The Green Sheet
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Capital flow in acquiring

ISOs, like cells, are known to continuously form, fuse and divide – new companies appear, others are acquired and some spring from existing ISOs to form a subsidiary or separate business. Industry analysts say shifting market conditions will bring a flurry of ISO activity in the coming months and years, to the benefit of some industry players and detriment of others.

While payments industry acquisitional activity dropped considerably during the recession, sources say we will see a shift toward increased outside investment, more buys between ISOs and a widening loan market.

Acquisitions, mergers and private equity investments will boost many established ISOs, while the strengthening of bigger players and elusiveness of capital for fledgling ISOs will create difficulties for new startups. For startup ISOs that do brave today's market conditions, turning profitable can take a while. But smart ISOs that develop a specialty and do superior work can nonetheless secure capital and see profits, sources said.

Several recent reports of either completed or potential mergers and acquisitions involving huge payment players may foretell a broader lift in acquiring sector activity.

"In the last couple years, private equity investment, and not just in this space, has slowed down," said David Konig, Senior Analyst for Robert W. Baird & Co., an investment consultancy. "With the bigger deals now happening, it seems the indication is that private equity as a whole is going to pick up.

"Some of the big private equity firms will step in and buy very big firms like First Data, but for smaller ISOs there's a lot of potential for private equity as well. … This is a sector that probably generates above average interest because of the recurring cash flow."

Big events

On May 7, 2010, it was reported that three equity groups were looking to buy payment processor Fidelity National Information Services for more than $10 billion. If that deal happens, it would be the industry's biggest buyout since the 2007 acquisition of First Data Corp. for $29 billion by the private equity firm Kohlberg Kravis Roberts & Co.

Other noteworthy developments of late include equity firm Silver Lake's April 2010 acquisition of a 60 percent stake in Mercury Payment Systems LLC; partnerships between Total System Services Inc. and First National Bank of Omaha, as well as between Fifth Third Bancorp and Advent International; and, maybe most significantly, Visa Inc.'s recent buyout of online payment processor CyberSource Corp.

In general, capital flowing from outside the payments space tends to target

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NotableQuote

Anyone who works in the electronic transactions industry is in the technology business. If you don't have a good grasp of networking basics and understand how transactions flow from the POS through authorization and settlement, an abundance of resources in our industry can help you bridge that gap.

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Forum

Play by the rules

The discussion thread published [in "What makes a business card compliant," *The Green Sheet*, April 26, 2010, issue 10:04:02] regarding business card compliance was interesting. One point where I am very concerned is what seems to be a prevalence of MLSs openly advocating circumvention of card scheme and/or sponsor compliance guidelines with the general notion that "Visa/MasterCard does not have much, if any, of a police force that enforces the rules."

This is precisely what is wrong with our industry and what Anna Solomon is trying to address with her efforts regarding MLS training and registration. We have a unique opportunity to self-police our industry and, to be perfectly frank, I have no use for an MLS that advocates violation of the actual operating rules and guidelines or the spirit in which they were created.

Also, *The Green Sheet* is a must read. I bookmark and refer to its contents frequently. Keep up the great work.

Sonny McKinney
Transworks Processing

Sonny,

We, at The Green Sheet*, are delighted that our publication is an effective resource for you, for it is our mission to support the education and success of industry professionals such as yourself.*

We agree that following the rules established by Visa Inc. and MasterCard Worldwide is the prudent, ethical thing to do. We endeavor to help clarify what is expected of ISOs and merchant level salespeople (MLSs) so they do not run into trouble simply because they don't know about certain requirements. We also believe that those who purposely skirt the rules are doing themselves and their colleagues a disservice and should be strongly encouraged to shape up.

By the way, another discussion thread pertaining to compliance with Visa and MasterCard rules began May 13 on GS Online's MLS Forum. It's titled "MLS/ISO (unregistered) & Advertising/Marketing? How it works?*"*

Editor

From GS Online's MLS Forum

The premier online network for payment pros

GS Online MLS Forum member hester recently asked, "What is the AVS [address verification service] fee and who ultimately gets it? Also, could someone please give a breakdown of who gets what fees, i.e., interchanage fees, batch, voice authorization, etc.? Who makes what money in the transaction and how?"

Here are excerpts from responses he received:

"You need to get with your processing partner – someone you trust – and ask for this info. … AVS is a function required on key-entered transactions. The fee to you may be different than the cost. In some cases there is a very small fee, some none." – clearent

"Most of the time, if a front- or back-end charges fees, it is essentially a fee for using their system, whether this be AVS, voice auth, transaction fees or anything else. These fees generally cover a lot of the expenses required in maintaining the physical systems, and there are often fees that these companies pay to have access to the necessary networks and platforms.

"Interchange is the easy one; it essentially goes to the issuer. Dues and assessments go to Visa/MC, as well as the new access fees, APF [acquirer processing fee] and NABU [network access and brand usage] fees.

"As far as a generalized breakdown goes, ISOs/acquirers get paid for servicing accounts and taking on the risk of processing; the platforms get paid for use of their IT systems; Visa/MC get paid for existing; and the issuer, who gets the most money, gets paid for selling the cardholder on their card and for providing incentives to their cardholders. – jestep


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AN UNBEATABLE SELECTION OF
FREE EQUIPMENT FOR EVERY INDUSTRY!
FREE
PIN PAD!
CR1000i
Premium Solution
VeriFone Vx510
Desktop Solution
PC Charge
Wireless Solution
VeriFone Vx670 GPRS

QSGS

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

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label

Capital flow in acquiring

Payments industry acquisitional activity dropped considerably during the recession, but several recent reports of either completed or potential mergers and acquisitions involving huge payment players may foretell a broader lift in acquiring sector activity. This article looks ahead to what may be a flurry of buys and a changing landscape in the post-recession acquiring space.

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Stemming the attrition tide

How do you combat attrition? For starters, you cannot manage what you do not measure or know. To manage attrition you must arm yourself with the correct data. Furthermore, the critical question to managing attrition is whether you are surveying merchants about why they left.

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Deregulation, regulation and you

When greed got in the way of common sense, the economy slipped into the worst downturn in generations. Regulators and the U.S. Department of the Treasury rescued banks deemed "too big to fail," and folks who never should have been given mortgages faced foreclosures and bankruptcies. But is the impending financial reform legislation the right solution?

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Gift card regs unraveled

An April 2010 webinar presented by Bryan Cave LLP mapped out the ground rules the prepaid card industry must follow to implement the gift card provisions of the Credit Card Accountability Responsibility and Disclosure Act of 2009. Among the key issues discussed was the curtailment of service fees under the new law.

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Payments 2010: The revolution has arrived

Some industry professionals have long believed NACHA to be on the fringe of payment innovation. But predictions of the automated clearing house (ACH) usurping checks have proved shortsighted. Nine of 10 payments worldwide are still cash, and most other payments are checks, debit and credit cards. But is the ACH revolution finally poised to arrive?

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News

PCI SSC steps up data security education

The PCI Security Standards Council initiated the Internal Security Assessor Program for the training and certification of personnel at large-scale organizations. The program covers the fundamentals and intricacies of the Payment Card Industry (PCI) Data Security Standard (DSS).

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Education

Succeeding at PCI compliance – Part 1: Planning the initial rollout

While most merchants presumably understand the need to prevent the theft of credit card data, many may not understand or have the patience for taking the steps required to meet all PCI DSS requirements. Yet resisting the journey to compliance is emphatically the wrong way to go.

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New Products

Cloud-based terminal and cash register

The SoundPOS terminal is what Bill Pittman, Chief Executive Officer at SoundPOS LLC, calls "a virtual terminal on steroids." This article looks at a product that's helping to lead the shift away from traditional hardware terminals and toward the cloud model.

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Education

Always be opening

The number of discussions we have with merchants is proportionate to the number of sales we make, or what sales managers refer to as the closing ratio. But what about the opening ratio, which can tell us how many merchants we need to call before we get a confirmed appointment?

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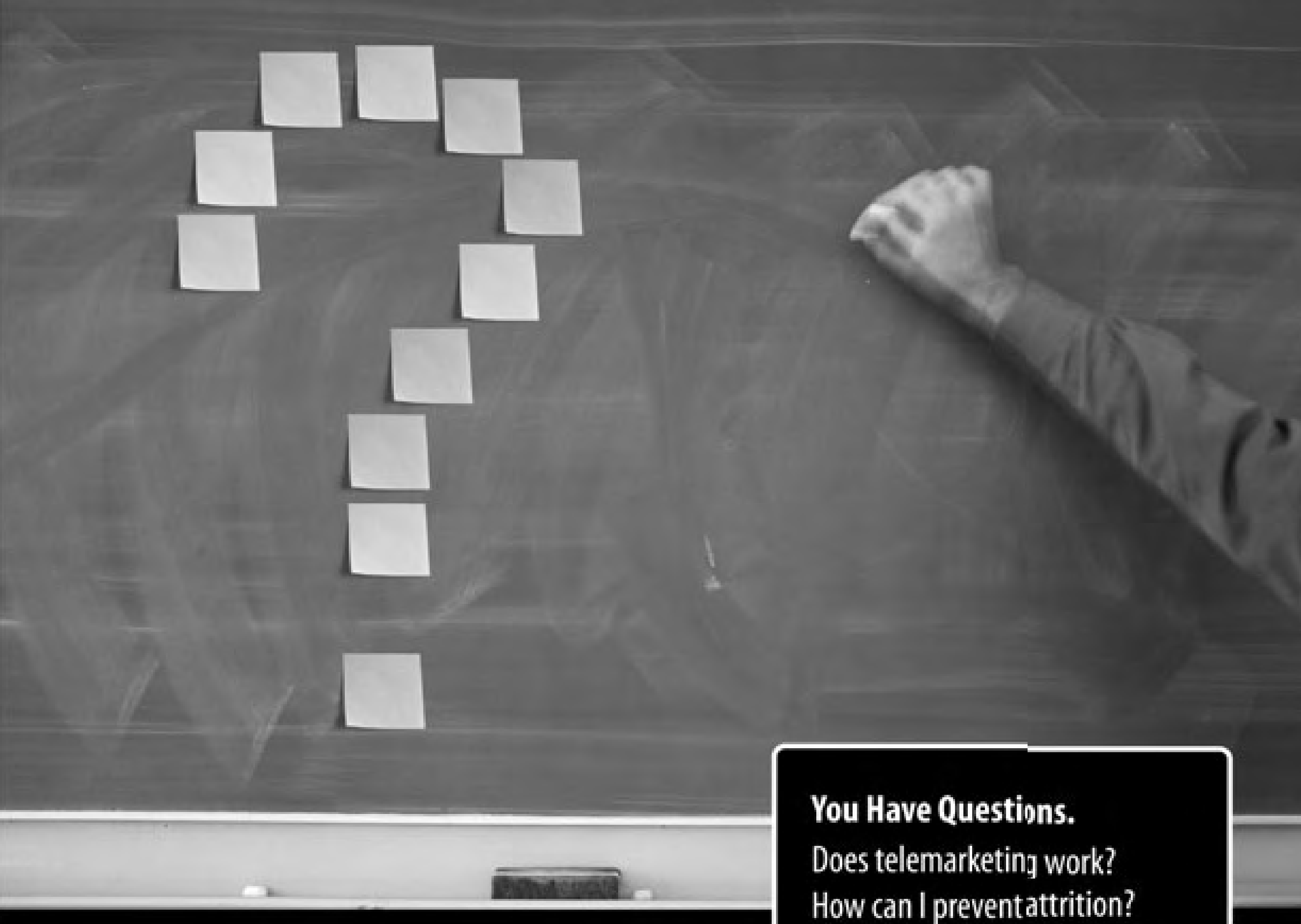
Inspiration

Clean up your stuff to clean up financially

Does a deluge of papers, fast food bags, receipts and sports paraphernalia flow from your car whenever you open the door? Does your desk look like it just survived an earthquake? If so, it's time to clean up and get organized. Being organized is practical; it will help you succeed – and besides, messy environments are depressing.



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THE WAY TO PAY

NEWS

Senate passes interchange amendment

In a development that may lead to dramatic change in the payments industry, the so-called **Durbin amendment** to the financial services reform bill passed the U.S. Senate by a 64 to 33 vote. The amendment would mandate the Federal Reserve Board to regulate interchange.

In a statement following the vote on May 13, 2010, Sen. Dick Durbin, D-Ill., said, "Passage of this measure gives small businesses and their customers a real chance in the fight against the outrageously high 'swipe fees' charged by Visa and MasterCard."

But MasterCard Worldwide believes otherwise, arguing that the amendment "will reduce competition and hurt consumers" because big retailers will not pass onto consumers the savings from lower interchange fees.

Merchant advocacy groups, such as The National Retail Federation, the Merchants Payments Coalition and the National Association of Convenience Stores, support the amendment.

According to Hank Armour, President and Chief Executive Officer at the NACS, the Durbin amendment "would give equality for check card and paper check fees – meaning that debit interchange, or 'swipe,' fees could be significantly reduced or eliminated."

The Electronic Transactions Association, the payments industry's leading trade group, is opposed to the amendment. In a statement, ETA CEO Carla Balakgie said the amendment will "likely reduce credit availability for merchants and consumers, and raise the price of existing credit."

A similar financial reform bill is working its way through the U.S. House of Representatives. But the House bill reportedly does not contain the same interchange language as the Senate bill. The ETA urges all payment professionals to make their opinions known by contacting their senators. Phone numbers and website addresses can be found at *www.senate.gov/general/contact_information/senators_cfm.cfm*.

Industry associations team up to defeat Senate bill

CO-OP Financial Services has joined other industry associations in petitioning its 3,000-member credit unions to work toward defeating amendments to U.S. Senate bill S. 3217, the Restoring American Financial Stability Act of 2010.

CO-OP, the nation's largest credit union service organization, has involved itself in the political game before. Last year CO-OP was part of the Electronic Payments Coalition opposing the creation of a bill regulating interchange.

"The three amendments currently being debated are bad for credit unions and bad for their members, jeopardizing the right of credit unions to a fair interchange rate and allowing merchants to interfere with consumer choice," said Stan Hollen, President and CEO of CO-OP. "We urge everyone in our industry to write to their senators immediately."

NRF endorses Vermont credit card bill

The **National Retail Federation** urged Vermont Governor Jim Douglas to sign legislation recently passed by the Vermont legislature that would allow Vermont retailers to set a minimum credit card purchase of up to $10 without interference from Visa Inc. and MasterCard, whose

- Nearly a third of consumers (31.2 percent) in the market for electronics items shop at Best Buy, according to the **BIGresearch** *Consumer Intentions & Actions Survey* conducted in April 2010; 21 percent opt for discounter Wal-Mart Stores Inc.

- The **NPD Group** reported that roughly $1.1 billion was spent in April 2010 on video games in the United States. This represents a 6 percent increase over the same period in 2009.

- According to market research firm **Kantar Retail**, overall retail sales increased 1.2 percent in April from a year ago, which was significantly lower than the 9.2 percent jump in March but well above the 2.3 percent decline in April 2009.

rules bar minimum purchase amounts.

Card companies would also be prohibited from blocking merchants from giving discounts for cash, checks, debit cards or credit cards with lower-than-usual swipe fees. Visa and MasterCard also could not force retailers to accept cards at all store locations of a given retailer if the retailer only wanted to accept them at some locations.

MasterCard stated that allowing merchants to set minimum amounts for card purchases would require shoppers "to spend more than they might have intended if they choose to use a payment card.

"The legislation would restrict consumer choice, and allow merchants to circumvent MasterCard rules that prevent consumers from being penalized for preferring to use an electronic payment card."

MasterCard also pointed out that the new Vermont law and MasterCard's existing rules provide merchants "the right to offer a discount for cash and all forms of payment, including competing card brands.

"Using discounts to steer customers to another form of payment is preferable to minimums, as it would not lead consumers to spend more than originally intended."

New interchange rates from MasterCard

MasterCard typically sets new interchange rates each April, and 2010 was no exception. You can access a PDF of the company's latest rate schedule at *www.mastercard.com/us/merchant/pdf/mastercard_interchange_rates_and_criteria.pdf*. Alternatively, you can always access MasterCard's and Visa's rates via the Resources tab just below the masthead on *The Green Sheet*'s home page, *www.greensheet.com.*

ANNOUNCEMENTS

ACOM rolls out EZPaySuite for ACH

ACOM Solutions Inc. introduced EZPaySuite, a modular software application that enables organizations to easily transition vendors from accepting checks to automated clearing house (ACH) payments. ACOM's EZPaySuite manages all laser checks, electronic and ACH payments, as well as emailed, faxed, and printed remittance notifications, with no changes to the organization's existing Sage MAS software.

Alternet subsidiary to include mobile security

Alternet Systems Inc. presented a webcast about its new mobile security division, International Mobile Solutions, created in late 2009 to address security concerns when deploying mobile commerce and transaction services. IMS' aim is to expand Alternet's mobile security services to the global mobile security market, which is expected to surpass $4 billion in 2014, according to a January 2010 ABI Research study.

BHI rolls out new anti-virus service

BHI Advanced Internet Inc. is offering a new anti-virus service called SecureConnect that reportedly helps protect computer systems from viruses that can disrupt networks, delete data, or expose businesses to hackers and thieves. The managed anti-virus service alerts BHI support staff to problems that may occur on the system in real-time, including missed virus updates, removal of outdated anti-virus software and detection of viruses.

Federated unveils ISO program, agent portal

At the Electronic Transactions Association's 2010 Annual Meeting & Expo, **Federated Payment Systems LLC**, a provider of credit card processing and related merchant account services, presented its program for bringing U.S. ISOs into the Canadian market.

In addition, Federated Payments Canada rolled out its proprietary web-based portal, Canadian Account Tracking System, which provides ISOs and agent partners with on-demand, flexible, custom reporting.

Global Payments expands China UnionPay card acceptance

Global Payments Asia-Pacific Ltd., a joint venture between the U.S.-based **Global Payments Inc**. and **The Hongkong and Shanghai Banking Corp. Ltd.**, has launched China UnionPay (CUP) card acceptance service in Brunei, the Maldives, the Philippines, Singapore and Sri Lanka. This service allows mainland Chinese tourists to pay for goods and services with their CUP cards at merchants served by Global Payments.

NMI launches support for Visa, MC updater systems

Payment gateway provider **Network Merchants Inc.** now supports Visa's Account Updater and MasterCard's Automatic Billing Updater. This technology enables the electronic exchange of updated account information among participating issuers, acquirers and merchants that process designated Visa and MasterCard transactions. Benefits for merchants include simplified and secure account-on-file transactions and facilitated uninterrupted service.

Pinnacle starts instant-issue debit

Pinnacle Financial Group Inc. now offers unembossed, instant-issue debit cards at all of its 35 offices in Middle Tennessee and the Knoxville area. Offices can now issue debit cards with PIN numbers in two to three minutes instead of the 10 days previously required. Instead of being embossed with raised letters and numbers, the plastic cards are created with a new, flat card technology that makes the card information easier to read.

ProPay adds encryption, tokenization

ProPay Inc., which provides end-to-end payment security, credit card processing and electronic payment services, added encryption and tokenization of ACH data to its suite of ProtectPay services.

Like other ProtectPay services, ProPay's ACH encryption and tokenization solution removes the need for organizations to store, transmit or process sensitive ACH payment data, ProPay stated.

SmartMetric to mass produce biometric products

SmartMetric Inc. will open up its own manufacturing facility to produce advanced "in card" fingerprint scanning and matching technology, moving from research and development to commercial manufacturing and production. According to SmartMetric, banking cards of the future using the company's technology will allow a person's fingerprint to activate the user's card.

Sterling introduces next-gen solution

Sterling Commerce, an AT&T Inc. company, introduced the next generation of Sterling Total Payments. The new version provides banks with tools that can incrementally generate additional fee revenue through new capabilities for integrated payables and advanced fraud mitigation. In addition, it helps financial institutions reduce payment processing costs.

TF moves into additional mobile platforms

At the ETA's 2010 Annual Meeting & Expo, TF Payments Inc. heralded its intention to add Google Android-based smart phones and the Apple Inc. iPad to its qualified device list for its flagship product FocusPay. A teaser demo on an iPad was presented at the show along with its version of a "card swipe" device for iPhones.

TransFirst adds small business financing product

TransFirst, a transaction processor, and **American Finance Solutions**, a provider of merchant cash advance, teamed to provide small and mid-sized businesses access to working capital. Through a joint referral relationship, TransFirst is expanding its product portfolio to include AFS' cash advance product, helping clients to access capital within 48 hours, despite tightening credit markets.

Trustwave delivers new data privacy program

Trustwave, a provider of information security and compliance solutions, launched a data privacy program comprised of security services that help businesses protect their customers' personally identifiable information and other sensitive data. Data privacy laws already exist in 46 states and federal legislation designed to protect such information is pending.

PARTNERSHIPS

SPSI lands cannabis providers

Cannabis Medical Solutions Inc., medical marijuana dispensaries and high-risk merchant processor, reached an exclusive agreement with **Specialized Payment Solutions Inc.** to provide merchant and financial services for up to 30 medical marijuana dispensary clients throughout Colorado and California through its alliance partner network.

First Data signs SunTrust

First Data Corp.'s STAR Network signed a multiyear agreement with debit card issuer **SunTrust Banks Inc**. to provide PIN-secured debit POS and ATM access to cardholders. SunTrust has approximately 1,700 retail branches and 2,800 ATMs across the Southeast and Mid-Atlantic United States. STAR, a leading electronic funds transfer network, has more than 2 million retail and ATM locations.

TSYS, Planet Payment extend multicurrency pact

Total System Services Inc. (TSYS) and **Planet Payment Inc.** extended their multicurrency processing agreement. TSYS Acquiring Solutions will continue to offer Planet Payment's dynamic currency conversion and multicurrency pricing solutions to its customers.

With dynamic currency conversion, international MasterCard and Visa card customers can pay in their home currencies at the POS.

World Bank, Gemalto team for digital security

The World Bank Group and **Gemalto NV** signed a memorandum of understanding to help support social and economic advancement in developing countries with innovative information and communication technology. This collaboration forms a part of the World Bank's new eTransform Initiative and is expected to help governments gain greater access to best-in-class technology, expertise and practices.

ACQUISITIONS

ePadLink purchases assets from Interlink

EPadLink acquired the ePad line of electronic signature pads and Integrisign electronic signature software from **Interlink Electronics Inc**.

The ePadLink line of products includes the ePad, ePad Ink, ePad LS, ePad Vision and ePad ID Pro line of products and accessories. The Integrisign software includes Integrisign Desktop, Pro, and Emcee signature server products, along with corresponding Universal Installer software and utilities.

Jack Henry to acquire iPay

Jack Henry & Associates Inc., a provider of integrated technology solutions and data processing services for financial institutions, entered into an agreement for the acquisition of electronic bill pay provider **iPay Technologies**.

Through strategic partnerships with more than 50 providers of information processing and online banking solutions, iPay's turnkey online bill pay services and technology support more than 3,600 banks and credit unions, according to iPay.

APPOINTMENTS

Allman to head CO-OP board

Doug Allman, President and CEO of NASA FCU, was elected chairman of the board of directors of CO-OP Financial Services. His election to a one-year term came at the annual meeting of CO-OP shareholders in April 2010.

Chung, Rasori, Dolique tapped by SPVA

The Secure POS Vendor Alliance, a nonprofit organization founded by Hypercom Corp., Ingenico S.A. and VeriFone, named **TK Cheung** to the position of SPVA Chairman of the Board.

Cheung is Vice President, Global Quality & Security, for Hypercom. **Paul Rasori**, Senior Vice President, Global Marketing for VeriFone, will step in as Vice Chairman and Chief Technology Officer. And **Christophe Dolique**, Executive Vice President, Global Marketing & Transaction Services for Ingenico, will as serve as Secretary / Treasurer.

Foye joins Vanco

Vanco Services LLC appointed **Michael Foye** to the position of Senior Vice President. In this new role, Foye will be responsible for growing the company's custom solutions business. Foye is an industry veteran with several years of experience in the field of electronic transactions.

Foye comes to Vanco Services following a long career with MasterCard.

WSAA adds to advisory board

The Western States Acquirers Association expanded its advisory board to include three members of the bankcard industry: **Gregory Holmes** of Holmes Associates; **Mia Hyun** of Mobius Payments; and **Linda Horwath** from JCB International Co. Ltd..

Yates to advise Advent

David Yates joined the Operating Partner Programme at Advent International, a global private equity firm, to provide advice on investment opportunities in the financial services sector.

Yates will focus on the area of payments and transaction processing and will work with Advent's deal team in London, supporting the firm's investment activities globally.

Insider's report on payments

Deregulation, regulation and you

By Patti Murphy
The Takoma Group

I had the opportunity to catch up with a former colleague recently. Lauryn had been editor in charge of a group of banking and electronic funds transfer newsletters I wrote for in the 1980s.

Not unlike today, the 1980s brought unprecedented change to financial institutions. Seminal legislation succeeded in eliminating federal interest rate caps and restrictions on savings and loan investments. The intention had been to "level the playing field" by placing savings and loans on a more equal footing with commercial banks.

Opposing views

Lauryn had a business background. She believed deregulation was what the industry needed to make it efficient and more competitive.

I had a regulatory background. I wasn't convinced deregulation (at least as it was unfolding) was the way to go. After all, the banks, savings and loans, and other financial institutions had been coddled for years. The government had been dictated deposit and lending rates and was always at the ready to work things out when a large bank looked like it messed up and was about to fail. I wasn't convinced there was enough motivation, or experience, among bankers for the market to self regulate.

We all know today how it played out. Greed and egos got in the way of common sense, and the economy slipped into the worst downturn in generations. Regulators and the U.S. Department of the Treasury rescued banks deemed "too big to fail."

Folks who never should have been given mortgages faced foreclosures and bankruptcies. And tens of millions of average Americans ended up on the unemployment line and/or living in homes with plummeting values.

Questionable resistance

When I met up with Lauryn again, we hadn't seen each other in about 15 years. As you might expect, the conversation soon turned to banking, the economy and financial reform legislation. When I reminded her of our differences of opinion "back in the day," she just grimaced. "Yeah, I can't believe how they're fighting legislation," she said.

I realize this is not a popular position in the payments space. But I find it galling that banks are fighting back on financial reform legislation. And I think it's likely to come

Think about it: every congressional district has retailers among its constituents – constituents in the position to boost local economies if only those darn banks weren't so greedy about interchange.

back and haunt the industry in ways that could slam the payments industry.

Now, I've looked over the legislation, and I agree it's draconian. New reporting requirements, new consumer lending rules and the potential for surprise examinations by a newly created consumer protection board aren't tops on any bank's list of desirable changes. And it's really not clear how some of the regulatory changes will play out.

But, one way or another, Congress will pass financial reform legislation this year. And acquirers and their partners should be concerned (seriously concerned) that the conflict with retailers regarding bankcard interchange is getting pulled into the legislative debate.

Disgruntled constituents

Think about it: every congressional district has retailers among its constituents – constituents in the position to boost local economies if only those darn banks weren't so greedy about interchange.

Merchant groups like the National Retail Federation and the National Association of Convenience Stores have launched an all-out assault to get interchange into the reform package.

They've even tried to rename the issue "swipe fees." After all, it's easier to portray the debate as a consumer issue, even though this is an issue that pits one industry against the other.

From my vantage, a legislated solution to the interchange debate will serve only to redirect some of the revenues that now flow to various parties in the acquiring sector to a few dozen large retailers. And if that happens, the economic reverberations could slay countless small businesses.

It's become fashionable to not like banks. But government intervention in the pricing of private business transactions accomplishes nothing. It's been almost 30 years since the price-control genie was let out of the banking industry bottle, and there's no going back.

Proponents of government intervention can't even come up with estimates or examples of how interchange savings might flow to consumers. That's because there's no macro-economic gain to be had from federal (or state) regulation of interchange. It's nothing more than price fixing.

Nevertheless, merchant groups have caught the attention of lawmakers. As I write this column, the U.S. Senate debates a massive financial reform package that includes provisions related to debit card interchange and credit card acceptance.

Misguided reform

Authored by Sen. Richard Durbin, D-Ill., a pending amendment to the bill would put the Federal Reserve Board in charge of setting parameters for debit card interchange fees and impose changes in card network policies. Network rules prohibiting merchants from offering discounts for competing card brands or forms of payment would be nixed under Durbin's amendment, as would card company policies that hamstring merchants from declining small-dollar card purchases.

Similar legislation was approved in May by the Vermont state Senate. And Vermont's lone Congressman, Rep. Peter Welch (D), has introduced legislation with similar provisions.

Welch's bill, H.R. 5199, the Electronic Check Parity Act of 2010, also instructs the Fed to apply check processing rules to debit card payments. It's unclear how that would be done, however, since the Fed has no direct involvement in debit card processing.

"If the credit card industry wants to keep marketing debit cards as 'electronic checks,' it ought to follow the same rules checks now follow," Rep. Welch said in introducing his bill. Welch added that he and Sen. Durbin see credit and debit interchange as an issue of great import for small businesses. "[S]mall businesses throughout the country are struggling and simply deserve fairer treatment," he said.

He's right. Small businesses do deserve to be treated fairly. But merchants aren't the only small businesses involved in this debate. It's time for ISOs and merchant level salespeople to be heard; let your representatives in Washington know what this legislation means for your businesses.

Don't count on the banks helping out here; they have their own laundry list of reforms to block. When push comes to shove, interchange is one of those little-understood issues that could become a bargaining chip in late-night negotiations over other, more contentious issues, like the scope of new consumer protections.

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

Payments 2010: The revolution has arrived

By Brandes Elitch
CrossCheck Inc.

NACHA – The Electronic Payments Association was formed in 1974 to coordinate disparate efforts to replace checks with electronic debits. NACHA is the traffic cop; it writes the operating rules and regulations for using the automated clearing house (ACH) system, which was originally designed to process very large batch files of recurring small-dollar items. NACHA's annual payments conference is now the largest such meeting of payment professionals in the United States

While there has been a lot of talk about expanding the ACH system to "make checks obsolete," it is important to note that the ACH is still a batch, store-and-forward, next-business-day settlement system. Transactions received by banks during the day are stored and processed later in a batch mode, where they are sorted by destination for transmission during a predetermined period.

The role of the ACH

Over the last decade, NACHA has come up with new payment types, and many people believe that in the near future most payments will clear as ACH entries. This is why you should attend NACHA's annual event. This year's show, Payments 2010, held April 25 to 28 in Seattle, offered seven tracks, plus workshops, plus a large vendor exhibit hall.

For many years, most growth in the ACH world came incrementally from government transfer payments. Things started to change about 10 years ago, when NACHA came up with a new code to allow checks to be converted to ACH at points of purchase. This was not a resounding success, and some industry professionals believe NACHA has been on the fringe of payment innovation.

Predictions of ACH usurping check proved shortsighted; this year there will be 25 billion checks written in the United States, and Electronic Data Interchange has, for my 25 years in cash management, been the "next big thing."

Nine of 10 payments worldwide are still made in cash. A recent study by *Packaged Facts called Consumer Payment Trends in the US* found that "54 percent of U.S. adults cite cash as their preferred form of payment."

Based on data from the *Experian Simmons Spring 2009 Adult Consumer Survey*, the report notes that "68 percent of American adults have a debit card in their wallet, and 67 percent have a credit card; though only 53 percent of adults may be considered active credit card users with transactions in the last 30 days." So how are they making their payments? (The answer is debit card, cash and check.)

"An army of engineers and entrepreneurs is rushing in, hoping to do what has been done in the music, movie and publishing businesses – unseat a legacy industry built on access and distribution, drive the costs to zero, undercut the traditional middlemen, and unleash a wave of innovation."

– Daniel Roth, *Wired*

Americans have recently shifted their preference from credit to debit, and merchants are studying decoupled debit, to convert what started out as a debit card transaction to an ACH debit. So, while there are changes in the wings, they use the existing payment channels and, until now, there have been no big changes to the existing platforms and networks.

In a recent article called "Why Banking Technology Sucks," the Banksimple blog identifies the root of the problem. It says, "back-end technology is constrained by legacy systems – core processing is done on a nightly batch basis in a mainframe, using code that was written 30 years ago.

"Given the large number of existing users, and the network effects inherent in payment systems, it's going to be a long time before the majority of banks switch to better technology."

And it's not just technology: Brett King, the author of Bank 2.0, said that "legacy organizational structures and metrics are why technology is held back – not just because of investment in legacy systems." But now I am not so sure.

A massive transformation

This year's conference proved that things are changing, and fast. I came away convinced we will see big changes in the next five years, and they will involve new devices, new channels and less reliance on interchange.

These new channels will feature "immediacy, transparency and approachability," the new payments mantra. Since interchange is the lifeblood of the card industry, and the

source of the ISO revenue stream, it is important to pay attention to these developments if you work in the card industry, because your world is going to change.

The first hint was "The Future of Money: It's Flexible, Frictionless, and (Almost) Free," by Daniel Roth in the March 2010 *Wired* magazine.

You can read it, at *www.wired.com/magazine/2010/02/ff_futureofmoney/*. Revolutions begin with a series of small, unrelated events.

Roth wrote that "hundreds of software developers and entrepreneurs are attacking the payment ecosystem, seeking out ways to tear down the stronghold the banks and credit card companies have built." This is a comprehensive, well funded, wide ranging movement initiated by newcomers to the payment system.

One event was the decision by PayPal Inc. last summer to allow developer access to its code, allowing them to work with its transaction framework.

Two months later, 15,000 developers had used it to create new payment services. And developers can write apps to solve business problems and leave the regulatory and risk management issues to PayPal.

In November 2009, PayPal released a new platform that charges about one third of traditional credit card rates. And PayPal executives said they won't have to convince American consumers not to use their credit cards online; people will make that choice on their own.

One developer linked users' Twitter accounts to their PayPal accounts and created a new company, Twitpay. The featured speaker at Payments 2010 was the creator and co-founder of Twitter, who launched a new channel he calls "Square."

Square is a smart phone terminal that allows anyone to accept payments. You can take physical card payments by plugging in a free, sugar-cube-sized device – without a card reader.

Obopay (funded by Nokia) lets people transfer money on their phones with just a PIN. Amazon and Google are distributing their shopping cart technologies across the Internet. Rumors are that Facebook is building its own network. A year ago, Apple Inc. gave iTunes developers the ability to charge sub-fees through their applications.

Driving this is a change in the way merchants perceive the value of accepting credit cards. The fees for card acceptance have increased significantly, and yet, as Roth noted, "the service provided [has] hardly grown any better, faster or easier to access." Entrepreneurs see this as a "massive inefficiency."

Roth added that "an army of engineers and entrepreneurs is rushing in, hoping to do what has been done in the music, movie and publishing businesses – unseat a legacy industry built on access and distribution, drive the costs to zero, undercut the traditional middlemen, and unleash a wave of innovation."

Many exciting ideas were presented at Payments 2010. Some presentations were excellent. For example, Steve Mott's presentation "Reinventing the Bankcard Payments Business" and Lee Wetherington's "Getting Payments Wrong: Top 10 Ways to Drive Customers Away."

On the other hand, the presentation on "same day ACH" was so confusing it was obvious the few hundred bankers in the room couldn't even make sense of it. In the past, that might have been a hurdle, but going forward, it won't be, because the driving innovation will not come from banks and card companies. The payments revolution has begun.

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.

Stemming the attrition tide

By Biff Matthews

CardWare International

During last month's Electronic Transactions Association's meeting, a friend asked me how to reduce merchant attrition. She mentioned that her company was experiencing 20 percent attrition, which is higher than she and her colleagues want.

I asked her several questions about the nature of the attrition – its size, types of merchants involved and so forth – because attrition, like most everything, is relative. Furthermore, you cannot manage what you do not measure nor know.

Her brow became wrinkled because while she had answers to many questions, she realized her company was not doing enough measurement. Therefore, she did not have the data or knowledge necessary to manage, and thus reduce, attrition.

A good place to start would be to determine the average attrition rate for her company's industry segment. CardWare International customers who have a broad merchant mix across a wide geographic area experience between 7 to 10 percent annual attrition. Still, some are as low as 4 percent; others are as high as 15 percent.

One former client experienced annual attrition of 30 percent, with one year's high at 45 percent. Analysis showed the company's narrow focus on the inherently fragile hospitality industry and the company's emphasis on start-ups were the causes. The analysis also revealed that 30 percent was below average for that industry focus.

Pin down the details

To combat, hence manage, attrition, you must arm yourself with the correct data. Attrition of 30 percent is high for the average portfolio, yet 30 percent can be the norm for a particular silo.

The critical question to managing attrition is whether you are surveying merchants about why they left. The simple answer you find when looking into this is price. The merchants came to you because of price, so they left you because of price. That's possibly true, yet is there more to the story? Dig deeper since learning who is leaving and why yields three results. You identify:

- The current customers you must invest in to retain
- The identity of your good customers and therefore the profile of a desirable and profitable customer
- Merchants whom you should either make profitable or help to leave you, as well as attributes of merchants to avoid

Following are the questions to ask for this analysis:

- Is the percentage of attrition trending up or down?
- Who is leaving you? (Include name, address, and SIC and MCC codes.)
- What types of merchants are leaving, and from what neighborhoods or regions?
- What was the time between signing and leaving? How long had they been with you?
- Who trained the merchants who left?
- What terminals and applications were lost merchants using?
- Who was the processor?
- Who is responsible for customer service and help desk for the merchants that left?
- How long had each merchant who left been in business?
- What was each merchant's dollar and transaction volume over the past 12 months, and was there a three- to five-year sales volume trend?
- What was each merchant's profit during specified periods, and was the trend in profit up or down?
- What are business life expectancy norms for a given merchant's industry?
- What are the norms within geographic areas cov-

Statistics without analysis are useless. For instance, if you have 5 percent attrition, you may perceive that as low. But that percentage by itself is meaningless. If the industry norm is 1 percent, 5 percent is four times greater than the norm – not so good. Everything is relative.

ered in the portfolio, and how are the norms trending?
- How long does it take for new merchants in particular industries and geographic regions, and even at certain volumes, to become profitable?

Disclaimer: we all have trophy accounts; these simply fall outside this type of analysis unless you have lost two or more within a short time. Factor them out unless they are unprofitable.

Also, determine the PITA (pain in the behind) factor for difficult accounts. Assign a PITA factor-to-profit ratio on a scale of plus 1 or 5 percent for an easy customer who gives you referrals. Assign zero for neutral customers or those who are never a hassle. Then assign minus 1 or 5 percent for accounts that were impossible to satisfy.

Use what you learn

Statistics without analysis are useless. For instance, if you have 5 percent attrition, you may perceive that as low. But that percentage by itself is meaningless. If the industry norm is 1 percent, 5 percent is five times greater than the norm – not so good. Everything is relative. What you seek are relationships, that is, cause and effect and how different aspects are trending.

Next, apply the 20/80 rule. Identify the top 20 percent of high-profit merchants among those you lost. Survey these lost accounts, asking why they changed processors. Better yet, ask what would have caused them to stay. Understanding which merchants you want to keep and what actions will keep them in your portfolio is the crucial step in managing attrition.

Remember, you cannot manage what you do not measure and therefore do not know. By learning critical information about why merchants left, you learn to avoid merchant groups or characteristics that do not support your growth and profit. Identify former customers to survey; then ask the hard questions. These merchants have nothing to gain or lose at this point, so accept their responses at face value. And probe beyond the all too easy culprit of price as the cause for leaving. Do the analysis. Protect your investment. Fix issues that caused highly profitable merchants to leave. And now that you have identified and therefore can manage the perfect customer, you should:

- Invest time and money to keep your most valuable merchants.
- Focus all sales efforts toward getting more of those perfect merchants that add to profit.

It is equally important to appreciate that attrition is inherently good when unprofitable, high PITA merchants leave.

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

SellingPrepaid

Prepaid in brief

NEWS

Underserved: 'Prime candidates' for m-payments

A new **Javelin Strategy & Research** report, *Engaging the Underbanked and Unbanked*, finds that 68 percent of underbanked consumers in the United States have mobile phones. That statistic means the underbanked are "prime candidates for mobile financial services from financial institutions, major card networks and wireless carriers," according to the San Francisco-headquartered consultancy.

Heartland highlights prepaid in Q1 2010 report

As part of **Heartland Payment Systems Inc.**'s first quarter 2010 report, Chairman and Chief Executive Robert O. Carr pointed out the processor's prepaid card solutions as integral to its growth. Heartland's payroll, Campus OneCard and gift marketing programs are "all achieving continued success opening new markets where we will seek to further grow the Heartland franchise," Carr added.

ANNOUNCEMENTS

PASS card launched

American Express Co. rolled out the PASS card, a reloadable prepaid teen card designed to provide parents a way to manage the spending of their teenaged children. AmEx said the card will be sold and marketed exclusively to adults.

Teen card provider taps ThreatMetrix

BillMyParents, the online teen payment solutions division of Socialwise Inc., integrated the ThreatMetrix Fraud Network to control fraud. In advance of a national marketing campaign, BillMyParents said it realized it needed to be proactive in protecting its customers against fraud.

FiCentive starts POD card production

FiCentive Inc., the prepaid card subsidiary of Payment Data Systems Inc., reported that it now offers a print-on-demand (POD) solution for its corporate clients. FiCentive said its first large-scale customer for POD is a North Carolina-based home improvement chain with which the processor recently signed an exclusive reseller agreement.

Croatia added to money transfer network

Capitalizing on its partnership with Austria-headquartered Volksbank, **MoneyGram International** opened 28 money transfer locations in Croatia. The move follows MoneyGram's advances into Germany and Serbia. MoneyGram said Germany is home to over 200,000 Croatians, many of them migrant workers who send funds to family back in Croatia.

New reseller for rewards card

National Gift Card Corp. stated it had become an authorized reseller of American Express Prepaid Cards created for the loyalty, incentive and rewards industry. Under the agreement, National Gift Card is able to offer corporate customers competitive, below face value pricing on volume orders, the gift card distributor said.

PerksCard adds 200,000 cardholders

PerksCard Network, an Augeo Affinity Marketing company, reported the launch of 15 new programs and the distribution of over 200,000 PerksCards in the first quarter of 2010. PerksCard markets itself as a lifestyle discount program for "employees, members of participating organizations and local-area merchants."

SelectCore sets record for profits

SelectCore Ltd., a prepaid telecom and financial solutions provider, said its 2009 revenues increased by 21 percent over 2008, from $69.7 million to over $84 million. The report marks SelectCore's sixth consecutive quarter of positive financial results, the company said.

PARTNERSHIPS

New parking payment solution team

AlertPay inked a deal with **New Parking Inc.** to offer "one of the first cell phone-based parking validation solutions available in North America," AlertPay said. The partnership is designed to give drivers more parking payment options, including mobile payments.

Cardlytics, Vesdia make new team

Cardlytics and **Vesdia Corp.** signed an agreement to provide banks with a merchant-funded rewards program and retailers with additional marketing platforms. The companies expect the partnership to enable banks to increase rewards program awareness and participation, as well as give merchants another way to target consumers through loyalty programs.

ClairMail, CashEdge enter agreement

ClairMail and **CashEdge Inc.** teamed to provide CashEdge's Popmoney through the ClairMail platform, which lends customers mobile banking and person-to-person payment capabilities.

Coinstar pairs with Amazon

Coinstar Inc., in collaboration with **Amazon.com**, now offers Amazon gift cards through its coin counting kiosks. Consumers can exchange coins at Coinstar Centers for the prepaid cards. Coinstar estimates the average American household has $90 in loose change.

GETI, PayLeap on board for new solutions

Check processor and prepaid card provider **Global eTelecom Inc.** (GETI) and **PayLeap** teamed to enhance payment processing options for e-commerce merchants by integrating GETI solutions into the PayLeap payment gateway.

Micro money transfers rolled out nationally

Global mobile payment company **RegaloCard.com** entered into distribution partnerships with "leading prepaid distribution companies in the U.S.," RegaloCard said. The company added that its network of prepaid card distributors will bring RegaloCard's products – including micro money transfers – to over 100,000 retail POSs nationwide.

Mobile money transfers for African immigrants

Shaka Mobile, the first prepaid mobile service for African immigrants in the Unites States, partnered with **MFunds Global Payment Solutions** for mobile money transfers. Diaspora African customers living in the United States will receive a primary card and can order family cards for friends and relatives living in Africa, Shaka Mobile said.

TSYS, Serverside ally for on-demand

Total System Services Inc. teamed with **Serverside Group** to launch TSYS Card Shop, a digital card fulfillment and marketing solution that combines on-demand manufacturing processes with card management and customization capabilities.

Urban Trust strikes alliances

Urban Trust Bank partnered with **Dr. DeForest B. Soaries Jr.**, Senior Pastor of the First Baptist Church of Lincoln Gardens in Somerset, N.J., to expand the dfree financial literacy program with a Visa-branded prepaid card. Also, Urban Trust allied with **Insight Card Services** to launch the Insight prepaid MasterCard. The Insight Card is designed to encourage consumers to use the card as their primary financial tool, Urban Trust said.

ACQUISITIONS

InComm acquires GroupCard

Prepaid card distributor **InComm** acquired **GroupCard**, a developer of social gifting applications on Facebook. By leveraging the GroupCard social gifting platform, InComm hopes to extend its leadership in online gift card and social payments services.

Ingenico completes Payzone France purchase

Ingenico completed the acquisition of mobile payment provider **Payzone France** from a Luxembourg investment company. The move is evidence that the Ingenico is moving beyond POS terminal manufacturer into value-added services, said Philippe Lazare, CEO Ingenico.

APPOINTMENTS

NetSpend names Gresham CFO

NetSpend Corp. appointed **George W. Gresham** to the position of Chief Financial Officer. Gresham, former CFO at Global Cash Access Inc., will have responsibility for NetSpend's treasury, accounting and finance departments.

MoneyGram taps two

MoneyGram hired **Nigel Lee** as Executive Vice President of the company's EMEAAP region (Europe, Middle East, Africa and Asia Pacific). The former President of First Data Asia Pacific will have responsibility for growing MoneyGram in the EMEAAP region, which accounts for 30 percent of MoneyGram's total revenue, the company said.

MoneyGram also appointed **J. Lucas Wimer** as Executive Vice President of Operations and Technology. Wimer, with over 20 years of experience in business consulting, technology and process improvements, will oversee MoneyGram's service delivery, call centers and information technology development.

Consorteum hires Vanooteghem as VP of Sales

Reiner Vanooteghem joined Consorteum Holdings Inc. as Vice President of Sales. He will be responsible for driving new and existing initiatives, as well as managing the teams within Consorteum's joint ventures.

Vanooteghem is a payment veteran with experience in card manufacturing and personalization for prepaid cards in addition to traditional payment processing, Consorteum said.

Features

Gift card regs unraveled

An April 2010 webinar presented by Bryan Cave LLP mapped out the ground rules the prepaid card industry must follow to implement the gift card provisions of the Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit CARD Act). Members of the law firm's Payment Practice Team divulged the intricacies of the new rules and warned that it is only the beginning of regulatory action on the industry.

According to Judith Rinearson, Partner at Bryan Cave and webinar moderator, the Credit CARD Act's gift card rules represent the first major federal regulation of prepaid cards. The rules apply to prepaid cards designed or marketed as gift cards – both open-loop, network-branded cards as well as closed-loop, retailer-specific cards.

Fees

In the webinar, *Gift Cards and Cards that are Not Gift Cards: Navigating Compliance with the Gift Card Provisions of the CARD Act*, John ReVeal, Counselor at Bryan Cave, discussed the issue of fees that prepaid card providers can charge consumers.

The new rules set "severe" limits on dormancy, inactivity and other "periodic" service fees, ReVeal said. These periodic fees – such as balance inquiry, transaction, ATM and reload fees – can only be charged 12 months after gift cards have been inactive, he said. But, once that 12-month period of inactivity has been reached, only one such periodic fee can be charged per month afterward, ReVeal noted; for example, providers can only charge a monthly ATM fee or balance inquiry fee, but not both. In addition, if a service fee is charged when activity takes place on the card – such as a transaction being made with the card – the 12-month inactivity period starts anew, and no types of dormancy or service fees can be charged until the new 12 months of inactivity have passed. "So you are going to have to make difficult decisions in light of these rules about what fees to charge," ReVeal said.

Exemptions

The new regulations set forth guidelines that exempt rewards cards from the restrictions related to expiration dates and fees. Margo Strahlberg, Associate at Bryan Cave, said rewards cards means loyalty, award or promotional cards that are either consumer-based or employee to employer-based. To qualify for the exclusion, rewards cards must be issued in connection with some kind of promotional program.

Furthermore, the rewards cards must meet certain disclosure requirements, specifically what information – the type of card, expiration dates, toll-free phone numbers – is printed on the physical cards, front and back. Then Bryan Cave Counsel Linda Odom detailed the five other types of cards that are exempted from the regulations. They are:

1. Long-distance, wireless and voice over Internet protocol phone cards
2. Reloadable cards not marketed or labeled as gift cards
3. Cards not marketed to the general public
4. Paper receipts encoded with a bar code or PIN number
5. Event- or venue-specific cards

Preemption

Strahlberg and ReVeal said the new federal rules preempt state laws generally. For example, the federal regulations place a five-year time frame on the escheatment of unused gift card funds. Therefore, states can only escheat (claim) unused funds five years after gift cards expire, even if state gift card laws impose shorter escheatment periods.

But, on the other hand, if a state law provides stricter requirements than the federal ones, it is incumbent on gift card providers to be mindful of that fact, the presenters said. This web of regulatory complexity is likely to increase, according to Rinearson. A prepaid card consumer protection bill, three separate "cross-border" bills that would regulate prepaid cards as they are transported over national borders, the Consumer Financial Protection Act, the loss of federal preemption statutes and more new state laws are all in the works.

"You don't really have to be very afraid," she said. "But you do have to be very careful and monitor what's happening. We are still at the very beginning of what appears to be a tsunami of legislation affecting prepaid cards in general, not just gift cards."

The debate over rebates

Like government benefits and payroll, consumer rebates put on plastic are becoming increasingly popular. But a debate has arisen about the pros and cons of rebate cards. Proponents of rebate cards say the product is a convenient and safe substitute

for rebate checks, while detractors warn of fees and expiration dates that can reduce the card's value to consumers.

Consumers Union, the nonprofit publisher of *Consumer Reports*, warned consumers that rebate cards can include fees such as dormancy and balance inquiry fees. Additionally, the Consumers Union said cardholders can experience problems with rebate cards when split-tender transactions are initiated and when cards are lost or stolen.

Consumers Union 'gotchas'

According to Michelle Jun, Staff Attorney at Consumers Union, rebate cards often come with dormancy fees: if a card has not been used for a certain period of months, that card is hit with a fee. She said dormancy fees can kick in after "as early as a three-month period." Monthly maintenance fees can "quickly whittle down" balances on cards, she added.

Consumers Union advises consumers to know balances on rebate cards to avoid problems at checkout. If cards have balances that are smaller than items purchased, split-tender transactions are in order; consumers make up the difference with secondary cards, such as debit cards. But the nonprofit said clerks often do not know how to perform split-tender transactions or the POS equipment is not set up to accept such payments.

Finally, Consumers Union said rebate cards do not come with the same protections afforded debit cards. Debit cardholders' liability is $50 if lost or stolen cards are reported within two business days, the nonprofit said. But that is not the case for rebate cards, where cardholders may only have "voluntary protections that could be revised or rescinded at any time for any reason," the consumer advocacy added.

Overall, Consumers Union argues that the old-fashioned rebate check is superior to rebate cards because consumers are not subject to fees and other constraints when they cash out or deposit rebate checks into bank accounts.

NBPCA responds

But Kirsten Trusko, President of the Network Branded Prepaid Card Association, said one of the main benefits of rebate cards is that they free cardholders from having to handle checks. Furthermore, if rebate check recipients do not have access to bank accounts, they have to utilize check cashing businesses and pay fees to have their checks cashed, she noted.

Contrary to Consumers Union's information, rebate checks are the products that generally come with 90-day expiration dates, with rebate cards having expiration dates of nothing less than six months, according to Trusko. (An NBPCA statement said most rebate cards do not expire for at least 12 months.)

Additionally, the split-tender transaction issue is not specifically a rebate or prepaid card problem, but a card issue in general, Trusko said. As for consumer protections on rebate cards, Trusko argued that rebate cards are more customer friendly than rebate checks.

Customer service programs for rebate cards are specifically set up to resolve such problems as lost or stolen cards, she said. "And they want that card back in your hand because they want you to spend the money," Trusko added. "So it's set up to replace lost and stolen very efficiently. If you lose your rebate check, good luck."

Furthermore, an NBPCA fact sheet said, "Funds underlying prepaid rebate cards are backed by American Express, Discover, MasterCard or Visa fraud protection and accounts are FDIC insured."

Trusko emphasized that one job of the NBPCA is to police its members' practices in order to maintain ethical standards and not give the industry a "black eye." When the NBPCA investigated reports that certain rebate cards came with activation fees, the association could not find evidence of the practice, Trusko said.

The Consumers Union agrees with that conclusion. "We aren't aware of any rebate cards with activation fees, although it could be possible that there may be some that do have them," Jun said.

CompanyProfile

Transaction Network Services Inc.

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ISO/MLS benefits:
- Turnkey wireless POS gateway solution
- SSL security management
- Resilient payment network infrastructure
- Acquirer-neutral payment service provider
- Web-based reporting across all POS connection types

TNS delivers

Successfully transmitting transaction data across different nations, platforms and devices, is a little like taming the Tower of Babel; getting all the components of disparate systems to ultimately "speak" the same language is complex. Transaction Network Services Inc., as a global provider of data communications services to retail, banking, financial markets and telecom industries, frequently comes up against the challenges of arranging interoperability.

"There are a lot of hard, challenging issues in the payments area, and at TNS we look to find those hard problems and solve them because we think we're good at it," said Gerry Grealish, Vice President of Product Marketing for the company's payments division. "We're looking to solve problems beyond just the carrying and delivering [of transaction data]."

TNS is a publicly traded company with revenues of more than $500 million and three divisions: payments, telecommunications and financial services. The company's telecommunications division provides signaling, roaming and intelligent network services to fixed, mobile, broadband and Voice over Internet Protocol (VoIP) operators around the world; the financial services division facilitates transfer of market data among brokerage houses, investment banks and exchanges.

"On the telecommunications side, we have assets that allow us to enrich what we can provide on the payments side and vice versa," Grealish said. "For example, with our payments expertise, our telecom division has brought applications such as store card payments and tokenization for billers to their large telecommunications and cable company customers."

TNS has had 20 years to develop the expertise required to expand into the global market and keep pace with an explosion in communications technologies. "When TNS started in 1990, the company provided dial-based services to banks and processors," Grealish said. "And then these banks and processors would wrap this up as a piece of the connectivity into the broader acquiring offering they brought to merchants."

The company opened up its services to acquirers, processors and ISOs, which in turn offer the connectivity services to their merchants. "ISOs are clearly a key way that TNS, either branded or through somebody else's solution, goes to market," Grealish noted.

Travis Lee, Director of Product Marketing at TNS, added, "We have relationships with ISOs and MLS groups where we provide turnkey solutions to them or provide underlying services they can resell or use to drive the products they are utilizing."

Making all the connections

Since the company's launch, the transaction network landscape has changed tremendously, and so has TNS. TNS now does business in 29 countries, delivers 13 billion transactions per year and offers a host of options beyond dial-based services.

"We now do broadband connectivity and delivery for POS and ATM," Grealish said. "We offer Internet gateways for e-commerce, wireless gateways, and we have a product here in the States for wireless mobile merchants called Synapse. We also have gateway products for e-POS, not just dial terminals."

All of the new ways that have emerged to collect and transmit transaction data, however, can create compatibility issues that range beyond customers' expertise.

"Our approach is to take a consultative role. We have a unique set of assets and we're pretty creative about how we deploy those assets to solve problems," Grealish said.

He believes the company's geographic scope is a boon for clients who are likewise looking to expand into overseas markets. "The fact that we are global means we have domain expertise specific to some of the markets where we're helping some of the processors launch new services," he pointed out.

Grealish cites as one of TNS' "creative assets," its POS and ATM Message Conversion Service, which provides a cost-effective alternative to host system development for the acceptance of new payment message types.

"Message Conversion can be used in two different ways," Grealish said. "For acquirers looking to bring in transactions from outside of their country, TNS can actually, within our network, translate a message format delivered by a payment terminal into a format that an acquirer's host can recognize.

"Another example is when a processor wants to decommission a host for efficiency purposes but doesn't want to cause issues at the merchant level.

"TNS can provide message conversion inside of our network that will allow the processor to route those transactions handled by the host they want to decommission to the host they want to keep running."

Message formats can get out of sync over time as new payment portals arrive on the scene and mergers and acquisitions of companies with dissimilar technologies occur. "TNS can actually handle all that complexity within our network so that the merchant doesn't need to make any changes," Grealish said.

Updating from a legacy system to another network is another point at which clients can experience confusion and concern. TNS "put together a core set of experts, project managers, technology folks and business process people who focus on making the transition from a legacy system to our network as painless as possible," Grealish said. "We manage the transition so there will be no disruption of services."

Two other TNS products, called FusionPoint and FusionPoint Express, allow merchants who have terminals that use dial communications to utilize a broadband connection for transmission of transaction data.

"We have services that sit between their old payment terminal and the network and convert the communications layer into an Internet protocol," Lee said.

"That's a service some of our ISOs are selling to merchants that are doing credit, debit or ATM transactions," he said. "This helps strengthen relationships ISOs have with merchants because they are solving a problem for them and helping them cut costs."

Reliability and security

According to Grealish, TNS' ability to deal with differing systems is one reason the company has been able to grow; another is its ability to handle the immense traffic load. "Our knowledge allows us to deliver some clever things in the cloud and our ability to scale and handle all this traffic and peak loads in a resilient fashion, makes us different," he said.

That reliability and capacity is confirmed by Chris Lee, Senior Vice President for Product Management for National Processing Co., a long-time TNS partner.

"I think of them [TNS] as kind of like a utility," he said. The network "should always be there and never go down.

And that's been my experience with them, both in traditional dial network services as well as with the wireless," Lee said.

But even reliability is useless without a guarantee that transactions will be transmitted securely. "Security is something we design into the product; it's not an afterthought," Grealish said.

Security was simpler when dial-based service was the only option. Along with IP service came issues such issue as distributed denial of service (DDoS) attacks, which involve hackers flooding hosts with enough traffic to crash them. "We've had to stay ahead of trends like this with our DDoS protection," Grealish added.

TNS worked with partners VeriFone and Simptec Co. Ltd. to create a managed POS encryption function within the TNS network that occurs at the POS.

"It's actually a piece of functionality inside the TNS network so it helps alleviate some PCI [Payment Card Industry Data Security Standard] burdens on the merchant," Grealish said.

Wireless and mobile

In response to market demand, TNS offers a wireless gateway called Synapse that allows ISOs to have greater flexibility in what they offer to merchants, board terminals more quickly and still have at their disposal flexible, web-based reporting.

"For an ISO that doesn't have wireless POS sales in their bag of tricks, Synapse gives them the opportunity to open up the scope of merchants they can deal with and gives them an opportunity to offer a greater range of options to meet their existing merchants' needs," Travis Lee stated. "More and more merchants are looking to do nontraditional payment transactions."

Greater flexibility in where and how merchants can receive payments is proving attractive. "Many merchants are looking to expand their revenue options beyond just their storefront," Travis Lee said.

"They're looking to take their wares out to boutiques or fairs or farmers markets, and not just driving people to their storefront. [A mobile payment system] gives them that capability."

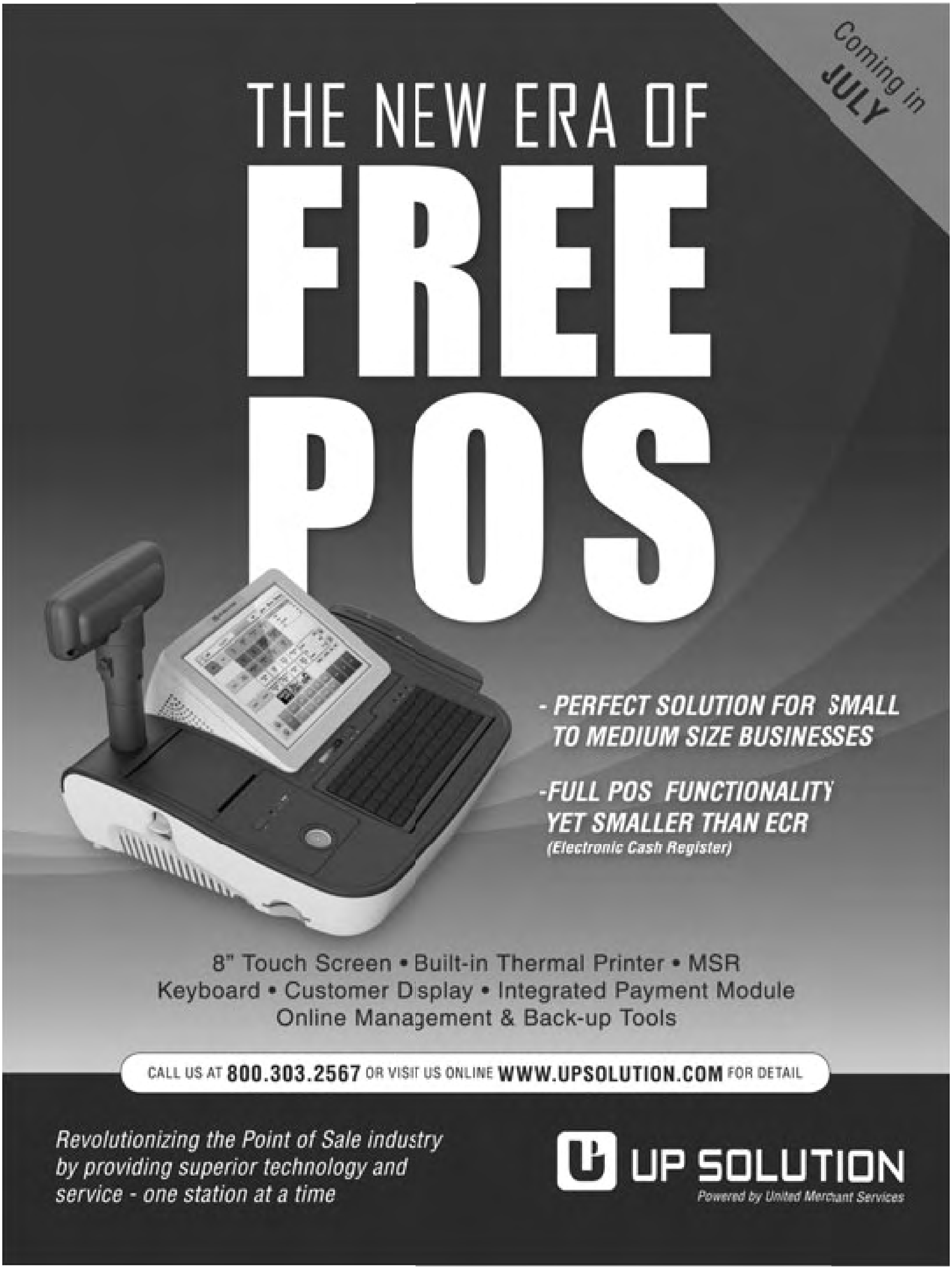
According to product literature for Synapse, wireless service fees are typically less than the cost of a dedicated phone line or digital subscriber line and a merchant can set up a wireless POS account much quicker than a traditional dial- or IP-connected service, which can have longer lead times and potentially require additional in-store wiring.

"We have many ISOs that have contracted with us to resell Synapse," Travis Lee stated.

"We provide them the tools that allow them to board merchants and to do ongoing monitoring, reporting, and management of the wireless transactions. If the merchant has a question or problem, they call their ISO. If the ISO can't answer that question, we have a technical support team to aid them in the support of their merchants."

While Grealish is proud of all the various applications and added-value services TNS provides, he feels the company's core technology remains a reliable payments network.

"Our mission has always been to carry and deliver transactions from merchants to processors faster and more reliably and more securely than anyone else," he said. For a company with a global footprint, that's no easy task.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PCI SSC steps up data security education

The PCI Security Standards Council (PCI SSC), the organization in charge of developing and managing the data security protocols that affect payment networks, hardware and software, initiated the Internal Security Assessor (ISA) Program for the training and certification of personnel at large-scale organizations. The program covers the fundamentals and intricacies of the Payment Card Industry (PCI) Data Security Standard (DSS).

The three-day courses are to be held regularly in cities around the world, starting in May 2010 in Sydney, Australia. The training is designed for the security assessment staff at entities like level 1 merchants, acquiring banks and processors.

At the end of courses, tests will be administered for the purpose of certifying personnel, such as businesses' information technology and risk management professionals, to perform internal assessments for their organizations.

"If you're a large merchant, some of the brands will allow you to do your own assessments," said Bob Russo, General Manager at PCI SSC. "And if you're going to do your own assessment, you certainly will want the people that are doing the assessment internally to be as well trained, if not better trained, than the QSAs [Qualified Security Assessors]."

QSAs are third-party vendors certified by the PCI SSC to audit the PCI compliance of entities' payment systems to ensure they are properly protecting cardholder data. The PCI DSS mandates that systems be audited annually.

Russo said the ISA-certified personnel will only be licensed to perform internal assessments for the companies that sponsored their participation in the training program. Certified assessors from sponsoring companies cannot join other businesses and perform internal assessments at those companies without being recertified, he added.

Positive step

According to the PCI SSC, the ISA program was developed based on feedback the council received from its stable of participating organizations – a virtual who's who of financial services and technology companies – on the need for improved PCI DSS education for internal staff.

Dr. Tim Cranny, Chief Executive Officer at Panoptic Security Inc., believes the desire among businesses for more education concerning the PCI DSS is a positive sign that they are taking their data security responsibilities seriously. "It's not that the level 1 guys don't know what they're doing or are hopeless," he said. "It's just that they're very properly saying, 'This is hard. Help us and give us tools.'"

Cranny believes the ISA program is a step forward in data security, as it fosters the mindset that businesses need to maintain their own internal PCI DSS experts, rather than rely only on the expertise of third-party data security providers, such as Panoptic.

But according to Cranny, too often the old mindset persists: businesses hire third-party security compliance vendors to help them pass the yearly PCI DSS audit.

It's akin to cleaning up your house before your mother-in-law arrives, Cranny said. "And that's not a bad thing," he added. "But the ideal is that things should be clean, tidy and safe to begin with. You're much better off to have things fixed and in a good state because your internal people know what to do, when, why and how all the time."

Secure inside and out

That is where Cranny sees the main benefit to the ISA program. "It's very easy but wrong to get into the thinking of [the PCI DSS audit] as a special event," he said. "And that's particularly the case, and happens more often, when the internal people don't have the skills and resources.

"So rather than security being seen as an external thing that they need to go and get … you want it really baked into the fabric of the organization," he said. "So having internal people who know what to do and why to do it and get things ready [for the audit] is definitely a good thing."

But Cranny emphasized that businesses should not expect ISA certification to replace external audits by third parties.

"It would be wrong if either merchants or sections of the industry said, given that we have these internal tools, you no longer need external audits and so on," he said. "That would be going too far because there is real fundamental value in these independent audits and assessments.

"If [the ISA] is done in a way that you keep the independent assessment, but you're giving companies the tools and the resources to get ready themselves, that makes things more efficient for the company, it saves them money and it also helps them raise the level of their own security."

For more information about the ISA Program, go to *www.pcisecuritystandards.org/education/isa_training.shtml.*

MasterCard on target with first quarter gains

MasterCard Worldwide is celebrating its first-quarter 2010 financial results, and for good reason. Quarterly revenue for the company grew 13.1 percent to $1.3 billion over the same period last year, while net income was up nearly 24 percent at $455 million, or $3.46 per diluted share.

In a May 4, 2010, earnings conference call, MasterCard Chief Executive Officer Robert Selander stated, "During the month of March, we saw positive growth in processed U.S. credit volume for the first time in approximately 18 months. This trend continues through the first four weeks of April."

According to MasterCard, a 4.6 percent surge in transactions processed is an early indicator of positive developments in economic data trends, which include such factors as stabilization of unemployment rates in the United States and increased spending in discretionary categories.

And while U.S. and Western European bankers remain mostly conservative in their outlook, many economists believe the global economy has reached a self-sustaining momentum, especially across Asia.

Personalizing e-commerce

Expansion of its gateway footprint, which currently includes the MasterCard Internet Gateway System, is part of the company's global e-commerce strategy.

MasterCard President and Chief Operating Officer Ajay Banga said, "I think all e-commerce strategy goes past the gateways to looking at how you offer cardholders more rewarding and more finely tuned, unique and personalized offers of online shopping, which is what the MasterCard MarketPlace is about."

MasterCard stated that its MarketPlace allows cardholders access to merchant-funded offers, which can be preset to stated preferences. Merchants have an opportunity to customize offers to individual groups and monitor the results in real time, which improves conversion rates.

Leading the brigade in prepaid

MasterCard also reported that it continues to build market leadership in the prepaid segment with an emphasis on government programs and general purpose reloadable cards.

Starting in 2010, the U.S. Department of the Treasury will begin phasing in electronic payments to all new Social Security recipients, leveraging its existing Direct Express program with Comerica Bank, which has issued more than 1 million MasterCard-branded prepaid cards.

MasterCard believes the profitability and reuse dynamics of the prepaid segment represent enormous potential. Gift cards average between $70 and $80 loaded at one time, while general purpose reloadable and Social Security benefits cards average $800 per month. And the prepaid space for corporate payroll, benefits and medical reimbursement cards is wide open, the company stated.

Dealing with debit, interchange and dual roles

Responding to ongoing strength in the U.S. debit market, MasterCard has grown its debit book in the noncredit space to include SunTrust and a number of other U.S. banks. MasterCard said its recent pricing changes in the Cirrus ATM network reflect its commitment to balancing customer value with competitive pricing initiatives. In addition, company representatives expressed concern over the fiscal impact proposed interchange reform might have on consumers.

A lingering question in the payments industry is whether card brands like MasterCard should become involved in the acquiring side of the business. To test the transaction processing waters, MasterCard recently introduced a pilot program called Integrated Processing Solutions. MasterCard indicated it is also strengthening its presence as an acquirer internationally.

On the horizon: Banga stated that MasterCard upgrades its network twice a year and plans to incorporate new fraud detection and "remote point redemption" methodologies.

Money and tech conference focused on mobile

Just as mobile phones are growing into the focal point of both the payments industry and the technology sector at large, so were they the predominant focus at the recent Future of Money and Technology conference, held April 26, 2010, at the Hotel Kabuki in San Francisco.

Seminars comprised topics ranging from mobile payments to virtual and alternative currencies. In one forum, attendees were given the chance to deliver a one-minute, ad hoc sales pitch about a new business or product idea.

"There have been basically four innovations in payments over time: bartering, coins, paper – which stayed paper with checks – and then plastic," said Damon Hougland, Senior Director of Platform at PayPal Inc.

"Now people talk of virtual currency as the future and the mobile phone you carry will be your new wallet, and what's really the future of payment is that it's everywhere you go. You have connective devices, whether mobile phone, GPS unit, laptop or point of sale devices that keep you connected with what's going on out there all the time."

Mobile money use more common outside U.S.

In a seminar about mobile payments, panelists discussed the disparity between the advancement of mobile-based payment programs abroad and in the United States, which has lagged behind many other countries in the mobile payment department.

"We've seen populations, like in the Philippines, that wanted to buy online but couldn't, but that all had mobile phones and all had places where they topped up these mobile phones," said Ron Hirson, Senior Vice President of Product and Marketing at BOKU Inc., an alternative mobile payment company.

"I think we'll have mobile accounts where you can choose how you purchase, whether from your credit card, your bank account or the credits you've earned from some game because someone's figured out how to make globalized virtual currency that's tangible in the real world."

– Bill Barhydt
Chief Executive Officer, m-Via

"So they essentially had a bank account, wanted to buy online but couldn't. And we built this enabling technology [whereby customers can make payments entering a phone number in lieu of credit card information] to get this population participating."

Hirson added that BOKU's program "ended up filling a need in the U.S. and Europe" as well, given the surprisingly high number of unbanked residents in both places.

Panelists also discussed the slower than expected growth of certain other payment channels, including near field communication payments at the POS. According to Hirson, the major stumbling block delaying the emergence of such payments is the unwillingness of mobile phone carriers to accept a payment model mirroring the one used by traditional card brands and issuers.

"The biggest barrier for mobile payments to take off is the challenge between carriers and traditional banking institutions," he said. "Credit card [issuers] are taking 2 to 3 percent [interchange] where carriers are taking 30 to 50 percent [for online payments], and that kind of margin can't support physical goods."

Virtual payments

Bill Barhydt, Chief Executive Officer of mobile payment company m-Via, envisioned a future where mobile phones would give all consumers an array of easy payment choices, including the use of virtual currency stemming from online gaming like Facebook's Farmville, a game in which players run a virtual, simulated farm.

"I think we'll have mobile accounts where you can choose how you purchase, whether from your credit card, your bank account or the credits you've earned from some game because someone's figured out how to make globalized virtual currency that's tangible in the real world," he said.

The forum on new business and product ideas included a company called Plastic Jungle Inc., which enables consumers to trade in one gift card for another online. Approximately 200 stores participate in the program. Plastic Jungle takes a fee by deducting about 10 percent of the gift card's total value from the new card that's issued.

Plastic Jungle CEO Gary Briggs said consumers often receive gift cards as presents from stores at which they wouldn't normally shop; consequently, about 10 percent of gift cards are never redeemed.

He said it behooves stores to bring gift card recipients in as shoppers, because the average shopper spends 40 percent more than the gift card value when redeeming it – and is profoundly more likely to return to that store.

"Cards move away from people who won't use them into the hands of a company's best customers," Briggs said.

Other ideas presented at the new products forum included a mobile application that mimics the coffee card "buy a certain number of drinks and get one free" model that has traditionally involved stamping paper cards. An online ticket sale and exchange platform for small or obscure events was also featured.

ResearchRundown

Payments industry faring well

The Electronic Transactions Association's *Q1 2010 US Economic Indicators* report, released in April by The Strawhecker Group, indicates the payments industry is coming through the recession better than the S&P 500 index by 46 percent year over year. Technology providers were especially strong performers. To download the report, visit *www.electran.org*.

Online, MO/TO fraud on the rise

According to Retail Decisions (ReD) research, card fraud losses in the United States totaled approximately $2.6 billion in 2009, and London is a hotspot for criminals targeting U.S.-based online retailers. Carl Clump, ReD's Chief Executive Officer, said data for 2009 show a 7 percent increase in the value of online and MO/TO fraud, compared with 2008's fraud loss total of $2.4 billion.

ReD estimates total 2010 Internet and MO/TO fraud will be valued at $2.8 billion. Clump suggested retailers employ nonintrusive, instantaneous fraud prevention technologies to ensure the best possible protection.

Traits of successful payment solutions

Fiserv Inc. revealed nine characteristics it believes new payment solutions must have to succeed. They must be all electronic, ubiquitous, intuitive, secure, easy, informative, interactive, always on and customizable. According to the company, these were formulated by Fiserv's Consulting Director for Global Payment Solutions, George Warfel, based on "time-tested learning and observations across a range of payments products."

Canadian payment trends

A new Deloitte & Touche LLP report, *Charting a new course for the credit card industry*, highlights eight emerging payment trends in Canada: credit cards and bank accounts will start to merge; social networking sites and personal digital assistants will be used as payment platforms; mobile phones will be used as payment devices; loyalty programs will increase significantly between card issuers and retailers; use of prepaid cards for recurring payments will increase; cardholders will see an increase in security features that prevent fraud; consumers will be educated on responsible debt management; and some credit cards will be cancelled, but new ones will emerge.

The future of E2EE

In *End-to-End Encryption in Card Payments: An Introduction*, Aite Group LLC concludes that the most appropriate technological route to address current card fraud threats in the United States is end-to-end encryption (E2EE), especially given the country's entrenched magnetic card infrastructure.

According to Aite Senior Analyst Nick Holland, the report's author, merchant choices will be "highly subjective based on transaction fees, hardware requirements, and, not insignificantly, the degree to which an offering removes the merchant from PCI scope" and "while a focus on PCI scope reduction may be a fine way for E2EE vendors to gain merchant attention, it loses sight of the fundamental aspect of solutions: protecting consumer cardholder data."

Retail, restaurant sales declines slowing

Capital Access Network Inc.'s recently released *Q1 2010 Small Business Credit Sales Report* indicates that year-over-year same store sales for brick-and-mortar retailers and restaurants declined in the first quarter of 2010: 6.31 percent and 11.67 percent, respectively.

However, the extent of decline slowed compared with 2009. The strongest performing segment was restaurants with average tickets of less than $25, which showed only a 0.52 percent decline.

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Capital flow from page 1

larger ISOs, especially when it comes from Wall Street. Apart from a select few processors and Super ISOs, Wall Street investors have historically shown little interest in the acquiring sector.

Nonetheless, analysts say small and mid-size ISOs will also attract investment as the economy recovers, and that the industry will see an uptick in ISO acquisitions by other ISOs – a fairly common occurrence historically that came to a near halt when the recession hit.

"In recent years there was a sharp drop off [in ISOs buying other ISOs]," said David Fish, Senior Analyst for Mercator Advisory Group. "But in the last three to six months that has been picking up quite a bit."

Scott Zdanis, co-founder and co-Chief Executive Officer of Merchant Warehouse, said that, while the company hasn't historically purchased other ISOs, "it is something we're going to do more and more in the future. … We recently became a debt free company and have extra cash to spend on that type of thing. I think it's true of a lot of companies that, as market conditions change and people are getting more optimistic about the economy, that kind of thing is going to happen more."

An early sign of potential upticks in ISO buyouts of other ISOs (as well as renewed interest in ISOs below the super ISO tier among equity providers) came in March, when the Kentucky-based ISO FrontStream Payments Inc. bought a mid-sized ISO called Fast Transact Inc. – a transaction funded with capital from New York City-based private equity firm Arsenal Capital Partners. FrontStream CEO Emmet Seibels said today's ISO market is as ripe as ever for buyers.

"Valuations have come down, and buyers can be more picky about who they acquire," he said. "More ISOs are trying to sell, portfolios are more attritive due to compressed margins and a lot of ISOs are having trouble growing."

Seibel said FrontStream would continue to seek the purchase of ISOs that have a "competitive advantage either through a niche or superior technology, a good growth rate and a quality portfolio."

He said investors in general would be attracted to "niche" ISOs with a specialty – for example, Fast Transact specialized in acquiring nonprofit companies and Internet merchants.

Difficulties for new ISOs

One category of ISO that will continue to face difficulties is the startup, many of which generate scant interest from venture capitalists and other funding sources. According to a report from Mercator, the payments industry globally received 27 percent more venture capital in 2009 than in 2008. However, of all the venture capital spent, only 8 percent went to startups in 2008, and a mere 2 percent was received by startups in 2010.

Startups also face an uphill climb in an industry increasingly geared toward long-term, deferred revenue streams that follow prolonged periods of financial struggle.

Increasingly, sellers aren't receiving upfront money for sales, as merchants have come to expect free terminals. Among those that do pay upfront money, more merchants are using software-based POS systems that cost significantly less than traditional hardware terminals.

Adding to the problem for small ISOs is that fewer merchant level salespeople now work purely on commission, with most demanding either a salary or some upfront payment for their work.

"Historically, one of the low hurdles to entry in the ISO business is it has not required much capital," said Ken Musante, who is building his own Calif.-based ISO, Eureka Payments LLC, having worked in the acquiring sector since 1992.

Musante added that, while ISOs still require less capital to launch than the average business, the task of starting one is financially strenuous and demands a lot of patience.

"Banks really don't usually fully appreciate how the ISO model works; you're really explaining it to them from scratch. They're usually reluctant to loan money to any ISO."

– Scott Zdanis
Co-founder & co-Chief Executive Officer, Merchant Warehouse

"Formerly, selling a merchant account would generate income right away because you'd get a lease with that account, and it made funding your business a whole lot easier," he said. "Now you're not able to recoup your money from the merchant until they begin processing, and the first time you get anything close is after the first month when you get your first residual."

It may be "months or even years down the road" before a startup ISO sees a profit, he added.

Complicating matters further is that ISOs have a harder time than most other businesses getting money from traditional loan sources, including banks and the federal government's Small Business Administration. While the recession has severely tightened the loan market for businesses generally, ISOs have been virtually shut out.

One reason for this is that banks have a harder time understanding the intricacies of the ISO business model; another is that ISOs don't have many tangible assets to use as collateral since they mainly sell a service, not a product. "Banks really don't usually fully appreciate how the ISO model works; you're really explaining it to them from scratch," Zdanis said. "They're usually reluctant to loan money to any ISO."

Loan sources closer to home

With most lacking access to traditional loan sources, ISOs commonly get off the ground with money out of the founder's pockets or from friends or family.

Musante said his company is starting with capital from two private investors whom he's "known for a very long time," and that those partners are also providing lead referrals – "which are equally valuable to the capital they're providing." Musante and others also said small and startup ISOs are increasingly in need of a specialty to compete with larger merchant service providers that lure merchants with relatively low prices on terminals and interchange.

Musante said Eureka Payments will specialize in e-merchants and mobile merchants – and especially "continuity merchants" (non-face-to-face merchants who give consumers a free or low-cost trial period on goods or services), which Musante said have "been in the crosshairs of Visa/MasterCard" and are often fined or shut down for not complying with a particularly stringent and complicated set of rules.

"By specializing in merchants that have a need for specialized knowledge, specialized service and specialized terminals, we'll be able to do a better job with those niches than larger players can," he said.

Zdanis said that, as demand grows in niche markets (like mobile payments), existing ISOs may look to create subsidiaries to service areas where traditional merchant providers lack expertise.

Analysts say companies (including start-ups) that stay on the cutting edge of new payment trends stand to thrive and can attract investors who might not otherwise show interest in the acquiring space.

"I'm hearing a ton of stuff out there [about interested investors], and there's capital out there," said Paul Martaus, President of payments industry consultancy Martaus & Associates. "The problem is they're not lending in the traditional marketplaces. They're looking for the big score."

"I think the big ISOs are definitely going to be more dominant, many will buy up other ISOs and more smaller guys will get sucked in and merged into those. I also think there are quite a few new equity investors excited about the space, but they're excited about bigger deals, not smaller scale deals."

– Darrin Ginsberg
Founder, Super G Funding LLC

Capital for established ISOs

Of course, getting an ISO off the ground is by far the hardest part of running one. Among ISOs that do rough the difficult early stages to build a consistent portfolio, there are capitalization options outside of equity investment.

Some can borrow money from their processor or super ISO, though many processors don't have enough capital to make loans or aren't willing to assume the risk.

Also, there are a handful of ISO lending firms that provide loans and recoup them by taking a percentage of an ISO's monthly residuals until the money is repaid. Such loans are generally only available to ISOs with an established residual history.

One such company, Super G Funding LLC, loans at a 17 to 19 percent interest rate, with the loan repaid over a period of 12, 24 or 36 months, according to Darrin Ginsberg, the company's founder. Ginsberg said the size of each loan (which range from $25,000 to $1 million.) and payback period depend on an ISO's recent residual history.

"Typically, ISOs try to get a typical business loan from the bank or SBA, which is very hard to do," Ginsberg said.

"Banks just aren't funding stuff right now. …. I'm putting capital in the hands of ISOs or agents to help produce more deals and in turn help ISOs grow. This is a way for ISOs and agents to access capital without having to sell their portfolios. I'm trying to let them keep their portfolios and grow their business."

Some companies may balk at the idea of high-interest loans, but capital of any kind can save ISOs from having to take drastic measures. The lack of adequate funding or loan sources – coupled with other challenges such as free terminals, alternative payment sources and heightened competition among ISOs – have put some ISOs out of business and forced others to conduct fire sales of their portfolios.

Sources said more ISOs will have access to loans from both their processors and ISO lending firms with the economy appearing to stabilize. Other ISOs will seek buyers, which have been hard to find in recent years. Yet, as the economy rebounds, sources say buyers looking to acquire either ISO portfolios or entire companies are proliferating.

"I think the big ISOs are definitely going to be more dominant, many will buy up other ISOs and more smaller guys will get sucked in and merged into those," Ginsberg said. "I also think there are quite a few new equity investors excited about the space, but they're excited about bigger deals, not smaller scale deals."

Indeed, for smaller ISOs planted squarely in the traditional merchant services sector, improved economic conditions may well be offset by other factors like deferred revenue streams, lack of outside capital and disparities in merchant pricing between big and small providers. Yet most agree that smaller ISOs who are savvy will remain in the game and attract much needed investment.

"I think smaller players in the space, if they have a good story to tell, will have willing ears ready to listen," Fish said.

Education
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High risk, high reward

By Ken Musante
Eureka Payments LLC

Having just returned from the Electronic Transactions Association's Annual Meeting & Expo, which celebrated the organization's 20th anniversary, it was interesting to see how the industry and exhibit hall have changed over time. In the early years the largest booths were Visa Inc.'s and MasterCard Worldwide's. Terminal manufacturers and leasing companies commanded attention with their booths and legions of staff. Bankers roamed the floors.

Fast forward 20 years. The card networks are the undercards. You have to look really hard to find a banker. Alternative payments, mobile payments, security companies, ISOs, processors, gateways, integrated software solutions and middleware ruled the show. In short, there is a much greater diversity in exhibitors today.

One of the reasons is that the payments industry is more competitive, more complex and more diversified. Years ago there was one niche: card-present merchants. Merchants needed terminals. Today, many merchant level salespeople (MLSs) have all but acquiesced retail business to low-cost processors and large banks. The margins are small, the demands are high and attrition lessens the rewards.

Hard, but rewarding

Some MLSs have instead focused on harder to place merchants because of greater loyalty and higher margins. Given recent decisions by the card brands that make processing for "continuity merchants" more difficult, I posted this question on GS Online's MLS Forum:

"What has been your experience with these merchants, and how are you advising them? Also, excluding adult content merchants, are there any other merchant types (or merchant characteristics) that you have been having difficulty with, and how have you handled them?"

As was evident by the responses, many MLSs do not pursue this niche. GMartin wrote, "Seems like a very limited scope article that would affect very few in our industry." GMartin's response highlights one of the attractions for hard-to-place merchants. Not everyone pursues them and, hence, they are a niche.

Alexpher responded by directing folks to a post that discussed the Federal Trade Commission's complaint against continuity merchants. The article, written by David Husnian, discussed the common theme that defined continuity merchants as merchants who sell products (often for a low price) to consumers who are then up-sold a continuity program that may or may not be properly disclosed.

Steven_Peisner has about as much knowledge in this niche as anybody I know, so I am pleased to post his opinion. He wrote, "My first comment would be that the recent actions taken by the Card [brands] could be best described as 'enforcement actions' of rules that have been in place for many years that may have been overlooked for a period of time.

"Those acquirers that have chosen to stop taking continuity merchants altogether may actually be making a poor

Education index

"If you have any continuity merchants, even if they have never had any problems, it might be a good time to give them a call and advise them of the card [brand] rules with respect to continuity and 'free trials' if they are offering any."

business decision based upon the actions of a few 'bad continuity apples.' Not all continuity merchants are bad. That being said there are a bunch that will go nameless that have really screwed things up for everyone.

"If you have any continuity merchants, even if they have never had any problems, it might be a good time to give them a call and advise them of the card [brand] rules with respect to continuity and 'free trials' if they are offering any. It isn't that the card [companies] don't want merchants of these types to make money, it is that they want them to follow the rules and as long as they do that everything will be fine.

"I find working with merchants that are high risk or hard to place more rewarding because the merchant knows just how valuable we, as merchant services professionals, are to the equation of their continued success.

"Currently we have found ourselves acting more as consultants to merchants, agents and processors that want us to come in and access one or many of their merchants that may fall into this category. In other cases we have been hired to 'clean' the merchant up in order that they may continue processing.

"As you mentioned this is an ideal niche, but it is time consuming, frustrating, and you will spend a lot of time educating your merchant; sometimes the reward will not be for a long time. That is why we charge fees upfront for consulting services.

"The first thing that your merchant will have to understand is that they will increase profits by decreasing losses, not necessarily increasing sales – in the end it's not how much you make, Mr. Merchant, it how much you keep that will allow you to keep your merchant account, and without a merchant account you make nothing. Once a merchant understands that philosophy your timeline job is a lot easier."

A need for expertise

Obviously we all would like to be able to charge upfront fees. Peisner found a way to do it by becoming an expert and "professor" to this niche market. The enforcement actions that Peisner referenced were taken shortly after the first of the year by one of the card brands. It handed out very significant fines (typically $100,000 per violation) to a host of processors that violated long-standing rules.

Visa issued a March 2010 bulletin that warned about "deceptive marketing practices used by certain online merchants that sell nutraceutical and business opportunity products. The merchants featured … generally sell acai teas, teeth whiteners, colon cleansers, and free government grants or other 'get rich quick' schemes.

"These products are routinely sold using a free trial period that leaves consumers with little time to cancel or return the product before it converts into a recurring charge," Visa stated. Visa went on to warn acquirers that those that violate its Merchant Chargeback Monitoring Program thresholds, due to an online merchant selling nutraceuticals or business opportunity products, may be placed into the High-Risk Merchant Chargeback Monitoring Program, which eliminates the 90-day notification normally afforded acquirers and allows Visa to assess an immediate chargeback handling fee of $100 per chargeback.

This effectively puts acquirers on notice that they are at risk if they fail to monitor the merchants within their portfolios. Visa's bulletin goes on to caution acquirers that merchants meeting the following criteria should be reviewed more carefully for:

- Accounts formerly processing with an offshore acquirer
- New businesses selling acai or health-related teas
- Any new merchant account operating with high fraud ratios or a high number of chargebacks
- Accounts that quickly exceed approved processing volumes
- Merchants who request multiple merchant accounts or have multiple LLC shell companies
- Merchants who sell products or services previously identified by the Better Business Bureau or the FTC as scams

The bullten goes on to state that, "acquirers should question merchants or ISOs that submit multiple applications from the same MLS containing any of the above characteristics or multiple applications from different LLCs with similar addresses, phone numbers, email extensions or principal names.

"The concern is that the merchant may be trying to disguise the depth of the problem by spreading out the transactions over numerous accounts or acquirers," Visa explained. With this warning, an MLS better make appropriate revenue because recent history tells us that the card brands are going to make examples out of noncompliant continuity and hard-to-place merchants.

Ways around the rules

In an effort to understand how MLSs could serve this market and avoid fines, I spoke to Forum user Dominic Guardino of Guardino & Associates LLC. Dominic advised me that he does not place any business with domestic acquirers. Instead, he uses agents around the world and signs any legal business, typically Internet merchants.

I was shocked to hear the types of merchants he signs. Even more impressive is that the appetite of his acquiring partners has remained aggressive and has not changed with the poor economy. One of the reasons Dominic works with overseas processors is they do not have to conform to some of the more restrictive rules placed upon domestic accounts. Dominic is so bullish on this niche that he is pursuing a strategy to offer a prepaid card product to his merchant base (*www.mygacard.com*).

For a processor's perspective, I spoke with Jeff DePetro, Vice President of Payvision. DePetro believes the economy has created opportunity within the hard-to-place merchant category. This has caused some traditional players to get into this market and, unfortunately, some got burned.

These acquirers may have managed the credit and fraud risk, but what they did not anticipate was the compliance risk associated with this niche. DePetro warned any acquirer against certain types of merchants that possess contingent or future liability. However, he stated that some registered high-risk merchants, like adult content providers, are secure merchants from a credit standpoint, since the average tickets are typically small and spark little credit risk.

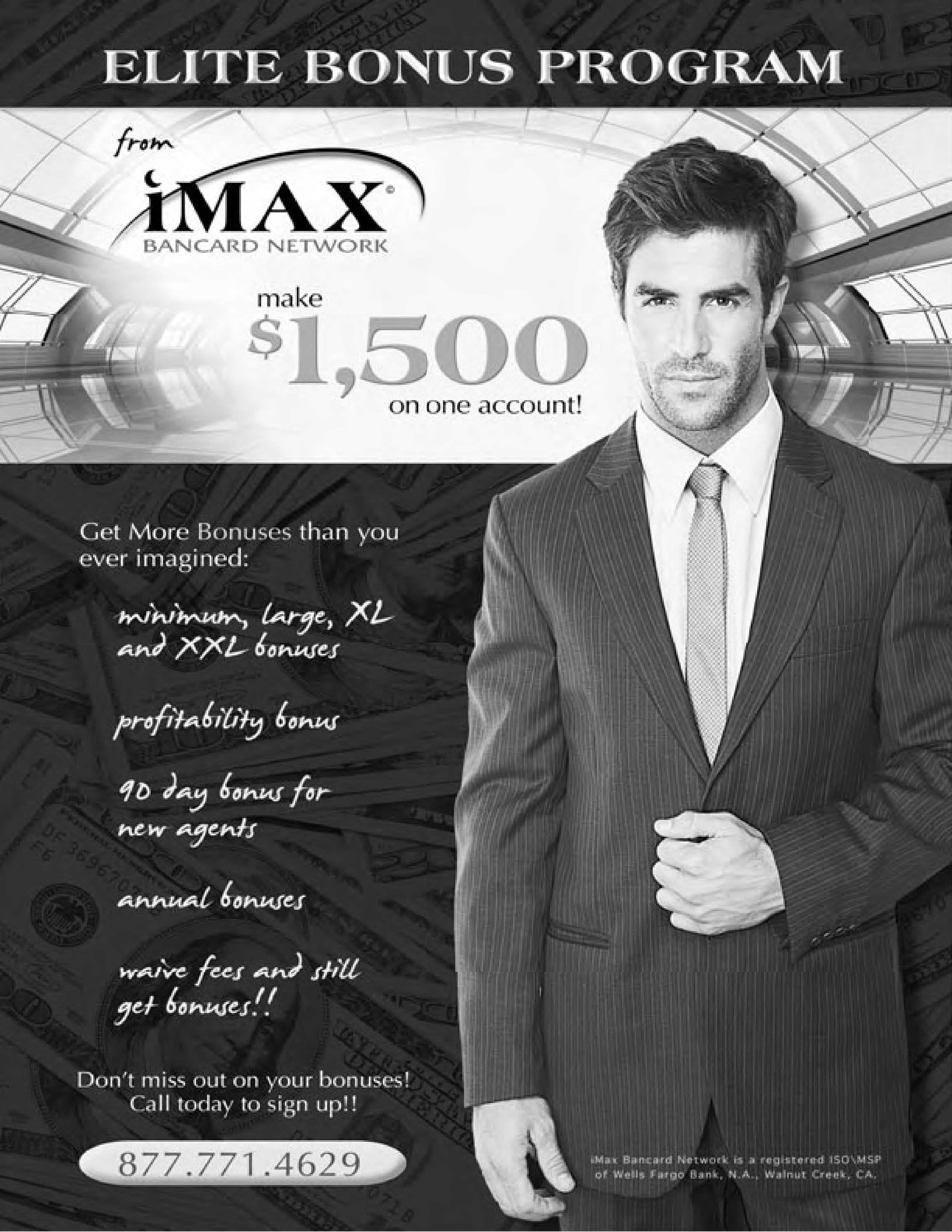
The key is properly managing the overall risk; the credit risk, the fraud risk and the compliance risk. Certainly DePetro's experience and tenure allow him to do just that.

Find your place

Hard-to-place merchants are a niche. Understand them, cater to them and serve them, and you will develop a lasting relationship and an above average return. Because they are a niche, however, serving them with vanilla products and solutions is a mistake. Both you and the merchant will be dissatisfied at best.

Please log onto the Forum. Participate in the discussion, and help shape the topics for our next and future articles.

Ken Musante is President of Eureka Payments LLC. Contact him by phone at 707-476-0573 or by email at kenm@eurekapayments.com. *For more information, visit* www.eurekapayments.com.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Education (continued)

Outsourcing customer support? Think again

By Nicholas Cucci
Network Merchants Inc.

Everyone agrees that great service is essential for long-term customer retention. Consumers today are enjoying more choice than ever before. Many companies are, however, wrestling with the idea of outsourcing customer support.

From a cost perspective it appears to make sense: on average, it costs about $11 per hour to outsource customer service versus $30 per hour to run a call center in the United States.

But many companies tend to forget why it's so much cheaper to outsource. Could it be outsourced workers receive less training? Lower pay? Both? Less training means only one thing: customer service representatives are not fully equipped to answer questions. Paying an employee less is also a motivation restrictor.

The only real difference in cost incurred by going overseas is that it might not affect your pocket right away.

Why outsource?

Five top reasons companies cite for outsourcing are to:

1. Reduce operating costs
2. Make capital funds available
3. Increase company focus on core competencies
4. Free resources for other purposes
5. Get a cash infusion

Outsourcing pros and cons

To run your own call center, you must purchase and correctly set up phone switches, as well as worry about delays your customers may encounter while on the phone with the call center. Don't forget that U.S. consumers are used to having their voices travel at the speed of light; they consider delays on phone calls, even those that last less than a second, unacceptable.

Call centers outside of the United States are less focused on getting to the bottom of the situation at hand and more concerned about call times and abandon rates. In the United States, we are more inclined to talk as long as

necessary to solve a problem, and we know a little small talk never hurts. The customer becomes comfortable, and this enhances the support staff's rapport with the company's customer base.

This difference in priorities is the crux of the problem with outsourcing tasks to other countries. Shorter calls don't necessarily mean happy customers.

Call centers overseas also do not have the resources to answer every single question. They often are not in proximity to the technical team and thus cannot easily contribute to resolving certain issues. This can cause minor difficulties to escalate into major, unresolved issues. The no-brainer in cost savings is greatly reduced by diminished customer satisfaction.

What's at risk?

Companies work hard to satisfy their customers, but many do not realize that customer support is their Achilles heel. Customers will, without question, pull out of a business when they have been misguided or dismissed by support staff.

You will absolutely see a decline in business if you outsource your support. You will have frustrated customers, reduced sales and an increased number of cancellations.

Alternatively, the fastest way to expand your business is through effective communication. The spoken word is so powerful that, most of the time, a company's performance hinges on the quality of its customer support team.

How many times have you heard from a friend that a certain company is great? Perhaps the company exchanged a product or refunded the purchase price without question or fixed something broken at no cost and without delay. Statistically, people are more likely to remember something positive; however, one bad experience can permanently ruin any future business with whatever company it occurred.

Excellent service is the key to running a thriving enterprise. When a company's support team fails to hold up their end, the company's foundation begins to crumble. And the second a business loses the credibility it worked so hard to establish, it comes to a screeching halt.

Before you contemplate outsourcing, make sure you realize the potential risks. Is it worth losing your entire customer base? Do you really want to turn away your repeat customers?

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. He can be reached at ncucci@nmi.com *or 800-617-4850.*

Legal ease

Residual protection at 'portability moments'

By Adam Atlas
Attorney at Law

Merchant level salespeople (MLSs) sometimes overlook the fact that their residuals are only as solid as the ISOs for whom they sell. Simply stated, the various players in the payments industry are on a food chain where entities depend on the entities above them for payment.

The purpose of this article is to drill down into the cascading flow of residuals inherent in "portability moments," such as the sale of a residual stream or the deconversion of a merchant portfolio from one acquiring bank to another.

Following your merchants

If you are an MLS referring merchants to an ISO, it is reasonable for you to ask the ISO to incorporate your relationship into a portfolio sale. The need for this kind of accommodation arises when the ISO decides to sell its interest in the merchants that an MLS had referred to it.

The most common kind of accommodation comes in one of two ways. An offer to pay the agent a preset buyout price might be a function of the merchants' sale price. Or it might be an undertaking by the ISO to require the purchaser of the merchant portfolio to not only buy the merchants, but also assume the rights and obligations under the agent agreement in respect to the merchants being sold.

These outcomes are a result of negotiations between parties and may not apply to your specific relationship. Nonetheless, it's helpful to be aware of the possibilities. The net effect is that MLSs maintain relationships with their merchants – and the corresponding residual income – despite the potential for portability within ISOs' portfolios.

Avoiding surprises

Whether you are an ISO purchaser, seller or agent, you have considerable interest in avoiding surprises. This might sound obvious, but there are plenty of ISOs that begin negotiating portfolio sales without thinking through where agents and merchants will land when the dust settles on the transaction.

Regardless of your position, take a moment to consider what your options would be if you were to sell or buy, or if the entity paying your residuals would sell your merchants to someone else.

Selling residuals, selling agreements

When thinking about protecting your rights in various portability scenarios, it is important to understand the fundamental distinction between selling residual streams and selling merchant agreements.

The sale of a residual stream usually has no impact on the mechanics of merchant agreements and relationships. Instead, the sale by an ISO of its residual stream involves the ISO assigning to the buyer its rights concerning residual compensation in respect to the merchants involved.

Depending on the terms negotiated in the purchase agreement, the buyer may or may not assume the corresponding support and service obligations for the merchants or, indeed, of the whole ISO agreement itself.

From the perspective of an MLS of such an ISO, there may be no change in operations if the selling ISO does not assign the underlying ISO agreement to the purchaser and continues to own and operate the agent's down-line revenue.

On the other hand, if the ISO agreement were assigned to the purchaser, the agent would be in a better position to have its agent agreement also assigned to the buyer so that the agent would remain tethered to the ISO that has primary responsibility over the merchants.

The sale of merchant agreements may involve the selling ISO actually causing its sponsoring bank to assign to a third party all of its rights and obligations under said agreements. This has enormous implications. It means that the merchants' acquiring bank will change.

Depending on whether the seller has its own bank identification number, and on the level of cooperation and concessions acquired from the outgoing processor and acquiring bank, this process may be more or less problematic. The process is often called "deconversion."

For the agent of an ISO that puts its merchants through this kind of a transaction, a fundamental issue arises as to what the agent's and ISO's rights will be in regard to the deconverted merchants.

Those rights will be a function of what has been negotiated between the ISO and agent at the time the agent entered into a relationship with the ISO, as well as the interest on the part of the buyer to purchase any of the downstream agent relationships.

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I'm always hugely disappointed when the buyer of a merchant portfolio and downstream agents decides, upon the purchase, to revamp pricing for everyone from merchants to agents.

All things being equal (which they never are), a buyer will also want to acquire the MLSs that built the portfolio being purchased. The reason for this is that the buyer will see acquiring the agents as a means of reducing attrition in the purchased portfolio. As the saying goes, Keep your friends close and your enemies closer.

In this case, the biggest threat to a purchaser of an ISO portfolio, other than the selling ISO, are the agents of that ISO who have the ability (although rarely the right) to solicit merchants away from the new bank, thereby depriving the buyer of the benefit of the deal.

Pricing change shocks

I'm always hugely disappointed when the buyer of a merchant portfolio and downstream agents decides, upon the purchase, to revamp pricing for everyone from merchants to agents. Other than greed, a motivating factor in making changes to pricing is that the seller's financing status may not be the same as that of the buyer. Remember, buyers rarely use their own money to purchase portfolios. Consequently, buyers may not be able to afford to pay the pricing that sellers promised to merchants and agents before the buyout.

Being diligent

I have to emphasize that all of the concepts discussed in this article flow from negotiations between parties. The possible rights described herein may not apply to your particular relationship, and this article should not be interpreted necessarily as a statement of industry custom.

But the more thought and attention you give to these possibilities, the better prepared you will be to weather a portability event in your portfolio.

In publishing The Green Sheet, *neither the author nor the publisher is engaged in rendering legal, accounting or other professional services. If you require legal advice or other expert assistance, seek the services of a competent professional. For further information on this article, email Adam Atlas, Attorney at Law, at* atlas@adamatlas.com *or call him at 514-842-0886.*

Succeeding at PCI compliance – Part 1: Planning the initial rollout

By Dawn M. Martinez
First Data Corp.

Running a successful Payment Card Industry (PCI) Data Security Standard (DSS) compliance program can be daunting. While most merchants presumably understand the need to prevent the theft of credit card data, many may not understand or have the patience for taking the steps required to meet all PCI requirements. Rightly or wrongly – usually wrongly for smaller merchants – they may perceive the road to PCI compliance as being bumpy and thus resist the journey every step of the way.

Acquiring banks and ISOs can ease this burden through a careful program rollout. In this series of articles, I will highlight First Data Corp.'s strategy for guiding the more than 600,000 merchants in our portfolio through the PCI DSS process, beginning with the planning stage of a PCI compliance rollout.

Know your merchants

Understanding your merchant base is the foundation for a successful rollout. Ask yourself the following: Do you fully understand the type of compliance your merchants require? How well do you know their systems? How savvy are they with technology in general and the Internet in particular?

Also, what is their preferred method of communication? Is it email? Fax? Phone? Knowing the answers to these questions can help smooth the way to implementing your program.

Fee structure

The first questions your merchants ask will likely involve cost. Pricing is always a sensitive issue, and the imposition of new fees can generate immediate resistance. Because not every merchant needs the same level of service or is prepared to pay in the same manner, fee structures can be confusing.

It is important that your fee structure is simple and that your merchants can clearly see how these fees are tied to the benefits of PCI compliance. If pricing seems to strain the relationship, either the price needs to be adjusted or the benefits need to be better understood.

Choosing a PCI compliance partner

The most critical aspect to PCI compliance program success is choosing the right partner. We live in a society of specialization. Selecting an expert who specializes in helping merchants achieve PCI compliance can make your life easier and allow you to focus on your own areas of expertise.

Several good vendors offer PCI compliance services. It's your responsibility to find the vendor that meets your specific needs. Here are some of the criteria we used.

First, we were looking for a trusted partner who would work with us, not for us. That meant finding a vendor who would be fully invested in our goals and objectives, including being sure merchants not only enrolled in our program, but also followed through to compliance. It also meant finding a partner willing to provide, as well as receive, feedback. A trusted partner will share what needs to be said, not just what you want to hear, and allow you to do the same.

One measurement is how often the vendor will update its systems based on user and acquirer feedback. How willing is the vendor to listen to suggestions for improving or adapting products and solutions to meet your needs? Also, does the vendor measure success (that is, compliance), or just activity (that is, merchant enrollment in your program)? This distinction is critical.

The human touch

The next key factor is the level of support offered. Our experience suggests that Level 4 merchants need to speak with human beings to understand and comply with PCI requirements.

We spent considerable time and money providing video training, letter-drop campaigns and other means to train and motivate our merchants, yet we still had calls from merchants asking questions that we had elaborately answered in other media.

It is worth the cost to partner with a vendor who has more than web-based or email support to answer these questions. If merchants don't understand a question or feel overwhelmed with the paperwork, they should have access to a phone center with dedicated, knowledgeable and friendly consultants who will walk them through any challenges they face.

In choosing our PCI compliance partner, we therefore looked for a vendor with a live support team that did not simply read from a script. We sought trained professionals who took adequate time to understand our merchants' operations and processes. Learning to swim is easier with an instructor who stays by your side rather than with one who pushes you into the deep end.

A good reporting relationship facilitates accurate and accessible reports up the information chain to executive management, as well as out to your merchants.

Accessible reporting

Merchant reporting is also important. Make sure the vendor reporting matches the expectations and knowledge base of your merchants. If the reporting results are too complex, your merchants will likely spend their time and money on other aspects of their business rather than pursue compliance.

An online dashboard makes managing and analyzing your reports much easier. We enjoy online access to a reporting console that presents the information we need in an easily understandable manner. Make sure the vendor you choose does not rely on hard-copy reports only.

A good reporting relationship facilitates accurate and accessible reports up the information chain to executive management, as well as out to your merchants. In our industry, information is as important as the electronic currency we are exchanging.

Run a pilot first

Finally, there are two optional elements to getting your PCI compliance program off the ground. First, consider assigning a project manager to help put all the pieces in place, monitor your progress and serve as chief problem-solver when the need arises. Second, run a pilot program with the vendor you are considering, even if you have a previous relationship with the vendor in another aspect of your business.

As I will explain in the next installment of this series, this will separate and expose promises from actual delivery. It will help you understand your capacity as well as that of your vendor. It will give you peace of mind and provide clearer expectations.

As with any undertaking, carefully planning a PCI compliance program rollout will streamline implementation and improve your success rate. It's like building a house: you need the blueprint before you lay the first brick.

Dawn M. Martinez is Director of Data Security for First Data Corp. In this role, she oversees PCI compliance and data security initiatives for thousands of bank partners, ISO clients and merchants. Contact her at dawn.martinez@firstdata.com.

Education (continued)

Always be opening

By Dale S. Laszig
Technology Co. Ltd.

Some people take a formulaic approach to closing sales, showing us ways to be brave and ask for the order. These techniques, like the snow plow, will get us down the mountain, but will later have to be discarded as we gain the confidence to just show up and have honest discussions with business owners.

Obviously, the number of discussions we have is proportionate to the number of sales we make, or what sales managers refer to as the closing ratio. What about the opening ratio, which can tell us how many merchants we need to call before we get a confirmed appointment?

We're not just competing with other merchant level salespeople (MLSs) anymore; ads, newsletters and offers of all kinds clamor for merchants' attention in today's competitive market.

Here is a program to help MLSs rise above the clutter, get confirmed appointments with decision-makers and open more sales.

Embrace technology

Anyone who works in the electronic transactions industry is in the technology business. If you don't have a good grasp of networking basics and understand how transactions flow from the POS through authorization and settlement, an abundance of resources in our industry can help you bridge that gap.

Ask your ISO or processor for suggestions on training programs. Our industry's regional tradeshows have exhibits and seminars on technology trends. Many hardware vendors offer webinars that build brand awareness while educating us on relevant industry topics.

Third-party Payment Card Industry (PCI) Data Security Standard (DSS) security providers routinely stage compliance day events to present the complex, changing guidelines of the PCI DSS so that we in turn can educate our merchants.

ETA University (*www.electran.org*) offers an extensive curriculum of online courses, including technology subjects. Bankcard Bootcamp (*www.bankcardbootcamp.com*) and the Field Guide Seminars (*www.fieldguideforisos.com*) are tried and tested training programs for payments industry professionals.

Reading blogs is another way to stay in touch with payments industry technology, which is constantly evolving and changing. CardWare International (*www.cardwareinternational.com*) and Retail Cloud (*www.retailcloud.com*) post articles monthly on a variety of business and technical matters.

If you think you don't have time for this, imagine how merchants feel. Credit card processing is not their core business, but it directly affects them. Many are seeking ways to create security, mobility and integration strategies, and are hearing conflicting reports from different sources.

Knowledgeable MLSs can demonstrate how to leverage payment technology and become valuable, trusted guides for these merchants.

Work SMART

It is common knowledge that effective sales professionals sell on value, not price. What program differentiators has your organization implemented that will add value to merchant relationships? How can we apply what we learn about technology into SMART solutions (specific, measurable, achievable, realistic, and time-limited)?

- **Specific** customized gift, loyalty, identity verification and other value-added programs can be used to address a particular concern or requirement and create customized credit card processing programs. Many merchants would be surprised to learn about the simplicity and affordability of these programs.

- **Measurable** results are a key benefit of implementing value-added programs that offer precise metrics for evaluation and fast return on investment.

  Many prepaid and stored-value programs create new sources of recurring revenue for merchants, as their customers reload cards and opt in to a variety of automatically renewing programs.

- **Achievable** and scalable programs offer myriad choices to merchants, both in the way the programs are designed and the array of purchasing and financing options they offer.

  Why sell generic, plain vanilla products and services when, with a bit of imagination, you can offer something of lasting value for a minimum investment that's simple to install and easy to operate?

- **Realistic** is another way of saying relevant, or making sure your solutions are a good fit for the particular needs of a merchant. A countertop terminal may be a good choice for a small mom-and-pop merchant who may not want to invest in an integrated POS system.

  A mobile device would help someone who accepts payments from multiple locations and job sites. Low-volume merchants who only occasionally accept credit card payments may be better served by virtual terminals.

- **Time-limited** offers can sometimes be irresistible to promotion-prone customers and enough to convince a merchant to accept the pen you extend and sign that application. These deals can range from equipment discounts, fee waivers or any number of enticements that come with an expiration date.

  Time-limited agreements are a payments industry standard. Many merchants signing an application will ask about the agreement's terms, including when they will be able to opt out of the agreement without incurring a cancellation fee.

  While most agreements are self-renewing, merchants who are routinely contacted by their MLSs and enjoy good service will be less likely to leave at the end of a contract term.

Make a difference

When you are passionate about sharing your industry knowledge, merchants will be more receptive to your message. Your enthusiasm and sincere interest in learning more about merchants and their specific issues will create an opening for more enlightened, interactive discussions.

As Paul Green wrote in *Good Selling 2: Thirteen Weeks to Personal Success*, "Over the years, I have found that my selling process has gradually improved, and I have become less and less conscious of any great final effort to close a sale.

If my approach is right, if I have been able to create sufficient interest and desire, then, when the time comes for action, the prospect is ready, eager and willing to buy."

There's no limit to how creative we can become as we embrace changing technology and endeavor to stay up-to-date on industry trends. We can use this knowledge to make a positive difference in the merchant community.

There may be times when you cannot offer a better alternative to an existing program; you may compliment someone on an excellent system and leave with a smile and a handshake. When you don't earn the business, you can still earn respect. When you don't close the sale, you can still open the door to future possibility.

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.

10 years ago in The Green Sheet

The Green Sheet was **32** pages.

Regulating RCK

RCK, the check collection product used to resubmit paper checks for collection through the automated clearing house system, was deemed by North Carolina to be a regulated collection agency activity. CrossCheck Inc. responded that RCK was little more than a redeposit function that had never before been considered a collection event. The state disagreed.

The Fed checks payday loan interest

The Federal Reserve Board revised its commentary to Regulation Z, which implemented the Truth in Lending Act of 1968. The commentary stated that when payday loans include an agreement with the consumer to defer payment, they fall within the definition of "credit," which meant the fees charged for such loans were subject to "finance charge" limits.

Cashing in on the Internet

InternetCash Corp. introduced InternetCash cards as an alternative to using credit cards for online purchases. Consumers did not have to provide any identifying information to use them. The cards were sold at brick-and-mortar stores in six states and were accepted by more than 60 online merchants, including DrugEmporium.com, Overstock.com and HouseofBlues.com.

Read archived issues back to 1995 at *www.greensheet.com*; click on Publications.

NewProducts

A sweet POS

Product: TouchSuite Pro

Company: Invenstar LLC

Invenstar LLC's Touchsuite Pro is a POS system that emphasizes simplicity – ease of use, ease of installation, simple inventory tracking and efficient marketing tools.

According to Terry Glatt, President of Invenstar, the key to Touchsuite Pro is "it's simple to set up and simple to operate." Glatt said the ease of use of the POS touch screen system makes formal training unnecessary. Setting up the program is basically a "plug it in and go" process, he said, making use of the product – between installation and operation – as close to a cake walk as POS systems get.

Conflict resolver

Glatt said Touchsuite Pro also rarely malfunctions or requires maintenance, since it includes both the hardware module and the POS software in one package. Users avoid having to buy separate software and hardware programs from different providers, which eliminates compatibility problems that arise from integration efforts.

"It comes with the software already loaded on our hardware," Glatt said. "Normally you have a software application that you then have to buy hardware for, then buy all the separate components … and guess what? Software is going to conflict, it always happens. But ours doesn't crash because there's none of this conflict.

"The hardware and software programs are all built together by one company and programmed to run with each other."

Advanced inventory tracker

Glatt noted Touchsuite Pro also includes a flexible inventory tracking feature that can be adjusted when sales items are modified.

"Let's say you're a convenience store selling soda – you can sell a case, a pack or an individual soda," he said. "We have the ability to inventory it all three ways and break them out. So say we have five cases of [soda], three packs and two individual and then, oh, we've used the individuals and want to break another case [into individual units]. It can do that automatically."

In other words, when the individual can is sold, the POS system will automatically register that a particular case of soda has been divided up into individual units.

Glatt said the system also has a marketing component that allows retailers with customer tracking information to send out text message-based promotions.

Features of **TouchSuite Pro** include:

- Simple plug-in-and-go set-up
- Easy-to-use touch screen (no formal training required)
- POS hardware and software in a single package
- Advanced inventory tracking
- SMS text-marketing feature

Invenstar LLC

800-793-3203
www.touchsuite.com

Cloud-based terminal and cash register

Product: SoundPOS

Company: SoundPOS LLC

SoundPOS is what Bill Pittman, Chief Executive Officer at SoundPOS LLC, calls "a virtual terminal on steroids." Outside the accompanying hardware swipe device, the product rolls the components of a multifaceted POS system into one integrated software piece that includes both payment terminal and electronic cash register.

"What we're doing is providing a software solution that combines the functionality of a cash register with a payment terminal," Pittman said. "The normal approach is to get a cash register with payment terminal functionality, which is more or less a hardware solution.

"The idea behind SoundPOS is that the industry's evolving from terminals to integrated solutions. Some people are giving away their point of sale solutions to live off their merchant services revenue. I'm providing a POS solution that is really the evolution and next step of the virtual terminal."

Pittman said the "cloud" model of SoundPOS confers numerous advantages. For one, it is cheaper and significantly easier to maintain than more conventional systems because it operates from SoundPOS' server rather than the merchant's; therefore, the merchant is freed from having to deal with technical issues that might otherwise slow or bog down the merchant's computer or POS network.

The software model also makes it easier to upgrade the system, as enhancements do not require new purchases of replacement hardware, but rather are made seamlessly in the virtual space. "Since the product is all served out of the cloud, we have the ability to update them with enhanced functionality seamlessly," Pittman said.

Speedy interface

Pittman added that SoundPOS includes a user interface that utilizes the same technology employed by Google Maps. The technology allows SoundPOS users to instantaneously manipulate Web portal information, including the portal's screen design. For example, merchants calling up, entering or changing product information can do so from the cloud as quickly as they could if the information was stored on an in-store database.

Features of **SoundPOS** include:

- Minimal hardware requirements
- Ability to update seamlessly when enhancements roll in
- Cash register connection to advanced merchant reporting programs
- Advanced user interface using same technology as Google Maps
- Self-branding option for ISOs

"Historically, when you build a solution in a browser, every time you make a change on the page it has to post to the server and then come back," Pittman said. "We built our stuff with a new technology that loads it at once, and gives the ability to have a user interface with immediate interaction with the application.

"It's really critical for the point of sale. For example, a customer [returns] an inventory item, and when you scan the bar code, it instantaneously brings it up at your point of sale, versus having to go back to the server and do a query lookup on the database and then bring it back."

Intelligent design

Perhaps most significantly, the program allows merchants to integrate basic cash register functions with more advanced programs, such as data entry and storage, inventory management and customer tracking. This is in contrast to a hardware-based terminal and cash register, where such tasks often require manual data entry and other roundabout methods of information transfer.

"Cash registers are really dumb, and we've provided a solution that has the same dumb functionality of the cash register, but gives the merchant the ability to really split and grow their business over time by migrating more from that dumb functionality to the more intelligent functionality of a POS system," Pittman said.

An example of that intelligence includes historical reporting, daily transaction summaries and listings of how many "widgets" a business sells in any give day, Pitmman noted. Users can also take that data and post it to an accounting application like Intuit Inc.'s QuickBooks.

"So now the average small business running QuickBooks for accounting can do their transactions during the day and post their information to their QuickBooks at the end of the day just by clicking a button," Pittman said.

SoundPOS is a browser-based POS program, though Pittman said merchants using it don't have to click on a traditional browser icon to start it up since it automatically loads and opens when merchants turn on their POS systems. Merchants can also sign into the system remotely, using a normal computer browser and logging in through the SoundPOS online merchant portal.

Pittman said the program is also built to support touch screen operations. It is sold exclusively through reseller channels, he noted, and includes a self-branding option for ISOs that wish to brand it as their own application.

"One of my favorite sayings is that [single] branded products move to the lowest cost seller," Pittman said. "If everyone's selling the same widget, a merchant can just go online and find the cheapest one. But they can't do that if everyone's selling their own [uniquely named] solution."

SoundPOS LLC

425-836-4251
www.soundpos.com

Inspiration

WaterCoolerWisdom:

Out of clutter, find simplicity. From discord, find harmony. In the middle of difficulty lies opportunity.
– Albert Einstein

Clean up your stuff to clean up financially

Does a deluge of papers, fast food bags, receipts and sports paraphernalia flow from your car whenever you open the door? Does your desk look like it just survived an earthquake? If so, it's time to clean up and get organized.

You might think you don't have time to straighten things up and that you always find what you need in your nest of papers, so clutter isn't such a big deal. However, devoting even just a few minutes a day to straightening up your car and office can boost your success.

Cause and effect

How can this be? Messy environments are depressing. If you drive to a chaotic office in a cruddy car, your creativity will be hampered, and you will tend to feel like you'll never adequately balance your personal life and your career.

Also, imagine what people will think if they visit your office and see a disorganized work space. And what if a prospect walks you to your car after a sales call and notices mud from a road trip splattered on the side? This can cause someone to lose confidence in your work ethic pronto.

On the flipside, a sparkling car and clean work space will engender feelings of peace and satisfaction, making it easier for you to focus on your goals. And you'll be able to find exactly what you need right when you need it. This will help you better meet your customers' needs, which will lead to greater merchant retention and more referrals.

Car cleaning

For car cleaning, keep a small trash bag inside your car, and use it instead of throwing things in the floor. Stop by the car wash once a week and run a vacuum over your seats and carpet, or buy a hand-vacuum so you can do this task anytime. Keep a dust rag on hand to wipe the dash and other hard surfaces every few days.

And don't forget the glass cleaner to keep your windows clear for better sight while driving. If you need to transport paperwork, buy a briefcase to avoid scattering papers on the car seat.

Office organization

In the office, every file and all supplies should have a place of their own. If your desk is cluttered, consider buying a new desk, one with storage areas, drawers and shelves, so you can keep what you need organized and close at hand. Buy a shredder to dispose of unnecessary paper. And keep a daily planner and calendar nearby so you can write your appointments there instead of on 20 different Post-it notes.

If you keep paper files for clients, buy a file cabinet large enough to accommodate your growing business. Organize files according to last name or project so you can find them quickly when needed.

And clear out all clutter from your work area each Friday before leaving work. This will enable you to start each Monday afresh. Cleanliness and organization in all areas of your life will ultimately help you attain your goals.

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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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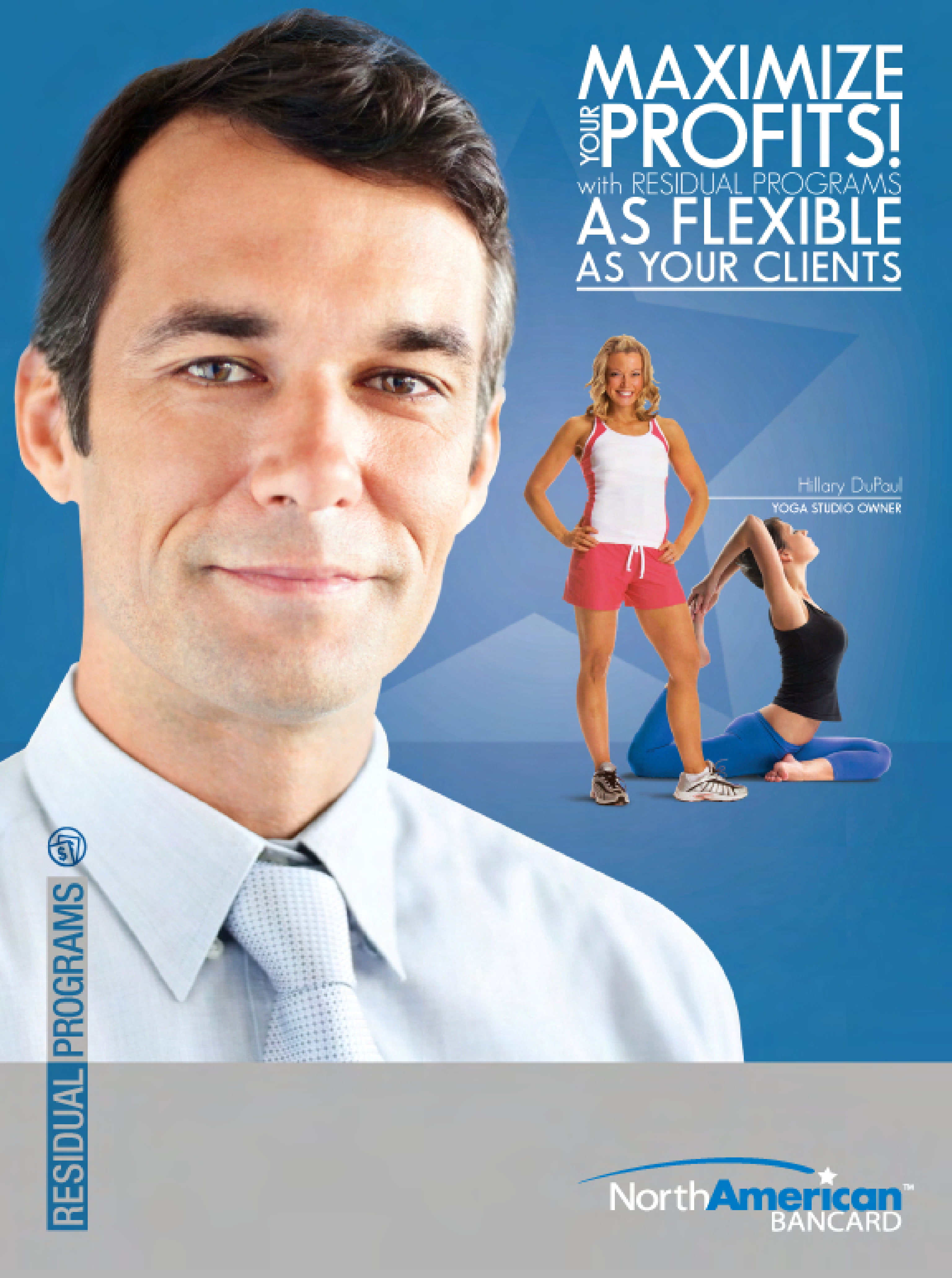
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