The Green Sheet

DEDICATED TO THE EDUCATION AND SUCCESS OF THE ISO AND MLS

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July 13, 2009 • Issue 09:07:01

Do you speak payments?

"International payment solutions provider" and "international POS device manufacturer" are sexy descriptions for some top payments industry organizations. However, while processing card transactions and selling payment products and services worldwide can offer bountiful revenue streams, taking a payment business from local to global requires tremendous patience, financial wherewithal and trusted relationships.

ISOs and merchant level salespeople (MLSs) are anomalies in the global payment landscape. In many countries, only a small number of banks control the processors; financial institutions outside of the United States look at acquiring as a service that is part of the banking relationship.

But payment veterans agree that, for those prepared to invest the time and resources, the financial rewards can far outweigh the risks of offering merchants the ability to globalize their operations.

Cross borders, divergent platforms

While the risk versus reward scenario on the international payment processing scene is favorable, the criteria required to participate on the global stage can discourage even the hardiest and most entrepreneurial processor, acquirer or payment solutions provider. Even for France-based payment solutions firm Ingenico, which has merchants in 90 countries and physical locations in 27 of those, the task can be daunting.

"It can be a nightmare at times," said Lisa Shipley, Senior Vice President of Sales and Marketing for Ingenico North America. "Social customs, the rules of engagement and the certifications are unique to every country. And these requirements have to be adhered to and understood because the individual sovereignties completely control how you do business in that country. It's all very specialized, so really the easiest way for anybody to do this is to find a partner already there."

A greater number of U.S.-based financial institutions are not yet doing cross-border payments for several reasons: Start-up costs can be prohibitive, the rules and regulations vary from country to country and governments greatly influence, sometimes dictate, the rules that control electronic payment processing and settlement and the organizations allowed into their respective countries.

According to Justin Anderson, Vice President, Americas, for Shanghai-based mobile payment solutions provider Blue Bamboo LLC, knowledge of the EMV (Europay, MasterCard Worldwide and Visa Inc.) compliance standard is required in many foreign markets.

"Some U.S. firms haven't developed the internal DNA to understand the trends evolving in foreign markets, and they may not yet be comfortable with chip and PIN technology, which is prevalent in places like Canada and the U.K., and contactless, which dominates in Asia," Anderson said. "And total solution delivery

See International payments on page 59

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NotableQuote

The interchange bureaucracy is a fiefdom whose owners profit and provide little of value in return. In nature, the technical term for that kind of life form is parasite.

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WINNER WINNER WINNER WINNER WINNER WINNER WINNER WINNER

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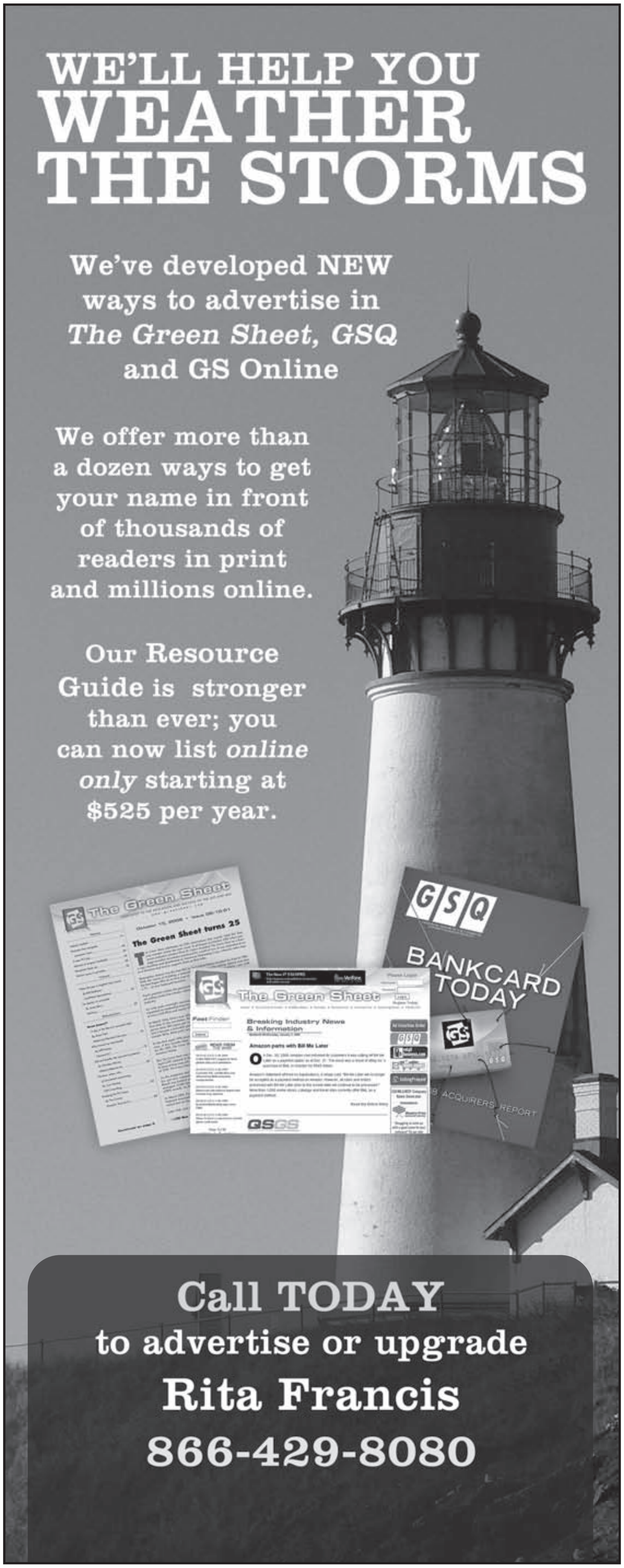

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Forum

Top acquirers, please

The last list of top U.S. acquirers was published in which back issue? And on PDF, what category would I pursue for this?

Thanks,
Jack Simpson

Jack,

You'll find our most recent listing of top U.S. acquirers in our December 2008 GSQ*.*

To find the issue, click on "Publications" from our home page (www.greensheet.com)*. Then click on "GSQ – Current Issue." Archived issues are listed in the left-hand column of the page that appears. Click "2008:v11." Then scroll down the page to "GSQ v11n4," and click on the cover image. It shows a blue bankcard on a red background. This will take you right to the PDF. A list of the top seven bankcard acquirers is on page 11.*

Editor

Correction:

The first sentence to our lead story, "Card acquiring: Banking's forgotten family member," *The Green Sheet*, June 8, 2009, issue 09:06:01, stated, "… payments acquiring accounts for nearly a quarter of all banking industry revenues …" and attributed the information to David Stewart, Senior Payments Expert at consulting firm McKinsey & Co.

The statement should have said "payments," not "payments acquiring." It was not possible to correct the printed version, which had already gone to press when the error came to our attention. But the lead paragraph in the online version of the story has been corrected to read as follows:

"An essential link in the U.S. banking system, payments account for nearly a quarter of all banking industry revenues, according to David Stewart, Senior Payments Expert at consulting firm McKinsey & Co. And acquiring is integral to payments."

The Green Sheet regrets the error.

From GS Online's MLS Forum

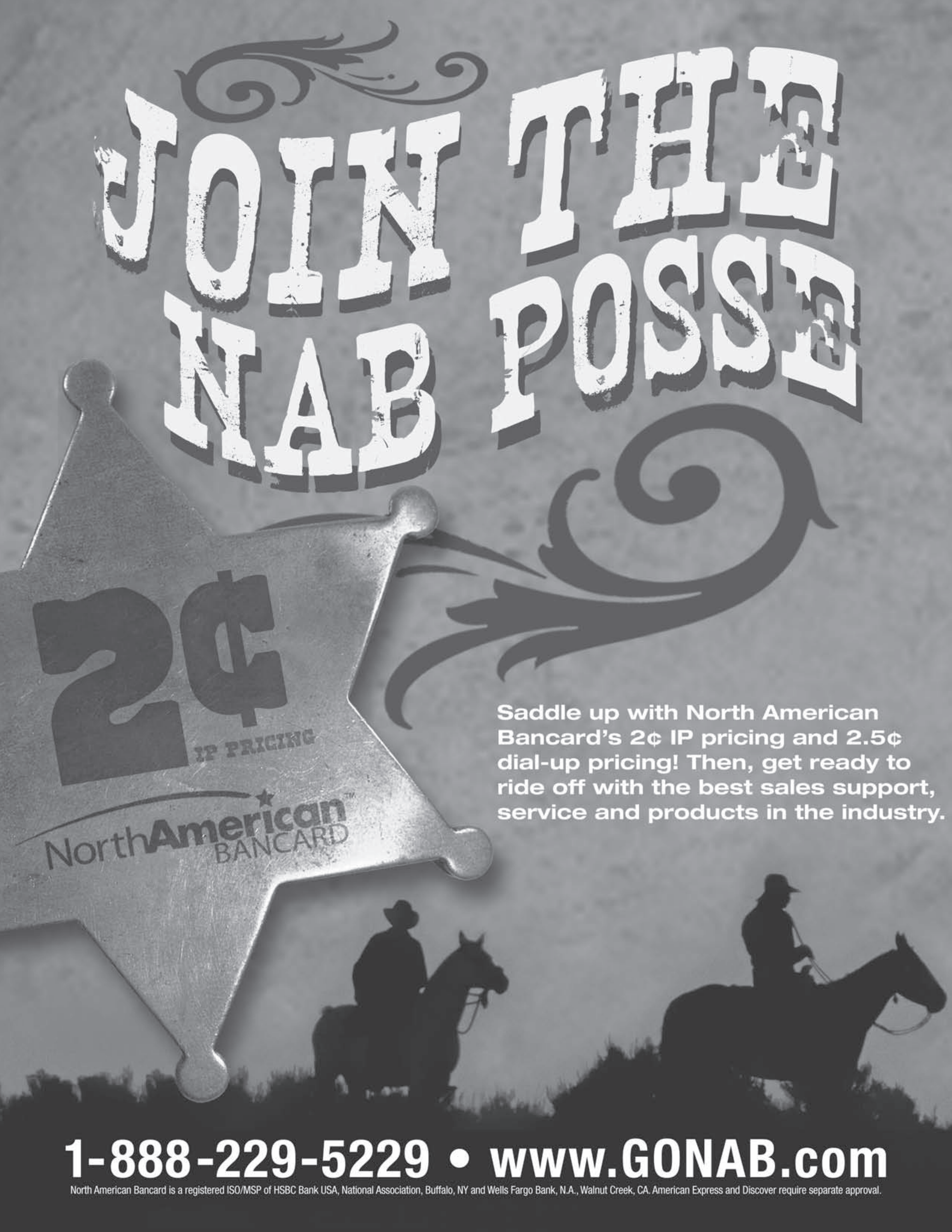
The premier online network for payment pros

GS Online MLS Forum member Paul_ecap recently asked the following:

Does anyone know of, or has anyone tried, using a [third-party] company to review your residual reports for accuracy? I have noticed that some months our volume increases significantly, but our residuals go down or stay the same; other months our volume decreases, but our residuals jump way up. … Most of us can agree that residuals are our most important revenue stream. Any thoughts or advice?

In response, faithm recommended TCB Consulting Inc.'s work. Others offered thoughts about doing the task in-house. Here's what they had to say:

> The reporting I get each month is so detailed that I would never need anyone else to look at it, especially since I can break my report down to specific card types. What type of reporting are you currently getting each month? Is it not very detailed? What does it show? – K-Wags
>
> When I was in the hotel business 20 years ago, I learned to read spreadsheets, and it is not easy. … Most ISOs' [reports] have coding in them, so you can copy [and] paste or view the codes. One thing for sure is that, in most cases, simple math is all you need to know. Another thing I learned is "figures don't lie, but liars sure can figure." If the residual is detailed or not, as long as you know your costs you can spot-check a few merchants and tell if things are correct.
>
> I always look over each spreadsheet that I get and if there are any errors, or if I think there is an error, I contact the processor/bank ASAP and go over it with them. I have heard a few things over the years such as "you are one of the only reps that ever calls about residuals" and "you are one of the only reps that knows how to read a spreadsheet." The disadvantage we have is that every company uses different software and that in itself is a problem. – Ccguy
>
> We review all residual payment calculations each month. We continue to be amazed at the errors we find. We eventually are paid the correct amounts by the bank/ISO, but only after we bring it to their attention. Two interesting points: 1) It is rare that the error is ever in our favor; 2) It is even more rare that the error is brought to our attention. – schafle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Nothing compares to the power of NAB's online merchant application entry system. Set customized pricing. Create individualized equipment set-ups. Get accurate, live download instructions and merchant numbers within minutes. Plus, manage your merchants' terminal parameter requests by utilizing our Terminal Download Manager to instantly update change requests.

Enhance Your Image
Put your best face forward with free individualized products like an NAB email address, 800 number and your very own professionally developed website – complete with your contact info and customized pricing. Choose a design built for keyword advertising or organically driven traffic. Then, impress your merchants with a one-stop close using your state-of-the-art Tablet PC.

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We support your growing office. By giving you access to your team's portfolio data and offering direct payment to sub-agents, NAB allows you to focus on expanding sales versus managing your office. To keep your competitive edge, NAB gives you the ongoing training and resources you need, such as a library of training videos, to increase your sales and make out like a bandit.

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QSGS

A quick summary of key articles in this issue to help keep you up-to-date on the latest news and hot topics in the payments industry.

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Cover Story

Do you speak payments?

While processing card transactions and selling payment products and services worldwide can offer bountiful revenue streams, taking a payment business from local to global requires tremendous patience, financial wherewithal and trusted relationships. This article explores the benefits, pitfalls and complexities of the globalized payments landscape.

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View

Pulling the PIN on older systems

It is estimated that more than 500,000 PIN entry devices that predate security certifications are in use in the U.S. market. These devices must be removed from service by July 2010. Are you ready for that challenge and opportunity?

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View

Where there's avarice, there should be ire

Contrary to what we might have hoped would happen by now, the greed and deception at the core of the worst recession since 1929 remains alive and well among publicly traded banks and card companies. Their entitlement stance is legendary. What's new is that their cupidity now threatens to kill the goose that laid our industry's golden egg.

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Feature

Vertical market virtues – Part I

Establishing a niche in one or more vertical markets is said to be an excellent way for an ISO or MLS to expand a merchant portfolio during any type of economy. We thought it would be valuable to seek perspectives on this topic from our esteemed advisory board. This article contains the first portion of their responses.

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View

Hard to place merchants: An untapped opportunity

The marketplace is changing daily for ISOs and merchant level salespeople (MLSs) as our industry grows increasingly competitive. This article makes the case for prospecting nontraditional, high-risk merchants to gain an edge.

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News

Bob Carr takes the encryption lead at IAPP

Everyone in the ISO community must be aware that Heartland Payment Systems Inc.'s security was breached in 2008. Yet, a year or two from now, people will admit that what Heartland Chief Executive Officer Bob Carr has accomplished is a complete restructuring of how data is captured, processed, archived and moved in the credit card industry.

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News

PCI SSC broaches possible changes

The PCI Security Standards Council has commissioned a consulting firm to research new approaches to the adoption of security technology by merchants, processors and acquirers. Are changes to the Payment Card Industry (PCI) Data Security Standard (DSS) in store?

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Education

Street Smarts℠: Independents Day

This July we celebrate our country's independence. In the merchant services industry, the right to life, liberty and the pursuit of happiness is manifested in our independents – ISOs and MLSs. This article explores the roles of ISOs and MLSs, and discusses why the usual freedom they enjoy in their business dealings might be in jeopardy.

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News

BofA, First Data give birth to BAMS

Bank of America Corp. and First Data Corp. formed a new payment solutions company, Banc of America Merchant Services LLC. The new entity expects to process more than 1 billion transactions per month and offer new services designed to drive return traffic to merchants' stores and provide consumers with security, convenience and customary rewards.

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Education

PCI: The merchant experience

Smaller merchants are vulnerable to the challenges of the PCI DSS in a way that larger companies are not, and it is not surprising they have new and different problems. Companies that have not fully realized the importance of this are paying the price with inefficient and ineffective PCI programs – a dangerous gamble in this economic environment.

IndustryUpdate

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VeriFone THE WAY TO PAY

NEWS

Go-to guys for payments

Just about everyone could use a go-to guy – someone to "go to" when you need help on a specific project. Lawyers and information technology professionals often fit the definition of go-to "guys," who in the truest sense can be persons of either sex.

Now there's a group of payments industry experts positioning themselves as the go-to guys for payments. The Payment System Go To Guys includes industry experts Paul Martaus, Peter Quadagno and Patti Murphy. (Murphy also authors the monthly Insider's Report on Payments column for *The Green Sheet*.) Between them, the three have spent more than 100 years in the payments space, and now they're blogging regularly – "providing one-sided discourse concerning topical issues of the day," according to the authors.

Recent blog entries have focused on interchange legislation, relationships between public transit and payments, and the need for involving ISO advocates in policy deliberations. Check it out at *www.paymentsystemsgotoguys.com*.

ETA offers free webinar series

The Electronic Transactions Association's free, interactive 2009 Economic Indicators Report Series kicked off July 7, 2009. The webinar, Today's Economy and How it Affects Your Business, included a review of the latest ETA/Strawhecker Group Economic Indicators report.

Presenters for the first webinar in the series were Laurie LeBoeuf, Chief Executive Officer, Take Charge Business Consulting; Deanna Rich, President, Merchant Acquirers' Committee; and Kurt Strawhecker, Managing Director, and Mike Strawhecker, Director of Marketing & Strategic Research, for The Strawhecker Group. The focus for the initial one-hour webinar in the series was underwriting and risk. Attendees were offered tools to help mitigate the impact on underwriting that the recession has wrought. The webinar and several other archived webinars are available for download on the ETA Web site, *www.electran.org*.

Heartland finishes end-to-end phase one

Completing the first phase of its end-to-end encryption pilot, Heartland Payment Systems Inc., partnering with Voltage Security Inc., transmitted live, advanced encryption standard (AES)-encrypted card transactions from a Texas-based merchant using multiple credit, prepaid and signature cards from each of the major card brands. AES, reportedly the highest level of encryption available, is set to replace the data encryption standard (DES) and the Triple DES as the preferred encryption method.

"These cards were read by our newly developed pilot tamper-resistant security module (TRSM) terminal," said Robert O. Carr, Heartland's Chairman and CEO. "The data was encrypted as the electronic digits left the magnetic stripe and entered the TRSM hardware device. The data was then successfully transmitted to and through our processing platform for authorization and settlement." The company's press release outlined five payment zones:

- **Zone 1:** From data entry and card reader at the merchant's site to the authorization network of the processor.
- **Zone 2:** From the entry into the authorization network of the processor and through all points in which data is in motion within the network(s) of the processor and its subcontractors.

BOTTOM LINES

HEADLINES FROM THE RETAIL WORLD

THANK YOU, PLEASE READ AGAIN!
TRANS ID:460465 EMP:120400

- The **National Retail Federation**'s 2009 Independence Day Consumer Intentions and Actions Survey conducted by **BIGresearch** indicated that 14 percent of consumers surveyed planned to purchase patriotic merchandise for the Fourth of July holiday.

- The **U.S. Census Bureau** reported retail and food services sales for May 2009 were $340 billion, an increase of 0.5 percent from the previous month.

- A study conducted by **Autodata Ltd.** indicated total sales of light-duty vehicles in the United States decreased 33.7 percent in May 2009, compared to the same period in 2008; however, May 2009 sales totaled 9.91 million units, the highest monthly volume of the year to date.

- An **NPD Group** survey found that Twitter users are 77 percent more likely to buy digital music than their non-tweeting counterparts. The study also reported that Twitter users are more apt to visit online music sites such as MySpace Music and Pandora Media Inc.

- **Zone 3:** Where the data resides in a central processing unit or a host security module.
- **Zone 4:** Within a direct access storage device or archival storage.
- **Zone 5:** From the processor to the authorization and settlement centers of the card brand.

The recent test dealt with the first four zones; the fifth depends on the card brands.

ANNOUNCEMENTS

AllTrust Networks receives Check 21 patent

Alltrust Networks was granted a U.S. patent for its Check 21 service, which works in conjunction with its Paycheck Secure check cashing service. The service enables merchants to receive funds on their electronic deposits as soon as the next morning. The check is scanned during the verification of the check cashing transaction. It can then be deposited electronically by a single click of a button.

AmeriMerchant's preservation program

AmeriMerchant LLC introduced its Merchant Cash Advance Portfolio Servicing and Wind-Down Program. The program is designed to "preserve the capital of existing merchant cash advance portfolios using AmeriMerchant's back-office services and technology," said David Goldin, President and CEO of Ameri Merchant.

Axiom launches digital ID

Axiom Corp. released a privately branded digital identity card for retail merchants, corporations, financial institutions and other organizations. With the Axiom "card," consumers can register for and log into online accounts using encrypted identities stored on their computers.

B32Trust releases two-way authentication

B32Trust SAS offers what it says is the first multifactor, mutual online authentication and transaction validation system. This authentication extends in both directions: The commercial site is authenticated in addition to the user. B-Authenticated works with any authentication device and is designed to make authentication methods resistant to phishing and hacking attacks.

The portable system can lock and unlock a user's electronic identity and financial details from any PC.

Doin' it right

Tokenization, the use of a common key to keep card information encoded as if passes between merchants and processors, has been used in the payments industry since 2005. But payment solutions provider and processor BluePay Inc. believes it has made the technology more secure and reduced the complexities associated with Payment Card Industry (PCI) Data Security Standard (DSS) compliance.

"Some companies are using tokenization in a broad sense, but implementing it with the latest PCI standards introduces more challenges compared to a few years ago," said John Rante, BluePay's Chief Executive Officer. "But I think one differentiating factor is that, as a processor, our tokens are tied directly to a merchant's account in our system, so we don't have any merchants cross-processing."

Tokenization is designed to prevent the theft of card information in storage. It was developed to meet the PCI requirement that consumer card information not be stored at the POS after transactions. When a merchant swipes a consumer's card, that information is sent to the processor for authorization and approval. But when that approval – or decline – is sent back to the merchant, a token is substituted.

The numbers lie

Tokens are intended to replace the card number with a 16-digit, randomly generated number that contains the last four digits of the card number or other account information, which become the first four digits of the newly generated token. The token is then used from that point forward to conduct continuous multiple transactions, recurring billing procedures or incremental authorizations.

However, BluePay's tokenization program uses a 12-digit number that contains no partial card number or any miscellaneous cardholder account information. And according to Joel Tosi, BluePay's Vice President of Technology, the same token can be used for multiple transactions or it can change with every transaction.

"We found that merchants had a real need for this type of solution, particularly with the PCI profile getting larger and merchants being exposed to some real fines," Tosi said. "All of a sudden there were a lot of merchants out there who were looking to outsource their payment processing piece and wanted nothing to do with storing consumers' card numbers."

Start to finish

While tokenization is not a replacement for end-to-end encryption, Rante feels it is not only complementary but also superior to end-to-end encryption. "Absolutely I feel that way, because ultimately with end-to-end at some point that card number needs to be decrypted, leaving it vulnerable," Rante said. "But tokens are useless for a hacker who might break into a system, steal that information and try to sell it on the open market."

Additionally, BluePay's tokenization program can be cost-effective for merchants because the company is a software-as-a-service host provider. "It's important to point out that BluePay also has the capability to store account numbers without the need to run an authorization against the payment method because our tokens are unique to our solutions," Tosi said. "And we can provide tokenization on all types of payments, not just recurring billing."

A token vertical

Since the company introduced its tokenization platform, it has seen its vertical footprint grow along with its ISO reseller channel. "We have ISOs all across the country that have been especially successful working with utilities as it relates to our tokenization product," Rante said. "The key is that it fits right in with our electronic bill presentment and payment, so where you have a merchant with a need for a recurring charge it's a perfect application."

BluePay has seen significant growth with utility-type companies like telecommunications providers, water and power companies, alarm monitoring, waste hauling, lawn care and nonprofits. Tosi added that the company is also deploying the application to handle any type of mobile POS device.

"As far as the application type, we can handle all types of mobile payments to include both card present and card-not-present transactions," he said. "And I believe one of our big advantages is that we have full visibility of the transaction from the time it hits our system all the way through until the merchant gets funded."

BluePay goes green

BluePay Inc. has added View'n Pay, an electronic invoicing system, to its product line. The new offering promises to give customers more payment options, reduce merchant expenses and save paper.

Central Payment chooses Hypercom

Central Payment Corp. selected **Hypercom Corp.**'s T4205 for its U.S.-based merchants. CPC has a merchant base of over 25,000 and adds 1,300 new merchants monthly, according to Hypercom. The T4205 is the newest terminal in Hypercom's T4200 series.

CO-OP contributes 30K to EPC

CO-OP Financial Services is donating $30,000 to the Electronic Payments Coalition on behalf of its member credit unions. Stan Hollen, President and CEO of CFS, said, "The EPC is leading the charge against badly conceived legislation on interchange, and we want to do our part in protecting this important income source for credit unions."

Digital River delivers new e-commerce solution

For online sales of limited quantity, limited edition, refurbished and clearance items, **Digital River Inc.** rolled out its Limited Edition e-commerce solution, which provides e-storefronts, marketing functions that utilize social networks and online tools for inventory management.

enStage gets backing from India

Accel Partners, a Bangalore, India-based venture capital firm invested in **enStage**, a payment solution and authentication provider that specializes in emerging markets. EnStage, based in Cupertino, Calif., offers card solutions, payment gateways, mobile payments, interactive voice response payments and e-commerce authentication.

Forrester online bill payment forecast

In its report, U.S. E-mail Marketing Forecast, 2009 to 2014, **Forrester Research Inc.** estimates 63 million households will pay bills online in 2014, compared to 48 million in 2009. The research firm also projects that by 2012, online bill payment aggregators will claim more market share than the direct, single-bill sites for the first time. The study revealed that young affluent consumers have been slower to choose aggregating sites for online bill payment.

Safe-T-PIN achieves first

HomeATM ePayment Solutions' Safe-T-PIN was certified Payment Card Industry (PCI) Data Security Standard (DSS) compliant. HomeATM is powered by **Atmel Corp.**'s secure microcontroller, which Amtel said is the first ever Internet PIN entry device (PED) that has achieved PCI 2.0 certification.

Javelin looks at alternative payments

Javelin Strategy and Research published a new report that studies alternative payments. The main questions the 49-page report delved into were: Why should financial institutions invest in online alternative methods of payment?; What drives value in an alternative method of payment for consumers, merchants and financial institutions?; and What are the emerging alternative methods of payment that best meet the needs of each constituent and why?

Optio gets new strategy

Optio Solutions LLC released Strategy I Plus, a "unique" collection product that combines a written demand series with a phone call reminder enhancement. With Strategy I Plus, Optio Solutions said it has built upon the flat-fee written demands product by adding strategically timed phone calls.

This expanded contact with past-due customers and patients drives increased results and profitability, while remaining a cost-effective solution for the client.

Precidia upgrades TransNet

Precidia Technologies Inc. released a new version of its TransNet payment engine, which expands the support for the POSLynx220, a POS system used in the hospitality industry. The company stated the payment application is the first of its kind to be Payment Application DSS validated. The new version also adds e-commerce capability.

PatientCompass certified PCI compliant

Trustwave validated **RelayHealth**'s PatientCompass PCI DSS compliant, awarding the company Level 1 Service Provider Certification. Jim Bodenbender, RelayHealth's Business Unit President, said, "No one wants a headline reporting exposure of confidential patient financial information stolen from their hospital."

Wireless ePay available for download

Wireless ePay, a **USA ePay** credit card processing application, is available as a free download at Blackberry App World (*www.blackberry.com/appworld*) and Android Market (*www.android.com/market*). The application is compatible with any network and is available for Blackberry, Windows Mobile and Android phones. The company plans to roll out a version of Wireless ePay for the iPhone 3.0 later this year.

YESPay comes to North America

YESpay International Ltd. now has an office and data center in Toronto.

The office's primary goal is to help retailers adopt Europay, MasterCard and Visa Chip and PIN, contactless payment and 3D Secure Web payment standards without retailers having to obtain formal bank accreditation or full PCI DSS approval.

YESpay's IP-based payment processing service has been pre-accredited by card processors in Europe and North America and is Level 1 PCI DSS-certified.

PARTNERSHIPS

Edwards goes to Warp 9

Edward's Luggage extended its contract with **Warp 9 Inc.** for e-commerce.

Michael Ware, Director of E-commerce for Edwards Luggage, said, "Warp 9's solution gave us more features, the ability to grow our business, better support and advice, no large capital expenditure, and low ongoing cost of Web site operations. The free features and new release upgrades keep us competitive as well."

Heartland beefs up

Heartland selected **MicroStrategy Inc.** for enhanced reporting and analytics for its customers.

"After conducting an evaluation of numerous reporting and analysis products, we selected MicroStrategy because of its integrated platform, scalability for large volumes of data and easy-to-use reporting capabilities for our diverse user population," said Alan Sims, Chief Technology Officer for Heartland.

The Phoenix Group signs for $6 million

Hypercom signed a deal with **The Phoenix Group** for $6 million worth of Hypercom Optimum payment devices for resale.

The Phoenix Group, a large independent POS distributor, will market the payment products to its bank and ISO customers across the United States.

Merchant Data, ControlScan team

To meet its PCI DSS compliance needs, **Merchant Data Systems Inc.** has contracted with **ControlScan Inc.**, an Atlanta-based compliance solution provider.

"We are very impressed with how ControlScan's proactive outreach programs help educate and engage merchants through the complex PCI compliance process," said Merchant Data Systems President Drew Freeman.

MerchantPro shares with One to One

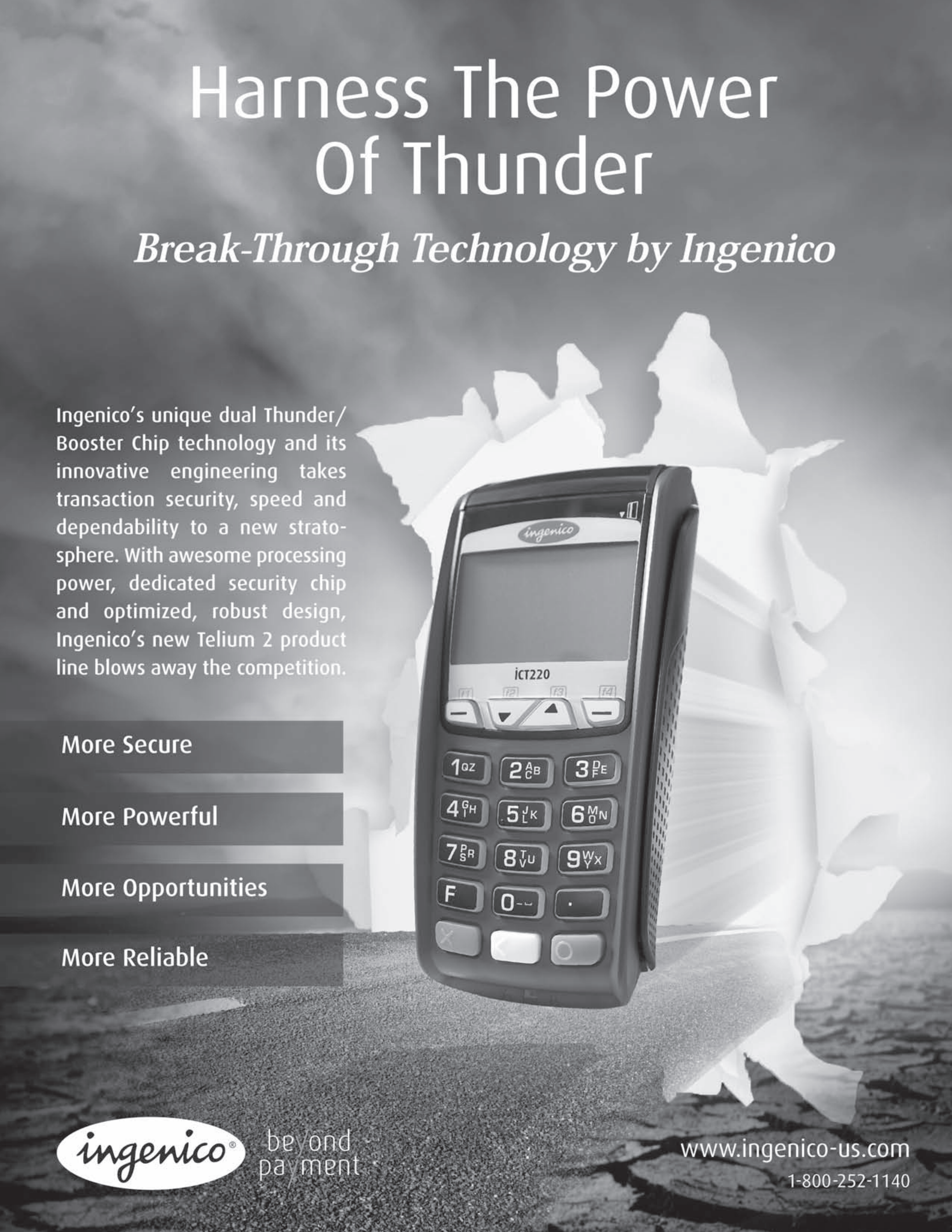
One to One Leadership, a management training and recruitment company, entered into an agreement with **MerchantPro Express LLC** that will compensate One to One for profits generated by agents it trains and manages for MerchantPro.

Clients of the New York-based One to One include First Data Corp., Chase Paymentech Solutions LLC and RBS WorldPay Inc.

NetPay's Noteworthy introduction

Noteworthy Medical Systems Inc. released the Web-based application, NetPay. Powered by **mPay Gateway Inc.**, NetPay integrates with Noteworthy's NetPracticePM to collect deductibles, out-of-pocket patient payments and co-pays at the time of service.

John Wallace, Senior Vice President for mPay Gateway, said he has seen practices cut their patient payment receivables in half using the mPay Gateway product.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More Powerful
More Opportunities
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PDS teams with Plug'n Pay

Integrated payment provider **Payment Data Systems Inc.** finished integrating its automated clearing house platform with **Plug'n Pay Technologies Inc.**'s e-commerce gateway to offer an e-check service to its customers.

The merchant can access both services from a single interface.

Bling signs The State Bank

The State Bank's La Junta, Colo., branch chose **Bling Nation Ltd.** to provide a local payment network and the rewards program Redi Pay Bling.

The bank now offers Community Payments Service, a contactless debit network, to its individual and commercial customers.

VerifySmart signs with BetED

VerifySmart Corp. will provide VSC's VerifyGateway and VerifyNGo suite of services as part of a five-year agreement with **BetED Corp.**, an Internet wagering provider. BetED will pay a per-transaction verification fee to VerifySmart for the service.

The Charge Anywhere way

The way5000, a PCI PED-approved mobile payment solution, is now supported by **Way Systems Inc.** for **Charge Anywhere LLC** customers. With the way5000, merchants can go mobile while still qualifying for lower transaction rates.

APPOINTMENTS

New COO for MasterCard

MasterCard Worldwide has named **Ajay Banga** its President and Chief Operating Officer. He will report to Robert W. Selander, who is the current President and CEO. Selander will continue as CEO.

Most recently, Banga served as CEO of Citigroup's Citi Asia Pacific. At MasterCard, he will take charge of essential business operations, including domestic and global customer relationships, markets, products, services and marketing.

Century snags Fadel

Century Payments Inc. named former Chief Financial Officer of Sage Payment Solutions Inc. **Christian Fadel** as its new CFO.

"The positive momentum exhibited by Century in the current market makes this an ideal opportunity to leverage the experience I gained with both Verus [Payment Systems] and Sage over the last seven years," Fadel said.

Fiserv names new EVP and CIO

Financial services technology provider Fiserv Inc. welcomed **Maryann Goebel** as its new Executive Vice President and Chief Information Officer. Goebel has 30 years of progressive technology experience. She will report to Fiserv President and CEO Jeffery Yabuki.

VocaLink taps Claire Hafner

Claire Hafner joined VocaLink as a board member and CFO. Marion King, CEO for VocaLink, said Hafner's "extensive experience in streamlining the finance functions of a company, as well as her significant board experience both in the U.K. and internationally, make her a valuable addition to our board."

Riley to drive A-Claim sales

Preferred Health Technology Inc. welcomed **Sean Riley** as its Vice President of Sales. Riley will take charge of nationwide sales of A-Claim, PHT's payment solution for the medical industry. Riley comes on board with 33 years of payment industry experience, including a seven-year stint as Group Manager of Third Party Sales and Support at Chase Paymentech.

Where there's avarice, there should be ire

By Biff Matthews
CardWare International

Contrary to what we might have hoped would happen by now, the greed and deception at the core of the worst recession since 1929 remains alive and well among publicly traded banks and card companies. Their entitlement stance is legendary. What's new is that their cupidity now threatens to kill the goose that laid our industry's golden egg.

The "how" is well-known: fee structures that are, in my view, purposely crafted to mislead and confuse, and whose administration is indiscernible even by those who have worked in our industry for a quarter century. What they have done to cardholders, they also do to merchants on the other end of transactions.

Today, the card companies and banks have taken a fighting stance against legislation that would clarify and control how these fees and rates are determined. Almost always, there are two sides to any issue. This is the exception. A financial cabal sought to replace cash (the ultimate in "regulated" payment forms) with plastic as the currency of choice. They got what they wanted, so now cards, too, will become "regulated" currency.

Bad karma

Had they been responsible (dare I say fair-minded?) in their dealings, the regulation they are now lobbying so hard to defeat would never have seen the light of day.

Isn't posting payments and transactions after their received date unethical? Isn't neglecting to post payments and transactions in order of receipt in favor of posting them to purposely create over-limit fees unethical?

In both instances, the Federal Trade Commission and courts found this behavior to be wrong. The same is true of posting checks and deposits – and "while not admitting guilt or wrong doing" is another way of saying banks got caught with their hands in the cookie jar.

Questionable behavior

It is unfathomable for a cardholder to exceed his or her credit limit under a system of authorization that is literally in real-time. Cardholders are allowed – in fact, encouraged – to charge more and exceed their limits, so as to generate over-limit fees, thus driving cardholders further into debt.

To say that cardholders are responsible for managing their accounts when they are encouraged (in fact, rewarded) to do otherwise in the name of profit is greed at its worst. Responsibility or mismanagement is a two-way street in these matters.

My desire is not to paint all banks with the same brush; however, the bad behavior shown by these institutions is so widespread, with consequences so serious, that I have chosen to speak directly.

Somewhat surprisingly, the ire of the consumer has not yet rained forcefully on financial institutions, despite said institutions' misleading practices and misdealing. Public sentiment should be far more negative than it is. (Where, indeed, is the consumers' bailout?)

Reckless practices

Profiting royally at everyone else's expense was tolerated as recently as two short years ago. When times are good, there is far less incentive to push for change, even when it is desperately needed. But in today's economic environment, such behavior is not only unconscionable; it is irresponsible and ultimately unsustainable.

Greed and arrogance by the chosen few have toppled kingdoms andallowed the worst of dictators to ride the

We don't pay exorbitant fees to transact with cash or write checks, and there is a growing understanding that perhaps all that plastic isn't such a great deal for everyone after all.

wave of public unrest to power. History repeats itself when the lessons of the past are not applied.

We don't pay exorbitant fees to transact with cash or write checks, and there is a growing understanding that perhaps all that plastic isn't such a great deal for everyone after all. Even its greatest promise – the promise of guaranteed payment and protection for the merchant – turns out to be a cruel illusion.

Nominal value

As I detailed in a previous column, even merchants who follow every rule can suffer terrible losses when they find themselves at odds with an institution whose only charter seems to be the collection of fees without providing value in return.

I have made it a hobby to ask company officials at every level what, exactly, the reasoning is for some of the fees paid to interchange – as well as the new "acquirer fees." The answers are always creative and interesting – and invariably different. Neither of the major card brands provides a consistent rationale for interchange and associated fees.

Surely they are doing something worthwhile with the $48 billion the National Retail Federation estimates they collected in 2008?

Good grief!

According to Diamond Management & Technology Consultants of Chicago, Ill., only 13 percent of interchange costs are used to cover processing – the original stated purpose of the fees. Over the last two decades, electronic POS transactions and automated processing have drastically pared down processing costs. But the fees involved move ever higher regardless.

Transaction and cardholder fees are clouded by smoke and mirrors – and where there is smoke, there is fire. On June 8, 2009, U.S. Rep. Bill Shuster, R-Pa., joined House Judiciary Committee Chairman John Conyers, D-Mich., to introduce House Resolution 2695, the Credit Card Fair Fee Act of 2009. The legislation would allow merchants to collectively negotiate the costs of some transaction fees.

The interchange bureaucracy is a fiefdom whose owners profit and provide little of value in return. In nature, the technical term for that kind of life form is parasite.

Perhaps we should regard interchange for what it is and work to eliminate the harm it causes the people and institutions who actually work for their living.

Biff Matthews is President of Thirteen Inc., the parent company of CardWare International, based in Heath, Ohio. He is one of 12 founding members of the Electronic Transactions Association, serving on its board, advisory board and committees. Call him at 740-522-2150, or e-mail him at biff@13-inc.com.

Hard-to-place merchants: An untapped opportunity

By Jeffrey Shavitz
Charge Cards Systems Inc.

The marketplace is changing daily for ISOs and merchant level salespeople (MLSs) as our industry grows increasingly competitive. And traditional neighborhood retailers are overwhelmed by salespeople offering to lower their already competitive interchange plus pricing programs with "interchange negative." (I write "interchange negative" sarcastically to illustrate my point that ISOs are now giving away pricing to earn new merchant accounts).

As for-profit companies, we deserve to earn money for our services, and I'm always shocked when the first question asked to a salesperson is, How many deals do you write monthly? Rather, the appropriate and much more relevant question is, How much money are you increasing your monthly residual by? After all, profit and earnings should be our mutual goal.

Reaching for risk

Opportunities still exist to earn a fair and significant residual income in our industry. However, given the current market conditions, I suggest salespeople targeting traditional merchant accounts consider devoting a portion of their time to prospecting hard-to-place or, as they're commonly known, high-risk merchants as well. These merchants cover a variety of industries: travel, debt collection, furniture, telemarketing, start-up, MO/TO, loan modification, adult, nutraceuticals and many others.

Changing standards

Plus, in today's economy, owners of small businesses with average credit and Fair Isaac Corp. scores, as well as business owners who recently declared bankruptcy and are now starting new businesses (retail, MO/TO or Internet) may be considered high-risk due to their questionable credit. Merchants who were considered sound and would have been approved for conventional merchant accounts just a few years ago now fall into this high-risk category. Furthermore, most traditional processors and banks do not have the underwriting background, risk management capacity and business philosophy to accept these types of merchant accounts.

The value to an ISO or MLS is that profit margins for high-risk accounts are significantly greater than with merchants in the retail arena. A greater risk factor – due to chargebacks, higher returns and increased attrition – allows agents to charge higher rates and thus earn whole points versus basis points.

Expanding profits

Certainly, I do not recommend that ISOs and MLSs who are concentrating on brick-and-mortar and traditional MO/TO accounts abandon these industries; however, I encourage them to consider spending 10 to 15 percent of their time prospecting to the hard-to-place merchant base and placing them with a processing partner experienced in these types of accounts.

Why? Because if they are fortunate to earn an account, it can yield the profits of 10 to 20 conventional accounts. A distinct vocabulary accompanies this industry space: Terms like rolling reserves, chargeback protection, e-wallets, redundancy, aggregation, coded accounts and cascading accounts are just some of many.

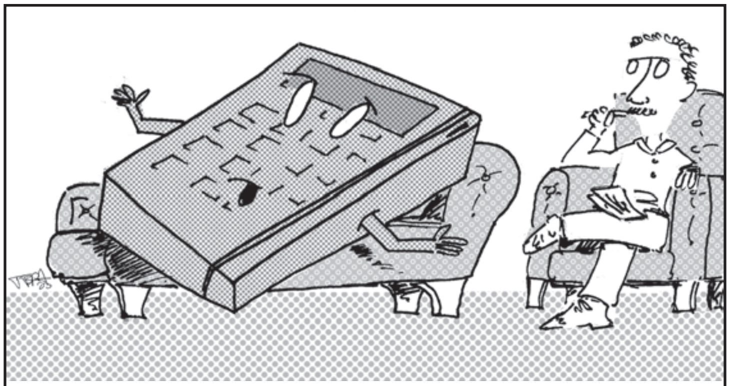
It's a different culture, but I believe there is a great opportunity in the next five to 10 years to continue generating significant business and residuals in the hard-to-place arena.

Jeffrey Shavitz, a member of the Green Sheet Advisory Board, is one of the founders of Charge Cards Systems Inc. He can be reached at 800-878-4100 or jshavitz@chargecardsystems.com.

Pulling the PIN on older systems

By Scott Henry
VeriFone

The compliance clock is ticking. It is estimated that more than 500,000 PIN entry devices (PEDs) that predate security certifications are in use in the U.S. market. These devices predate the Visa Inc. PED standard – now the Payment Card Industry (PCI) PED Standard – and were "never approved" by the card brands, which have mandated they must be removed from service by July 2010. Are you ready for that challenge and opportunity?



Well, doc, being called a little gray box all these years has really messed with my self-esteem

Liability landing

Criminals are increasingly targeting older, unsecure PIN pads and terminals as a relatively easy means to gain access to cardholder data. The liability for these attacks is being placed with greater frequency squarely at the feet of merchants and acquirers.

The 2009 Verizon Business Data Breach Investigations Report examined 98 confirmed data breaches that compromised almost 300 million consumer records. Of the organizations victimized, 81 percent were not PCI Data Security Standard compliant, according to Verizon Business.

PINs beguiling

While many of these breaches had nothing to do with PIN pad compromises, obtaining PINs by exploiting vulnerable elements of computer networks is now the primary game in town for a number of criminal organizations.

Offending breaches range from highly sophisticated computer networking assaults to crude efforts that might be equated to "smash and grab" attacks in which criminals simply replace an existing terminal with a device that appears identical but has been bugged.

For example, according to *The News Journal* of Delaware, two men pled guilty in February 2009 to using a skimmer at the counter of a Rite Aid Corp. store to scoop up account numbers and PINs and use them to make counterfeit cards, with which they stole more than $500,000 from bank accounts.

Standards strengthening

The payments industry has long recognized the need to stay ahead of scofflaws by requiring ever more secure procedures and devices to protect PINs, making it difficult to tamper with devices and ensuring merchants and acquirers are quickly alerted to tampering when it occurs.

In 2004, Visa mandated that new installations connecting to its payment network be certified as meeting a series of requirements it had set forth for PEDs – which became known as the Visa PED standard.

Later in 2004, Visa and MasterCard Worldwide agreed to align their separate PED requirements into an industry-wide standard, which subsequently became known as the PCI PED standard.

In 2006, the PCI Security Standards Council (SSC) was formed by the major card brands to oversee security standards; in April 2007, Visa, MasterCard and JCB International Co. Ltd. formally transferred responsibility for PCI PED to the council, providing a more formal structure for future development of PED requirements.

Confusion clearing

The evolution of PED standards has been a source of confusion to merchants, and to enhance understanding of these standards and their impact, it is helpful to categorize PEDs into three classes:

1. Devices that were never certified as conforming to the Visa PED. These are commonly referred to as "never approved" or "pre-Visa PED" and must be removed from service by July 1, 2010.

2. Devices that were certified to the Visa PED but not to the PCI PED. Among other things, this means they are capable of using Triple DES (often referred to as TDES or 3DES) encryption. As of Dec. 31, 2007, they could no longer be newly deployed.

3. Devices that meet the newer PCI PED requirements. These are the only systems approved for deployment as of Jan. 1, 2008.

Prior to 2004, PEDs were governed by minimal standards. Generally, the only things required were protection of the master keys and key encryption schemes, as well as proper software operation of the devices. Validation of software requirements and tamper prevention and detection were left to individual manufacturers.

As stated in the preceding numbered points, the card brands mandated that, as of Dec. 31, 2007, acquirers and merchants deploy PCI PED-approved devices only.

And they set July 1, 2010, as the date by which unapproved devices must be removed from service. No such sunset date has been set for pre-PCI devices, although they can no longer be installed except as replacements for PIN pads that are already in place.

Sanctions coming

Although Visa has indicated it won't strictly enforce penalties against noncompliant organizations until 2012, acquirers have the ability to penalize merchants once the July 1, 2010, cutoff arrives.

There are several reasons to take this seriously and not postpone helping merchants replace devices that are now or soon will be obsolete:

- In 2007, Visa mandated that acquirers submit plans to identify security risks for smaller merchants (whom it classifies as Level 4) and to apply "targeted compliance measures to merchant subgroups."

- While Visa may not proactively level fines before 2012, acquirers will still be liable for any breaches where noncompliant devices are used after July 1, 2010. They in turn may fine ISOs that are supporting noncompliant merchants. Those ISOs may levy some or all of that cost on merchants.

- Acquirers may implement more aggressive compliance schedules than those mandated by Visa and the PCI SSC.

- Acquirers bringing new merchants on board must ensure they are compliant now.

Opportunities rising

Many merchants are unaware of or confused about target dates for implementation of PCI PED-approved devices. Many may be tempted to put off PIN pad upgrades to some future time.

Educating them on the facts behind the compliance effort and the perils of delay presents a great opportunity to upsell with new technologies such as Internet protocol and wireless, as well as value-added applications to which newer systems are better suited.

Scott Henry is Director, North America Product Marketing, for VeriFone. He can be contacted at scott_henry@verifone.com.

GS ADVISORY BOARD

Vertical market virtues – Part I

Establishing a niche in one or more vertical markets is said to be an excellent way for an ISO or merchant level salesperson (MLS) to expand a merchant portfolio during any type of economy. We thought it would be valuable to seek perspectives on this topic from our esteemed advisory board. Thus, we asked them to answer the following questions:

1. What are the pros and cons of pursuing vertical markets as opposed to being more of a generalist?

2. How do you evaluate which markets are best to pursue during an economic downturn? What factors do you consider in determining which markets are worth pursuing? Which verticals do you think are hot right now?

3. Which vertical markets does your company pursue right now? Why did you choose these types of businesses, and which ones have brought you the greatest success? Are there other markets you have your eye on for the near future? Have you ever met with failure in attempting to break into a market you thought would be ideal?

4. What advice do you have for MLSs who want to break into new verticals? Are there certain things they absolutely should and shouldn't do?

This article contains the first portion of their responses. The remaining responses will be published in *The Green Sheet*, July 27, 2009, issue 09:07:02.

Adam Atlas

Attorney at Law

1. Focusing on a specific vertical is a common method of achieving success in our industry. In focusing on one type of merchant, a sales organization is able to tailor its pricing, sales methods and service to that type of merchant.

The sales organization can also achieve a certain reputation and momentum within the vertical by attending tradeshows, advising the trade association and networking with organizers within the community of merchants. A single vertical also allows the sales organization to compete effectively against generalists who have no particular knowledge or value added to the specific kind of merchant.

On the down side, selling into one vertical makes for an unbalanced portfolio and exposes the portfolio of merchants to excessive ups and downs of a single industry. Many of the most valuable sales organizations I have seen draw on a variety of merchants to build their portfolios. However, they may have offices that focus on a single vertical as part of a larger aggregated portfolio.

2. One market that might be worth looking at is people who are starting businesses because they lost their jobs. Many of these businesses will fail, but if you can identify and properly underwrite the promising ones, there might be an opportunity for you. Low-ticket merchants are probably a better bet these days than high-ticket merchants.

3. This question does not apply to me; I am not a sales office.

4. One way into a new vertical is to start by closing one or two accounts; then study the business through those accounts. You might even use a merchant in the vertical as an agent to refer other accounts in the same vertical. Study the marketplace. There is a wealth of information on the Internet on each vertical – including government statistics that might help you define your sales target.

Sam Chanin

Tribul Merchant Services LLC

1. More than ever before we're finding market expertise matters. Merchants are relating to ISOs that really understand their business issues rather than salespeople whose knowledge is mostly about the services and products being offered.

Whether it's helping the merchant better compete or simply to stay alive in the troubled economy, the highest performing salespeople seem to be those who are really tuned in to their (prospective) customer base.

Recognizing this trend, we've expanded the classic definition of vertical markets beyond the traditional SIC [standard industrial classification] code to include other demographic data. Convinced this market is currently being driven by in-depth understanding of a merchant's business, I'm still not entirely sure if it will stay this way once the economy rebounds.

So while we are encouraging our sales professionals to become vertically focused, we are also cautioning them against becoming too narrowly focused.

2. An economic downturn tends to be the best reminder that fundamentals always rule. Sometimes we lose sight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of that when things are going well. One of the sales fundamentals is prospects will always become customers and customers will always become long-term clients when there is a compelling need that is met by the sales organization.

To be compelling the offering has to be relevant to a merchant's current and anticipated future business situation, as well as superbly and consistently delivered through service execution. Given this view, the best markets are those that are either underserved or where there is intense pressure to get better results.

We're experiencing a great deal of growth in our business-to-business segment, something we hadn't really emphasized until rather recently. Before entering or expanding in any sector, we do direct and indirect market analysis, consider the cost of capital and projected return, construct a game plan and then execute it through Tribul's sales executives.

3. Tribul has an excellent and deep research team (we consider this to be one of our greatest company assets and competitive advantages) and they are constantly evaluating market opportunities. We have several high-potential segments in pre-launch or initial launch stages right now. We're not afraid to try new things, especially when there are strong analytics, but clearly not every vertical strategy has generated the ROI [return on investment] we were looking for. However, even verticals we've abandoned have been helpful, so I can't call any of these initiatives failures.

4. Knowledge, excellent listening skills and market empathy comprise the critical success factors for any vertical approach in my view.

Matt Golis

YapStone Inc.

1. Pursuing vertical markets allows specialization so you can differentiate yourself from others in the industry. The business needs of that vertical may require a specific solution or understanding of software integration, which does create an additional responsibility from a merchant support standpoint.

As a generalist, you face more competition for traditional merchants, but there are more opportunities to close business. It also gives you a hedge if the economy turns sour on the vertical markets where you have previously found traction.

2. We focus on very specific markets where we can apply a technology-differentiated solution that will not require a new investment by the merchant. We evaluate markets by size, fragmentation and how antiquated the existing method of card acceptance is for the merchant.

What is "hot" varies by geography and demographics – certain industries have proven to have more demand than others in different parts of the country.

3. YapStone has made its name as a leader in processing for property management companies. We have expanded in various real estate-related markets, but property management has been our core market for the past 10 years. As large a market as property management is (as a vertical), it took seven years to fully build out our technology platform and establishing credibility with clients to reach profitability.

Successful selling into a vertical does not happen quickly; it requires understanding the merchant's business needs, and at times it is their first time accepting electronic payments. Certain verticals have proven to be more difficult because the sales cycle can take multiple years, layers of bureaucracy and education to prove the viability of transitioning to electronic payments from paper-based methods.

4. Breaking into new verticals is a full-time commitment. As an ISO, you need to decide if you are 100 percent vertically focused or if you want to go with the generalist approach (it is hard to just spend a portion of your time on a vertical and add new merchants consistently in that vertical).

Since many verticals require much more than simply a card-swipe terminal, understanding the reporting and accounting software integration requirements is paramount to giving the client what they are looking for in a processor.

Vertically focused sales can become more like enterprise, software-type sales calls where an MLS has to know all the technologies and accounting needs of a market instead of just deploying a card-present terminal or payment gateway.

Curt Hensley
CSH Consulting Inc.

1. As you get to know a specific vertical better, you know more of the problems and issues that come up for those merchants. Merchants really appreciate that specific knowledge, and it usually makes the deal easier to close because the merchant believes that they will get better, more specialized service from you. We've got clients that do very different verticals, like merchants of a specific ethnicity or culture. This can be very effective, as well, for many of the same reasons. The cons are that you can put a ceiling on the number of merchants you can go after if you specialize in a vertical.

2. Going after verticals that are booming during downturns or at least unaffected seems to be the best way to go. The most important factors are the margins you can get and the final profitability on deals in that vertical. Companies like collection agencies, specific medical niches, insurance and credit restoration companies are some that we are seeing do very well in this economic downturn.

3. As a recruiting firm our niche is merchant services organizations. It's a strong, growing industry whose growth has proven to be recession proof. We're looking at other related financial services markets that are as healthy as merchant services. We've never met with failure to this point.

4. Go with a vertical whose bottom-line is very healthy. Look for areas where you can add much more value by focusing on that particular vertical.

Lisa Shipley
Ingenico

1. Pros: There are a lot of merchants/customers out there looking for the right solution just hoping for that right knock on the door. The opportunities in health care, pay at the table, unattended transactions and so forth are huge.

The difficulty in pursuing these markets is twofold. First, find the right hardware solutions and partner with the right POS vendor for these solutions. Second, spend the time to learn the new payment solutions, and partner with companies that can help you gain entrance into these markets.

2. Health care is hot. They are feeling the pressure from the economy, as like the retail channel, and there are budgets here to be tapped. Also, security is the top concern for all major retailers. While hardware budgets may be tight, security budgets are overflowing. Target this market with "security" solutions at the POS, and you will hit a home run.

Prepaid in brief

NEWS

Prepaid diversity weathers economic slump

All 33 segments of the prepaid market operate in a significantly different environment. As a result, each faces unique circumstances. But a new report from **Mercator Advisory Group**, The Resilient Nature of Prepaid: A Bright Spot in a Down Economy, found that 18 of the 33 segments will see positive growth, seven are likely to see negative growth and eight will either be neutral or too difficult to assess.

The report said that open-loop gift cards are performing better in 2009 than in previous years. The digital content, online games and prepaid handsets segments have all done well despite the recession. Highlights of the report include a review of spending on credit and debit cards, shifts in spending habits and new consumer behaviors related to prepaid purchases.

Prepaid malls continue to be a bright spot in the market. Retail stores nationwide have reported sales volume down by as much as 30 percent, but gift card sales were only off approximately 6 percent compared to 2008 totals. Transit has also seen tremendous growth, primarily due to increased fuel costs.

"It is understandable that many have focused on the challenges facing the prepaid industry solely on the downturn in consumer purchases, but to do this shows a lack of awareness regarding the power of channel development," said Tim Sloane, Vice President of Client Services and Director of Mercator's Prepaid Advisory Service.

"Any sales channel can become saturated, but a growing number of leading merchants are now recognizing the critical need to establish gift cards that will be highly differentiated within each channel to experience the highest potential for growth," Sloane added.

Prepaid to help in economic recovery

A **TowerGroup** report entitled, After Boom and Bust: Navigating the Credit Card Industry into the Next Economic Cycle, concludes that business models for predicting changes in behavior and economic stress failed to protect credit card issuers from the recession that began in 2008, and their business assumptions are untested for the economy that will ensue.

The report said that, although the credit card model is under stress, the payments industry continues to flourish in the prepaid and debit card arenas – the transaction products into which card issuers should channel risky accounts. Because of its size, with nearly $1 trillion in revolving credit, the industry will take time to change its business model, but it is essential to begin planning for the recovery phase of the economic cycle, the report said. Topics covered in the report include:

- Historical background and risks today
- The evolving credit card acquisition strategy model
- The future of revolving credit as products evolve
- Account segments and sorting the customer base

Vesta reports top-up strategy profitable

Payment solutions firm **Vesta Corp.** released the results of an independent research study conducted by telecom consultancy **Northstream AB** indicating how an effective prepaid top-up (reload) strategy can deliver significant value to the prepaid mobile market. The study, based on mobile phone operator interviews, showed implementation of a direct operator top-up strategy can bring double digit revenue gains and reduced costs.

Direct operator top-up channels include those that rely on electronic transactions outside retail environments, such as the operator's Web site, interactive voice response systems and handset applications.

The research indicates that advantages of the direct operator prepaid top-up strategy include improved performance metrics and customer relationship management capabilities, as well as lower costs. Direct handset top-up also has the ability to remove the fragmentation and complexity impacting mobile payment services and drive new revenue streams for operators.

ANNOUNCEMENTS

Ezic steps up with Stepdown

Digital payment solutions firm **Ezic Inc.** added Stepdown Rebilling features to its recurring billing system. Stepdown enables merchants to automatically retry declined recurring billing transactions for discounted amounts.

With Stepdown, merchants choose the number of retries for each transaction, the frequency of retries and the discount amount attempted for each consecutive retry. Discounts are determined by the merchant on a percentage or fixed dollar amount.

CoreCard to provide 'fast' solution

Prepaid and credit card processing technology company **CoreCard Software** now offers CoreIssue-Fleet and CoreAcquire-Fleet to provide its customers with customized, cost-effective solutions for electronic processing. The Fleet solutions give acquirers, issuers, and processors worldwide advanced, real-time technology for end-to-end fleet card management, according to CoreCard.

iPayStation experiences Dejavoo

Prepaid and postpaid solutions company **iPayStation LLC** released version 1.1 of its terminal software for the new Linux-based terminal series from **Dejavoo Systems**. Dejavoo connects iPayStation terminals to the back office for real-time reporting, new services, and terminal or simple message service messages.

Metavante repowers reloadable prepaid cards

Prepaid and debit card solutions provider **Metavante Technologies Ltd.** implemented **MasterCard** rePower, the European POS reload service for MasterCard Europe and Maestro prepaid cards.

Mi-Pay data center goes green

Mobile money company **Mi-Pay** was certified by the **International Tree Foundation** as part of a carbon emission offsetting initiative sponsored by its hosting services provider **Rackspace**. Mi-Pay's centralized data center is now carbon neutral, reflecting Mi-Pay's increasing desire for environmentally conscious solutions.

GO-Tag gets going

Convenience store operator **Sheetz Inc.** reported it will offer First Data Corp.'s GO-Tag payment technology solution to allow its consumers to make purchases by tapping stickers on contactless readers. Sheetz said it will offer GO-Tags at all of its 350 locations across the United States by the end of July 2009.

One 'underbanked' World Card

One World Ventures Inc. released the One World Prepaid Card, a Visa Inc. and MasterCard Worldwide remittance solution for emerging markets.

One World's objective is to serve the underbanked by providing prepaid solutions that enable the same benefits belonging to credit and debit card holders.

PreCash's Chaney receives top honors

Prepaid debit card and payment solutions provider **PreCash Inc.** reported that its Chairman and Chief Executive Officer John Chaney received the **Ernst & Young Global Ltd.**'s Entrepreneur of the Year Award in the financial services category in the Houston and Gulf Coast area. Chaney, selected by an independent panel of judges, is now eligible for the national Entrepreneur of the Year award.

TransCard takes Pulse farther

Prepaid debit card provider **TransCard LLC** has integrated Discover Financial Service's Pulse network to provide its cardholders with more places to use prepaid cards. The Pulse ATM and debit network comprises more than 289,000 ATMs and POS terminals; it is reportedly used by more than 4,500 financial institutions across the United States.

TSYS, Toyota team at Tressa

Payment processor **TSYS** extended its agreement with **Toyota Finance Inc.** to include prepaid card payment and processing services. Toyota's Tressa Style Card Plus is a rewards card that can facilitate transactions as either prepaid or QUICPay contactless card payments. The card will be issued to consumers at the Tressa Yokohama shopping mall in Yokohama City, Japan.

VIPGift gateways get Level 1 certified

Prepaid solutions provider **VIPGift LLC** received Level 1 Payment Card Industry (PCI) Data Security Standard (DSS) certification for its loyalty and incentive programs, as well as its payment gateways. Visa also designated the VIPGift as a Cardholder Information Security Program PCI DSS service provider.

Western Union broadens global reach

The Western Union Co. launched the Digital Vendor Program to extend the accessibility of Western Union Money Transfer services to mobile finance initiatives in Latin America, Africa, the Middle East and Asia. The first providers to join the certification program are four mobile platform providers: South-Africa-based **Fundamo Pty Ltd.**, India-based **mChek India Payment Systems Pvt. Ltd.**, U.S.-based **Sybase 365** and Singapore-based **Utiba Pte Ltd.**

PARTNERSHIPS

Work release inmates go cashless

Continental Prison Systems Inc., a provider of EZ-Card & Kiosk technology for cashless solutions in jails, formed an alliance with **FSH Telecom** to install three kiosks and implement the EZ Release Card at the Pima County Jail in Tucson, Ariz. The kiosks, intended to provide work-release inmates with prepaid cards instead of cash, can accept and load employers' checks, money orders, credit and debit transactions, and cash.

Metavante, FNB alliance a smartOne

Metavante Corp. reported that the smartOne Prepaid Solutions division of **First National Bank of Omaha** renewed its card processing agreement. The smartOne portfolio includes payroll, reward and incentive, and corporate disbursement (travel expenses and relocation funds) prepaid cards.

Romanians Rev up with new card

Bucharest, Romania-based **Raiffeisen Bank** and **RêvEurope** launched the Raiffeisen Bank Visa Prepaid Card – reportedly the first prepaid debit card on the Romanian market issued by a bank and the only prepaid card that enables Romanians to send money domestically from their mobile phones. Customers can make purchases with the card anywhere Visa debit cards are accepted, withdraw cash from ATMs, and send money domestically to friends and family. In other news, RêvEurope was recognized by **Cards International** as the "most promising new entrant" for its underbanked card and payment solutions.

Travelex, UC Card introduce DCC

Foreign exchange services company **Travelex Ltd.** launched its dynamic currency conversion (DCC) technology, Currency Select, in Japan in conjunction with **UC Card Co. Ltd.** This is said to be the first time DCC has been available in Japan.

A horse of a prepaid color

Online horse racing and betting Web company **Youbet.com Inc.** signed an agreement with **Green Dot Corp.** to enable its customers to go into one of 50,000 retail locations in the United States and convert physical cash into electronic cash using a MoneyPak reloadable prepaid card. Funds from the card can then be transferred directly into an existing Youbet Express account on the Youbet ADW (advance deposit wagering) platform.

Partnership provides mobile platform for debit, prepaid

Mobile debit card solutions company **Veritec Inc.** said its subsidiary **Veritec Financial Systems Inc.** entered into a license and maintenance agreement for its mobile banking and payment platform with **Security First Bank** of Fresno, Calif. Security First Bank will issue debit and prepaid cards on VTFS' platform; additionally, VTFS will provide back-end card processing services to the bank for all cardholder transactions.

APPOINTMENTS

Bobenhouse heads new Total Card division

Third-party credit card services provider Total Card Inc., in partnership with R&P Group Executive Search Firm, added **Doug Bobenhouse** to Total Card's staff as Director of the newly formed Prepaid and Debit Card division. Bobenhouse's responsibilities include new product development, company branding and the development of incentive, loyalty and rewards programs.

New VP to focus on U.S. banking channel

Western Union named **John T. Brennan** as its new Vice President, Business Development, The Americas, to focus on the U.S. banking channel. Brennan brings 25 years of experience in developing banking products and services in the payments industry.

Savard joins FSV Payment Services board

Prepaid card program management and processing services provider FSV Payment Services Inc. appointed **Richard "Rick" Savard** to the company's board of directors. From 2004 to 2008, Savard served as NetSpend Corp.'s CEO.

SELLING SP PREPAID Features

Cabbies moved to plastic

According to Wikipedia, approximately 1,381 licensed cabs roam the streets of San Francisco. Yellow Cab Cooperative of San Francisco operates 500 of them, said Jim Gillespie, Assistant Manager at the company. After working 10-hour shifts, cabbies return to the co-op with cash and credit card receipts for settlement. Traditionally, cabbies have been reimbursed with cash. But that is now changing.

In January 2009, the co-op's cabbies began getting a large portion of their pay loaded on smartOne Visa Inc. Pay Cards. The payroll card solution reduces the amount of cash cabbies carry after they end their shifts. Because the cards are open-loop and Visa-branded, cabbies can withdraw cash from ATMs or make purchases anywhere Visa debit cards are accepted.

And, if lost or stolen, the cards can be replaced with no funds lost, since the deposits are insured by the Federal Deposit Insurance Corp.

The efficiency engine

The main reason the co-op implemented the program was to streamline operations. According to Gillespie, the co-op would have to withdraw tens of thousands of dollars daily from the bank and keep it on hand for when cabbies ended their shifts.

But Gillespie said the co-op – the largest taxi service in San Francisco – takes in $2 million in credit card transactions a month. Often enough to make it a burden, the co-op would run out of cash for the cabbies on a given day, he said.

Thus, the co-op partnered with First National Merchant Solutions, a division of First National Bank of Omaha, with whom the cab company had an existing relationship, to develop the payroll card program.

Scott McCormack, Vice President of Prepaid Solutions at FNMS, characterized the need for a solution in technological terms.

"Having to run the algorithm on the back-side of their software and then distributing cash back to those people – that was just a cumbersome process," he said. "We implemented a payroll card solution to essentially get them out of the need to go get that much cash.

"They still run that algorithm, but they do an immediate distribution of funds to the person's payroll card."

McCormack said the company settles accounts daily using the automated clearing house system. "They don't have to staff nearly as much, and they're really trying to move toward 100 percent electronic," he said. "And this is really helping them get a lot more efficient."

The payroll card program has "made it much easier for us to manage our business," Gillespie said.

Unbanked in-service

A majority of the co-op's cabbies are recent or fairly recent immigrants to the United States, Gillespie noted. They come from places like the Middle East and Latin America. McCormack said a majority of cabbies nationwide are likely to be unbanked and could benefit from payroll cards.

According to Gillespie, the co-op's cabbies were initially reluctant to change how they received their wages. It was just a matter of educating the cabbies on the benefits of the cards, however, and now a majority of the drivers are using them, he added.

As the program manager, FNMS facilitates the enrollment and fulfillment processes. FNMS does its own card production, so the turn-around time between when a cabbie signs up and when he or she is mailed the payroll card is three to seven days, McCormack noted. Metavante Corp. handles the authorization function for the program, with FNMS handling everything else.

FNMS is working on additional program features to give cardholders the ability to pay bills online and make card-to-card money transfers within the United States, McCormack said.

While McCormack did not provide an estimate as to the potential size of the market for payroll cards for cabbies, he said "it can be very big." Since cab companies are operated more like franchises from city to city, McCormack said direct relationships must be set up with each company in each city.

'Obolize' that card

Most teenagers are out of school for the summer, but financial literacy should be an ongoing process. Given the state of the economy, it is incumbent on parents to teach their sons and daughters how to manage money. One selling point of prepaid cards to consumers is that they can be used as educational tools.

Money payment specialist Obopay hopes to capitalize on that benefit with its Obopay Family Prepaid MasterCard. Issued by The Bancorp Bank, it is considered a teen card, designed for youth at least 13 years old.

Because it is an open-loop, MasterCard Worldwide-branded card, teens can use it for in-store, online or over-the-phone purchases anywhere MasterCard is accepted.

In addition, money can be loaded onto the card using Obopay's mobile application, text message, mobile Web or via Obopay's Web site.

O-bundance

But Obopay sees the card as more than simply a convenient payment method for teens without access to bank accounts because of what Michael Diamond, Senior Vice President of Product Development at Obopay, calls the card's Family Money capability.

"We're putting what we call a sponsored prepaid card into the hands of 13- to 21-year-olds, and then that prepaid card is linked to a sponsor," he said.

"So, in the case of my two teenage daughters, those cards are tied to my Obopay account. … I can send them money no matter where they are, no matter where I am, with my mobile phone to their mobile phone."

Therefore, parents can load allowances on the card and monitor their children's spending, since all transactions are revealed on the parents' sponsor accounts.

Diamond said the card is ideal to get money where it needs to go in emergency situations, as well as for more minor inconveniences.

"As an example, I went shopping with one of my daughters a couple of weeks ago, and I forgot my wallet," Diamond said. "And so we're in the check-out line, and we bought $50 worth of something.

"So I quickly sent her $55 with my mobile phone. In a few seconds those funds were available, and she handed over her card with her name on it to the cashier. And we paid for our stuff and moved on."

O-biquity

Diamond said Obopay is driving MasterCard's person-to-person mobile money transfer service in the United States. Obopay has seen interest from prepaid card program providers concerning the card's capabilities.

Within Obopay, the term 'Obolize' has sprung up to define the desire among other providers to incorporate similar features into their services, he said.

The 2008 BCG/PSE Prepaid Study commissioned by MasterCard reports that the "financial inclusion" market – a combination of teen and campus cards – could amount to $40 billion by 2015.

Gift card legal perils – Part 1

At Prepaid Day held during the Electronic Transactions Association's 2009 Conference & Expo, JiJi Park, Partner at the law firm of Pillsbury, Winthrop, Shaw, Pittman LLP, advised gift card program providers how to avoid getting sued. Her basic mantra: follow the law. But evidently that's harder said than done.

A main problem is that laws regulating gift cards vary widely from state to state. According to Park, some states limit or prohibit altogether the imposition of service, non-use, handling, activation, maintenance or dormancy fees.

Coast to coast

"In New York you may have a service fee on any card unless that card remains dormant for 12 months, and those [fees] must be conspicuously stated on the card itself," she said. "They cannot be on a separate terms and conditions on the Web site. It has to be on the card."

In California, the regulations might be the most exacting in the nation. Park outlined the five requirements that must be in play for service fees to be assessed:

1. The remaining value on the card is less than $5.
2. The fee does not exceed $1 per month.
3. There has been no activity on the card for 24 consecutive months.
4. The cardholder may reload the card.
5. A statement is printed on the card (in 10-point font) stating the fee amount, how often it is assessed, that inactivity triggers the fee and at what point the fee is charged.

Pillsbury's presentation focused on California because it became the first state to enact gift card legislation in January 1997. California is therefore seen as a trendsetter in the gift card arena. But that moniker does not necessarily translate into statewide compliance. "We have run across very few cards that have qualified [with] these requirements," Park said.

Terms and conditions

Park stressed that gift card providers must follow the letter of the law when it comes to informing consumers of the terms and conditions of gift cards. "It is very important that the purchaser get clear and conspicuous notice," she said.

But that, too, can be tricky given the variance of such rules from state to state. Some states require that all terms and conditions be stated on the cards, and in a mandated 10-point font size, Park said.

Additionally, proposed state legislation would require gift card sellers to provide consumers with written statements, post signs with the terms and conditions, print that information on receipts or allow it to be accessed via the Internet or a toll-free phone service, Park said.

Compliance with state unclaimed property laws can also be a tangled jungle, according to Park. In the gift card realm, unclaimed property means the unused balances left on cards; state escheat laws dictate how those balances – billions of dollars annually in aggregate – are treated.

With so much money at stake, gift card providers are under increasing scrutiny to follow guidelines on how those funds are handled. "If you do Internet sales or you ship cards to someone, you're going to have that record," Park said. "You can't destroy that record once you have it just to get out of your unclaimed property obligations."

Due to noncompliance unearthed by accounting firms, public companies have had to restate their financial reports, she added. "That is something that you do not want to have to do," she said.

In the next edition of *SellingPrepaid E-Magazine*, Daveed A. Schwartz, Attorney at Pillsbury, delves into the hazards to avoid when implementing gift card programs.


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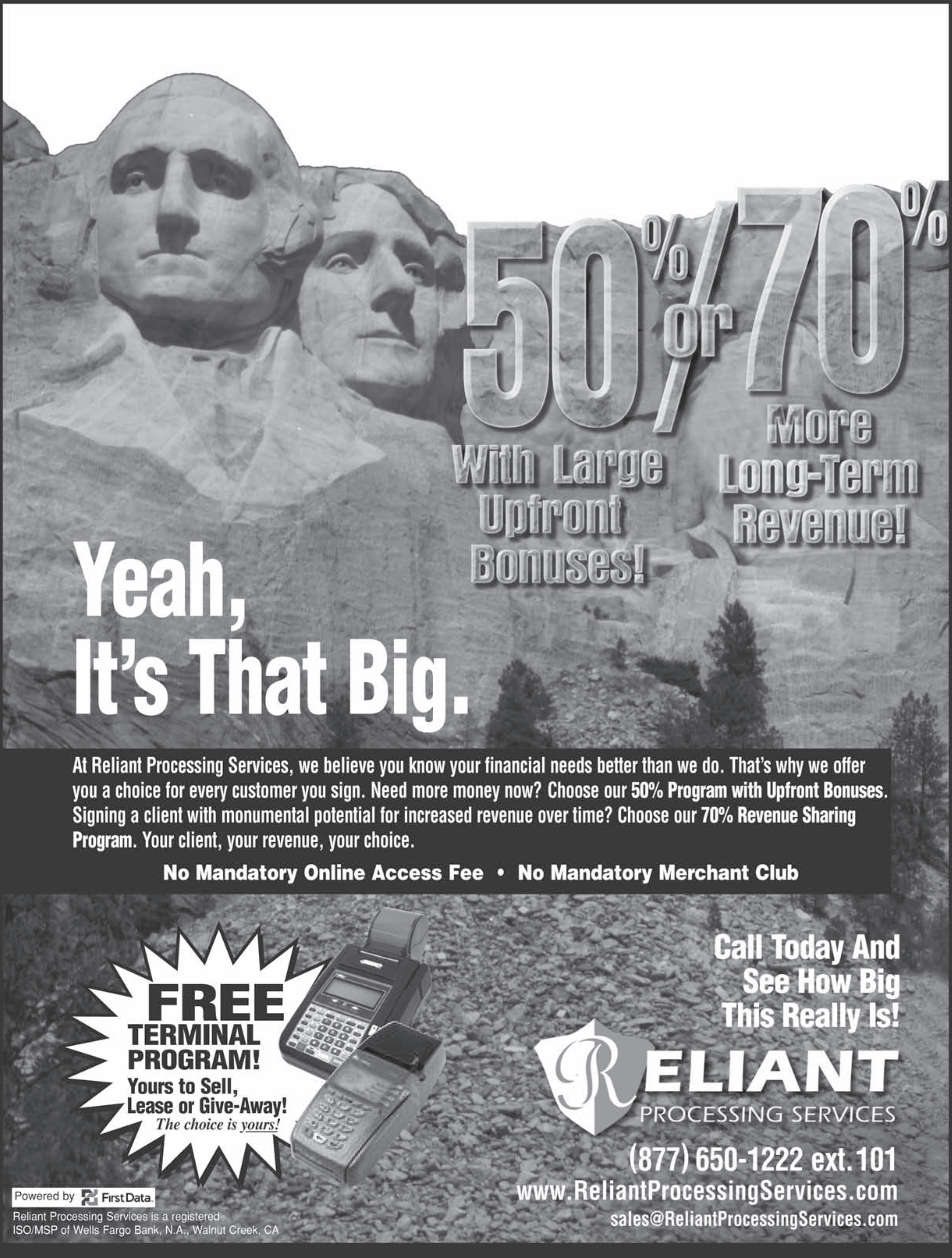
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A return on returns

As long as paper checks are in use, some, inevitably, will bounce. Depending on the face value of those checks, a merchant's cash flow can be affected. And tracking down people who write bad checks can be a drain on a company's resources.

Harry Johnson, President of Money Transfer Systems Inc. and 20-year payments industry veteran, was one of the original technology providers to Chase Paymentech LLC. "We saw an opening in both automated clearing house [ACH] and electronic check recovery," he said, adding that those products promised healthy margins and high residuals in a largely untapped market.

Money Transfer Systems created a separate Web site for its check recovery arm, checXchange. "We separate them because people tend to get them confused," Johnson said. "We really brand this product a lot under other resellers and financial institutions, so the brand is checXchange."

How it works

When a deposited check shows insufficient funds, standard banking procedure is to try only one more time to make the deposit. When a check is converted to an electronic version, it can be submitted three times, Johnson said.

He added that electronic items are first in the submission queue. In addition, checXchange gauges the best time to resubmit the check, based on when the account is most likely to have sufficient funds.

Many people are paid on Friday or at the beginning, middle or end of the month, making those the best times to resubmit. "By pinpointing or strategically timing when we're going to re-present that item, moving to the front of the line, and getting a second try, that's how we achieve 80 to 85 percent recovery for the merchant," Johnson said. The merchant isn't charged for the recovery, and checXchange pays the merchant the face value of all checks recovered.

With full online reporting, merchants can view all checks, front and back, that are in the recovery process, as well as the current status of each one. For checks that are not recovered by resubmitting, checXchange offers two options: Merchants can either take checks back and pursue other recovery options independently, or they can forward checks directly from checXchange to a secondary collections agency.

An easy sell

CheckXchange relies on the ISO channel to sell its check recovery program. Johnson said the ease of setup and enrollment attracts ISOs to the product – which compliments credit card and ACH products. He refers to the simple, one-page enrollment form as the "crayon form."

A copy is faxed to the bank by the merchant and to checXchange by the merchant level salesperson (MLS).

The form tells the bank to forward bad checks to checXchange. When checXchange receives the application, its system enters the check and creates a welcome kit for the merchant enrollee.

Though checXchange does not provide remote deposit capture, the check recovery service is a "perfect marriage or add-on" for it, Johnson said. "The target market for us is direct sales to merchants because it's a very easy addition for the sales rep to add this."

He noted that ChecXchange makes its money on the fee the merchant charges to the bad check writer and shares "a large percentage of that" with the MLS who signed the merchant up.

"So it's a very large – it's dollars, not pennies – lifetime residual, as long as that merchant is on our books," Johnson added. "In the day of compressing margins for the sales rep, if the merchant had two or three bad checks in one month, they could easily make more off a returned check income than they would off the credit card income."

Rick Brennes, Chief Executive Officer and President of The Brennes-Jones Group Inc., said when he was first approached by checXchange, the company mentioned a collection rate of "80 to 85 percent, which frankly sounded like a sales pitch because normally I would've expected 50 to 60 percent. But from our own merchant experience, now I can say that 85 percent is legit. It's been a wonderful product."

Brennes noted that he basically gives the product away because there's no cost to the merchant – ever. "Once a merchant signs up, they're free to come or go," he added.

"There are no minimums or monthly fees. It's a dream product for salespeople because it can be used as an add-on."

Brennes' salespeople now offer checXchange on cold calls; when they follow up to see how the service is going, they can sell processing or other products to a merchant who is already a satisfied customer, Brennes said.

Taking it to the bank

Banks that sign up for checXchange send a letter to all their commercial customers notifying them they are automatically enrolled in the checXchange program, which will cost them nothing.

The letter also includes instructions on how to decline enrollment. "On average, 1 to 3 percent of the merchants will opt out of the program," Johnson said.

Processing bad paper checks is still a manual process for banks; someone handles the checks one at a time and sends them out with letters to merchants. Enrolled banks take all those checks from their participating merchants and mail them in one envelope to checXchange – or scan them and send them electronically. ChecXchange encourages banks to use image exchange to ease the burden of manually reviewing checks and stuffing envelopes.

"So it eases back-office operations, and it provides a new revenue stream back to the bank, because we're sharing, on average, $5 per check back to the bank," Johnson said. "Now they're making $5 a check where they never made any money before. It's found money for the bank and it's a great convenience for the commercial customers."

Steve Zahorian, CEO at Patriot Bank, said, "We love it as a product because our customers love it. The best testimony for it is the customers. We've had zero customer complaints."

Patriot Bank automatically provides checXchange services to all business clients who accept check payments, but participation is not mandatory. "I can count on one hand how many customers have opted out," Zahorian noted.

According to Johnson, ISOs working with banks in a referral capacity can make money from every returned check from those banks, which also strengthens their relationships with the banks.

"Not only are they making great income off of the leads from the bank, now they're going to make money off the returned checks," he said.

Almost 50 banks nationwide are using checXchange. "Each bank may have several thousand commercial customers," Johnson said. He added that the recession has helped checXchange because "it's more enticing for banks or partners to want to bring this product in" as a new source of income that also reduces their expenses.

Another plus

Johnson noted that his company relies on banks that aren't signed up for checXchange to notice whether a merchant is enrolled in the program. Sometimes banks send bad checks back to merchants, as they are accustomed to doing.

That's where checXchange Plus comes in. The "plus" entitles the merchant to a new depository stamp with a line under the usual text instructing the bank to send returned items to Money Transfer Systems' bank.

"We get that check at the exact same time the merchant's originating depository bank would have gotten it, so it routes around them," Johnson said. "And since their bank doesn't see it, their bank can't charge them a fee."

ChecXchange charges around $5, as opposed to the $15 or so a bank would charge. And the check is in the system faster, resulting in faster returns and a higher recovery rate. "It's really a no-brainer at that point if the merchant has any volume of returned checks," Johnson said.

According to Johnson, the biggest challenge the company has faced is ensuring the checXchange product does not get confused with check conversion or check guarantee. Another challenge has been getting banks to buy in. "It's a little more difficult sale than just a merchant sale, but we have sales staff that understands that," he noted. "If an ISO has a bank opening, we hold their hand through the sale process.

"You need to be able to speak the bank's lingo and have an understanding of how a bank operates. … We'll even visit the bank in person with them, or we'll do a webinar. And usually in a 15 minute webinar, the banks get it instantly." Johnson mentioned that only 200 of the 8,000 U.S. banks are currently using a check recovery service like this.

Johnson said that the company is driven by three core values:

- Do what you say you're going to do.
- Pay what you say you're going to pay.
- Pay what you say you're going to pay on time.

It may be a while before checks are a bygone payment instrument. In the meantime, companies like checXchange strive to help merchants deal with the expense and nuisance of bounced checks. And perhaps it's a way ISOs and MLSs can befriend new prospects or solidify relationships with established clients.

Bob Carr takes the encryption lead at IAPP

Editor's note: This is a special report to The Green Sheet *from Brandes Elitch, Director of Partner Acquisition for CrossCheck Inc. He has been a cash management practitioner for several Fortune 500 companies, sold cash management services for major banks and served as a consultant to bankcard acquirers. A Certified Cash Manager and Accredited ACH Professional, Brandes has a Master's in Business Administration from New York University and a Juris Doctor from Santa Clara University. He can be reached at* brandese@cross-check.com.

Robert O. Carr, Chairman and Chief Executive Officer of Heartland Payment Systems Inc., gave the keynote speech to the Data Breach section of the International Association of Privacy Professionals conference, which took place in Santa Clara, Calif., June 17, 2009. If you are in the ISO business, you will want to understand the implications of what Carr had to say.

The IAPP (*www.privacyassociation.org*) is the leading forum for information privacy and is the recognized authority in this space worldwide. In nine years, it has gone from zero to 6,200 members and has developed the Certified Information Privacy Professional certification.

An astounding agenda

By now, everyone in the ISO community must be aware that Heartland's security was breached in 2008. In his address, Carr discussed his company's experience in dealing with this and presented a bold program designed to eliminate data security vulnerabilities in the payment processing chain.

A year or two from now, people will admit, some admiringly and some grudgingly, that what Carr will have accomplished by then is nothing less than a complete restructuring of how data is captured, processed, archived and moved in the credit card industry. If you have ever worked with the bureaucracies involved here, you will immediately grasp what a monumental effort this really is.

A processing nightmare

Heartland suffered a malware attack (an SQL injection via a customer facing Web page), found it and made a best efforts project of cleaning it up. But at the time no one realized the job had not been completed properly.

Carr doesn't blame the auditors for the breach – in spite of the fact that Heartland was intensively audited and received six clean audits in a row; plus it had routine penetration testing every year with no problems found. He also admits that, at this point, Heartland is still on probation, and he doesn't know how it all is going to end.

He doesn't ask for sympathy, but everyone in the room clearly wondered what it must have been like for Carr to live through this.

Imagine: You are running the fifth largest payment processor in the United States (ninth largest in the world), processing 11 million transactions a day for a quarter of a million merchants who are funded to the tune of $80 billion a year, and suddenly you are delisted by Visa Inc. Your stock price drops from $15 a share to $3.43.

Heartland immediately re-imaged all its servers (the malware was on multiple servers with gateways or dial traffic), added additional network segmentation, increased monitoring and added loss prevention security layers.

The company also bought Vontu (an outstanding tool for data loss protection, Carr said), and has done everything else the card brands requested.

A man fit for the task

Most people don't know that Carr is an information technology geek: As a student at the University of Illinois he wrote computer programs. He then taught programming at a local college and ultimately became Director of the college's computer center. So he was able to approach this situation from a technical perspective.

Carr decided to develop true end-to-end encryption. He approached the American National Standards Institute and formed an industry association – the Payments Processing Information Sharing Council, which is under the umbrella of the Financial Services Information Sharing Council – to get industry buy-in.

The PPISC fosters cooperation among the top 50 acquirers, as well as all third-party processors that provide services to issuers and other acquirers.

Carr doesn't criticize the Payment Card Industry (PCI) Data Security Standard (DSS); he says it is a good thing and serves to protect the 6 million merchants whose acquirers use it. But it is a cat and mouse game; PCI contains 230 requirements and must be monitored continually.

Also, if an insider wants to help the "Bigees" (Bad Guys in Eastern Europe), a company is vulnerable to foul play if it does not encrypt data. Carr does not believe chip and PIN will be widespread here soon either; it requires too many people to agree and too much infrastructure change.

He noted that tokenization is an improvement over what is in place but does not entirely eliminate transmitting credit card information in the clear. Additionally, secure sockets layer technology is point to point, not end to end:

As it goes from one end to the other, it drops off the end of the pipe, and that's where the sniffers are.

True end-to-end encryption

Carr's solution is to encrypt data as it is being taken off the mag stripe, just like you do with PIN debit: You enter the PIN, and the digits are encrypted into a mini Hardware Security Module (HSM) and stay encrypted throughout the system. A Tamper Resistant Security Module (TRSM) reads card verification value data off the card and encrypts it before it is transmitted.

The big news is that Carr is building a TRSM that encrypts the digits in a hardened box, so, yes, the merchant will have to change the mag stripe reader. Heartland will offer a solution for under $500 per POS. This is déjà vu, just like when electronic ticket capture became available: It was a game-changing event for the ISO community – actually *the* game-changing event.

Carr sees this as a five-zone project: Zone One covers the data from the point of origination to the processor's gateway or network. Zone Two is within the processor's network. Zone Three consists of the HSM's and central processing units within the network. Zone Four is all data at rest in data warehouses, databases and archives. Zone Five covers the data to the issuer through the card brand network.

Carr believes mandates aren't required, that the marketplace will develop good solutions over the next two to three years. I see this effort as on par with the NASA moon shot in difficulty, but perhaps I am too jaded an observer. I do know that if anyone can make it work, it will be Carr.

The emerging standard

In reflecting upon data breaches, you might think, "This can never happen to me." Maybe you think your operation is not as big a target as Heartland, or perhaps you think you have airtight security. Maybe: In 2008, there were 635 breaches, but I didn't hear of more than a handful. This is about trust, and trust is the foundation of the information economy.

Recent studies of terminated employees show that people feel comfortable taking data belonging to their employers with them when they leave. This should really scare you. This is why the privacy business is a growth business: The IAPP, for example, has 6,200 members and is just getting started.

Your merchants need to feel certain you are handling their data in a way that meets generally accepted data security practices, and it is this standard to which your company will be held. Carr is elevating the standard, but he said "knowledge of security threats should not be viewed as a competitive advantage."

The bad guys out there are aggressive, smart, numerous and well-funded, and they are talking to each other. Shouldn't we be doing the same?

PCI SSC broaches possible changes

Though the PCI Security Standards Council (PCI SSC) has historically resisted major reforms to the Payment Card Industry (PCI) Data Security Standard (DSS), a new partnership to explore possible changes in the use of security technology may signal a shift toward a more flexible approach.

In June 2009, the council revealed it had commissioned the consulting firm PricewaterhouseCoopers to research new approaches to the adoption of security technology by merchants, processors and acquirers. The decision comes in light of the growing contention that, for some, compliance with existing standards is too expensive and difficult.

"I'm very encouraged and pleased that … [PCI SSC members] realize that some additional things need to be put in place," said Paul Rasori, Senior Vice President, Global Marketing for the payment processing vendor VeriFone and Secretary of the Secure POS Vendor Alliance.

The SPVA was founded in early 2009 by a group of industry executives seeking to strengthen payment security standards and simplify their implementation. Rasori said the organization was not involved in the PCI SSC's decision to take on its latest project, but that the undertaking reflected the kind of innovations the SPVA aims to help spur.

"Investing in this third-party review is important both from the standpoint of improving security, but also showing the rest of the world that they're open to modifying it to be better for everyone," Rasori said.

The task

Specifically, PricewaterhouseCoopers is charged with identifying and determining the viability of technologies that can reduce and fortify the storage and transmission of consumer card data. The company will recommend to the PCI SSC the technologies considered most likely to improve adoption rates and reduce the costs of implementing mandated security measures.

The PCI SSC has been getting "a lot of pressure from retailers and acquirers to augment the current rules to be more end-to-end in nature," Rasori said. "Pretty much all the PCI guidelines today are about building walls around your data, but the problem that exists out there is that retailers, merchants and infrastructures are all completely different.

"The decision to protect your data is very unique per retailer, and it's very expensive, so their willingness to look at encryption from the point of swipe all the way through to some end point – which I think is something to be defined as part of this research – will go a long way in helping protect the information in the event that it's breached."

PricewaterhouseCoopers has served as a security and image consultant for a number of Fortune 500 companies, including 15 that are ranked among the world's 25 most profitable firms.

A larger effort

Bob Russo, General Manager for the PCI SCC, said the study's findings would be part of a larger discussion about possible changes to industry standards when the PCI SSC re-convenes later this year.

"The PCI Security Standards Council has commissioned a study … to research the impact specific technologies have on the PCI [DSS], such as tokenization, Chip and PIN, and end-to-end encryption," he said. "The study's findings will be presented and discussed at the North American and European community meetings this September and October.

"Another major focus at the community meetings this year will be gathering more feedback on PCI standards in a face to face setting from our participating organizations. … We are always open to feedback from merchants, retailers, processors, banks, [qualified security assessors] and [approved scanning vendors] and are looking forward to a productive discussion," Russo added.

Aite identifies industry challenges

For a report entitled, The credit card industry: Between a rock and a hard place, Aite Group LLC surveyed card issuers and processors, ISOs, acquirers and technology vendors about top industry challenges. As the title of the study suggests, the research and advisory firm found that the industry has reached a crossroads.

Twenty-three payments industry insiders participated in the study. Based on the respondents' answers, Aite concluded that the competing interests of different constituencies have paralyzed the industry, "with no clear path out."

The report found that:

- Business, data security and regulatory issues are priorities.
- Pressure from the federal government and merchants will keep interchange from increasing in the second half of 2009, but that could change in 2010.
- The biggest challenges for credit card issuers have to do with regulation, while debit card issuers face business challenges, such as fraud prevention.
- The overwhelming consensus is that debit card issuers have the brightest future, while credit card issuers face gloomier prospects.

Technology tug of war

One problem Aite found amounts to a technology tug of war. Adil Moussa, Aite Senior Analyst and author of the report, said, "You have the networks that are pushing in one direction and the merchants are pushing in the other and the POS makers are in the middle."

According to Moussa, merchants want more functionality from their POS terminals, and are turning to PC-based terminals that support transactions but also help manage inventory and other business functions. Meanwhile, POS providers are pushing contactless terminals.

"Merchants don't care about [contactless]," Moussa said. "And, at the same time, the only reason why there is so much pressure and why the networks are pushing for the RFIDs is because they are hoping to capture cash transactions and small-ticket cash transactions, like $5, $6, $10

types of transactions. And they're hoping that [contactless] is the way to do it." But merchants dislike small dollar purchases made using card payment methods because they have to pay interchange on them, Moussa noted.

Additionally, consumers have not clamored for contactless payments, according to Dick Bloom, Senior Director, Retail Payments Sales and Service for Posdata, a division of Control Solutions Inc. "Although [Visa Inc. and MasterCard Worldwide] put a fair amount of effort into getting acceptance, it doesn't really seem to be being accepted by the consumer," he said.

While Bloom foresees the development of RFID in the political sector and places where it's mandated, the cost of converting POS terminals to contactless terminals is another deterrent to its implementation for merchants.

Debit dilemma

The Aite report cited "imbalanced interchange," and the confusion that imbalance causes for the merchants, as a top challenge for debit card issuers. Moussa said many merchants don't understand the difference between PIN debit and signature debit pricing. On small-ticket transactions, the flat PIN debit fee is a greater amount than the percentage-based fee for signature debit.

"I believe that it's been very difficult for the merchant to push the consumer [to signature debit]," Bloom said. Merchants are driven by consumer demands, and most consumers demand ease of use. He said consumers don't want to have to think about using different methods for different price points.

The Aite report predicted that the networks would react to the huge increase in debit use by increasing interchange for debit transactions.

Card networks were seen by those surveyed as adequately insulated from economic pressures because of their ability to raise the fees charged to acquirers and issuers.

Moussa said the networks increased the authorization fee almost 300 percent in 2009. "They're not charging the merchant, they're not charging the consumer directly, so there's no pressure on them [to stop raising fees] and plus, they have a monopoly," he noted. According to the report, "some panelists even questioned the role of card networks and whether that role justified the fees they charge."

ISO challenges

Survey respondents said that the three main challenges merchant acquirers and ISOs face are:

- Data security and Payment Card Industry Data Security Compliance (43 percent)
- Business issues (43 percent)
- Technology issues (13 percent)

The report said business challenges included: commoditization, margin compression, differentiation, merchant insolvency and merchant attrition.

Moussa said ISOs have to contend with the effects of economic upheaval, as well as interchange increases. Merchant acquirers seek to board new merchants as a way to increase revenues, but the bad economy has hindered new merchants from entering the marketplace, he said.

In the current business climate, merchants are not as willing to leave processors, he added. In effect, Moussa believes acquirers are stuck. But he puts forth an alternative strategy that he said acquirers have yet to take advantage of.

"You cannot create new merchants," he said. "But the only thing you can do is try to capture market share – existing merchants that are taking cash, and that are taking checks, and find a way to help them convert those cash transactions and check transactions into electronic transactions.

"The way I see it, merchant acquirers haven't done anything at all to increase market share. Nothing. They do a lot to just go after new merchants, but I haven't seen them spend a single dime on trying to convince merchants to turn more of their cash transactions into electronic transactions." Moussa suggested merchant acquirers and ISOs could follow the issuers lead and offer incentives to merchants in the form of rewards for volume of transactions converted from paper to electronic.

Interchange intersection

"ISOs and acquirers don't really care that much from the revenue standpoint about interchange," Moussa said.

However, when Visa and MasterCard increase interchange, a shift occurs in merchant accounts that month and the following one, which disrupts business, he said.

Seventy percent of the respondents thought interchange would remain steady in 2009. However, 35 percent of the executives surveyed expected interchange to increase in 2010. Bloom believes that, if interchange does increase, merchants will have to adapt and somehow recover those costs.

BofA, First Data give birth to BAMS

Bank of America Corp. and First Data Corp. formed a new payment solutions company, Banc of America Merchant Services LLC. First Data will contribute about 140,000 merchant relationships and BofA will bring approximately 240,000 such relationships to BAMS. The new entity expects to process more than 1 billion transactions per month.

At the end of 2008, First Data parted ways with JPMorgan Chase & Co. The two companies had jointly provided payment solutions as Chase Paymentech Solutions LLC for 12 years. First Data stated at the time that the split signaled a new phase of product development and expansion.

BAMS will provide what it calls "a comprehensive suite of innovative payments solutions" such as credit, debit and prepaid cards, merchant loyalty programs and check and e-commerce payment services. The offerings include new services designed to drive return traffic to merchants' stores and provide consumers with security, convenience and customary rewards. BAMS will also provide enhanced business reporting tools.

Symbiosis

Adil Moussa, a Senior Analyst at Aite Group LLC, said First Data's and BofA's joint venture "will create a new synergy in the merchant acquiring world." He stressed how critical it is for large companies and corporations to have relationships with major banks for their lines of credit, treasury and cash management needs.

Moussa feels those banking needs influence large merchants' choice of merchant services provider. "From a large merchant perspective, First Data will be in an even better seat to compete over large corporate accounts," Moussa said. "Conversely, Bank of America's merchants will benefit from the technology that First Data offers in payments."

Moussa extolled the benefits large merchants enjoy when their merchant processing and banking needs are met by one company, with one point of contact. He pointed out that it reduces inefficiencies that can plague larger companies or corporations.

Moussa noted that just a few days before news of BAMS' formation emerged, he had been discussing collaborating on a report that would look at the "different factors that lead large merchants to select a merchant processor and the importance of having a solid bank partner with a solid treasury solution."

Unity

Michael Capellas, First Data's Chairman and Chief Executive Officer, said, "Together, we will help clients keep pace with the dynamic virtual marketplace by delivering secure, scalable and reliable payment processing and the broadest set of innovative payments solutions at highly competitive prices."

He noted that the two companies have more than 70 years' combined merchant experience. First Data will own the largest interest in BAMS at 48.5 percent; BofA will hold 46.5 percent; an investment firm will hold the remaining 5 percent.

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Financial Stability
Next Day Funding
C1
C3
C5

to these markets requires a strong understanding of how these technologies have been adopted and what all the integration points look like."

Drilling down, verifying authenticity

Melody Wigdahl, Global Merchant Sales Director at UseMyBank Services Inc., said that before a payment organization can even consider doing cross-border transactions, it has to be compliant with the various anti-money laundering (AML) laws that govern the tracking of money across borders, as well as other local laws and regulations. It is also imperative that a company know its customers as well as its customers' customers.

"[International payment processing and settlement] is a whole different set of hoops, and all of the countries affected by terrorism and cybercrime require that if you're moving money, you need to know exactly where it's being sent from and who it's going to," Wigdahl said. "The average processor in the U.S. doesn't have that network of international contacts and trusted relationships and subsequently has difficulty drilling down to get the proper documentation.

"It's a very detailed process when you get into the whole world of AML and OFAC [Office of Foreign Assets Control] laws, but all merchant account information has to be run through an international database and scrubbed to make sure they're not on any blacklist – and I don't mean Visa or MasterCard, but organizations like Interpol and the FBI. Complying with these laws and regulations and verifying a company's legitimacy is standard operating procedure," she added.

OFAC, part of the United States Department of the Treasury, publishes a list of geographic regions and governments under economic sanctions or trade embargoes. Many of the sanctions are based on mandates from the United Nations and other international bodies.

In addition to targeted countries, OFAC publishes a list of Specially Designated Nationals and Blocked Persons (SDN), which includes over 6,000 companies and individuals with whom U.S. citizens are prohibited from doing business.

Since OFAC's programs are constantly changing, payment institutions seeking to enter the international market must regularly check OFAC's Web site to ensure their SDN list is current and that they have complete information regarding the countries and parties with whom they plan to conduct business. Most important, all U.S.-based individuals and entities doing international business, as well as all foreign subsidies owned or controlled by U.S. companies, regardless of location, must comply.

Security standards, compliance oddities

Shipley estimated that in some countries it can take up to a year to develop thin-client applications, which contain the bulk of a computer's programs in a central server. She added that companies can count on another three to six months for processor certification, and that costs to bring a new product online can exceed $1 million; consequently, only companies with strong finances and global brand recognition are rolling the dice to expand.

"Even for international players, that is a ridiculous time to get to market," Shipley said. "Some big hotel chain wants your business, and you're going to tell them that they'll have their hardware in 12 months? You've just lost an opportunity that may not come around again." She added that Ingenico has recently launched a proprietary, thin-client architecture that enables the company to bring all payment applications to a merchant's countertop in fewer than 30 days.

It is also important, when entering the international arena, to consider "how you can incorporate value-added services, how can you take the expense factor out of managing thousands of terminals in the field and how to continually find ways to create recurring revenues," Shipley noted.

The idea is to take the merchant out of the data loop, she said. "By removing their responsibility to store it, they don't have to satisfy those PCI [Payment Card Industry] and PA DSS [Payment Application Data Security Standard] requirements," she said. "Let it come to us – but then again, that's exactly where the business model is going."

To standardize implementation of existing security standards, reduce fraud and enhance risk management services, Ingenico and payment solutions manufacturers VeriFone and Hypercom Corp. founded the Secure POS Vendor Alliance in 2009. The SPVA's mission is to reach out to competitors and establish an influential voice in the regulation of payment transaction security mandates.

"One of the objectives of the SPVA is to make it easier for our customers to navigate through the security regulations and take some of the confusion out of a market with a plethora of standards, particularly for some of our multinational merchants," said Stuart Taylor, Vice President, Global Solutions and Marketing, Hypercom.

"Collectively, as manufacturers, we can push a little harder to try and harmonize some of these standards, but a continuous effort is required by all."

Additional pressure, spurred growth

In addition to greater standardization of security compliance regulations, increased competition, adoption of payment technology in less mature markets and greater penetration rates into new markets have also contributed to an international growth spurt in payments.

"The initial 17 percent of the top 100 Internet companies globalized their businesses by 2006 and saw great success through this effort," said Carrie Bardeen, Senior Vice President, Sales and Marketing, North America for payment and security solutions provider Payvision. "This not only increased competition for online businesses, but consumers also realized there were options for them to purchase in the currency of their choosing."

Bardeen said consumers' needs have been outstripping the industry's ability to meet them. "Consumers continue to put pressure on merchants who don't offer this option to their international customers," she said. "That forces merchants to put pressure on their acquirers to implement better payment systems. Additionally, we're seeing staggering growth with U.S. and European merchants wanting to get as many foreign currencies settled as possible."

Bardeen believes that for payment professionals, international payments is currently the most lucrative of all payment sectors. She said there are plenty of reseller channels in the global arena for ISOs and MLSs, as well as payment opportunities for acquirers and processors, but that they must be willing to become educated on the different marketing, treasury and technology requirements. "But after that, the game is very similar," she said.

Rahul Gupta, President of Card Services for payment solutions provider and processor Fiserv Inc., sees factors that point to the type of growth in emerging markets worldwide that the U.S. experienced two decades ago. "Adoption cycles and penetration rates for payments are fairly low still in parts of Asia, Europe, and certainly in Latin America and Africa," Gupta said. "But they are rapidly increasing; economies are improving and people are traveling more."

Gupta noted that consumers want electronic payments, both at home and especially overseas, where they don't want to carry cash. "And corporations are asking how to get more efficient with their payment methods, how to get more involved with global trade and commerce," he added. "New generations are clearly going to mobile and the Internet for banking and payments, so the root cause will continue to be fundamental demand worldwide for these offerings."

Blue Bamboo, green streams

While there might seem to be a veritable laundry list of requirements to become an international payment solutions provider or processor, the potential in terms of reaching new geographic and vertical markets is enormous. Blue Bamboo saw such huge potential for mobile payments that it started manufacturing its own devices and proprietary platforms.

"Our management team decided not just to resell POS devices but to create our own brand," Anderson said.

"We saw a niche emerging in the mobile payment space, so we developed our own product lines about five years ago. We've seen our business grow significantly, especially since entering the U.S. market, because now we can offer our products and services through ISO reseller channels."

According to Guillermo Lizasoain, Blue Bamboo's Global Product Management Director, about 50 percent of the company's customer base is in China and Asia, 30 percent is in the United States and the other 20 percent is spread out between Canada, South America and Russia.

"I think success in the international market boils down to consumer and merchant ease of use," he said. "Standardized and reliable payment solutions offer both parties many benefits of speed and security that cash can't provide.

"And much of the company's interest in deploying mobile POS devices and solutions to places like Argentina, Brazil, Curacao and Aruba are due to stronger and faster signals than in the U.S.," Lizasoain added.

The irony, according to mobile payment veterans, is that the United States is behind in mobile POS technology because of the country's extensive, land-based telecommunications network developed and built throughout the twentieth century.

Anderson noted that other countries were forced to develop better mobile networks because of the great difficulty – and expense – of getting landlines in place. Consequently, the logical solution for these regions was to go mobile.

"Mobile network infrastructures are in many ways superior abroad, which enables very reliable mobile payments even in the remotest areas," Anderson said.

"Other mobile innovations and secure solutions are evolving as well to allow ubiquitous adoptions." Anderson believes mobile technology is powering a substantial wave in the industry. "Look at the iPhone for example," he said. "The number of payment application downloads is amazing – and they have become more open in their interface protocols. Those types of patterns are happening all over. Current trends are converging into a very large and developing mobile payment movement around the planet – and this time it has legs."

Right partnerships, right people

Another component to successful global expansion is the use of partnerships in the integration of products and services. As more countries relax tariffs and

"I do expect the bankcard regulations around foreign investments will continue to favor those who believe that continued market investment is a good thing."

– Phil Kumnick
Senior Vice President, Global Payment Strategy Group
TSYS Acquiring Solutions

other market restrictions, the business climate is becoming more conducive to the needs of international payment service providers looking to help local banks and acquirers grow their businesses.

"I do expect the bankcard regulations around foreign investments will continue to favor those who believe that continued market investment is a good thing," said Phil Kumnick, Senior Vice President of Global Payment Strategy Group at processor TSYS Acquiring Solutions. "We chose to partner with China UnionPay to enter that market as a third-party processor and adhere to the specific rules over what non-Chinese entities can do relative to transaction processing.

"But we also know that complete success also depends on being local – finding solid, local candidates who not only have experience in their country's local customs and laws, but who have a solid understanding of how the mature markets have evolved so they can avoid previous failures or borrow and improve on previous successful practices.

"We have those kinds of country managers in Brazil, India, China and Europe, so for us it's a win-win situation. It would simply be impossible to do that without someone in-country," Kumnick added.

John Hyde, President, International for Global Payments, said that even many high growth international markets have card penetration rates of 15 percent or less.

"We see abundant opportunities for organic growth as well as growth through strategic acquisitions and partnerships," Hyde said. "And over time, we should continue to see faster growth from worldwide markets as card activity continues to converge steadily to U.S. levels."

Hyde added that achieving scale in this industry is critical to maintaining profitability. "So even the bigger competitors have entered international markets by purchasing portfolios of merchant or bank contracts, along with technology platforms, back-office operating capabilities and sponsorship into the card associations," he said. "And if this is not an option for a smaller competitor, the next best solution may be to establish a relationship with an existing market participant in a referral deal."

Small world, big horizons

Alan Moss, Vice President, Strategy and Marketing for Hypercom Southern Europe, sees huge potential for reaching a variety of new markets today. "I've been involved with deployment of card technology to unattended payment devices like ticketing kiosks and parking environments, basically anywhere that people want more payment convenience," Moss said. "We're also seeing tremendous growth in the health care business for authentication and payments.

"Even in mature markets we're seeing new segments open up all the time with NFC [near field communication] and contactless solutions. Additionally, and most exciting, there is a real spread of card payments globally. When I looked at regions like Eastern Europe, I thought, forget it, we're never going to have business here for about three generations. And yet going back just this year to Russia, I was amazed at how much people were paying by cards."

TSYS has observed that the underbanked and unbanked market segments in places like Latin America and India are growing rapidly and that deploying self-service kiosks gives the company tremendous opportunities to penetrate into those markets and build consumer confidence. "That is a segment we're serving more every day," Kumnick said.

"These are maturing markets and you're talking well over a billion people, so having kiosks to pay a bill or buy airfare or a bus ticket is finding its way into many corners of the world. But it takes finding and developing the right partnerships in any area. The world is a nation of shopkeepers, and local payment entities and governments are beginning to realize that it's no longer a one-size-fits-all solution," he added.

For U.S. financial institutions, the roads to international payments are rife with potholes, speed bumps and blind turns. But it has been said that fortune favors the brave; for merchant acquirers and payment processors willing to pay the tolls and finish the trip, the journey's end could be payment paradise.

ISOMetrics

Metrics behind mobile payment optimism

These statistics indicate mobile payments are likely to play an increasingly central role in how consumers transact. How might this affect your business?

- Eighteen- to 24-year-olds average 265 cell phone calls and 790 text messages a month; 13- to 17-year-olds make 231 calls but 1,742 text messages. (Fiserv Inc.)

- Fifty-three percent of Caucasians in the United States send or receive text messages, compared to 68 percent of African Americans and 73 percent of Hispanics. (Fiserv)

- It took 28 years to reach 100 million accounts tied to mag stripe-enabled credit cards, 12 years to reach 100 million debit accounts, seven years to reach 100 million PayPal Inc. accounts and six years to sell 100 million Apple Inc. iPods. (First Data Corp.)

- It might take only five years to reach 100 million contactless cards and only two to three years to deploy 100 million near field communication (NFC)-enabled mobile handsets. (First Data)

- A financial institution that invests $162,700 in a mobile solution can expect to make $2,419,150 back in five years. (Fiserv)

- Per-transaction costs to financial institutions for providing certain types of services follow: bank branch visit, $4; live call center, $3.75; automated, interactive voice response, $1.25; ATM, 85 cents; online, 17 cents; mobile device, eight cents. (Fiserv)

- Mobile banking revenues in the United States are projected to reach $26.017 million in 2009, up from $13.731 million in 2008 and $4.128 million in 2007. (Aite Group LLC)

- While only 36 million U.S. consumers had access to mobile banking through their financial institutions in 2007, 186 million are predicted to have such access by 2012. (Javelin Strategy & Research)

- One-hundred-and-eight million U.S. consumers will likely employ mobile banking by 2012, up from 10 million in 2007. (Javelin)

- In 2006, only 0.5 percent of U.S. households with access to online banking also used mobile banking; by 2010, 30 percent will be using mobile banking. (Celent LLC)

- Apple's App Store is expected to surpass 1 billion mobile application downloads in less than a year. (Online Banking Report)

- Direct and indirect revenues from mobile applications are expected to exceed $25 billion by 2014 as app stores proliferate. (Juniper Research Ltd.)

- Between 2009 and 2014, annual sales of low-cost mobile handsets will rise by 22 percent to over 700 million. (Juniper)

- Latin America was predicted to have 388 million mobile accounts in service by the end of 2008, accounting for 9.6 percent of the overall mobile accounts in service worldwide. (Upaid Systems)

- Sixty-four percent of 200 retailers surveyed knew of NFC mobile applications – a high level of awareness that bodes well for increased mobile payments adoption and usage. (Aberdeen Group)

- By 2013, approximately 300 billion transactions totaling $860 billion will be made by mobile phone globally; by that same year, over 95 percent of mobile transactions will be for physical goods and services. (Informa Telecoms and Media)


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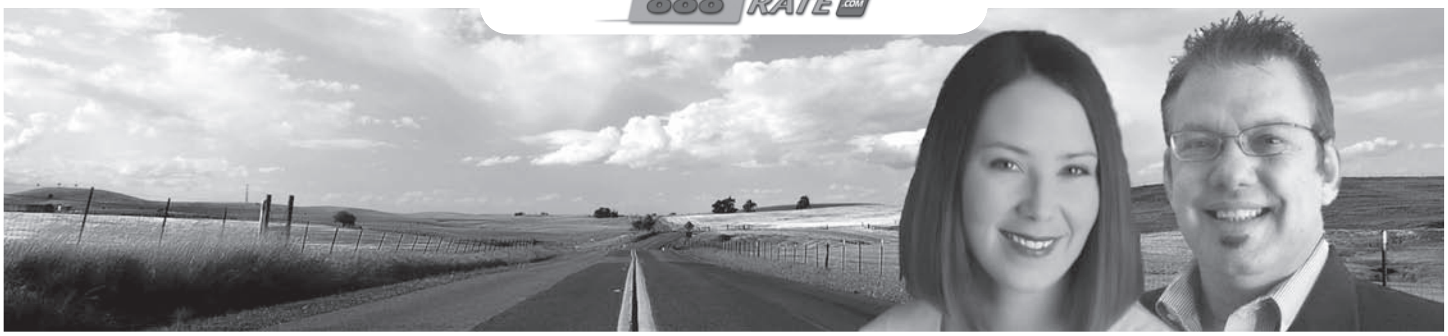

Independents Day

By Jon Perry and Vanessa Lang
888QuikRate.com

This July we celebrate our freedom and our country's independence. In the merchant services industry the culmination of the right to life, liberty and the pursuit of happiness can be found in our independents – ISOs and merchant level salespeople (MLSs). It is an immense challenge to be your own boss and to know that success is tied to selling.

Many great merchant service companies have been built on the entrepreneurship of the independent contractor.

Entering our industry does not depend on having any particular kind of credentials. It does not matter if you are a high school graduate or have a Ph.D. in nuclear physics.

This lack of barriers opens the door for those who can sell to create their own piece of the pie and earn as much revenue as their tenacity and skill sets allow.

It was 2003 when Jon graduated with a degree in Industrial Engineering from Arizona State University. For many years Jon worked at large companies, including Honeywell Aerospace, Lockheed Martin, and under a variety of U.S. Department of Defense contracts. He was an analyst.

Jon's job was to look for ways to improve efficiency and increase throughput. Like so many people in the United States right now he became subject to the controls of a chief executive officer with little concern for the law and big concern for his pocketbook.

Ultimately, the company was run into bankruptcy and the CEO was indicted for defrauding the government. One hundred people had to find another career path.

Education index

A worthy dream

Everyone has a dream, and ours was to control our own destiny. We had a vision of creating wealth and setting our own schedule. We explored many possibilities, including insurance, knowing we wanted to create residual income. After stumbling upon a merchant services company looking for independent contractors, we began our journey.

It has had many twists and turns but has provided more than we dreamt possible. Who would have thought that after working so hard to earn degrees they would be a nonfactor in our entry into a lifetime career in merchant services? So much for updating the resume.

Many independent contractors begin by hitting the streets or dialing for dollars. Others market to community banks and join chambers of commerce. Some sell POS systems or other value-added products and services. The path you select depends on your unique skills and desires.

People with strong technology backgrounds can leverage the Internet; those with experience managing restaurants have a unique understanding of POS systems. We met a gentleman at a Western States Acquirers Association meeting who had managed copy stores for most of his career.

He entered into the merchant services industry and used his experience with the merchant side. He focuses on those retailers and leverages his contacts.

The challenge of realization

Because of the ease of entry to merchant services, there is much turnover; the dream does not always become a reality. It takes a great independent mind to succeed purely on commission, and it takes time to build sufficient residuals. Entering into the merchant services world is not as immediately lucrative as it once was.

We entered during the leasing death rattle. Leasing provides a significant source of revenue that has helped many organizations get over the hump until residual income becomes sustainable. The pendulum has swung to the opposite side, and free terminals have become a common offering.

Ours is not an easy business to thrive in. Concern has been voiced on GS Online's MLS Forum regarding the viability of the independent contractor.

On the forum, amsusa stated, "To date, the 'brands,' primarily Visa and MasterCard, have failed to formally recognize the independent agent.

"There is speculation that our industry is in a state of transformation. It is our belief that we, as agents, have our very livelihoods at stake."

Visa Inc. recently published a list of all registered ISOs (*www.visa.com/isolisting*). This has led to discussions about registration of MLSs – also called independent sales agents (ISAs) – and how to secure their role in the bankcard industry.

Also, Visa Inc. and MasterCard Worldwide recently bid on the purchase of a majority interest in Fifth Third Bancorp's payment processing unit. With the lack of recognition by the card companies and their budding interest in the acquiring side of the coin, what will become of the MLSs – the very feet on the street?

If you are an independent agent, a variety of steps are necessary to preserve your role as an MLS not registered with the card companies. The first steps are to protect yourself and structure your business accordingly. Dee Malik stated on the forum, "I just tell my fellow ISA/MLS brothers/sisters to read every contract, closely."

With the current lack of regulation governing the ISO and MLS relationship, the devil is in the details. Seeking an industry-specific attorney can be one of the best investments upfront to protecting your best interest. *The Green Sheet* and the MLS Forum are good places to find attorneys who are familiar with our unique industry.

There are bound to be roadblocks and stumbling points along the way. Establishing a strong relationship with a partner in this industry takes time and commitment – a two way street where both parties should benefit.

TheCreditCardMan stated on the forum, "Over the years I have … found better rates. To date I have never signed another agreement and continue to deal with them [my ISO] exclusively. What keeps me loyal to them is the people."

Strength in a niche

Differentiating yourself from that competition becomes vital. Our model is to care for and feed our local businesses. We identify merchants with a strong desire to see and touch their payment service provider. We target those thriving business who want transparency, high-tech solutions and a one-call solution for their processing needs.

As a result, we are viewed differently than much of the competition in our area. Our retention of clients is high because of our high-touch solution. Within the market you select there are opportunities to differentiate; identifying them is difficult but well worth the effort.

Bringing on new clients is exciting, but retaining them is a different story. Our merchants are bombarded daily with phone solicitations offering lower rates and much more.

We received a telemarketing call from "Merchant Services" who asked if we accepted credit cards. I said, "I am a merchant service provider, so yes." Merchant Services said, "Great! We can lower your rates!" I said, "I am a merchant service provider." Merchant Services said, "We will give you $500 if we can't save you money."

Sometimes the ones selling merchant services don't even know what they are selling, and merchants are wise to that fact. MLSs and third-party processors all have concerns about shrinking margins as the ISOs are squeezed from both sides.

The question of regulation

Merchants want to pay less, and independent contractors want more money and more bonuses.

In 1787, 13 representatives from the colonial states gathered to design guidelines for self-government. From this meeting was birthed the Constitution of the United States of America. The three branches of government – executive, legislative and judicial – were formed. These branches work as checks and balances to maintain a fair and democratic rule of law.

It took four years after its signing to amend the Constitution with the Bill of Rights, which defined and protected our individual rights.

In business we have checks and balances as well. The three major branches are customers, businesses and industry. Without customers businesses would not thrive. Without businesses there would be no industry. And Industry protects its "country" – its businesses and customers.

It took four years after its signing to amend the Constitution with the Bill of Rights, which defined and protected our individual rights. The Constitution told us what government can do, and the Bill of Rights defined what it cannot do.

What checks and balances are in place to ensure proper treatment of all customers and businesses, as well as maintain the prosperity of those in the industry? What are their inalienable rights? These are not easy questions but ones that are becoming necessary to define.

Self-regulation is not an easy or expeditious process. It took rebels, leaders, traitors, and parties from all states and many more to lead our country down a righteous path. So it will be as the merchant services industry moves toward increased self-regulation.

As we write this article, legislators are at work defining these regulations for us. While much of it may be a wait-and-see game, let us ponder what we, as businesses and as a part of the industry's checks and balances, can do to put our best foot forward to support our industry.

At least for now, we all have the right to life, liberty and the pursuit of happiness.

Jon Perry and Vanessa Lang are the owners of 888QuikRate.com, an ISO based in Ft. Worth, Texas, that was named Small Business of the Year by the local newspaper, The Star Telegram. *For more information, tweet them at* http://twitter.com/dfwcard, *comment on their blog at* http://merchantservices.cc *or visit their profile at* http://linkedin.com/in/jonperry *or* http://linkedin.com/in/vanessalang. *Alternatively, you can contact Jon and Vanessa by phone at 817-857-3557 or by e-mail at* jon.perry@888quikrate.com *or* vanessa.lang@888quikrate.com.

PCI: The merchant experience

By Tim Cranny
Panoptic Security Inc.

The Payment Card Industry (PCI) Data Security Standard (DSS) and related security initiatives demand significant effort and time from ISOs, processors and acquirers, but too many of them are forgetting who is experiencing the real PCI pains: the merchants who form the base of the entire industry pyramid.

Companies that have not fully realized the importance of this are paying the price with inefficient and ineffective PCI programs – and with customer anger and dissatisfaction. Given the current economic environment, this is a dangerous gamble.

It is easy to see why so many ISOs are still struggling with data security issues: PCI is still relatively new and, until recently, was primarily targeted at larger, more sophisticated merchants.

These merchants could look after themselves (either with their in-house security staff or by using consultants), but with attention moving to the millions of smaller (level 4) merchants, benign neglect is no longer a working strategy.

Such smaller merchants simply do not have security or information technology staff, and they cannot afford consultants. They are vulnerable to PCI's challenges in a way that larger companies are not, and it is not surprising they have new and different problems.

A new landscape

Consequently, the industry needs new and different solutions, not just the same services and solutions that worked a few years ago for a very different audience.

There is a need among all merchants for the standard security solutions like data encryption, firewalls, antivirus capability, network scans, and so on, but these "point solutions" are absolutely not enough by themselves, and focusing too much attention on them early in the process will make things worse.

The reason for this is that the real problem – the first problem – merchants face with PCI compliance is the "expertise gap." Most merchants simply don't know much about security, or even technology, so they don't know if they have a particular security problem.

They don't know which solutions apply to which problems, so they can't determine what a given solution might do for them, whether they need it, where to get it if they do and how to use it once they've procured it.

It is easy to see why so many ISOs are still struggling with data security issues: PCI is still relatively new and, until recently, was primarily targeted at larger, more sophisticated merchants.

For merchants in this situation, talking to them about yet another great new security solution is adding to their confusion and pain, not diminishing it. The right approach is to focus first on the challenges and pains of the merchants rather than on available products.

The SAQ challenge

The first concrete challenge for merchants is to identify which of the Self-Assessment Questionnaires (SAQs) they need to complete.

The idea behind the multiple versions of the SAQ is that merchants with a simple card-processing environment and few dangers only need to complete a simple SAQ, while merchants with a complicated or dangerous setup need a more demanding SAQ.

There are good reasons for this differentiation, and it was an improvement when the PCI Security Standards Council moved from a one-size-fits-nobody SAQ to the current scheme with four different SAQ versions. But the move added another procedural step to the whole process.

After assisting many thousands of merchants through this process, it is clear to me that a surprisingly large number of merchants have problems even with this preliminary step and need active assistance at this juncture.

A matter of meaning

Once they have the right SAQ in front of them, the next challenge for merchants is to understand what each security question in the SAQ is talking about.

This is often a big problem because many merchants simply do not have the technical understanding to answer a question like, "[Do established firewall and router configuration standards include] requirements for a firewall at each Internet connection and between any demilitarized zone (DMZ) and the internal network zone?"

Anyone who knows about network security understands this is a perfectly valid question merchants need to address, but that doesn't change the fact that many – or most – merchants simply will not understand what the words mean. This is not some impassable obstacle – they can figure out the meaning of each question in 10 or 15 minutes, but it does have two consequences:

1. Many merchants are going to ring up their ISOs to get "expert help," so ISOs who have failed to tackle this problem in advance will find they are paying for it tenfold in terms of portfolio support costs.

2. The whole process is suddenly as painful and time-consuming for merchants as dealing with the Internal Revenue Service each year. This will lead to massive portfolio dissatisfaction if they feel that they have been abandoned by their service providers.

For these reasons, it is critical that ISOs and other responsible parties in the processing chain put together preemptive programs to help their merchants. Doing so saves them and their merchants time and money while also protecting their portfolios.

The remediation plan

After merchants work through the "security questions" part of their particular SAQs, they need to put together a remediation plan to deal with their failures (and the real-world evidence makes it clear the majority of merchants will have multiple failures).

Having a remediation plan with timelines is a required part of the new SAQ program and is a sound idea for security and compliance. However, putting together a proper remediation plan demands even more security knowledge than answering the initial questions does. It has been my experience that all merchants need help in completing this step in the process.

A time to act

The next step is to move beyond the paperwork and take some real-world security measures. For many merchants the first step at this stage is to get an external network scan from an Approved Scanning Vendor (which is required as part of submitting the SAQ).

Even though this seems simple to technically minded people, to many merchants it is a surprisingly complicated and time-consuming task.

Modern networking solutions have matured to the point where most people are protected from directly dealing with things like the Internet Protocol Suite (TCP/IP). When you start talking to merchants about public versus private IP addresses (not to mention some of the finer points of networking architecture), you are guaranteed to generate many questions and requests for assistance.

The fitting solutions

After all of this, merchants still need to identify which specific products will fix which of their remaining problems and figure out how, where and when to implement them. As with all the issues I mentioned previously, they will need assistance.

The single guiding principle in all of this is that PCI compliance creates many real challenges for smaller merchants, and ISOs and acquirers do not have a choice about whether to deal with this: The real choice is between handling it properly and efficiently or dealing with it ad hoc, which is painful and expensive in the long run.

ISOs need to put together a comprehensive program with in-house security experts and support capable of dealing with vast numbers of small merchants, or they should partner with a security specialist who can do that for them.

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Target portfolios for increased profits, merchant retention

By Christian Murray
Global eTelecom Inc.

How many times have you reached out to your merchant base and introduced new products? Are you concerned about how many merchants stay on your books these days? Have you adopted solutions that can help merchants increase sales and repeat visits?

There has never been a better time to reach out to existing merchant portfolios and cross-sell value-added and third-party solutions. Given the current economic conditions and struggling retail markets, it's a prime time to begin planning a campaign.

If your portfolio is primarily bankcard-based, you have an even bigger opportunity to begin developing a marketing strategy that introduces additional products and services aimed at helping merchants drive more business.

For some offices, reaching out to customers after the sale is a questionable strategy and may result in uncovering problems or receiving lower pricing requests.

Yet, uncovering such issues as you go along and making certain concessions is much better than losing the merchant to a competitor altogether.

Thorough preparation

Caution: Before jumping into targeting your base, it's crucial to have the right solutions in place along with a detailed game plan. Make sure you coordinate with third-party vendors and value-added providers to ensure resources are available to support the initiative.

Depending on the size of the portfolio, there are several ways to begin planning a campaign. If your base is large, a strategy may require more planning, while smaller folios can be easily managed and targeted with fewer resources.

Suggestions for larger folios include:

- Set up a meeting or conference call with your merchant level salespeople (MLSs), and get them on board with this initiative, making sure they are able to profit or share in the up-selling opportunity.
- Send direct mail introducing new products and services. Active MLSs can personalize these with their contact information.
- Send informational newsletters to help merchants reduce fraud and improve efficiency. Be sure to have an opt-out feature or use third-party solutions that can manage this process.
- Make quarterly calls to gather customer feedback and introduce new products. Be careful not to spam or send too many offers.
- Schedule an online webinar that covers support, training, compliance and other product offerings.
- Coordinate regional meetings with local merchants who may want to attend a small technology and new product show. Coordinate it with vendors and third-party providers, have booths and do short presentations on products.

Suggestions for smaller folios include:

- Reach out to each merchant individually if you can.
- Send a signed letter thanking each for their valued business and introducing other solutions that you think would benefit them.
- Attempt to visit merchants by appointment, if possible. Phone calls can help pique interest, and appointments can be scheduled accordingly.
- Send postcards or special offers via mail or e-mail if you have that capability. Make sure to use an opt-out system even if your e-mail list is short.
- Uncover and locate local service providers merchants might need. Send referrals to merchants and offer to set up appointments to review your services.
- Ask for referrals, which is another great way to get back in the door. When you get referrals, you can follow up with a thank you and mention other services at that time.

Thoughtful communication

Ongoing, proactive communication with merchants is proven to generate positive and profitable results. Each portfolio of merchants comes with its own challenges. Finding what works takes time, and if marketing initiatives don't produce results immediately, then it's back to the drawing table.

For MLSs who write through ISOs, it's critical these initiatives be discussed in advance, and that everyone is clear about their options and follow-up plans. Jumping into this can create issues that hinder productivity.

Some of the products below can be sold directly; others might just be simple referrals to third-party providers. Many will pay a commission to the referring ISO or MLS.

Make your own list, and match its contents to different types of merchants.

Value-added and third-party solutions include:

- ACH, check conversion and guarantee services
- Gift cards, loyalty or rewards cards, VIP cards and preferred guest cards
- Coupon services and local advertizing
- Local radio and TV advertizing and newspaper ad services
- Payroll services or benefit programs for employees
- Cash advance or merchant funding services
- Leasing or credit card terminal upgrade offers
- POS software solutions and hardware
- Printing services, signs and banners that can increase traffic and sales
- Discount cards that can be handed out to local customers
- Web site and e-commerce shopping cart services
- Restaurant paging systems and time management and payroll services

Do not present too many options and push merchants into choosing one. By researching and understanding a merchant's business and potential pain points, you can make use of the best options.

Unfortunately, not all merchants will respond to offers or cross-selling attempts. Don't get discouraged; understand that some prospects will open up, and others will slam the door. Focusing on products that will generate money or increase business efficiency for merchants is best. Services must also generate revenues for you.

Most third-party options that are not internally supported are simply referrals and should not require much time. Keeping these readily available will reinforce your commitment to helping merchants.

Cross-selling additional services to your merchant base should *not* become a hindrance or compete with core offerings and payment-related services. The initiative should be casual and used to identify helpful options that can benefit merchants' businesses. Doing this will reinforce your commitment to your customers and bring you closer relationships with them.

Expanded focus

No longer are price and rate the only factors merchants look for when selecting a provider. Merchants truly want and need providers that offer a complete package aimed at their needs. The increased cost of accepting payments today coupled with interchange increases have made many merchants unsure about how to prudently implement technologies that help their businesses thrive.

What we offer merchants, and how we offer it, plays an important roll in the overall longevity, profitability and success of any sales office. Stripping down product offerings and limiting the solutions that MLSs sell does not help anyone. More tools and solutions are needed to stay on top of the competition and maintain profitability.

The days of selling just bankcard solutions are fading away. Our merchants want more and are willing to pay more. Merchants will leave a processor with a lower rate for the right mix of solutions and quality service.

The core objective should always be to help merchants be successful – with their success, we thrive as well. Make a commitment, and follow through by going back to your merchants before it's too late. You will be rewarded and feel good that you contributed to the growth and longevity of your merchant portfolio.

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Smart specialization

By Jeff Fortney
Clearent LLC

Should I specialize in a particular service or product, or maybe concentrate exclusively on one type of merchant? This is a common question heard from new merchant level salespeople (MLSs), as well as from those who have concerns about their current sales processes.

Even the most experienced MLSs (also known as independent sales agents) will sometimes ask this question in some form. It is not an easy question to answer, but it is a critical one to consider. The simplest answer – of debated validity – is that all successful MLSs ultimately become some form of specialist. The key to this argument is the definition of a specialist.

In the medical profession, a generalist is someone who doesn't concentrate on one specific field or illness. When a specific illness or injury requires treatment beyond the generalist's capabilities, or if the condition necessitates further diagnosis, the generalist will send the patient to a specialist in the appropriate field.

Capitalize on your expertise

In our world, referring a merchant to someone else can mean lost revenue and lost opportunity. As a result, instead of referring merchants to specialists for deals requiring uncommon expertise, MLSs will try to gain enough information to make the deals work. The result is knowledge that MLSs can use to benefit other merchants of the same type.

Finding themselves with a newfound specialty, good MLSs recognize its value and target similar merchants. The merchants gain an expert who speaks their language, not just standard payments industry jargon.

In turn, the specialized channel generates higher returns to the MLS because he or she knows the price points, provides a value-added service to the industry and uses a sales process that is easily repeatable.

Choose targets wisely

The trouble in developing a specialty is that it depends too much on chance. There are too many occasions in which narrowly focused information just doesn't translate well into an industry specialization, and the result is lost sales time.

On the other hand, the most important benefit of specializing is gaining a new referral base: Your merchants will refer their peers because you're the expert in their eyes.

It is possible for you to jump-start the evolution process, identify your likely specialty and prepare for rapid growth. But it is first necessary to identify what a specialist is not.

A specialist is not an MLS who only concentrates on merchants of a certain size. Nor is it an MLS who only sells to one specific merchant type. Don't restrict your specialty too much, and don't target merchants who require longer sales cycles or yield consistently lower returns.

Master merchant types

Before looking narrowly at potential specialties, you must first have a global understanding of merchant types. The simplest way to develop this is to closely examine your partners' credit policy and where merchant types are classified.

Your goal is to develop a clear understanding of the requirements for approval for each merchant type. If you can expedite an approval simply by obtaining the needed paperwork, you will be light-years ahead of MLSs who must delay the process to request further information from the merchants they are attempting to board.

Remember, you must be comfortable both with the list of items required of each merchant and the reasons for those requirements. If you can explain why an item is needed, merchants are less likely to resist providing it.

You must next identify potential merchant specialties. Risk classification should not factor into choosing a field – it only helps identify the knowledge you need for a merchant type.

Identify your assets

If you're a new MLS, several merchant types stand out as opportunities. The key to choosing a specialty is not identifying undersold markets, but rather identifying those that would benefit from the services of a specialist.

Consider your personal history as well. Do you have knowledge of a certain merchant type or specific people or groups? Is your vocation or your avocation something that can help open doors in targeting merchants?

Eliminate the most common merchant types (like restaurants) or those that have consistently small or no margins. These merchants either do not need specialists or aren't worth the time it takes to gain the requisite knowledge to specialize in their arena.

If you are an experienced MLS, examine your current portfolio. Does it contain any consistent merchant types? If so, you may already be on the road to specialization.

Pinpoint the standouts

Here are several merchant types that immediately stand out as needing specialists.

- **Physicians:** A recent survey by a medical organization discovered that one-third of all physicians still do not accept credit cards.

- **Business-to-business (B2B) firms:** Several trade publications encourage businesses to demand payment terms or extended payback periods. This slows down the demand on the buying merchants' cash flow, but for selling merchants, it can have a serious impact.

  However, many B2B merchants still do not accept payment cards for a variety of reasons. Take the time to learn your customers' businesses, and help them understand the cost savings that can be had by accepting credit cards instead of offering extended payment terms.

- **Repair services:** These days, people are keeping their products longer. Instead of buying a new television, they are likely to get their current one repaired. Yet, not many MLSs target repair shops, and repair shops have a poor understanding of the costs of accepting credit cards. Learn the ins and outs of businesses in the repair sector, and show them how to properly accept payment cards.

Don't stop here. Numerous other types of merchants would do well to have a specialist. Think outside the box, and you will find several that fit your background, too.

Find the networkers

There has to be one constant in any industry you choose for specialization: The merchants within it must talk to their peers. The previously mentioned business types are examples of those in which owners and managers, once convinced of your value, can become excellent referral sources.

Specializing does not preclude you from signing other types of merchants, but it can – and will – result in more business. In today's market, isn't that the goal?

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AgenTalk℠

One business ends, another begins

Bruce Reisman, merchant level salesperson (MLS) for Focus Financial Solutions LLC, has found a comfortable niche in the payments industry, having finally followed his mother's advice to "see what was on the other side" after a long stint in his family's art supplies business.

Bringing the commitment and energy cultivated at his parents' business to his new job, he is available to his clients – who have his cell phone number – all day, any day of the week.

In this interview with *The Green Sheet*, Reisman discusses the importance of patience in building residuals, as well as the virtues of communication, honesty and transparency, especially in an industry replete with rules and regulations that can be difficult to grasp.

The Green Sheet: As a child, what did you want to be when you grew up?

Bruce Reisman: A successful businessman like my father. I always have admired his work ethic and the many things he has accomplished in life. He is my hero.

GS: How long have you been in this business, and why did you choose this profession?

BR: Nine years this June. I was in a family business for 20 years, and due to the changing economy, we closed down our business of 30 years.

We were in the wholesale, retail and manufacturing of arts and crafts supplies to the mom-and-pop industries. It was a family-owned business. I worked very closely with my father and mother. Unfortunately, the big chains destroyed our mom-and-pop customer base, and the rest was history.

However, with my experience (in manufacturing, retail and wholesale), I wanted to stay in sales. I enjoy working with people in all walks of life, and this seemed like the perfect fit.

GS: When did you know you'd be able to succeed in this business?

BR: When I saw that my potential clients gained my trust.

It became easier to board them, and as long as you kept them informed and provided them the customer service and honest relationship they deserve, they would become residual customers for life in most cases.

GS: What do you like best about your career, and what's been most challenging?

BR: I love working with so many types of businesses. It makes it so interesting. You know in my former business it was one type of customer.

This business allows me to tailor to the needs of each customer in an individual manner. The most challenging is you know you have the best solution, but then a potential client decides to go with their bank because they think that since the bank handles all their finances, they will take care of them in this arena too. Totally untrue.

GS: What has kept you in the industry?

BR: *The residuals*. Once you establish your base and your customer loyalty, it makes it a lot easier. However, you always have to look for new customers as in this day and time it's becoming harder for many merchants to survive.

GS: Are you working as an employee or contractor for someone else, or do you own your own company? And are you satisfied?

BR: I am an independent sales contractor with my own business. I represent two processing platforms and many other vendors (gateways, gift card, ACH processors). Yes, I am very satisfied as long as they pay me in a timely manner.

GS: Describe your typical work day, and tell us how many hours you put in now versus when you first started.

BR: Funny you should ask. In my family business for 20 years I was always at work by 7:30 or 7:45 a.m. Even though in this industry that is too early to be in touch with my vendors or clients, I still go in and prepare for the day ahead.

It used to be going on the road visiting clients before technology and the business environment changed. Now I can do a lot of the deals via e-mail, phone and fax.

Don't get me wrong – I still visit the new client, but so much work and time is saved via technology. I usually get home by 6:00 p.m.

GS: Do you set personal and business goals?

BR: Yes. It's important to set personal and business goals. My personal goal is to be able to provide for my family

and keep them happy. My business goal is to work for my customers' best interests. If you do that and keep up with their needs and wants, you will not only feel a sense of accomplishment, but you will be paid well for it. Keep the faith. Never look back. Always be forward thinking.

GS: What's the funniest sales experience you've ever had?

BR: I had this medium-size chain of 15 stores. It was early in my career. Underwriting was a lot looser. However, I couldn't seem to get the processor to approve this account. Needless to say, I was a little frustrated.

To make a long story short, the president of the processing company called me up on the phone to apologize for the confusion. I almost dropped dead.

GS: Do you have any chargeback horror stories?

BR: My biggest chargeback story just happened recently. I make it a point to explain chargeback consequences to all my new clients, even ones I am converting (existing businesses never really understand it).

One customer did the exact opposite of what I told her, and she, of course, blamed me and now is going after the processor. I feel bad for her; she has no case. She probably will never be able to accept credit cards again.

GS: How do you balance the demands of your work and personal life?

BR: I tell my customers they can call me from 8 a.m. until 8 p.m., Monday through Friday and weekends if they need me. However, once I get them situated, it's rare they have to call me. This gives me the time I need and value with my family.

By the way, that is why I try not to have too many restaurants on my books. They would be calling me at all hours, as my cell phone number is my contact number, and I tell my customers to call me any time. This gives them a comfort level.

GS: Have you ever lost or almost lost a residual stream? And what did you do about it?

BR: Yes. I hate it when I have very close customers and they go to their banks and get new loans. The banks tie them up with this deal that they have to give all their revenue streams to the bank, including processing the credit cards. They put a scare into the customer.

It's not right. They get the deposits anyway. The customer feels so uncomfortable. Banks are not doing their clients justice with this tactic. Nothing you can do about it.

GS: Do you have a surefire way to resolve conflict?

BR: Be calm.

GS: How often do you check on existing merchants?

BR: Quarterly or sooner. I always stay in contact.

GS: What are you doing to ensure that your clients are compliant with the Payment Card Industry (PCI) Data Security Standard?

BR: Be honest with them about the new PCI rules. I hear from customers all the time about people calling them telling them they aren't compliant.

The callers don't know who that customer is, and it puts the fear factor in them. I am aware of PCI compliance, so my customers feel comfortable knowing and trusting me.

GS: Do you often lead with value-added services? How does this compare with leading with saying, "I can lower your rate"?

BR: It's not about the rate. It's about how I can help you understand what you are paying for processing credit

cards. I have trained or try to train my future and current clients that you can't compare apples to apples in our industry.

I am finding even with "true interchange plus" some of my competition add on unnecessary fees. I am very transparent with my clients. They know exactly what they are getting.

GS: How do you secure referrals? Are there any lead generation methods you would never recommend? Why?

BR: My customers are my best referrals and lead generators. I hate those new customer business lists. You end up being the 50th person calling them.

GS: How do you explain interchange rates to prospects? How does this differ from the way you introduce interchange to new reps you need to quickly bring up to speed?

BR: That's a tough one. You have to treat each potential client and rep differently. It's very complex. I only sell true interchange plus programs.

Most will grasp on to it, though. I usually go through the history of tiered pricing to get them to understand it.

GS: What do you do when it looks like you're on the verge of losing a sale?

BR: Oh well, so what. What's next?

GS: What is your approach to terminal placement? Do you lease them, place them for free or do some combination of the two?

BR: I basically sell them at cost. I want the residual stream. Leasing is dishonest. And free? There is no such thing.

GS: What are three things an agent should never do?

BR: Lie, cheat and steal from their own clients. I have seen it before my very eyes.

How MSPs [merchant service providers] raise fees like minimums and membership fees and termination fees without telling their clients is so dishonest, and it happens all the time. Not with me.

GS: What does it take to succeed in this business?

BR: Persistence.

GS: Do you think all ISOs should be registered?

BR: Yes. But they should not have to pay the Visa and MasterCard yearly registration fee.

GS: Do you use professional services such as those of accountants or attorneys in your business? If so, how have they been useful?

BR: Yes. They help make sure your MSP is honest with you.

GS: How has *The Green Sheet* helped you?

BR: It's so informative – always great to know what's going on. Also, it's always interesting to hear what other ISOs or MSPs do to generate sales.

GS: Any advice for newcomers?

BR: Don't believe these MSPs when they say you can get rich quick. It takes time to build. Make sure you start this job part time and build your residuals. You will starve if you don't.

Also, make sure from your first residual check you get paid not only for your credit card processing, but your other services you sell as well (gateway fees, et cetera). Keep them honest from day one or leave quickly.

GS: What's your greatest dream?

BR: That people will learn to be honest with others and themselves. Then this world would be a greater place.

10 years ago in *The Green Sheet*

The Financial Services Industry Source for Motivation, Inspiration and Actionable Advice

The Green Sheet

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Software Vs Hardware

Historically, the retail point of sale has been made up of a cash register, terminal, and printer.

But, as the cost of PCs decline and their processing power increases, a new trend has emerged: Windows-based-PC-based, POS software. We hear a lot about POS software but, if you're like many ISOs, you're thinking, "Why should I offer software? If I'm happy with terminal solutions, and my merchants are happy, why should I rock the boat?"

The reason is because your prospects want it. Merchants are driving change in the marketplace; they want payments integrated with, and to reside on, their primary data processing system. If your merchants haven't asked for a software solution yet, chances are they're going to ask you for it very soon, or they are already talking to someone else about it right now. According to Joe Gage, President and CEO of Go Software, merchants are approaching software vendors and saying, "This is how we will do business." Give us a solution or we will find someone else.

If you're skeptical, just take a stroll into any large, national retailer, such as JCPenney's or Wal-Mart. As is the case with many industries, change happens at the top of the market and you will not find a traditional terminal solution at the large national chains. There may be a device to capture the PIN number or swipe information, but there won't be a terminal dialing out. Integrating payments offers a large financial benefit and the large retailers are taking advantage of it.

Just what are the financial benefits?

Data entry, as we all know, costs time and money, and it leads to mistakes that cost even more time and money. Integrating the payment function eliminates redundant data entry into the primary data processing system. Additionally, the merchant is able to provide the customer a single receipt that contains the entire transaction (including the payment) and the merchant can track payments faster than with a hardware solution. These abilities can lead to better customer service and increased sales.

There is also the issue of reconciling. Merchants spend time at the end of each day reconciling their credit card terminal to the cash register; that's why the auto close/auto open came into existence. Merchants either don't want to or don't have the time to reconcile their payments. Using software can eliminate the reconciling, saving the merchant money, time, and employee hours.

Finally, a software solution requires just one phone line, and it does not have to be a dedicated phone line. And, there are the physical concerns: software does not require separate hardware, ribbons, cartridges, cable, or counter space.

That's great but...

You're probably thinking, "Yes, but they do need a PC and how am I going to justify that expense to my merchant?" Well, many merchants today already have a PC but, if they do not, that does not always mean they have to purchase one. They need only a piece of data processing equipment, such as a cash register, for the software to run on. If they do have a PC, one is enough. Much of the newer IBM and NCR equipment, such as the NCR 2127, are built on the PC/ Windows environment and the register can then "talk" to the PC located at some other area of the store.

OK, so it saves money, what else?

ISOs may have a hard time explaining the value of a software solution to merchants. Selling software does require some sales expertise because it has a higher functionality and it requires a sales professional who can demonstrate that functionality to the merchant. ISOs need to communicate to merchants that in addition to software saving the company money, it can also generate valuable data for merchants. Comprehensive reports are generated, and merchants can use the

Inside This Issue

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Bring on the software

The cost of PCs had declined, precipitating a new trend: An increasing number of merchants wanted to eschew standard POS systems – stand-alone cash registers, terminals and printers – in favor of payment systems that integrated with and resided on their business computer systems. Thus, merchant demand spurred development of payment processing software.

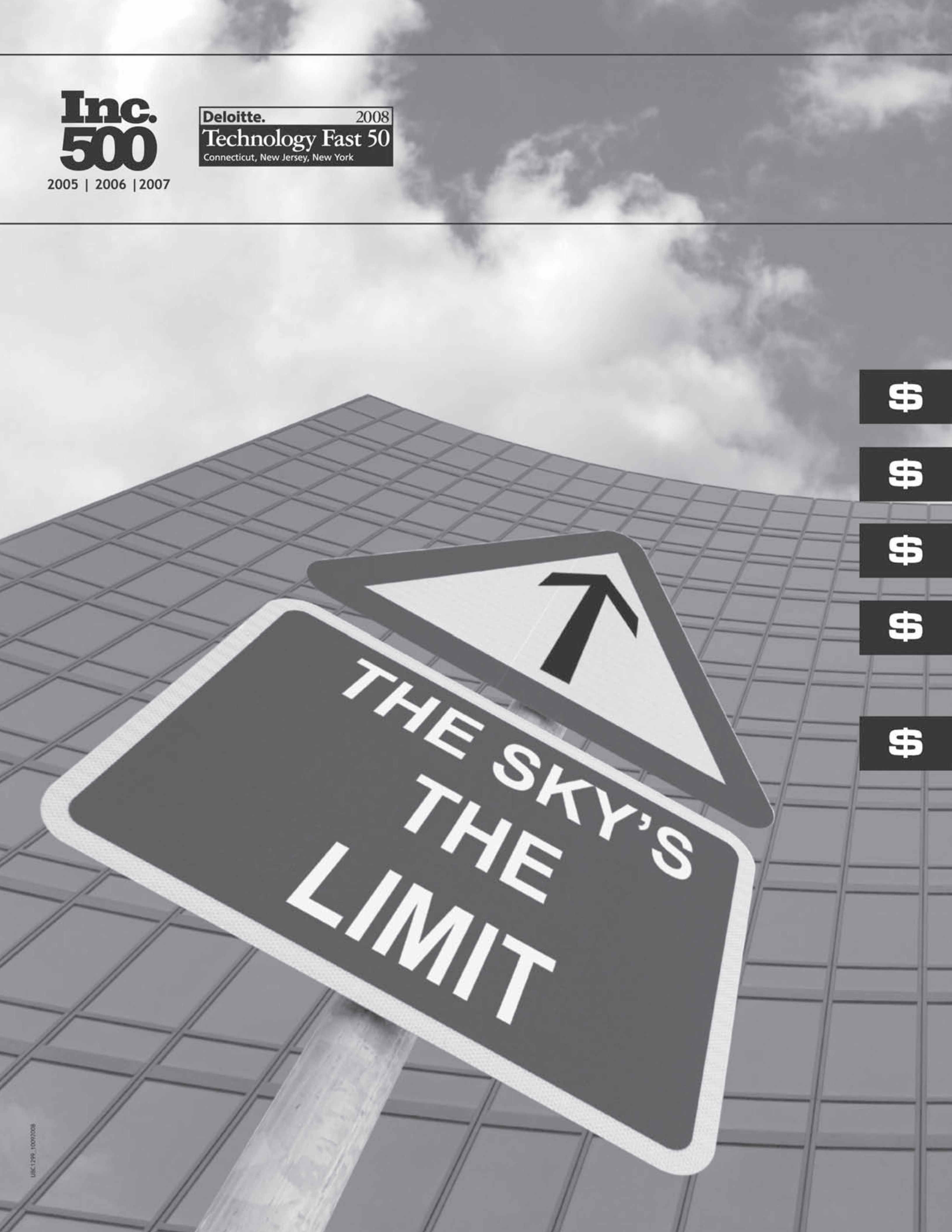
The case for smart cards

George Wallner, Chairman and Chief Technologist for Hypercom Corp., said a business case needed to be made for smart card adoption to foster public and commercial acceptance. He suggested the technology was not flawed but needed to be adapted to the major payments industry applications: credit, debit, stored value and loyalty.

Enduring advice

The Green Sheet Inc. founder Paul H. Green advised the feet on the street as follows: "When you meet with a potential customer, everything you say, use, refer to and leave behind must have a direct relationship to your prospect's need and your product. If it is not vital, don't use it and, more importantly, don't leave it behind with the customer."

Read archived issues back to 1995 at *www.greensheet.com* and click on publications



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NewProducts

Portable card swipe

Product: POS app for BlackBerry

Company: Merchant Warehouse

Using the MerchantWARE Mobile service on a BlackBerry phone, merchants can add a wireless, Bluetooth swipe device that obviates the need to punch in a customer's card information. The device requires that merchants operate through Merchant Warehouse's gateway, but there are no additional gateway or cellular fees for using it.

Other than the cost of the Bluetooth reader itself, everything else – including the payment application download – is free.

"It's all included in the price," said Henry Helgeson, President of Merchant Warehouse. "It doesn't require a third-party gateway like most of our competitors use. It allows almost any business owner to get that swiped rate on the go without having to shill out the big money for the wireless terminals. And it is very secure."

Top of the line security

The swipe device uses a MagTek Inc.'s MagneSafe reader with triple DES encryption that, according to Helgeson, "scrambles the card data … as soon as it hits the read head."

Furthermore, the information is immediately directed to the Merchant Warehouse gateway, keeping it out of the hands of the merchant – where sensitive data can be especially vulnerable.

"We basically decrypt it here at the office," Helgeson said. "Even if someone was able to intercept that between the Bluetooth reader and the BlackBerry, they couldn't do anything with that. It would be tough for the KGB to crack this."

Generally speaking, card information is more effectively encrypted when it's lifted directly from a card's magnetic stripe than when it's manually entered on a key pad. But Helgeson also mentioned a more overlooked benefit: convenience.

For merchants and consumers, swiping a card is a lot easier than pressing a long sequence of buttons – and that's particularly true with mobile commerce, where the buttons on a phone can be tiny, hard to read and difficult to punch.

"It's significantly faster," Helgeson said. "As we all know, these devices don't always have the biggest keyboards. … Reading the card numbers off the card itself can be a challenge. It's going to be a big time saver for merchants – especially merchants that are going to be in flea markets, sports stadiums, that type of thing."

Easy to carry

According to Helgeson, the reader is about a "third the size of an iPhone." That, coupled with the fact that it's wireless, makes it eminently portable.

"The merchants don't have to carry around the big, bulky wireless terminals now," he said. "This is something where you would just use your regular PDA [personal digital assistant], a device that's already in your pocket so they can take credit cards anywhere."

The device is only compatible with BlackBerry phones, and while Helgeson noted that most business owners "probably have the BlackBerry over the iPhone," he said the company was working toward making a similar product for the iPhone as well.

"The reason is that Apple is a little bit picky about what they actually allow to be synched with [the iPhone] – what Bluetooth devices they allow," he said. "There has to be hardware changes made by the manufacturer so that the device is … made for iPhone."

Merchant Warehouse

800-419-0947
www.merchantwarehouse.com

Merchant Warehouse POS app on a BlackBerry

New Optimum family member

Product: Optimum T4205

Company: Hypercom Corp.

To round out what it considers the most comprehensive suite of POS terminals available in the marketplace today, Hypercom Corp. now offers the Optimum T4205.

It is a dial-only device that Gregory Boardman, Senior Vice President of Business Development, Hypercom North America, said is ideal as an entry-level terminal for start-ups or merchants with low transaction volumes.

The T4205 is the final addition to the Optimum line, Boardman said. It compliments the dial model T4210, the Internet protocol (IP)-enabled T4220 Ethernet terminal and the countertop general packet radio service T4230 model.

Despite being designed for the low-end, dial-up space, the T4205 has a 32-bit central processing unit, 24 megabytes of memory and multi-application functionality. In addition, the terminal is protected by Hypercom's HyperSafe Secure technology.

Eases growing pains

When merchants outgrow the T4205 and their transaction volume demands they upgrade their POS terminals, Hypercom's other terminals in the T4200 are designed for a smooth transition.

"When they decide they want a different communication type, in which case they slide right into a T4220 for IP, a T4230 for wireless, and it's the same user interface, the same application functionality" as the T4205, Boardman noted.

The T4205 has the same look and feel as the other terminals in the Optimum suite. "If you're an ISO or a processor, you're thinking to yourself, what a great proposition," Boardman said. "I've got a 10, 20, 30, and now a T4205; I train my help desk the same way.

Training collateral remains the same. I now have something that can fit just about any merchant profile, vertical, segment."

Record certifications

The terminal certification process can be tedious and time consuming, with processors having to contend with the complexities of each device they certify to run on their networks. The additional security requirements imposed by the Payment Card Industry Data Security Standard and the Europay, MasterCard Worldwide and Visa Inc. standard make certification extra tricky.

But Boardman believes that by employing the same basic hardware and software on each terminal in the Optimum line, the certification process for one model closely follows the process to certify another model.

Security injected

Another feature of the T4205, as with the other Optimum models, involves Hypercom's remote key injection technology. Traditionally, encryption keys are physically injected by the terminal manufacturers into individual devices before they are deployed, Boardman said.

But if human error caused the wrong key to be injected into a device – or likewise no key was injected – the device would have to be physically returned to the manufacturer to get the problem corrected, causing costly delays and disruptions in the merchant's business cycle.

Remote key injection eliminates the need to return defective devices to the manufacturer. Boardman was quick to point out that remote key injection also makes terminals more secure, since it reduces the amount of human interaction with them.

Hypercom Corp.

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www.hypercom.com

Hypercom
Optimum T4205

Inspiration

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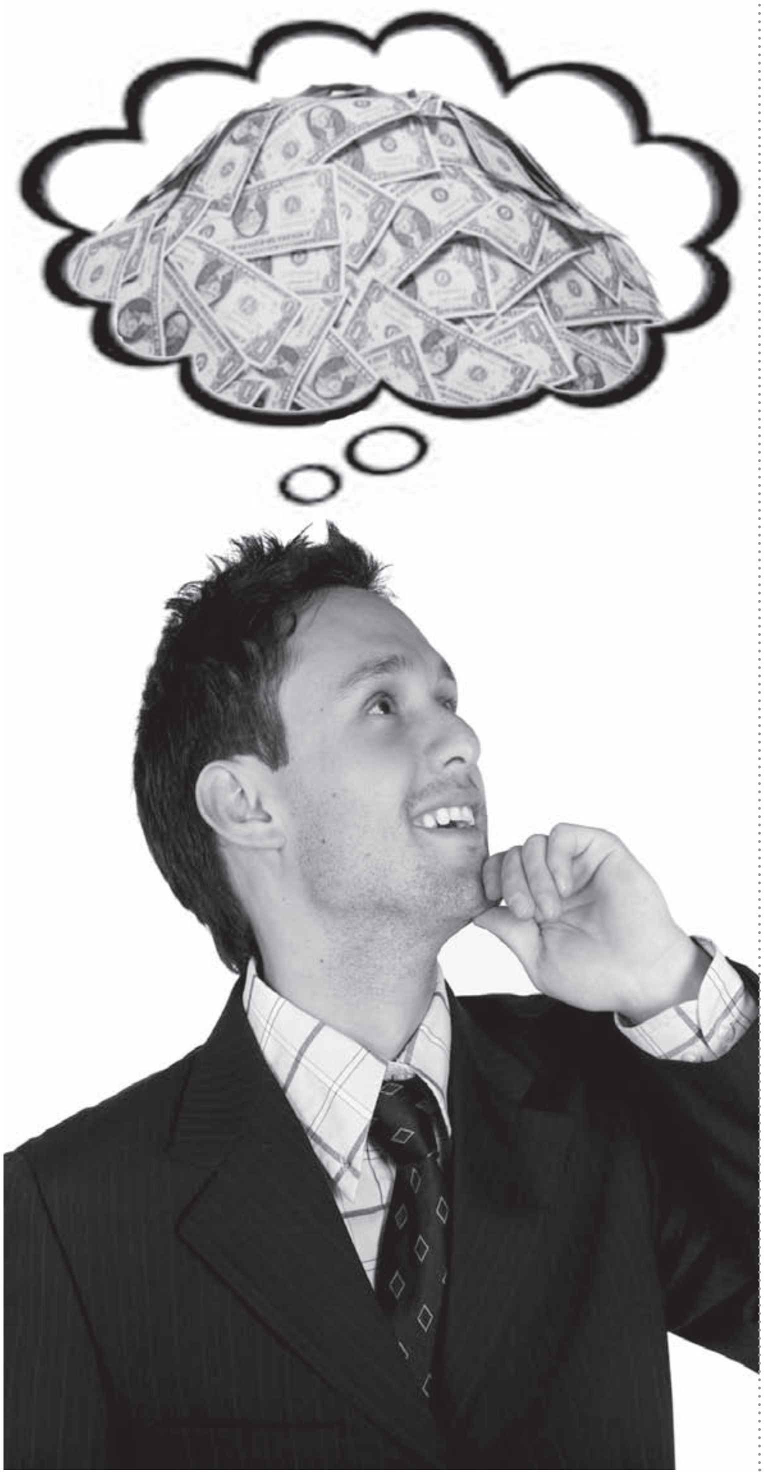
– Henry Wadsworth Longfellow



Revisit your resolutions

It's mid July; 2009 is more than half over. At the end of each year, most people reflect on the events of the preceding 12 months and decide to improve aspects of their lives that aren't working quite right. Unfortunately, after an initial burst of creative resolve, many folks tuck their resolutions and action plans away and don't give them serious thought until the holiday season rolls around again.

Part of this is because many people make outrageous promises to themselves in an effort to make up for lost time. And they try to change things they can't possibly hope to control. When they see themselves failing to meet their self-imposed expectations (usually about January 14), discouragement begins to take hold.

Time to take action

If you haven't checked your New Year's resolutions lately, why not pull them out this month and have a look? It's not too late to adjust your goals in light of new developments and knowledge. And in your revamp, be realistic and kind to yourself. Focus on things you can actually do to bring positive results to your business.

Here are some suggestions:

- Remember that, yes, merchants can be annoying and demanding, but they're your merchants. Resolve to treat them consistently with respect, and you will begin to see less churn in your business. Keep in mind they are the reason you are in business.

- Resolve to take charge of your destiny and protect your own interests. Don't sign a contract without thoroughly reading it and making sure you understand each section. Although advice from an attorney might seem expensive upfront, it could end up saving you thousands of dollars and significant stress.

  Don't assume that if you've read one contract, you've read them all. Study each section of every contract. This is your livelihood; protect it.

- Remember that a sale does not end with the signing of a contract. Check in with your merchants regularly to let them know you feel lucky to be working with them. If they do switch providers later on, and the customer service they receive from the new company is not on par with the service you gave them, they will come back to you.

- Make every customer service contact an opportunity to strengthen your relationships with merchants. Even though the majority of these calls are complaints, you can use them to your advantage. By taking time to listen to merchants, you may be able to strengthen their loyalty to you.

- When you understand a problem a merchant presents to you, take care of it. Follow up to make sure your customer is satisfied, and check in occasionally to be certain the problem has not recurred and to see whether new issues need your attention.

- Love the work you do. If you're not enjoying what you do for a living, you may be in the wrong field. No one should wake up every morning dreading the day ahead.

- Keep your sense of humor. It's easier – and better overall – to laugh about your mistakes than it is to be angry about them. You're only human, after all.

- Make a list of some of the humorous things your merchant customers have said or done. And when one of your clients is upsetting you, take out the list and read it. It will remind you that merchants are also just human.

- Keep current on events in the financial services field. Read *The Green Sheet*. Read breaking news on our Web site, www.greensheet.com. Your merchants will appreciate it when you can fill them in on changes in the industry and offer them the most up-to-date and effective solutions.

One step at a time

These are just some ideas for improving the way you work – and live – over the remainder of the year. Remember, consistent, small actions can lead to tremendous results.

And it doesn't matter what date you begin.

Good Selling!SM

Paul H. Green, President and CEO

DateBook

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

Trade Associations

NACHA – The Electronic Payments Association

The Payments Institute East 2009 Five Day Course

Highlights: This event promises to be five information-packed days that involve learning and sharing with experienced payment practitioners. Instructors are drawn from corporations; financial institutions; consulting firms; payment networks; federal, state, and local governments; and more. A variety of training methods, including case studies, lectures, and interactive group activities, will be used to deliver a comprehensive curriculum.

Slated topics include updates on proposed and pending federal legislation, compliance with state regulations, fraud deterrence strategies, best practices for payroll card programs, and bankruptcy risk mitigation in the prepaid chain. Also planned, are an opening-night dinner and a graduation lunch.

When: July 19 – 23, 2009
Where: Emory Conference Center Hotel, Atlanta
Registration: *www.nacha.org/conferences/TPI_2009/reg_east.htm*

Trade Associations

Midwest Acquirers Association

7th Annual Midwest Acquirers Association Conference

Highlights: The MWAA's annual conference will include, for the first time, interactive demonstrations of new industry products within a larger and expanded Innovation Hall. Innovators will not be limited to table-top displays, and each exhibiting company will receive 10 minutes during the conference to present a review of its new product or service offerings.

Also new this year will be an awards ceremony designed to recognize sponsors who have been essential to the association's success. Organizations wishing to be conference sponsors may review the Sponsorship Opportunities document on the MWAA's Web site.

When: July 22 – 24, 2009
Where: Westin Lombard Yorktown Center Hotel, Lombard, Ill.
Registration: *www.midwestacquirers.com/register.php*

Industry Events

Direct Response Forum

2009 Annual Direct Response Forum

Highlights: This three-day conference brings together payment operations and risk management professionals specializing in card-not-present (MO/TO and Internet) transactions. Forum participants are merchant payment operations staff and managers from a variety of industries who are responsible for payment processing, credit operations, exception management, customer service, payment systems, loss prevention and fraud.

The agenda includes a golf tournament on the conference's first day, a gala and buffet dinner celebrating the Direct Response Forum's 20th anniversary, continental breakfasts, industry forums and more. Slated lecture topics include payment processing, Payment Card Industry Data Security Standard compliance, global expansion, Internet strategies, payment diversification and fraud prevention.

When: August 10 – 12, 2009
Where: Tampa Marriott Waterside Hotel, Tampa, Fla.
Registration: *www.directresponse.org*

Industry Events

The Prepaid Press

The Prepaid Press Expo

Highlights: The prepaid industry has grown in three distinct branches – calling cards, wireless, and alternative payments, including gift cards. These three sectors converge at the retail level but are still approached as different industries. The Prepaid Press Expo focuses on this convergence.

The conference will address the latest technology developments in all three sectors, the effect of today's economy, prepaid virtual operators, industry regulation and the emerging market of near field communication payments.

The event will also include an exhibit hall for companies marketing prepaid services and a networking "toga" party at the Garden of the Gods pool at Caesar's Palace.

When: August 18 – 20, 2009
Where: Caesar's Palace, Las Vegas
Registration: *www.prepaidpressexpo.com/index.php*

Trade Associations

Western Payments Alliance

Operations Conference

Highlights: This event is designed specifically for individuals with automated clearing house (ACH) responsibilities who are looking to take their ACH payments expertise to the next level.

Through a combination of keynote addresses, general session panels and numerous concurrent sessions led by payments industry leaders, attendees will learn about the latest operational issues facing the ACH in light of changing ACH Operating Rules, compliance requirements and evolving risk issues.

The conference will include lectures, product showcases, a ceremonial luncheon and workshops – including an ACH basics workshop and an Accredited ACH Professional (AAP) preparation workshop for individuals interested in taking the AAP exam in 2010.

When: September 9 – 10, 2009
Where: Harrah's Hotel and Casino, Las Vegas
Registration: *www.wespay.org/Content/docs/pdf/education/ops_con_reg_form.pdf*

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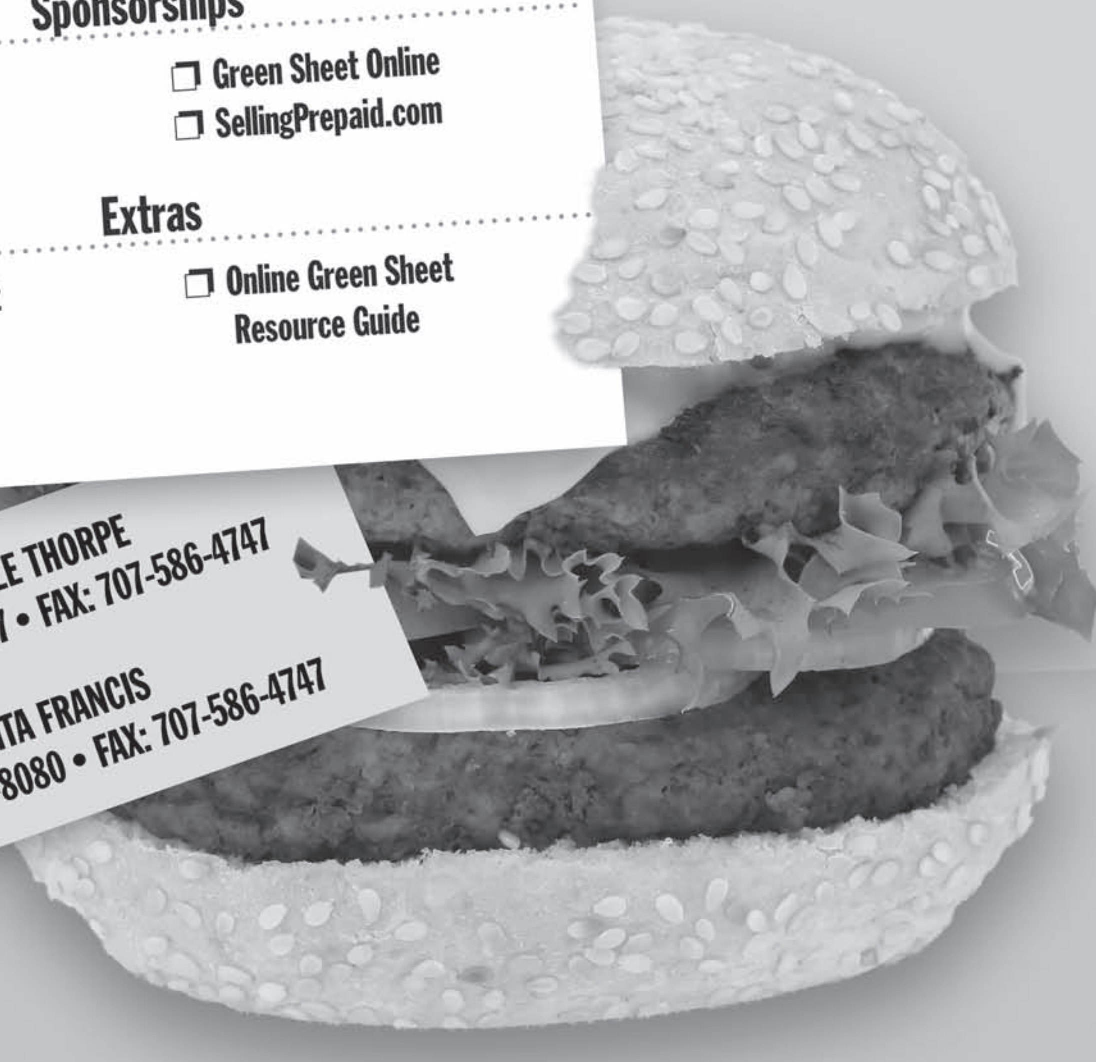

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Of

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