate

of Trustwave. "Malware that circumvents traditional security measures or results from insider abuse of network access is stopped with Mirage Networks' patented NAC technology."

APPOINTMENTS

Buske joins Optio Solutions

Terry Buske joined Optio Solutions LLC as Vice President of National Sales, where he will oversee the opening of a new office in Houston while helping manage the sales teams in Rohnert Park, Calif. and Dallas.

Busque brings to Optio several years of management experience in the technology, financial services and collection industries.

Electracash tags Cornejo

E-commerce payment processor Electracash appointed **Richard S. Cornejo** its new Director of Marketing.

The addition of Cornejo is part of the company's push to market a recently unveiled affiliate program for electronic payment resellers and their business partners.

Cornejo has held a number of executive management positions at leading financial institutions, including service as Executive Vice President and BankCard Manager for Charter Pacific Bank and President and CEO of BBH Qualified Plans Inc.

TSYS elevates two

TSYS Acquiring Solutions promoted two team members to its senior management team. **Jim Cosgrove** moved up to Treasurer and Group Executive of Finance, while **David Duncan** advanced to Group Executive for China and Southeast Asia. Duncan will be responsible for TSYS China and China UnionPay Data Services Co. Ltd.

Cosgrove will work out of the company's headquarters in Columbus, Ga.

Foss moves up at ProfitStars

Jack Henry & Associates Inc., a provider of integrated technology solutions and data processing services for financial institutions, promoted **David Foss** to President of its ProfitStars division.

Foss, who has been with the company since 1999, had been ProfitStars' General Manager.

NIC promotes Knapp to EVP

Robert Knapp, a nine-year veteran of government payment processor NIC Inc., was promoted to Executive Vice President. Knapp has served as General Manager, Regional Manager and Vice President of the company's Portal Operations, where he will maintain oversight while also attending to company wide growth initiatives.

Jacques to the Pacific

Hypercom Corp. appointed **Jacques-Herve Maupin** as Managing Director, Asia Pacific. He will take over for T.K. Cheung, who has taken the job of Vice President, Quality and Security for the company.

Maupin brings 20 years experience in the electronic payment, smart card and information technology industries.

De Veyra to lead global council

Lib de Veyra, Vice President, Emerging Technologies at JCB, has taken over as chairperson of the PCI SSC. A new chairperson is appointed annually by a rotation among representatives of the five major card brands making up the council's Executive Committee: AmEx, Discover Financial Services, JCB, MasterCard and Visa.

De Veyra succeeded Rob Tourt, Vice President, Discover, who served as chairperson in 2008. ☐

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ADVISORY BOARD

Challenge breeds opportunity - Part I

We have all heard the barrage of bad news. It is inescapable. But what about the good news? Sure, today's business environment is volatile. However, with risk there is always reward. Anyone who has been in the payments industry for any length of time knows that with every challenge new opportunities arise.

So we turned to members of *The Green Sheet's* advisory board to see what silver linings they see in the clouds hanging over the industry. We asked them to answer the following questions:

- What rewards do you see in the near future?
- How are you planning to pursue those opportunities?
- What advice can you offer merchant level salespeople (MLSs) who want to take advantage of these new endeavors?

This article contains the first portion of responses we received; the second installment will be published in *The Green Sheet*, March 9, 2009, issue 09:03:01.

Sam Chanin

Outside Ventures LLC

We're finding merchants are placing a greater premium on certainty of execution, service reliability and a deep relationship with their ISO than ever before. For us that's a very good thing because these concerns are fully aligned with the areas of our business we have concentrated on. We are being rewarded in two critical areas:

1. Our existing customers are relying on us to deliver a greater range of services, so we are increasing customer share while reducing the rates of merchant attrition.
2. We are also experiencing tremendous growth in new business because more merchants are seriously interested in how we can help them manage through today's volatile business environment.

As Chief Executive Officer for operating companies that have spent a great deal of time refining every aspect of

the business, the best reward is the market seems to be favorably responding to everything we have implemented. It's incumbent on us to keep developing services that will meet the challenges that are sure to come.

Steve Christianson

All Card Processing/AMonte Bankcard

One of the problems with the economic downturn in the financial markets is it is unprecedented in the history of the country and the world. We have no history to study.

The last big downturn began in 1929, and the bailout by Roosevelt was the Works Progress Administration, for instance. Obama has said he wants to do some of the same things. But the truth is that economic plan was doomed to fail then; inflation was skyrocketing, and unemployment was still very high. Throwing money at that problem in the 1930's did not cure our problem.

The saving grace, sad to say, was when Japan bombed Pearl Harbor, and the war machine kicked in. Boom went the economy; the unemployment rate sank to new lows; those not fit for military service, including men and women, went to work in our factories, building military hardware, uniforms, cots, food rations and so on. So if we want a historical solution, do we want to wish for a big world war to spike the economy?

Also, because this time is unprecedented, we cannot predict the point at which it will begin real recovery. If the bailout fails, the recovery is set back several more years. We cannot print more money to spend on government programs as a solution. There is no free lunch, and if the government continues raising taxes things will get worse – a lot worse.

One solution is having no income tax for one year. Let people have that money to spend, and a recovery will start without government spending. If we ran our businesses like the government, we would not be in business today.

You ask about a silver lining. ISO owners and our sales reps, who have worked hard, been conservative in their spending and have savings in the bank to work through this hard time, will be in prime position to be even more successful when this is over.

But again, how long can we all wait when merchant volume is down 10-plus percent and revenues the same or more? We used to see over a 1,000 new businesses open each month in our area.

Last week the new DBAs were 45. People either have no money or are holding on to it just in case – either way, not enough money is being spent. Fast food is doing relatively well. Fine dining is down up to 25 percent. Both silver linings and dark clouds just make a pretty

"Americans are resilient and have patience. The most important point is we will survive. So spend your own money, not the government's. Maintaining a positive attitude and good planning are instrumental in a recovery."

- Steve Christianson
All Card Processing
/AAmonte Bankcard

sky. We are seeing more people looking for work in bankcard sales. Some truly want the opportunity to be able to live well; some just want an opportunity period.

Since our reps are true independent contractors, the lag time between sales and residuals will be tough, but if they persevere, it will be very rewarding.

Americans are resilient and have patience. The most important point is we will survive. So spend your own money, not the government's. Maintaining a positive attitude and good planning are instrumental in a recovery. Do we need to cross our fingers? Probably not, but it certainly cannot hurt.

Pete Estep

National Bankcard Systems

With massive layoffs, businesses closing, industry regulation and the general gloom and doom, it's been hard to see anything positive happening in our industry for the past year.

Normally during a recession we would see an increase in credit card use, but this time our overall volume dropped a lot faster in

November and December compared to any increase in credit card use, especially when compared to the years before.

One positive NBS has seen, which is a product of all the layoffs in the financial industry, is an increase in the quality and quantity of salespeople looking for jobs. We've been doing very well at recruiting agents for the past year. Many of them are coming from the financial sector and have been a very good fit in the merchant processing industry.

Another opportunity that has arisen from all this turmoil is a lot of banks, ISOs and processors are going into some type of panic mode. We are seeing more extra or add-on fees than we've ever seen before. We're seeing extra Payment Card Industry Data Security Standard compliance; annual, quarterly and monthly fees; extra transaction, basis points, warranty and equipment fees.

There are fees for monthly discounting and security breach and risk fees. There are these simplified merchant fees that are really just a good way to charge the small mom-and-pop merchant 4 percent-plus for their processing. I even saw a fee for a rate review last week that really had the merchant confused.

Most, if not all, of these fees have been added after the merchant originally signed. Processors are imposing these fees even before the traditional interchange increases in April, which will mean these merchants will be facing another round of rate increases in the upcoming months. This will create further unrest with a lot of merchants. I think it will create a lot of opportunities for the sales agent out in the field.



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Feature

Curt Hensley

CSH Consulting Inc.

Of course it's all about a focused sales effort, making sure our sales organization is actively pursuing the right prospects and properly supporting existing customers. To make sure we are executing, the company has to deliver an extraordinary level of service, we have to keep the product development pipeline fresh with compelling services, and we have to stay very plugged into the market. Boiled down to a simple phrase, at all levels for all reasons, we must make ourselves easy to do business with, and that's how we have pursued and intend to pursue opportunities.

Affiliation with a full-service provider that can help you attract and grow merchant accounts is vital. Once you have this, you can win merchants' confidence by promising a great deal but delivering even more. All merchants are going to be looking for ways to cut costs. Many retailers that wouldn't take the time to listen to a sales agent offering to save them money each month will now listen. We are seeing several good candidates at major players in the industry quietly looking for smaller companies where they can use their talents to grow another company.

This leaves open some great opportunities for small to mid-sized ISOs to grab some great talent without having to "buy" them away from where they are at. We are interviewing all of the candidates and looking to pinpoint top performers for our clients. Bringing on average employees who didn't make it elsewhere won't grow a company in this environment, so getting the best is more important than ever.

This environment thins the field, and the very best rise to the top. Be aggressive, enhance your knowledge and skills, and use every piece of good advice from those who have had success in the past. Those who are willing to work harder, be more prepared and be creative in closing techniques will weed out those frozen in fear of the economy.


Kevin G. Jones

First American Payment Systems LP

I believe the current economic climate will reverse the trend of our industry being looked at as a commoditized product. The challenges of the current economy create an environment in which the differences between each product, service and support-level becomes highlighted. This can help reverse the trend of margin compression as companies are able to demonstrate tangible results from value-building elements and reduce the focus on price/rates alone over time.

We plan to continue marketing ourselves as a premier, in-house processing partner. This message will not change (which emphasizes our proprietary front- and back-end platform, in-house 24/7 customer service and help desk, customized marketing and client relations consultancy, and consistent stability and security).

But as the market begins to place a greater value on creating long-term strategic partnerships, we will see greater response to our message. There are several outstanding companies in our industry and hundreds of talented MLSs. Each of us has built a differentiated product and service-set that offers a value we think is superior in the market.

Now is the time to illustrate these differences, while focusing on the building blocks of sustained success in this industry: a strong, stable balance sheet; reliable residual payments; dependable, measurable service levels; and in-house and/or flexible platforms. 

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Insider's report on payments**Coming in from the cold at NEAA****By Patti Murphy***The Takoma Group*

For those who braved the trip to the Northeast Acquirers Association Winter Seminar & Outing held at Mt. Snow, Vt., from Jan. 27 to 29, 2009, it was a real blizzard. It was cold and very snowy; snowy enough to keep about 40 registrants from attending, according to Jacques Breton, Corporate Recruiter at CoCard Corp., and NEAA Treasurer.

But the event was a blast anyway. It offered educational sessions and plenty of networking opportunities, as well as loads of fun. Capping off day two of the event was a raucous evening of games, karaoke, dancing and more, sponsored by Electronic Merchant Services. Then, the next morning it was off to the slopes (some chose snowmobiles) to romp in about a foot of fresh powder.

"We are hearing from a number of folks that this was one of the best if not the best event" produced by NEAA," Breton said. Plans are already in the works for the 2010 winter event, to be held again at the Grand Summit Resort in Mt. Snow, Jan. 26 to 28.

Stoking the hearths, regionally

NEAA was the first-ever regional acquirers association and was founded about 10 years ago as an educational forum for ISOs, merchant level salespeople and financial institutions. Today, there are three other such associations: the Southeast Acquirers Association, Midwest Acquirers Association and Western States Acquirers Association.

The groups are known for providing quality programs at little or no cost to attendees. (Vendor sponsors pick up the tab for just about everything except hotel rooms.) WSAA was created in 2004, primarily in response to feedback the NEAA was getting from its seminars and outings, the founders said. Like the NEAA, WSAA is a nonmembership organization focused on educating and informing payment professionals.

The group held its fifth annual event in September 2008 in Scottsdale, Ariz. This year's event will be held at the Sheraton Hotel in Anaheim, Calif., "right next door to Disneyland," said Ken Elderts, WSAA President.

The MWAA came into being in 2003 in an effort to carry on the regional approach to training, education and networking. Today its event attracts nearly 500 professionals from the field. This year, MWAA's seventh annual conference will be held in Lombard, Ill., just outside of Chicago, and will feature new strategies and opportunities for growing merchant portfolios, the organizers said.

"For as long as I've been involved in the card acquiring space, interchange has been a point of contention between merchants and their payment services providers. While many merchants have responded with litigation, others have sought ways to contain interchange costs."

— Patti Murphy
The Takoma Group

And for the seventh year, MWAA will present a Lifetime Achievement Award.

Founded in 2000, the SEAA is the second-oldest regional acquirers group. Its aim: to provide an opportunity for ISOs and MLSSs in the region to network and learn more about acquiring industry trends and opportunities. SEAA's 2009 annual conference began Feb. 23 in sunny Orlando. It features educational sessions on interchange, legislation and the economy.

In a new twist, this year's SEAA event kicks off with a job fair. Job seekers can attend the fair and the rest of the conference that day for free. All vendors participating in the show have committed to meet with job seekers about prospective opportunities at their organizations.

As part of the fair, Mark Dunn, President of Field Guide Enterprises LLC, will offer his Field Guide for ISOs presentation – always a popular show.

Bright spots

All regional events offer opportunities for companies to showcase their offerings. Merchant Warehouse was one of dozens of companies that soldiered up to Mt. Snow to exhibit at NEAA. The Boston-based firm is touting a "first of its kind" interchange management tool for the POS.

For as long as I've been involved in the card acquiring space, interchange has been a point of contention between merchants and their payment services providers. While many merchants have responded with litigation, others have sought ways to contain interchange costs. That, in turn, has spurred some processors and acquirers to come up with client-focused interchange management programs that can help their agents grow sales.

HOW TO

leave your ISO

a "Dear John" letter to your Processor

Times are really tough these days
And I don't think it's just a phase
So I need a processor who is able
To keep my business safe and stable.
And I'm not sure you are the one,
Based on some of the things you've done.

for instance...

It didn't take long for me to realize
That your rates weren't quite as advertised
And nothing is more truth-distorting
Than your residual reporting.
Even still, it would be sublime
If once in awhile you could pay them on time.

I was glad you would train our feet on the street--
Except all they learned was sales deceit,
And frankly I'm getting a little nervous
About what you call your customer service.

The online software you created is actually very over-rated
And I'm tired of your staff exploding when a terminal needs downloading.
I've got better odds in a game of chance, than of you funding a cash advance
And I'd rather suffer a slipped disk than deal with the folks you've got in risk.

So...

I need an ISO with more credentials--
Proven experience is essential,
Someone willing to spend the time
To show us how to make a dime
Who'll give us marketing, leads and fees
That will not bring us to our knees

And a staff that's happy to resort
To genuine customer support
In these tough times, I can't endure
If you are not financially secure
I need to know that you'll always succeed
Or you simply aren't the ISO I need

So I regret to inform you that as of today
I'm switching over to SignalPay.

*Best wishes,
Your former sales agent*

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View

But Merchant Warehouse's BIN\$mart Cost Manager is being offered as a custom application for Hypercom T4220 terminals. A spokeswoman for Merchant Warehouse said the company also plans to make the application available to POS developers wishing to integrate it with their terminals.

"This new product is the first of its kind," said Henry Helgeson, President and co-Chief Executive Officer of Merchant Warehouse. Depending on a number of factors, including the merchant's actual fees and business type, BIN\$mart automatically prompts the customer with the lowest cost-clearing option.

In the case of debit cards, that would be PIN or signature authorization. With debit cards accounting for nearly half of all POS card payments, individual merchant savings can be significant, according to Helgeson. "BIN\$mart Cost Manager actually turns the playing field in favor of the small merchant, providing savings opportunities most big stores don't even have," he said.

Finding out about new technologies and services such as BIN\$mart is one of the beauties of events such as the NEAA. Breton said he hopes to encourage other vendors to follow Merchant Warehouse's lead and use the event as a launch pad for new products and services.

Job hunting in the snow

But the NEAA show was also an excellent opportunity to network one-on-one with industry leaders. Although the SEAA was the first to launch a job fair in conjunction with its annual conference, plenty of jobs networking occurs at each of these events. At the NEAA event in January, I shared lunch with a woman (a 16-year veteran of the industry) who had just been laid off.

Since she had already paid for her hotel, she figured she'd come to the show and see if she could find some job leads. There were about five other folks at the table with us, and by the time she finished eating, she had two good leads. "I feel good about being able to find something," she said before we parted ways.

This is a business that rewards ambition; that's why it attracts so many entrepreneurial spirits. Remaining profitable, or even employed, in the acquiring sector going forward, I believe, requires patience and diligence.

And don't forget: The regional associations offer inexpensive, effective ways to help you become better merchant services providers and better business people. 📧

Patti Murphy is Senior Editor of The Green Sheet and President of The Takoma Group. E-mail her at patti@greensheet.com.



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The HMS odyssey

By Ken Musante

Moneris Solutions Inc.

Having recently been president of a company owned by the Federal Deposit Insurance Corp., I have drunk from the fire hydrant of knowledge and have the following cautionary tale to share. It started in 2003 when Humboldt Merchant Services LP was purchased by First National Bank Holding Co. HMS became a small subsidiary within the FNB conglomerate. The workforce of HMS represented only 5 percent of FNB's roster of 2,000 employees. We were a modest, yet profitable, contributor to the company's earnings.

FNB had three banks (one apiece in California, Nevada and Arizona), along with other subsidiary companies in the wealth management, insurance and home owner association industries. The bulk of its earnings came from mortgage services and construction lending. Earnings were good and far superior to those of peer bank holding companies.

Furthermore, FNB's corporate structure was unique. One family, the Lamb family, owned the company, and the patriarch, Ray Lamb, was instrumental in establishing its organizational dynamics. FNB was capitalized through the Lamb family's personal net worth and augmented by trust-preferred securities – a fancy name for a loan that may be counted as bank capital. Because the bank had nontraditional capitalization, additional capital was not available when the economy soured in 2007. FNB could not quickly reach out to the public market for backing, and its individual owners did not have an unlim-

ited supply of funds. Consequently, one way to raise capital was for the Lamb family to sell HMS to Ray Lamb, who would buy out HMS personally and contribute the purchase price to FNB's capital. Unfortunately, as banking conditions deteriorated, Lamb recognized the additional capital from HMS' sale would not keep the holding company afloat.

Instead, FNB sought an investor partner. The investment would be in the holding company, and HMS was to remain a subsidiary of it. But, as we all have seen, the collapse of the banking industry was faster and more severe than expected. Bank investors lost billions of dollars overnight, and the hope of finding an entity to invest in FNB vanished.

Enter the FDIC

In May 2008, Lamb and FNB's board of directors decided to sell HMS, along with other valuable assets, to an independent third party. HMS had discussions with three parties interested in buying the Eureka, Calif.-based processor.

On Fri., July 23, 2008, I was meeting with one of those parties in Eureka. On that same evening, after wrapping up discussions, I received an urgent call from an FDIC executive. FDIC representatives were en route to our office; the executive asked for all HMS managers to attend.

At 7:15 p.m., the FDIC officer – along with three outside consultants – held court and explained that HMS was now owned by the FDIC as a result of the Office of the Comptroller of the Currency declaring FNB insolvent. I later learned the three consultants were necessary because the FDIC did not have sufficient staff to manage all the organizations it shuttered at that time.

Working for the FDIC was an unusual experience. The very first weekend, the FDIC paid all staff overtime and had us track hours on time sheets. I had not received overtime pay since college. Because our health care plan had been administered by

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our parent organization, it was now cancelled, and a new plan was quickly erected.

The FDIC had no understanding of HMS' value. The first night, I received queries from my new superior, such as, "Do you have a company car?" and "How much cash do you need from the parent organization each month?" For the record, the answers were no and zero. We have a cushion of \$40-plus million in cash. But the fact that the FDIC did not realize we were a cash provider for FNB was of concern.

Foreign occupation

My education continued when I learned the meaning of the word "repudiate." Once the FDIC shutters an institution, it can nullify or repudiate all existing contracts at will. But because we were still a valuable company, and the FDIC wanted to sell HMS to the highest bidder, the agency did not nullify or repudiate any of our contracts. Instead, it worked to ensure our enterprise value was protected and maximized.

However, keeping an organization going was a foreign concept to the FDIC. I attended conference calls and was lectured by an FDIC representative on the "awesome powers of the FDIC." Being accustomed to a management philosophy that says power is earned by individuals' abilities, skills and knowledge, I was sickened by the conqueror's chest pounding.

My own direct boss – an FDIC officer – was more respectful, yet he was overburdened with running the sale process and had little time to oversee the day-to-day operations of the company.

Certain activities, such as pay raises and normal expense reimbursements, were simply prohibited.

I could no longer be reimbursed for purchasing alcohol (which is 30 percent of my normal monthly expense report).

Every expenditure was heavily scrutinized because that is where the FDIC perceived the risk. Merchant file approval, regardless of the amount, and our \$200 million in monthly settlement and \$25 million in reserves, was an afterthought. Those items were not on the "FDIC company checklist."

Another reason HMS' monthly settlement and reserves were not examined more fully is that HMS, as a team, quickly earned the FDIC's respect; very quickly after the takeover, it reduced the number of staff devoted to HMS from four to one. We were left to manage the business as long as we:

- Did not spend money
- Did not purchase alcohol
- Did not issue press releases
- Did not process pay raises

Our situation was very difficult. Our sponsor bank had failed. All our merchant contracts listed the name of a failed bank, and the new bank, Mutual of Omaha Bank, did not pick up the sponsorship duties. Any shared contract with FNB, like our health care, courier, telecommunication, travel, insurance, legal and lease agreements, had to be quickly rewritten directly through HMS.

Our staff was extremely uneasy about the rapid takeover and my inability to change certain rules by which our new parent company operated. Customers, partners and vendors all needed attention.

We conducted conference calls, one-on-one meetings and personal phone calls. We continued to work with the three interested buyers and explain to them our current situation. We lost a number of bank leads when FNB ceased attracting new business in order to focus on its own reorganization. This disruption in our normal operations resulted in HMS losing four high-quality, long-time professionals.

Despite all of this, we ensured our partners were paid on time. We



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View

ensured our customer needs were met, and we focused on the sale process at the same time. We addressed industry rumors with patience, facts and relentless follow-through. For my part, all my management skills, persuasiveness, good humor and patience were tested. I continually visualized myself leading the HMS team and its partners after the FDIC's occupation had ended; that's how I defined winning. In my mind, our competitors were the doubters and, in many instances, the FDIC was one of them. I was inspired by personal notes from long-time HMS staff and business partners. I printed them out and on particularly tough days I read them aloud.

We were fortunate because buyers saw HMS as more than the holder of a merchant portfolio; they recognized the value of the individuals and

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partners comprising company. I knew, believed and espoused that, so long as HMS continued doing what it was doing, the ultimate buyer would be a company that valued HMS as a whole.

Exit FDIC, enter Moneris

Therefore, I was, and continue to be, very pleased that Moneris US, a wholly owned subsidiary of Canada's largest processor Moneris Solutions Inc., took over HMS on Nov. 17, 2008. Subsequent to the sale, Moneris has validated my belief in HMS and the quality of its people. Moneris hired nearly all of the existing HMS staff and continues to build on HMS' brand name, its partners and its sales channel.

Linda Grimm is the newly appointed Director of Operations for all of Moneris Solutions. Ann Condon is Director of Software Development US. Xavier Ayala remains charged with serving HMS' contractor sales channel. I am proud that they remain in significant positions with Moneris. For my part, I am Moneris Solutions' Executive Vice President and Chief Sales Officer.

I am now working closely with industry veterans Joe Garza, Director of U.S. Sales, Pat Albright, Director of Business Development, and David Magley, Director of Regional Sales. I report to Moneris US President Greg Cohen – who is a part-time pilot and recreational shark chaser – which increases my possibilities for promotion.

I know the experience I have gained during my tenure as HMS' President will serve me well in my new position. I sincerely appreciate the trust that all our business partners placed in me and HMS during our troubled times. Their encouragement and support was critical to our success. I will always remember that. 📧

Ken Musante is Executive Vice President and Chief Sales Officer for Moneris Solutions Inc. Contact him by e-mail at kmusante@hbms.com or by phone at 707-269-3200.

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SellingPrepaid

Editor's note: SellingPrepaid is excerpted from SellingPrepaid E-Magazine, which can be found at SellingPrepaid.com, a Web site providing information and analysis to benefit ISOs and merchant level salespeople in the burgeoning prepaid market. If you'd like to become involved in SellingPrepaid, please e-mail greensheet@greensheet.com. For more information, visit www.sellingprepaid.com.



Prepaid in brief

NEWS

CAT sues five chains

On Jan. 21, 2009, **Card Activation Technologies Inc.** filed lawsuits against four national retailers and one national restaurant chain. The lawsuits were filed in the U.S. Federal District Court in Chicago against Casual Male Retail Group Inc., BeBe Stores Inc., Whole Food Markets Inc., Barneys of New York Inc. and Panda Restaurant Group.

CAT seeks royalties from the companies on the activation and processing of debit-styled cards, which include gift cards. Additionally, CAT wants an injunction to halt further issuance of gift cards by the companies until they obtain licenses from the Chicago-based processor.

J.P. Morgan aids Bluegrass State

J.P. Morgan, the treasury arm of JPMorgan Chase & Co., helped the Kentucky Cabinet for Health and Family Services deliver early food stamp benefits via prepaid cards to Kentuckians recovering from the state's recent ice storm.

According to J.P. Morgan, the CHFS' Department for Community Based Services usually issues electronic monthly food benefits through J.P. Morgan's electronic benefits transfer cards on a staggered schedule during the first 10 days of each month.

But the storm, which hit Kentucky on Jan. 27, 2009, and pummeled the state for several days, forced emergency actions. Within an hour of receiving a formal request from Kentucky, J.P. Morgan said it authorized the distribution of nearly \$58 million in food stamp benefits.

J.P. Morgan reported that nearly 252,000 Kentucky food stamp recipients who typically receive benefits between the third and the tenth of every month were given early access to benefits on Feb. 2.

M-Cube first in prepaid m-payments in U.K.

By launching the M-Cube M-Payments Platform, **M-Cube** claims to have introduced the first mobile banking application utilizing prepaid cards in the U.K. The application is available to Ryanair prepaid cardholders.

According to M-Cube, the Ryanair program was launched in November 2008 and has become the largest mass market, multibrand prepaid program in the U.K., which includes Ireland. M-Cube touts its new service as an m-payment breakthrough for the prepaid card industry in the U.K.

Arizona court ruling favors Western Union

A Jan. 8, 2009, ruling by the Arizona Superior Court said that subpoenas issued by the Arizona attorney general for consumer transaction data from **The Western Union Co.** were "unreasonably broad and unenforceable," said Western Union.

Reportedly, Western Union has provided transaction data to Arizona's attorney general in response to subpoenas. But in 2006, said attorney general issued subpoenas requesting consumer data from the global money transfer providers concerning transactions that were neither initiated nor paid in Arizona. Western Union believed the subpoenas were overbroad and exceeded the authority granted under Arizona law. When Western Union and the Arizona attorney general were unable to resolve their differences through negotiation, Western Union sought review by the Arizona courts.

ANNOUNCEMENTS

Prison provider wins Pinnacle

Continental Prison Systems Inc., the holding company of EZ Card & Kiosk LLC, reported it has received the Pinnacle Award in Colorado for the innovative kiosks and EZ Exit card technology CPS supplies the penal system for its inmate release process.

CPS said a Colorado jail facility entered the Lodi, Calif.-based company and its cashless products and services technology for the award.

Metavante advances CDH model

Prepaid processor **Metavante Technologies Inc.** rolled out the WealthCare Manager, a personal health record system that collects consumers' health histories and financially-related health care information. Metavante said WealthCare Manager allows consumers and health

care providers to access the information online or through other interfaces, such as mobile phones and desktop computers. As part of the emergence of the consumer-directed health care model, Metavante believes WealthCare Manager will accelerate the exchange of information and funds between patients, payers, providers and financial institutions.

Austrian company renamed

Paysafecard.com, a Vienna, Austria-based company that manages the paysafecard for online shopping, changed its name to **Prepaid Services Co. Ltd.**

According to the company, the renaming coincides with its plan to expand its client base in the U.K. and Continental Europe. Prepaid Services reported that 15 million transactions were carried out via the paysafecard in 2008.

STS chooses Hypercom mobile

Gift card, customer loyalty and stored-value card processor **Smart Transaction Systems** selected Hypercom Corp.'s Mobile Network to extend the reach of STS' gift and loyalty card programs in the United States and abroad.

Hypercom said STS will deploy Hypercom's service in combination with handheld wireless POS terminals to allow mobile merchants, sports events and outdoor venues to accept gift cards or customer loyalty cards anywhere cellular phone service is available.

PARTNERSHIPS

Accor, MasterCard create PrePay

Accor Services and the European arm of **MasterCard Worldwide** established a strategic alliance that resulted in the formation of a new company, PrePay Solutions.

The new entity is designed to combine the prepaid and electronic payments expertise of both organizations for business players looking to exploit the fast-growing multibillion euro European prepaid market.

PrePay Solutions will market prepaid card solutions to corporations and financial institutions to reduce costs and enhance efficiency.

Alliance renews with Shell

Loyalty card marketer **Alliance Data Systems Corp.** reached a multi-year renewal agreement with **Shell Canada Products**. The deal allows Shell Canada to continue its Canadian sponsorship of Alliance Data's Canadian Air Miles Reward Program. Alliance Data reports that the partnership with Shell has existed since 1993, and the loyalty and reward program is now used

by approximately two-thirds of Canadian households. Shell Canada Products operates more than 1,500 gas stations in Canada.

DCS, Postilion team for FIs outside U.S.

Instant card issuer **Dynamic Card Solutions** and **Postilion**, a division of S1 Corp., will jointly offer financial institutions (FIs) in Europe, the Middle East and Africa a fully integrated solution for card management, instant issuance and PIN selection by connecting DCS' patented CardWizard technology with Postilion's self-service banking solutions.

Western Union renews agreements

Western Union re-signed agreements with **The Greater Atlantic and Pacific Tea Co. Inc. (A&P)** and **India Post**. The renewal with A&P is a five-year agreement that reportedly extends Western Union's money transfer, money order and bill payment services throughout the majority of the supermarket chain's store locations.

The renewal with India Post, India's postal system, is also a multi-year agreement that Western Union said will expand the global money transfer company's coverage in the Asia Pacific Region.

ACQUISITIONS

Western Union to purchase European-based business

Western Union signed an agreement to acquire the money transfer business of international payments specialist Fexco. Western Union said the transaction, expected to be finalized in the first half of 2009, is part of its strategy to be closer to its consumer base and position its brand for continued growth.

Western Union will now manage more than 10,000 consumer-facing locations in seven European countries and provide direct training, marketing and operations support.

APPOINTMENTS

CAT lands on feet with DeLaGarza


On the heels of several resignations by top executives at Card Activation Technologies, **Michael DeLaGarza** was named President and Director of Card Activation Technologies. According to the bylaws of the corporation, DeLaGarza also becomes Chief Executive Officer. DeLaGarza has over 20 years of experience as an executive in the health care field.

CMO becomes President at TransCard

Stored-value card processor TransCard named Jerry

SellingPrepaid

Uffner as the company's new President. Uffner had been TransCard's Chief Marketing Officer.

Uffner was Senior Vice President of Sales for nFinanSe Inc. He also served as Vice President of Financial Services for InComm and held previous sales management positions at First Data Corp., Comdata Corp. and RBS WorldPay Inc., formerly RBS Lynk. 



Features

eCommLink refocuses, targets global remittance

Corporate restructuring and a new global initiative by eCommLink Inc. seem to be evidence that the world is getting smaller, and electronic payments are helping to facilitate that trend.

The Las Vegas-based processor recently reported a reshuffling of its executive management, with the promotions of Ennio Ponzetto to Chief Executive Officer, Victor Newsom to Chief Operating Officer and Raymond Lu to Senior Vice President, Engineering. Not lost in the shuffle was the announcement that T. Jack Williams had relinquished the CEO mantle and taken the title of Corporate Development Officer.

According to Williams, the moves allow the company to maintain focus on its core domestic processing, with Ponzetto steering the day-to-day operations, while freeing up Williams to lead eCommLink into the global remittance arena by developing partnerships with corporate and government entities in foreign countries.

The transaction belt

In his travels and research, Williams said he came to the conclusion that global payments are the wave of the future. Of that worldwide market, Williams tapped remittance as eCommLink's niche because of its potential size and importance to individuals and economies around the world.

"We've tested the waters out there and we believe we are uniquely qualified with our relationships and our partnerships to bring a money remittance, money transmittal capability to many, many different countries," Williams said. Williams did not cite a specific annual dollar volume for global remittance, but said "it's a ton of billions." The market is made up of migrant workers across

the globe that send substantial percentages of their take-home pay to their families in home countries. Williams said foreign countries encourage this behavior.

"I looked at what I call the transaction belt," Williams said. "And that's the Tropic of Cancer to the Tropic of Capricorn. And you go all the way around the world. And within that, and there are some exceptions certainly, but the vast majority of the countries that are in that belt export their citizens to other countries to work."

For example, Williams said the Republic of the Philippines has "exported" 15 to 16 million of its citizens to work in the United States and other destinations, and India has exported 22 million. Williams indicated foreign governments provide job centers, education and the means for their citizens to get jobs in other countries. But they then require their foreign country-based workers to send from 20 percent to 50 percent of their wages back home.

"Well, if the requirement is 20 percent of your income has to be sent back to your family, then that's raising the standard of living in your host country," Williams noted. "And so that means your family has more money to spend. It's all about economic survival."

Not only families, but entire countries count on remittance to stabilize economies, Williams said. "If you were to cut off the [remittance] dollars that flow into Mexico, it would wreck their economy," he added. "So, I believe that these countries support it because of the economic advantages that it offers."

A card-centric world

Williams explained that global remittance relies on two factors: payment cards and mobile phones. Within a matter of seconds, money can be transferred via mobile phones to just about anywhere on the globe, he said. But, in order to access cash from ATMs or pay electronically for goods and services at POS locations, payment cards are necessary. "I think that is one of the most misunderstood aspects of mobile payments," Williams said. "These people that say, 'Oh, we make phone-to-phone payments.' You know, I'm impressed. I think that's great. But people like to use their money.

"I think that you're going to have to have a card. And the cell phone becomes an access device. The cell phone allows you to very quickly and instantly and conveniently move money from here to there, balance inquiry, transaction history. All those things can easily be accessed by a cell phone. But in this country, and I think the world, you will not be withdrawing cash from an ATM any time soon with a cell phone."

Hub of the wheel

To implement global programs, Williams said three players are needed: a financial institution, a program manager

and a processor. In his travels abroad, Williams has found that program managers local to the countries or regions he visits are often the best choices to partner with eCommLink. "Each country has its own nuances, and so there's always a program manager in every country that we deal with," he said.

Williams' vision is that eCommLink will become the hub upon which the global remittance wheel turns. "Each country is a proverbial spoke on the wheel," he said. "And each spoke will be a program manager, maybe the same program manager for two or three or five or six of the countries."

Williams maintains that the global marketplace is migrating away from paper-based and toward electronic payments. "And every major country is looking at ways to make it safer, faster, more convenient for their citizens, either for their in-country use or international use," he said. "So intra-country or inter-country, the cell phone/card is going to become the new way of transacting business." 📱

Data breach leads to payroll card fraud

A cardholder data breach at prepaid card issuer and processor RBS WorldPay Inc. has reportedly resulted in an ATM scam that netted fraudsters \$9 million. While RBS said 1.5 million open-loop gift and payroll card numbers were compromised in the breach discovered by the company in November 2008, only 100 of the card numbers – all from payroll accounts – were allegedly used in the scam.

Apparently, the fraudsters cloned the card numbers onto fake cards and hit over 100 ATMs in a coordinated attack that spanned cities in the United States, Canada, Russia and Asia. The FBI reported that at least two "cashers" withdrew funds from ATMs in the Atlanta area. Additional suspects were captured on video surveillance cameras at three different bank ATMs in Chicago.

In the wake of the breach, RBS said it had "urgently taken a number of important steps to mitigate risk in response to this situation." RBS said, among those steps, PIN numbers on compromised accounts were reset, in-store gift cards that correlated to card numbers stolen were taken off retailers' shelves and deactivated, and RBS hired outside security experts to work with its own internal team to bolster RBS' system defenses.

An RBS spokesman said RBS is continuing to work with law enforcement agencies on the investigation into the breach. RBS is also providing one year of free credit monitoring to prevent identity theft for those cardholders whose Social Security numbers were stolen along with the card numbers, which amounted to possibly 1.1 million

out of the total 1.5 million cardholders affected.

Fallout

The spokesman pointed out that RBS is a global business and only RBS' U.S. open-loop gift and payroll card system was compromised in the breach. Additionally, the spokesman said the extent of the actual fraud that occurred was limited to the 100 payroll cards. But that fact didn't stop a class action lawsuit from being filed against RBS on Jan. 6, 2009, in the U.S. District Court, Northern District of Georgia.

The suit alleges RBS failed to "adequately safeguard" the cardholder data that was stolen. The suit also states RBS "waited approximately 43 days to publically announce the breach." That announcement came on Dec. 23, 2008, which meant, according to the suit, that "RBS delayed announcing the breach until the end of the busy holiday shopping season, a period when heavy sales of gift cards occur."

Furthermore, the suit also claims RBS' one year of free credit monitoring is "inadequate," since "identity thieves often do not use the stolen data for lengthy periods of time, waiting for victims to become lax in monitoring their accounts." The RBS spokesman could not comment on the allegations contained in the suit but said RBS was on Visa Inc.'s list of Payment Card Industry Data Security Standard-compliant businesses at the time of the data breach. 📱



Company profile

Event Innovation Inc.

Stored value - That's the ticket

At the International Ticketing Association's annual conference held in Salt Lake City in early February 2009, Event Innovation Inc. launched a stored-value ticketing program that may revolutionize how consumers access live entertainment events and how event administrators target, attract and retain consumers.

Event Innovation's service combines the Web-based InForum platform with the stored-value Ovation card.

The platform allows sports franchises, concert promoters and performing arts groups to track more closely who is going to events and generate detailed information about them. The card gives patrons access to a social network that enhances event experiences and facilitates purchases at venues and surrounding businesses.

Selling Prepaid

For venues

According to Ron Dinwiddie, President and Chief Operating Officer at Event Innovation, the InForum platform is an enterprise application that allows event-based businesses to communicate directly with fans. "Maybe I'm going to a hockey game but the time changes from 3 p.m. to noon," he said. "What a better way to communicate from the venue to all their attendees if they actually know who all their attendees actually are, which today they don't."

Consumers sign up for the reloadable, closed-loop Ovation cards online, thereby establishing a database on particular consumers who attend particular events. InForum's attendee relationship management system then tracks consumer behavior. Event businesses can leverage that reporting to drive attendance by offering past event goers promotions, discounts and so forth to get them to return for the next game or concert.

For enthusiasts

The Ovation card provides event attendees access to a community "to engage with other members about their event experiences, as well as make connections with those people, transfer tickets electronically from my account to their account," Dinwiddie said. "So, if I can't go to the event, or maybe if I have an extra ticket, I can easily invite you and transfer the ticket electronically to you."

"And now since you're an Ovation member and you have the Ovation card, you use that card to gain access to that event." But the service does not restrict cardholders to using the Ovation card for single events or venues. Dinwiddie said the card can be utilized for performances or games provided by all organizations set up on the InForum platform.

Technology agnostic

Dinwiddie noted that event businesses do not have to upgrade either their already existing hardware or software to accept Ovation cards. The cards come with mag stripes *and* bar codes, which makes the cards adaptable to whatever point of service hardware systems event businesses already have in place, Dinwiddie said.

But the cards are not embedded with radio frequency identification chips because contactless systems have not yet been widely deployed. "If we tried to implement near field communication or smart cards, think about the kind of capital expense venues would have to go through in order to set up their venues so they can accept this newer technology," Dinwiddie said.

The better mousetrap

The Washington, D.C.-based software maker and program manager was founded in 2007 by Dinwiddie and Stephen Gilfus, Chairman and Chief Executive Officer at Event Innovation. Previously, Dinwiddie worked with

Gilfus at Blackboard Inc., a firm that enables universities, schools and government entities to conduct classes online. Blackboard, which was founded by Gilfus, also provides stored-value campus identification cards.

Dinwiddie and Gilfus shared a passion for sports. But when they went to events, they realized how outdated ticketing technology had become. They recognized the opportunity to modernize event ticketing with a stored-value card system.

"We knew that, based on our experience of not only building out fantastic Web applications for higher education but building out true campus card systems, we could provide a technology that allowed venues to truly identify their patrons and customers," Dinwiddie said.

Dinwiddie acknowledges that other ticketing companies have a stored-value component to their programs, which he calls a "static stored-value capability." For example, a customer might pay \$80 for a \$50 ticket, Dinwiddie said. After \$50 is deducted from the ticket at entry to the event, the individual has \$30 left to spend. But if all of that \$30 is not spent at the event, the individual loses the remaining balance.

"If you really want to improve the business through cutting edge technology, you really have to take the whole piece," Dinwiddie said. "And that's the reason that we're addressing both the consumer and the venue side at the same time through the single platform."

"You have to look at both models, both the experience from the attendee side and what interests them, and why do they want to sign up for Ovation? Why would they want to join a social network? What benefits do they get out of doing this? And from the venue side, what benefits do they get out of it?"

Dinwiddie believes Event Innovation's solution is ideal for corporations. Corporate representatives often entertain potential business partners by taking them to sporting events.

"Think about how much money the corporations spend on just managing the suites and season tickets that they own, trying to find out how they can divvy up these tickets to their employees or to customers," he said. "And then how do they make sure that the people they are giving the tickets to are actually going to the event?"

"When they are setting up meetings at the actual events, where they want their salespeople engaging potential customers, they know they are taking place as opposed to these tickets ending up on the street with scalpers."

Dinwiddie jokingly claimed that is the only downside to Event Innovation's system; it may eat into the profits of scalpers. 📷

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Tina Gregory, CEO - 888.228.1011 ext. 220 or direct 586.216.4255

Sherry Lia, President - 888.228.1011 ext. 221 or direct 519.819.2962

www.graphiteiso.com

Company Profile



TransFirst Holdings Inc.

ISO/MLS contact:

Curtis Bauer
 Director of Relationship Management
 Phone: 800-669-7228
 Fax: 303-417-8688
 E-mail: isssales@transfirst.com

Company address:

5400 LBJ Freeway
 Suite 900
 Dallas, TX 75240
 Phone: 214-453-7700 or 888-254-4137
 Fax: 214-453-7739
 Web site: www.transfirst.com

ISO/MLS benefits:

- Enhanced relationship management
- Dedicated sales support
- Account retention and lead generation programs
- Merchant cash advance
- Telesales division
- Portfolio buyout options

A lemons to lemonade processor

As the United States undergoes unprecedented financial turmoil, ISOs must balance competing desires. On the one hand, they want to hunker down and protect what they have – merchants, offices, staff and bank accounts; on the other hand, they need to keep businesses functioning day-to-day and plan for the future as well.

It is a difficult balancing act that Andrew Rueff, Senior Vice President of Corporate Development at Trans First Holdings Inc., recognizes. "This is a relationship business, and TransFirst's focus is to provide industry leading services and expertise to ISOs and agents looking to grow in this economically challenging environment," he said.

Founded in 1995 as ACS Merchant Services, TransFirst delivers transaction processing and payment technologies to financial institutions and merchants. Headquartered in Dallas, it has operations in Colorado, Nebraska, Kansas and New York. The company indicated it processes \$30 billion annually for more than 160,000 merchants and 1,000 financial institutions.

In 2000, the company changed its name to TransFirst as part of a recapitalization effort by private equity investment firm GTCR Golder Rauner LLC's GTCR Fund VII. In 2007, another private equity firm, Welsh, Carson, Anderson & Stowe, acquired TransFirst from GTCR. According to Rueff, the acquisition took TransFirst to the next level.

"The new partnership with WCAS has energized the management team and reinvigorated the thought process," Rueff said.

While TransFirst had been adding senior executive and sales reps before the latest acquisition, the company added more afterward. Now TransFirst boasts talent formerly employed at many of the industry's leading companies, including Bank of America Corp., Elavon Inc. and First Data Corp.

A relationship business

TransFirst stated it has more than 800 employees and partnerships with more than 100 ISOs and merchant level salespeople (MLSs). The company's services range from traditional merchant offerings to Internet marketing programs; it believes it provides ISOs advantages in the form of competitive pricing, innovative products and merchant retention programs.

Because the company has the financial resources to help ISOs get started in the industry, manage their growth through effective sales programs and ultimately exit through portfolio sales, TransFirst "is quickly building a reputation as the partner to trust for flexible, profitable reseller programs," Rueff said.

Innovative agent programs

TransFirst offers a variety of MLS compensation programs, including upfront money, revenue sharing and residuals. "TransFirst has and will continue to be very flexible in tailoring programs for individual MLS agents/ISOs," Rueff said.

The company is also working on new compensation programs. Rueff noted that Steve Rizutto, TransFirst's President of Independent Sales Services, has designed innovative programs for agents that attract new ISOs to TransFirst.

Company Profile

In addition to monetary compensation, Rueff said other benefits to ISOs include account retention and lead generation programs, merchant Web advertising, and merchant cash advance. The company also offers telesales support to enable its agents to extend their sales reach and build client rosters.

Positive outlook

Like the payments industry as a whole, TransFirst has not been immune to the recession's effects. The company has seen growth stagnation in some of its customer segments. But Rueff maintains TransFirst is well situated financially to ride out the downturn. Additionally, the company is taking a proactive approach.

"We are working with our partners and merchants to assist them, as they deal with the uncertainty of the current economic environment, through programs that include cash advance, residual restructuring and portfolio profitability management," Rueff said.

One solution is TransFirst's Revenue Sharing Alliance (RSA) program. TransFirst purchases the portfolios of ISOs and banks, which provides those entities with new revenue sources and an opportunity to earn upfront cash.

With the influx of working capital, ISOs and banks can get their sales teams back to selling while businesses and financial institutions still earn revenue on existing portfolios, the company noted.

"The program can significantly bolster the revenue to the bank or ISO over the life of the contractual relationship," Rueff said. "We find that the business generated through the RSA partnership far exceeds what the partner was able to achieve historically, while the cost of sales and support is on TransFirst."

Growth now and beyond

TransFirst has a history of growing its business through acquisitions. In 2001, it acquired Money Tree Merchant Services. The next year it purchased the third-party agent business of BA Merchant Services LLC, as well as PulseCard Inc. and DPI Merchant Services.

In 2004, it bought Payment Resources International and the third-party processing division of Fifth Third Bancorp's FTPS group.

TransFirst plans to keep growing through acquisitions, but with a different angle.

"In the past, our M&A [mergers and acquisitions] efforts were focused primarily on adding specific market niches and on achieving scale to lower our average cost of servicing," Rueff said. "Now our strategy is much more targeted and specific. We have achieved scale; now we are focused on maximizing scale."

The company is exploring services it can bring in-house and sell to customers to help them maximize revenue: stored-value and gift card programs, for example.

"In addition to acquisitions that add innovative technology and products, we will continue to focus on attractive market niches," Rueff said. "An example is a recent opportunity we evaluated in the nonprofit processing space."

Health care-enabled

Another niche for TransFirst is the health care market. By acquiring PulseCard, TransFirst entered this space and has focused on transaction processing for health care providers – one of TransFirst's most stable and best performing market segments, TransFirst stated.

Rueff said the health care market differs from other markets because consumer spending for health care is usually needs-based.

Since purchases are less discretionary in nature, (people with high blood pressure require blood pressure medication, for example), TransFirst believes the health care market is not as dramatically affected by the recession. TransFirst has also found the health care market less competitive since it requires a specialized approach that not many processors have.

However, Rueff said boarding health care providers is more difficult than most other market segments. It is no small feat to walk into a doctor's office and convince him or her to switch processors. Generally, doctors only consider switching when they update other types of services, such as insurance or practice-management software.

"If ISOs want to sell in this market, it makes sense for them to partner with someone like us who knows the sector and has expertise about the products and services the doctor wants to sell," Rueff said.

He added that TransFirst has had the most success in the health care sector by partnering with value-added resellers.

In addition to health care, TransFirst also provides specialized services for public entities, including state and local governments, universities, and nonprofits. It processes tax payments, parking tickets, vehicle registrations and driver's license renewals.

No worries

The current economy makes for an anxious and worrisome time. But it also can be seen as an opportunity for experienced companies prepared to handle it.

Rueff believes TransFirst is that kind of company with its commitment to customer service, technological innovation and flexible pricing. ■

CompanyProfile



MicroBilt Corp.

ISO/MLS contact:

Missy Rogers and Kim Taylor
Senior Account Managers
Phone: 800-257-2805
E-mail: salesagents@microbilt.com

Company address:

1640 Airport Road, Suite 115
Kennesaw, GA 30144
Phone: 800-884-4747
Web site: www.microbilt.com

ISO/MLS benefits:

- Three flexible residual plans
- Hefty upfront sales bonuses
- Deal closing assistance
- Fast-start bonus

Red Flag residual stream

A proven strategy for keeping merchants sticky is to provide value-added services. And one service merchants need is help complying with the Fair and Accurate Credit Transactions Act of 2003 (FACTA) Red Flags Rule, which will be enforced beginning May 1, 2009.

Under the rule, businesses must define procedures for identifying, detecting, preventing and mitigating identity theft; they must adopt prevention programs to verify customers' identities before initiating any credit-related transactions and take appropriate action if identity discrepancies are found.

Complying with the Red Flags Rule can be daunting for businesses, especially smaller ones (mom-and-pop and regional retailers, for example) that lack resources to dedicate to the task.

What if you, as an ISO or merchant level salesperson (MLS), could offer a value-added service that addresses merchant data security compliance while offering a host of other value-adds?

Kennesaw, Ga.-based MicroBilt Corp. believes it can help you do just that. And it has designed its offerings to address several small-business risk management activities in one place.

Snowball effect

MicroBilt has been in the risk management business for 30 years. Initially, the company offered merchants small terminals that pulled credit reports on consumers, providing instantaneous credit information that enabled merchants to qualify

potential customers for credit on the spot. Few merchants use those devices today, although MicroBilt still supports them.

Now MicroBilt's customers log onto the company's Web site to access consumer and commercial credit bureau data, as well as automated decisioning, identity verification tools, compliance solutions and collection services. The system allows clients to design a custom package of products from multiple sources that are accessible with one click of a button, the company noted.

Brian Bradley, MicroBilt's Executive Vice President, Strategy and Emerging Markets, said, "There are thousands of regulations dealing with consumer data, and MicroBilt sees itself as a leader in data compliance, business management tools and training. Through our sister company, ComplyTraq, we offer a suite of credentialing tools to help verify that customers and partners are who they say they are and are legitimately authorized to obtain consumer information."

Red Flag beeline

Merchants engage in many risk management activities, not just those centering on payment processing.

In October 2008, MicroBilt launched a hotline designed to assist customers with questions regarding FACTA's Red Flags mandates.

"A large percentage of our customer base are small to medium businesses and independent auto dealers that are clearly subject to the new Red Flags regulations but were just beginning to wake up to the directive this fall," Bradley said.

Company Profile

"We put a lot of thought into how to design a product that would eliminate confusion regarding the new Red Flags regulations. We planned for this hotline to assist customers, as well as prospective customers, in understanding the new directive while eliminating unnecessary work for these businesses."

MicroBilt's Red Flags hotline supplies customers with the requisite insight to understand the law's requirements and determine if the regulations apply to their businesses, the company noted.

The hotline, an e-mail service that answers questions within 24 hours, is also available to the public. Bradley, who spent a week of his vacation in 2008 reading the Red Flags Rule and accompanying notes, fields most hotline questions. In addition, MicroBilt's customer service phone lines are available 24/7.

One question that came in through the hotline concerned proposed legislation to stop merchants' use of Social Security numbers. "I mean, [merchants] hear it and they say, 'Well, that sounds good,'" Bradley said, adding that many merchants don't realize how dependent they are upon the use of Social Security numbers.

To offer additional support, Bradley created a white

paper that is available through the hotline. According to MicroBilt, the document simplifies Red Flags compliance while introducing Red Shield, the company's streamlined, low-cost Red Flags certification process that instantaneously analyzes the likelihood of identity fraud; MicroBilt provides the tools, procedures and training for companies to gain complete compliance with the new Red Flags regulations.

The ISO matrix

MicroBilt recognized early on the need to partner with ISOs that are calling on the same clientele MicroBilt serves: small to mid-sized businesses. "ISOs and agents are hungry for new products that will open doors, create value and generate a significant monthly residual income," said Marc Beauchamp, MicroBilt's Bank Card Consultant.

The company has developed customized products geared toward high-margin merchant categories, which include:

- Auto dealerships
- Restaurants
- Rental agencies
- Distributors
- Property management firms
- Jewelry stores
- Furniture stores
- General retailers
- Business-to-business enterprises
- Health care service providers
- Delivery services

"There's a tremendous overlap between the most lucrative merchant processing markets that many ISOs and agents target and MicroBilt's established customer base of 125,000 small business users," said MicroBilt's Chairman, Bob Raleigh. "Red Flags being fully effective May 2009 gives solution providers a very timely reason to revisit client needs and help make sure they're completely protected."

MicroBilt reported that its Red Shield satisfies Federal Trade Commission requirements for verifying identities, with both small business customers and consumers protected against losses due to fraud for up to \$25,000.

"We have been waging an awareness campaign all year and will continue to do so as the authorities begin checking to see whether customers have defined and established all the necessary procedures," Raleigh said.

Multiple tools

MicroBilt believes humor can help mitigate frustration that may arise when dealing with federal mandates. In late 2008, the company worked with the comedy Web site GoRemy.com and comics Rhett & Link to produce two humorous videos: one spotlights the new Red Flags man-



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dates, the other the significance of the weak U.S. economy. MicroBilt will be launching its newly designed, industry-tailored Web site in 2009. Bradley said the new format offers a dynamic way to help MicroBilt's customers and potential customers locate the company's products and services most suited to their specific industries.

MicroBilt also recently launched an ISO and MLS partner program to equip merchant service providers with solutions tailored to specific market segments.

It offers three flexible residual and bonus programs for ISOs and MLSs, as well as weekly and on-demand training, a dedicated sales partner Web site, and the Bilt-to-Close process. Bilt-to-Close provides ISOs and MLSs real-time access to MicroBilt sales reps who will assist in all aspects of the sales process.

MicroBilt feels its inside sales team's availability to close deals with merchants on behalf of ISOs and MLSs – who nevertheless enjoy "exciting" compensation packages – is a major differentiator. "Now our sales partners have the power of choice," Bradley said. "They can manage the entire sales process, or we can assist them and actually consummate the entire sale if needed."

To jumpstart the program, MicroBilt is offering a Quick

Start bonus program for ISOs or MLSs closing 10 qualified accounts within their first 60 days.

"We're extremely excited about our new ISO and agent program," Bradley said. "We've always had a long-term approach to sales channel development. That's why we've thrived over the past 30 years. Quite frankly, we're looking for the same type of sales partner, one that's willing to put in the necessary time and effort to create a mutually successful partnership. If you're of that mindset, then we'd love to explore the opportunity."

New ground

MicroBilt is also planning to launch an online social community to provide a place for small and mid-sized businesses to network, share experiences, learn about new state and federal legislation affecting them, and network with individuals within their industries.

"MicroBilt has always prided itself with serving small/medium businesses within a large range of market segments," Bradley said. "We want to continue this support by exploring ways to use social media to inform, connect and build communities, not just for MicroBilt's benefit but for our customers' advantage as well." The company may be vintage, but its ideas are up-to-date. ☑

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Insuring against compromise

According to business and e-commerce attorney Holli Targan, some ISOs and processors are now offering payment card data breach insurance programs to their merchant customers. Data breach, or cyber liability, insurance typically covers losses incurred by a merchant due to fines imposed by Visa Inc. and MasterCard Worldwide and issuing banks' card replacement costs. It also protects companies against most forms of hacking, data theft or privacy violations.

But by offering this insurance to merchants, ISOs may be unwittingly subjecting themselves to state insurance regulation.

"Well, sometimes the state laws say that if the ISO markets the insurance they have to be licensed as an insurance agent," Targan said. "Most states require that insurance agents be licensed and each state law specifies activities that qualify a company as an insurance agent. But there are ways of structuring the offering by the ISO so that they don't fall into that trap, and in a way that makes sure they are not deemed an insurance agent."

False security

Targan said some insurance companies have indicated that ISOs don't need to be licensed to provide breach insurance to merchants. And while this may be true, it gives ISOs a false sense of security; they believe simply marketing the insurance qualifies them as agents under state law. Targan suggested that before ISOs proceed with data breach insurance programs, they conduct a thorough review of insurance statutes for the states in which they do business.

"It's really so state-law specific because every state insurance law is different," Targan said. "Talk to an insurance lawyer and get that person to help you interpret the state statutes. And examine the state insurance laws to make sure you're doing it the right way. Right now, I am not aware of any statutes that require such insurance; however, each state and each policy has its own coverage requirements and categories."

A numbers racket

Vimal Vaidya, founder and Chief Executive Officer at RedCannon Security Inc., said, "Data breaches remain the leading cause of financial losses in business, with over 75 percent of Fortune 1000 companies falling victim to data leakage, and this is not going to change without improvements in the enforcement of data security policies."

And consulting firm Vontu's 2007 Consumer Study on Data Security indicated 62 percent of respondents were notified that their confidential data had been lost or stolen;

36 percent said they would not use credit or debit cards to make a purchase with an unknown Web merchant; nearly half said they would not provide Social Security numbers on a Web site.

"We live in a wide-open world where information can very easily be copied, sent or shared, and over 100 million customers have been notified of a breach of their personal data," said Joseph Ansanelli, CEO of Vontu. "Smart companies understand this and are investing in solutions to protect against the loss of this sensitive data and ensure the trust of their customers."

Viable options

As a result of the ever-increasing tide of consumer data compromises, many companies today sell a wide range of insurance coverage. TSYS Acquiring Solutions and The Royal Group Service Ltd. LLC offer coverage regardless of a company's Payment Card Industry (PCI) Data Security Standards (DSS) compliance status. Their joint program covers the mandatory forensic audit when a breach is suspected, as well as any PCI DSS fines resulting from a breach.

Some data breach insurance companies, like Charlotte, N.C.-based Premier Insurance Management Services, cover "soft" costs related to breaches, including expenses,



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finances and penalties arising from government and regulatory investigations, crisis management, public relations and customer notification.

Tracy Vispoli, Vice President of Chubb & Son, cautioned that a network security breach is not a matter of if, but when. Vispoli noted that new laws in nearly half the states require companies to disclose security breaches to their customers residing in those states.

"Network security breaches expose companies to class-action lawsuits, as well as irreversible damage to the corporate brand," Vispoli said. "And these new laws add another layer of responsibility and cost by mandating that companies notify customers of actual or suspected security breaches. It's time for financial institutions to further tighten their data security controls and to prepare for the significant financial cost of this risk." ■

Negotiating the economic currents

The Electronic Transactions Association and payment consultancy The Strawhecker Group recently released the first edition of the US Economic Indicators report. The quarterly is designed to compile and explain a broad range of data to help payment professionals understand the financial environment in which they operate.

"The motivation for us was obvious: Things are pretty tough right now, and it's really important to pay attention to the big picture in terms of the entire economy," said Thomas Goldsmith, ETA Communications Director. "We're interpreting these trends with payments in mind to let our members know what it means to them. We want to convey what's happening, why it's happening, and help them make good, informed decisions as they move forward."

Keeping track

The report was conceived when the ETA's board of directors held its annual Strategic Leadership & Networking Forum in October 2008. At that time, discussion centered on the Oct. 3 passage by the U.S. Congress of the Emergency Economic Stabilization Act of 2008, which created the \$700 billion Troubled Assets Relief Program for purchasing failing bank assets.

"None of us was sure where this was going, so essentially we felt that it would be nice if we had a way to keep track of all this information," Goldsmith said.

"So we came back, started working with The Strawhecker Group, and after months and months of doing various iterations and tracking down authoritative sources that were completely accurate, we now have it pretty much

mapped out. Now, you have a single document that you can see all in one sitting."

Some of the indicators reported and analyzed, going back more than two years, include:

- The U.S. gross domestic product, which gauges the size of the economy with regard to consumers' gross retail purchases
- Unemployment statistics
- Business bankruptcies
- Same-store retail sales year over year

The big picture

Goldsmith compared the report to a dashboard in a car: Separately all of the displays tell you little, but taken as a whole, they provide a complete picture of the environment in which you are working.

"The idea here was that if you can read this thing four times a year, you should come away with a pretty good idea of where the economy is and what's happening to retail stores, business insolvencies, unemployment and credit card delinquencies," Goldsmith said.

Goldsmith added that the report gives ISOs and merchant level salespeople information about where opportunities lie, as well as what and where the danger signals are. The ETA's goal is to help payment professionals plan their business strategies to adjust to ever-changing economic conditions.

"The report is especially helpful because the folks at Strawhecker, with all their industry knowledge, provide an overview at the beginning and then a running commentary throughout that says, 'Here's why this is significant, or here is what this change from x to z means,' so there's some value added in this as well," he said. "And our first priority is making sure that our members have the tools they need to survive, and this is a good example of that." For more information on the ETA's report, contact Goldsmith at thomas.goldsmith@electran.org or ETA Membership Director Molly Georgakis at mollygeorgakis@electran.org. ■

U.S. court trims AmEx's clause

On Jan. 30, 2009, the United States Court of Appeals for the Second Circuit of New York deemed unenforceable a provision in American Express Co.'s card acceptance agreement. This ruling reversed a 2006 decision by the U.S. District Court for the Southern District of New York that upheld an AmEx contract clause requiring merchants to waive class action litigation.

Second Circuit Court of Appeals Judge Rosemary Pooler said that to enforce the clause would "grant AmEx de facto immunity from antitrust liability by removing the plaintiffs' only reasonably feasible means of recovery."

Plaintiffs in the case claimed they had been denied the right to contest the company's merchant discount fee price structure for credit and charge cards. (Unlike credit cards, charge cards' balances must be paid in full each month.)

Merchants had sued to recover the excessive discount fees they claim AmEx charges compared to those of Visa Inc. and MasterCard Worldwide. According to merchants, the "economic damages" accrued since 2001 range from about \$1,000 to \$3,000 per merchant.

Costly recourse

Under AmEx's agreement, merchants must settle disputes either through arbitration or by filing individual lawsuits. The impetus for the suit, filed in August 2003, was that lawsuits and arbitration costs for individual merchants were not economically feasible.

"In my opinion, it would not be worthwhile for an individual plaintiff to pursue arbitration or litigation where out-of-pocket costs – just for expert economic study and services – would be at least several hundred thousand dollars, and might exceed \$1 million," said Gary L. French, an economist for financial consultancy Nathan Associates Inc.

According to Attorney Adam Atlas, who specializes in the payments industry, this kind of financial burden on merchants was a main reason why the waiver was deemed unenforceable. "Some smart attorney crafted this clause with the specific intent of preventing merchants from grouping together," Atlas said.

"If a court declares a provision in a contract to be illegal or inconsistent with the law, then that clause disappears from the contract as if it were never written. On a one-to-one basis, merchants could never afford this case. No one's going to spend a million dollars for a chance to recoup a few grand, so the court really took a common sense approach and said that merchant access to justice is denied unless this waiver is removed," he added.

All or none

Additionally, merchants are still compelled to accept the Honor All Cards policy in AmEx's merchant service agreement, which they claim is also a violation of antitrust laws.

The Honor All Cards rule states that merchants must accept both AmEx credit and charge cards or neither of the two. That case is pending.

AmEx built its reputation as a high-ticket charge card

company. But the company has in recent years created new credit card products marketed to lower-ticket purchasing groups, like college students, who, unlike typical AmEx cardholders, do not indulge in high per-transaction spending.

"These nonbusiness, low-ticket individuals are the traditional market stomping grounds of Visa and MasterCard," Atlas said. "Before [AmEx] began issuing credit cards to lower-end cardholders, a merchant's decision to accept AmEx was a no brainer; it brings in high-ticket clientele. The Honor All Cards policy – in every run-of-the-mill AmEx agreement – was inconsequential.

"Lo and behold, AmEx gets into the credit card business. Now merchants are in a difficult spot, having to choose between accepting both cards and paying the significantly higher discount fee [for low-ticket purchases] or rejecting both and shutting themselves out of the higher-volume purchases. It becomes an impossible decision for the merchant because neither position is commercially reasonable."

Rethink strategies

Atlas believes AmEx may eventually have to waive the Honor All Cards policy. "The case is relevant to ISOs," he said. "If merchants are allowed to pick and choose



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between AmEx cards, it may actually result in a decrease in income to some of the ISOs who start to see declining low-ticket cards, which leads to a reduction in acquiring income."

According to Atlas, the court was "very careful" in its decision regarding merchants' ability to file class action lawsuits and made sure it applied "only to this case and to these plaintiffs." However, he believes the ruling could have a broad impact on our industry.

"Basically, any acquirer who tries to limit the rights of a class action on the part of its merchants will have to rethink their litigation strategy," he said. "Because of this ruling, I think they're going to have to prepare themselves for greater exposure to class action claims." ■

ACH network gets more mobile

In December 2007, NACHA – The Electronic Payments Association formed the Mobile Banking Work Group. The new body was charged with evaluating the rules for mobile payment applications on the automated clearing house (ACH) network and suggesting appropriate rule

changes to enable and track efficient and secure mobile transactions.

Group participants were recruited from NACHA's councils and include representatives from across the payments industry. "This is the first time that we have ever done a cross-council work group," said Susan Pandey, Senior Director of Network Development at NACHA. "Participation was extended across all council memberships, including our Internet, Electronic Billing and Payment and Electronic Check councils, as well as the Global Payments Forum."

Projecting value

Pandey said the MBWG has representatives from small and large processors, financial institutions, wireless carriers, various information technology and mobile platform providers, and network operators. Their goal is to analyze expert predictions regarding growth in diverse markets and propose rule changes to accommodate all mobile payments on the ACH network.

"Certainly these respective council members give us a broad range of expertise to draw from," Pandey said. "Members have been studying various aspects of the network, looking at the future potential for mobile and wanting to accommodate growth within the ACH by

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"Certainly these respective council members give us a broad range of expertise to draw from. Members have been studying various aspects of the network, looking at the future potential for mobile and wanting to accommodate growth within the ACH by making the rules synergistic with evolving and emerging applications."

- Susan Pandy
Senior Director of Network Development
NACHA

making the rules synergistic with evolving and emerging applications."

The work group can then advise ACH account holders, customers and network stakeholders on the potential for new market growth, new types of applications, and how the rules apply to their sectors' mobile payment transactions. "Additionally, we want to be able to identify any unique risk considerations and respond to any future issues related to risk management for mobile," Pandy said.

Rules of engagement

The MBWG focused on four primary objectives:

- Assessing the NACHA Operating Rules for the accommodation of mobile banking and payments
- Identifying authorization and authentication considerations
- Identifying unique security characteristics and requirements
- Assessing systemic opportunities and barriers in the ACH network

NACHA emphasized the importance of assessing how mobile transactions flow, determining the risks and returns, and reviewing the rules and guidelines to protect the quality and reputation of the ACH network. The association has tentatively scheduled to submit its rule proposals and recommendations in March 2009.

Keeping better track

The MBWG is also developing proposals to implement the monitoring of mobile transactions going through the ACH network. Currently, transaction volume is tracked using existing Federal Trade Commission standard entry

class codes, whether transactions are telephone-initiated, ACH debit or Wireless Equivalent Privacy, which is used for Internet-initiated ACH debit transactions.

"There are a whole host of standard entry class codes that allow us to keep track of the various types of transactions that are flowing through the network," Pandy said. "And certainly with different types of codes the risk varies according to the transaction, whether it's consumer, corporate, debit or credit. We want to identify any transactions that may be originated from the mobile channel."

And while Pandy said there is currently nothing in the NACHA operating rules hindering mobile payment and banking implementation, there is a need to clarify the rules and to ensure the standard entry codes being used to move mobile transactions are the appropriate ones.

"NACHA members are well-suited to address the questions and challenges that are raised in mobile banking and ACH payment applications," said Steve Ellis, Executive Vice President of Wells Fargo Bank and Chairman of NACHA's board of directors. "They understand that the key driver of any mobile platform is functional interoperability led by security, authentication and authorization standards that will meet the needs of all stakeholders." For more information, visit www.nacha.org.



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E-bookReview

PCI Compliance for Dummies

By **Sumedh Thakar and Terry Ramos**

A John Wiley and Sons LTD Publication

Stealthy and anonymous, cyber thieves can wreak havoc on the commercial financial services sector. The beginning of e-book *PCI Compliance for Dummies* states that a cyber thief, not "a gun-toting thug," is the avatar of contemporary crime.

As evidence, coauthors Sumedh Thakar, PCI Solutions Manager for the IT asset security company Qualys, and Terry Ramos, Qualys Vice President, Strategic Alliances and Channel Development, cite security breaches at several U.S. retailers in recent years in which millions of credit and debit card numbers were stolen. TJX Companies Inc., BJ's Wholesale Club Inc. and OfficeMax Inc. are just three of nine or more retailers that have been breached.

Yet, while huge breaches occurring at big corporations are sure to grab headlines, they are anomalies. Of all attacks on payment card systems, more than 80 percent target level 4 merchants – those who process less than 1 million transactions a year – of which there are about 6 million in the United States, according to the authors.

These are the retailers with whom *PCI Compliance for Dummies* seems primarily concerned. More than anything else, the reference to large-scale data swindling is a warning to smaller merchants that electronic payment security demands the highest vigilance; if leading corporations with top-flight security technology can be breached, imagine the vulnerability of a small retail shop with limited resources to devote to security.

Yet, the pressing importance of cyber security is far from universally recognized. According to the National Federation of Independent Business Guide to Data Security (as cited by the authors), 57 percent of merchants "don't see securing customer data as something that requires formal planning," and 61 percent "have never sought out information about how to properly handle and store customer information."

E-bookworms

The book delves into technical examinations, both of the various ways data breaches happen and the different measures commonly undertaken to prevent them. At the book's core are explanations of the Payment Card Industry (PCI) Data Security Standard's (DSS) 12 requirements for guarding sensitive cardholder data.

The PCI DSS mandates businesses to implement such

measures as firewall protection, cryptograms, anti-virus software and a system for tracking all access to cardholder information.

"The great thing about PCI requirements is that they provide an excellent checklist for protecting cardholder data," said the authors in their description of industry regulations. "The PCI Data Security Standard requirements are the same points you'd normally use for overall information and network security."

In addition to the technical details (written in layman's language), the book covers basic procedures that can be overlooked in the cyber world of retail security – for example, making sure paper records of data are either eliminated or, if kept, properly and securely stored.


According to the authors, some common forms of data breach aren't terribly sophisticated; password theft tops the list. Often merchants simply don't bother to change the default passwords on their software. Hackers get passwords through online search engines and gain instant access to rivers of data. (According to the book, every unit of a given software release has the same default password.)

While the volume of information in *PCI Compliance for Dummies* is a bit staggering, all of it makes clear to merchants the need for both the construction of a full-scale cyber fortress and its watchful upkeep.

Network maintenance should include tests on firewall and router configurations, regular updates of anti-virus software, daily reviews of computer security logs and the use of "vulnerability scanning products and services."

Most suggestions in the book are mandated by the PCI DSS; a vulnerability scan (with an Approved Scanning Vendor) can be used to fulfill certain PCI testing requirements. To ensure compliance with all 12 requirements, however, it is recommended that a Qualified Security Assessor be summoned for an on-site audit.

The stakes are decidedly high; without due diligence, a merchant risks seeing his or her business devastated by attackers armed not with guns, but simple pass codes.

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Breaches from page 1

"After four years of conducting this study, one thing remains constant: U.S. businesses continue to pay dearly for having a data breach," said Dr. Larry Ponemon, founder and Chairman of the Institute. "As costs only continue to rise, companies must remain on guard or face losing valuable customers in this unpredictable economy."

Here are some additional findings of the Ponemon study, which examined 43 organizations across 17 industry sectors:

- Financial services firms experienced the second-highest rates of churn related to data breaches – 5.5 percent. Only health care firms saw more churn, at 6.5 percent. Average churn related to data breaches across industries was 3.6 percent.
- The all-in cost of breaches totaled \$6.65 million per incident last year, compared to \$6.3 million the year before.
- Third-party organizations accounted for 44 percent of all breaches studied.

Ponemon released its latest study just days after news of a major breach at Heartland Payment Systems Inc., ranked the sixth-largest bankcard acquirer in the United States in "Bankcard Today: 2008 Acquirers Report," *GSQ*, Vol. 11, No. 4.

Heart of the matter

No one can say for sure the extent of the breach at Heartland, but given the Princeton, N.J.-based processor's book of business, it would seem a fair assumption that data from millions of transactions was potentially compromised by what is being described as an international ring of cyber criminals.

Heartland was expected to handle 1.7 billion bankcard transactions worth a combined value of \$77.2 billion in 2008, according to *GSQ*. The company acquires transactions from about 250,000 merchants, with a significant presence among small to mid-sized restaurants.

Heartland stated in a press release that no merchant information or cardholder Social Security numbers were compromised. However, some published reports suggest the stolen data was sufficient to create bogus cards.

According to those familiar with details of the case, the hackers were able to pick off data "on the fly" – as it passed across network wires.

"This was a very sophisticated and coordinated attack," said industry consultant Paul Martaus.

The Heartland breach is just the latest in a string of high-profile cyber crimes involving companies that handle data associated with credit and debit card transactions. And according to published reports, the incident (now contained) was similar in design to several previous

PCI requirements

The PCI DSS includes 12 requirements subdivided into six general principals for the safeguarding of cardholder data. The standard is now managed by the PCI Security Standards Council, which includes as members the major international card brands. Details about the standard, including lists of PCI-certified providers, are available on the card companies' Web sites.

These are the six principals articulated in the PCI DSS:

1. Build and maintain a secure network.
2. Protect cardholder data.
3. Maintain a vulnerability management program.
4. Implement strong access-control measures.
5. Regularly monitor and test networks.
6. Maintain an information security policy.

attacks, including the TJX Companies Inc. and Hannaford Brothers Co. breaches, in 2007 and 2008, respectively.

In the case of TJX (which operates several national chains, including TJ Maxx), it was discovered that breaches over three years had potentially exposed data on 45 million credit and debit cards.

In December 2008, RBS Worldpay, the acquiring arm of Citizens Financial Group Inc., revealed a breach of its network may have affected more than 1.5 million cardholders.

As was the case with the breach at Hannaford (a U.S. grocery chain operating in the Northeast), Heartland had been certified PCI-compliant; the company said it received its certification in April 2008.

Heartland said it was notified of suspicious transaction activity by Visa Inc. and MasterCard Worldwide in November 2008 and responded by hiring forensic auditors to thoroughly investigate. That investigation ended in mid-January 2009 when auditors discovered "malware" had been surreptitiously installed to capture card data as it crossed Heartland's network.

No one knows for certain just how long the malware had been running, but according to published reports, the U.S. Secret Service (which investigates such crimes) has pinpointed the location of the hacker who installed it, which is outside North America.

Funding terrorism

That the Heartland hacker was foreign wasn't a big surprise to those who track cyber-crimes.

In an article for a forthcoming issue of the Santa Clara Computer and High Technology Journal, Kimberly Kiefer Peretti, a Senior Attorney with the U.S. Department of

CoverStory

Justice's Computer Crime and Intellectual Property Section, details proven links between financial data thefts and known international terrorist groups.

Imam Samudra, a terrorist convicted for his involvement in the 2002 Bali nightclub bombings, is said to have claimed in an autobiography written in prison that he ran fraudulent credit card schemes to help fund those bombings.

The card scheme of choice: "carding." Carding is an umbrella term used to describe the theft and sale of personal financial information via the Internet for card or identity fraud.

In another case linking terrorists to card fraud, three Britons were convicted of inciting terrorist murders through a network of extremist jihadi Web sites.

The trio was also convicted under that nation's financial fraud laws. The conviction holds that they used stolen credit card numbers to make \$3.5 million in charges for items, including prepaid cell phones and airline tickets for themselves and other terrorists.

Other cases detailed in Peretti's upcoming article suggest criminals from the former Soviet Republics are major players in international cyber crimes. One such person, a Ukrainian national named Roman Vega (also known as Boa) allegedly ran a major carding operation before being arrested in Cyprus and extradited to the United States, where he remains, indicted on numerous counts of financial fraud.

Martaus isn't convinced recent high-profile breaches are the work of terrorists. "I think these were driven by pure greed," he said.

Encryption to bolster PCI

Nonetheless, reading through Peretti's report, it becomes apparent that thousands of companies (especially in the financial services sector) have been and continue to be compromised by cyber-criminals who cooperate through worldwide networks. And, she warned, "despite compliance with industry security standards, it is likely that hackers will continue to develop techniques to exploit the computer systems of entities holding cardholder data."

Heartland's Chairman and Chief Executive Officer, Robert O. Carr, believes end-to-end encryption can help. "PCI is a good and effective standard, but the bad guys have become more sophisticated to the point where encryption of data in motion appears to be one of the next required steps," he said in a statement. But Martaus doesn't see encryption as a silver bullet. It's not

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enough for one network to implement end-to-end encryption, he insists. And getting everyone on board would be a herculean task, requiring the installation of special software modules at every merchant POS. "It's got to happen at the terminal level," he said.

The value of PCI

The attack on Heartland has thrust to the forefront of public discourse concern about the security of payment card data, the responsibilities of organizations working with that data and the value of PCI.

An article published Jan. 26, 2009, in *The Tech Herald*, an online publication favored by information technology (IT) professionals, asked "Does the Heartland breach prove PCI useless?"

The author, Steve Ragan, concluded that "assuming PCI compliance equals security is stupid. PCI compliance, much like the often preached Industry Best Practices of IT, amounts to nothing more than a simple list of baselines.

"Taking all the steps needed for PCI compliance assures a company no more security than it would get by disabling guest accounts on workstations."

The notion that no processor or network is 100 percent

secure has ISOs and merchant level salespeople (MLSs) concerned. A member of GS Online's MLS Forum writing under the moniker *imsrick*, stated about the Heartland breach, "We all have a processor. Is it possible that our compliant processor could have the same thing happen?"

"While I'm using this to my advantage to pursue any and all Heartland merchants, I don't want to have it double back on me in coming months if the platform I use has a similar issue. I guess on further reflection I am starting to feel that I'm the one in the glass house because of my lack of understanding of the true risk position I'm in."

Harris, the Web developer, voices similar concerns, adding that PCI DSS hasn't done much to alleviate those concerns. "I'm getting a lot of conflicting information," he said. For example, Harris said he's considered routing all client transactions through Pay Pal Inc.

"But the way I read PCI DSS, we need to protect cardholder data, not just card data." And that requirement would rule out most of his clients.

Harris said his understanding of the rules is that a small organization accepting credit card payments for educational seminars would need to be PCI-compliant even if it handed off the payment processing to a third party



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like PayPal because it would be capturing (and retaining) information about the cardholder (name, address, phone) through the online registration process.

For now, Harris is advising clients not to accept credit card payments until and unless he finds a fail-safe, cost-effective means to ensure PCI compliance. He estimates it would cost his firm about \$2,000 a month to put in place systems deemed PCI-compliant in the current environment.

"I work with a lot of not-for-profits that just don't have the e-commerce volume to justify the expense of PCI compliance," Harris said. "These are folks who are thrilled if they get two or three e-commerce transactions a day."

With the current PCI requirements, Harris noted, "I would have to say that the vast majority of my clients will no longer be able to do business under these circumstances." He suggested the same will be true for millions of other businesses. "In today's economic environment, if you make it expensive and harder for people to make money on the Web, you're going to run a lot of people out of business," he said.

Cooperation, cooperation

Given the scope of data network breaches, and the poten-

tial economic consequences, improved cooperation will be necessary on all fronts.

DoJ's Peretti, for example, said there is need for cooperation among law enforcement officials worldwide. "Countries that either do not have the legal framework to prosecute such activity or that turn a blind eye through law enforcement inaction, in effect, become breeding grounds for organized criminal carding operations," she wrote.

Heartland's Bob Carr wants better cooperation within the acquiring sector. "I have talked to many payments leaders who are also concerned about the increasing success and frequency of cyber crime attacks," he said.

"Up to this point, there has been no information sharing [regarding data breaches], thus empowering cyber criminals to use the same or slightly modified techniques over and over again.

"I believe that had we known the details about previous intrusions, we might have found and prevented the problem."

At press time, at least two dozen financial institutions had reported they were re-issuing credit and debit cards

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"Heartland has been working on end-to-end encryption, but in light of our recent data breach and the impact cyber fraud has had on the public and processors nationwide, we are ramping up our efforts."

- Robert O. Carr, Chairman and Chief Executive Officer
Heartland Payment Systems Inc.

because of the Heartland breach. Additionally, at least three individuals were pursuing legal action against Heartland.

Such legal actions stem, in part, from state laws requiring notifications from financial institutions when customer financial information is compromised. According to Attorney Jill M. Miller, 44 states have implemented laws requiring some sort of customer notification or re-issuance procedure when credit and debit card information is breached. Miller, who is with the firm Jaffe, Raitt, Heuer & Weiss, P.C. in Southfield, Mich., addressed data security legislation last month in a presentation at the Northeast Acquirers Association's 2009 Winter Seminar & Outing.

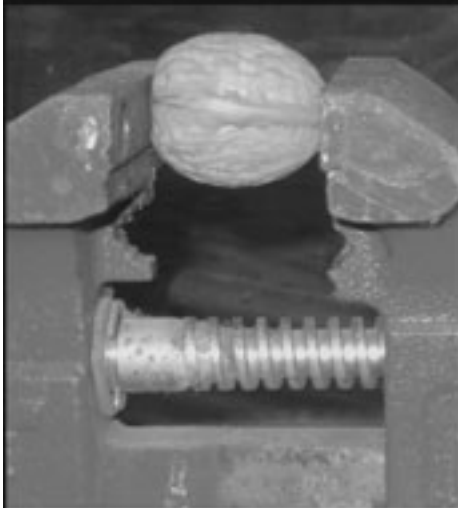
While many of these laws require notifications by card-issuing financial institutions, at least one state, Minnesota, has enacted a "retailer payment card breach liability law," Miller reported. Similar legislation is now being consid-

ered in Texas and California, she said. The existence of state laws addressing financial data security and the international scope of cyber crimes may demand greater federal attention toward data theft. To that end, Miller noted, "The FTC [Federal Trade Commission] has announced its support for national data protection/breach notification requirements."

As for Heartland, it has tasked an internal department with developing end-to-end encryption to protect merchant and consumer data on its network.

"I believe the development and deployment of this technology will provide the ability to implement increasing levels of security protection as they are needed," Carr said. "Heartland has been working on end-to-end encryption, but in light of our recent data breach and the impact cyber fraud has had on the public and processors nationwide, we are ramping up our efforts." ☐

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Education

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Rules by which to thrive, not dive

By Jason Felts

Advanced Merchant Services Inc.

Many of today's business-to-business (B2B) merchant level salespeople (MLs) have never weathered a true economic downturn. Many of us learned how to sell in the late 1980s through the early 2000s – a period that undoubtedly marked one of the longest business expansions in U.S. history.

In the good times, it's not hard to hit quotas while enjoying double-digit market returns, enormous escalations in property values creating easy access to equity lines of credit, and huge growth in the number of new jobs. But what do you do when the economy slams on the brakes?

Following are rules that will help you keep in business and thrive.

1. Don't blame the economy

Make your offerings recession proof. Consumers still have to buy goods and services no matter the state of the economy. The fact is many consumers are indeed strapped for cash, and therefore the only alternative is credit.

Long gone are the days of 90-day terms in most establishments. So now, more than ever, merchants need to accept credit cards.

Additionally, merchants need guarantees on checks since desperate people do desperate things. Some people will take it well beyond just the "float" (the period between when a check is written and when it actually clears the bank) when they are hungry or need gas to get to work. Your prospects, now more than ever, must be set up to accept alternate forms of payment.

Education index

Nancy Drexler	78
Vicki M. Daughdrill	81
Adam Atlas	84
Dale S. Laszig	88

Alternative payments may come in the form of gift card programs that provide opportunities for additional cash flow with the promise of future delivery of goods and services along with optional reward programs. Cash now, redeem later, track consumer spending in their stores – how can merchants not love that?

Be part of the economic cure in the marketplace. If you present your products and services with enough enthusiasm and convey enough value to merchants, you will absolutely make sales.

2. Use your time wisely

To close more business in a slowing economy, ask the right questions.

- How much time are you wasting on insignificant activities?
- How many times are you driving back to the same few prospects you couldn't close the first three times?
- How much time are you spending with low-income producing, high-maintenance merchants that need you to swing by every month to explain their statements?

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like an opportunity keeps ISOs and MLSs busy but makes them ineffective. If you pursue business indiscriminately, you'll work hard, but not smart. Eventually you'll burn out your prospects and yourself. Make sure your time is invested wisely.

But what is a wise time investment? It is building relationships with genuine prospects and referral sources. Start today by requalifying every prospect that's already in the pipeline, and work on cleaning out your funnel.

Focus on your best opportunities. You'll create more business by investing the right resources into 20 solid opportunities this month than you will by chasing 50 half-baked leads.

3. Make every conversation and sales opportunity count

Merchants should be impressed with your preparation for every sales call. Preparation starts with merchants' first impression of you. So dress the part; look sharp. Make sure you invest in the right clothes and shoes. And if you haven't had a haircut in six months, get one.

Merchants also notice your handshake. Be sure to

exude confidence. If I'm ever greeted by an MLS with a dead-fish handshake, that's essentially the end of our meeting.

Once you have the professional appearance and confident manner down, prepare for every sales call. Research the business online. Know who each merchant customer or prospect is. When you demonstrate to merchants you've done your homework, it is easier for them to have an open, honest dialogue with you.

Especially when the economy is slow, merchants get nervous. They don't want to waste time meeting with MLSs unless they see potential value in the dialogue.

When you approach prospects, open your presentation with this simple phrase, "In preparing for this meeting I took some time to ..." Then simply highlight the two or three critical preparatory things you did.

Then watch what happens to the atmosphere. You would be blown away by the lame introductions of some MLSs, such as "just checking in to see if I could save you some money."

One mistake MLSs often make in sales calls is trying to "educate" merchants on the advantages of processor XYZ. Unless you engage merchants in an exciting value proposition, they won't care about the greatness of your company, your equipment or software, or your vast and amazing knowledge of interchange and stellar reputation in the industry.

I've often said selling is never telling. Engage merchants by asking questions about them and, from their answers, providing ideas to help them improve their bottom lines. By asking the right questions, listening to the answers and then communicating to them how your services can help them, you are leading merchants to a close, not pushing them.

4. Create a need and deliver value

I remember a funny story from *very* early in my bankcard career, back in the mid 1990s. A sales rep I trained told me a story I will never forget. He said:

An antique dealer just outside of our town did not accept credit cards. I had been into his shop several times, and he kept telling me he just didn't have much demand for accepting them. It was an odd objection, I thought, considering many items in his store exceeded several thousand dollars.

Well, if I can confess, we sort of assisted this



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merchant in creating a need. I sent a family member to his shop and had the person take over \$3,000 worth of items to the cash register and nonchalantly handed him a credit card. She said the guy's face turned pale white when he realized it was the only available method of payment for her.

Needless to say, I found myself in the area a day or two later and, boy, was he eager to see me. He told me the whole story. It was all I could do to keep from dropping to the floor in laughter. But I kept my cool and simply filled out the paperwork with a smile.

That's a classic story. While it isn't the method endorsed by Advanced Merchant Services Inc. to create a need, it's fun to think of the old war stories from my early days. The good news is I can attest that this merchant did, in fact, substantially increase revenues with AMS over the years. And the merchant never regretted establishing a merchant account from this AMS agent.

5. Ask high-impact questions

When you engage merchants, your interaction *must*

be focused solely on them. How do you achieve this? By asking high-impact questions. But it takes time to formulate high-impact questions. Don't pick up the phone or walk into the lobby until you're absolutely ready to engage in a meaningful dialogue. Often, you're not going to get a second chance in a slowing economy, so make sure every introduction counts.

It is important to ask high-impact questions in order to gain a thorough and detailed understanding of each merchant's situation, including the merchant's needs, wants, desired results, decision-making processes, as well as potential concerns or roadblocks. Most MLSs understand this, at least at a fundamental level.

In virtually every sales training workshop I conduct, MLSs nod their heads in agreement when we discuss the importance of asking questions early in the sales process. Unfortunately, they often have the process completely backwards. In real life, they often skip over this stage in the selling process in order to make their pitch. They are too eager to discuss a solution before they have identified the merchant's needs.

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It's only when merchants raise objections that many MLSs backtrack and start asking questions. But what are high-impact questions?

High-impact questions help you demonstrate that you are an expert in your field, not just an ordinary person trying to sell a product, service or solution. Remember, don't be ordinary if you have the potential to be extraordinary. High-impact questions help you stand out from the crowd. And the answers to such questions help you determine the best way to present your solution to the merchant.

High-impact questions are designed to make merchants think. The majority of MLSs I encounter are hesitant about asking deep, thought-provoking questions because they are afraid prospects will find such questions invasive.

But asking probing questions will help you know how to build presentations that specifically suit your prospects. Furthermore, asking substantive questions prevents merchants from feeling they are receiving a "canned" pitch.

Here are a few examples of high-impact questions:

- We've noticed several trends in your industry lately. The two that stand out the most are... (fill in information you can find about the industry in a 10-minute Google search). How are these trends affecting you and your business?
- When I was doing research on your business, I noticed on your Web site that your company is expanding into ... (specify what you discovered). What progress are you making on that initiative?
- What can you tell me about your method of protecting cardholder data?
- What percentage of your transactions are business-to-business versus business-to-consumer?
- How are you tracking or rewarding repeat or loyal customers?
- What sales goals are you striving to achieve this year?

These questions are high-impact because they show that you have done your homework on the business. Merchants appreciate that. These types of questions also demonstrate that you care about their business challenges.

I am *not* suggesting you spend 15 minutes showing off to your prospects; the goal is to be prepared and to demonstrate your preparation by asking key questions.

Assuming you have captured your prospect's attention, you can move the sales process forward by asking other high-impact questions that focus on your desired outcome – a sale.

Most people, especially merchants, do not make buying decisions based on your ability to spew out product specifications and pricing information. Instead, they want to know what results they can expect.

In essence, your prospects want to know how your solutions will affect their top line (sales) or bottom line (profits). Will they make more money? Will they gain more market share? Will they increase brand recognition?

Will they be able to compete in the marketplace more effectively? Increase productivity? Reduce risks of a security breach? Reduce costs? Will they see faster cash flow? Where is their return on investment?

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the company had been making appointments with follow-up prospects for weeks using this sports celebrity as the carrot. Sales had been off, during the Monday morning sales meeting, he really laid into his sales team. At the end of the tirade, he looked over to the NFL star and asked him, "What would happen in the NFL to people who were underperforming like this?"

The former football player's answer was not exactly what he was looking for. "Well, if it was one or two underperforming they would cut the player," the man said. "If the entire team was underperforming, they would cut the coach." Ours is a strange industry. Ninety percent of ISOs have their MLSs seek "sales help" from relationship managers who have never written deals in their lives. Sure, they have training knowledge, but no real-life experience.

In today's climate, MLSs need access to someone or a group of successful people who came from the street. MLSs need help from current or former feet on the street, not just from people with book smarts and theory.

Always remember, prospects are not interested in the fact that you need a sale. Your presentation must be geared to

them, for them, about them; it must promise them significant value. Prospects must be given a vivid understanding of both the advantages of moving forward with you as their sales rep and the pain they would experience if they procrastinate.

If you do not, or worse, cannot deliver that message with precision, you will struggle in this competitive climate made even more cutthroat by the slow economy. It's not just shooting fish in a barrel anymore. You need to earn your merchants' business and then expect it.

If you find yourself struggling, more than likely you simply need a better coach who can provide you the training necessary to make you thrive when the competition is taking a dive. ☐

Jason A. Felts is the founder, President and Chief Executive Officer of Florida-based Advanced Merchant Services Inc., a registered ISO/MSP with HSBC Bank. From its onset, AMS has placed top priority on supporting and servicing its sales partners. The company launched ISOPro Motion, its private-label training program, to provide state-of-the-art sales tools and actively promote the success and long-term development of its partners. For more information, visit www.amspartner.com, call 888-355-VISA (8472), ext. 211, or e-mail Felts at jasonf@gotoams.com.

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Education (continued)

Marketing 101

How to write right

By Nancy Drexler

SignaPay Ltd.

If you're like many people in the payments arena, you fall into one of these three categories: You think you're a great writer; you think you're a good enough writer; you are successful enough to hire someone else to do your writing.

To each of you, I say:

- You can always be a better writer; the better you are, the more successful you'll be.
- Good writing connotes education, intelligence, sophistication, maturity and attention to detail. The better you write, the more trustworthy you'll seem.
- At least once in your future you will have to write your own thank-you note, sales letter or speech. The better you are at the task, the more successful you'll be.

Here are some pointers for making your letters, sales materials, ads and other written communications more effective.

The do's

- **Talk to the reader.** If you want me to read what you've written, write it as though you are talking to me face to face. Writing is read by one person at a time; no matter how many people will read what you've written, each reader must feel as though you are speaking solely to him or her. Take a letter (or ad, or e-mail) you've composed and read it aloud. If it feels awkward, difficult or even a little embarrassing, try rewriting it.
- **Respect the reader.** Your readers are busy, harried and consumed with making their lives (not yours) better, easier, more effective and more efficient. Show them how you can help them do that, and they may continue to read what you've written. If you have something to add to their lives, let them know. Tell them clearly, quickly and upfront about the value you offer.
- **Get it right.** Find out the gender of people you're contacting before you reach out by phone, e-mail or letter. Spell their names correctly. Avoid using nicknames until you know it's OK to do so. Make sure the titles you use are current. And proofread at least once. Today there is no reason, ever, not to spell check.

- **Get right to it.** You are writing something for a reason. Regardless of what you learned in high school, you don't have to "tell them what you are going to tell them; then tell them; and then tell them what you just told them." Just get to it.
- **If you wouldn't say it, don't write it.** You would not want to deal with a customer service rep who says, "I am the person whom you may call to resolve any dilemma in which you find yourself." It is grammatically correct, but these days it is also very unnatural.

I am not suggesting you pepper your communications with grammatical errors. I'm just saying that it is perfectly appropriate to keep your tone conversational. Your writing should reflect who you are. Don't say, "Me and you should get together." But don't worry about ending a sentence with a preposition.

- **Tell your reader what to do.** Every communications piece should feature a call to action. If you don't tell your readers what to do, don't assume they'll figure it out for themselves. Instead, provide an easy-to-find, specific set of instructions for their next steps. Make these instructions urgent, and include a reminder of the benefits to following them.

Say something in a print ad along the lines of, "Call me today for your free quote," followed by the correct telephone number.

A postscript is a very effective place for your call to action. Letter readers often read the first line or paragraph and then the P.S. before reading anything else. While you want to keep your postscript's tone conversational, you must also be concise.

- **Edit. Delete. Edit.** Your job as a business writer is to capture your readers' attention and draw them, through your copy, to your call to action. Your words must convince them that taking that action is in their best interest. To accomplish that, the best writers pay as much attention to the words they remove from copy as to the words they add.

The don'ts

- **Don't ask a question you don't want the answer to.** Copywriters are taught to engage their readers with questions, conflicts, or situations that attract their attention and draw them in to the rest of the message. But be careful.

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Education

Don't be too clever. There is a fine line between funny and not funny. Don't start a written piece with anything that can turn readers off. If you think you have a novel idea, try it out on a few colleagues before implementing it.

If the answer to your question isn't more than likely to be the one you want, you probably shouldn't ask the question. For example, don't start a letter or direct mail piece with, "Interested in the best new terminal?" or "Want to get more from your processor?" The answer to those questions could easily be "No" or even "Not right now"; if so, your message could be tossed aside.

- **Don't be too clever.** There is a fine line between funny and not funny. Don't start a written piece with anything that can turn readers off. If you think you have a novel idea, try it out on a few colleagues before implementing it. And make sure any gimmick you use enhances your brand and the reason for the communication.

One of my favorite ads contains a four-color close-up of the torso of an elderly woman. Just above her

left breast is a large "tattoo" that is the signature of Jimi Hendrix. There is no headline or copy, just the picture of a BIC permanent marker. Could this ad be considered offensive? Possibly. Does it catch your eye? For sure.

But what makes this ad brilliantly clever instead of gimmicky is that the visual draws you in and, without using copy, lets you know that if you write with a BIC marker, your message will last until you are old and wrinkled. The gimmick makes the point in a strong, memorable way. Similarly, good writing uses wit to enhance a message, not compete with it or detract from it.

- **Don't shout.** Speaking of gimmicks, can't you smell one from a mile away? What do you do when you see the word "free" in all caps? Or "Just for you" in an e-mail subject line? How do you respond when a communication is replete with bold letters and exclamation points?

Like a pushy salesperson, a pushy letter or sales piece can be annoying or completely counterproductive. So don't shout. Keep your tone conversational. Don't use trite phrases that underwhelm because they are overused. And don't count on bold letters and exclamation points to generate interest or excitement. Your writing will have to do that.

Tune it up

The best writers are great editors. Never wedded to a word or turn of phrase, they are able to delete any writing that doesn't push the narrative forward in a logical and convincing way. Good business writers don't emulate poets. They use simple, straightforward language. They know never to use a long word when a shorter one will do.

Effective writers replace the words "I" and "me" with "you" and "your." Instead of talking about what makes them great, they focus on what will benefit readers.

Clearly presented information is far more engaging than cleverly presented information. Tuning up your writing skills to concisely convey your message will pay great dividends. ■

Nancy Drexler is the Vice President, Marketing for SignaPay Ltd., an ISO headquartered in Dallas. Reach her at nancyd@signapay.net.

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Education (continued)

Dead-on delegation

By Vicki M. Daughdrill

Small Business Resources LLC

The new year is in full swing, the economy continues to struggle and generating new customers is a top priority for every business. You've set your goals for the year, created a budget to achieve those goals and positioned your company to realize its potential. You've organized your office and worked at managing your time. Now, it's time to focus on actually running your business.

Owners of successful businesses exhibit a variety of management skills, including the following:

- Strategic planning
- Negotiating
- Managing conflicts
- Developing strong teams
- Conducting effective performance appraisals
- Mentoring
- Running efficient meetings
- Providing rewards and recognition
- Delegating

In the coming year, I will discuss each of these topics. I will begin with the fine art of delegation.

It is a widely held belief that the success of a small business depends on the owner's ability to delegate effectively. There is simply not enough time in each day for the owner to complete every task necessary to assure that the company continues to grow and thrive.

Like many other skills, delegation is a learned process. Becoming an adept delegator is challenging; it requires learning to let go, allowing others to make decisions and accepting consequences – including work that is perhaps not exactly as you would complete it had you done it yourself.

Why should I learn to delegate?

Delegating tasks to others has the following benefits. It:

- Lightens your workload and eliminates your having to do routine or administrative tasks so you can spend time and energy on revenue generating activities
- Shows respect to your subordinates and reflects your trust that they can complete the work
- Eliminates frustration and confusion among your staff, provided everyone clearly understands the work to be completed and knows who is responsible for accomplishing each task

- Keeps things from falling through the cracks
- Allows key employees to develop new skills, take greater responsibility within the company, take initiative and move into higher levels of management
- Grooms your successor to move into your job when you move to your next position higher up in the organization
- Makes sure that activities continue in your absence and that quality customer service is ongoing

When should I delegate?

Part of the learning curve is knowing when to delegate. Here are some guidelines to help you. It is appropriate to delegate when:

- A significant amount of work must be completed in a short timeframe
- An employee has specific skills or interest in the tasks to be completed
- An employee can learn and grow from accepting additional responsibility
- You have routine or administrative tasks that require attention
- Details take up too much of your time, and you need to focus on revenue-generating activities

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Education

How do I learn to delegate?

Here are eight steps that can lead to smooth delegation of work:

1. Evaluate the skill sets and interests of your employees, and determine the appropriate person for each task you want to delegate.
2. Delegate the entire task, both the responsibility for the task and the authority needed to accomplish the task.
3. Clearly explain your desired outcome while focusing on the result, not the process.
4. Ask employees to summarize their understanding of their assigned tasks, including anticipated results or outcomes.
5. Request ongoing status reports on the delegated projects, and provide appropriate feedback.
6. Keep communication lines open without hovering, but still remaining available for clarification and assistance as needed.
7. Assess progress on a regular basis and, if at all possible, work with employees to fulfill tasks rather than take the work back – an action that demoralizes employees and provides you another task to complete.
8. Finally, evaluate the completed tasks, reward employees for their performance and accomplishments,

and remember to reward the results, not the methods used to complete the project.

What shouldn't be delegated?

Part of the learning process is to know what to delegate. The following are duties business owners or managers should *never* delegate:

- Performance evaluations and appraisals
- Disciplinary actions
- Politically sensitive activities, confidential issues or hot-potato customers
- Confrontations resulting from interpersonal conflicts

Where do I begin?

Here is a brief quiz to help you evaluate your ability (and willingness) to delegate. Answer yes or no to the following 10 questions:

1. Do I feel it is easier to complete a task myself rather than train someone else to do it?
2. Do I worry that delegating assignments will reduce my authority within the company or that I will be perceived as less valuable?
3. Do I find that my employees don't complete the tasks I've delegated?
4. Do I feel there are only a few of my employees who can handle delegated tasks?
5. Do I believe I should be able to complete every task by myself and without help?
6. Have I been told that I micromanage tasks that have been delegated?
7. Do I "take back" delegated tasks when it's clear that an employee won't get it done on time?
8. Do I avoid delegating because I believe my employees are already overworked?
9. Do I often assign tasks or assignments in the hallway or on the spur of the moment?
10. Do I sometimes delegate responsibility for getting a task done without delegating the appropriate level of authority?

If you answered yes to five or more of these questions, consider devoting time to further developing your delegation skills. Significant tools exist to help you learn this essential management skill. A search for "delegation" on one Internet search engine produced 599,000 hits; books and seminars on the topic abound.

In this challenging year, take extra time to enhance and strengthen your management skills. The survival of your business may depend on it. 📧

Vicki M. Daughdrill is the Managing Member of Small Business Resources LLC, a management consulting company. E-mail her at vickid@netdoor.com or call her at 601-310-3594.

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Education (continued)

Legal ease

Keep an eye on the store

Adam Atlas

Attorney at Law

Whether or not ISOs and merchant level salespeople (MLSs) carry liability on their merchant portfolios, it is in every agent's and sales organization's best interest to monitor their merchants to help them avoid liability. At the least, merchant liability can cause ISOs and MLSs to lose residual income on affected merchants and, at most, engage the liability of ISOs to the tune of huge dollar amounts.

The purpose of this column is to highlight a few common sources of merchant liability that ISOs and MLSs can then turn around and educate their merchants on.

In this way, sales professionals can influence merchant behavior to reduce the chances of loss due to liability. Merchants should know that when they abuse their merchant-ISO contracts, they are putting their livelihoods at risk.

Chargebacks

It may seem too obvious for print, but ISOs should always make an effort to monitor chargeback activity occurring with merchants in their portfolios. Even if sales organizations are not liable for losses due to chargebacks, monitoring said activity will inform ISOs as to which merchants are problematic and which aren't.

Any merchant that approaches 1 percent in chargebacks (based on the aggregate monthly processing volume) should be considered problematic. ISOs with merchants with that many chargebacks should immediately intervene to assure that chargeback rates are reduced.

It is better that the volume of merchant processing plummets than remains steady but with high chargebacks.

When ISOs intervene with merchants, they should do so in consultation with acquiring processors to make sure all necessary precautions are taken and merchants are guided to a more secure method of business operation.

All processors have had merchants with high chargeback rates. In consequence, processors know how to enable their ISOs to educate merchants on how to reduce chargebacks. Therefore, ISOs should take full advantage of the knowledge their sponsoring processors have gained from experience with chargeback issues.

Furthermore, ISOs and MLSs should never get caught

up in the excitement and frenzy of high-volume merchants that generate huge residuals but run too close to the boundary line of acceptable chargeback levels. When ISOs take into consideration the long-term financial and reputational risks associated with high-chargeback merchants, short-term residual gain is not worth the risk.

Misleading information in applications

The temptation is enormous for ISOs to turn a blind eye to problems in merchant applications, or to even sanction the falsification of said applications. ISOs must resist this temptation. What is more, ISOs should take time to review each merchant application to ensure its contents are accurate.

But the information should not only be accurate in terms of what a standard contract should contain but also accurate given the particulars of each individual merchant. Therefore, ISOs should take the time to:

- Visit merchant Web sites
- Attempt to order products or services from merchants
- Discuss in detail with merchants their routine day-to-day business

Through these simple investigations and inquiries, ISOs and MLSs will not only acquire a deeper understanding of merchants and establish deeper personal connections with their customers, they will also gain the knowledge and insight necessary to protect themselves against potentially dishonest merchants or merchants likely to cause them liability issues.

Anecdotal evidence suggests the single greatest source of liability in our industry is false information contained in merchant applications. In other words, if every submitted merchant application contained only true information, most of the losses in our industry might be avoided.

Since ISOs are the organizations that sign merchants to merchant contracts, it falls upon ISOs to do their part in sleuthing out troublesome merchants.

If ISO's and MLS's plans are to build portfolios that have value over the long run, then it falls upon sales professionals to take an interest in whether their merchants are providing accurate information to their acquiring banks.

Forcing a square peg in a round hole

For every merchant doing business legally and above board, there is a corresponding acquirer partner. So, there is no need to try to board a merchant with an acquiring

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bank that an ISO knows will be a bad fit. If sales relationships require exclusivity, then seek and obtain an express exemption from exclusivity for each merchant that ISOs know will never meet the underwriting guidelines of the acquirer.

Then, find a secondary processing relationship that can accommodate merchants who will likely be rejected by their primary processors.

Security breaches

Whether or not ISOs are liable for losses and fines relating to security breaches at merchant locations is determined by the contracts between ISOs and their sponsoring acquirers. But most ISOs are not liable for security breaches at merchant locations.

Nonetheless, security breaches often result in Visa Inc. and MasterCard WorldWide levying fines large enough to put most small businesses out of business. Given that most merchants are short of credit today, an additional few \$100,000 in fines may be enough to bankrupt the average small or medium-sized merchant. Whether or not these fines are fair or justified will be discussed in a future column.

As a matter of routine, ISOs should educate their

merchants on the fundamentals of Payment Card Industry (PCI) Data Security Standard compliance.

I am always surprised to learn about merchants who (a) do not know anything about their PCI obligations; and (b) are ignorant of the fact that they are routinely storing cardholder information because of outdated or ineffective POS systems and software.

A plethora of PCI consulting firms exist in the marketplace today; ISOs should get to know a few and consider reselling their services as a way for ISOs to protect their merchants and residuals.

Please forgive me for the following analogy, but ISOs might think of their merchant portfolios as gardens which require ISO and MLS gardeners to do more than just plant the seeds and reap the fruit. Sales organizations also have to prune and weed their gardens to generate the best harvests. 🌱

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Education (continued)

The lowdown on downloads

By Dale S. Laszig

DSL Direct LLC

The term "download" originated in the computing world; in the payments industry it refers to a file sent from a host processor to a credit card processing device.

For those of us who know only too well what a download is, here's good news: Downloads have become faster and easier than ever.

Still waiting for onscreen bars to turn to stars or hoping your download will be finished by the time you get back from lunch? New technology reduces wait times and offers time-saving strategies to get POS terminals programmed and out the door.

Twenty years ago, when dial modems were the primary method of data transfer, downloads could take up to an hour. Today, software applications can be loaded in a few minutes, or even seconds, with the use of smart technology.

This technological advancement is important because ISOs and merchant level salespeople don't make money until downloads are finished.

Checklists

Whether it comes to downloading single terminals or a large population of devices, even the most experienced help-desk professionals rely on checklists to stay on track. And you should too.

Following is a sample hardware checklist:

- **Power up the terminal.** Make sure the terminal lights up and displays the right message on the screen.
- **Check the battery.** Many devices require additional time to fully charge batteries, even when they are plugged in to electrical sockets. Therefore, give batteries a full charge to ensure enough power to complete downloads.
- **Clear the memory.** A receiving terminal should be like a blank canvas, containing only the most generic factory operating system. Make sure to clear any transactions, batches and older programs before you start the download.
- **Run a test transaction.** After the download is completed, perform a test transaction. This will reveal any possible communication issues, and you can check the receipt header for accuracy.

Following is a sample software checklist:

- **Use the help desk.** Make sure you are downloading the latest and best Payment Card Industry Data Security Standard-compliant version of software into your terminal. Do this by checking with your help desk, ISO or processor.
- **Request a list.** For multi-application and multi-merchant downloads, request a list of all ancillary applications and merchant names or numbers that will be part of this download.
- **Review card types.** Make sure you know all the card types a given merchant will accept and any specific requests by the merchant to disable or password-protect certain functions. For example, many retailers put additional passwords on void and refund transactions so that only store managers can perform these functions.
- **Run a test transaction.** At the end of the download, run a test transaction to ensure the user interface is consistent with the merchant's requests.

The download two-step

Most downloads are two-step processes: a program load and a parameter load. The program load gives a terminal its primary software application. The parameter load gives the terminal its unique identity, including merchant identification number, receipt header and a list of credit cards it accepts. Some manufacturers have combined these two steps into one simple download. Each terminal type will vary.

When you have confirmed that your terminal is ready to be downloaded, what method will you use? Here are a few examples:

The TCP/IP download

Many credit card terminals use transmission control protocol/Internet protocol (TCP/IP) to process electronic transactions. Early model TCP/IP terminals relied on dial modems for downloads and required manual configuration to register a terminal to static IP addresses. Many newer generation Ethernet-enabled terminals connect automatically to secure IP gateways, reducing download time to a few minutes.

The terminal-to-terminal download

It's possible to transfer an entire application from one terminal to another with the help of a simple cable (the process is sometimes called cloning). While this procedure is popular with many deployment centers, be aware of the risks if you try this yourself. First, make sure the cable you use comes from a trusted source.

Also, make absolutely sure you have up-to-date,

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modern software in the terminal that will send the download. If any updates were made to the software application or host protocol since the terminal was last downloaded, you may get communication errors or the dreaded "No response from host" message. Next, make sure the receiving terminal has been cleared of all programs before it gets the new download. The two terminals should have an equal amount of memory and compatible operating systems for this technique to be effective.

The computer-to-terminal download

The computer-to-terminal download, available on select terminal models, is faster and more direct than a terminal-to-terminal download. Special cables

that connect from a computer's RS232 port to a receiving terminal can effectively load an entire application in five to seven minutes. This procedure is usually performed at a help desk or certified deployment center, but it can be done remotely to save time during larger deployments.

The memory stick download

If you ever have the opportunity to try a memory stick download, you'll be amazed at the speed: If you blink, you might miss it. This method is available on select terminal models that have universal serial bus ports.

The on-air download

Many wireless devices can now receive downloads without phone cables, a process that greatly speeds download times. Additionally, it minimizes interruptions in service for mobile merchants who require an application download in the field or in other remote locations lacking access to traditional phone lines. This process also works when loading payment modules into smart phones.

Virtual terminals

Give a merchant a virtual terminal and your download time virtually disappears. A secure login is all that is required, and the merchant will have access to an always-on, fully loaded terminal.

If any of your terminal downloads are taking more than 15 minutes, it may be time to review your product mix. Downloads equal downtime; let's keep them short and sweet. ☑

Dale S. Laszig has a varied background in sales for First Data Corp., Hypercom Corp. and VeriFone. Her dedication to technology, writing and graphic design led to the formation of DSL Direct LLC, a marketing services company geared toward payment professionals. She can be reached at 973-930-0331 or dale@dsldirectllc.com.

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NewProducts

Giving salons, spas the Midas touch

Product: TouchSuite Salon POS

Company: Invenstar LLC

According to Terry Glatt, President of Invenstar LLC, the future of POS systems for small businesses is in specificity. Take, for example, Invenstar's new product, TouchSuite Salon POS. The system is designed specifically for salons and spas.

Invenstar visited salon and spa owners and asked what they needed in a POS system. The answer was simplicity. Glatt and his colleagues discovered most salon and spa merchants are not technologically savvy. "They run on a paper book," Glatt said. "They're doing manual tickets back and forth. I'm surprised they're not using knucklebusters."

Additionally, Glatt's team found that front-desk operators in salon and spa settings typically have rudimentary computer skills but have scant experience with sophisticated software or information technology. Therefore, Invenstar modeled its user interface for the TouchSuite to take into account operators' limited knowledge.

"And so it's very simple booking on the TouchSuite," Glatt said. "It's three touches. It looks and acts and feels a lot like the book acts and feels."

As Glatt describes it, "the book" is the center of the salon universe. It is the calendar that records the daily and ebb flow of business at salons. It is where appointments are booked, patrons are checked out, and details of individual customers are kept, such as birthdays and what beauty products are preferred.

Essentially, the TouchSuite electronifies the book. "You check out from the book into the cash register," Glatt said. "Credit card payments are built right into the system, so it's a two-second broadband transaction as opposed to a 40-second dial-up, and, bam, they can check out the next customer, book the next appointment."

The golden handcuffs


While an integrated, easy-to-use solution for salons and spas may sound simple, Glatt realized the challenges inherent in developing such a system. But Glatt and Sam Zietz, Chief Executive Officer at American Bancard LLC, recognized in 2007 that the marketplace was wide open for what became the TouchSuite.

Glatt pegs the overall size of the market at "hundreds of

thousands" of salons and spas in the United States. But, of that number, Glatt said only 20 percent have implemented some type of POS terminal. And those 20 percent run what Glatt characterizes as Frankenstein systems – for example, a card swiper from a device manufacturer jerry-rigged to the platform of a software company.

"I mean, these are good shots at it," Glatt said. "But they're not fully committed."

Since Glatt believes cobbled-together systems leave much to be desired, he sees a huge opportunity for the TouchSuite. "Once you've got your clients running the TouchSuite, and it's easy to use and it's cost effective, the retention rate is going to go through the roof when it comes to merchant accounts," Glatt said.

Capitalizing on the knowledge and experience that resulted in the TouchSuite, Invenstar is now working on a more universal version of the system to be deployed in other niche markets, such as daycare centers, auto shops and boutiques. To view a demo of the TouchSuite, please visit www.touchsuite.com/salon/demo.html. 

Invenstar LLC

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RDC, scanner tandem for small merchants

Product: Dep@sit

Company: Jack Henry & Associates Inc.

Remote deposit capture (RDC) technology is relatively new, and for some small merchants the cost is prohibitive. A new product from Jack Henry & Associates Inc. called Dep@sit aims to fix that.

Dep@sit is essentially the same service provided by existing RDC systems but with one exception: It is compatible with a standard, off-the-shelf, flatbed scanner. Now small and micro-merchants on tight budgets need only buy the deposit service and avoid the expense of both a high-tech remote deposit scanner and the accompanying software. Users still must have high-speed Internet.

"This is merely an extension of a product we had already developed for remote deposit capture," said Debbie Wood, General Manager, Marketing and Industry Research for Jack Henry.

"We took it downstream in an effort to provide our

NewProducts

customers – financial institutions as well as the businesses they do business with – with the opportunity to take remote deposit capture to a segment of the market that we'd been unable to provide for."

A complete service

Dep@sit, developed by the Jack Henry subsidiary ProfitStars, is not the first RDC device compatible with a standard scanner. But such devices are only just emerging, and Wood said most other micro-business RDC systems offer only a partial service. She said they do allow the electronic transmission of scanned checks but do not determine authenticity, so merchants still have to deposit physical checks at banks.

The single benefit of that service is the immediate acquisition of a credit payment for the scanned check; but a merchant stands to lose that money if the check is bad, or have it temporarily deducted if the physical item isn't promptly submitted. According to Wood, Dep@sit has two features that permit online verification. One, she said, is "an architectural difference in the software itself," and the other is the program's inclusion of fraud detection software.

She cautioned, however, that the service is not intended for a bustling store with a steady inflow of checks. A normal scanner still requires that every check be

individually scanned by hand, a wearisome process with a big workload.

"Scanning 20 items front and back is going to take a while ... versus if you're using a remote deposit scanner; those actually have a little trap on them, and they transmit through in just a matter of seconds," she said. "So you can actually drop 20 checks in a scanner as opposed to having to feed them, and then it automatically feeds."

In some cases, Dep@sit may just be a short-term solution for merchants eager to forgo another tedious financial errand. "For a start-up business that starts slow, this gives them the opportunity to start out without a huge capital expenditure – or without any capital expenditure other than a PC and a scanner," Wood said.

"That way if a business starts to grow and they see more transactions coming in the way of checks, then this also gives financial institutions the opportunity to cross-sell to them: 'Now that you've grown, your needs are different than when you started out; let's migrate you to the next phase.'" ■

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-Thomas Paine



Cut back without cutting out

Unemployment is up, consumer spending is down and government bailouts of once sound financial institutions are proliferating. But for ISOs and merchant level salespeople (MLS), it is important to remember ways in which we're still prosperous.

For many individuals, relinquishing creature comforts gained from years of success can be frustrating. However, there are ways to cut back on expenses and retain quality lifestyles.

Trimming company or personal budgets means just that. If you want a haircut to enhance your appearance and self-esteem, you don't ask to have your head shaved – you ask for a trim. Similarly, expenses can be reduced without eliminating amenities.

Greener pasture

One way to trim your cost of doing business is to shrink overhead costs. Following are two places to start:

- One of the simplest and most effective ways to cut costs for any sized organization is to go "green." A Web search for "going green" rendered over 73

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Inspiration

million hits, with innumerable results providing tips and best practices. Many companies listed on the Internet provide cost-efficient "green" solutions, which may save businesses and home owners up to 40 percent in energy expenses annually.

- Shipping expenses have fluctuated with the rise and fall of fuel prices, and the bigger delivery companies' costs for overnight and international shipping can cripple small businesses.

But hundreds of delivery alternatives on the Web offer competitive prices and services. And perhaps it's time to reconsider the U.S. Postal Service; its shipping costs average one-third that of the two largest delivery firms.

Prudent acquisitions

Finding cheaper ways of doing the same things is another possibility. Here are three examples:

- Video conferencing is gaining in popularity as a means to save transportation and lodging costs. (Eliminating extra business trips also helps cut fossil fuel use, making this another eco-friendly option.)

Prices for such equipment vary, but taking this step could shave off thousands of dollars a year – perhaps more – in face-to-face conferencing costs.

- Why not get an espresso machine at the office? There are nominal upfront expenses, but savings over the course of a year compared to buying two cups a day at the local coffee shop can be as much as 60 percent. A sure boost in employee morale is another perk – most everyone likes good coffee.
- If your organization has a reception area or waiting room, it's likely you have magazines on hand for visitors to read. Rather than subscribe to magazines individually, consider a service that offers multiple subscriptions from one source. Maghound Enterprises Inc. is one example.

For one monthly fee, Maghound provides more than 120 publications, and you can change your magazines or try new publications at any time.

And don't hesitate to use some of these tips and practices as marketing tools for your merchants. If they employ some of these cost-saving measures, perhaps they can save enough extra money over time to purchase additional value-added services from you.

The big picture

Being an ISO or MLS is one of the most lucrative and rewarding sales careers available. But that doesn't save reps from having to go through hard financial times.

When money is tight and stress is high, sometimes a balanced perspective is hard to achieve.

But the current economy won't stamp out long-term success. Weathering today's economic conditions may require sacrifice, but sacrifice doesn't have to include bitterness.

Set aside time *every day* to appreciate what is good in both your personal and professional lives.

Life is fragile and fortunes fickle. Circumstances fluctuate, compelling us to adapt – we're not always on easy street. Part of what defines the human experience is our collective response to hardship: our resilience, resourcefulness and level of cooperation.

Awaiting those who judiciously push forward is the elation that accompanies triumph.

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Paul H. Green, President and CEO

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Does your accountant think that:

- An ISO is a perk of working for a public company?*
- An MLS is a website for looking up real estate?*
- An Interchange Fee is paid at an expressway on-ramp?*

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Mike Laird is the CPA who gets you and your business. Mike has invested years educating himself about the industry. He even attended ETA this year. Mike has already advised ISO's and Agents on portfolio sales, partner buyouts and mergers.

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Standing together against online fraud

According to Tom Donlea, Executive Director of Merchant Risk Council, the security and risk management industry for brick-and-mortar retailers is well established, but the same cannot be said for the e-commerce world, where risk management resources are limited.

The Cybersource 10th Annual Online Fraud Report estimates that \$4 billion in online revenue was lost to payment card fraud in 2008; merchants reported an average revenue loss of 1.4 percent. In 2000, merchants lost 3.6 percent or \$1.5 billion of their online revenue to fraud.

Concerned about these losses, the Merchant Fraud Squad, founded in 2000, joined sister group the Internet Fraud Round Table to form the MRC at the end of 2002. The MRC's membership is made up mostly of merchants, but the organization has attracted business operations managers and retail loss prevention professionals who taught themselves Internet risk management strategies. Donlea said the MRC offers education and certification programs to bolster the level of security for businesses in the payments industry and enhance the careers of payments professionals.

The MRC provides fraud prevention education and offers merchants networking opportunities to share experiences and solutions for combating fraud. The group also advocates for e-commerce issues and has partnered with the FBI's Internet Crime Complaint Center and the United States Postal Inspection Service on fraud-related issues.


"The MRC is working on actually developing a dedicated position with the IC3 where we are able to bundle those cases and hand them over to law enforcement and increase the likelihood that the bad guys are going to be put away," Donlea said. "And ultimately that ties back to consumer confidence." He added that cardholders must have con-

fidence that the systems and payment methods they're using are safe and that, when fraud happens, the culprits are caught. As more e-commerce merchants branch out internationally, the MRC is shifting to a more global focus. MRC's first think tank, the Global Leadership Forum, met in October 2008 and brought together merchants, academics, and developers of commercial safety, security and payment-acceptance products. This year's Global Leadership Forum will center on universal authentication initiatives for global e-commerce.

In addition to a resource center on its Web site, the MRC offers two to three webinars per month and holds annual conferences. The 7th Annual Merchant Risk Council e-Commerce Payments & Risk Conference, to be held in Las Vegas from March 10 to 12, 2009, will feature segments that may be of interest to ISOs and merchant level salespeople (MLSs).

Segments include:

- Solutions for digital merchants
- Solutions for hard goods merchants
- Key trends in online security
- Managing risk to maximize revenue
- Developing a community-based approach to fraud management
- An update on the Payment Card Industry Security Standards Council

Information gained at this event may provide ISOs and MLSs with the knowledge to answer merchants' risk management questions in a more educated and detailed fashion. Having up-to-date information on the risk management landscape may be the value-added service that keeps merchants sticky. And payments professionals interested in learning more about the fight against fraud may wish to find out what the MRC has to offer. 

And the nominations are


It's that time again. The Electronic Transactions Association is looking for nominations for the ETA Awards 2009. The ETA's Annual Meeting & Expo runs from April 21 to 23, 2009, in Las Vegas. Award winners will be announced at the President's Dinner held on April 21.

The categories for the ETA awards are:

- Business Partner of the Year
- Committee of the Year
- Committee Volunteer of the Year
- Distinguished Payments Professional of the Year
- ISO of the Year

- Member of the Year
- Technology Innovation of the Year

The new award category added this year is ISO of the Year. According to the ETA's Web site, the criteria for the award is a "current registered ISO and ETA member that moves the payments industry forward, exhibits high ethical standards and has successfully met industry challenges with demonstrated results."

The deadline for award nominations is Feb. 27, 2009. To nominate an ISO, go to www.electran.org/content/view/245/173/. 

DateBook

Visit www.greensheet.com/gs_tradeshow_events.php for more events and a year-at-a-glance event chart.



Institute for International Research Prepaid Card Expo 2009

Highlights: This expo provides a chance to network with 2,400 attendees from over 25 countries, as well as share and explore new ideas in the prepaid industry.

The event will feature vertical market workshops, market focus sessions and cross-industry track sessions.

And the latest in prepaid technology, services and solutions will be displayed and demonstrated in a spacious exhibit hall.

Scheduled speakers include Ozzie Smith, former shortstop with the San Diego Padres and current broadcaster; Carol Kinsey Goman, Ph.D., author, coach and consultant; Mark W. Yusko, President and Chief Investment Officer, Morgan Creek Capital Management LLC; and Alpesh Chokshi, American Express Co.'s President, Travelers Checks and Prepaid Services.

When: March 9 – 11, 2009

Where: Orlando World Center Marriott, Orlando, Fla.

Registration:

www.iirusa.com/prepaidcardexpo/event-home.xml



Glenbrook Partners LLC Payments Boot Camp

Highlights: This two-day look at U.S. payment systems features three sections:

- An overview of payment system designs, functions and uses, including payment system volumes and shifts in actual and projected usage. Perspectives of key payments industry constituencies will also be shared.
- A discussion of how payment systems in the U.S. market work. Card, check, automated clearing house, cash and wire transfer payments will be thoroughly covered.
- An examination of emerging and evolving payment markets and infrastructures, including e-commerce, chip and contactless cards, prepaid and gift cards, international remittances, mobile banking and payments, POS developments, and online bill payment.

Classes will be taught by industry veterans and Glenbrook Partners principals Carol Coye Benson and Bryan Derman.

When: March 10 – 11, 2009

Where: American Management Association Executive Conference Center, New York

Registration: www.glenbrook.com/bootcamp-payment.html



Merchant Risk Council 7th Annual E-Commerce Payments and Risk Conference

Highlights: This conference will focus on ways to make Internet shopping easier, safer and more profitable. Scheduled presenters include top multichannel and Internet merchants, credit card companies, risk management providers, law enforcement agencies and various consultants and educators.

The event will feature approximately 40 speakers including Terry Jones, founder of Travelocity.com and Chris Hansen Dateline NBC Correspondent.

Topics will include growth, diversity and risks associated with e-commerce payments; new global business models; and identifying current and future global cyber threats.

When: March 10 – 12, 2009

Where: Wynn Las Vegas Resort, Las Vegas

Registration: www.merchantriskcouncil.org

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Advertiser Index

2GS LLC.....	82	Ladco Leasing.....	80
Advanced Merchant Services	77	Merchant Management Systems, Inc.	73
Advanced Payment Services	89	Merchant Services Inc.	25
Alpha Card Services Inc.	36, 96	Merchant Warehouse	37
AmericaOne Merchant Services	9	MLS Direct Network	98
Applied Card Systems.....	83	Money Tree Merchant Services	71
Apriva Inc.....	66	myARCworld Inc.....	35
Att Services	72	National Bankcard Systems	109
Authorize.Net.....	105	National Transaction.....	99
Blue Bamboo	81	Nationwide Payment Solutions	94
Charge Anywhere LLC.....	65	Netcom PaySystem	86
Charge Card Systems	107	North American Bancard	2, 6, 7
CoCard Marketing Group.....	15	NPC.....	33
Credit Cash	28	Optio Solutions, LLC.....	87
Credomatic.....	79	Paul Dominik & Co. CPA.....	100
Elavon	67	Payments Gateway.....	85
Electronic Merchant Systems.....	32, 74	PayPro Tec.....	29
Electronic Payments Inc. (EPI).....	119	Pivotal Payments.....	111
eProcessing Network LLC.....	75	POS Portal Inc.....	69
Equity Commerce	52	Precidia Technologies.....	102
EVO Merchant Services	59	Reliant Processing Services.....	103
EXS - Electronic Exchange Systems	21	Secure Payment Systems	117
EZCheck	51	SignalPay Ltd.	31
First American Payment Systems.....	115	Signature Card Services.....	90
Global Payments/ISA	56	SparkBase	11
Graphite Payments	46	Teledraft.....	50
Greystone In Advance.....	18	The Phoenix Group.....	53, 55, 57
Harbortouch	92, 93	Total Merchant Services.....	60, 61
Humboldt Merchant Services	20	TransFirst.....	19
Hypercom Corp.....	120	TRIBUL.....	62
Imax Bancard.....	10	TriSource Solutions LLC.....	76
Ingenico	23	U.S. Merchant Systems.....	68
Innovative Merchant Solutions.....	13	United Bank Card Inc.....	38, 39
International Bancard	17	United Merchant Services	113
International Leasing	27	USA ePay	12
iPayment Inc.	45	VeriFone.....	91
JR's POS Depot	64	Virtual Payment Solutions	16

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