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April 26, 2010 • Issue 10:04:02

Wal-Mart: A new center of gravity for payments



Wal-Mart Stores Inc. is unique in the payments industry. It is the only financial services provider that allows a customer to pay bills electronically, transfer money to friends and relatives, and purchase an affordable set of bath towels. That combination of discounted retail goods with equally inexpensive financial products has proven a formidable business model.

Pundits may haggle over the degree of Wal-Mart's influence on the industry, but an impact it has had – not only in driving down fees across the prepaid card sector, for example, but also in fostering a deeper relationship between service providers and customers. And yet the Bentonville, Ark.-headquartered company's role as a payments trendsetter (and its prominence generally) has been over 30 years in the making.

Jim Grabow, former Senior Director of Financial Services at Wal-Mart, noted that the company was in the vanguard of POS automation when it electrified its cash registers in the 1970s. Wal-Mart was also instrumental in mitigating, to a degree, the power of the card brands through the 2003 "honor all cards" ruling and an October 2004 U.S. Supreme Court decision, according to Grabow.

In the "honor all cards" case, Wal-Mart and other big retailers, representing 5 million merchants across the United States, were successful in knocking down a Visa Inc. and MasterCard Worldwide rule that forced merchants to accept all of the card brands' cards. The victory allowed merchants more control over what cards they took for payment at the POS.

See Wal-Mart on page 55

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Notable Quote

Despite all the bad publicity regarding rate increases, PCI fees and new fees, the cost of accepting credit cards has never been lower. Maybe there are a few new fees, but these are insignificant when compared to the reduced margins being charged for processing.

See story on page 26



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Forum

What makes a business card compliant?

Following are excerpts from a revealing discussion on GS Online's MLS Forum. It is about what should and should not be printed on the business cards of ISOs and merchant level salespeople (MLSs).

- I recently attended a local networking group ... and there happened to be a woman there in the bankcard business. We exchanged cards, and hers said "Merchant Services Brokerage" below the name of the group.

On the back of the card it mentions: credit card processing, check services, gift and loyalty, etc., but no mention of Visa or MasterCard. There is also no mention of a member bank anywhere on the card. Also, the Web site seems to be compliant by listing the sponsor bank.

As an MLS or agent office, are you required to list your sponsor bank on your business card if you do not mention Visa or MasterCard? Thanks. – Mr. Bankcard

- Yes, and unless you/your company is registered also, the name of the registered ISO/MSP. – MTY MSI

- Are agent offices really being tracked down by Visa and MasterCard or their ISOs for not listing this info? What are the penalties? Some agent offices have several ISO relationships, and listing them all on one card would look a bit cluttered. – Mr. Bankcard

- While it probably is a long shot to get fined by Visa/MasterCard for not compliantly disclosing on your business card, it is definitely worth mentioning that every ISO/MSP agreement I have read requires compliant disclosure on all marketing materials, which includes business cards, at the penalty of your entire residual stream for noncompliance. Noncompliance = breach of agreement. In my humble opinion, it's not worth the potential financial penalties to ignore something so simple. – MTY MSI

- The way I understand the rules is that if you don't mention Visa/MasterCard, there are no rules. "Credit card processing" doesn't have to be Visa/MasterCard; it could be Sears, Target, Slick's Card Services or whatever. Yes, if she mentioned Visa/MasterCard, she would have to list the sponsor bank, but on the other hand, Visa/MasterCard does not have much, if any, of a police force that enforces the rules. – Slick Streetman

- The best thing to do is get the details of what is and what is not compliant from your ISO/processor. Any legitimate ISO/processor will easily have the basic rules of the road. ... Most are very clear, but even if not, you

can send them a copy of the business card, Web site, etc.; ask for approval; and keep it in your records. Since the card companies barely recognize us, one would think that the onus falls on the ISO/processor to make sure you are compliant. – Dee Malik

- It is my understanding that you do not have to identify your processor or bank until you are discussing specific rates. You are not supposed to place the name or logos of the card brands on the business card or on any promotional items you create. You can put "merchant services," "merchant processing" or "credit card processing" on your cards, but you must identify your registered partner before you talk rates. – Bill Pirtle

- It amazes me how often this topic comes up and still no one has the bottom line answer. ... [I]f you are even asking this question, then your ISO did not do a good job of providing the answer or did not know the answer. Also, the fact that Visa/MasterCard have not put out a definitive sheet on what the rules are and have not really done a very good job of enforcing it indicate just how unimportant it is to them. However, the good [sponsoring banks] do inform us of what the rules are, and we do have to abide by them. – Steve Norell

- The way I understand this is that it is up to the sponsoring bank to require or not require the language of "ABC Co. is a registered ISO/MSP of XYZ Bank" on the ISO's business cards. – Fundingformerchants

- I believe the case is that many MLSs have more than one ISO relationship, and many times it is difficult for them to determine the proper way to disclose their partnerships without having two, three or four different business cards and marketing pieces. – Mr. Bankcard

Do you know whether your marketing collateral is compliant? What does your sponsoring bank or your registered ISO say? You can find further insight on this topic in "Marketing in compliance," by Nancy Drexler, *The Green Sheet*, April 28, 2008, issue 08:04:02, and "Card Association compliance: A reality check," by Jared Isaacman, *The Green Sheet*, March 12, 2007, issue 07:03:01.

– Editor

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QSGS

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

Cover Story

1

Wal-Mart: A new center of gravity for payments

Wal-Mart Stores Inc. is unique in the payments industry. It is the only financial services provider that allows a customer to pay bills electronically, transfer money to friends and relatives, and purchase an affordable set of bath towels. This article looks at how the corporate giant has been a pioneer of payment trends among American retailers.

View

28

The 'Wal-Mart case' revisited

Attorney Lloyd Constantine has penned a book about the landmark lawsuit brought against the two dominant card brands by several retailers, including Wal-Mart Stores Inc., on behalf of millions of merchants. The suit, which absorbed six-and-a-half years of Constantine's life, resulted in the largest anti-trust verdict in history. Constantine's book is reviewed here.

View

24

ACH grows, B2B payments plod along

The results are in, and it looks like 2009 was a banner year for the automated clearing house (ACH). NACHA – The Electronic Payments Association reported that the ACH network handled nearly a half billion more payments in 2009 than it did in 2008. Not bad for a down economy, especially since large numbers of ACH transactions are payroll and bill payments.

Feature

32

Turning economic tides - Part 3

This article contains the third, and final, segment of our trusted advisory board's responses to questions about areas of strength and emerging opportunities they have found in the payments space despite shifting economic tides.

View

26

The cost of credit card processing - past and present

Countless questions and concerns have been raised regarding the direction of the credit card processing industry. An increasingly prevalent theme in these conversations is that our industry has become plagued with fees, which has resulted in a frustrated merchant community. But has the cost of accepting credit cards actually increased?

Feature

41

Consumers in the prepaid driver's seat

A webinar presented by Mercator Advisory Group and Fiserv Inc. presented some interesting insights about trends in the prepaid card sector. Among them is a significant jump in the use of open-loop prepaid cards, which may reflect other shifts in consumer spending habits.

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News

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Job rebound in acquiring?

According to a recent report from the U.S. Labor Department, financial services was the only private U.S. industry to have significant job losses in March 2010. Yet the job situation in the payments arena may be a lot brighter than what the report seems to indicate. In what ways has a down economy actually improved the outlook for merchant level salespeople (MLSs)?

Education

60

Street SmartsSM: No ISO demise with niche markets

The movie, 2012, portends the end of the world, in sync with the predictions of the Mayan calendar, on Dec. 20, 2012 – the exact date some have predicted the end of ISOs. ISOs, some say, will grow extinct not because of an exploding sun but, curiously, because of our own success. Is this prediction any more credible than the exploding sun theory of the Mayans?

News

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Processors press industry for more standards

The Payments Processing Information Sharing Council is urging the payments industry to expand the standardization of card system protocols. The strategy will no doubt face resistance, as proponents seek to overcome vested interests.

Education

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Contractual pricing pitfalls

Pricing in a merchant services agreement requires more attention on the part of the party signing the contract than it does of its attorney. The purpose of this article is to highlight a few common misunderstandings related to pricing in merchant agreements. Keeping these in mind may save you from unnecessary loss of funds and other headaches.

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Education

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Building a global Web site

One key to going global is establishing an effective Web site. Savvy merchants who recognize they have customers from different countries have made their Web sites more user-friendly, as opposed to merchants who only sell in U.S. dollars and offer only English language-based services. But making this change first entails finding out where your customers are coming from.

Education

74

Healing the Achilles heel of business

Customer service is an essential key in conveying a positive image of company to its customers. Training your support staff is crucial in retaining a small or large customer base. This article examines some techniques you can use to ensure you acquire and retain a top-notch staff.

Education

70

Crossing the POS chasm

Now that 3-D technology has entered our living rooms, 2-D movies may begin to look dated and flat. Acceptance of the new technology will vary among consumers. Based on what we know about consumer behavior, what are they likely to do? The answer is reflected in the way high-tech adoption cycles work generally – a trend most MLSs know all too well.

Inspiration

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Change, the best business medicine

We've all heard the adage countless times: If one thing is certain in life, it's that things never remain the same. A leading factor in a company's success is often its willingness to make changes. Why can't some business owners accept this?



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NEWS

Vermont Senate passes interchange reform bill

The **Vermont State Senate** unanimously passed a bill that would regulate interchange. The bill reportedly contains protections for small businesses from card swipe fees, including a provision that allows merchants to set a minimum or maximum dollar amount for the acceptance of electronic payments. The bill also would reportedly prohibit requirements, conditions, penalties or fines in regard to displays of pricing for goods or services for sale, including displays for discounts. Apparently, it would give merchants the ability to decide not to accept the products of an electronic payment system at one of its locations.

The Merchants Payments Coalition is in favor of the bill's passage. The bill, S 138, now goes to the Vermont House of Representatives for consideration.

ISOs 'barely happy' with vendors, report says

A new report from **Aite Group LLC** that examines the relationship between ISOs and vendors reveals that ISOs do not exhibit a high level of satisfaction with their third-party service providers. The report is based on a 2009 survey of 27 ISOs in which ISOs rate their vendors (bank acquirers and front- and back-end processors).

Aite concluded that ISOs value their vendors but are not generally satisfied with vendors' service and support. And ISOs that rate vendors negatively are likely to switch to vendors' competitors. "Overall, ISOs are barely happy with their providers," said Adil Moussa, Analyst at Aite and the report's author. "Vendors must make a

greater effort to understand the causes of their clients' frustration and mitigate them."

RBS looks to sell WorldPay division

The **Royal Bank of Scotland** has reportedly received more than a dozen bids for its Global Merchant Services business, which includes its RBS WorldPay division. Among the possible suitors are French vendor Atos Origin S.A.; Total Systems Services Inc.; Chase Paymentech Solutions LLC; and Kohlberg Kravis Roberts & Co., owner of First Data Corp. One other contender was Nick Ogden, founder of RBS WorldPay. But an April 14, 2010, *Reuters* report said Ogden's bid, made through his Voice Commerce Group, was rejected.

ANNOUNCEMENTS

Acculynk unveils ISO program for online processing

Acculynk, a software-only provider of Internet PIN debit payments, said it extended its product line to include PaySecure Plus – online card processing and Internet PIN debit for resale through the ISO third-party reseller channel. "Online merchants are looking at non-traditional payment providers for alternative payment types," said Tom Wilkerson, Vice President of Business Development at Acculynk. "PaySecure allows the ISO community to leverage Acculynk's leading alternative card-based, bank-sponsored payment type to generate new business."

ACH Payments to hold \$25,000 contest

Payment processor **ACH Payments** launched a \$25,000 contest for the development of an innovative approach to payment processing.

BOTTOM
LINES

HEADLINES
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- A report by **PricewaterhouseCoopers** entitled "The New Consumer Behavior Paradigm: Permanent or Fleeting?" indicates that the economic travails over the last two years have changed consumer shopping behavior, with 72 percent of all shoppers saying they have changed their behavior significantly, while only 7 percent said they had not.
- The eighth annual *Retail Horizons: Benchmarks for 2009, Forecasts for 2010*, released by the **National Retail Federation Foundation** and **KPMG LLP**, revealed retailers revamped their strategies during 2009. For example, more respondents increased private-label merchandise offerings (32 percent in 2009 versus 29 percent in 2010), and they focused more on customer retention than on customer acquisition.
- **Forrester Research Inc.**'s *US Online Retail Forecast, 2009-2014* predicts that e-commerce in the United States will account for 8 percent of total retail sales by 2014; by the same year, 53 percent of total retail sales will be influenced by the Internet as consumers will research products online before making purchases.

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Industry Update

"Mobile payment related apps, payment invoicing, QuickBooks apps and many more areas are ripe for potential new applications," said Wayne Akey, President of ACH Payments. "If someone is a credit card ISO, MSP or even processor, they in all likelihood have thoughts on how payment related applications can be improved or even changed by great ideas."

The contest will be run in phases. The first phase involves registration and preliminary idea submission. No development work is required until the judging committee invites participants to submit materials for the second phase. For more information about the development contest, go to www.openpayments.com.

Adyen has yen for next-gen payments

Global Internet payment and e-commerce solution company **Adyen Inc.** said it expanded operations and solutions into the U.S. marketplace "based on overwhelming merchant demand." Adyen, which operates in Europe, wanted to achieve profitability before formally launching the company in the United States, the company said.

BlueStar trains staff in PCI DSS

BlueStar Inc. reported it had completed training for its entire U.S. sales and marketing staff in Payment Card

Industry (PCI) Data Security Standard (DSS) compliance. In a two-day educational event, BlueStar employees were trained and tested on security standards.

"Meeting PCI compliance standards continues to be an important topic among our partners," said Jason Firmont, Director of Point-of-Sale at BlueStar.

"It is essential that BlueStar continues to provide valuable input that will help our resellers make the right decisions for their business."

Eight year run of compliance for gateway provider

Payment gateway and software development company **eProcessing Network LLC** reported the successful completion of its annual compliance audit, which recertified the company for PCI DSS version 1.2.

The audit, conducted by Trustwave, deemed that eProcessing Network exceeded the latest compliance rules and regulations as defined by the PCI Security Standards Council and enforced by the card brands, the gateway provider said, adding that it is the eighth consecutive year that the company has achieved compliance.

German drugstores get 'hybrid' terminals

Hypercom Corp. said German drugstore chain Dirk Rossmann GmbH will deploy 5,000 Artema Hybrid payment terminals in over 1,000 retail outlets throughout Germany. The rollout, which began in March 2010, is expected to be completed in the middle of 2011, according to the terminal manufacturer.

Hypercom called the Artema Hybrid terminal a high security product with a single slot "hybrid" card reader and integrated PIN pad for magnetic stripe and chip card transactions.

IDology achieves top 10

Identity and age verification solution provider **IDology Inc.** was selected as one of the Top 10 Innovative Technology companies in Georgia by the Technology Association of Georgia. Criteria on which the selection of the TAG Top 10 is based includes degree of innovation, scope and financial impact of innovation, likelihood of success, and promotion of Georgia's innovative efforts nationally and internationally.

Canadian company for ATM Discover card processing

Open Solutions Canada, the Canadian subsidiary of Open Solutions Inc., signed an agreement with Acxsys Corp. to provide ATM transaction processing services to Diners Club Intl., Discover Financial Services and Pulse cardholders in Canada. Through this agreement, ATM operator Open Solutions Canada will process

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Industry Update

the transactions on its POSHnet network through the Interac network.

Spendvision ups performance of reporting platform

Spendvision, a provider of total transaction management solutions, said it made major enhancements to its transaction management platform. The multiprogram reporting platform is designed to give corporations comprehensive insight into spending across multiple business units, currencies, languages and territories.

Spendvision added high-level views of overall spend to its platform, as well as more detailed breakdowns across enterprise sectors, so chief financial officers can analyze spend by transaction type, merchant category, account or supplier.

Spendvision said chief financial officers can now see a "single currency view of all spend – vital for making cross-territory comparisons."

Cardtronics to take over ATM network

Travellex is handing over the management of its U.S. ATM network to **Cardtronics Inc.**, operator of non-bank ATMs. Under terms of the multiyear agreement,

Cardtronics will provide comprehensive ATM services, including transaction processing, cash management, cash replenishment, monitoring and maintenance, Travellex said.

Travellex's ATM network includes 760 retail branches in more than 26 countries, with locations in airports, seaports, railways and tourist destinations.

Trustwave a finalist for European award

Information security and compliance solutions firm **Trustwave** was named as a finalist for the 2010 SC Magazine Awards Europe. Trustwave is a finalist in the category of Best Enterprise Security Solution for its Security Information and Event Management (SEIM) technology.

SIEM technology transforms data security events that are aggregated and correlated to improve understanding of security control effectiveness, attacks by cyber criminals or malicious insiders, and unintentional actions that could compromise security, Trustwave said. SC Magazine Awards Europe honors professionals information security industry.

PARTNERSHIPS

New team formed for SaaS billing processing

Chase Paymentech joined with software-as-a-service (SaaS) billing specialist **Aria Systems Inc.** to offer merchants a solution that combines Aria's SaaS-based billing platform with the processing capabilities of Chase Paymentech.

Chase Paymentech said it authorizes transactions in over 130 currencies, which has helped the company capture a "significant share" of global card-not-present payments. Now, with the addition of the Aria Billing and Subscription Management Platform, merchants can automate recurring billing and payments, the ISO said.

Dejavoo POS terminals meet CoCard's needs

CoCard Marketing Group LLC selected **Dejavoo Systems** as the primary supplier of POS terminal systems. Dejavoo terminals give CoCard to communicate with customers via messages to and from the terminal, thereby affording CoCard with a direct link to its merchants.

"In the environment our industry is in, eliminating attrition is a key objective," said Rick Pylant, chairman and President of CoCard. "Dejavoo allows us to differentiate with added value and service, thus selling more products, improving profitability and raising the value of our relationship to the customer."

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Industry Update

Cynergy adds new partners

Cynergy Data LLC and Star Capital Holdings Corp. became strategic partners to form a service company that will operate as a centralized, shared-resource company for merchant processing services. The new company will utilize Cynergy's account servicing platform VIMAS to centralize business functions and processing platforms.

Additionally, Cynergy signed an ISO agreement with Stevens Associates. Under the agreement, Cynergy will provide the Central Texas sales and consulting company, as well as its merchant clients, with processing, funding, gift and loyalty marketing programs, and access to its robust back office processing platform.

FAC sets up online payments for PriceSmart

Online multicurrency processor First Atlantic Commerce reported a pact with PriceSmart Inc. to enable Price Smart-affiliated warehouse clubs in Central America and the Caribbean to accept online payments. FAC said it now provides online payment processing services for PriceSmart in Trinidad and Tobago, and will soon roll out services in Barbados, Jamaica and the U.S. Virgin Islands.

Planet Payment, Fifth Third extend agreement

Planet Payment Inc. reported the multiyear extension of its processing agreement with Fifth Third Processing Solutions. The partnership, which has been in existence since 2004, allows Fifth Third to offer to the U.S. market Planet Payment's multicurrency solutions, including dynamic currency conversion service called Pay in Your Currency.

SMBs get new compliance tandem

Sage Payment Solutions teamed with Trustwave to help small and mid-sized businesses (SMBs) achieve PCI DSS compliance affordably.

"As a focused leader in payments security, Sage is taking a proactive position on PCI compliance," said Greg Hammermaster, President of Sage Payment Solutions. "Trustwave's industry-leading compliance portal helps businesses further secure their payment environment with little investment in time or money. "We're happy to use our buying power to bring down the cost and complexity for any SMB to be validated PCI DSS compliant."

UBC, AmeriMerchant team for cash advance

United Bank Card Inc. and cash advance provider AmeriMerchant LLC signed a multiyear agreement to offer working capital to both potential and existing UBC merchants.

"Banks have made it very difficult today for small businesses to obtain much needed working capital to grow their business," said David Goldin, President and Chief Executive Officer of AmeriMerchant. "Small businesses need an alternative to get the money they need."

Big players ally for PAYware service

VeriFone selected Chase Paymentech as the preferred provider of new merchant accounts for buyers of VeriFone's PAYware Mobile iPhone card payment solution. The solution is sold through Apple Inc. retail stores and the online App Store. "Chase Paymentech will be instrumental in achieving our goal of making it as easy as possible for merchants to acquire PAYware Mobile for iPhone so they can meet their customers' demands for a card payment option," said Douglas G. Bergeron, CEO at VeriFone. "No longer will these small businesses lose sales because of an inability to accept payment by credit card or 'check' card."

ACQUISITIONS

A quarter of Alligato to be sold

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IndustryUpdate

Inc. revealed that it is set to purchase 25 percent of telecommunications platform provider **Alligato Inc.** Concurrently, Trustcash agreed to help develop and provide technical support for a mobile wireless access protocol-based payment platform. Trustcash advanced Alligato \$25,000 to begin work on the new mobile platform.

VeriFone buys out TaxiTronic

VeriFone acquired the remaining minority interest in VeriFone Transportation Systems and aligned VTS' operations within VeriFone's Integrated Systems organization. VTS, formed as a joint venture between VeriFone and TaxiTronic Inc. in 2005, equipped taxis with integrated fleet management and customer payment systems.

Acquiring the remaining minority interest in VTS allows VeriFone to further drive the adoption of the payment systems within the transportation segment, particularly in international markets, VeriFone said.


Bareisis Senior Analyst for the Banking Group. Bareisis's analysis will focus on payment (particularly cards), processing and innovative retail and corporate payment initiatives.

Bareisis has 14 years of management consulting experience, serving international banks, insurance companies and other financial services organizations around the world.

Beene becomes FrontStream's EVP of Operations

FrontStream Payments Inc. hired **Jeffrey A. Beene** as Executive Vice President of Operations. He will be in charge of FrontStream's day-to-day operations. Formerly, Beene served as Senior Vice President at Pipeline Data Inc.

Palmieri appointed Global Head at CashEdge

Catherine Palmieri joined CashEdge Inc. as Global Head of Product and Marketing. Palmieri is responsible for setting and overseeing the execution of the online person-to-person payment specialist's strategic product and marketing agenda. She comes from CitiBank where she served as Executive Vice President, General Manager. 

APPOINTMENTS

Celent hires Bareisis as analyst

Boston-based payments Celent LLC made **Zilvinas**

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Insider's report on payments**ACH grows, B2B payments plod along**

By Patti Murphy

The Takoma Group

The results are in, and it looks like 2009 was a banner year for the automated clearing house (ACH). NACHA – The Electronic Payments Association reported that the ACH network handled nearly a half billion more payments in 2009 than it did in 2008. Not bad for a down economy, especially since large numbers of ACH transactions are payroll and bill payments.

In all, 18.76 billion government and private-sector payments were processed through the ACH last year, 475 million more than the year before, according to NACHA. That works out to a 2.6 percent year-over-year increase in ACH payments.

NACHA is a private-sector rules group made up of regional ACH associations, banks and network operators. It works in parallel with the Federal Reserve, which has regulatory authority over the ACH (for example, consumer protection rules and monitoring banks for risk.) NACHA said the big growth last year came in the areas of direct deposit, consumer Internet, back-office conversion (BOC), and business-to-business (B2B) payments. Here's a quick rundown of overall growth trends by transaction type.

- Direct deposit, always the most popular ACH transactions, grew 4.9 percent over 2008 to total 4.54 billion payments.
- Consumer Internet payments were up 8.75 percent over 2008; those formatted as Internet initiated entries (WEB) transactions, taken alone, rose a whopping 9.7 percent.
- Federal government payments sent through the ACH rose 5.52 percent over 2008 to 1.21 billion; total dollars sent by Uncle Sam through the network rose 7.22 percent to \$4.29 trillion last year.
- BOC volume more than doubled to 160.5 million total transactions.
- A new international payment format, which only became available during the fourth quarter 2009, drew 1.7 million payments totaling \$7.4 billion.
- B2B payments were up 3.2 percent over 2008 totals, driven largely by CTX transactions, which are formatted to carry detailed remittance information.
- Remittance detail included with CTX payments increased by 8.52 percent, year over year.

Weathering fraud

The benchmarks that NACHA seems most pleased about are those suggesting that ACH participants are getting

better at detecting and thwarting fraud. Unauthorized debits continued a "multiyear downward trajectory" in 2009, NACHA reported. Down 9.6 percent over 2008 loss totals, unauthorized debits accounted for just 0.02 percent of network volume in 2009.

Janet O. Estep, President and Chief Executive Officer of NACHA, pointed to the trend as evidence of the success of rule changes NACHA imposed in 2008, stepping up enforcement and imposing stiff fines on ACH originating institutions with excessive returns.

Maggie Scarborough of the Baltimore-based consultancy FinServ Strategies cautioned against looking at ACH fraud data in isolation, however. She pointed to the rise in new types of fraud, such as browser-based attacks, where fraudsters insert themselves into an online payment session (unbeknownst to either of the other parties), changing payees and siphoning off ACH and wire transfer funds.

"The issue now is increasing fraud and business account takeovers," Scarborough said. "Banks of all sizes are getting hit. You can put all the rules enforcement into this that you want, but until you lockdown the browser, you're going to have trouble. Banks cannot rely on businesses, especially small ones, to ensure a safe computing environment."

This can become an especially serious problem for credit and debit card payments. In a research brief published last year, Erin McCune and Carol Cove Benson of the payment consultancy Glenbrook Partners, reported that "nearly all" small companies interviewed were unaware of the Payment Card Industry (PCI) Data Security Standard (DSS).

Among mid-sized firms accepting card payments there was "little awareness" of PCI DSS, although most expressed concerns about data security, according to their report, "Credit Card Acceptance for B2B Payments."

Checks: From paper to blips

The B2B market has been and continues to be the toughest sell for electronic payments. And for good reason, some would say.

As a treasury manager pointed out when I first started writing about the business: companies want to collect payments at the speed of light, but would prefer to disburse funds by Pony Express.

NACHA data supports this notion.

Despite significant growth, the overall number of B2B payments formatted as corporate trade exchange (CTX) transactions remains small: 60,322,108 in 2009.

By comparison, accounts receivable conversion (ARC)

payments topped 2.4 billion, down 10 percent from 2008 totals. ARC transactions also outstripped BOC transactions by a factor of 15 last year. Yet, at 160 million, there were 2.6 as many BOC (consumer check conversion) transactions as there were CTX (B2B) payments processed through the ACH last year.

BOC is one of four transaction formats used to convert checks to electronic (ACH) payments. However, ACH rules limit the use of these conversion formats to consumer checks. And because the payments are electronic they become subject to Regulation E, which triggers different legal requirements and consumer protections than does check law.

Implementation of the Check 21 Act also has taken momentum away from ACH check conversion.

Check 21 permits banks (and by extension business customers) to truncate checks, creating electronic images of those checks and clearing the images through electronic networks that mimic paper check clearing processes, taking hours instead of days. The law applies to business as well as consumer checks.

In the less than four years since Check 21 took effect, the number of checks truncated and cleared through elec-

tronic check networks has more than tripled.

During the first 22 days of December 2009, alone, 1.385 billion checks were truncated and cleared electronically between banks, about 85 million more than the month before, according to the Electronic Check Clearing House Organization. ECCHO is a private-sector rules group and NACHA's counterpart in the check world.

Although ARC transactions are down, year over year, ARC remains a hugely popular ACH application, especially among credit card issuers, utilities and other companies that collect large numbers of consumer bill payments.

The bottom line: taken together, the numbers from NACHA and ECCHO suggest checks written today, by consumers and businesses, rarely remain paper items, and are cleared electronically.

In 2006, Americans wrote about 30 billion checks, according to the Federal Reserve, which is presently collecting fresh data on checks and electronic payments. A report detailing results is due early in 2011.

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

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The cost of credit card processing – past and present

By **Jared Isaacman**

United Bank Card Inc.

In my position, I field countless questions and concerns regarding the direction of the credit card processing industry. An increasingly prevalent theme in these conversations is that our industry has become plagued with fees and has resulted in a frustrated merchant community.

At first glance, it does seem like the cost of processing has significantly increased over the years with the advent of Payment Card Industry (PCI) Data Security Standard compliance fees and the rise of rewards cards, as well as the ever increasing cost of debit and interchange.

However, in actuality, this couldn't be further from the truth. I believe the cost of accepting credit cards has decreased substantially over the past decade.

Disappearing terminal costs

When I entered the industry in 1999, terminals were sold at two to three times over cost and occasionally much more than that. If the terminal was leased, the price was higher yet.

Additionally, merchants would pay between \$100 and \$150 in application and/or setup fees. This would often lead to over a thousand dollars in startup costs before merchants ever processed their first credit card sales.

Now merchants are able to receive free credit card terminals, and some even receive free integrated electronic cash registers when they sign up to process credit cards. This has completely removed any financial barrier for accepting electronic payments.

In addition, since most processors become invested in their new merchants via free credit card terminals, they often provide some form of a replacement program to ensure ongoing processing relationships with merchants.

Tumbling startup costs

These programs, along with the elimination of application and setup fees, have essentially created a stimulus package for small and mid-sized businesses that wish to accept credit cards.

I am willing to bet that various free equipment offerings have saved merchants in the neighborhood of \$50 million to \$100 million in startup costs over the last few years alone.

I'm sure many of you are thinking that maybe initial costs

are lower, but merchants are still paying much more in rates and fees. I disagree and believe the actual processing costs have also decreased substantially over the last 10 to 15 years.

In the early 1990s, it was not uncommon for merchants to pay more than 3.5 percent for electronic processing services. When I entered the industry, merchants were paying an average of 1.75 percent for qualified rates.

While that number may seem similar to the qualified rates we charge today, it is important to remember the corresponding interchange rate at the time was 1.38 percent and \$0.05. The spread was nearly 40 basis points on the qualified rate alone.

Shrinking spreads

In our present environment, merchants are paying within a few basis points of interchange. It should also be noted that the entire spread on offline debit was retained as margin in those days.

Today, it is not uncommon for merchants to pay by four-tier pricing methods that discount the offline debit (check card) rate to near cost.

Furthermore, interchange-plus pricing was typically reserved for extremely large merchants with dozens of locations and processing millions of dollars in volume. Now, approximately 40 percent of all new merchant applications are priced at interchange plus. The reality is that merchants are now paying closer to actual processing costs than ever before.

Despite all the bad publicity regarding rate increases, PCI fees and new fees, the cost of accepting credit cards has never been lower. Maybe there are a few new fees, but these are insignificant when compared to the reduced margins being charged for processing.

Combine that with the elimination of upfront costs, and you can see why the current environment represents the lowest overall merchant cost for processing credit cards in the history of this industry. 📧

Jared Isaacman is the founder and CEO of United Bank Card Inc., a premier payment processing organization based out of Hampton, N.J. UBC is ranked by the Nilson Report as one of the largest payment processors in the nation, providing merchant services to over 110,000 business locations and processing in excess of \$9 billion in credit card volume annually. Isaacman is actively involved in the industry and also serves on The Green Sheet Advisory Board. Call him at 800-201-0461, ext. 120, or e-mail him at jared@unitedbankcard.com.

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The 'Wal-Mart case' revisited

By Brandes Elitch

CrossCheck Inc.

Priceless: *The Case that Brought Down the Visa/MasterCard Bank Cartel* is a book about the landmark lawsuit brought against the two dominant card brands by several retailers, including Wal-Mart Stores Inc., on behalf of millions of merchants.

Often referred to as "The Wal-Mart case," the class action was settled in 2003, just as the jury was impaneled. Attorney Lloyd Constantine, the book's author, managed the lawsuit, which absorbed six-and-a-half years of his life. It resulted in the largest anti-trust verdict in history: a \$3 billion settlement for the merchants.

Shortly thereafter the U.S. government sued Visa U.S.A. (now Visa Inc.) and MasterCard International (now MasterCard Worldwide), piggybacking on the discovery and theories developed by Constantine and alleging the card associations (now publicly traded card companies) used anti-competitive behavior to marginalize American Express Co. and Discover Financial Services. In this case, the associations agreed to pay an additional \$7 billion to the plaintiffs.

An Entrée to litigation

In 1989, Constantine successfully prosecuted the associations for merging their separate debit card networks into a common network (called Entrée) with the goal of dominating the debit card industry and destroying competing networks. He was lead counsel on a team that included 14 states' attorneys general.

After a 16-month investigation, the associations agreed to drop their Entrée proposal, but the matter led to the merchants' case against them seven years later, which was about debit card pricing and marketing. So you can see this is a tangled web.

The book is really a David and Goliath story about what Constantine calls "the blood sport of complex, commercial litigation." His tiny law firm attacked the mighty empires of Visa and MasterCard – and won. To do this, Constantine had to show the court that the associations used malice and intent to engage in a consistent pattern of anti-trust violations that harmed a class of 5 million merchants and millions of consumers.

It's an exciting story (as exciting as things like discovery, depositions, appeals, briefs, expert witnesses and legal theories can be) and Constantine tells it well.

To win, (actually, the associations settled, rather than go

Monopolies and cartels, price fixing, and elimination of competition lead not to higher profits but to market failure. When we forget this inconvenient truth, our business system, the envy of the rest of the world, starts to fall apart.

to trial, after the judge rebuffed years of legal challenges and found for Constantine regarding a wide variety of legal and procedural issues) he also had to show a long-term pattern of illegal practices, including monopoly and conspiracy, price fixing, and restraint of trade.

To demonstrate a conspiracy, Constantine had to show common ownership, lack of competition, and concerted activity to restrain trade and raise prices.

Much ado about something

Some important things happened as a result of this case, and some things didn't happen. In January 2010, *The New York Times* published an article about how Visa continues to monopolize the debit card industry. It contains a quote from William Sheedy, President of Visa for the Americas, who stated that the Wal-Mart lawsuit was "much ado about nothing."

After reading Constantine's book, this comment shocks the conscience. Indeed, the prices for debit transactions have risen; the associations achieved parity between PIN debit and signature debit by raising the price of PIN debit. As the saying goes, you just can't make this stuff up.

Even so, some people in our industry think anti-trust issues are just regulatory matters and, consequently, no big deal. But anti-trust violations are criminal. Anti-trust law prohibits anti-competitive behavior (monopoly) and unfair business practices.

Monopolies and cartels, price fixing, and elimination of competition lead not to higher profits but to market failure. When we forget this inconvenient truth, our business system, the envy of the rest of the world, starts to fall apart.

An uphill battle

This lawsuit was a high-risk, high-stakes game for Constantine: his little firm of 17 lawyers took the case on contingency, even though they were joined by some of the largest retailers in the country.



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The case involved 350 motions, 54 expert reports and 400 key depositions. The summary judgment brief was 50,000 pages. The discovery record covered 5 million pages. The deposition testimony was 150,000 pages. Constantine started on this book in 2003, and it took him six years to write it.

The book focuses on Constantine's interaction with the law firms that defended the associations, as well as the personalities of the senior executives involved. Interestingly, there is almost no mention of the banks, which at that time owned the associations.

This is surprising, because at that time, the associations were dominated by a small number of issuing banks, and acquirers were marginalized. I know this because I was an acquirer during this period. If some of these banks had not also been acquirers, the acquiring industry would have had little, if any, representation within the associations.

Back then, the associations would talk only to their member banks, and certainly not to the army of people who were walking the streets every day, selling MasterCard and Visa processing to millions of merchants across the United States and actually creating revenue for the associations.

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This was one of the reasons the Electronic Transactions Association was founded – to get some legitimacy, credibility and power for the thousands of ISOs and merchant level salespeople who make their living selling credit and debit card processing.

But this lawsuit was not just about the associations; it was about the dozen or so major issuing banks that dictated the Visa and MasterCard agenda (via interlocking directorates, another quaint anti-trust concept).

The assault on ATM cards

The focus of the merchant's suit was the "honor all cards" rule, which forced merchants who took Visa credit cards to take Visa signature debit cards, too.

The book might have benefited from a more in-depth examination of the history of the debit card industry. Constantine overlooks how PIN debit got started. The key decision, taken by big money-center banks like Citibank in the 1970's, was to not charge consumers for using their ATM cards, as long as they used ATMs rather than tellers inside bank branches.

This must rank as one of the worst business decisions in the history of banking. In their misguided desire to keep transactions away from the teller window, banks accustomed consumers to always being able to use their ATM cards for free. This fostered regional ATM networks (which used a high level of encryption and security).


Ten years later, the associations realized they'd missed out on an entire payment system. However, they still had interchange in their quiver. They knew banks couldn't make money with the existing PIN debit model, but if they scrapped their ATM cards and replaced them with interchange- and signature-based debit cards, they could profit handsomely.

The associations erred in trying to disguise this; merchants could not tell in those early days if a given payment card was a Visa debit or credit card, and that was the genesis of the merchants' suit.

Constantine also erred in devoting an entire chapter to why he deserved a higher fee, as if \$200 million for his small firm was not enough.

Nonetheless, this is an important book and required reading for the ISO community. 

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



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And every merchant would be approved for a lease program regardless of credit.¹ The merchants cried out with glee, declaring “O Mighty TouchSuite, we will never forsake thee for another POS system. Nor shall we ever return such a glorious system.”

Thus, less than 1% would ever return the TouchSuite Pro. And a new Era of Prosperity would begin for those salespeople who were wise to call 1-866-430-3703 or visit TheCreationofPOS.com.

¹Merchant must qualify for merchant processing in order to be approved under the guaranteed lease program.



ADVISORY BOARD

Turning economic tides - Part 3

Economic tides seem to be turning, albeit slowly. So *The Green Sheet* asked members of our advisory board for their thoughts on the following questions:

1. What are examples of some light at the end of the tunnel your company is experiencing?
2. What areas of your business have picked up?
3. Where do you plan to focus as the economy improves?
4. How have you stayed tuned to your customers needs over the last year?

The first two portions of responses to these questions were published in *The Green Sheet*, March 22, 2010, issue 10:03:02, and April 12, 2010, issue 10:04:01. This article contains the third segment. Many thanks to the advisory board members who took time out from their busy schedules to share their perspectives for this series.

Bob Ficarra

Sterling Payment Technologies

1. Sterling Payment Technologies has experienced a noticeable year-to-year increase in processing volume from our base. We have always striven to focus on technological innovations and value-based offerings to enhance our product mix. As the marketplace becomes more competitive, our technological innovations give us the offerings that have enabled us to minimize attrition and maintain healthy spreads.
2. We have been experiencing substantial growth in the business-to-business market. We believe that the credit crunch has limited businesses' ability to extend credit, and many businesses are focusing more on bankcards to fill in the gaps.
3. In a commodity-based market, one needs to differentiate with low-cost, value-added products and services. Sterling believes that technology holds the key. Sterling has been investing in this area for years. We have built offerings that enhance the merchant's experience with products that increase sales, increase efficiencies and reduce loss.

Our unique cardless rewards system allows merchants to use the cards consumers have in their wallets to provide shopping incentives. Our integrated Web-based Cash IP Register reduces losses associated with shrinkage, increases efficiencies and provides needed marketing information at a very competitive price.

4. The relationship between a business and its customers is always unique. Sterling's commitment to service helps us keep our finger on the pulse of the marketplace. We utilize input from all levels of our enterprise. Sterling's feedback loops include merchants, customer service, sales, accounting and the competitive environments. These are all areas that we mine continually to enhance our marketing mix.

Lisa Shipley

Ingenico

1. Our new Telium line of payment terminals, wrapped around security and managed services solutions are driving the company toward an even better year in 2010. Customers are looking for differentiation, and the new array of managed services and innovative technologies from Ingenico offer just that.

Early in 2009, we made significant strategic changes within the organization, including organizational realignment, product-line updates, and strategic partnerships that positioned us well ahead of the competition and enabled Ingenico North America to hit the market with very unique product offerings.

We took the time to listen to our customers and made the changes early enough, which allowed us to remain the industry leader in payment technology solutions.

2. Our customers appear to be most interested in our newer products, including the iPA280, WebPOS, the iSC350, the i9780UPT unattended/petroleum device and Ingenico ROAM Mobile Payment applications.

We believe we successfully cornered the market with several unique solutions that allow our merchants to turn their static payment hardware into dynamic portals by enabling them to send value-added applications, security updates and promotional content to their valued clients.

3. First, we will make sure that we remain centered on our clients' business needs and their priorities by enhancing our customer service and delivering on our promise and commitments.

Second, we will continue to promote our new products and services that benefit our clients and bring unique offerings to the marketplace.

Third, we will leverage our products and services that provide for recurring revenue opportunities currently



not available through other vendors.

4. We spent a good amount of time visiting our customers, listening to their business requirements, and learning about their challenges in meeting the Payment Card Industry Data Security Standard requirements by protecting their cardholders' data and in turn their brand.

At the same time, we were able to engage our customers and educate them on the latest trends and technologies in the payments industry. We were able to consult and paint the future for their businesses by showing where technologies were heading, potential benefits of their applications, and how they, the clients, could best prepare to compete in this new marketplace.

We reaffirmed our commitment to our customers that they were doing business with the global leader in the payments space.

J. David Siembieda

CrossCheck Inc.

1 and 2. There is light at the end of the tunnel, and we're noticing that sales are picking up. With the high unemployment rate and a slow economic recovery, merchants are realizing that they need a check guarantee service.

We just got back from exhibiting at the National Auto Dealer Association show in Florida, and we had a chance to meet with many auto dealers. These guys have really had it rough, but overall, they are much more positive than a year ago. For us, it turned out to be one of our best shows, in terms of sales at the show and leads, than we've had for years. Also, our ISO sales continue to grow and, with a couple of new products on the horizon, we're expecting a strong second and third quarter coming up.

3. The tough economy really makes collecting receivables quickly important to helping a business stay healthy, so we are growing our Optio Solutions subsidiary to keep up with the demand for collection tools. Over the past two years we've opened up four new sales offices and have plans for more. We've also received demand from our ISOs and partners to sell these services, so we'll continue to make them available for our CrossCheck reps.

4. We heard a recurring message with our customers and clients last year. They were looking for cost savings for their day-to-day operations, which was especially important, as many were working with smaller workforces and less capital. With this in mind, we invested in new product development and technology and have developed several new conversion products and enhancements including remote deposit capture with guarantee.

Our products offer our merchants savings in staff time for processing payments, reconciling records or collecting past due balances. New and existing customers have been very responsive, and the feedback is quite positive.

Rick Slifka

Exec-Links LLC

1 and 2. I'm delighted to report that in spite of being in one of the worst economies of our lifetime, 2009 was an exceptional year for us, and 2010 is off to an even better start. As acquisitions seem to be a common occurrence in our industry, once the dust settles there is typically a need for a specific caliber of talent. Having been in this industry 17-plus years, referrals are commonplace, both from a candidates' perspective as well as hearing from new clients (who've heard about our services).

Never before has there been such an abundance of highly talented candidates. Companies continue to want to identify talent that can bring new business along and add revenue to the bottom line. Areas that have picked up: new candidates and new clients.

I'm sorry to admit that the vast majority of Americans have no idea just how shaky the U.S. economy is, as well as the negative impact this presidential administration





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is having on our daily lives. Every chief executive officer or company president I speak with agrees on one unfortunate fact: our taxes will continue to dramatically increase annually. I strongly urge anyone reading this to, as soon as possible, watch a documentary called *Generation Zero*. It was recently released on DVD.

Based on the federal government's constant spending and the amount of debt being compiled, there are no indicators that point to the fact that this economy will be improving for many, many years. We've outsourced most of our manufacturing overseas, which explains why the economies on China and India seem to be faring better than ours.

3 and 4. Fortunately, we are in a service industry, and there will always be a need for a transaction to be processed in some form or fashion.

Since its common knowledge that it's easier to keep good clients versus finding new ones, Exec-Links will continue to focus on selectively acquiring new clients while continuing to offer best-in-class service to our existing clients. I have also partnered with Cardgigs (www.cardgigs.com), a job-search Web site designed exclusively for the payment processing industry. Unlike behemoth sites like Monster and CareerBuilder, clients that use Cardgigs know our candidate database is comprised of those with only financial services/payment processing backgrounds.

A scientifically tested phenomenon referred to as "spaced repetition" states that if you professionally market a product or service to a prospective customer six times, it will stick. Quite simply put, we try to reach out to clients and prospects every two months. Doing that enables us to keep abreast of industry trends and mergers/acquisitions, enhance existing relationships, selectively add to our client base, and stay attuned to an ever-changing industry and marketplace.

Scott Wagner

GO Direct Merchant Services Inc.

1. Our bank channel is picking up. It appears several banks we work with are doing some new lending. Those new relationships are finding their way to us. I would say it's an all around win. Merchants are starting to get loans; banks are picking up new business; in turn, we are generating new accounts.

3. The bank channel and bank relationships have been mutually successful for us and our partners. We will continue to spend time and energy capital on this growing channel. ☐



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- United Bank Card CEO Jared Isaacman has personally written a rate and service guarantee stating that rates and fees will not be raised in order to fund this contest and that UBC's high level of service will not be compromised due to this influx of merchant accounts.
- An outside law firm, The Lustigman Firm, has been enlisted to help ensure that the promotion has been structured in a legally compliant manner.
- The contest drawing will be observed by Weiser LLP, an independent accounting firm.

No Purchase Necessary. UBC Million Dollar Giveaway starts on September 1, 2009 and ends on the date in which there are 27,000 entries or August 31, 2010 at 11:59PM ET, whichever is sooner. Promotion is open only to Sales Associates (as defined in the Official Rules) of United Bank Card, Inc. that are located in the fifty (50) U.S. states (and D.C.) 18 years of age or older. For official rules write to United Bank Card, Inc., PO Box 4006, Clinton, NJ 08809. Void where prohibited. Sponsor: United Bank Card, Inc., PO Box 4006, Clinton, NJ 08809.

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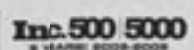
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Selling Prepaid



Prepaid in brief

NEWS

Calling all prepaid warriors

The fall edition of the Green Sheet Inc.'s quarterly publication *GSQ* will be a special report on the prepaid card industry. The issue will focus on the state of the industry, giving a topline view as well as the nitty gritty from the street. Patti Murphy, the Green Sheet's Senior Editor, is looking for insights and stories from the prepaid trenches. If you have information you'd like to share, contact Murphy at patti@greensheet.com.

Payoneer CEO embroiled in Mideast turmoil

According to a *New York Post* online article, **Yuval Tal**, Chief Operating Officer at online payroll card provider Payoneer Inc., has expressed fear for his and his family's safety after it was revealed that Payoneer payroll cards, MasterCard Worldwide-branded cards issued by MetaBank, were reportedly used to fund the Jan. 19, 2010, assassination of a leader of Hamas, a Palestinian militant group.

The leader, Mahmoud al Mabhouh, was apparently murdered in a Dubai hotel by what Dubai police described as agents of Mossad, the Israeli intelligence agency, a *Wall Street Journal* reported online. It was the Dubai police who made public the link between the Israeli assailants and Payoneer, the *WSJ* said. Both online articles referenced material that pointed to Tal's former involvement in the Israeli Special Forces. The *NYP* article said a report on Gulfnews.com indicated that it was while Tal served in an Israeli elite special operation that he developed ties with Mossad.

ANNOUNCEMENTS

Prepaid system installed in Florida jail

Continental Prison Systems Inc., doing business as EZ Card & Kiosk, said it completed phase-one installation and staff training at the Broward County Jail in Ft. Lauderdale, Fla. Five EZ Technology-powered lobby kiosks have been installed, the company noted; it expects to add additional kiosks for the booking and bail process in later phases.

New m-commerce gift giving era begins

With its "mobile storefront," **Friendgiftr Inc.** launched a mobile commerce solution that allows smart phone and mobile device users to buy gift cards via mobile handhelds. Friendgiftr said it is "the first and only full-featured mobile storefront to offer over 140 leading, brand name gift cards to the mobile marketplace." The service runs on such devices as the BlackBerry and Apple Inc.'s iPhone, the company noted.

Game card revenues up in pharmacy channel

InComm said it has experienced over 200 percent sales growth for game cards sold in pharmacies in 2010 as compared to 2009. InComm attributes the rise to changing demographics within the channel, better education and marketing of the product, and the convenience of shopping at neighborhood chain drug stores.

Hong Kong gets 1World Cash

One World Ventures Inc., provider of the 1World Card, opened its first 1World Cash location in Central Hong Kong and launched a new Web site. The Far Eastern city is home to a large migrant Philippino population that utilizes remittance services to send money home to families in the Philippines, One World Ventures said. The Hong Kong location is the first of many for 1WorldCash throughout Asia, the company added.

Hanging ten, getting major air for teen card

BillMyParents, the online teen payment system of **Socialwise Inc.**, teamed with professional skateboarder Rob Dyrdek to promote BillMyParents and its MasterCard Worldwide-branded, reloadable prepaid card. Parents can impose spending limits on the cards and receive text message or e-mail notifications when the cards are used, Socialwise said.

Socialwise also signed motocross racer Travis Pastrana to a similar endorsement deal.

Travelex swaps cards for Japanese market

The Travelex Cash Passport will replace the Cash Passport ATM card in Japan, according to **Travelex**.

For Japanese travelers, funds loaded on the Cash Passport can come in one of five different currencies: British pounds, euros, Japanese yen, U.S. dollars and Australian dollars. Travelex said the Cash Passport can be used at millions of retailers and ATMs worldwide when cardholders travel abroad.

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TrustCash focuses on unbanked

TrustCash reported that its TrustCashDeposit product will be marketed specifically to the unbanked. Citing Center for Financial Services Innovation statistics that 20 percent of all U.S. households are unbanked (representing about 22.2 million families) and will spend at least \$13 billion yearly using alternative financial service transactions, TrustCash has made reaching the unbanked part of its overall business plan.

PARTNERSHIPS

New pact for travel card

J.P. Morgan, the treasury arm of JPMorgan Chase & Co., allied with IBM to help corporations streamline and bring greater efficiency to corporate travel and expense management. The integration of IBM's expense management tools and services with J.P. Morgan's Corporate Card solution will reportedly improve business travel transparency, cut costs, and more effectively monitor and audit expense reports.

Virtual gift cards redeemed at the POS

Gift card processor TenderCard made a pact with virtual gifting company Giftango Corp. to extend TenderCard's virtual gift cards to the e-mail and mobile phone channels. The integration of Giftango with the TenderCard platform will allow merchants to accept virtual gift cards at the in-store POS without modifying the POS's hardware or software, TenderCard said.

New money transfer team for eastern U.S.

The Western Union Co. and supermarket chain Giant Eagle Inc. agreed to a deal that will bring Western Union Money Transfer services to Giant Eagle customers in over 260 grocery store locations across western Pennsylvania, Ohio, West Virginia and Maryland. All participating stores will offer the Western Union Money Order service and many locations will allow shoppers to pay bills using the Western Union Convenience Pay service.

Electronic voucher service expands to Russia

U.K.-based prepaid card provider Ukash inked a deal with self-service kiosk operator QIWI to make electronic vouchers available in Russia at more than 100,000 physical points of purchase, Ukash said.

With the partnership with QIWI, Ukash noted its services are now available at 420,000 locations in 30 countries. Ukash said QIWI operates in markets that include Russia, Ukraine, Georgia and Kazakhstan with kiosks that facilitate mobile top-up, bill payment, transportation ticketing, entertainment and e-wallet loading.

Business college on board with m-commerce

The University of Denver's Daniels College of Business said its School of Hotel, Restaurant and Tourism Management formed a strategic partnership with mobile Software-as-a-Service technology provider Mocapay to allow students to use mobile phones for making purchases at the school's student-run coffee shop. Students and faculty will be able to conduct mobile transactions at the POS, access account balances and transaction histories, and reload accounts, Mocapay said.

Veritec to market iNet Team's card

Veritec Inc., developer of mobile banking debit card solutions and of proprietary two-dimensional matrix technology, signed an agreement with iNet Team to market iNet Team's blinx On-Off Card to the underbanked.

ACQUISITIONS

CPI adds pieces of Premier's puzzle

CPI Card Group acquired certain assets of Premier Card Solutions. The transaction, which closed on March 9, 2010, makes CPI the owner of PCS's prepaid card business, which will continue to operate at its existing location in Roseville, Minn. CPI reported that many of PCS's employees and management joined the CPI. Additionally, CPI has acquired various other financial and intangible assets and equipment of the former PCS business.

TSYS, FNBO finalize deal

Total System Services Inc. (TSYS) and the First National Bank of Omaha consummated their joint venture transaction, in which TSYS acquired a 51 percent interest in FNBO's merchant acquiring business for approximately \$150.5 million. FNBO retained a 49 percent interest in the newly formed company, First National Merchant Solutions LLC.

APPOINTMENTS

Brutin joins Offerpal Media

Payment industry veteran Alex Brutin became the Vice President of Business Development at Offerpal Media. Brutin, most recently VP of Business Development at FreeCause Inc., is responsible for forging new relationships with other direct payment providers and monetization partners, as well as new strategic initiatives.

MoneyGram expands board of directors

J. Coley Clark, Victor Dahir, Ann Mather and W. Bruce

Turner will join MoneyGram Intl.'s board of directors. The formal election will take place at the May 26, 2010, annual meeting and will bring the number of directors to nine.

Clark is the chairman and CEO at BancTec Inc. Dahir retired from Visa Inc. in 2005 after 21 years of service. His last position at the card brand was as Executive VP and Chief Financial Officer.

Mather is on the board of directors at Google Inc. and Glu Mobile Inc. She has over 25 years of financial experience, including serving as EVP and CFO of Pixar Animation Studios and Village Roadshow Pictures.

Wall Street veteran Turner served as the CEO of Lottomatica S.p.A., an Italian public company that provided lottery operations and technology services. Turner currently serves on Lottomatica's board.

Dow, Rodriguez join CFSI board

CFSI welcomed **Steven Dow** and **Eric Rodriguez** to its board of directors. Dow was Executive Director of the Community Action Project of Tulsa County, where he oversaw the transformation of the organization from a two-person agency to a large anti-poverty agency with a staff of nearly 600. Rodriguez is Vice President of the National Council of La Raza, where he is in charge of legislative affairs, public policy research, policy analysis and field advocacy work. ☐



Features

Consumers in the prepaid driver's seat

Consumer shopping behavior is what controls the profitability of the prepaid card industry, according to a webinar presented by Mercator Advisory Group and Fiserv Inc. "Consumers are driving the industry," said Tim Sloane, Vice President of Client Services and Prepaid Advisory Director at Mercator.

Mercator, which has been tracking the prepaid card industry since 2003, breaks down the industry into 33 market segments and categorized the cards as either being closed-loop (such as store-specific gift cards) or open-loop (cards that run over card brand networks). In comparing the closed-loop segments to open-loop, Sloane concludes that open-loop cards are experiencing faster growth.

He said that the compound annual growth rate (CAGR) for closed-loop cards was 10.1 percent between 2004 and 2009. But, in that same timeframe, open-loop cards grew at a CAGR of 63.6 percent, with year-to-year growth of 50 percent. "Clearly, the open loop market is taking off," Sloane said.

Sloane forecasts that, by 2012, the total load amounts on open-loop cards will exceed that of closed-loop cards, "which is pretty astounding given closed-loop market segments have been around for significantly longer than open-loop."

Closer to the dash

In taking a closer look at the prepaid card industry, Mercator interviewed over 1,000 consumers between May and June 2009. Forty-five percent of the survey participants had recently purchased a prepaid product. Mapped over the entire adult U.S. population, that 45 percent translates to 99.6 million people, Sloane said.

Mercator then identified what types of prepaid cards that 45 percent of respondents had purchased. Seventy-six percent bought closed-loop retailer gift cards. But what amazed Sloane is that 39 percent had purchased open-loop, general-purpose reloadable (GPR) cards, which would account for 38.8 million of that overall 99.6 million population.

In contrast, only 20 percent of that 99.6 million had purchased prepaid phone cards, even though that category had been in existence for a much longer time than GPR cards. "So, in a very short period of time, the open-loop gift card has certainly driven significant market share," Sloane said.

When Mercator asked the survey participants about the reloading of cards, the responses proved interesting to Sloane. Approximately 11 percent (translating into 24 million consumers) had reloaded their cards; 53 percent (117 million) were familiar with the reload concept but hadn't done it; and 6 percent had no awareness that reloading was possible. The latter two categories point to a potential growth area for prepaid cards.

Changing signage

Another conclusion Sloane drew from the research is that consumers are using prepaid cards in many different ways. Fourteen percent said they used the cards for household budgeting. Prepaid cards are therefore replacing "grandma's shoebox with cash in it" for the paying of bills and other expenses, according to Sloane.

Mercator's research found that only 11 percent of prepaid card users said prepaid is a convenient way to pay bills if debit cards are unavailable. Only 11 percent also said prepaid cards are a convenient way to send money to friends and relatives. Both statistics point to another market

Selling Prepaid

opportunity – for providers to clarify through messaging the benefits of prepaid cards, Sloane said.

Mercator also tabulated where consumers purchase prepaid cards. Mercator's research finds that:

- Sixty-eight percent of consumers purchase specific retailers' private-label cards from specific retailers' stores.
- Forty-five percent of consumers purchase cards from stores that offer prepaid card malls.
- Fourteen percent of consumers purchase cards from retailers' own Web sites.
- Seven percent of consumers purchase cards from banks.

In analyzing survey participants' answers, at first it seemed as though consumers knew what prepaid cards they were going to purchase before they entered the store or went online, Sloane said. But, in analyzing their secondary answers, Sloane recognized that consumers are "nowhere near set in their ways."

With prominent signage and a variety of cards on display, "it is very likely that those consumers can be driven to make a purchase at that location," Sloane said. "It's just having the right products at the right visibility at the right time to be able to intercept that individual."

Driving home the point

Finally, Mercator researched prepaid card distribution channels. In "triangulating" data attained from card issuers, retailers, third-party prepaid card operators and distributors, Mercator realized that the primary distribution channel for prepaid products is the gift card mall. In the open money and financial services category (open-loop, network-branded cards), which accounted for \$8.7 billion in load volume in 2008, almost \$2 billion of that load came from cards purchased from prepaid malls. And of the \$7.8 billion loaded on open-loop gift cards in 2008, \$2.7 billion was loaded via mall-purchased cards.

Sloane concluded, "There is some very solid evidence – I would argue proof – that the merchants should be jumping in on the open-loop gift card and promoting it. It's both a profitability opportunity and it's making sales that they would not normally get." 📊

Security standard in store for stored-value

In March 2010, gift and loyalty card processors ProfitPoint Inc. and SparkBase announced a joint effort to establish best practices for the stored-value card industry. The processors said the initial Stored-Value Industry Certification (SVIC) Data Security Standard (DSS) will set up general best practice guide-

lines; it will then be followed by a more detailed certification standard scheduled for rollout in the fourth quarter of 2010.

The SVIC DSS will address how to best secure data on closed-loop programs: card numbers, data concerning purchasing habits, loyalty point information, as well as other consumer-specific demographic data (birthdays, anniversaries, even shoe sizes) unique to stored-value transaction processing.

Out in front

According to Vaden Landers, Chief Executive Officer at ProfitPoint, the initiative was borne out of a need recognized by Landers and SparkBase CEO Doug Hardman for the stored-value industry to stay ahead of data security issues that may arise. They wanted to "work to limit the potential for any horror stories popping up in the news that would create growth barriers for closed-loop players," he said.

Landers was not aware of any data security breaches having occurred on stored-value networks. But once fraudsters recognize the detailed information available on stored-value, closed-loop networks, and what they can do with that data, their level of interest in the stored-value industry will undoubtedly increase. And as their interest increases, the threat level increases proportionately.

Currently, there is no mechanism in place to track fraud on stored-value networks, Landers said. However, he noted that fraud on stored-value cards is of a different variety than fraud that occurs on the credit and debit card side. "Anyone who could hack into a system and steal credit card information could get much more personal data from a stored-value network, whether at the merchant or the processor level," he said. "The potential for something really bad to happen that would give the industry a black eye is there, so we feel responsible for addressing it given that we are leaders in the space."

Leading by example

Landers said the standard will be based on the best practices already in place at ProfitPoint and SparkBase. "We are starting with our networks because it is our experience that offers the ability to capture and retain the most robust set of cardholder data of any other network in the industry," he added. "We felt that if we could secure our platform first, with its comprehensive toolset, other platforms would be simpler to certify."

The Payment Card Industry (PCI) Data Security Standard (DSS) will be useful in setting up a similar structure for the SVIC DSS, Landers noted. He expects ProfitPoint, SparkBase and Valutec Card Solutions (also involved in developing best practices) to collaborate with other leading players in the space on security protocols, much as the PCI Security Standards Council has done for the PCI DSS. 📊

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An upfront and advanced processor

Before founding payment processor Secure Payment Systems Inc. in late 1996, SPS Chief Executive Officer Linden Fellerman worked for 20 years at what began as Telecredit Inc. and became Equifax Inc. when it was acquired in 1990. For 10 of those years he was President of Check Services for the credit scoring bureau.

He left the job and his Tampa, Fla., home in 1996 and moved to Southern California where he went to work building a payment services company that would leverage his expertise in the check services business.

Settling in sunny San Diego and focused on the new venture, Fellerman officially launched SPS in April of 1997, when the company processed its first transaction.

That would be the first of many, as what started as a small startup dealing strictly in check guarantee matters continued to grow and "add new wrinkles," as Fellerman put it.

"It originally began as a check guarantee business and we transitioned ourselves over to electronic check conversion, then full-service gifts and reward card processor, and then into ACH origination and check 21 image processing," he said. "Most recently we've introduced a delayed consumer finance option."

High risk

Broadly speaking, SPS specializes in certain forms of high-risk processing, where the company assumes a bit more risk than the average processor. Businesses that process with SPS are afforded a broader range

of finance and payment options as a result.

Such risks, Fellerman said, are taken on through a calculated approach that uses formulas learned and developed during the founder's early days in the check services business when he was responsible for running background checks on consumers.

"We've recreated systems here that embody many of those same tenets and principles for managing fraud," he said.

"Examples of that, besides just using the obvious bad check databases, would include tracking where that consumer is shopping, what time of day they're shopping, what day of the week they're shopping, and patterns that don't seem normal for both frequency and dollar amounts.

"In some cases, it could involve also the age of the customer and check numbers.... It's based on the experience I've had at bigger companies and secondarily here, and knowing how to set those parameters so to not impede sales but at the same time maximize the risk management features."

Automated incremental payments

The company's keystone payment offering is a check guarantee program where the consumer typically writes three or four checks and pays, in equal increments, over 30, 60 or 90 days. If the consumer authorizes it, SPS also provides the option of automatically debiting accounts at each 30 day period through the Automated Clearing House (ACH) network.

Company Profile

"With check guarantee the customer is writing three or four checks and basically deferring his payments over time, but we've automated it and added advanced funding."

- Linden Fellerman
 Founder and CEO, Secure Payment Systems Inc.

Regarding the use of ACH debiting, Fellerman said, "Merchants have to have the approval of a customer to do it. Provided the customer authorization to do that, there would be an electronic debit that we would originate on their behalf and then settle those funds back to the merchant.

"It could be recurring billing, it could be one time debit could be at the point of sale where you're making a purchase and signed a receipt acknowledging it's OK and permissible for us to debit that transaction electronically."

Merchants who participate in the deferred funding program are shielded from liability. In the event that a consumer's check bounces and the account is turned over to a collection agency, SPS pays the merchant and the account balance is resolved by third parties, rescuing the merchant from the long-term headache of uncertain funding.

Recently, SPS has taken its payment guarantee program a bit further. As of last year, the company has been offering advanced funding for its deferred payment program to the automotive industry, where long-term payment plans are especially common among consumers unwilling or unable to provide thousands of dollars upfront to buy a much needed car.

That means that a car seller receives the upfront payment for the car from SPS (or the ISO through which SPS is selling the service), which then collects the customer's deferred check payments – or ACH debit payments – as recompense. The dealership is thus not only guaranteed payment for a sold car, but also isn't forced to wait some number of months for the financing to roll through.

"With check guarantee the customer is writing three or four checks and basically deferring his payments over time, but we've automated it and added advanced funding," Fellerman said. "If you're familiar with the check business, many check companies have a 90-day feature in the retail segment, but nobody's done the advanced funding piece until about a year ago [when SPS started that program].

"We've taken the step of doing that, and so we've introduced a new wrinkle. We've gotten quite a few ISOs to sign on board with us, and we've been ironing out the consumer pro rates because the type of consumer we seem to be getting from some of these merchants is poor credit quality, so we've been ironing out some of the approval methodologies."

Other wrinkles

Fellerman mentioned other unique "wrinkles" within the company's package of offerings, most of them relating to novel methods of risk management that serve as protection for boarded merchants. One is a gift card program for franchise stores that offers dual protection.

Commonly, franchisee store gift card revenue goes to a common "trust" account belonging to the franchise collectively, Fellerman said. Then, whenever those cards are redeemed, the stores at which they are used are compensated from that account.

But problems can occur if one of the franchisees goes out of business, Fellerman said. If that store sells gift cards, it is normally liable for paying other franchisees where the cards are used – but that goes out the window when the

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store goes out of business, leaving the other franchisees to assume the costs associated with a gift card purchased at a different store but redeemed at their stores.

According to Fellerman, SPS allows whatever franchisee is selling the gift card to sit on the proceeds, rather than put them in a separate account for reimbursing other stores where the card is redeemed.

SPS then acts as the broker for payments between stores, debiting the gift card seller whenever its cards are redeemed at other locations. Furthermore, in the event that a seller goes out of business or falls into bankruptcy, SPS assumes liability for all of their sold gift cards. That means that other franchisees aren't ever forced to incur the costs of another store's cards.

"Our premise is that we behave as an intermediary, as a broker, and we pay out the redemptions, and charge a premium to all the participating stores that sell gift cards," Fellerman said. "And if the store [that sold one or more unspent cards] goes out of business, we're liable."

Enhanced kiosks

SPS is also prominently involved in providing remote deposit capture services that allow merchants to electronically submit checks to their banks and thus avoid the hassle of physically delivering them. And the company has two brand new offerings: one is a text message-based loyalty program for merchants, the other a software program for kiosk ATMs that bring a host of new services to the kiosks.

Regarding the kiosk offering, Fellerman said, "Many free-standing ATM machines are now becoming financial supermarkets where there's more than one function that can happen on that machine.

"In some cases you buy stamps or pay a bill – well, now they're adding things to drive more revenue, and those services sometimes include money transfers, and even buying movie tickets and, more recently, cashing payroll checks.

"Given that a large segment of the population is unbanked ... they can use these ATM-kiosks to do banking and a host of other things, which may include sending money to family members in another country."

According to Fellerman, small to mid-sized merchants are the company's "sweet spot." He added that such merchants are also the sweet spot of most ISOs, and that SPS almost always sells its merchant services through third-party providers.

Adapting to shifting tides

As with many ISOs, a smaller processor like SPS is compelled to change constantly, to search for new methods

and approaches suitable to a changing payments hemisphere – and, often, to take chances.

"We need to take some risk because otherwise certain products would not be sellable," Fellerman said.

It helps that the company has a knowledgeable and experienced 30-person staff, he noted, adding that the company's four-person executive team has 75 total years of payments industry experience.

New ideas, or "wrinkles," are part of what Fellerman likes best about working in the payments marketplace – an ever-evolving sector that requires businesses to be constantly forward thinking and forever on their toes. Trying to figure out how to adapt in ways that leverage the shifting demands of the marketplace is what makes the work something of a rush to a guy like Fellerman.

"What I like about it is the business is dynamic," he said.

"The marketplace being a little bit tougher now makes us think in different ways and continue to broaden the payment channels that we offer, so that we're not a one product company. Those companies are prone to suffering in the future. As technology causes things to continually change, we have to change with it." ■

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Job rebound in acquiring?

According to an April 2, 2010, report from the United States Department of Labor, the financial services sector was the only major private U.S. industry to have significant job losses in March 2010. Yet the job outlook for the payments business specifically may be a lot brighter than what the report seems to indicate.

Overall, the country's private industries added 123,000 jobs in March – among them, 36,700 in health care, 17,000 in manufacturing, 15,000 in construction and 14,900 in retail. But among otherwise good news for the private sector was the reported loss of 21,000 jobs in the financial services industry. What to make of this jarring figure?

For starters, the term "financial services" is occasionally used interchangeably with payments; here it refers to a much broader field of financial players – among them are loan providers, investment firms and banks of every kind. Trends in the financial services industry at large do not necessarily reflect what's happening specifically in the payments sphere, and that seems to be true in this case.

According to J.T. Driscoll, President of payments industry job recruiting firm Impact Payments Recruiting, the acquiring sector job market began rebounding several months before the new figures emerged about a greater bounce-back.

"In December we started seeing [the turnaround]," Driscoll said. "And typically in this industry that's a slow time to hire because that's when all the sales are happening, and we were taken back by it. But I think what happened is everyone had new initiatives for 2010 and wanted to get things started by hiring right off the bat."

Job postings up

Driscoll said Impact Payments had procured data indicating that job postings for the financial services industry were up 15 percent in March 2010 from March 2009, and that the company's assessments in general weren't reflected by the Labor Department's findings.

"I was a little surprised to read that [information]," he said. "It didn't appear that way to us, maybe because we're so 'niche' that we're a little isolated from the quote unquote rest of the world ... We're definitely seeing growth. We've probably got 20 percent more [available payments] jobs than we did at the end of '09, and we've got higher paying positions now and more senior roles that are coming in."

Among the positions beginning to generate significant demand, he said, are ones in sales management, loss prevention management, risk underwriting and other open-

ings that were almost unheard of until recent months. In fact, the recession caused contractions in virtually every payments industry job category except one: feet-on-the-street sales. Driscoll said businesses have been aggressively seeking salespeople all along, even while many were crunched by the recession and making cuts in other areas.

"The way the industry's been and because of the economy, everybody started hiring salespeople," Driscoll said.

"It was sort of counterintuitive, but even though the economy was down and hiring was down, top salespeople actually became more difficult to get because they got more desirable. Clients just wanted to spend their money on what was going to bring them back revenue directly and were holding off on other projects.

"Meanwhile, some were cutting back on customer service teams, relationship management teams and executive leadership. But now that it looks like everyone's going to make it, people are moving forward with those initiatives, and we're seeing a big difference in all the different types of jobs that are opening up."

A mixed bag

Paul Martaus, President of payments industry consulting firm Martaus & Associates, expressed a more ambivalent outlook about industry job growth. He noted that on one hand, the acquiring industry's sales forces comprise some of the most resilient and talented sellers out there, which ISOs recognize. Even as "ISOs are buying and selling each other like crazy," they don't seem to be shedding many jobs, he said.

But the industry isn't without lingering problems, Martaus pointed out. One is that "we've had zero growth in merchant formation" and "the opportunities to earn large incomes have been dramatically altered," he said. However, many say this will change as the economy improves.

Martaus also said the recession drove some banks to assume full control of acquiring functions they had long outsourced to other businesses, a cost-cutting measure that likely shrunk sales forces.

"The industry has undergone a dramatic change in that many of the acquiring companies are being consolidated under bank ownership – Chase Paymentech is an example – and being part of banks, they probably did undergo some consolidation of their sales forces," Martaus said.

However, Martaus also noted that many merchant level salespeople (MLSs) work purely on commission, and thus aren't technically employees to begin with (and aren't accounted for in unemployment surveys). Their incomes may fluctuate, but MLSs are virtually never completely out of work.

"The days of having a lucrative production-only compensation plan and not any upfront payment have slid backward. Salespeople have more options now, so why not go to the company that pays a base or has better benefits?"

- J.T. Driscoll, President
Impact Payments Recruiting

More MLSs getting salaries, benefits

But the MLS employment dynamic is also changing. Both Martaus and Driscoll said it has become increasingly common for MLSs to receive base salaries in addition to their commissions, a trend that Driscoll said has been driven by the recession and the interest in sales talent that it cultivated – not only in the acquisition of good salespeople, but in their retention, too. Companies increasingly seek loyal sellers who won't drift off, start a separate business or join a competitor, he said.

"The days of having a lucrative production-only compensation plan and not any upfront payment have slid backward," Driscoll said. "Salespeople have more options now, so why not go to the company that pays a base or has better benefits?"

With the economy rebounding, even more companies will consider improving their compensation packages, Driscoll said. More generally, he said, the less inhibited flow of money appears to be ushering in a new day.

"In general, Americans are spending more money, and ... more sales processors are signing more new businesses, and existing businesses are starting to process more and have more money to spend. Lending is loosening up, and we've also seen a lot of venture capital flowing in. ... Merchant portfolios are down; you can buy them cheaply, so companies are investing."

Beware the pitfalls

Martaus added that as job growth in areas like mortgage lending continues to stagnate, some workers from that and other fields have trickled into the payments sector. But he cautioned that, regardless of the economic climate, windfalls aren't guaranteed to any starting MLS.

"The guys attracted to this business are usually looking at the rare phenomenon of the closer," Martaus said. "He's the guy that really knows what he's doing – has the

private jet, the big house, diamond-encrusted, platinum Rolex – and that's an enticing fantasy.

"A lot of people living the life of quiet desperation will look at this guy and say how did you do that? ... It's unique in this industry that the closers are so heavily rewarded. People are always attracted to opportunities for making quick and solid money. The problem is it's deceptively easy looking." ❏

Processors press industry for more standards

The Payments Processing Information Sharing Council is urging the payments industry to expand the standardization of card system protocols. The strategy will no doubt face resistance, as proponents seek to overcome vested interests.

The PPISC, a forum for sharing fraud threats within the payments industry, issued a policy statement March 23, 2010, calling on vendors of payment hardware and software "to develop cost-effective security solutions

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"The primary goal of this policy statement is enhancing the security of the entire payments processing infrastructure. Cost reductions are an additional benefit that will lead to widespread adoption of enhanced security solutions."

Rick Van Luvender, First Data Corp.'s Director of Enterprise Security and Risk Compliance

that promote open architectures, interoperability and the potential for widespread adoption."

The council believes competing proprietary methods for authentication, encryption and tokenization lead to higher overall costs to the payment system. The adoption of open architectures would support emerging technologies that can protect the system infrastructure from attacks, according to the statement. "The primary goal of this policy statement is enhancing the security of the entire payments processing infrastructure," PPISC Vice-Chair Rick Van Luvender, First Data Corp.'s Director of Enterprise Security and Risk Compliance, noted in an e-mail. "Cost reductions are an additional benefit that will lead to widespread adoption of enhanced security solutions."

Impact on competition, innovation

The Secure POS Vendor Alliance, a strategy organization for major vendors including VeriFone, Ingenico and Hypercom Corp., in an e-mail response to *The Green Sheet*, did not dismiss the concept of standardization outright, but questioned the council's assumption that adoption of specific standards would foster innovation. "The SPVA endorses using existing standards where possible to define requirements for new technologies, rather than create new ones."

The SPVA added, "It is highly unlikely a single interoperable system will meet all" of merchants' diverse needs for post-authorization data or for the numerous types of card data entry, including attended, unattended and stand-alone terminals; integrated systems; POS (cash register) systems; card not present; MO/TO; and e-commerce.

Moreover, the SPVA continued, "some merchants may be willing to make system changes to accommodate payment security. Others may not be willing or able to do so. Development of a single interoperable standard will mean the lowest common denominator and will have the effect of reducing innovation in the payment card security space." The alliance predicts that an industry that conforms to a single standard will ultimately reduce competition and innovation.

A search for common ground

However, the PPISC does not appear to be calling for a single system. Rather, it is seeking standardization on some methodologies, such as messaging formats and tokenization, which would ease communication between systems and lower the costs of certifying products made by third-party value-added resellers.

"We're not looking to squelch innovation," PPISC member Christopher Kenyon, Executive Vice President and Chief Information Officer at Elavon Global Acquiring Solutions, said in an interview. "We're saying that with interoperability, we can come up with common ground so that all the players can still participate in an economical fashion in the industry and not have to adopt everybody's different security solutions."

The major processors, which make up the PPISC, have all agreed that more standards are needed, particularly in encryption and messaging, Kenyon said. "We're not saying we have all the answers. We, the processors, are ... saying we have a concern." Processors and third-party value-added resellers are trying to cope with the cost of creating and certifying a multitude of security solutions brought to market "on a monthly basis."

"Keep your solution, and let's find a common denominator in how we communicate between electronic devices," Kenyon said. "We're saying why don't we get smart people together and figure out how to make this efficient [and] effective and roll it out to the masses."

However, the SPVA feels that market forces should take precedence. Standards "should be built on existing building blocks where possible, and the market should decide which implementations of those standards make the most sense for their business."

The downside of interoperability

True interoperability of hardware and software can have side effects. The "downside" of the interoperable approach for many ISOs would be the churning of clients, according to industry attorney Adam Atlas.

"Anyone who wishes for this is obviously trying to make it easier for merchants to switch from one provider to another, or to add applications from one provider onto a terminal supplied by another provider," Atlas said.

Ultimately, "they, too, will find the difficulty of latching on to a merchant. Any sales organization should be trying to increase the stickiness of their offerings, rather than decrease it. I think [interoperability] would decrease the stickiness of products."

The upside of standardization

Yet the PPISC's Luvender described enhanced security as a byproduct of standardization. "The concept of 'open

architecture' is really one of standardization between vendors to facilitate interoperability in the payment processing space, causing the least amount of disruption to the merchants' business as they implement enhanced security solutions."

He believes vendors would benefit from standardization because merchants could continue using their hardware regardless of the advanced security protocols utilized by the merchant.

First Data has begun to implement some standardization. Its TransArmor tokenization is designed to be interoperable. Merchants can implement it without new hardware or new back-end information technology operations, according to Luvender.

Part of the Financial Services-Information Sharing and Analysis Center, the PPISC is chaired by Robert O. Carr, Chief Executive Officer of Heartland Payment Systems Inc., which is locked in a legal battle with vendor VeriFone over a new Heartland card terminal. VeriFone has accused Heartland of infringing on a patent. VeriFone's suit and Heartland's countersuit have pitted VeriFone and its ally Chase Paymentech Solutions LLC against Heartland and vendor Hypercom. ■

Retailer wanted breach connection hushed up

Arguing that the revelation of its connection to the Heartland Payment Systems Inc. data breach in 2008 would cause "confusion and alarm," department store chain J.C. Penney Company Inc. tried to keep that news under wraps, according to court documents unsealed in March 2010. The documents were part of the trial of Albert Gonzales, who received a 20-year prison sentence in March for his role in three major hacking cases.

Additionally, the clothing and jewelry retailer said that forcing the company to reveal its connection to the breach would set a bad precedent and cause retailers in similar situations to not report data breaches of their networks.

Disclosure of J.C. Penney's connection to the Heartland matter "may discourage other victims of cyber crimes to report the criminal activity or cooperate with enforcement officials for fear of the retribution and reputational damage that may arise from a policy of disclosure as espoused by the government in this case," argued the retailer's attorneys.

The judge in the case, which was held in the U.S. District Court for the District of Massachusetts, eventually ruled

in favor of disclosure. Until that time, J.C. Penney had been referred to in court documents as "Company A." In arguing for disclosure, U.S. prosecutors contended that consumers are entitled to know when their card information is compromised.

Consumer protection wins out

Bankcard industry attorney Paul Rianda said that, while there is merit to J.C. Penney's contention, the court decision was correct in boiling the issue down to one of consumer protection.

"It's very difficult because Visa and MasterCard rules impose this duty on the merchant that when any third party is breached, be it a payment gateway or processor, it's the merchant's problem in addition to the party that's breached," Rianda said. "It's a little unfair to the merchant, but I don't know there's a better solution out there because you're trying to protect consumers, and how can you do that if you don't disclose this information?"

"The end result is that, for customers that are potentially going to have information compromised, it seems to me something that I as a consumer would want to know about," he added. "I don't know necessarily that it's in the best interest of J.C. Penney, but it seems to be in the interest of their customers to get that information out." ■

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Wal-Mart from page 1

Likewise, in successfully appealing to the Supreme Court, Wal-Mart opened the way for issuers of MasterCard and Visa cards to also issue cards from other card brands to generate more revenue. Wal-Mart, through its banking relationship with Visa card issuer General Electric Co., was the first to take advantage of the ruling when it launched the Wal-Mart Discover card, Grabow said.

Grabow called both instances "game changers" for the payments industry, altering the landscape for the better – with Wal-Mart central to each outcome.

Driving the market

Wal-Mart reported \$405 billion in sales for its 2009 fiscal year (which ended in January 2010). It operates over 4,300 stores in the United States and more than 4,000 additional stores abroad. It employs over 2.1 million. It donated \$423 million to charity globally in fiscal 2009.

But what is perhaps the most telling statistic comes from a 2009 IHS Global Insight study, cited by Wal-Mart, that said the retailer saves the average American household \$3,100 yearly. And that number is not based solely on how much people save by shopping at Wal-Mart, but everywhere else, too, due to the company's impact on its competitors. It is therefore a barometer of Wal-Mart's effect on the entire economy.

That size and scale has translated profitably with Wal-Mart's foray into the prepaid card industry, begun in 2005. In a keynote address at Prepaid Card Expo '08, Wal-Mart's President of Financial Services Jane Thompson said the Wal-Mart MoneyCard, issued by Visa and distributed by Green Dot Corp., was used to make 2.2 to 3 million transactions weekly through money orders, money transfers and the cashing of checks.

In tandem with the MoneyCard are Wal-Mart's Money Centers – in-store financial service centers first rolled out in 2009. There are 1,000 to date, with 500 more to be added by the end of 2010. Grabow said the MoneyCenters took Wal-Mart's prepaid business "to a new level," allowing customers easy and convenient access to Wal-Mart's prepaid services.

When its competitors were routinely charging \$9.95 activation fees on their prepaid cards, Wal-Mart lowered that fee on its MoneyCards to \$3.00 in February 2009. A few months later nFinanSe Inc. equaled that price on its general purpose reloadable cards. Wal-Mart's low fees are "definitely a market driver," said Jeff Johnson, Division Manager for Prepaid Products at First Data Corp.

Furthermore, Wal-Mart has been a leader in implementing payroll cards for its employees, with First Data supplying the processing through its Money Network Payroll Distribution Network. While the program helps Wal-Mart save the environment (fewer trees cut down for paper payroll checks), it also saves the retailer on overhead costs

such as printing and shipping of checks.

Other market forces

Given its size and prominence, it is easy to overstate Wal-Mart's importance to the prepaid card industry, however. That is the opinion of Gwenn Bezard, Research Director at Boston-based consultancy Aite Group LLC. The increasingly competitive nature of the prepaid industry is as large a factor as Wal-Mart in driving down fees, according to Bezard.

"I think Wal-Mart is contributing to a trend that would have happened, or is happening, regardless of Wal-Mart's presence," he said. "They are obviously a significant player in retail, so they attract attention. But the trend in getting more of [the] prepaid product out in the market for consumers, that trend is happening; it's a force shaping the market, with or without Wal-Mart."

Bezard coauthored a 2009 study entitled Wal-Mart: A Rising Force in Alternative Financial Services. In the study Aite examined the relationship between Wal-Mart and unbanked and underbanked consumers – roughly 80 million in the United States.

Aite defined these financially underserved individuals as those who are also patrons of check cashing stores, since

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getting checks cashed is a prime activity of people who do not have access to traditional bank accounts. Aite found that, of its survey sample of 400 patrons at check cashing stores in the state of Virginia, 80 percent shop at Wal-Mart at least once a month. But, of that 80 percent, only 19 percent of their check cashing activities in a three-month period were performed at Wal-Mart.

That statistical relationship is indicative of Wal-Mart and the prepaid card industry as a whole, with many players enjoying relatively small market shares.

"It depends on which product you're talking about," Bezard said. "But you look at prepaid, for instance. The penetration of the unbanked and underbanked population is very, very small."

Bezard puts that penetration at only about 10 percent. The Aite report therefore concludes that Wal-Mart can do a better job of winning over people who use check cashing services.

A hard sell

But easier said than done, according to the Financial Service Centers of America Inc. (FiSCA), a national trade association representing the financial service center industry, made up of check cashing and payday lending

businesses. Activation and reload fees may be lower on prepaid cards than the average percentages FiSCA's constituents charge people to cash payroll checks, but that is evidently not the entire equation.

Ed D'Alessio, Deputy General Counsel for FiSCA, said financial service centers have an advantage over Wal-Mart in several areas, namely convenience, accessibility and service focus. "Financial service centers tend to be open longer, if not 24/7," he said. Furthermore, many of the 13,000 centers nationwide are located in inner cities, while Wal-Mart "tends to be a creature of suburbia," he added.

Another factor is the focus financial service centers have on just that – providing financial services. "Everything in that location is geared toward the customer's financial needs," D'Alessio said. "You're not going to get lured by merchandise sales [as you might] on the way through or the way out of Wal-Mart. You get in, you get out."

D'Alessio highlights loyalty as yet another positive in the service sector's favor. "One of the things the industry takes great pride in is being of the community," he said. "They hire local folks who speak the local language. So stores routinely have customers that go there for years. So there is a likability, a loyalty there."

FiSCA's customer satisfaction surveys seem to bear this out. D'Alessio said 95 percent of financial service center customers rate the stores in which they do business as good to excellent. D'Alessio points to the lines out the doors of such stores on payday Fridays as confirmation of FiSCA's analysis.

Not quite a bank

Wal-Mart considers itself community-centric as well. Former Wal-Mart executive Grabow, now Chief Retail Partners Executive at FSV Payment Systems, said that focus is borne out by the community and regional bank branches found in many Wal-Mart stores.

Atlanta-based SunTrust Bank and Texas-based Woodforest National Bank have in-store branches throughout the Southwest and East Coast. Another participant is Orlando, Fla.-based Urban Trust Bank, which is focused on serving minority communities in urban areas. To date Urban Trust has 23 branches inside Wal-Mart stores in Florida.

Robert L. Johnson, founder of Black Entertainment Television and the first African-American billionaire, is Chairman of The RLJ Companies – the holding company of Urban Trust. "We like to think of ourselves as a pioneer in terms of matching our customer base with a dynamic customer service company like Wal-Mart," he said.

Because Wal-Mart is not a bank (its 2007 application for an industrial loan company charter was denied), Urban Trust can provide services Wal-Mart cannot, Johnson said.

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Customers therefore can utilize the prepaid products in the MoneyCenters or bank through Urban Trust.

Wal-Mart has "kept that customer in a positive relationship with the store," Johnson said. "And they made that transaction with the customer much easier than to have to leave the store, get in the car in the parking lot, drive another 10 or 12 blocks to another bank."

Equally true, Urban Trust benefits from Wal-Mart's "retail center of gravity" as Johnson put it. "We get the access to the huge foot traffic that comes to Wal-Mart," he said. "We get the core customer group that we're targeting. And we get the alignment of our brand with Wal-Mart."

Floating the literacy boat

All agree that it is still early days for the prepaid sector of the payments industry, with players in fierce competition for market share. And yet Bezard believes that competition is secondary to education. "To me that's a bigger challenge for those companies," he said. "I think most of them recognize that."

They also realize that Wal-Mart can be a key driver of that learning curve because it can reach so many people with its financial products. "I think we're seeing the awareness and the understanding of prepaid as a type of payment system has been enhanced by the number of cards and the exposure that Wal-Mart's been able to give it," Grabow said.

And by raising the awareness of prepaid cards, Johnson hopes the level of financial literacy will rise as well. "Any time you can get customers in a prepaid debit card program and they become more financially literate, more capable in managing their own financial services, they move higher up the ladder in terms of getting access to more credit at a lower cost," he said.

Thinking ahead

As the payments industry continues to evolve, it is difficult to predict how Wal-Mart will evolve with it. In the prepaid card industry, Bezard sees a bifurcation of products and services taking place.

He believes a decade from now prepaid businesses will either provide only prepaid services or offer prepaid along with credit lending, such as a cash advance or payday loan capability.

Bezard does not think Wal-Mart will become one of the latter providers because it will want to protect itself from the credit risk inherent in lending. But Grabow disagrees. "I think Wal-Mart will do what the customer wants and needs," he said. "As long as it's physically and socially responsible, Wal-Mart will be in the business, period."

A hint at Wal-Mart's possible future comes from an online

edition of The Wall Street Journal where Wal-Mart's Thompson is quoted as saying, "We would like to find a way to add deposits."

In fact, check cashers and payday lenders already carry such a product. Through a partnership with FiSCA, NetSpend Corp. rolled out the National Savings Program in October 2008. The program involves no-fee savings accounts linked to NetSpend prepaid cards. As of February 2009, NetSpend reported that 104,000 customers had opened savings accounts using the cards.

It is a prime example of how competing industries learn from each other. As prepaid card companies may be poised to jump into lending, check cashers and payday lenders have branched out with prepaid cards.

At the 21st Annual FiSCA National Conference and Exposition held October 2009 in Colorado Springs, Colo., a workshop was devoted to Wal-Mart. "The panelists were all pretty much unanimous – Wal-Mart's a great company as far as what they do," D'Alessio said. "And some things that they do we can learn from. And that's the way of the world."

Oh, and another thing D'Alessio mentioned: Wal-Mart representatives attended the conference. 



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Education

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No ISO demise with niche markets

By Ken Musante

The movie *2012* portends the end of the world on Dec. 20, 2012, in sync with predictions of the Mayan calendar, which is coincidentally the exact date that some have predicted the end of ISOs.

It is assumed ISOs will become extinct not because of an exploding sun but because of our own success. We have sold all there is to sell. Future sales will be done by an employee-based sales force like Heartland Payments System Inc.'s model or other internal sales staff that can more efficiently sell payment services. Do you agree or disagree? And, of course, *why?*

I posted the above on the MLS Forum. I have a vested interest in the outcome as I stated in my last article; I just left my former employer to join a startup ISO. I'm betting on the future of ISOs. I have studied the matter closely but I was very interested in the *why* part. I got some great stuff.

The company you keep

First, I am pleased to be in good company. My longtime friend Steven Peisner agreed with me. He wrote, "Twenty-five years ago, when I entered this industry, the principals of the company for which I was working said, 'In three to five years every merchant will have one of these electronic machines and we'll be out of business!' Let's make hay while the sun is shining..."

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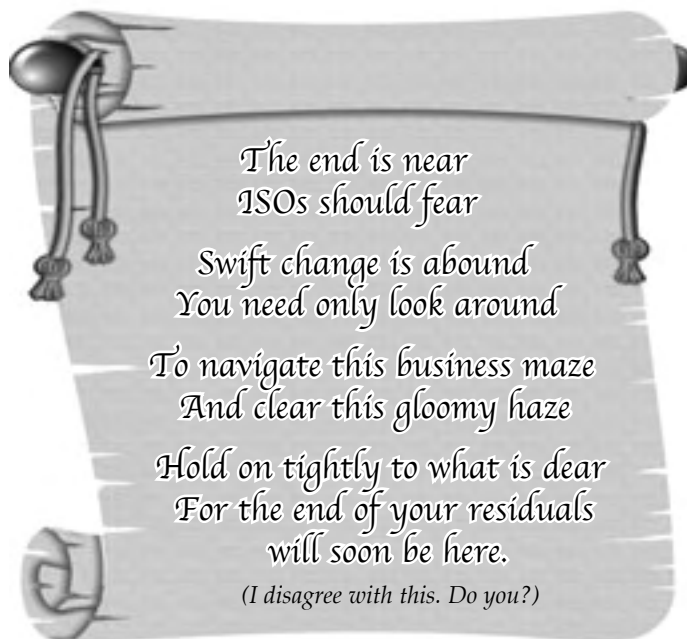
"Twenty-five years later, believe it or not, I still from time to time come across merchants that are still not accepting credit cards as a payment option.

"Today, merchants not accepting can mostly be found in the professional fields, ie. medical or dental offices, attorneys, accountants et cetera, and even now and then other types of retailers.

"I would agree that the 'internal sales rep' has definitely had an impact on retail sales, but I would disagree that ISOs and their MLSs will become extinct because there are still those business owners that prefer to do business the old fashioned way – face to face."

Health care outcome

The Dustman brought up a perspective that I had not thought of but is an excellent point – the impact of health care reform on 1099



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employees. Dustman wrote, "With all this looming mandatory health care stuff brewing, many may think it prudent to maintain the 1099 model. Unless, of course, that is altered as well."

The health care bill has passed but I am not sure of its impact. If coverage is more available and less costly, perhaps more folks will desire to be 1099 employees and make that model more viable.

All-in-one

UBC weighed in from a product offering standpoint, "I certainly don't believe we have sold all we can sell," UBC wrote. "The vast majority of payments are being processed on stand-alone credit card terminals."

"The product revolution has already happened. There are low-end POS systems, efficient software, integrated cash registers et cetera."

UBC said that most modern POS systems do more than just take payments and added, "It's only a matter of time before merchants switch away from that older technology and it's going to be the ISOs and agents of the industry that make that happen." UBC helped explain *why* ISOs will continue; a differentiated product.

Industry insurance

Jdeckard compared our industry to the insurance industry in an attempt to explain the future. "Nearly every individual in the United States has auto insurance...have you noticed a decline in the number of insurance agencies?" Jdeckard wrote. "Every home in the United States is required to have home owner's insurance...Again, any lack of agents to provide this?"

While this is true, what appears to be happening is the plain, or "vanilla," insurance is being sold through the mass media, like the Geico and Progressive Casualty Insurance Co. advertising campaigns. Agents that appear to be doing well are the ones selling specialized or business insurance.

Payment services may follow that same path with the vanilla offering done en mass, either telephonically or via the Internet, while specialized services are provided by ISOs. If that's indeed the case, what are the areas an ISO can specialize in?

Keys to press

CCguy weighed in with an answer: "There are few growing trends... Other companies combining their technology with credit card processing and taking business away

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from the MLS... Web companies, selling sites, shopping carts ... are now selling the gateway and a merchant account. With all that going on ... there is business out there for the man or woman on the street.

"The keys are relationships, product offering, personal service, knowledge and specialized offerings ... These are the same things that keep the State Farm agents, Allstate agents, etc., still in business because there is a group of people that do not want to run with the herd and want personal service."

Niche opportunities

Hallelujah. The key words are: relationships, product offerings, personal service, and knowledge and specialized offerings. Today's ISOs must operate differently. For ISOs to succeed we must be more narrowly focused. We must develop niches and provide:

- Enhanced service or knowledge
- Referrals
- Services to an underserved market

Wineries, for example, could be a perfect niche. Vintners are a tightknit group. They share stories, practices and knowledge. Furthermore, wineries have very unique needs.

Those wanting to sell to card-not-present clients must adhere to very strict state laws. Providing a solution that adheres to those laws, such as ensuring a wine buyer's age is verified before delivery, could enhance your offering and eliminate pricing discussions.

Wineries also require card present service and sometimes at remote locations. Wineries have tasting rooms that may be in very unique areas without phone lines. Providing these same locations either wireless or properly encrypted store-and-forward devices may be an excellent solution.

Additionally, winery customers are often tourists from out of the area and country. Providing them dynamic currency conversion processing could be a benefit which further binds that relationship. Think about it. By first

identifying a niche market, then developing unique knowledge to assist merchants in that niche, allows you to develop longstanding customers who possess plenty of referrals. So, when the end of the world does come, you will be ready.

For my next post, I am curious to know your success with advertising. Is advertising an efficient and profitable way to generate new clients? Which forms are most effective? Regardless of the relative effectiveness of advertising, how do we gain new referral partners? Let me know your thoughts. Until then, when in doubt, sell something! 📧

Ken Musante is President of a startup ISO. Contact him by phone at 707-476-0573 or e-mail him at kenm@euekaypayments.com.

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Education (continued)

Legal ease

Contractual pricing pitfalls

By Adam Atlas

Attorney at Law

Pricing in a merchant services sales agreement is a part of contract negotiations that requires more attention on the part of the party signing the contract than it does of its attorney. The purpose of this article is to highlight a few common misunderstandings related to pricing in merchant agreements that often create disputes between parties.

1. Net revenue

It is customary for ISOs to pay merchant level salespeople (MLSs) revenue that is the net of certain expenses. In the absence of a clear discussion about what is to be netted out of revenue, fees that the ISO has to pay to its acquiring organization are likely something the ISO may net out of revenue.

However, other expenses that ISOs may have, such as their own internal costs of labor, rent, data et cetera, are less obvious types of expenses to net out of agent income.

The message here for all parties is to have, before signing an agreement, a discussion as to what fees are to be netted out of revenue before or after the split to the agent. Clarity on this point will avoid many disputes and will actually build stronger relationships.

2. Fifty percent of what?

New MLSs in our industry are often paid 50 percent of net revenue on the merchants that they refer to ISOs with whom the MLSs have signed. Much like the discussion over net revenue, ISOs and agents would benefit from understanding the basis of the splits that make the deal.

For example, an MLS may be paid 50 percent of what the ISO receives, before or after netting out certain expenses of the ISO.

There is no prescribed formula for what must be done in these calculations. Instead, the parties should understand their respective intentions regarding these calculations. Once you know the deal, write it into the agreement. If the agreement is already signed, you can always sign an addendum that gives greater clarity to what has already been agreed upon.

In addition, e-mail exchanges over the meaning of certain provisions will be useful documentation in the event that you ever have to dispute the interpretation of the document.

3. What are merchants actually charged?

It may come as a shock to know that some very respectable large processors have permitted ISOs or agents to upload certain pricing with respect to a merchant, but then actually charge the merchant something different. When too many fees are collected, this can be embarrassing for the ISO and costly to the relationship with the merchant.

Too many fees collected will also precipitate a dispute over who should reimburse the merchant – the processor or the ISO.

If too few fees are collected, this will also precipitate a dispute between the processor and ISO as to who should make the other whole for fees they believed they would be receiving.

The solution is found in a mixture of action items. First, the ISO and processor should have a regular system for verifying, in each new account, that the merchant is actually being charged what they both think the merchant should be charged.

Second, it is recommended that ISOs take the time to spot-check merchant statements and compare them to the merchant agreements that merchants signed. This is especially relevant to larger merchants, where an error can quickly create problems that exceed an ISO's cash flow.

Again, don't assume that because you uploaded certain pricing into a processor's online boarding system that the merchant is necessarily being charged those amounts.

4. Reserve tricks

Take a close look at reserves, both for yourself and merchants. Some merchants end up contributing a never-ending fixed percentage of gross processing into a reserve account without ever levelling off at a percentage of aggregate monthly volume, as would be expected.

For example, if the merchant reserve is set at 5 percent of monthly volume, and monthly volume is \$100,000, then when the reserve reaches \$5,000, the processor should stop adding to it.

Some processors take a never-ending stream of 5 percent deductions from all monthly settlements. This is a recipe for conflict between all parties.

Similarly, if you are a sales organization that takes liability, your processor may wish to build a reserve for



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liabilities that are yours. That reserve should also be built in a rational manner, and its balance should form part of the regular reporting to the ISO.

Naturally, the preference is for contractual wording to reflect the agreements between the parties in respect to reserves, like all other matters of pricing.



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5. Document changes

Pricing under an agreement will inevitably change. The changes must, however, be within customary parameters.


For example, if interchange goes up, then pricing to the ISO can be correspondingly increased. If the processor's phone service goes up in cost, however, that will not likely be grounds for an increase in ISO pricing.

For matters between those two extremes, it is important that the agreement in place reflect some kind of predictable and rational basis on which pricing may be changed.

Regardless of the wording of the agreement, any change in pricing to an ISO, MLS or merchant should always be evidenced by some kind of correspondence; otherwise all parties are exposed to embarrassment, or worse.

Regardless of the legal grounds for a given change in pricing, no change should ever be perceived as arbitrary or purely done for the sake of taking more money.

Again, pricing is that part of a merchant services sales agreement where parties need to pay very close attention so as to be sure that they are getting the deal they think they are getting.

If you are in doubt, run some numbers through a model test account on a spreadsheet and see whether your return is the same as that promised by your processor. 

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Education (continued)

Building a global Web site

By Carrie Hometh

Payvision

A key component to going global is establishing an effective Web site. Savvy merchants who recognize they have customers from different areas of the world have made their Web sites more user friendly as opposed to merchants who only sell in U.S. dollars and only offer sites in English.

The first step in globalizing your Web site is finding out where your customers are coming from. For example, the use of Internet protocol geo-location technology recognizes where your sales are originating, as well as what currency those buyers probably want to shop in. Once you've made this important determination, the next step is to implement effective globalization marketing tools to appeal to those customers.

Global marketing tools

One such tool is country-specific selection. This tool offers customers the ability to choose what country is appropriate for their buying needs in the form of a map graphic, a country flag or simply a list of countries they can click on. Once the consumer has made a selection, Web site colors, graphics and language are all modified, depending on the customer's country of origin.

Another valuable global marketing tool is a drop-down box for currency choice. Many merchants want a singular brand and don't wish to change all their graphics. They recognize they may have customers in France, for example, who prefer to shop in euros, so they offer a drop down box that provides a list of different currencies for easy purchases.

Having the appropriate language is equally important to a successful global Web site. According to recent statistics, only about one-third of European consumers are willing to buy online in a language other than their own.

Web sites can be set up with automatic language default capabilities, giving customers the ability to opt out, meaning they can choose which language they want to shop in. Some countries, such as Canada, possess two standard languages, English and French. So it is always better to give your customers the choice.

Product differentiators

In addition to offering country-specific tools, consider competitive factors for effective branding. When successfully hosting a global Web site, you must clearly establish differentiators. Researching your products to determine

▶ **According to recent statistics, only about one-third of European consumers are willing to buy online in a language other than their own.**

how well they will be received in various countries is critical to successful international sales.

For example, a merchant may have a jacket that sells well in Norway, but since it is easily available in Great Britain, the merchant won't enjoy a high level of sales in that country. You need to know your international competition. You need to ascertain the value of your products to customers in certain regions by researching availability versus unavailability, price point, shipping costs et cetera.

As with every other aspect of selling, do your due diligence. Check consumer behavior patterns and compare them to your products. Do you offer relevance to the country of the consumer?

Marketing and branding

Universal to all online transactions are consumer buying concerns. How do you alleviate those concerns when it comes to your global Web site? The answer lies in effective marketing and branding. For instance, there may be a lack of trust in you as the supplier because you are unknown in a certain region. The solution: establish your brand through blogs, consumer review sites, press coverage and advertising. Get your name out there.

Other consumer concerns involve more complex processes such as timely delivery, transportation costs, taxes and surcharges. Problems with guarantees, maintenance and after-sales service, as well as return and refund issues, can negate a positive customer experience.

Even compliance with local technical and environmental standards can jeopardize your global Web site offering. You must have a solid infrastructure. If not, offering the most advanced globalization technologies won't mean a thing if you can't deliver basic customer service. ■

Carrie (Bardeen) Hometh is a respected industry professional in the international marketplace with over two decades of global experience and expertise. She currently serves as Senior Vice President of Sales and Marketing for Payvision, a leading international payment solutions provider that offers a comprehensive suite of products and services that include global acquiring, multicurrency processing and alternative payment solutions. She can be contacted at c.hometh@payvision.com.



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Education (continued)

Crossing the POS chasm

By Dale S. Laszig

Castles Technology Co. Ltd.

Now that 3-D technology has entered our living rooms, older 2-D movies may begin to look dated and flat. Acceptance of the new technology will vary among consumers.

- **Innovators** will experiment with 3-D software to improve their viewing experience.
- **Early adopters** will form long lines at retail stores when the newest Blu-ray players come to town.
- **Early majority** consumers will read *Consumer Reports* and compare prices before buying.
- **Late majority** consumers will wait until the industry agrees on a universal standard for formatting and viewing 3-D movies.
- **Laggards** will make their move when 3-D technology becomes so mainstream that it's no longer expensive to buy or time-consuming to set up.

These are the five stages of the high-tech product adoption cycle. Most merchant level salespeople (MLSs) have seen the same buying patterns among merchants.

Stepping stones

Savvy MLSs understand the importance of fine-tuning sales presentations to each group's unique buying habits. They recognize each group represents a stage in the product adoption cycle, like stepping stones that lead from one sale to another. Some stones are close together and easy to walk across; others are so far apart that reaching them requires dexterity and a leap of faith.

According to Geoffrey A. Moore in his book, *Crossing the Chasm: Marketing and Selling High-Tech Products to Mainstream Customers*, the biggest chasm in the product adoption cycle is the one that exists between bleeding-edge early adopters and leading-edge early majority customers.

Bleeding edge

Early adopters are proud to be first to try new technologies. They are willing to endure the slings and arrows, software bugs and hardware issues that frequently accompany product introductions. Moore wrote that by "being the first to implement this change in their industry, the early adopters expect to get a jump on the competition, whether from lower product costs, faster time to market, more complete customer service, or some other comparable business advantage."

Leading edge

Early majority customers, according to Moore, want "evolution, not revolution." They look for ways to improve operational efficiencies without being on the "bleeding edge" of technology. Per Moore: "They do not want to debug somebody else's product. By the time they adopt it, they want it to work properly and to integrate appropriately with their existing technology base."

The great divide

Progressing from early adoption to early majority selling is easier said than done. Differing priorities and outlooks create the chasm between the two groups, according to Moore. "Because of these incompatibilities, early adopters do not make good references for the early majority," Moore noted. "And because of the early majority's concern not to disrupt their organizations, good references are critical to their buying decisions."

So if the only way to convince an early majority customer is to furnish references, and the only available references come from early adopters, how do we manage the transition? Here's where dexterity and the leap of faith come in.

When change is not optional

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Education

The Payment Card Industry (PCI) Data Security Standard (DSS) require all merchants, processors and third-party service providers to follow specific guidelines for transmitting, processing and storing cardholder data.

Regardless of where your customers fall in the product adoption cycle, they all need your advice about creating security strategies. If you are promoting an upgrade to a noncompliant hardware or software platform, educate your merchant about the need to meet industry requirements and the consequences of failing to do so.

A leap of faith

Although it may seem a bit challenging at times, bringing new technology to market can be tremendously rewarding for you and your customers. Accept the assignment; you'll find a way to get it done.

Problem solving

Most customers enjoy complaining, and smart sales people listen carefully when they do. Because when we really listen, we can locate their problems and their pain. Is the problem treatable? If nothing is done, will it get worse? Sometimes the risk involved in doing nothing will outweigh the risk of trying something new.

The art of persuasion

Customers buy for different reasons. Brand loyalty, price sensitivity and special event promotions are among the top three motivators.

- Sell a brand extension to a customer who has been faithful to a product line. Emphasize the similarities between the old and new products. State compelling reasons for why the updates by the manufacturer make the processing platform the same, only better.
- Create special incentives for a price-sensitive customer and demonstrate how the new product or service will save money while improving an existing processing system.
- Limited time offers will create a sense of urgency and resonate with any customer who is attracted to special sales and promotional events.

Take the path of least resistance

The next time your company rolls out a new solution, whether it's a value-added application or updated hardware or software to meet the PCI DSS, think about your diverse population of merchants and their equally diverse buying habits.

It will be easier to sell to early adopter and early majority merchant customers than to try to convince the late majority and laggards to get on the bus.

Be a change agent

Be aware of the buying habits of your customers, and customize your sales presentations to their unique opinions and perspectives. Then go sell them something. Don't worry about whether it's too early or too late. You're there; they're listening.

Do some trial closes. The sooner you begin to make the sale, the sooner they will come around to buying. Early adopters will usually get there ahead of the laggards, but you'll always find some wonderful surprises. ■

Dale S. Laszig is Vice President of Sales in the United States for Castles Technology Co. Ltd., a manufacturer and global provider of smart card, contactless and POS solutions. She can be reached at 973-930-0331 or dale_laszig@castech.com.tw.

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Education (continued)

Healing the Achilles heel of business

By Nicholas Cucci

Network Merchants Inc.

Good customer service is essential to providing a positive image of the company to its customers. Unfortunately, poor customer service is rampant. And it is a difficult facet of a company to improve upon.

But training your support staff in proper customer service is crucial in retaining your customer base. You will need to develop and adopt new techniques to make your staff successful. Spending time and money to train your customer service staff will pay big dividends in the form of customer retention.

Hiring basics

When hiring your staff, choosing the right customer service employees is critical in retaining customers. Obviously, not everyone is suited to deal with customer complaints. Customer service representatives constantly interact with callers. Good communication skills are a

necessity, as well as problem solving skills. Make sure you understand the ideal qualities your support representatives should have.

When interviewing, try to discern if they are a specialist or generalist personality. A generalist does not mind talking to the customer while fixing the issues at hand. A specialist is direct and to the point. A specialist does not care about small talk or making the customer feel comfortable.

Lean more toward the generalist. You should want your customers to feel like they are being taken care of on a personal level. Small talk never hurt anyone; it only helps. Generalists do not make customers think they are doing them a favor. You want customers to experience their interactions as a smooth, easy process that ends with their issues resolved.

Training basics

After knowing what skill sets to look for in employee candidates, the next most important step is to develop internal customer service guidelines and training resources. Create a curriculum for training classes or sessions. Creating lesson plans will enable you to make sure you are hitting the essential topics. Simply putting together a PowerPoint presentation will suffice.

Be sure to instill high standards and attitudes in your staff. I would concentrate on communication skills, assessing and responding to the customers needs, and dealing with high-problem situations.

Training depends on the particularities of the given industry and usually involves knowledge of the hiring company and the products it offers.

Training in the payments industry really never ends. Every year, or every month, new products come to market or new developments in technology appear. Your support staff must be able to adapt to industry trends and changes. This is the beginning of keeping your customers happy.

Take the time to train your customer support staff. Do not throw them into the fire too soon. Depending on the level of service they were hired to give, you need to give them a proportionate amount of training time. Usually every support staff has his or her own troubleshooter – the person to whom "escalated" situations are passed.

Customer service is an ongoing process and all the individuals involved will forever be learning something new. Once the staff you have hired and trained has completed the training be sure to test them one last time.

Throw situations at them and see their reactions and responses. This is sometimes referred to as the "War Room" mentality. Police departments use this mentality

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Assess your staff regularly. Even conducting follow-up meetings to see how things are going is a great idea.

to test new hires. Once a trained and certified officer is ready for the streets, the higher authority figures will give them scenarios to see how they would react to situations on the spot.

Staff assessments

Assess your staff regularly. Even conducting follow-up meetings to see how things are going is a great idea. Ask your support team what are the most common questions they hear from callers.

Are the resources provided ample enough to help them convey information, answer callers' questions and solve problems? Is there anything more they need that will aid them in getting better responses from callers? Is the company represented in the manner you see fit?

The most successful support staffs will create databases of frequently asked questions (FAQs). This will come in handy while on the phone and especially when giving e-mail support, as FAQs will cut down response times exponentially. For the more complex resolutions,

compiling documentation on what steps were taken to resolve the problems will also help in the future.

Smart selection

According to the U.S. Bureau of Labor Statistics, about 2.3 million people held customer service representative jobs in 2008. This is expected to rise to over 2.6 million by 2018. With the demand for this job growing so rapidly, all companies looking to hire new representatives will have a wide selection of people to hire from.

My advice to you is do not settle. Make sure the people you hire are a perfect fit for your company. Your support team can be the Achilles heel of the company, but it doesn't have to be. 📧

Nicholas Cucci is the Marketing Director for Network Merchants Inc. He is a graduate of Benedictine University. Prior to joining NMI, Mr. Cucci worked in the payment processing division for a Fortune 500 company and has advised several large retailers on credit card fraud protection, screening and risk assessment. Nicholas can be reached at ncucci@nmi.com or 800-617-4850.



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Education (continued)

Social networks that boost your business

By Daniel Burrus

Burrus Research Associates Inc.

Most people are familiar with the term "Web 2.0," which refers to a second generation of Web development and design that focuses on fostering social networking via the Internet. Innovative companies are beginning to embrace Web 2.0 as a way to enhance communication, information sharing and collaboration, thereby allowing them to work smarter rather than harder.

The business use of Web 2.0 represents a new trend called "Business 2.0." Business 2.0 is about using the new, Web-based social networking applications to foster teamwork, customer touches, and internal and external collaboration in a low-cost, seamless way.

Unfortunately, many businesses feel that Web 2.0 and social networking are for the younger generation and a waste of time when used by employees. However, once you understand the power of these applications and how

to use them in your company, you'll quickly find that they can be invaluable tools to boost your bottom line. Following is an overview of the best Business 2.0 tools.

Personal tools with business applicability

Facebook

- **Personal use:** Facebook enables you to connect and share with the people in your life. Users can join networks organized by city, workplace, school, and region to connect and interact with others. People can add friends, send them messages and update their personal profiles to notify friends about themselves.
- **Business 2.0 use:** Large organizations can connect all of their employees, or members, with Facebook. Some are finding an added advantage of using an internal, secure version of Facebook. This has helped organizations dramatically increase their internal networking and collaboration.
- **Ask yourself:** Could we use Facebook, or our own internal version, to get people to collaborate at a higher level?

Twitter

- **Personal use:** Twitter is a micro-blogging service that allows friends, family, and coworkers to communicate and stay connected through the exchange of short, quick answers using no more than 140 characters per message. Senders can restrict delivery to those in their circle of friends or coworkers. Users can receive updates via the Twitter Web site or other social networking sites, such as Facebook. Young people use Twitter for answering the question: What are you doing?
- **Business 2.0 use:** Business users could change that question to: What problem are you trying to solve? Several companies have used this as a fast way to solve problems. Hotels, airlines and airports are using Twitter to pitch services, provide travel updates and respond to travelers needs.
- **Ask yourself:** Could we use Twitter to solve our customers' or our organization's problems faster?

Wikipedia

- **Personal use:** Wikipedia is a free, online encyclopedia that anyone can use to find information on virtually any topic. Anyone can edit the content as well.
- **Business 2.0 use:** A large manufacturing company with engineers in locations around the world increased problem solving and collaboration by cre-

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Education

ating an internal, secure version of Wikipedia for sharing information on parts and service offerings, as well as repair and maintenance instructions. Retailers and suppliers could create a version of Wikipedia to foster education and training, in addition to enhanced information sharing.

- Ask yourself: Could we create an internal version of Wikipedia to foster better information and knowledge sharing?

YouTube

- Personal use: YouTube is a video sharing Web site where users can upload, view and share video clips. YouTube displays a wide variety of user-generated video content, as well as movie clips, product demonstrations and commercials. Unregistered users can watch the videos, while registered users can upload an unlimited number of videos.
- Business 2.0 use: Businesses are posting humorous commercial videos to generate interest in their products, with great success. The more entertaining it is, the more people watch it. Business partners could create a YouTube-like channel for the purpose of educating and training.
- Ask yourself: Could we enhance our marketing efforts and general communication by using YouTube?

Digg

- Personal use: Digg is a social news Web site that enables people to discover and share content from anywhere on the Internet by submit-

ting and accessing links and stories. Voting stories thumbs up or thumbs down is the site's cornerstone function, respectively called digging and burying.

- Business 2.0 use: Many organizations have found this to be a good way to track the most interesting advances in technology or the most useful business news. Large organizations can create internal versions for sharing what employees consider to be the most useful information.
- Ask yourself: Could we use Digg, or our own internal version, to get people to share their most interesting and valuable Web-based information with each other?

Delicious

- Personal use: Delicious is a social bookmarking Web service for storing, sharing and discovering Web bookmarks. It uses a nonhierarchical classification system in which users can tag each of their bookmarks with freely chosen index terms.
- Business 2.0 use: Business users can share their most useful Web sites with coworkers or business partners. If a customer purchases a product, sellers could share relevant bookmarks that keep the customer coming back for more information and hopefully more products.
- Ask yourself: Could we use Delicious to share important new Web sites faster within our organization or with our customers?

Visual communications

- Personal use: Visual communications, unlike traditional video conferencing, uses your desktop, laptop and soon your smart phone to hold quick, anytime, anywhere videoconferences with one or more other people. Travelers who must be away from home are using their laptops in hotel rooms



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with broadband access and free software, such as Skype and AIM, to communicate with family and friends to enhance their personal connections.

- Business 2.0 use: Businesses are discovering the power of visual communications to enhance the connection with their sales forces, business partners and customers.
- Ask yourself: Could we use visual communications to enhance communications internally and externally?

Purely business 2.0 tools

Wiki

- A wiki is a collaborative Web page or collection of Web pages designed to enable anyone to create a quick Web page that allows visitors to search the wiki's content and edit the content in real time, as well as view updates since their last visit. Wikis are often used to create collaborative Web sites and to power community Web sites. On a moderated wiki, wiki owners review comments before adding them to the main body of the topic. Additional features include calendar sharing, live audiovisual conferencing, RSS feeds and more.
- Ask yourself: Could we use wikis to enhance internal and external collaboration?

LinkedIn

- LinkedIn is a business-oriented professional networking Web site for exchanging information, ideas and opportunities. It has over 35 million registered users, spanning 170 industries, who actively network with each other.

For example, large insurance companies use LinkedIn to foster networking with their independent sales representatives. Human resources professionals from all over the world could use LinkedIn to share best practices.

- Ask yourself: Could we use LinkedIn to expand our organizational network for enhanced knowledge sharing?

Cloud computing and SaaS

- In cloud computing, some or all of the storage, software, information technology (IT) processes and data center facilities you use can exist on your provider's server, which is maintained and cared for by your provider, giving you 24/7 access from any device anywhere. The cost of upgrading hardware and software, maintenance and associated IT labor costs can be dramatically reduced or eliminated.

Currently, the ideal organization would be any size company that's facing big investments in computing and communications infrastructure. For example, Amazon.com can give you an entire e-commerce back-end; software as a service (SaaS), such as Salesforce.com, has a customer relationship management package; Google, Microsoft Corp. and others have suites of offerings.

- Ask yourself: Could we use cloud computing and SaaS as a way to streamline our IT needs?

Gain a new competitive advantage

By reframing the use of social networking technology, companies can increase communication, collaboration, problem solving and competitive advantage with little cost. Remember, many of these tools are free or nearly free, making them accessible to even the smallest of businesses. The sooner you embrace Business 2.0, the faster you can penetrate new markets and win the lion's share of business. ■

Technology forecaster and business strategist Daniel Burrus is the author of six books, including the critically acclaimed Technotrends. He is also the founder and Chief Executive Officer of Burrus Research Associates Inc. For more information, please visit www.burrus.com.

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Research Rundown

Gaining sales intelligence

In *Sales Intelligence: Preparing for Smarter Selling*, Aberdeen Group Inc. analyzes the sales methods of best-in-class companies to determine what factors lead to their success.

Aberdeen found that 52 percent of best-in-class companies, on average, are achieving sales quotas, compared to 26 percent of organizations Aberdeen identifies as "laggards." The best companies also recently boasted an average 5 percent year-over-year reduction in the sales cycle time, compared to a 7 percent increase in sales cycle time among the laggard group.

To become more effective in sales, Aberdeen suggests organizations take remedial steps, including the integration and filtering of "external content so the right data – and only qualified leads – are introduced to sales practitioners." For full details, visit www.aberdeen.com/research/research-library.aspx.

VC investment trends for global payments

Mercator Advisory Group Inc. recently released a report detailing some of the most promising global payment companies that received venture capital (VC) investments in 2008 and 2009. It is titled *Venture Capital in Payments 2010: How VC Funding Drives Global Payments Innovation*.

The report gives insight into the innovations, business models and technologies that are attracting the most VC investors during these challenging financial times. VC investors often seek promising new innovations, or what they might deem a "better way" of processing global payments. Companies that receive the most VC backing are able to put their ideas into motion; with investment money available, payment companies can grow and implement their new systems smoothly.

Terry Xie, Director of Mercator's International Advisory Service and Principal Analyst on the report, stated, "By looking at the payments industry from the investors' perspective, people in the industry can get the chance to see what is emerging over the horizon and can potentially change their way of thinking and doing business."

The report is available at <http://mercatoradvisorygroup.com/index.php?doc=international>.

Protecting cardholder data with tokenization

Tokenization and end-to-end encryption are increasingly being implemented to secure cardholder data throughout the payment lifecycle. A new report from Aberdeen, *Avoiding a Kick in the Head: The Value of*

Tokenization for Protecting Cardholder Data, addresses such questions as:

- Which approach provides the desired level of security?
- Who bears the cost of incremental investments?
- Who is liable when there is a security breach?
- Who bears the burden of achieving and sustaining compliance with the Payment Card Industry (PCI) Data Security Standard (DSS)?

While Aberdeen acknowledges that merchants will make their own risk-based decisions about the pros and cons of data security methods, the consultancy strongly favors tokenization. This report reveals why. For more information, visit www.aberdeen.com/research/research-library.aspx.

Positive shift in health care payments

Investors seeking opportunities in the medical payments industry may soon find that change is on the horizon. In light of the recent health care bill passed by the U.S. Congress and changes occurring in the overall payments industry, the way providers and medical billing companies collect payments from patients may undergo a significant revamp.

According to a new report from Mercator titled *Healthcare Payments: Pay Now or Pay Later, Preparation Meets Opportunity*, the health care payments industry is eyeing new market opportunities and emerging product strategies to support both pre- and post-procedure billing.

It seems to be shifting toward a more customer-centric model, which will give patients choice, convenience and access to familiar payment methods when paying medical bills, according to the report.

"The largest market opportunity may lie in automating post-procedure medical billing and payment," Patricia Hewitt, Director of Mercator's Debit Advisory Service, stated in the report.

The report outlines opportunities involved in prepaid health care accounts. It analyzes consumer out-of-pocket expenditures and issues related to conversion to electronic payment methods. The research explores provider-to-consumer billing and provides reviews on various product delivery strategies such as credit, debit and prepaid cards.

More information is available at http://mercatoradvisorygroup.com/index.php?doc=debit&action=view_item&id=459&catid=4.

NewProducts

Memory card-based NFC

Product: SideTap MicroSD cards

Company: Tyfone Inc.

According to Dr. Siva Narendra, Chief Technology Officer for Information Technology provider Tyfone Inc., the long-awaited wide-scale deployment of near field communication (NFC)-based payment networks has been stalled not by defects in technology, but by shortcomings in the business model used to foster it.

"NFC hasn't made a lot of headway for two reasons," Narendra said. "One is there aren't enough handsets with NFC and two, even if there were, who takes the fraud liability and who takes the transaction revenue [for NFC-based payments] is unresolved."

With Tyfone's SideTap technology, both issues are resolved, Narendra added. Tyfone is in the early stages of deploying the NFC-enabled payment product. They are partnered with First Data Corp., whose new payment terminals accept SideTap payments, and are seeking out other sales channels with the aim of making the product available to consumers later this year.

Whereas NFC technology is typically embedded in the cell phone SIM card, SideTap – which Narendra said is compatible with any NFC reader on the market – is stored in a cell phone's micro secure digital (MicroSD) memory card.

Different business model

The practical difference, according to Narendra, is that memory cards, and the slots in which they're contained, are built the same way for most mobile handsets, whereas SIM card designs are unique to each phone provider.

Narendra said over 70 percent of smart phones contain memory card slots, and that among those handsets over 90 percent take the exact same type of card. Those are the handsets for which SideTap has been built.

Thus, for financial institutions that sell the product, the cost allocation of liability is theoretically the same regardless of the phone in which it's embedded.

This near universal application of the technology (among smart phone users), Narendra said, is essential to fostering NFC's emergence as a serious payment product because it doesn't require special partnerships or lend itself to monopolies.

"With a SIM-centric solution you may have bank one and

Features of **SideTap** include:

- Memory card-embedded NFC technology
- Compatible with most handsets
- Multiple payment and identification options
- Payment access controls and encryption for information transmission
- Memory card retains useful functions



carrier two, and they may not work with each other," Narendra said. "It isn't a neutral solution. At the end of the day, the telecom provider, the commerce provider and the bandwidth provider need to be independent of each other.

"The master key for security for a SIM card, generally speaking, is owned by the SIM card issuer, meaning they often have to accept liability for products that leverage that SIM card.

But a mobile operator's balance sheet is not built to take on payment fraud liability. ... All of that goes away with the memory card solution. Everybody does their business the way they would normally do, as opposed to adopting somebody else's business [model]."

The SideTap memory card is essentially a normal MicroSD memory card embedded with over-the-air technology, and it contains everything else that such cards usually do – wallet functions for storing payment cards and other forms of identification, along with the usual functions of the memory card (storage of documents, music, videos, photos et cetera).

The product, Narendra said, has to be purchased outright – consumers cannot download or otherwise retrofit SideTap to an existing memory card. But otherwise the memory card is exactly like a normal one and requires no changes to existing phones.

Tap with SideTap

As with other NFC technology, consumers make payments with SideTap (which works in phones with MicroSD slot

NewProducts

on any side – top, left, right, bottom or back) by tapping their mobile devices near NFC-enabled card readers. Narendra said the technology supports PIN and signature payments, and lends itself to a wide array of marketing and loyalty platforms. Indeed, what merchants choose to build off the NFC platform will be limited only by their imaginations, Narendra said.

"The device can communicate, as opposed to a [traditional] wallet where it is passive," Narendra said. "You can envision applications ... that provide couponing services to you in a more streamlined fashion so you don't have to remember to carry the coupon with you or go through tens or hundreds of coupons. It's all automatic – you subscribe to certain things and tap the payment and it all happens at the same time."

Likewise, he added, the payments industry will define the precise security access and control methods used with SideTap, but that "from a technology perspective, [NFC chips] are the most secure information storage known to humankind today." ■

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Portable gateway enhancement

Product: PaySaber

Company: USA ePay

From payment solutions provider USA ePay comes PaySaber, a portable payment card swipe machine that connects to the iPhone or iPod touch – allowing merchants registered with the USA ePay gateway to accept swipe transactions, scan product bar codes and print paper receipts.

Payment gateway compliment

PaySaber is not in itself a payment terminal, but a but-tress to an existing gateway. As payment terminals for the iPhone (and other smart phones) flood the market, clients are increasingly eyeing certain enhancement features that don't always accompany handheld acceptance. For merchants registered with USA ePAY, the PaySaber provides those additions by connecting to the iPhone and working in conjunction with the company's gateway service.

"We at USA ePay are very excited about the PaySaber," said Ben Goretsky, USA ePay's Chief Executive Officer.



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Features of **PaySaber** include:

- Portable swipe device connects to iPhone or iPod touch
- Allows merchants to accept more secure, less costly swipe transactions
- Includes a bar code scanner
- Includes a thermal printer with bar code-imprinted receipts
- Can conduct calculations relating to price totals, taxes and discounts

"We are extremely pleased to add the iPhone onto the long list of already supported phones in the Wireless ePay family. PaySaber is a special product for us, since it not only can process credit card transactions, but also can be a full point-of-sale system with inventory control and product and customer databases built right into the software."


Card data immediately encrypted

PaySaber encrypts card information at the point of swipe, rendering it immediately unreadable and preventing the use of data for fraudulent transactions in the event it is intercepted by an unauthorized party. The swipe transaction also results in significantly reduced interchange rates

paid by merchants, reflecting the reduced fraud costs typically associated with swipe (as opposed to manual, key-entered) transactions.

Payment information channeled through the PaySaber is stored in the USA ePAY gateway, which is Payment Card Industry Data Security Standard-certified and which keeps the data out of merchant environments, where it is historically more vulnerable to hackers. Inventory and other product information (including information gathered through the scan feature), meanwhile, is stored on PaySaber, and viewable by merchants wishing to check inventory or customer purchasing histories.

A scanner, calculator, thermal printer

The bar code feature allows merchants to scan orders and compile data related to product inventories; PaySaber can also conduct calculations for price totals, taxes and discounts that are generated through one or multiple scans. The receipts produced by the device's thermal printer all have unique bar codes that can themselves be scanned to streamline product returns. 

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Trade Association News

The ETA, celebrating 20 years in style

In addition to providing exhibitors and attendees its unique cornucopia of educational sessions, ceremonies, parties, keynotes, panels, demonstrations, networking and business meeting opportunities, and more, the Electronic Transactions Association celebrated its 20-year milestone at the 2010 Annual Meeting & Expo held at the Mandalay Bay Resort and Casino in Las Vegas.

Before introducing former New York City Mayor Rudy Giuliani, keynote speaker for the expo's opening general session on April 14, the ETA recounted some of its many accomplishments. Industry leaders offered comments, via video, on what the ETA has meant to them over the past two decades. Some of the strongest themes were connections, guidance, innovation, influence, friendship, fun and the unparalleled satisfaction that comes with volunteering.

Certification and advocacy

Most recently, the ETA began formal development of a certification program for payment professionals, outgoing

ETA President, Holli Targan, pointed out. This involves, among other things, defining the core body of knowledge to include in the program, the content and structure of the test itself, and how much material must be mastered for an individual to achieve certification.

The organization has also ramped up advocacy efforts to provide the payments industry a collective voice heard by federal and state congressional leaders and other parties that influence relevant legislation and regulations. Recently, the ETA's government relations committee submitted a position paper to Vermont legislators and was able to improve the state's interchange legislation (which was headed for passage with or without the ETA's input) from a payments standpoint.

A level-headed conservative

Giuliani's keynote speech touched on traditional conservative themes of reduced government spending, lower taxes and support for businesses that will provide jobs to get the economy moving again.

He noted that neither political party singlehandedly created the current economic crisis and emphasized that collectively we erred in forgetting that capitalist systems always fluctuate. And we were acting as though expansion would continue indefinitely rather than building reserves for the inevitable downturn ahead.

Leadership principles

Giuliani pointed out that leaders should rely less on polls and take actions that they believe will improve people's lives. This means being willing to be unpopular. He also presented six principles of leadership, as follows:

1. Have a set of beliefs, a set of goals, because you have to know where you're going.
2. Be an optimist; nobody wants to follow a pessimist.
3. Have courage; be able to take risks. This doesn't mean be fearless; it means don't let fear paralyze you.
4. Practice relentless preparation. As a young attorney, Giuliani learned it takes four hours of preparation for each hour in court.
5. Use teamwork. Find people whose talents are different than yours to help get things done.
6. Be able to communicate. Care about the people you work with and share your ideas. Motivate and influence them. And give people feedback as you go along.

This is just a slice of what occurred at the 2010 ETA. Complete session recordings from April 14 and 15 can be ordered from the ETA's Live Learning Center. For more information, visit www.softconference.com/ETA. ■

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Inspiration

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When you're finished changing, you're finished.

– Benjamin Franklin

Change, the best business medicine

If one thing is certain in life, it's that things never remain the same. We've all heard that adage countless times and know it's true. So why can't some business owners accept it? Often the number one hindrance to a company's success is its owner's unwillingness to accept change.

If a business is struggling, it isn't because the person in charge doesn't want things to advance or improve.

Often, however, the individual is in a comfort zone, and change would yank him or her right out into the unknown. Does this sound like you or someone you know – perhaps one of your merchant customers?

Accept it

If your answer is yes, let's observe how learning to accept change can help you and your business (or your clients and their businesses) flourish.

Perhaps your enterprise has been on a downward spiral lately. Maybe some of your merchant customers have gone out of business, and you haven't signed enough new accounts to replace them. So your residuals have suffered.

Take action

Now, you have some ideas to help things get moving in a

positive direction, but you aren't sure if they'll work. You might be asking yourself, What if I make changes and things become worse? If so, don't let that stop you.

Yes, your business might suffer a bit, but so what? It's a risk you'll have to take because doing nothing will absolutely make things worse over time.

Keep at it

Chances are, implementing your first idea will lead to positive developments. But if not, at least you'll have learned something and begun the process of turning your business around.

The thing to do if your first idea doesn't pan out is to forge ahead. Don't give up. Just try another idea. Remember, you can't stand still for long, even if you're lulled into thinking you want to.

You likely knew the importance of being proactive when you began your business, but perhaps you reached a certain comfort level once the dollars started rolling in and lost a little bit of your drive.

Make it happen

Well, you've got to dust off your mental cobwebs and take action, because it is a given that your business will change for better or worse. But if you're not fully engaged, it will be shaped by others actions, not yours.

In the business world, you're either keeping up with the



Inspiration

competitors and the ever-changing world or you're falling behind. There's no middle ground. So, it's not only about accepting change, but also whether you'll help create it and what you will do when it occurs.

Changing your company's direction can actually be good medicine. It will spur you to refine your goals and learn new ways to reach potential clients. Change can give you glimpses of new goals you never even dreamed of before.

Think back to the 1990s. What if no one had taken those first steps to learn how to use the Internet to conduct business? What if all the major companies around the world had ignored the Web completely? How would this have affected the world as we know it today?

Embrace it

The truth is many traditional business owners approached the Web slowly and cautiously, unsure of how it would affect their companies.

But they soon realized the Internet is an effective tool for reaching potential customers, selling products, exchanging information, keeping in contact with associates and much more. So the great, mysterious Internet brought beneficial changes to millions of users.

Imagine if no one had invented the mobile phone or if people still produced documents with typewriters instead of computers.

Adjusting to these changes may have seemed like a hassle or even unnecessary at one time, but they brought increased efficiency to thousands of companies and individuals around the world.

Harness it

Unknown changes lie ahead, and with them will come opportunities if you pay attention. If you accept change with an open mind and are poised to act on new ideas, your company will weather any slump and emerge reinvigorated and strong.

It's your willingness to move forward that will ultimately bring about brighter tomorrows.

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Source Media Conferences and Events

22nd Annual Card Forum and Expo

Highlights: Recession and regulation have fundamentally altered the payments landscape over the past year, and one trend has emerged as a result: debit, prepaid and charge cards are gaining in popularity with both consumers and issuers. At the same time, technologies are emerging that will supplement and could eventually replace plastic cards.

At this year's Card Forum and Expo, executives from the issuing and retail industries will share insights and compare notes about strategies for adapting to regulatory changes, plotting a successful path despite the recession and refocusing on the customer experience.

Attendees will find insights on how to reach a greater share of their customers' wallets, gain business from emerging market segments and revitalize their credit card portfolios.

When: May 16 – 18, 2010

Where: Hyatt Regency Grand Cypress, Orlando, Fla.

Registration: www.americanbanker.com/conferences/cfe10



American Conference Institute

American Conference Institute's 3rd Annual Forum on Prepaid Card Compliance

Highlights: This event promises to bring together a distinguished faculty of regulatory and enforcement officials, industry leading compliance experts and outside counsel specializing in prepaid card regulatory compliance.

Attendees will have the opportunity to hear discussions on best practices and receive targeted guidance on a variety of issues.

Topics include: Preparing for the impact of the Fair Gift Card Act of 2009 on the prepaid card industry; knowing what examiners will look for during a Bank Secrecy Act examination and implementing proactive compliance initiatives; evaluating your current anti-money laundering and fraud deterrence programs; ensuring compliance with expiration date restrictions and disclosure requirements; and determining the status of federal preemption in light of emerging regulations.

When: June 24 – 25, 2010

Where: The Westin Washington, D.C., City Center, Washington

Registration: www.americanconference.com/prepaidcard.htm



Center for Financial Services Innovation

5th Annual Underbanked Financial Services Forum

Highlights: As the economy begins showing signs of a rebound, the financial services marketplace is in the midst of a major transformation.

This is a defining moment for the industry, with increased government regulation and oversight, radically shifting norms and expectations, and a customer base finding itself more financially underserved than ever.

Now is the moment for those serving the underbanked to take stock of the past and prepare for the future. What game-changing products and services are on the horizon?

What can your organization do to better meet your underbanked customers where they are, and help them move forward? Find the answers to these questions at the 5th Annual Underbanked Financial Services Forum.

When: June 9 – 11, 2010

Where: Doral Golf Resort & Spa, Miami

Registration: www.americanbanker.com/conferences/cfsi10/chair.html



Midwest Acquirers Association

8th Annual MWAA Conference

Highlights: Along with the ever-popular educational sessions from Field Guide Seminars, this annual event offers presentations on timely industry topics, a vendor's exhibit hall and opportunities to meet payments industry leaders and innovators.

If you want to spend three days developing your merchant services business, learning how to make more money, eating great food, enjoying your favorite beverages with friends and networking with people from across the bankcard industry, the MWAA's annual conference is the place for you.

When: July 21 – 23, 2010

Where: Renaissance Schaumburg Convention Center Hotel Schaumburg, Ill.

Registration: www.midwestacquirers.com/next_event.php

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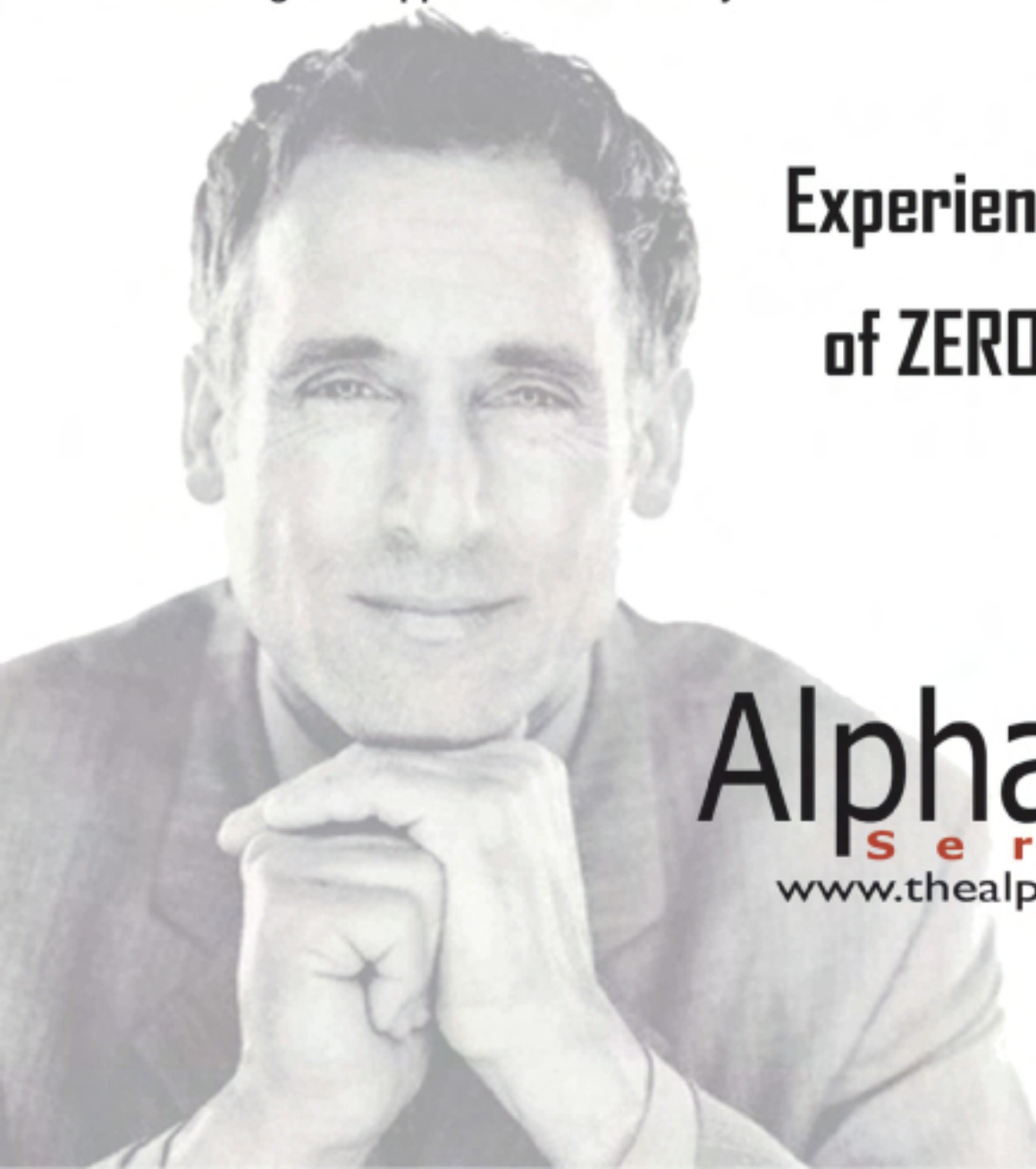
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