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September 28, 2009 • Issue 09:09:02

A sense of community

According to the Independent Community Bankers of America, community banks – institutions with less than \$1 billion in assets – make up nearly 96 percent of all banks and savings institutions in the United States. Of those, more than half hold assets of \$100 million to \$500 million. They could be called the silent majority of the financial services industry.

These small institutions make their money from loans and often have neither the financial wherewithal nor the training to address payment processing solutions and other electronic transaction opportunities. For ISOs and merchant level salespeople (MLSs), community banks are a largely untapped – but very willing – source of new relationships and revenue streams.

"The overall value of a community bank is that they're not stuck with cookie-cutter policies and procedures that are dictated from some distant headquarters," said Steve Verdier, ICBA's Senior Vice President and Director for Congressional Relations. "Community banks want to offer the same services as the bigger players, so vendors need to understand that they are dealing with a very motivated potential customer because they are more open to offerings than ever before."

Reclaiming the landscape

In a February 2009 survey of 743 community banks, research and consulting firm Aite Group LLC found that smaller financial institutions are seeking advanced payment solutions. And in an Aite study on the impact of the financial crisis on community banks, published in March 2009, 41 percent of respondent banks indicated they plan to invest more in information technology (IT) in 2009 than in previous years; 27 percent said they are shifting their IT priorities this year.



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- » Marcelo Paladini—Cynergy Data
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- » Sam Zeitz—American Bancard LLC

NotableQuote

Due to turnover in our industry, most of our competitors are new to the business at any given time and are virtually helpless when trying to obtain business from merchants whose processing costs are based on an ERR model.

See story on page 70



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Forum

Kudos for The Green Sheet

Regarding "Apple thriving close to the Tree," a profile that appeared in *The Green Sheet*, Aug. 24, 2009, issue 09:08:02, Paul R. Garcia, CEO of Global Payments Inc., said, "I have been fortunate enough to have a number of articles published about me and my company but never as flattering (and well written) as this one! Thanks again for the interest."

In response to "A new chapter in Cynergy's story," Mario Paladini, CEO of Cynergy Data, said, "Great article, well crafted, and with a very positive and promising spin. I hope it brings comfort to the marketplace as we work diligently to get to a closing soon."

Always, always get it in writing

I have a question about rights of the salesperson to receive residuals from merchant accounts. I am a salesman and have a small number of merchants signed up with a company. I have been receiving residuals for at least four years. I still service all my accounts. I respond when they have a problem; I provide paper.

I recently signed up a new client in June, did not receive a sign-up bonus and should have started to receive the first residual from this account in August. The client signed a three-year contract. This company has now decided to not give me any more residuals until I produce more clients.

Do I not have some rights to receive the residuals or even a buyout of the portfolio? The only pay I receive for signing this client up is the residual. As long as my clients are processing with them, am I not entitled to a residual? Is there any recourse for this?

Jack Byrne
Eureka Springs, Ark.

Jack,

We asked payment attorney Adam Atlas, who is a frequent contributing writer for *The Green Sheet* and member of our advisory board, to answer your question. Following is his answer:

The rights of an agent to compensation for merchants referred to an ISO should be set out in the written agent agreement between the agent and ISO. In the absence of clear wording granting the agent compensation of one kind or another, the agent should not expect that compensation to be reliable, as the legal basis on which to extract payment will be very limited.

Unfortunately, a prior practice of paying a bonus or some other compensation is legally unreliable unless it is set forth in writing. Having read Jack Byrne's story, I recommend that he have a serious discussion with the ISO about each party's respective expectations of one another and make written clarifications to the agent agreement where necessary.

We hope this helps you keep residuals flowing your way.

Editor

Muckrakers we are not

I am surprised that you haven't written anything more extensive on what happened at Cynergy than printing their press release. How did they go bankrupt? What happened there? Where did all the money go? Was there mismanagement?

Edward Goldman
Northstar Merchant Services

Edward,

"A new chapter in Cynergy's story," *The Green Sheet*, Sept. 14, 2009, issue 09:09:01, which is about Cynergy Data's Chapter 11 bankruptcy filing and asset purchase agreement, is not a press release, nor is it based on one. As part of researching the story, *The Green Sheet* conducted interviews with Cynergy Chief Executive Officer Marcelo Paladini and Randy McCoy, Operating Partner at ComVest.

*While the questions you ask about Cynergy's situation have a place, the matter is in the courts now, and more information will come out as the bankruptcy proceeds. Also, *The Green Sheet's* mission is educational; we do not specialize in investigative journalism. We emphasize accurate, in-depth coverage of issues of concern to our readers, but we must balance our need to extract facts with the desire on the part of those we write about to have a degree of control over what information they release to the public, and when. For these individuals are our long-time, loyal readers, too, and deserve our respectful consideration, especially when going through a transition.*

Thank you for your feedback.

Editor

Correction

"Expanding options through microfinance," *The Green Sheet*, Aug. 24, 2009, erroneously stated that ShoreBank Corp. Executive Vice President Ellen Seidman was a former FDIC chair. Seidman was a Director of the U.S. Department of the Treasury's Office of Thrift Supervision. *The Green Sheet* regrets the error.



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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.

Cover Story

1

A sense of community

Community banks could be called the silent majority of the financial services industry. Many have neither the financial wherewithal nor the training to address new electronic transaction opportunities. This article discusses the state of community banks and ways in which they may be a significant, untapped source of revenue for ISOs and merchant level salespeople (MLSs).

Feature

31

Blessings of SaaS for campus card programs

Most U.S. colleges and universities already have campus card programs designed to incorporate electronic student identification badges with on-campus payments; but if the systems are proprietary to the institutions or administered by the wrong service providers, they can be expensive to operate. Software as a service offers an alternate solution.

View

24

Summer musings on interchange

It's possible the typical American doesn't much care if it's going to cost the local merchant more to accept cards than cash or checks. But the U.S. Congress can be swayed by the sheer intensity of constituent rage. That's why the card acquirers and their partners need to turn up the rhetoric in support of interchange.

News

44

SCA proposes alternative to end-to-end encryption

A new report from the Smart Card Alliance proposes an alternative to relying on end-to-end encryption to shore up the payments industry's embattled security networks. While end-to-end encryption focuses on safeguarding sensitive card data as it travels through the payment chain, the SCA proposes changing the way data is managed before it enters a POS network.

View

26

How to win a major bid

The Holy Grail in the payments industry is to have a merchant who processes more than \$25 million per year. Many merchants at that level place their processing through a competitive process called a bid. And bidding success is contingent upon understanding certain constants.

News

45

FIS acquisition of Metavante approved

The acquisition of Metavante Technologies Inc. by Fidelity National Information Services Inc. appears all but finalized after the two companies received both clearance from the United States Department of Justice and approval from their respective shareholders in September 2009.



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News

48

Will Google grab NAA micropayment business?

As people increasingly forgo their daily print papers in favor of Internet news sites, newspapers that have put their content online are reporting a surge in online readership. To remain viable, they must learn how to generate revenue from their digital content – and one option is the use of micropayments. But will Google seize this revenue source before ISOs have a chance?

Education

60

Street SmartsSM: Every little bit helps

The opportunities for the feet on the street are numerous. However, it is easy for one-man shops to add so many value-added services to the mix that they become overwhelmed and end up with multiple vendors and very few sales. A good rule of thumb is to start slowly.

Feature

54

ETA poised for congressional return

The Electronic Transactions Association's focus right now is lobbying Congress to create a national breach notification standard that supersedes the more than 40 different state laws pertaining to data security and breach notification. This article looks at the organization's recent lobbying efforts and what Congress has in store regarding the payments industry.

Education

66

Telephone etiquette

From its inception, the telephone has been an integral part of our lives, and with current economic restrictions, business is increasingly being conducted by telephone rather than in person. This article discusses the proper use of a device that, despite the presence of new mediums for communication, remains an essential part of the workplace.

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QSGS

Education

70

ERR, a merchant retention tool

ERR has been a hot topic lately. Everyone seems to want to understand the mechanics of the pricing model, along with how to explain it to merchants. Some also question the ethics of this model in the name of disclosure and see it only as a short-term means for overcharging small merchants.

Education

76

**POS forecast:
Increasingly cloudy**

There's a growing awareness that what's new and hot today may be out of compliance tomorrow. How can we, as MLSs, assume that the merchant solutions we sell today will be secure and future-proof tomorrow?

Education

74

Need cash for your business?

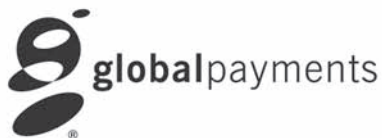
So you've grown yourself a nice little portfolio of merchant accounts. You've worked your buns off calling on merchants, learned your market, fought off competitors, found a successful sales model, hired several sales reps and you now enjoy a respectable monthly residual. Where's your next move, and how do you come up with enough cash to finance it?

Inspiration

85

Just ask

As ISOs and MLSs, you know you can't get the sale if you don't ask for it. You understand that merchants will not always answer yes when you ask for their processing business, but you are unperturbed. You recognize that getting a no is not a defeat. Asking that all-important question is a victory in itself. And when you hear no? Not a problem.



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NEWS

Online PIN picking up

Preliminary results from **Acculynk's** recent Internet PIN debit pilot utilizing its PaySecure product show a high consumer adoption rate. Acculynk released a white paper, *PaySecure: Tracking to Become a Leading Online Payment Method*, which analyzes the data gathered in the pilot. The pilot began in March 2009 and continues with more merchants and electronic funds transfer networks being added. "Because PaySecure is a brand-new payment method, most online shoppers are encountering the product for the first time at their merchant's checkout," said Ashish Bahi, Chief Executive Officer of Acculynk. "The fact we are seeing such a high rate of usage right out of the gate, with minimal education and marketing, demonstrates that PaySecure is an intuitive payment method that consumers will adopt."

Consumers fed up with fees, rates

J.D. Power and Associates' 2009 Credit Card Satisfaction Study indicated consumers' overall satisfaction with credit cards is at a three-year low. It cites fees and rates as the main factor. In 2008, 10 percent of respondents reported an increase in interest rates. This year 20 percent experienced an increase.

Aussie's interchange regulation here to stay

Australia's **Payments System Board**, the regulatory entity responsible for overseeing the payments systems in Australia, reviewed progress made by its payments industry in regulating itself and keep interchange from rising without government intervention. The Board concluded in an August 2009 meeting that interchange regulation would remain in effect. The Board further

proposed that the benchmark for interchange should be lowered to 0.3 percent, although it has not executed that decrease.

In 2008, the Payments System Board, declared in a review that it would remove regulations that it had imposed on interchange if certain conditions were met by industry participants. Specifically, the Board required sufficient steps be taken by industry participants to reduce the risk of interchange fees increasing in the absence of regulation. Although some progress was made, it was insufficient to convince the Board to deregulate interchange.

SCA explores contactless promotion

The **Smart Card Alliance** released a white paper, *Issuer and Merchant Best Practices: Promoting Contactless Payments Usage and Acceptance*, which provides practical guidance for both issuers and merchants to encourage the adoption and use of contactless cards. The paper, authored by the SCA's Contactless and Mobile Payments Council, is a result of information gleaned through interviews with issuers and payment brands at the beginning of 2009.

The Consumer Work Group discovered what methods issuers and brands had used thus far to promote contactless and which of these methods was most successful. The white paper offers ways in which merchants can help augment the efforts of the issuers and card brands.

ANNOUNCEMENTS

BCO hangs new shingle

Recognizing the increasing need for alternative forms of funding in the current economic climate, **Business Consulting Option LLC** launched its own cash advance

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LINES

HEADLINES
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- The **Census Bureau of the U.S. Department of Commerce** estimated U.S. retail e-commerce sales for the second quarter of 2009 were \$32.4 billion, an increase of 2.2 percent over the first quarter. Total estimated retail sales for the Q2 2009 were \$906 billion, down 0.4 percent from Q1.
- According to the **International Council of Shopping Centers**, U.S. chain store sales in August 2009 decreased 2 percent on a same-store basis compared with August 2008. The ICSC said women's and children's apparel had the strongest sales performances, and the best-performing geographic regions were the Southeast and Southwest.
- Market research firm **NPD Group Inc.** reported that overall video game sales in the United States totaled \$908.7 million for August 2009, a 17 percent decrease over the previous year's total of \$1.085 billion; however, video game accessories saw a 2.3 percent increase (\$137.7 million to \$140.8 million) during the same period.



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To serve underbanked consumers, eBillme launched a walk-in network for consumers to pay cash for products and services online. After choosing eBillme Walk-In, online consumers receive an eBill which they can pay at participating eBillme locations or through online banking.

F3 delivers scalable e-store

F3 Technologies Inc. released a beta version of its Ascend Global Business System Store, designed to address the needs of small and mid-sized businesses interested in taking their products or services to the Web. Merchants can choose from various e-commerce functions available, including payment processing, product and shipping, marketing and merchandising, and inventory controls.

FiftyOne upgrades platform

FiftyOne Global Ecommerce performed upgrades to its e-commerce platform. These upgrades include an Asia-Pacific expansion and a new multilingual and sin-

gle-page, international checkout design optimized for currency conversion and the addition of merchandising tools to allow merchants to dynamically adjust prices in different markets.

Fifth Third signs chain-selling chain

Fifth Third Processing Solutions signed agreement extensions with two major chains: Les Schwab Tire Centers and Nordstrom Inc. "We are pleased to provide the support these retailers can use to extend convenient payment options to their valued customers, whether online, in a store or through catalogs," said Donald Boeding, President of Merchant Services at Fifth Third.

Revenue forecaster for ISOs and MLSs

First American Payment Systems LP released a tool for ISOs and merchant level salespeople (MLSs) to forecast monthly revenue. "Its abilities surpass any of its kind that I've seen, and I'm confident that offices and agents all over the country are going to reap the benefits the system offers," said Kevin Jones, Vice President of Sales and Marketing for First American.

NFC could reach \$30B by 2012

Juniper Research Ltd. predicts the market for near field communication (NFC)- enabled devices will increase to \$30 billion by 2012. In its *NFC Mobile Payments & Marketing Opportunities: Forecasts & Analysis 2009 - 2014* report, which is available for free download at the Juniper Web site, the research firm suggests that the use of coupons and "smart" posters for retail marketing will drive mobile transaction volumes.

Contactless/NFC contest launched

Mobifyer, a division of M360 Inc., in conjunction with suppliers TranZfinity Inc., eGrips Technology (a division of Flexible Innovations Ltd.) and SCM Microsystems Inc. launched a series of developers' contests to promote contactless, radio frequency identification and NFC technologies with mobile phones.

Momentum builds for iPhone

Addison, Texas-based Momentum Payment Systems LLC launched an application for use with Apple Inc.'s iPhone.

Momentum's payment processing solutions are now available on the go with the iPhone application which merchants can obtain from Momentum's sales team and install through the mobile device's web browser.

Larimar makes top 100

Juliann Larimer, Vice President of North American Channels for NCR Corp., received recognition from Everything Channel's *CRN Magazine* as being in the Top 100 Women in the Channel.

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Doin' it right

BlueStar Inc., distributor of radio frequency identification and automatic identification technology, as well as data capture, POS and mobility products, reported record participation at Vartech09.

The company's annual conference and tradeshow is designed to bring together value-added resellers (VARs), manufacturers and software vendors, enabling them to network, share technology innovations and find new revenue streams to grow business.

Vartech09 was held in Nashville, Tenn., from Aug. 13 to 15, 2009. BlueStar combined its Vartech09 show in the United States with BlueWave, the company's Canadian show, which reflected BlueStar's desire to provide one venue for optimum collaboration.

"We got a great response in the surveys from last year, and that helped us put together this year's show, allowing exhibitors to get more face time, to be one-on-one with the type of decision-makers they are looking for and help the VARs find ways to cut operational costs," said Mark Fraker, BlueStar's Vice President of Marketing.

"By combining the shows, we had more resellers attend than ever before, and everyone saved money with the show in one location," he added.

The big picture

Vartech09's theme, "Think," was chosen to spark new business through relationship building among players in the VAR channel.

"We wanted our attendees to think partnerships, think solutions and think return on investment," Fraker said. "This year we added seminars on creative financing, how to implement drip marketing programs and how to drive annual maintenance contracts. These people are so tuned in to what they have to change, and I think that's what really drove our attendance."

At the conference, BlueStar introduced the industry's first distributor-sponsored social technology workshops, which included a seminar on helping VARs make videos for use as marketing and sales tools. Audio and video production tools available at the conference gave VARs an opportunity to market themselves in a new way.

"We thought it was a great opportunity to take 30 or so of our VARs and have them make a video to tell their story instead of the usual one or two paragraphs on their Web page," Fraker said. "Now they get to talk about their company with the fire in the belly and the passion in the eyes that comes from


so much sweat equity. And VARs get more leads because someone watched their video and remembered it – and who remembers the About Us page? So it was another way to go out and do one of those touches without using Sales 101 questions. It was very exciting, and we have a lot of people interested in doing it again next year," Fraker added.

Act on new opportunities

Fraker said total attendance at this year's Vartech09 was up 38 percent from last year and brought together payment professionals from 22 countries.

He attributes the spike in attendance to concerns about the economy and a desire to find new ways to do business.

"The definition of insanity is doing the same things over and over and expecting different results," Fraker said. "But as the economy is perpetually shifting, we saw our people saying, 'OK, I've been doing this for 20, 30 years. How do I change my business, find new, creative financing and improve the management and efficiency of my operation?'"

Vartech09 introduced new workshops to address those issues and give VARs opportunities to find fresh ways to help their end users and increase profits. Fraker said, "I look at it this way: If you help people get what they want out of life, they will in turn help you do the same thing." 

"We are fortunate to have Juliann lead the expansion of our channel business as we bring industry leading solutions to our partners and the North American channel marketplace," said John P. Di Leo, Jr., Region Vice President, NCR North America.

R3 launches AI

R3 Systems Inc. launched a new e-commerce platform, MerchantAI, built around the open source Magento e-commerce platform. Magento e-commerce software is a trademark of Irubin Consulting Inc., doing business as Varien. MerchantAI can automatically react to changes in site traffic and security threats. With its analytical capabilities, it can make product suggestions.

TAAPing into mobile payment processing

With a new payment feature for Microsoft Corp. Windows Mobile devices launched by TAAP Ltd., mer-

chants can process card payments without a magnetic stripe reader or chip and PIN technology. Transactions are sent through merchant service gateways that are available through HSBC Finance Corp. and Barclays Bank PLC's Barclaycard.

Canadian QSR accepts PayPass

Tim Hortons, a large Canadian quick service restaurant chain, now accepts MasterCard Worldwide's PayPass contactless payment cards and devices at the POS. With PayPass, Tim Hortons can speed the checkout process for its diners.

Smart security

VerifySmart Corp.'s debit and credit card security and fraud detection technology brings consumers into the equation, empowering them to help manage their own credit and debit fraud and identity theft risk. Users

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Industry Update

authorize the transaction from their mobile phones or other mobile devices.

Visa presented at conference

Joseph W. Saunders, Chairman and CEO for **Visa Inc.**, was a presenter at Barclays Bank PLC's Barclays Capital Global Financial Services Conference held in New York on Sept. 16, 2009. A podcast of the fireside chat will be available until Oct. 16, 2009, at <http://investor.visa.com>.

Zenius offers free demo license

Zenius Solutions, an NFC software company, made its ZeniusMobilePay demo software available free. Users can upgrade to pilot or production licenses. ZeniusMobilePay works with multiple mobile wallet applications for NFC-enabled phones. It is also compatible with certain retrofitted phones

PARTNERSHIPS

RFinity hits the campus

Brigham Young University-Idaho is participating in a pilot with **RFinity** involving an open encryption platform using a secure microSD (secure digital) memory

card with contactless interface developed by Giesecke & Devrient GmbH.

ClaimLogic, EPX partner at the POS

ClaimLogic, a provider of revenue cycle management solutions for the health care industry, chose **Electronic Payment Exchange** as its payment processor. EPX will extend fully integrated payment solutions to ClaimLogic's customer base.

Pay on with Elavon

Elavon Inc., a wholly owned subsidiary of U.S. Bancorp, forged a marketing alliance with **PAY.ON AG**, an online payment and risk management technologies provider. This partnership gives Elavon access to PAY.ON's 140 plus payment systems; PAY.ON benefits from Elavon's global payment platform that supports multi-currency and cross-border payments. In other company news, **Elavon** acquired the merchant processing portfolio of **Carolina First Bank**, which is the banking subsidiary of **The South Financial Group Inc.** Elavon will service Carolina First's merchant customers and, according to a 10-year alliance agreement, Elavon will receive referrals for new acquiring business through Carolina First's 177 locations in Florida and the Carolinas.

Magellan fast tracks

Fast Transact Inc. partnered with **Magellan Commerce** to round out its online functionality into a one-stop shop for merchants needing e-commerce solutions. Magellan can now offer an integrated e-commerce platform and merchant services.

First Data, Web.com team

First Data Corp. formed an alliance with **Web.com Group Inc.** to offer small and mid-sized merchants payment processing, online marketing and e-commerce solutions. With the combined resources and tools of the two companies, merchants will benefit from a wider array of services to grow their customer bases.

OpenTable selects Braintree

OpenTable, a provider of real-time online restaurant reservation management, selected **Braintree Payment Solutions** to provide Payment Card Industry (PCI) Data Security Standard (DSS) compliance for its Electronic Reservation Book software.

RBS WorldPay arms Arsenal

RBS WorldPay, a U.S.-based payment processing division of the Royal Bank of Scotland, selected **Arsenal Security Group Inc.** as its PCI DSS compliance partner. Arsenal Security Group will provide the questionnaire, vulnerability scans and its proprietary SmartSearch Technology to ensure that RBS WorldPay meets all of the PCI DSS requirements.

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Industry Update

Retailer chooses Pay Now

Atlanta-based retailer **Stacks and Stacks** will offer **Moneta Corp.**'s Pay Now option which allows online shoppers to pay from their checking, savings or money market accounts in a single step process. "Moneta gives our customers a secure way to pay with a virtual electronic check," said Mel Ronick, founder and CEO of Stacks and Stacks.

TNB doesn't bark at the mailman

TNB Card Services partnered with the **United States Postal Service Federal Credit Union** for all of the Federal Credit Union's acquiring business, a \$22 million portfolio. "TNB has clearly demonstrated that our business is important to them and that it offers the right tools and strategies to drive card growth and deliver a more valuable card product to our members," said Bill Chow, Vice President of Operations for the U.S. Postal Service FCU.

solution provider, acquired certain assets of **Pepperjam**, an affiliate marketing network and marketing agency.

The acquisition is meant to increase GSI's affiliate marketing offerings for its clients.

Trustwave adds to PCI toolbox

Trustwave acquired **Vericept Corp.**, a data loss prevention (DLP) and intellectual property protection provider, in order to provide more tools for its clients to keep sensitive data secure.

DLP technology can help its clients fulfill seven of the 12 requirements of the PCI DSS.

APPOINTMENTS

Buaas joins OneBridge

John Buaas, a payments professional with over 30 years in the industry, is stepping into the position of regional Vice President at OneBridge for the southwestern and western United States. He will be tasked with generating new business in those areas.

Dunn moves UP

Timothy Dunn joins UP Solution Inc. as Director of Direct Sales and Operations. Dunn, a 15-year payment processing veteran, comes to UP Solution from his position as Vice President of Sales and Marketing at myARCworld Inc.

He is also a member of the Electronic Transaction Association's Technology Committee.


Ficarra makes sterling decision

Robert "Bob" Ficarra stepped into the role of Vice President of Sales for Tampa, Fla.-based Sterling Payment Technologies. Ficarra, formerly Vice President of ISO and Partner Sales at CrossCheck Inc., is responsible for growing Sterling's ISO channel.

First Data names new CFO

First Data Corp. welcomed **W. Patrick Shannon** as Executive Vice President and Chief Financial Officer. Shannon will succeed Phil Wall, who is now CFO of Bank of America Merchant Services. Shannon has 26 years of financial management experience.

41st Parameter taps new VP

41st Parameter Inc., a fraud detection and prevention provider, brought in **William Snow** as Vice President of Engineering to help fight fraudsters. Snow is a 23-year veteran in the software and information technology industries with both large scale enterprises and smaller start-ups. 

ACQUISITIONS

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Insider's report on payments
**Summer musings
 on interchange**

By Patti Murphy

The Takoma Group

The brouhaha over health care reform that made headlines in August 2009 accomplished at least two things: It educated folks about the "August recess" – the congressional equivalent of summer vacation – and it provided time for opponents of credit card interchange to reconnoiter.

Meanwhile, halfway around the globe, the Reserve Bank of Australia (which has been regulating card interchange for the better part of a decade now) revealed it had opted not to loosen credit card interchange rules, although it also said it had no plans to tighten the rules either. The RBA also said it intended to review the caps it has imposed on debit card payments to bring them more in line with credit card fees.

In a statement released on Aug. 26, the RBA said it "concluded that, although progress has been made in both these areas [credit and debit interchange], it is not yet sufficient to warrant a decision to step back from interchange regulation."

A war of words

Not surprisingly, retailers in the United States were heartened by the RBA announcement. "It's time that U.S. policymakers followed their counterparts around the world to reform the swipe fee system that continues to abuse merchants and consumers in this country," said Lyle Beckwith, Senior Vice President for Government Affairs at the National Association of Convenience Stores.

But the war of words didn't stop there. In a mass e-mail distributed in mid-August, the NACS urged members to attend local congressional town hall meetings and let their voices be heard on interchange reforms.

"Stand up at these town hall meetings and ask your representative and senators to side with business owners rather than the credit card companies," read the message. "Ask them to co-sponsor the Credit Card Fair Fee Act (H.R. 2382)." It continued: "Just because the popular noise of the day is centered on health care does not mean that other issues of significant importance go away."

H.R. 2382 is one of three bills that addresses interchange. It specifically tackles issues related to merchant contract terms and charges and directs the Federal Trade Commission to regulate fee setting and other acceptance rules. At least two convenience store chains have taken the message directly to consumers. 7-Eleven Inc.

"It's time that U.S. policymakers followed their counterparts around the world to reform the swipe fee system that continues to abuse merchants and consumers in this country."

– Lyle Beckwith, Senior Vice President for Government Affairs at the National Association of Convenience Stores.

and Circle K Stores Inc. said they aim to collect 1 million signatures each to dump on Congress. At the 7-Eleven I frequent, there's a petition on the front counter (a spot traditionally reserved for impulse purchases) urging customers to join the battle against "unfair credit card fees." The last time I was there, however, the petition looked to be sparse on signatures.

One reason, I suspect, is that many consumers simply don't believe that a company like 7-Eleven (where "convenience" translates as "pay a premium for not having to trek to the grocery store for one item") is looking out for the best interests of consumers.

There's also the issue of convenience. Credit cards, after all, are more convenient than cash, from both the buyers' and sellers' perspectives. Heck, even the major airlines are eschewing cash these days.

Providing what customers want

Consumers like to pay with plastic. The proof is in the data. According to the World Payments Report 2009, noncash payments were up 8.6 percent globally in 2008, driven primarily by credit and debit cards. The report – a product of Capgemini U.S. LLC, the Royal Bank of Scotland and the European Financial Management & Marketing Association – said card payments grew 11.2 percent in 2008, following a 14.5 percent spike in 2007

I also suspect the typical American doesn't much care if it's going to cost the local merchant more to accept cards than cash or checks. But if I've learned one thing in my years of observing the inner workings of Congress, it's that lawmakers can be swayed by the sheer intensity of constituent rage, even if those constituents are outnumbered.

That's why the card acquirers and their partners need to turn up the rhetoric in support of interchange. The Electronic Payments Coalition, a group of banks, credit card companies and industry trade groups (including the ETA), took a step in that direction in the days following the congressional August recess, running a full-page

advertisement in a publication widely read by members of Congress and their staffs.

"It's not enough that convenience stores overcharge for what you buy. Now, they want to overcharge you for how you pay," the ad reads in part. It features a bogus sales receipt detailing typical convenience store markups on items such as milk, bread and sandwich meat. "Talk about putting the 'con' in convenience store!" the ad calls out.

New bureaucracy in the works


Winning any legislative battles over interchange, however, will require more effort. Banks and their partners are not among the most liked folks in Washington.

The president made that clear in a widely reported speech in New York on Sept. 14, when he warned financial executives that it was getting to be payback time for all the money Uncle Sam pumped into the financial sector in the aftermath of the 2008 meltdown, and new regulations are part of the payback.

To that end, the Obama administration has proposed sweeping reforms of the financial services sector. Interchange is not yet a target of these reforms, but that's not to say the topic won't come up.

One aspect of the proposed reform package card industry executives may want to keep close tabs on is the establishment of a federal consumer financial protection agency. The agency would assume powers currently wielded by bank regulatory agencies and the FTC and would have authority over payday lenders and other financial services companies that lack government supervision.

A U.S. Department of the Treasury tome detailing the proposed legislation (Financial Regulatory Reform: A New Foundation) explains that the Consumer Financial Protection Agency would have jurisdiction over "consumer financial services and products such as credit, savings and payment products and related services, as well as the institutions that issue, provide or service these products and provide services to the entities that provide the financial products."

Hearings on the administration's regulatory reform package were scheduled to begin before the House Financial Services committee this month and continue through October. Washington insiders have suggested, however, that a final vote is unlikely during the current session of Congress. 

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



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How to win a major bid

By Ross Federgreen

CSRSI, The Payment Advisors

The Holy Grail in the payments industry is to have a merchant who processes more than \$25 million per year. Many merchants at that level place their processing through a competitive process called a bid. And bidding success is contingent upon understanding certain constants.

First, at these levels and greater, merchants always receive interchange pass-through pricing, so pricing issues revolve around transaction fees, incentives and costs of ancillary services. Issues in addition to pricing include contracts, convergence and integration.

Bid specifications can be prepared by merchants or by outside consultants. Having managed this process for many merchant clients, I have found the larger entities depend upon industry experts. Specifications are written to allow the processor to understand the merchant's business and to give enough detail to allow the processor to maximize the bid.

Typically included in the bid information document are a description of the business; types of processing; average ticket amount; number of merchant identification numbers (MIDs), locations and transactions by brand; special needs and requirements; and a request for incentives.

Questions normally asked of bidding entities include market-specific experience, corporate history, financial soundness, banking relationships, interrelationships with middleware, domestic and foreign processing capacity, alternative payment experience, references, capacity and a host of bid-specific questions.

Before a bid specification can be effectively written and released, the merchant must complete a detailed analysis of multiple issues, including performance, customer support, chargebacks, reporting, potential fraud, architecture, previous contract history, among others.

Incentives

Incentives are a critical issue; large merchants expect to receive them. These take the form of cash or cash equivalents such as marketing dollars, which pass from the acquirer to the merchant during the contract period, including at the time of closing.

How are incentives calculated? Normally, they are calculated as a percentage of the value of the merchant's total processing. They can vary from a fraction of a basis point on up. Some processors do not, as a policy, offer incen-

tives to merchants; this group is shrinking in the large-deal marketplace.

The concept of a sub-interchange relationship comes from this practice. If one calculates the incentive as a discount to the interchange pass-through, one derives the sub-interchange nature of the relationship and, at the same time, allows the system to maintain interchange as the floor.

Well-written specifications always leave room for bidders to be creative and propose novel solutions. Sometimes the "better mousetrap" is the difference between the successful bidder and the runner up.

Transaction fee pricing

Payments industry transaction fees have trended down over the years. It is common for transaction fees in larger deals to be less than five cents per transaction. In relationships that have multiple millions of transactions per year, substantial reduction below five-cent pricing is not uncommon.

In addition, tiered transaction pricing based upon merchant performance is common. An example of this might be a reduction of transaction fee pricing in steps of five million transactions per year, starting at some threshold. It is not unusual to see transaction pricing of all card brands included in this fee structure.

As an aside, the decision of large merchants to work directly with processors associated with card brands other than Visa Inc. and MasterCard Worldwide is complex. Some issues to resolve are price differential, convenience, efficiency, reporting and reconciliation.

PCI compliance

Large merchants may fall into a classification of Payment Card Industry (PCI) Data Security Standard (DSS) compliance that requires on-site evaluation and validation. It is imperative that the merchant becomes PCI validated at the appropriate level, preferably before the bid process or be far down the pathway during the process.

A formal gap analysis (which evaluates how effectively a company is meeting a predetermined set of standards) should be completed and a specific remediation schedule put in place before releasing a bid to the marketplace.

Determination of PCI level is not always straightforward. This is especially true if a merchant has multiple MIDs distributed throughout the enterprise. The key question is if the acquirer will roll up the total transaction count or allow the separation of transaction counts into various architectural separations.

Middleware

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dent middleware. Acquiring institutions have recently bought a number of the major middleware providers. In such instances, there is usually a statement of intent to remain neutral on the issue of middleware (open to multiple bank platforms), but there are good reasons why it is beneficial to utilize the middleware products provided by the acquirer, even though it may restrict processing relationships.

Among the benefits of using the acquiring bank's middleware are seamless connectivity, greater reporting and one ultimate point of contact for issue resolution, which makes the relationship more manageable for both parties.

From the perspective of pricing, middleware can be folded into the underlying contract or may be billed directly to the merchant from the middleware provider.

Contract


The structure of contracts in large relationships is critical; many items in a "standard" merchant services contract are negotiable and may not fit the needs of a larger relationship.

Additionally, all terms must be defined, and the definitions must be agreed upon and understood by all parties to the agreement.

Some important areas of consideration are the contract's term, both initial and subsequent; cancellation and termination clauses; security requirements and related indemnification; trigger events; and items that impact reserve requirements. Bidders must realize the bid will be reviewed thoroughly by experts, and mistakes or perceived hidden costs will not be taken lightly.

Deliverability

Is the merchant capable of bringing to the processor the volume the merchant proposes? This is not a simple issue. For example, is the entity in need of transaction processing a holding company, a franchisor, a foreign entity or some other type of business? What actual control does this entity have over independents? Clearly a company that is a sole entity is easier to deal with for many reasons.

There is a certain belief among large merchants that their names carry a level of prestige that should bring them a better deal. In some measure, they are correct; a successful relationship will hinge on finding the prestige-to-price ratio that works for both parties. 

Ross Federgreen is founder of CSRSI, The Payment Advisors, a leading electronic payment consultancy specifically focused on the merchant. He can be reached at 866-462-7774, ext. 1, or rfedergreen@csrsi.com.



Ernst & Young Entrepreneur Of The Year[®]

Award Winner 2009

Congratulations to

Ray Sidhom

The executive management team at EVO would like to congratulate Ray Sidhom, founder and Chief Executive Officer of EVO Merchant Services, on receiving the Ernst & Young Entrepreneur Of The Year[®] 2009 Award. This award recognizes outstanding entrepreneurs who are building and leading dynamic, growing businesses.

"Ray Sidhom is an out of the box thinker who believes anything is possible when you control your own destiny. Ray started by selling credit card machines to retailers. By 1994, he was convinced of his prospects. He formed EVO Merchant Services with a goal of building an in-house infrastructure to process credit cards throughout the entire transaction cycle. Fourteen years later, the tools he developed serve \$20 billion in transaction volume for the nearly 200,000 merchants he processes for every day.

Ray is a champion to the independent sales organizations he works with, which he calls partners. Currently, EVO is investing in the growth of its partners that have helped it achieve its own phenomenal expansion. For Ray, controlling his own destiny has been a winning strategy."

—Ernst & Young LLP.



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Prepaid in brief

NEWS

Card Activation said patent on solid ground

Card Activation Technologies Inc. received a favorable ruling with regard to claim construction in its patent infringement lawsuit against McDonald's et al., a case that is pending in the United States District Court for the Northern District of Illinois, Eastern Division. Card Activation, a Chicago-based company, owns a patented POS technology for processing gift cards, phone cards and other debit purchase transactions. Claim construction is crucial in patent litigation, usually determining two elements of the case: the validity of the claim and whether the patent was, indeed, infringed upon.

Mercator zeroes in on prepaid

Mercator Advisory Group released part one of its trilogy of prepaid benchmark reports, which comprise its 6th Annual Network Branded Prepaid Market Assessment. Part one looks at open-loop cards. The next two parts will focus on closed-loop cards and an overall industry forecast, respectively. Report highlights follow:

- The total load of all 33 prepaid segments in 2008 (open- and closed-loop) increased by 12.4 percent over 2007.
- The total load for closed-loop solutions saw an increase of 48.6 percent in 2008 over 2007.
- Sales of open-loop gift cards experienced a 54.3 percent increase in 2008.
- Social Security payments on prepaid cards, now fully implemented, reached a total load of \$1.48 billion in 2008.

ANNOUNCEMENTS

Giving and utility made Ezic

Ezic Inc. provides new customization tools for e-commerce merchants and charities with an online presence. Its payment form interface, one of five integration methods offered on its gateway, now has an editable payment amount feature so end users can adjust payment amounts.

InComm launches new B2B platform

InComm increased its product line with a prepaid solution to address growth in the corporate incentive market. With the Smart GiftCard Solutions platform, clients may order bulk or individual gift fulfillment cards, open-loop gift cards and customized options. The platform also features InComm's Vanilla Visa Gift Card.

Safety first with Maverick

Maverick Network Solutions Inc.'s SafeRewards Card is a customizable incentive program that uses reloadable prepaid debit MasterCard Worldwide cards. Healy Long & Jevin Inc., a Mid-Atlantic concrete construction firm, claimed using the card strengthens its safety program. Employees are rewarded via the card for staying injury free.

Meta Payment Systems stays local

Meta Payment Systems rolled out a community gift card program. The Sioux Falls, South Dakota-based gift card provider ran pilots in two merchant districts that were well received and generated interest from neighboring communities through word of mouth. Meta believes programs of this kind help strengthen local economies by keeping spending local.

StorValue delivers suite

StorValue Card Solutions LLC released a suite of rewards-based products. The suite includes co-branded loyalty and affinity solutions, with cash-back and fuel rewards. StorValue cards can be used wherever Visa- and MasterCard-branded cards are accepted.

TSYS exec earns CDHC award

CDHC Solutions magazine presented the Solutions Innovator Award to **TSYS Acquiring Solutions'** Vice President of Product Development, Kim Kaczmarek.

Her contributions to the development of TSYS Healthcare and its My Care Card program gained her the recognition.

White Eagle wins awards

White Eagle (Europe) PLC's White Eagle Card won the Best Money Transfer Prepaid Card and Best Payroll and Expenses Prepaid Card awards at the Prepaid365 Prepaid Card Awards 2009. The White Eagle Prepaid Maestro Card won second place for Best Unbanked Prepaid Card and its Prepaid MasterCard Freedom Eagle Cash Card earned two mentions: Best General Purpose Prepaid Card and Best Unbanked Prepaid Card.

PARTNERSHIPS

Ceridian payroll takes flight

Ceridian UK selected **White Eagle (Europe) PLC's** payroll program to enrich its business offerings. With the Ceridian Evolution Payroll Prepaid MasterCard, issued by Newcastle Building Society, clients can also provide incentives to increase employee retention.

MDS taps SparkBase

Merchant Data Systems Inc. chose **SparkBase** as its gift and loyalty network provider. "We were very impressed with SparkBase's technology and leading-edge functionality, along with the company's philosophy of allowing us to brand the offering, assemble customized products in-house and retain the direct relationship with our merchants," said Drew Freeman, President, MDS.

PCS goes for open-loop

To add open-loop gift cards to its offerings, **Premier Card Solutions** purchased and implemented Bank Card Security System software from **Prime Factors** to run on a Thales HSM 8000. "Prime Factors had the knowledge of the process and software that already does everything," said PCS Director of Information Technology Chris Erickson. "I wanted to go with experience."

Coinstar expands with Stored Value

Stored Value Solutions will offer MasterCard's prepaid gift cards to **Coinstar E-payment Services Inc.**, a subsidiary of Coinstar Inc., for distribution through U.S. retail outlets. "The addition of the instant-issue MasterCard prepaid card will strengthen Coinstar's current versatile product offering," said Ralph Rolan, Executive Vice President and General Manager of SVS.

SafeNet keeps Tutuka safe

South African-based payment processor **Tutuka** chose **SafeNet Inc.** to address payment card industry data security standard and EMV [Europay, MasterCard and Visa] compliance needs. Tutuka will employ SafeNet's DataSecure platform and ProtectHost electronic funds transfer hardware security module, both of which are part of SafeNet's Enterprise Data Protection Security Suite.

ACQUISITIONS

NEN gains piece of Coinstar

Coinstar completed the sale of its entertainment services business to **National Entertainment Network Inc.** NEN will assume most of the business' related assets and liabilities. With the sale, Coinstar expects a net gain of between \$25 to \$35 million in the third quarter 2009.

APPOINTMENTS

InComm gains new GM

Karen Budahazy assumed the role of General Manager for InComm Canada. Budahazy will manage sales teams and their initiatives and develop new product revenue opportunities. "Karen is a results-driven executive with strong background, experience and insight in the international prepaid and stored-value industry," said Brian Parlotto, Senior Vice President of Products and International for InComm.


Edo management has new faces

Nashville-based edo Interactive added two executives to its management team: **Jay Graves** as Chief Technology Officer and **Lisa McGinty** as Vice President of Card Services. Graves co-founded, grew and sold SmartDM, a database marketing agency, and comes to edo from Merkle Inc. McGinty's experience is in prepaid and third-party gift card industries. She held senior positions at MCI Inc., PRE Holdings Inc. and InComm.

Coinstar's Harvey chucks commute

Coinstar's Chief Financial Officer **John Harvey** opted to leave Coinstar, citing the time the position took away from his family. Harvey had been commuting from his home in Chicago to Bellevue, Wash., every week.

MoneyGram exec pulls double duty

MoneyGram International's Executive Chairman **Pamela H. Patsley** was named the company's Chief Executive Officer as well. Patsley has been with MoneyGram since the beginning of the year. Prior to MoneyGram, Patsley worked with private equity firms after leaving her position as President at First Data Corp.'s international division. 



Features

Blessings of SaaS for campus card programs

According to Jay Summerall, President of campus card provider and program manager CardSmith, most U.S. colleges and universities already have campus card programs. The programs are designed to incorporate electronic student identification badges with on-campus payments; but if the systems are proprietary to the institutions or adminis-

Selling Prepaid

tered by the wrong service providers, they can be expensive to operate.

In the case of Southeastern Baptist Theological Seminary (primarily a graduate university dedicated to the study of Christianity and located in Wake Forest, N.C.), a third-party card system vendor was increasing its fees by 10 percent per year, said Wayne Jenks, Director of Information Technologies at SBTS. So it was as a cost cutting measure that the seminary went searching for a new campus card provider.

The school decided on CardSmith, headquartered in Doylestown, Pa., for its software as a service (SaaS) approach to campus card implementations, which minimizes SBTS' involvement in the payment process. By choosing CardSmith, the seminary will potentially save \$160,000 a year.

With its old vendor, SBTS was responsible for achieving and maintaining Payment Card Industry (PCI) Data Security Standard (DSS) compliance – a task which costs \$100,000 to \$150,000 annually, Jenks said. Because CardSmith controls the network and is PCI DSS compliant, "off the top there's that money we're not having to spend," he added.

Jenks expects to see an additional yearly savings of \$6,000 to \$10,000 using CardSmith's streamlined processes. The main use of the Southeastern 1Card is expected to be for meal service on campus, followed by campus store and library copy center purchases.

The card can also be used at select, off-campus locations, such as gas stations and local restaurants. In this way, SBTS will be able to receive revenue – which CardSmith will share with the seminary through its closed-loop, private-labeled network. Jenks said the previous vendor did not offer such a potential money maker for the college.

Old school

CardSmith has been in business five years and has close to 50 high schools and universities in its portfolio. But campus cards have been around since the late 1980s, when institutions developed their own in-house systems, according to Summerall.

"Most schools, believe it or not, have a proprietary card system that they self-operate," he said. "So they have some software, a couple of racks, a little system that somebody on campus administers to make their card do what they want them to do. In our view, that's the legacy way to do this.

"The easier way to do this is to hire CardSmith, and then the school doesn't have to install anything other than terminals at the point of sale. There's no software locally. There's no systems. There's no boxes, no racks. It's a much simpler model."

Colleges using the old method may have three to four staff members dedicated to operating and maintaining the legacy systems, Summerall said, adding that a combined payroll from those staffers could push \$500,000 annually. "We can deliver the service a lot more cost effectively than that," he said.

Other labor-intensive practices for colleges center on coin collecting. Campus vending machines for food, beverage and laundry facilities have been historically "very coin oriented," Summerall said. He called coin collection and verification "personnel intensive," with a posse of three people – a coin collector, a monitor of the collector and a campus cop – dispatched to make the campus rounds.

That expensive process is eliminated by the installation of integrated, card-accepting terminals, he said.

A helping hand

Jenks said the 1Card will be issued to approximately 2,500 students. The cards can be loaded and reloaded via www.southeastern1card.com. The site offers cardholders transaction histories and a money transfer capability. A toll-free customer support center run by CardSmith has also been set up.

Viewed from the university's perspective, CardSmith's system provides reporting on how and where the cards are being used. "If you think of [the campus] as an enterprise, you can see, well, this is how much card sales I did in my bookstore, my vending," Summerall said. "You can really see what you're doing.

"You can know if there's any lift. You can measure where you are now versus where you came. It's an integrated view of your enterprise, which you don't have if all those things are not connected by a card system."

According to Summerall, the campus card market is "huge." With approximately 3,600 two- and four-year colleges and universities in the United States, a population of about 15 million students is being served; on top of that are countless high schools throughout the country with enrollments ranging from 500 to 5,000 students, he said.

At the college level, institutions have been slow to migrate to SaaS card systems, Summerall added. The campus card market has its own association, the National Association of Campus Card Users (www.naccu.org), which represents legacy system operators who have a vested interest in not seeing SaaS providers gain traction, he claimed.

Nevertheless, Summerall believes CardSmith offers universities a straightforward and compelling business proposition. "We just go to the business officer and say you want to deliver this service," he said. "There's two ways you can do it, via A or B, and B is newer and it's a heck of a lot cheaper." 📍

A new drive for prepaid

What generates the most revenue: professional baseball, shoes or parking? Major League Baseball made about \$6 billion in 2007. The shoe industry accounts for approximately \$25 billion annually. And parking? Jim Shanahan, Chief Executive Officer at Maverick Network Solutions Inc., said it's a \$70 billion a year business.

"When you think about all the people every day who pay for parking, you can sort of see that it is a huge business," he said. "But it's certainly not one that you think about."

MNS, a Wilmington, Del.-based ISO that specializes in private-label debit card processing for retailers, is making its first foray into the lucrative parking industry by partnering with ePark Systems Inc. for in-vehicle payments (IVP). Shanahan said Maverick manages the Web-based user interface and processes the payments for ePark Systems.

The service centers on the iPark, a transponder that mounts on the dashboard of a car. Drivers purchase the device online or from their local Department of Motor Vehicles office, and they buy parking minutes online, much like how cell phone users buy prepaid phone minutes, Shanahan said.

Hans Hawrysz, CEO of ePark Systems, said the minutes come in the form of eight-digit serial codes that drivers manually enter into the iPark. Its operating system, ParkNet+, was co-designed by Maverick and ePark Systems and handles all the account and transaction information on the device. So, instead of a card, the iPark itself is the stored-value instrument, Hawrysz said.

When drivers park, they punch into the device the zone designation marked on the nearest meter. Then they press a button on the iPark that starts the device's internal meter, which tracks how long vehicles are parked. When parking enforcement officers make their rounds, they see that the iPark inside the car is turned on and do not issue tickets.

When parking minutes are low, drivers top off (reload) their accounts online by purchasing new serial numbers, which they then input on the iPark for more minutes. Hawrysz said the devices cannot be loaded wirelessly, but that functionality will be built into future models.

All coined out

Among the U.S. cities that have signed up for the service are Arlington, Texas; Manchester and Portsmouth, N.H.; and Miami Beach, Fla. The iPark is cost effective for municipalities in several ways. Coin-operated meters

must be serviced and the coins from them collected on a routine basis, which takes time, money and manpower, Shanahan said. If cities want to retrofit the meters to accept smart card payments, the process is a sizeable investment.

If cities want to reduce or eliminate the meters for centrally placed "pay and display" machines, each machine can cost as much as \$20,000, and for a large city, that could mean several million dollars, Shanahan said. In addition, those machines come with high transaction fees for credit card payments, Hawrysz noted.

The iPark is cheap in comparison, with "very little investment to get up and running," Shanahan said. "It's all sort of pay by the drink."

Getting connected

iPark, which had its initial pilots in 2005, has been through two versions of both the device and the software platform. It is being marketed to cities as a revenue generator and a way to deliver better customer service.

Cities can set their own pricing structures. "You can have different payment schedules based on time of day and day of week, and you can flex that over time and charge differently so you can maximize your revenue," Shanahan said.

Furthermore, cities have become increasingly aware of the real estate value of municipal parking, Hawrysz noted. With iPark, cities can charge more for parking closer to mass transit or premier businesses, for example.

Another advantage to iPark is reporting. Hawrysz said with old metering systems, cities had "no understanding of who parks when, where and how." But, with iPark, parking session data can be uploaded when the device is plugged into a computer via a universal serial bus connection. Version 2.0 of iPark allows for the automatic upload of that data when it connects to a wireless network or hotspot.

That data can be used by municipalities to understand driver – and hence consumer – behavior.

As for the customer care aspect, it is about saving consumers money. Breakage rates on coin-operated meters is high, Shanahan explained.

For example, a person may have to put 50 cents into a meter for an hour's worth of parking even if the person only needs to use 45 minutes. This might lead to the driver opting to park elsewhere. "If you're getting less people using [meters] because they are using the iPark, then your breakage rate will be less," he said.

Security is also an issue. Drivers using iPark don't have to leave the safety of their cars, especially late at night when

Selling Prepaid

muggings and car jackings are more prevalent, to pay for parking, Hawrysz said. Hawrysz believes the iPark is at the forefront of the "connected car" concept, which envisions the automobile as a consumer ecosystem unto itself. Cars of today and future models will have built-in wireless connections to allow for such things as Internet-enabled street maps, quick service restaurant ordering and parking, Hawrysz said. 🌱

Prepaid payroll helps Wal-Mart go green

Wal-Mart Stores Inc. commissioned an environmental impact study to determine the benefits of a prepaid payroll card program to the company and the environment. By not having to issue paper checks to its employees, the program would annually:

- Eliminate 3,116 trees from being cut down
- Reduce the amount of paper Wal-Mart processed by 257,572 pounds
- Save the company 277,523 gallons of gasoline

While Michelle Bradford, Senior Manager, Corporate Communications for Wal-Mart, stressed that the main benefit of the program would be in giving its unbanked employees access to an alternative banking tool, the environmental advantages were important factors as well. "Our in-house system worked just fine," she said. "But we recognized a chance to give our associates these extra services, an even more reliable way to get paid, in addition to a program that's going to optimize our sustainability and our cost saving goals."

So, in partnership with First Data Corp. and MasterCard Worldwide, Wal-Mart began in September to offer its employees (associates) the payroll card option. It is a MasterCard Paycard processed over First Data's Money Network Payroll Distribution Service. The service allows Wal-Mart associates to get their biweekly pay loaded on cards for free, Bradford said.

Network of branches

Of Wal-Mart's 1.4 million associates nationwide, roughly 50 percent are set up with direct deposit, she said. That leaves approximately 700,000 workers without access to traditional bank accounts. Not only does the card allow cardholders to avoid having to cash payroll checks at check cashing businesses and lose a percentage of their pay in the process, but they also get access to First Data's extensive reload network.

"Some portion of the Wal-Mart employee population works another job beside what they do at Wal-Mart," said Jim Contardi, Senior Vice President and Division Man-

"When you think about it, how much paper does it take to put checks in the hands of hundreds of thousands of employees? And how much fuel does it take to bring those checks to each of the store sites? ... I think it's a real difference maker."

- Jim Contardi,
Senior Vice President and Division
Manager for Prepaid at First Data

ager for Prepaid at First Data. "And, therefore, they're getting funds elsewhere – either in the form of a paycheck, or maybe they're doing odd jobs in their community and they're taking third-party checks."

Thus, workers can load pay from second and third jobs onto Paycards. "Our view is that reload needs to be wherever the employee lives and works," Contardi said. "So we attempted to set up a fairly ubiquitous reload network. And so any Western Union location, any Moneygram location, any Wal-Mart location allows for a money network cardholder to load funds onto their money network account."

Bradford added that associates can also load funds at Sam's Club stores.

Big players, big footprints

Contardi said Wal-Mart is among First Data's biggest clients. The world's largest acquirer already processes the check and credit and debit card transactions of the largest private employer and grocery retailer in the United States, he said. And he recognizes the core cost savings Wal-Mart will enjoy by using First Data's payroll system.

Wal-Mart has publicly said that it will "eliminate 18 million paper pay checks a year," he said. Taking the conservative estimate that to cut a check costs \$2 per check, Wal-Mart will realize \$36 million in savings. "And that's just cutting the check," Contardi said. This does not factor in labor and distribution costs. As for the "green" factor, Wal-Mart's sheer size makes the conservation of natural resources all the more important.

"When you think about it, how much paper does it take to put checks in the hands of hundreds of thousands of employees?" Contardi said. "And how much fuel does it take to bring those checks to each of the store sites? And you just start adding up all the incidental resources that go into making that process work as opposed to a purely electronic process. I think it's a real difference maker." 🌱



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Merchants are increasingly turning to technology for added convenience, stronger security, and better efficiency and functionality. With decreased consumer traffic and lower average ticket amounts, merchants are looking for ways to streamline their operations to improve their margins. Thus, they expect more from their equipment.

Responding to feedback from merchants who want better POS devices, United Merchant Services Inc. seized the opportunity to manufacture its own POS systems, not only for its customers, but to market to other ISOs and resellers.

With that purpose in mind, Jay Yoon, UMS's President and Chief Executive Officer, founded UP Solution Inc. in 2007. Yoon is now President and CEO of both companies.

"It's a natural outgrowth of our credit card processing division," said Shirley Yoon, Senior Vice President, UP Solution. She describes the company, with its one-stop shop approach to POS solutions, as a trendsetter in the payments industry. The company is one of a growing number of ISOs developing either its own POS division or a subsidiary POS business.

POSs made to order

UP Solution's goal was to devise a truly unique solution with a new, modern look. The company rolled out a software module for spas and then, recognizing the growth in the restaurant vertical, also designed a system specifically for restaurants.

"Restaurant owners can, if they

wanted to, manage not just one location, but multiple locations; log in to this site, and they can see and manage the remote location," said Randy Park, Chief Technology Officer, of UP Solution. In addition, restaurateurs can monitor inventories, check the number of people seated at a table and see what patrons order in real time. The data can be backed up at the centralized location and can generate a variety of customized reports.

The company is working on retail POS software, scheduled for release in April 2010, that will help retail merchants manage multiple locations.

UMS, and by extension UP Solution, has launched a free electronic cash register (ECR) program for all ISOs nationwide. The program includes the integration module and free terminal placement.

The ECR comprises a choice of either VeriFone (VX 510 and VX 570) or Ingenico Inc.'s Ingenico I5100 payment modules in a Casio America Inc. register. These give ISOs the option of working with terminals they are most familiar with.

Bryan Daughtry, Vice President of Sales and Marketing for both UMS and UP Solution, believes the free ECR program will have a significant impact, "allowing every one of our ISOs and agent partners to have a whole other option for merchants." He added that the system's ability to automate the inventory management process is a key selling point.

True all-in-one

The company's proprietary product line – its UP 7000 and UP 5200 – are

Company Profile

touch screen POS devices. "The UP 7000 is a true all-in-one POS system," said Bryan Lee, UP Solution's National POS Sales Manager. He added that many systems touted as all-in-one POS systems don't include a printer.

When the merchant hits the credit-card-tendered key on the cash register, it passes the information to the payment module, which sends it automatically via dial or Internet protocol (IP) connection for authorization. The approval comes back on the receipt. Having the two systems integrated avoids double entry errors.

Park said some competing solutions are more expensive because they include a proprietary credit card machine. He added that competing credit card terminals lack diverse functionality, only sending the credit card data to a back-end processor.

"Now the advantage of the [nonproprietary] credit card terminal going in there is that we can get the terminal at a very reasonable price and offer a very cost-effective solution."

According to the company, it has the ability to write any type of payment application onto POS terminals and to make a merchant's cash register a featured unit. Park said the payment modules that allow credit card terminals

to communicate with the register are Microsoft Corp. Windows-based.

The UP 7000 features a dual display, with a smaller screen facing the customer. It can display item amounts and totals. There is also an option for a larger second screen – almost as big as the merchant-facing screen – that can display advertisements or promotions. Park said one of UP Solution's resellers in Dallas used that second screen to promote its products at the Electronic Transactions Association's 2009 Meeting & Expo held in April.

Taking it to market

Lee said people who browse the vendor booths at payments industry tradeshows rarely follow up with the vendors, but that ISOs and end users that visit the UP Solution booth at shows "actually call us back within a couple of hours or sometimes a couple of days." He said that after returning from the ETA he was "probably building up about 100 megabytes of e-mails per day."

The UP Solution products are sold through POS or computer resellers and ISOs (ISOs account for roughly 50 percent of UP Solution's sales channel). UP Solution has nine showrooms throughout the country where resellers or ISOs can see the products demoed and learn more about them.



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Company Profile

The company has plans to add 60 more showrooms in the next two years.

UP Solution boasts over 4,000 installations globally, "which include hospitality and retail chains in the Asian-Pacific market.

The company believes in the importance of ongoing training and support for its resellers. Speaking to that need, UP Solution provides new resellers with complementary initial training for its hardware, software and value-added services, and priority service from its always-open technical support department. It also anticipates adding a variety of training webinars.

Rick Lee, UP Solution's Sales Manager for the California region, said the company is very responsive whenever he has questions, and that the people at UP Solution work with their ISOs.

He also noted that the compact, white UP Solution terminals appeal to merchants. "It's something that looks new, looks modern, but so far the quality has been there."

Lee said he hasn't experienced any technical problems with the company and especially appreciates how easy it is to service the UP Solution equipment.


"You take out two screws and unplug one cable and you can replace the part," he said. You don't even need a screwdriver.

Gearing for growth

In the last two months, UP Solution has added two new members to its management team. Daughtry, its new Vice President of Sales and Marketing, brings 17 years of payment card industry experience to the position. His latest stint was as Vice President of Sales for the Indirect Business Channel at Global Payments Inc.

UP Solution's new Director of Sales and Operation, Timothy Dunn, has over 15 years of payment processing experience, including managerial stints with First Data Merchant Services, a division of First Data Corp. and United Bankcard Inc.

UP Solution combines the entrepreneurial spirit of successful players in this industry with the desire and ability to create a unique technological solution.

Just as UMS saw the opportunity in POS systems, UP Solution saw an opportunity in integrated and customized payment solutions. If its growth plans are any indication, UP Solution chose a winning path. 

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SCA proposes alternative to end-to-end encryption

A new report from the nonprofit Smart Card Alliance proposes an alternative system to end-to-end encryption (touted by some as the closest thing to a cure-all) for shoring up the payments industry's embattled security networks.

The SCA's research paper, *End-to-end Encryption and Chip Cards in the U.S. Payments Industry*, makes the cryptography used in contactless payment acceptance technology the cornerstone of its envisioned makeover.

"We're seeing more and more discussion in the media around, and calling for, end-to-end encryption as a way to address this problem," said Randy Vanderhoof, Executive Director of the alliance.

"We wanted to put the thought out there that end-to-end encryption should be looked at, but along with all types of technological approaches. The fundamental problem in the United States is the reliance on the magnetic stripe.

"Encryption's not going to stop the stealing of cardholder data. We feel it doesn't fully address the problem; it only adds another layer of security in an already insecure network."

Using dynamic data

While end-to-end encryption focuses on safeguarding sensitive card data while it travels through the payment chain, the SCA's proposal would change the way data is managed before it enters a POS network.

The position paper calls for replacing the magnetic stripes on payment cards with chips that generate "dynamic data" – in this case, a card verification value (CVV) code (typically, the three or four digit number on the back of a credit card) that changes after every transaction. Thus, when payment data enters a network it is rendered valueless for any subsequent transaction, theoretically keeping it safe even if it is stolen.

"When a transaction goes out ... for authorization and for clearing, it's got this dynamic cryptogram attached to it," Vanderhoof said. "The system is intelligent enough that if it sees that same value a second time, it knows the only way that value could have been created is if there was a clone of the original transaction. So it's a self-policing system. ... If someone tries to harvest a transaction and replay it, it's going to be rejected."

Among the paper's most prominent considerations is cost, Vanderhoof said, adding that the proposal is designed to minimize the expensive overhauling of existing payment networks. The proposed system is loosely modeled on the chip-card-based chip and PIN payment systems used throughout Europe and Latin America, except that it would not require the PIN and use the dynamic CVV in its place.

In the United States, "most discussions have been focused on implementing the full EMV [Europay, MasterCard and Visa] chip and PIN," he said. "The main obstacle is the tremendous cost to replace all the terminals and cards. Our position is we don't need to implement the full chip and PIN to gain protection."

Vanderhoof also said Europe's chip and PIN system has a design flaw that a system of contactless payments with a dynamic CVV would remedy. Under the EMV system, cards contain both a chip and the magnetic stripe (for ATM transactions and use in non-EMV countries).

According to Vanderhoof, chip cards are next to impossible to replicate; however, criminals can skim information from the magnetic stripe which – though it doesn't work for chip card transactions – can be used to create counterfeit magnetic stripe cards for use on conventional payment terminals.

While such terminals are rare or defunct in many European



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countries, criminals in those regions simply ship stolen data to countries where it's easier to use.

"No one's figured out a way to create a fraudulent chip card," Vanderhoof said. "What they are doing is capturing that data and then creating fraudulent mag stripe versions of the card, which are accepted in places that still accept mag stripe cards.

"In the U.K., fraud in terms of merchant transactions has gone down considerably, but overall fraud hasn't gone down because they're still skimming that account card data and exporting that to places like the U.S., where they can create fraudulent U.K. bankcards that run off the mag stripe."

Depends on contactless technology

The alliance proposal does depend on the widespread – ideally, universal – implementation of contactless card payment acceptance devices. Unlike most conventional swipe modules, contactless terminals already have the cryptographic technology required by the dynamic CVV feature; using only contactless technology avoids the need for a magnetic stripe like those found on EMV cards, and with which card information is more easily compromised.


Vanderhoof said the hope is that contactless technology – aided, perhaps, by the long-awaited deployment of near field communication-enabled cell phones – will continue to proliferate and eventually dominate the POS market.

With contactless payment acceptance technology in place, implementing the chip card system will require only that the cards themselves be substituted for the existing magnetic stripe cards.

Because virtually all payment processing in the United States is done online, "issuers can use a lower-cost chip to implement contactless transactions," as opposed to a place like Europe, where "they have to utilize a larger and more expensive chip because they have to manage the offline transactions as well," Vanderhoof said.

Tim Cranny, Chief Executive Officer of Panoptic Security Inc., a consulting firm that specializes in guarding payment systems, said data security will continue to be an evolving struggle no matter what is proposed, but thinking beyond end-to-end encryption is important.

"I absolutely agree that end-to-end encryption is not a silver bullet that solves these problems completely," he said. "And I do agree that what [the SCA is] proposing complements encryption in a number of ways.

"I do think people need to be cautious not to think that this becomes the silver bullet and removes the need for encryption and so on. Encryption is used as part of this solution; they're not two unrelated worlds." 

FIS acquisition of Metavante approved

The acquisition of Metavante Technologies Inc. by Fidelity National Information Services Inc. (FIS) appears all but finalized after the two companies received both clearance from the United States Department of Justice and approval from their respective shareholders in early September 2009.

The acquisition, which will make Metavante a subsidiary of FIS, was disclosed in April 2009. Under the agreement, shareholders will receive 1.35 shares of FIS common stock for each share of Metavante common stock they own, and Metavante will assume the FIS name. In 2008, the companies generated an estimated combined revenue of \$5.2 billion.

Large acquisitions

"Fidelity has grown in large part due to its large acquisitions," said Keith Briscoe, President of Toronto-based marketing consultancy Brisk Marketing. Briscoe worked previously as the Director of U.S. Marketing for eFunds, a payment processing and consulting firm that was bought by FIS in 2007.

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"This really does leave a very short list of major payment processors within the North American space and probably globally as well," Briscoe said.

Briscoe said FIS and Metavante would dovetail – that their strengths were "complimentary and not redundant." FIS said the merger will result in cost synergies (the cost savings that result when companies of complimenting strengths join together) of around \$260 million.

"The combined scale, complementary product capabilities and market breadth of these two great companies will drive significant competitive advantages," said William P. Foley II, Chairman of FIS. "This transaction will further strengthen FIS' competitive position as a leading provider of technology solutions and enable us to generate increased value for shareholders and customers."

FIS is a global processor, headquartered in Jacksonville, Fla., that serves more than 14,000 financial institutions. Metavante Technologies, headquartered in Milwaukee, is the parent company of Metavante Corp., which provides banking and payment processing technologies to approximately 8,000 financial services businesses worldwide.

"It's pretty unsurprising that Fidelity would want to acquire Metavante since they're likely looking to increase their role in the credit processing sphere," Briscoe said.

"Metavante has a strong foothold on the credit processing side, and it's probably a strategic move in the direction of being more internationally competitive. For Fidelity it's all about expanding the range of their portfolio and depth of their client base." Representatives of both companies told *The Green Sheet* an official announcement of the deal is slated for Oct. 1, 2009. ☒

Swiping at interchange reform

The Electronic Payments Coalition recently lashed out at the National Association of Convenience Stores in a full-page advertisement in *Politico*, a Washington, D.C.-based publication covering national politics. The EPC, an organization of credit unions, banks and payment card networks dedicated to preventing government-imposed interchange reform, accused convenience stores of overcharging customers for goods and services.

The ad stated that the only thing convenient about convenience stores is "they'll lighten your wallet for you. ... It's not enough that convenience stores overcharge for what you buy. Now, they want to overcharge you for how you pay. ... Convenience stores want to make you pay to use your debit or credit card. Talk about putting the 'con' in convenience store!"

Battle for basis points

The ad, according to NACS, is in response to the retail association's efforts to bring transparency and competition to interchange fees. The two organizations have drawn battle lines over the Credit Card Fair Fee Act of 2008, which, if passed by Congress, would mandate negotiation of interchange pricing between merchants and the card brands.

"Every other aspect of the payments industry chain is competitive. Why can't we have that with interchange?" said Lyle Beckwith, Senior Vice President of Government Relations at the NACS. "And transparency by itself isn't enough. There has to be an opportunity for credit card companies to compete for merchants' business.

"You can do things when you have no competition that you otherwise couldn't do. And because there's no transparency, the rates are far too confusing," Beckwith added.

No lack of competition

EPC officials could not be reached for comment. However, the coalition's Web site states there is nothing preventing any merchant from engaging in negotiations directly with Visa Inc. and MasterCard Worldwide, and merchants can

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News

– and do – negotiate interchange fees applicable to their transactions directly with the card brands, based on a "variety of factors."

Additionally, the EPC reported there is active competition in the payment system and that all of these payment networks, including companies such as PayPal Inc. or Revolution Money Inc., are fiercely competing for business in the market. Beckwith disagrees.

"The EPC's mandate, as far as I can tell, is to preserve the status quo as long as they possibly can and keep the gravy train rolling," Beckwith said. "And if what the EPC said on their site is correct, where's the transparency? That's the only way to foster competition."

"I mean, look at our industry. We are really dumb – we put, in six-foot letters, a price down to the tenth of a penny on every street corner gas station, and when one guy drops his price everyone has to do the same. But that is what breeds competition – and there is zero competition in the credit card market for interchange. And because interchange fees are hidden and secret, there's no incentive for any kind of pricing war between the card brands to lower their basis points."

Consistent model

The NACS said that interchange is the second-highest operating cost in the convenience store industry – behind labor. However, the EPC said on its Web site that interchange legislation would result in a tightening of consumer credit resulting in fewer sales for small merchants. Beckwith feels the EPC is afraid of losing its market share.

"Interchange fees have tripled since 2001, and our industry alone paid \$8.4 billion in credit card fees last year – and only made \$5.2 billion in pretax profits," Beckwith said. "Our members can't plan, can't control these costs and cannot sustain paying more to the credit card companies than they make." He believes what the NACS is trying to accomplish on Capitol Hill is a "very reasonable" market-based solution.

"We have never advocated for a set interchange fee," he said. "We feel the prices are too high, but at this time there's nowhere else for us to go. We just want to level the playing field and make this process like any other in the business world." ☒

Will Google grab NAA micropayment business?

The Newspaper Association of America distributed a plea to select companies for new methods NAA members can use to monetize their online content. Google Inc. responded in July 2009 with an eight-page proposal. In an official statement, Google said its proposal submission was consistent with its "effort to help publishers reach bigger audiences, better engage their readers and make more money."

As people increasingly forgo their daily print papers in favor of Internet news sites, newspapers across the country are experiencing a decline in traditional subscriptions. Meanwhile, papers that have put some or all of their content online are reporting a surge in online readership. To remain viable, they must learn how to make their digital content generate revenue.

Google's solution

Google could combine two possible approaches. The first is ad place-

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"Overall, micropayments is sort of the Holy Grail in e-commerce. Everyone seems to be reaching for it, but no one has ever really been able to pull it off successfully on a wide scale."

– Melody Wigdahl,
Global Merchant Sales Director for UseMyBank Inc.

ment. With Google's AdSense, relevant ads are fed to a site once the site's owner places an ad widget there. The site owner receives money when visitors click on the ad.

The second approach is micropayments, which can be facilitated through Google Checkout. Teaser content can be viewed in a Web site's public area, and readers wishing to read a full story can click on a link to pay a small amount (a micropayment) to view the complete story.

Consumers often use credit and debit cards to pay for traditional newspaper subscriptions – providing ISOs and merchant level salespeople (MLSs) with a revenue stream – but they generally use alternate payment forms for micropayments when such options are available, leaving ISOs and MLSs out of the loop.

Melody Wigdahl, Global Merchant Sales Director for UseMyBank Inc., said, "Overall, micropayments is sort of the Holy Grail in e-commerce. Everyone seems to be reaching for it, but no one has ever really been able to pull it off successfully on a wide scale."

In a recent press statement, Randy Bennett, NAA Senior Vice President of Business Development, said the NAA "regularly makes requests for information to various companies to make our member newspapers aware of new technologies, systems and resources available to them. We have received some intriguing responses, and individual newspapers will ultimately decide whether to pursue relationships with any of the companies that participated."

According to Jeff Sigmund, the media contact for the NAA, the responses were inadvertently made accessible on the public area of the association's Web site through a technical error.


Monopsony

In 2005, separate class action lawsuits were filed against Google by The Author's Guild and its member authors, and publisher The McGraw-Hill Companies Inc. In cooperation with several libraries, Google digitized the libraries' books to benefit researchers. It then made digital copies publicly available through its search engine.

Books outside the public domain are copyright protected and cannot be reproduced or distributed without permission of the copyright holders. A combined preliminary settlement was reached between Google and the plaintiffs in both cases in October 2008. A final court

ruling is pending. And on Sept. 15, 2009, Precursor LLC released a white paper entitled Googleopoly IV – The Googleopsony Case: How Google extends its search monopoly to monopsony over digital information. A monopsony exists when there is a single buyer for a commodity or service.

Google's controversial approach to providing access to online content could cause newspapers to shy away from its proposal. But the newspapers may have other options. Chris Gaither, Senior Manager, Corporate Communications at Google, said he believes about 10 companies submitted proposals to the NAA.

For now, the newspaper's micropayment market appears to be wide open. "This is a niche that ISOs should be getting into, if possible, because it can be a huge market," Wigdahl said. "And if Google takes it over, ISOs could be on the outside looking in." 



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Trade Association News

ETA poised for congressional return

Over the summer of 2009, the Electronic Transactions Association provided information to help educate Washington officials on data security, interchange and tax regulation. The full Congress, which begins its legislative session in mid September, plans to review several proposed data security and breach notification bills.

According to Mary Bennett, ETA's Director of Government and Industry Relations, there has already been significant movement in the U.S. House of Representatives on H.R. 2221, the Data Accountability and Trust Act, introduced in April 2009. H.R. 2221, if passed into law, would require the Federal Trade Commission to promulgate regulations with regard to data security and breach notification and, more importantly, would preempt state information security laws.

"It seems that Congress is paying a greater level of attention to data security this year," Bennett said. "The Obama administration has created a new Cyber Security Office to develop national strategies to secure cyberspace and coordinate all security policies nationwide. And the FTC said they won't be shy about enforcing data security requirements."

Ready to take action

The ETA believes that legislators need continuing education on the components and operations of electronic payment systems before any of the bills being considered are passed. The ETA's primary focus is lobbying Congress to create a national breach notification standard that supersedes the more than 40 different state laws pertaining to data security and breach notification.

The ETA's board of directors met in July 2009 to approve a government relations policy plan that actively supports the creation of a federal breach notification standard. Additionally, in order to achieve optimum results pertaining to any data security and breach notification bills, Bennett suggested that ETA members and all industry professionals pay close attention to their representatives in Washington.

"Payment professionals can be proactive by making themselves known to their elected officials," Bennett said. "Find out what committees they may be on that pertain to these bills and get to know them. Let them know respectfully that you are paying attention to the activity on Capital Hill as it relates to the payments industry.

"Establish a pre-existing relationship so that when a bill

comes up on data security you have the opportunity to express your support for a national standard. Let them know that it will make a huge difference in your ability to do business. That congressman or senator needs to understand that their constituents have businesses in the area that can be helped and grown with implementation of a uniform standard," Bennett added.

Peeling back the layers

On Aug. 5, 2009, representatives and members of the ETA spoke with IRS officials to discuss the merchant reporting regulations. On Aug. 13, another group of ETA members participated in a 90-minute conference call with officials from the U.S. Government Accountability Office to explain the interchange system.

In both meetings ETA members explained the different layers of the payments system, defined the types of third-party businesses engaged in payment processing, the nature of the fee structure and the reasons merchants pay those fees.


They also drew distinctions between the interchange and the discount rate, emphasizing that interchange is but one piece of what merchants pay for products and services. Additionally, ETA detailed the high level of competition in the discount market and reported that a small retailer has a greater ability to negotiate a favorable price for transaction processing than for any other utility required to run a business.

Time for TIN

Carla Balakgie, Chief Executive Officer, ETA, stressed that the industry be given adequate lead time for implementation of the merchant tax reporting law, which will require processors and acquirers to report merchant credit and debit card transactions to the IRS beginning Dec. 31, 2010.

According to Balakgie, sufficient lead time is critical to ETA members because, once the regulations are finalized, new systems will need to be created and existing systems will need extensive reconfiguration.

"The ETA's role in educating federal agency staff is critical to the association's membership and others involved in electronic payments," Balakgie said. "Because our members represent every node in the payments chain, ETA is in a unique position to speak to the broad impact that could result from the studies conducted by the GAO or from the merchant reporting regulations to be issued by the IRS. It is vital these agencies involved have a clear picture of the payment system."

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Community from page 1

"Small businesses are becoming more sophisticated, and it's becoming more difficult for community banks to continue to meet their needs," said Christine Barry, Research Director at Aite. "They're missing a lot of opportunities out there to deepen merchant and customer relationships and offer them more of the business products that they're looking for. We're seeing some of the largest vendors moving further down market to help small banks meet those needs."

Aite reported that while community banks face many of the same trials as larger financial organizations, they are still lending and well-positioned to overcome new challenges, take advantage of new revenue opportunities and reclaim some of the deposits lost to larger institutions over the past decade.

In 2008, the largest banks saw a 3.23 percent decrease in net loans and leases (loans to entities that lease property to others), while community banks experienced a 5.53 percent growth in both areas.

"Consumers and merchants were frustrated with the activities a lot of the larger banks were participating in, and they also began to question the security of their money," Barry said. "And even though that money was insured, it has still led to an exodus to smaller institutions. Today there is greater demand than ever for higher levels of customer service, and that's something where community banks differentiate themselves. It's their bread and butter."

Barry noted that 50 percent of community banks increased deposits and new customers in the last two quarters of 2008. "So there's a lot more focus now, especially from the vendor community," she said. "This is still such a relatively untapped market. There are a lot of opportunities – and it's starting to get recognized."

Three main drivers

Along with the relatively healthy growth of community banks over the past year, three other factors will enhance opportunities for ISOs, MLSs and processors to expand product and service offerings to community banks and their clients:

- President Obama and the U.S. Congress incorporated initiatives to bolster small business loan programs into the American Recovery and Investment Act of 2009 (which is strongly supported by the ICBA).
- Community banks, which formerly had minimal interest in payment processing solutions, now have great interest in offering a comprehensive suite of services that will help increase the banks' competitiveness while cutting costs.
- Small businesses, which financial experts agree are the lifeblood of community banks and have created 70 percent of the new jobs in the past 10 years, rep-

resent 99 percent of all employer firms and employ half of the private sector workforce, according to the Small Business Administration Office of Advocacy.

"Community banks are good at what they do – which is banking and customer service – but I think payments has always been a problem for them because they don't quite understand it, nor do they have the staff necessary to sell payment solutions properly," said Harry Johnson, President of Money Transfer Systems Inc. "They've never had the knowledge and depth to make it happen effectively, so they've outsourced it."

Johnson believes that the advent of many new regulations, the Payment Card Industry Data Security Standard compliance rules and the demand for expanded service offerings are going to open the door for ISOs and MLSs. "The banks just aren't going to be able to handle it," he said. "They're going to need specialists more and more in the payments industry to manage their merchant services for them."

Maximizing merchants' trust

According to Bruce Ferguson, Executive Vice President of United Merchant Services of California Inc., an ISO doing business as UMS Banking, the level of trust that comes from a community bank's reputation for stronger customer service is the glue that enables them to acquire and retain local merchants' business. ISOs and MLSs can capitalize on these trusted relationships to sell to merchants through their local banks.

"Many times, if a merchant's community banker tells them to use a particular product or service, the merchant will follow the advice," Ferguson said. "The banker is already trusted to control their loan and deposit relationships, why not their payment needs? The defining difference is the trust and benefit which the community banker has in their payment processor, which is most often today a third-party relationship."

Ferguson believes the ISO reseller channel exists because community banks have been slow to adopt alternative payment forms. "Banks focus on loans, which makes sense, because their income is too little to warrant a full-time specialist to market and manage the risks involved with processing card transactions or other ancillary payment products," he said.

Ferguson added that the best option for banks that don't want to assume that type of liability is to partner with trusted ISOs to deliver payment processing services. "This solution provides the financial institution with both service reliability as well as on-going portfolio revenue," he said.

More than selling

The Federal Deposit Insurance Corp. reported that 43 U.S. banks failed between January 2008 and February

CoverStory

2009. However, the ICBA reported that, despite the economic crisis, 98 community banks were chartered as FDIC insured institutions in 2008. New banks come with new challenges – and opportunities for payment professionals to do more than simply sell payment solutions.

Paul Lonsford, an MLS for First Data Independent Sales, said FDIS establishes relationships with community banks in which the banks become agents given the opportunity to participate in revenue streams with FDIS.

The banks are not clients; they are partners who liaison between FDIS and the local merchants who do business with them.

Lonsford believes this type of relationship allows FDIS to help community banks win business that would otherwise go to larger banks, but to do that, the community banks have to offer all the services that big banks do.

"We're simply finding that it's better when they become one of our agent banks," Lonsford said. "It's good for them because they have no overhead.

"They don't have to maintain the systems and we're improving their bottom line because they can operate like a big bank without the risks. All they have to do is give

us a nice warm lead-in with their merchant. And I'm getting trust right away with the merchant through that bank relationship."

Filling the gaps

The infrastructure of community banks is, of necessity, fairly sophisticated, which can make it easier for ISOs and MLSs to offer services that streamline workflow management, are cost-effective to the banks and give them the tools to compete with big banks. Among the products payments professionals can offer to community banks are payroll cards; prepaid, gift and loyalty programs; check processing; and automated clearing house solutions that include comprehensive reporting, recurring transactions and integration with merchant Web sites.

"I was talking with one of the bank executives in my region, and one of the things that he didn't know we could offer was money payroll debit cards, and he said that was a huge deal for his organization," Lonsford said. "He didn't know a processor could do these things because most people in the banking community only think of credit card processing when they think of payments."

Dean Seifert, TSYS Acquiring Solution's Group Executive of Sales and Client Relations, believes education, training and ongoing support are vital for the payments industry to continue making inroads into the small bank sector. He said that, because community banks have very unique needs and must adhere to certain regulatory procedures, payment professionals must adapt accordingly.

"It's a different model versus selling to retailers or other merchants who are in many ways more willing to bend because their procedures aren't as hard and fast," Seifert said. He believes there are two things to consider when going after community bank business.

"One is to make sure that you have a wide portfolio of products that can solve more than just one problem, like selling a portal to a merchant that can offer services other than just straight credit and debit card processing," he said. "The second thing is making sure that community banks look to their service partners as experts when it comes to PCI, security and risk management, breaches and end-to-end encryption."

Seifert noted that the banks have heard about the issues pertaining to data security, but probably do not fully understand their ramifications. "So it means you have to be the expert in the room," he said. "You also have to provide adequate training to their branch staff. The days of signing a contract and just hoping for the best are over."

The best value-add

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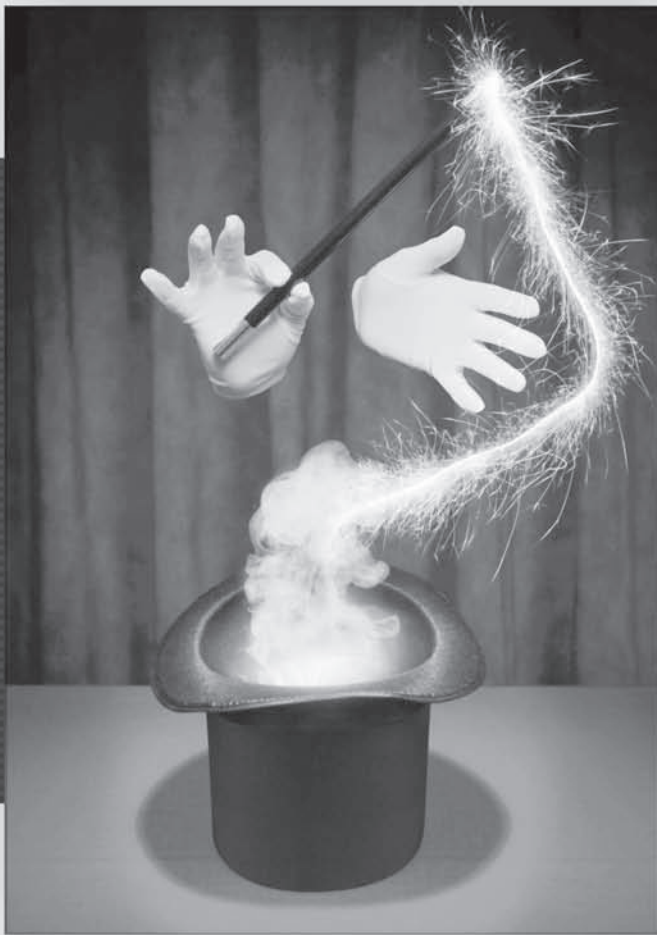
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self-service kiosks and remote deposit capture (RDC), among other services. However, the company feels its most important value-added service is the sound relationships it establishes with the banks. That means marketing and training materials and technical support are always available.

"You have to remember that the customer who uses a community bank's credit card product or took out a small business loan isn't concerned about how much his bank is charging for processing," said Darrell Anderson, Senior Vice President of TSYS. "For them, it's simply about having a solid, trusting relationship with someone who is going to genuinely help them grow their business. And as a service provider, it's imperative that we provide that 24/7 assistance."

A significant opportunity for ISOs in the community banking sphere is the ISOs' ability to offer outsourced programs in which the banks retain some ownership and control. This benefits the banks because they have influence but don't bear the costs, risks, implementation, product support, maintenance and staffing requirements associated with the programs.

"This outsources the liability for the bank, enabling them to eliminate the Tier 1 capital requirements," Ferguson

said. "They can then use this leverage to support their more profitable loan portfolio, reduce IT requirements and outsource much of the security compliance cost to the ISO, which often forwards that to the merchant and reduces internal administration costs."

Additionally, Ferguson noted that when the ISO's payment processing services are included in the community bank's list of products, the bank can "own" more of their clients' business, resulting in more stickiness. "And I think it goes without saying that more products equal more bank customer retention – and that's great for both the ISO and the bank," he stated.

Shifting the focus


According to Aite's March 2009 report, RDC and branch capture are two of the top five technologies community banks are considering for deployment. Data security, fraud prevention and anti-money-laundering concerns round out the remaining priorities.

"Banks are really looking at RDC as the most effective and efficient way to collect deposits and I think that's going to be a great realization when it occurs on a mass scale," said Michael Pratt, Chief Marketing Officer for Panini North America Inc. "In the small-business world, 70 percent of their receivables are in the form of a check, so I see RDC as a strategic means where these community banks can insert themselves back into the payments story."

Pratt estimates that 23 million businesses have not yet heard of RDC despite latent need on their part for adopting this type of solution. Pratt believes that to reach those businesses, it is necessary "to structure and implement joint marketing programs, trial programs, sales contests and training initiatives and be an extension to their marketing teams – to be more of a market maker and not just a solutions provider."

Barry and Verdier are optimistic about the community bank sector's potential to become more competitive in the financial services marketplace, regardless of the challenges ahead. Leveraging technology and services provided by payment experts can help community banks broaden their product portfolios, increase their potential for strategic mergers and enable them to more effectively acquire new customers and deposits, as well as regain a portion of deposits previously lost to larger financial institutions.

"I do hope that more consumers will eventually realize that the community bank option is just as viable for a customer or merchant as a bigger bank," Verdier said.

"I think this crisis gives us the opportunity to get our message out that we're still out there, we have capital and are happy to serve you. Community banks are warm and fuzzy and are good for America, but they also have the technological sophistication to provide the kind of services everyone is demanding." 

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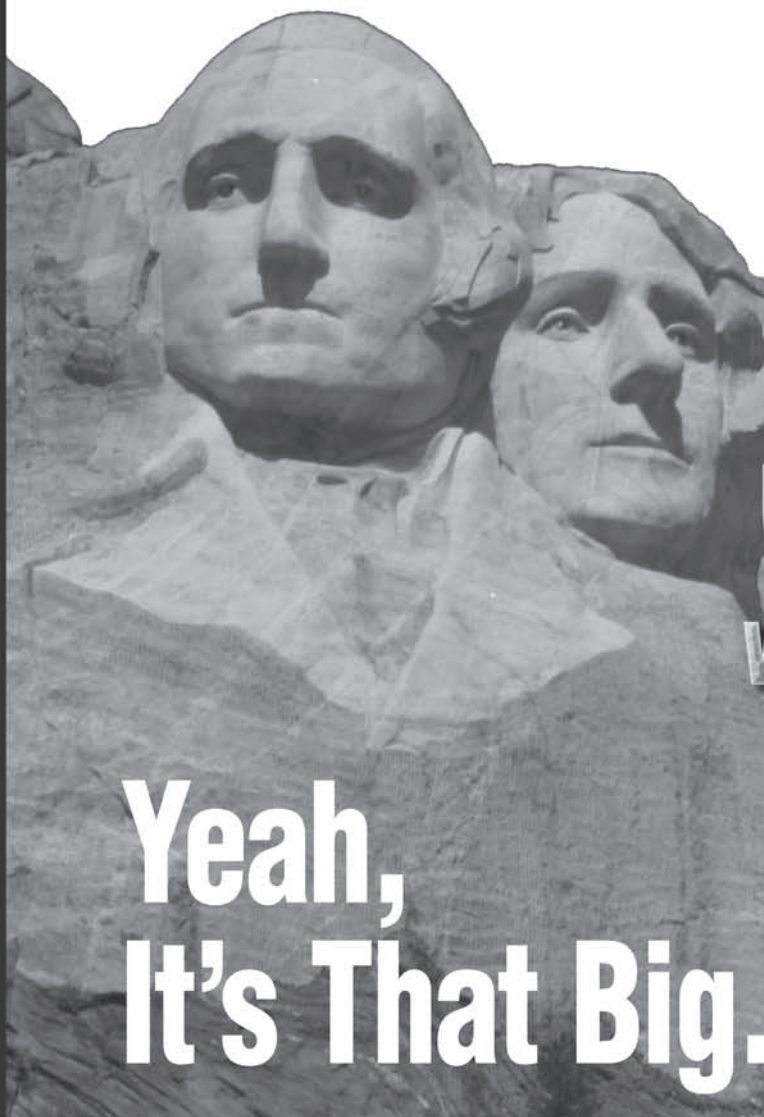


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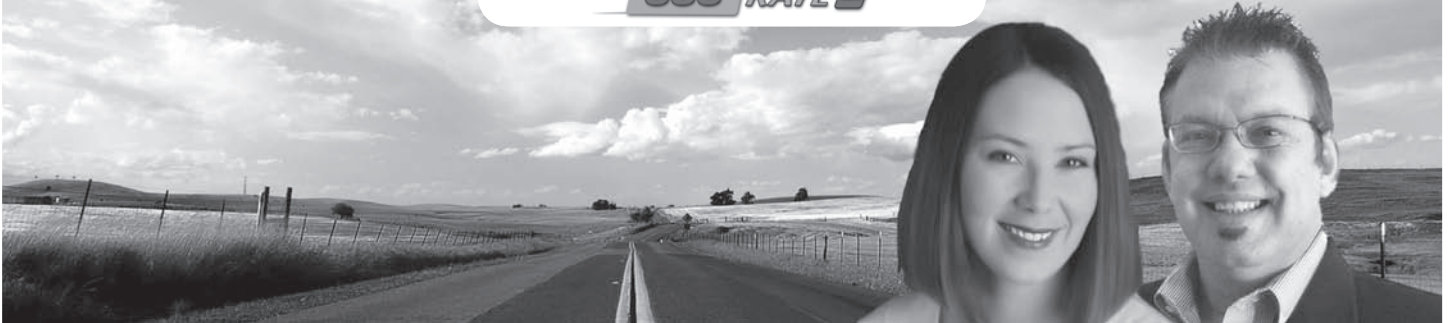
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Education

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Every little bit helps

By Jon Perry and Vanessa Lang

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In the summer of 2005, the company we worked for officially went bankrupt. And this was the second time a chief executive officer caused the demise of a company where Jon was employed. Knowing it was time to take control of our lives, we decided to start a business that generated residual income.

First, we researched insurance. Then we began to investigate the bankcard industry, and the rest is history. (We recounted this journey in "Who are you?" our inaugural article for Street Smarts, *The Green Sheet*, April 13, 2009, issue 09:04:01.)

Like many people entering the bankcard industry, we relied heavily on our ISO to provide the services we offered to our clients. Thank goodness for events like the Western States Acquirers Association's annual meeting; it opened our eyes to other sources of residual income.

Over time, these income streams became substantial. These included gift card, check service, leasing, gateways, equipment and supplies, as well as some less common sources of residual income.

Ultimately, bankcard processing residuals are our bread and butter. Everything we do reverts to adding more processing volume to our portfolio. The additional sources of residual income increase profitability per merchant account and increase retention. Every little bit really helps.

The opportunities for the feet on the street are numerous. However, it is easy for one-man shops to add so many value-added services to the mix that they become overwhelmed and end up with multiple vendors and very few sales. A good rule of thumb is to start slowly.

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The building blocks

Of foremost importance is securing a positive bankcard relationship. Your ISO should not only offer the ability for you to piggyback on its preferred vendors, but also allow you to use alternative providers. Then you can begin to add the remaining essentials.

Leasing is a tougher sale today than previously, but it can substantially add income to new merchant level salespeople (MLSs) while they build their residuals.

Gift card and check services are two other essentials. Standardize your pricing for these based on the Schedule A in your contract, and create a process for selling, implementing and servicing clients who select these services. This makes the trifecta of services all industry professionals offer.

We also encourage bankcard professionals to source gateway and equipment providers. Gateway accounts, or online processing services, comprise an area within which you can gain significant residual income.

For a couple of years, we sent our gateway accounts to be set up by our ISO. This was a missed opportunity to build our own source of revenue while gaining powerful control and insight into our merchant processing.

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We cannot stress enough that you should source and secure your own relationship with a compliant, cost-effective and technically savvy gateway company. We have utilized eProcessing Network LLC for years and have been exceptionally pleased with the relationship and service.

Equipment issues

Equipment providers are not really a source of residual income. We mention them because they are a source of valuable information, quick delivery and a direct way to handle issues (repairs, refurbished equipment, warranties and so forth).

Having a dedicated account manager for your equipment needs helps in creating a lean environment where you can purchase equipment only when needed, therefore reducing inventory, and ensuring that you don't end up with 500 noncompliant terminals. (Oh, and they will sell you that one random cable you needed yesterday.)

Many times sales professionals buy equipment from their ISOs, which download the terminals and send them directly to merchants. This is an extremely useful tool, although we have never utilized this service for two major reasons: loss of control at the point of install and loss of revenue.

A successful install can result in a client for life. A bad install or lack of hands-on training can shorten the life span of your merchant account. When an MLS is on site and trained properly, asking for referrals and dropping by satisfied clients' neighboring businesses results in more accounts.

Also, we are never shy about charging for our time and effort. Managing your equipment process allows you to charge a setup fee.

Lastly, this experience is valuable in helping you understand how a terminal or software program operates. Being able to quickly troubleshoot when a customer calls adds tremendous value to you as the bankcard professional.

The service difference

By now having, at a minimum, the above processes in place, you can call yourself a full-service merchant service provider. So what? We ask businesses every day, What makes you different from the rest? It is not being a one-stop shop for electronic payment processing; we all strive to do this.

In truth, when merchants are presented with two offers containing virtually the same product or service, they will buy from the person they feel they can learn from. And although we don't buy into the notion of the bankcard business being a commodity, that characterization is not far off. The goal is to avoid selling on price or trying to match low-

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Challenge yourself to truly listen to what else your clients are asking for.

ball quotes that merchants typically don't understand fully. So challenge yourself to truly listen to what else your clients are asking for. Our clients asked for help with Web design and hosting.

We already had the skill sets on site, so that was easy for us to provide. But it would not have been hard to develop a relationship with a company that focused on Web site development.

Our customers asked if we could help increase their visibility; we implemented our Social Media Bootcamp, which teaches business owners and marketing professionals how to leverage social media.

Our clients asked how we could reduce their costs; we implemented POS systems (sure we knew they were asking for lower rates). All of these value-added services have one goal: to capture and retain bankcard processing volume.

To qualify for our Web site development program,

an individual must have an active merchant account on file. Also, attendees to our Social Media Bootcamp see "Merchant Services" about 20 times during the seminar (they also have a front-row view of our online customer testimonials).

Jon is our technology guru; Vanessa is the same for process improvement – what is your skill set? How can you take your intellectual property and turn it into money? On GS Online's MLS Forum, ccguy stated, "Get creative, sell ACH, sell software, sell gift cards, but sell something along with the processing." We couldn't have said it any better. ☑

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.

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Education (continued)

Telephone etiquette

By Vicki M. Daughdrill

Small Business Resources LLC

The telephone is one of the top 100 inventions of all time, according to the Encyclopedia Britannica. Wikipedia traces the telephone's development from 1844, when Innocenzo Manzetti first discussed the idea of a "speaking telegraph," through April 1877, when "Edison filed for a patent on a carbon (graphite) transmitter." Alexander Graham Bell is generally credited with developing the first telephone for which he was awarded a U.S. patent in 1876.

From its inception, the telephone has been an integral part of our lives; it is essential in today's ever changing workplace. And with current economic restrictions, business is increasingly being conducted by telephone rather than in person.

Creating an impression

How you answer your business telephone identifies your company as professional or amateurish, and it sends signals about your company's character and culture. A

pleasant, energetic and enthusiastic voice represents your business as a vital, growing entity.

Whether you are a single-person merchant level salesperson office or the largest ISO, you need to convey the highest level of professionalism. Good manners are always appropriate. "Thank you," "you're welcome" and "please" are essential in creating a positive impression. In certain parts of the country, "yes, ma'm," and "no, sir," are expected expressions of respect.

Here are some telephone tips to keep in mind:

General habits

- Remember, you are the voice of the business. You may be the first or only contact a person has with your company.
- Speak directly into the mouthpiece.
- Speak in a pleasant, friendly voice. A smile in your voice comes through telephone lines, as does a frown.
- Eliminate or at least reduce background noise to provide the most businesslike setting for placing and receiving calls.
- Do not carry on other conversations, keyboard, or perform any other activities while placing or receiving calls.
- Do not speak on the telephone with your mouth full of food, or while chewing gum or smoking.

Receiving calls

- Always answer calls within three rings.
- Identify yourself and your company by saying your name or "XYZ Company, Jack Smith speaking."
- Listen carefully; do not interrupt or talk over the caller.
- If a caller reaches you in error, be courteous and help the person if possible. If you are unable to assist, say simply, "I'm sorry; you have the wrong number."
- Never hang up on a caller. If someone is abusive, say, "I'm hanging up now." Then hang up.
- If you must place a caller on hold, ask, "May I place you on hold while I look up that information?" Then use the hold button. Never say, "Please hold." This appears brusque and uncaring.
- If you are unable to assist a caller and need to transfer the individual to someone else, explain what you are doing, who you are transferring the caller to, and a number to call if the call gets disconnected.

Placing calls

- Prepare for each call by identifying your objectives and thinking about the language you want to use.

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Education

- Be sure you have the correct number.
- If you are calling a different time zone, be aware of the time. You do not want to call someone at an unusually early or late hour unless you have scheduled the call for that specific time.
- Identify yourself clearly by giving your name and company name, spelling both if necessary.
- Allow time for a few pleasantries, but do not linger over personal conversations.
- Clearly state the purpose of your call.
- Focus on the objective of the call and the actions required.
- At the end of the call, repeat any request or actions to be taken.

Handling messages

If you accept calls for another person, and voice mail is not in use, never ask the caller to call back. Instead, carefully take a message that includes the date and time of the call, the caller's name, company name, telephone number for a return call, and information on the purpose of the call.

If voice mail is available, responses such as, "He is out of the office for the morning. Would you like to leave a voice mail?" or "She is unavailable at this time. Would you like to leave a voice mail?" are good. If at all possible, include a time frame for when the person will return to the office or be available for calls.

Voice mail is an essential part of today's communication arsenal. However, it can be cold and impersonal if not handled carefully. You need to utilize it effectively and professionally. Remember, voice mail is more than a tool; it is also a reflection of your business.

Get in the habit of returning messages promptly. If you do not return calls, people will assume you are screening your calls, hiding behind voice mail or simply refusing to deal with issues.

Even if you have minimal or negative information to convey, it is important that you communicate clearly and frequently.

Here are some tips for outgoing messages:

- Record your own personal greeting and change it frequently to reflect your activities. A sample professional greeting is: You have reached Jack Smith with XYZ Company. I am in the office today but unavailable to take your call. Please leave a message, and I will return your call as soon as possible.
- If you have unique or unusual work hours, be sure to include them in your message.
- If your voicemail system allows it, include a sentence that says, "If you need immediate attention, please press x for Jane Doe."
- If you plan to be out of the office for any period of time, change your message to reflect your schedule. It is unprofessional to leave your general message when you plan to be away from the office for a two-week vacation, for example.

You may frequently find it necessary to leave a voice mail for clients or colleagues.



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When doing so, keep the following in mind:

- Speak slowly, clearly and distinctly.
- Leave your name, company name, call-back information, the date and time of your call, and when you are available for a return call.
- Spell your name or company name if necessary.
- Keep your message short and to the point.
- Repeat your telephone number at the end of the message.
- Close your message with, "Thank you" and "good bye."

Using language

Your word choice and tone of voice affect the way your communications are perceived. Unfortunately, a message delivered without care might come across as rude or offensive. Being aware of the language you use and the tone of your voice will help you communicate in a positive manner, even if the message itself has negative content.

Here are some words that help convey a positive message:

- Will you please (rather than you have to or you need to)
- Your question (rather than your problem or your complaint)
- May I place you on hold?
- May I ask who is calling?
- I'm having difficulty hearing you; could you please speak a bit louder?

At all costs, avoid these words:

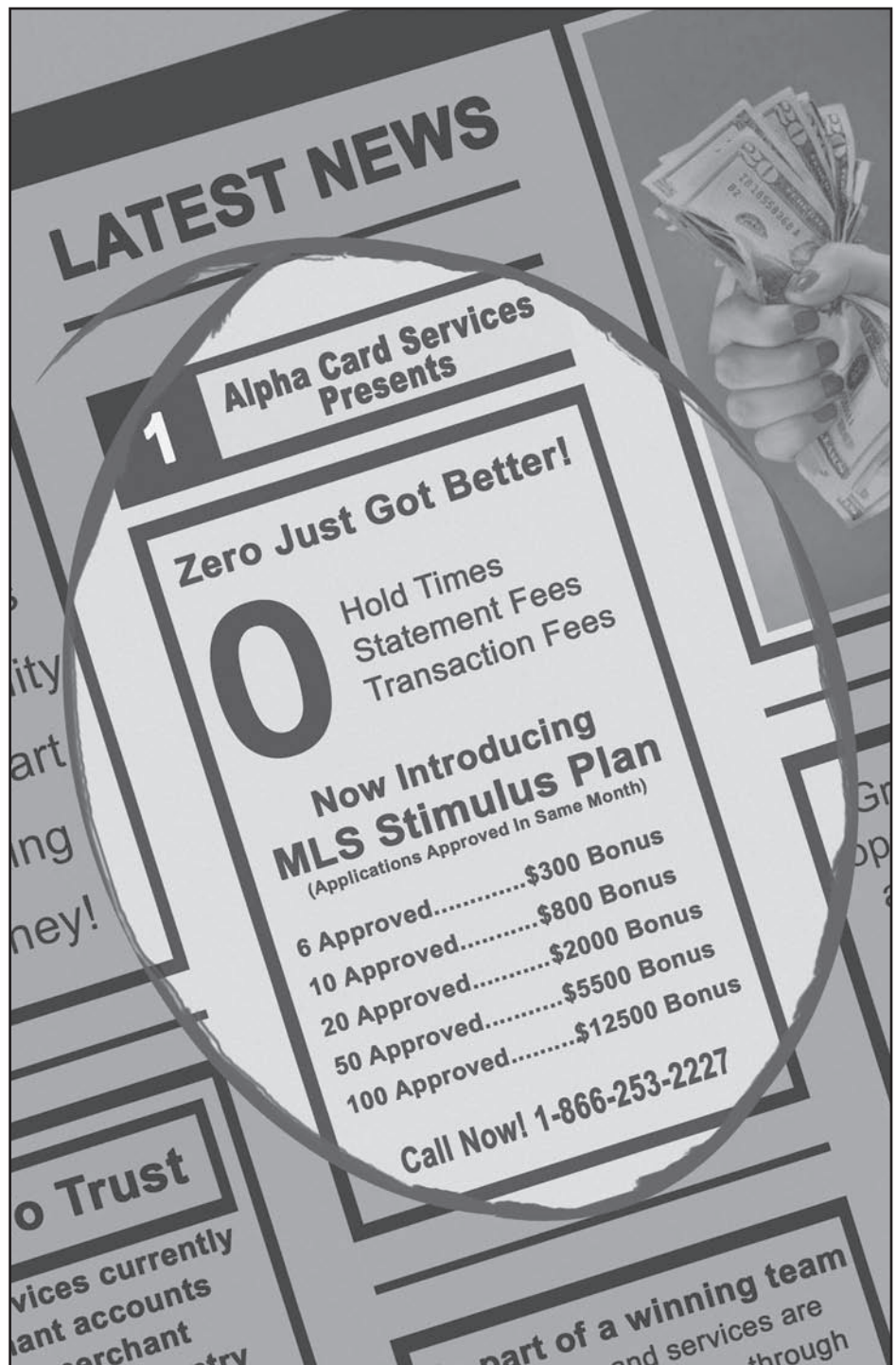
- Hang on.
- Hold on.
- Who's calling?
- I can't hear you; speak up.
- I can't help you. You will have to talk to someone else.
- You'll have to call back.

- Why are you calling?
- What do you want?

The telephone is a vital tool when handled with professionalism. Take a few minutes and evaluate your own skills and those of employees who work for you. Remember, that voice on the telephone is frequently the only contact someone has with your business.

Be sure it accurately reflects the image you want to convey. 

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



Education (continued)

Ask the coach

ERR, a merchant retention tool

By Bob Schoenbauer

Capitol Payment Systems Inc.

Question: Can you please explain ERR in plain terms? I've seen it thrown around so many times, and when I've tried to explain it to merchants, they seem to get a glossy look in their eyes, indicating that the program is way too complicated. In layman's language, please tell us what it's all about and how it's calculated.

"Coach" Bob's answer: First, let me explain that ERR is an acronym for Enhanced Recover Reduced, which is a merchant pricing model. ERR has been a hot topic lately.

Everyone seems to want to understand the mechanics of the model, along with how to explain it to merchants. Some also question the ethics of this model in the name of disclosure and see it only as a short-term means for overcharging small merchants.

We, at Capitol Payment Systems Inc., currently board a percentage of our merchants on ERR and have found it to be a great retention tool for small and medium-size merchants alike. As with tiered and interchange-plus pricing, if properly priced and disclosed, ERR can be an effective alternative to have in your toolbox for any size merchant.

Why try ERR?

We first boarded merchants using ERR about three years ago. Mike, one of our new agents, had been using it elsewhere and wanted us to look at it. Mike explained that it is a great merchant-retention tool and that he does fully disclose to merchants what they are paying.

He was also quick to remind me that what merchants really remember after you leave is, "I am going to pay x amount per month and gain a local rep who will meet with me face to face."

Mike assured me merchants would be priced competitively. He pointed out that, in his eyes, merchants get the savings they want, while at the same time, the next agent that comes in the door will not be able to interpret the pricing and may just walk out the door.

In his first three months as a member of our sales team, Mike boarded approximately 40 merchants, including a small chain. We reached out to some of those merchants to see just what they did and didn't understand. All were satisfied. Most honestly only cared about savings and not how it was achieved. Today, over three

Terms to know

Following are some useful definitions that pertain to pricing merchant transactions:

basis point: 1/100 of a percentage point. The term is used to describe discount rates, which are the bulk of card processing fees paid by merchants.

discount rate: includes fees, dues, assessments, mark-ups and network charges merchants must pay for accepting credit and debit cards. Interchange is the discount rate's largest component.

interchange: the fee paid to the card issuing bank by the card acquiring bank by way of the card brands. Interchange rates vary widely based on card type, transaction amount, risks and retail sector. Interchange is assessed on all Visa Inc.- and MasterCard Worldwide-branded credit and debit cards.

mid-qualified: the percentage rate merchants are charged when accepting credit cards that do not meet qualified rate requirements. Also known as a partially qualified, the mid-qualified rate applies in such cases as when cards are keyed into terminals instead of swiped or if the cards are of a special type such as rewards cards.

non-qualified: often the highest percentage rate merchants are charged for accepting credit cards. In most cases, transactions that are neither qualified nor mid-qualified fall into this category. The bulk of these transactions are done with corporate cards.

qualified: the percentage rate merchants are charged when they accept regular consumer credit cards and process them with an approved processing solution in a manner defined as standard by their merchant account providers. Qualified is typically the lowest rate merchants incur when accepting credit cards.

years later, nearly every one of those merchants is still on board.

Due to turnover in our industry, most of our competitors are new to the business at any given time and are virtually helpless when trying to obtain business from merchants whose processing costs are based on an ERR model. Only seasoned veterans selling on effective rates will have a chance; in fact, even they will have to battle against merchants who want to talk only about their qualified rate.



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- ▶ Northeast
 - Brian Soares, x5443
- ▶ Midwest
 - Natasha Cvijanovic, x5205
- ▶ Southeast
 - Gregory Renfroe, x1927

Education

How it works

Before I explain the mechanics of ERR, let me be clear that I believe in full disclosure to agents and merchants alike.

The ERR model was designed for retail and restaurant swipe merchants as a blend of tiered pricing and interchange-plus with an enhancement. With ERR, three rates are written on the merchant agreement: qualified debit, qualified credit and a non-qualified surcharge rate.

The non-qualified surcharge may also be referred to as the ERR rate. The non-qualified rate is where interchange comes in.

So, here we go. (Remember, these are card swipe merchants.) For the qualified debit and credit, the rate is very simple. What you write in is what the merchant pays. For ease of use, if you enter 1.69% in both the credit and debit boxes, that is what the merchant pays on all transactions that qualify.

This is the only time the qualified rates that you write in are used. So we are done with qualified transactions and the rates you wrote in. These are not used on non-qualified transactions.

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Non-qualified transactions

Transactions that do *not* qualify will revert to the true interchange rate the transaction qualifies at or downgrade to such rates as key entered, rewards or electronic interchange reimbursement fee (EIRF). You then add the non-qualified surcharge rate that you entered on the application.

In addition, merchants will pay a difference factor, which is the tricky part. It is the difference between where the transaction actually qualifies, in this case EIRF, and the card brand's swipe interchange rate, which is the same as saying the merchant's qualified rate at true interchange.

Breaking ERR down

For example, let's picture doing a swiped Visa Rewards Card transaction at a retail store. We know that interchange on a Visa Rewards card is 1.65%, eleven basis points more than the merchant's base rate of CPS Retail at 1.54%. We also know that you wrote in a non-qualified surcharge of 1%.

So for that transaction, the rate would be 1.65% for the rewards card plus the 1% non-qualified surcharge you wrote in on the application, plus the difference of 11 basis points between rewards and CPS retail. Here's how it looks:

Interchange.....	1.65%
Non-qualified surcharge.....	1.00%
11 basis-point difference from CPS retail.....	.11%
Total.....	<u>2.76%</u>

Keep in mind that the only thing used from the application on a non-qualifying transaction is the non-qualified surcharge you wrote in. Everything else is straight interchange. The base rate used for finding the difference is the merchant's qualified rate at true interchange, and the rate that the transaction downgrades to is always true interchange.

Let's do one more: We begin with a card at 1.69% interchange and a non-qualified surcharge rate of 1%. However, the transaction downgrades to EIRF, which is 2.30% at interchange. So you have 2.30% plus the non-qualified surcharge of 1% plus the difference in EIRF at 2.30% and CPS retail at 1.54%, which is 0.76% (76 basis points). Here's how it breaks down:

EIRF interchange.....	2.30%
Non-qualified surcharge.....	1.00%
76 basis-point difference from CPS retail.....	.76%
Total.....	<u>4.06%</u>

I hope this sheds a little light on the mechanics of ERR.

Making it simple

The merchant statement shows only the qualified rate the agent wrote in. No other rates are disclosed. If you filled

in 1.69% with a non-qualified surcharge of 1%, the merchant statement details only the 1.69% qualified rate.

For example, if the merchant processed \$10,000, the merchant would see the following:

\$10,000 at 1.69%.....	\$169
Non-qualified transactions	\$87
Total.....	\$256

No rate or volume is shown for non-qualified transactions – just the charge. If you think it is impossible for merchants to break down the charges when they receive their statements, you are right.


But if ERR is sold properly and fully disclosed, what the merchants really care about after the fact is that they are paying what they were told they would pay, that is to say, the effective rate or savings.

What matters to merchants

What sticks in a merchant's mind is the low qualified rate. We have all visited merchants who only want to talk about the qualified rate: You try to explain interchange plus, and they won't stop coming back to, "My rate is 1.59%; what is yours?"

As with tiered or interchange-plus pricing, How many merchants truly understand all aspects of these models when you leave them? What about a week later? Do they remember which tier each card or transaction type falls into? Do you? Do they understand the ever-growing novel of interchange?

The only ones negatively affected by ERR are your newly trained competitors who stumble in the door, possibly prepared to twist the numbers. The problem for them is all they have to work with is a qualified rate. The merchant is happy, you are happy, but the new guys have to retreat to their cars.

We all need to do our best to help merchants understand the model we choose. Used properly, ERR offers the opportunity to do this and raise your retention rate in a fair and equitable way – not discount rate, retention rate. 

"Coach" Bob Schoenbauer is the President and founder of Annapolis, Md.-based Capitol Payment Systems Inc., which was established in 1997. CPS is a debt-free ISO/MSP built on clarity, respect and an open door for MLS partners. Bob is always available for advice, drawing on his experience in both face to face and phone sales. You can reach him at bob@capitolpaymentsystems.com, coachbobs@verizon.net or 410-897-4960. For more info on CPS, please visit www.capitolpaymentsystems.com.

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Education (continued)

Need cash for your business?

By Mark Dunn

Field Guide Enterprises LLC

So you've grown yourself a nice little portfolio of merchant accounts. You've worked your buns off calling on merchants, learned your market, fought off competitors, found a successful sales model, hired several sales reps (half of whom didn't stay long enough for you to get a payback on your investment) and you now enjoy a respectable monthly residual.

Where's your next move, and how do you come up with enough cash to finance it?

You know of two or three opportunities that could pay big returns, but you need cash to make them happen. Where can you get the cash? Can you find an investor to go in on your ISO? Can you convince someone to loan you the money, or do you need to sell some of your portfolio?

That's a tangle of questions. Let's sort them out.

Options

My assumption is you need more money than you could finance with a credit card. Also, it's not a good time to go to family or friends for funding. And if you've checked with bankers or the Small Business Administration, you know they're not going to help an ISO because ISOs have few tangible assets.

Your options are to find:

1. Debt financing – a nonbank lender who will give you cash, secure your portfolio against repayment and require you to make payments until the money, plus interest, is paid back
2. An investor who will put money into your ISO and become a partner
3. A buyer for part of your portfolio

Debt financing

Everyone I talked to for this article said debt financing is tough to find right now. In the first place, few nonbank lenders will deal with ISOs, and it is difficult for lenders in this business to see where the merchant services market is trending. Without clear direction for the market, some are reluctant to take on new clients.

Two well-known names in debt funding are Darrin Ginsberg of Super G Funding, www.supergfunding.com, and David Putnam of Resource Finance Co., www.resourcefinance.com.

Ginsberg has been purchasing portfolios for many years and has recently begun to provide debt financing for ISOs. Super G will loan up to \$1 million to ISOs based on a 50 percent loan-to-value ratio relative to the portfolio. That means you can only get up to about 10 times your monthly residual. The loan term can be one, two or three years.

RFC has been in the business of providing working capital debt financing to ISOs for over a decade. The company's Web site contains valuable information on debt funding and basic finance. Asked about what RFC is doing today, Putnam said the company is "in the lending business," and for the present, continues to service its existing clients.

What do you have to do to qualify and receive debt funding? Typically, you will need to:

1. Provide 12 months' residual statements and 12 months' bank statements
2. Pass the underwriting of the lender (requirements vary)
3. Sign an assignment agreement that puts the lender ahead of you in the flow of residuals
4. Sign a personal guarantee
5. Sign the lender's agreement

There may be other criteria and covenants the lender will require.

Equity financing

You certainly have the option to find a partner. But the fact is there are few, if any, sources of equity investment in small ISOs today. And I would suggest that most small ISOs don't want to consider an equity partner for the following reasons:

1. A new partner will want to have a say in how the business is run and may demand changes you won't be happy with.
2. Partners want to be kept informed constantly about how "their money" is being used.
3. The equity a partner requires for the investment may be a hefty chunk of your business. (For example: You're thinking 20 percent; the partner is thinking 60 percent.) You may have to give up majority control.
4. A new partner may not want to provide the full amount all at once, preferring to write several smaller checks over time if the results are good.

Selling part of your portfolio

The remaining option is to sell part of your merchant accounts. Most small ISOs actually own their residual streams rather than the merchant accounts. That's OK

▶ **The experts say portfolio values are down because of financial uncertainty, erratic processing volumes and the unpredictable merchant attrition outlook.**

because buyers of small ISO residual streams usually don't want to move the accounts. They want the accounts to stay where they are, continue processing and grow in processing volume.

The buyer will now get the residual check for the part of the portfolio you sell; you will assign the residual to the buyer. Again, check with the buyer to see what his objectives and requirements are.

A number of companies are buying small portfolios today. The buyers I checked with are Harold Montgomery, founder of ART Holdings, parent company of Calpian Inc., www.calpian.com; David Daily, President and Chief Executive Officer of Cutter Inc., www.cutterfinancial.com; and Dean Caso, Principal of Velocity Funding Inc., www.velocityfunding.com. As mentioned previously, Ginsberg buys portfolios through Super G.

The experts say portfolio values are down because of financial uncertainty, erratic processing volumes and the unpredictable merchant attrition outlook. Most say the range for valuations is from 12 to 18 times the monthly residual.

Of course, the valuation depends on multiple factors such as the mix of merchant types, whether most of the volume comes from a small number of merchants, age of the accounts, record of merchant attrition and so forth.

Debt financing versus portfolio sale

The following are advantages of debt financing:

1. The interest on debt financing is probably deductible. Check with your tax expert.
2. You retain ownership and will benefit from all growth of the portfolio.
3. The cost of borrowed capital is cheaper than selling.

Disadvantages of debt financing include:

1. Interest rates are high (16 to 25 percent) and the amount of money you will have to pay each month is considerable. You may be paying a third of your residual check to the lender every month.
2. Because of the covenants and limitations of the loan, you may not get all the money you need for your purposes. The lender may also limit what you can do with the money.
3. If your business isn't profitable enough and growing

fast enough to make the loan payments, you may go into default and lose it all. You have to be sure you can make it financially.

4. You still have service responsibility and still bear the risk of merchant attrition.

Advantages of selling are as follows:

1. It may be easier to get a larger amount of money when you sell.
2. Some consider a sale clean and convenient versus a loan where you have to keep the lender happy. There is a "care and feeding element" to a loan; you have to communicate with the lender, provide reports, perhaps even undergo an audit. Also, many smaller loans today require a personal guarantee.
3. If it is getting harder to prevent attrition in your portfolio, it may be better to sell now to maximize the value.

Disadvantages of selling include:

1. There may be tax consequences from a portfolio sale. The sale will probably be subject to capital gains tax. Consult your tax expert.
2. If you were to not sell but continue to build a larger portfolio, you might get a higher multiple than you would get later by selling pieces of the portfolio off. However, the experts say this is usually only true for monthly residuals above the \$200,000 range.
3. You won't get 100 percent of the payout immediately. Virtually all buyers will hold back part of the payment for 6 to 24 months to account for higher than expected merchant attrition.
4. When you sell part or all of your portfolio, you have little or no chance to benefit from growth of the portfolio you sold. Some buyers may pay you extra if your portfolio grows during the time they are still holding back the final payout.

So weigh the pros and cons. Do the math on the options, or get a consultant to help you. Confer with other small ISOs. Whichever option you choose, I wish you good luck in your new venture. 🍀

Mark Dunn is an executive consultant in the merchant bankcard industry and heads up Field Guide Enterprises LLC, a bankcard consulting and training firm. For more information, please e-mail Mark at mark@gofieldguide.com or visit www.gofieldguide.com.

Education (continued)

POS forecast: Increasingly cloudy

By Dale S. Laszig

DSL Direct LLC

The time has come for credit card terminals to go on a diet. Two decades of "binging" on fat applications have taken their toll. Appeasing our growing appetite for multi-applications by adding more memory to POS devices is no longer sustainable.

Besides, technology is changing so fast that some hardware platforms are pronounced obsolete before their applications have been fully tested and certified.

There's a growing awareness that what's new and hot today may be out of compliance tomorrow. How can we, as merchant level salespeople (MLSs), assume that the merchant solutions we sell today will be secure and future-proof tomorrow?

Here is the key question: How flexible and scalable are the networks, terminals and terminal management systems that we rely on today? Building and managing networks is an expensive proposition unless you decide to out-source, buying only what you need as you need it.

Cloud clarity

That's what cloud computing is all about. It is a logical response to on-demand consumerism. It takes us far away from "fat" enterprise access points (APs) into a new generation of centralized, browser-accessible software securely managed by remote administrators.

Some of the largest companies in the world have embraced this new paradigm: Amazon.com, Salesforce.com and Cisco WebEx are a few examples.

Cloud computing in the POS world can make changes to large populations of terminals instantaneously, without a single download. We've seen some cool tricks in the past, like the "call-home" feature that sends a message to a terminal, instructing it to call in for a software update when it delivers a batch of transactions to a processing host. This is more advanced than that.

In a cloud scenario, the host holds all the intelligence, and the processing platform stays thin and light, connecting to its brain through the Internet, or cloud.

Misconceptions about cloud computing abound, beginning with the cloud itself. Believe me, there's nothing in the cloud. It's just a symbol for the interconnected networks that data pass through from one access point to another.

Cloud computing security is also much debated, but before we join that fray, let's define some common terms.

Internet

The image of interconnected networks encircling the world inspired the term "World Wide Web," the moniker for the largest, most popular subnetwork of the Internet, a medium so enmeshed in our lives that we take it for granted, like the air we breathe.

"By the beginning of the 21st century, approximately 360 million people, or roughly 6 percent of the world's population, were estimated to have access to the Internet," according to the Encyclopedia Britannica. "It is widely assumed that at least half of the world's population will have some form of Internet access by 2010 and that wireless access will play a growing role."

Universal communications

Transmission Control Protocol/Internet Protocol (TCP/IP) is the Internet's universal language. The top layer, TCP, breaks the data into manageable packets; the bottom layer, Internet Protocol, manages the address of each packet, which is then accepted and forwarded from point to point to a final host destination.

Within the TCP/IP software suite, higher-level applications manage the nuances of file locating and sharing. Hypertext Transfer Protocol (HTTP) and File Transfer Protocol (FTP), when combined with Uniform Resource Locator (URL), enable diverse populations of devices to find each other on the Web and exchange data.

Safeguards like Secure Sockets Layer (SSL) and Hypertext Transfer Protocol Secure (HTTPS) create additional privacy and permission levels that enable bank account and credit card data to be securely entered and transmitted.

High-speed connections

Today we have more choice in the methods we use to connect to the Internet. Dial-up modems were the original connection method.

Modem stands for modulate/demodulate, a method used to translate analog signals transmitted over phone lines into digital signals, a less efficient practice than high-speed Ethernet packet-switching.

Ethernet, also known as broadband, is available over Ethernet cables, Wi-Fi and cellular networks. Broadband can interface with dial, as in fact many of our credit card terminals do, connecting over dial lines to networking hubs that convert dial transactions to TCP/IP.

Virtual office

MLSs who stay connected to remote corporate headquarters through e-mail, phone and fax might be surprised to

know that virtual offices existed as far back as the 1980s. Before the Internet became widely popular, companies relied on paging devices and voice mail systems to stay connected to mobile workers.

Today mobile workers can log into their offices via laptop computers or smart phones and leave "bread crumbs" as they progress through the business day. This is enabled by smart phone tracking technology that registers arrival and departure times at various client locations.

Paperless office

By the early 1990s, e-mail began to surpass paper correspondence as a primary form of communication. Business owners began to visualize a "paperless office" capable of digitally transmitting and storing an array of documents and data.

While it's doubtful we'll ever achieve a truly paperless workplace, many ISOs have converted massive archives of stored merchant applications into digital files, freeing up office space and paving the way to "instant apps," which enable MLSs to sign new merchant accounts on laptops instead of paper.

Digital revolution

The digital remastering of a variety of media has made an enormous impact on the way we process information. Today we can mail letters; buy newspapers, books, CDs, DVDs; and rely on credit card terminals.

We can also access the data and functionality of these old standbys instantly and less expensively through our smart phones, laptops or home computers.

Computing and credit card processing systems have evolved with Internet technology and the digital revolution. Today's processing landscape is a patchwork quilt of intergenerational systems, all managing to communicate with each other in forward and backward compatible modes.

We've progressed from client/server standalone systems and fat APs. They are fat because their memory is stored locally, requiring more and more room for expansion as applications become larger and more complex.

High-speed routers called Network Access Controllers (NACs) manage transaction flow from wired and wireless credit card terminals. Effective NAC networks have bi-located facilities to protect against interruptions of service. Scalability is achieved by adding bus cards to chassis and adding chassis when you run out of slots. It also involves replacing hardware with newer generation NACs.


Terminals that store applications locally have grown as big as 24 megabytes to accommodate security compliance

specifications and ancillary programs such as electronic check conversion and gift card applications.

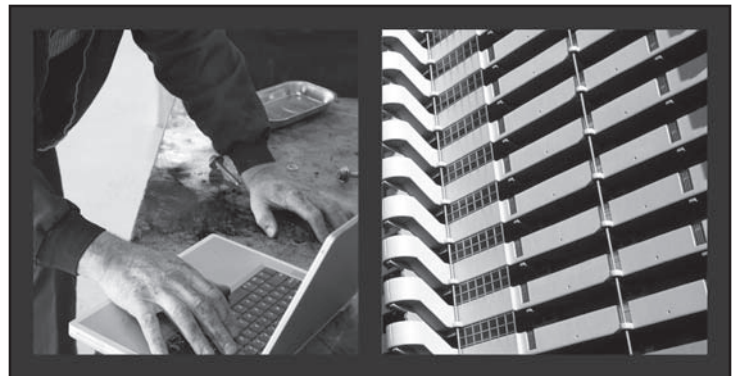
The cloud value

Cloud computing presents a flexible alternative for managing transaction data and keeping terminal management systems from getting too fat. This broad category has three subsets: infrastructure as a service, platform as a service, and software as a service. Each offers a cost-effective alternative to large-scale legacy systems.

The value proposition of cloud computing is that you buy what you need when you need it. Services, managed remotely by professionals at centralized controllers, are easily accessible through Web browsers.

Managing capacity is as simple as adding or removing users. Updates are instant and unlimited. It's cost-effective and future-proof, but is it secure? Check back next month for a closer look at Payment Card Industry Data Security Standard compliance and cloud computing. 

Dale S. Laszig is a writer and payments industry executive with a diversified background in sales and marketing. Her company, DSL Direct LLC, helps industry professionals and business owners leverage electronic transaction technology. She can be reached at 973-930-0331 or dale@dsldirectllc.com.



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The importance of recession marketing

It is generally accepted that the first thing a business cuts when a recession hits is its advertising and marketing budget. But research suggests that impulse may be detrimental to the ongoing well-being of businesses.

A report from Ad-ology Research entitled *Advertising's Impact in a Soft Economy* said that almost half of the adults surveyed believe lack of advertising by a retailer, bank or auto dealership is a telltale sign of business distress.

On the flip side of that coin, about half of survey respondents perceive businesses that continue to advertise and market their services as being competitive and strong despite a bad economy.

"If you show an outward reduction in your public activities, the perception will certainly be by the viewer or the audience, that you are cutting back, and they will wonder why," said Todd Ablowitz, President of payments industry consultancy Double Diamond Group LLC.

Furthermore, as reported in *USA Today*, John Busbice,

Ad Analyst at IMS Consulting Ltd., said a recent study showed that for every dollar pharmaceutical companies spend on advertising, they reap \$1.40 in profit. This is an indication that advertising in a recession can be fundamental to success.

Reset

Ablowitz recommends that companies struggling financially scrutinize with "a laser focus" all aspects of their operations. "That doesn't mean you eliminate advertising or marketing," he said. "It means you make very clear decisions about the parts of your business that have the most chance for success and invest in those and be aggressive in cutting out expenses with less return."

Ablowitz pointed out that for businesses that aren't over leveraged but may have seen a drop in revenue, the recession presents an opportunity to take advantage of their relative stability.

"If your competitors are pulling back, find those weak spots and go there with your marketing," Ablowitz said. "If your competitors are changing gears, make sure to pick up where they left off."

If they pulled out an ad that they were running in a good premium spot, maybe you should go and jump into that spot. ... I've seen examples of competitors doing that. It can be very effective."


Retool

According to independent payments industry consultant Gregory Holmes, successful marketing strategies during recessions can be accomplished on a tight budget.

A strategy built on leveraging online tools, such as a combination of keyword searching and search engine optimization, is one cost-effective approach.

Maintaining consistent and steady communication with potential customers over time is vital, Holmes noted. He gave *The Green Sheet* as an example.

It may take years of reading the trade publication before a company decides to place an ad or buy a sponsorship, but "there will be a point when most people in payments, particularly in the ISO space, will make the effort," he said.

In addition, brand identification and trust can be increased when businesses extend their selling strategies to include education; beyond just selling products and services, businesses can publish white papers, present tutorials or host webinars that inform customers about important industry issues. 

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NewProducts

POS payment and acceptance in a phone

Product: ZeniusMobilePay and ZeniusMobilePOS

Company: Zenius Solutions Inc.

As various hallmarks of America's digital culture have made their way into cell phones, one technological tool remains conspicuously missing: the long-awaited near field communication (NFC) feature that allows phones to be used like credit cards in POS environments.

The technology has existed for some time (it is used widely in Japan), but the tricky matter of its deployment has proven a formidable stumbling block. A central problem has been coordinating the release of NFC payment technology with NFC payment *acceptance* technology – one, after all, is no good without the other.

Make both

A company called Zenius Solutions Inc. has devised a practical solution: manufacture both products and deploy them simultaneously. With its ZeniusMobilePay and ZeniusMobilePOS, the company may be at the vanguard of a landmark shift in payments.

ZeniusMobilePOS is designed to accept all major credit cards, either through a contactless smart card or an NFC phone, and, naturally, the two Zenius products can be used together. They can also both be installed in the same phone, allowing a user to make purchases and accept payments within a single mobile device.

"With MobilePOS what we've done is develop the applications that accept any card that could be in a mobile device – so for example, with a MasterCard if you wave the card in front of that mobile POS it will be able to read MasterCard like a regular reader," said John Wiese, Chief Executive Officer of Zenius Solutions.

"It's basically turning that phone into a point of sale for contactless cards, so just like you do [with a nonmobile contactless terminal], you wave a contactless card in front of the terminal," Wiese said. "So instead of having to have that big infrastructure, you can do acceptance on a mobile device."

For the purchaser, too, NFC payments offer multiple benefits, outside the fact that users no longer need to carry payment cards. For purchases made with mobile terminals especially, NFC technology is alleged to be much more secure than plastic.

Features of **ZeniusMobilePay** and **ZeniusMobilePOS** include:

- Complimentary NFC payment and acceptance devices
- Can be installed together on one phone
- Technology can be retrofitted to almost any cell phone with a SIM card
- Can be used with all major credit cards
- Highly secure: cryptography feature produces "dynamic data"



With some portable terminals, credit card information needs to be punched in manually. And, for those that do have a swipe feature, data encryption often doesn't begin until after the point of swipe.

Top-notch security

NFC devices like ZeniusMobilePay are guarded with cryptographic systems that make each purchase "dynamic"; in addition to a consumer's usual purchasing information, a unique code passes through the payment terminal with each purchase. Even in the event that card information is stolen, it can't be used to make another POS purchase because the unique code that's required is only generated from an NFC chip.

Currently, Zenius' NFC capability (both payment and acceptance) is embedded in two Nokia phone models. But Jenny Rae Cortese, Zenius Solutions Vice President of Marketing, said Zenius' products can be retrofitted to "virtually any SIM-based phone."

She said the same subscribed identity module (SIM)-based user interface that cell phone users visit to access names from a phone book is used for displaying and selecting credit cards. Add to that the chip-embedded cryptographic feature and radio-frequency identification (RFID) technology responsible for transmitting NFC signals and, *voilà*, an NFC phone. ☑

Zenius Solutions Inc.

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NewProducts

Multipurpose bar codes

Product: CodeZ QR

Company: Computer Output Print & Internet

The creation of what are known as "two-dimensional" bar codes has given rise to broad new applications for these long-time product identifiers, including their placement on buildings, billboards and hamburger wrappers.

Computer Output Print & Internet, a Texas-based technology solutions provider, is also using two-dimensional (2-D) Quick Response (QR) bar codes to simplify online mobile payments.

According to COPI Chief QR Officer Joe Barber, 2-D bar codes are already ubiquitous in Japan, where they were introduced almost 15 years ago.

There they are used primarily for marketing purposes by functioning as portals between various print mediums and the Internet – portals which are activated by the combined use of a camera, digital reader and Internet browser on a cell phone, Barber said.

From print to the Web

Typically, the bar code is found somewhere on a print ad – say, on a billboard or inside a magazine catalog – and is encoded with the address of a related Web page.

A customer interested in the advertised product can take a picture of the bar code with a phone; the phone's reader will then decode the image, yielding the URL and automatically directing the phone's user to that Web site. In many cases, the web address may simply be a payment portal where the product can be bought.

"Everybody has a cell phone in their hand, it's the always-on connected device," Barber said. "If I'm [advertising], I can make my print clickable, and by putting the QR code on that, somebody can hyperlink from that printed document to the Web. ... I now have access to the rich resources of the Web, as well as the means of measuring the effectiveness of the print piece."

Online payments streamlined

COPI's service, called CodeZ QR, uses 2-D bar codes in many of the same ways; the company is also employing the technology to streamline the process of entering purchasing data into online payment platforms, made more difficult by the tiny buttons on many mobile phones.

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CodeZ QR bar codes store purchasing information so consumers don't have to continually punch it in.

For example, a mailed billing statement will contain a unique bar code that holds a particular customer's payment information, which is transferred to that customer's phone when he or she snaps a picture of the bar code.

At that point, the customer needs only to visit the company's payment portal and type in a password or access code to draw up his or her purchasing data, all of which (name, address, card info, account number, et cetera) is automatically entered into the payment platform.


"I'm sending out a credit card statement each month and I've got an existing relationship with that client – I could put a QR code on there where we encrypt their account number into the code," Barber said. "When they want to pay that bill they can simply scan the code, enter their PIN code and, based on that established payment relationship, it could automatically charge through to their bank account."

What distinguishes these advanced bar codes is an extra "dimension" that traditional Universal Product Code bar codes used in retail settings don't have. Those bar codes can only hold information vertically, whereas 2-D bar-

Features of **CodeZ QR** include:

- Frees merchants to place bar codes virtually anywhere
- Links print medium to the Internet
- Streamlines online payments, avoiding the input of voluminous purchasing info
- Allows bar codes to be captured by any phone with a camera and digital reader
- Utilizes QR codes which can hold approximately 3,000 characters



codes hold it vertically and horizontally – allowing them to store significantly more information. One-dimensional bar codes can store up to 12 figures while 2-D barcodes can store about 3,000, Barber said. 

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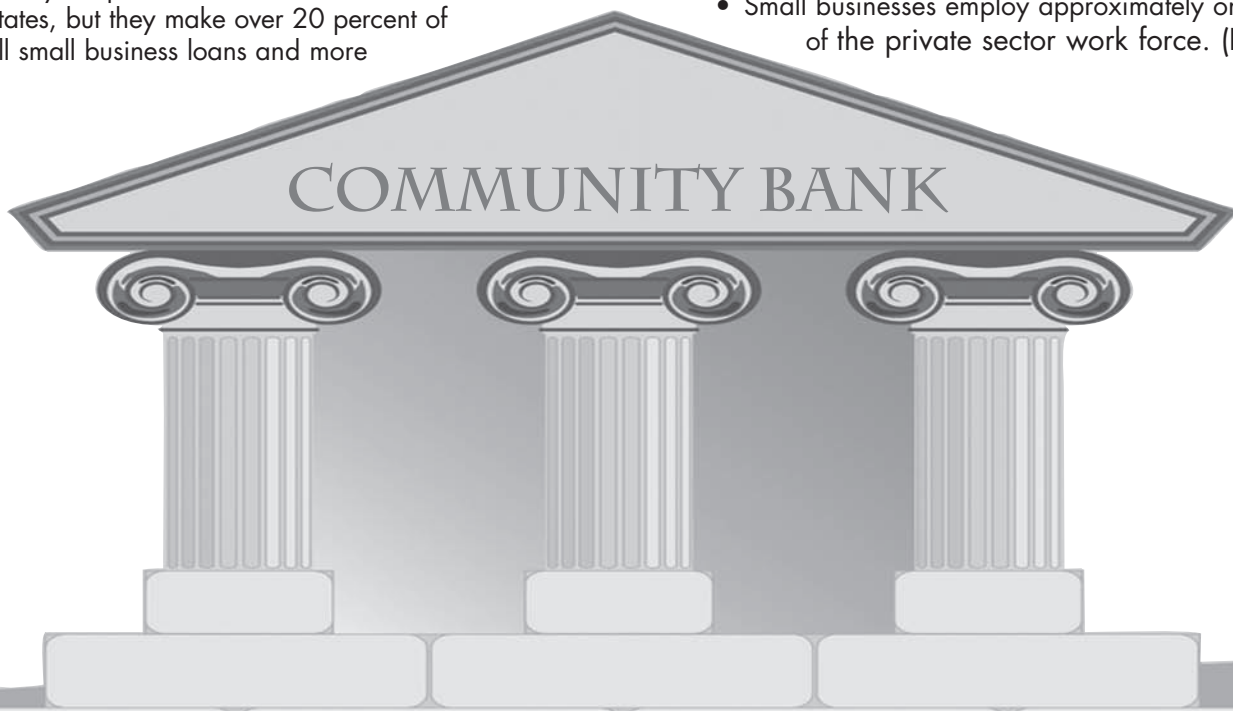


ISOMetrics



f the 8,246 banks in the United States, nearly 8,000 are community banks. These can be defined as commercial banks, thrifts, or stock and mutual savings institutions with assets under \$1 billion. Following are statistics on community banks drawn from *Impact of the Financial Crisis on U.S. Community Banks: Difficult Times, New Opportunities*, a March 2009 white paper written by Aite Group LLC in conjunction with the Independent Community Bankers of America; the Small Business Administration's Office of Advocacy; and the Federal Deposit Insurance Corp.

- Community banks constitute 96 percent of all banks. (ICBA)
- Insured institutions with less than \$1 billion in assets make 31.3 percent of the total dollar amount of small business loans of less than \$1 million, even though they hold only 11.5 percent of industry assets. (SBA)
- Of 743 community banks surveyed in February 2009, 41 percent plan to invest more in information technology during 2009 than they did in 2008. (Aite)
- Forty-eight percent of small businesses get their financing from community banks. (ICBA)
- Fifty-seven percent of community banks saw new retail customer acquisition increase during the third and fourth quarters of 2008; 47 percent saw an increase in new business customers. (Aite)
- The North Central, Southeast and Midwest regions of the United States constitute 65 percent of the community bank population; the Southwest, West and Northeast account for the remaining 35 percent. (ICBA)
- Community bank accounts represent approximately 12 percent of all bank assets in the United States, but they make over 20 percent of all small business loans and more than half of all small business loans under \$100,000. (ICBA)
- In 2008, community banks experienced a 5.53 percent growth from 2007 in net loans to consumers and merchants. (Aite)
- The number of domestic community banks decreased by 2,080 between December 1998 and September 2008; however, their total deposits grew from \$4.39 trillion to \$8.7 trillion during the same time. (FDIC)
- Fifty-five percent have seen an increase in deposits as a result of new customer acquisition: Forty-two percent of respondents reported a decrease in loan activity. (Aite)
- Despite the financial crisis, 98 new community banks were chartered in 2008; since 2001, there have been 1,037 newly formed FDIC-insured community financial institutions. (ICBA)
- More than 26 million small businesses in the United States have created 70 percent of the new jobs since 2000. (SBA)
- Ninety-two percent of banks in the United States have assets under \$1 billion; 39 percent have assets under \$100 million. (ICBA)
- Small businesses employ approximately one-half of the private sector work force. (ICBA)



Inspiration

WaterCoolerWisdom:

You create your opportunities by asking for them.

-Patty Hansen

Just ask

As ISOs and merchant level salespeople (MLSs), you know you can't get the sale if you don't ask for it. Indeed, the goal of a sales presentation is to reach the point at which you can ask for a merchant's business and land the account.

You understand that merchants will not always answer yes when you ask for their processing business, but you are unperturbed. You recognize that getting a no is not a defeat. Asking that all-important question is a victory in itself.

And when you hear no? Not a problem. You will probe – and either overcome the merchant's objections or bid your prospect farewell (for the moment) and move on to your next lead. It's just part of the sales process.

But did you know that you can effectively "ask for the sale" and address noes in other areas of your life, to great effect?

Fear not

For whatever reason, human beings are often reluctant to ask for even the simplest things, both at home and at work.

It is a curious phenomenon that an MLS who closes deal after deal may be apprehensive about, say, approaching a potential romantic partner for a dinner date or asking a colleague for help in preparing a complex proposal for a multilane retailer.

Why? Because most people fear rejection.

Yes, though you've been trained to thicken your skin when it comes to countering merchants'

objections, it's harder to not take noes in other contexts personally.

And yet, looked at from the prism of the sales process, landing a desirable date is a numbers game. If you ask enough people, eventually someone will answer you in the affirmative.

However, you must first be willing to face rejection. If you are told no, ask yourself why, what you could have done differently and how you can improve your approach.

Remember, when a good sales rep asks for a merchant's business and is told no, the rep doesn't give up. Instead, the MLS will ask, Why not? Then he or she will attempt to answer the objections raised by the merchant before asking for the sale again.

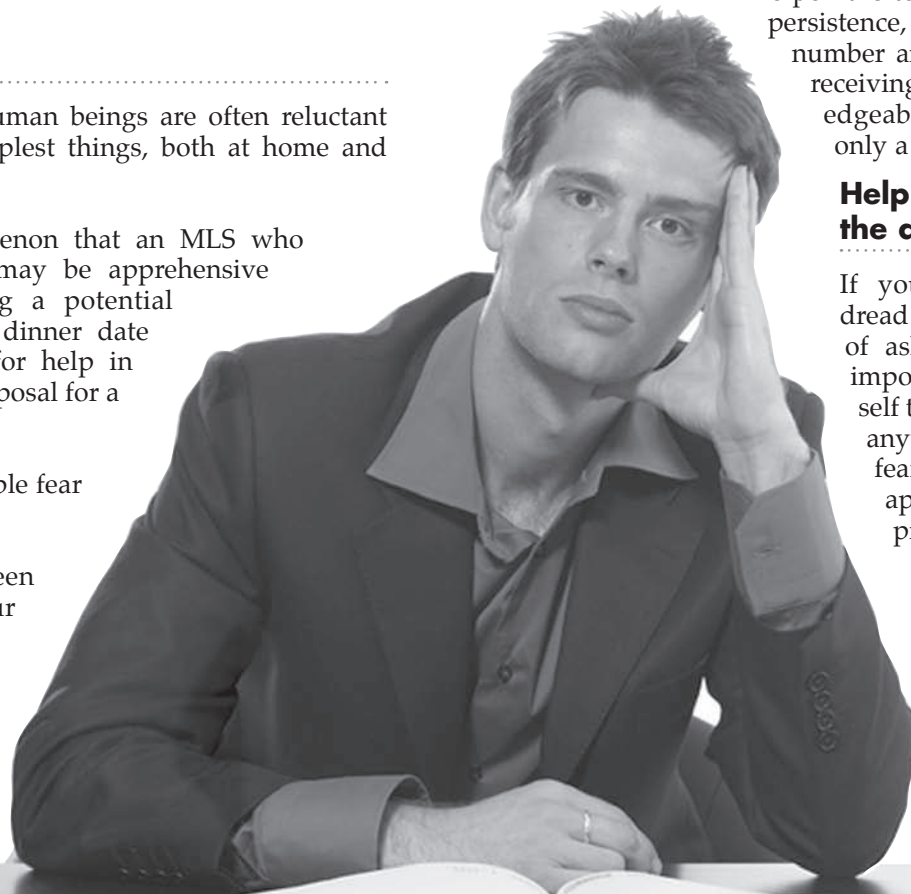
This process can be repeated without the MLS being pushy or overly aggressive.

The point is to not give up. With persistence, obtaining a phone number and a lunch date or receiving tips from knowledgeable colleagues are only a matter of time.

Help is for the asking

If you are filled with dread at the mere thought of asking for help, it's important to force yourself to ask for assistance anyway – even if you fear it will make you appear stupid or ill-prepared.

Sometimes you will be surprised at the camaraderie you will



Inspiration

find. For example, if you are new to the payments industry, asking a payment veteran to explain how interchange works will likely elicit knowing laughter, because the complexities of merchant pricing can confound even long-time industry professionals.

Simply asking such questions can generate informative discussions about our complex industry. It will also indicate to colleagues that you are interested in mastering your career. By overcoming the fear of asking, you:

- Gain the respect of superiors who appreciate employees who ask for help when they need it
- Demonstrate to co-workers and management your desire to learn and improve
- Help overcome the "inner critic," which often tells you that you may look insecure or be seen as someone who can't lead if you ask questions
- Learn what is – and what isn't – expected of you in a work environment

Remember your audience

Now that you're convinced fear of rejection or humiliation shouldn't stop you, remember to be thoughtful in

seeking what you need from others. There are many ways to ask for help.

How and what you ask depends on whom you are asking. Is your relationship with a particular individual personal, professional, intimate or merely civil?

For some payment professionals, comfort levels with merchants are often higher than with their own company's management and staff.

No one likes to be criticized by peers, but it is vital to remember to be confident in the face of negative feedback, knowing it is more productive to hear criticism as constructive assistance and not as a personal attack.

Like any other life skill, asking for what you want takes practice. And with repeated application, doing so can become as simple as tying your shoes – a fitting analogy for the feet on the street.

Good Selling!SM



Paul H. Green, President and CEO

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Electronic Transactions Association 2009 Strategic Leadership Forum

Highlights: This annual event will unfold in Times Square, at the financial center of the world, and will include high-profile speakers looking at what the payments industry will face in the years ahead.

Slated seminar topics include the shift in payment types, new technologies, and the three things that can put you out of business and other aspects of risk management. An opening reception will convene the night of Oct. 12. The conference's second day will include an evening reception and an afterglow party. The forum also promises a few "new twists ... you won't want to miss."

When: Oct. 12 – 14, 2009

Where: The New York Marriott Marquis, New York

Registration: www.electran.org/content/category/6/75/123



Merchant Advisory Group 2009 MAG Annual Conference

Highlights: The conference will feature a landmark joint session with merchants and multiple payment card representatives to discuss payment-related issues. It will also have an extensive roundtable discussion (first with merchants only, then including event sponsors) as well as vendor breakout sessions, payment card sessions, and presentations by RBS WorldPay, Heartland Payment Systems Inc., First Data Corp. and Elavon Inc.

When: Oct. 13 – 16, 2009

Where: Hyatt Regency Tamaya, Santa Ana Pueblo, N.M.

Registration: www.merchantadvisorygroup.org/



Women Networking in Electronic Transactions Super LINC

Highlights: This is an opportunity to meet and network with female industry leaders at the Marriott Marquis in New York's Times Square. Held following the ETA Strategic Leadership and Networking Forum, the event will include the presentation of the second annual Driving Improvement Via Action awards, speed networking and an interactive panel discussion.

The event is sponsored by W.Net, an organization committed to empowering and honoring women in the payments field, and which regularly holds networking and educational meetings where members convene to exchange ideas, insights and career development tips.

When: Oct. 14, 2009

Where: Marriot Marquie, New York

Registration: www.w-net.biz



Western States Acquirers Association Western States Acquirers Association's 2009 Conference

Highlights: WSAA's sixth annual show will feature a keynote address by industry veteran Paul Martaus and Mark Dunn's Field Guide Seminar. Topics to be discussed at educational sessions include Payment Card Industry Data Security Standard compliance, gateways and data security, and sales strategies.

An open forum will be paneled by high-level industry executives who will take questions from the audience and elaborate on their successes despite the economic downturn. In addition to the always popular exhibit hall, WSAA will give away thousands of dollars in prizes to show attendees.

Sponsorship opportunities are still available; please contact Xavier Ayala at 707-269-3222 or via e-mail at xavier.ayala@moneris.com.

When: Oct. 14 – 15, 2009

Where: Sheraton Park Hotel at Anaheim Resort, Anaheim, Calif.

Registration: www.westernstatesacquirers.com



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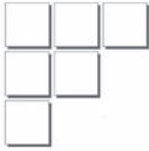
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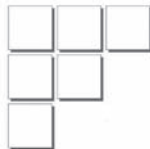


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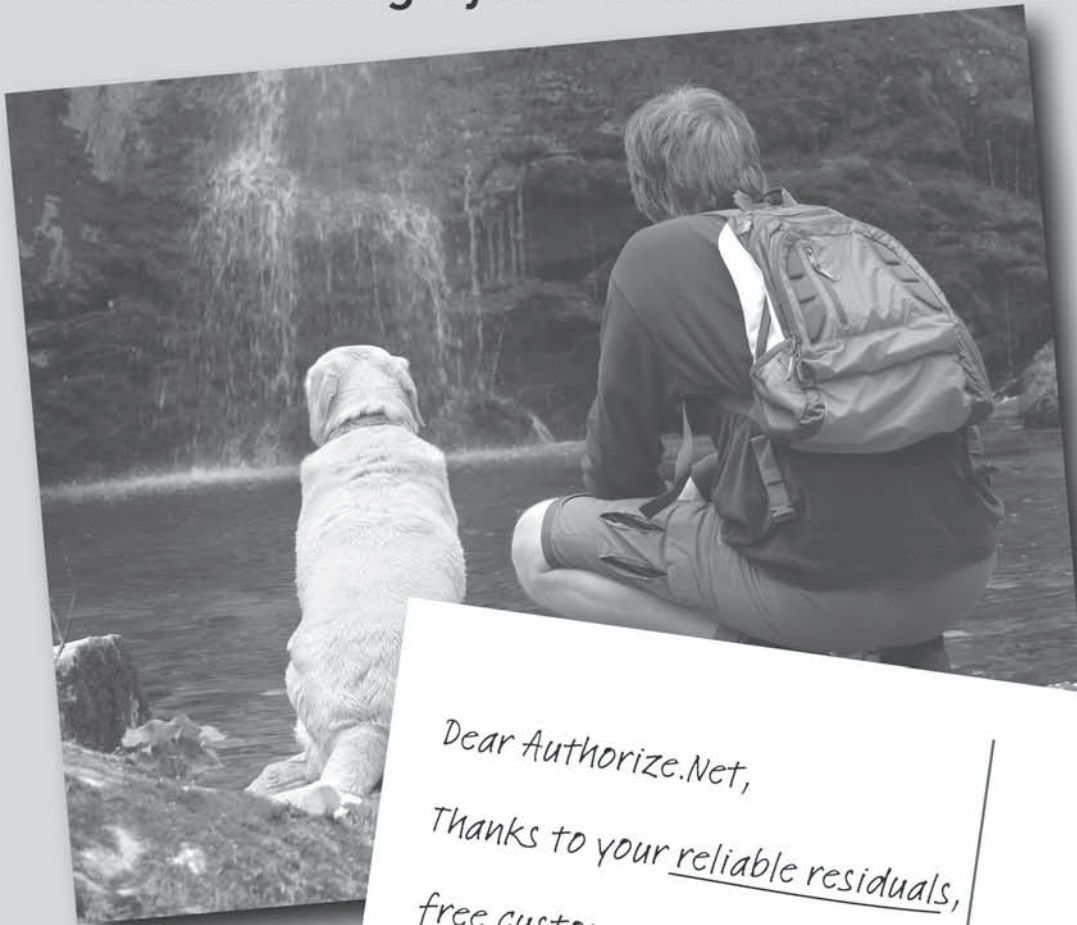
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