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September 27, 2010 • Issue 10:09:02

Will smart phones drive out plastic cards?



Will growing smart phone adoption, pending debit card regulation and the news of budding consortiums around near field communication (NFC) herald the downfall of magnetic stripe payment cards and a reimagining of the payments landscape?

As terminals, smart phones came roaring into the fore at the end of 2009, when a number of prominent payment providers unveiled downloadable terminals aimed at mobile merchants – among the first ones were Square, created by Twitter Inc. co-founder Jack Dorsey, and PAYware Mobile from VeriFone Inc. Those offerings were soon followed by an avalanche of similar offerings created by an array of technology companies, big and small.

Smart phone-based terminals have seen significant, though not earth-shattering adoption levels so far. However, a report from Mercator Advisory Group, *Squares and Sleds: Wireless POS Plays a Smarter Game*, predicts adoption will jump in the coming years. The August 2010 report forecasts more than 1.4 million merchants will accept cards with smart phone terminals by 2014, up from a number that is well under 100,000 right now, according to the report's author, George Peabody.

For merchants, smart phone payment acceptance offers a number of potential advantages. The terminals are relatively cheap, easy to use and, sources say, as efficient at processing credit cards as conventional wireless terminals. They are also, of course, mobile, meaning they can be taken to tradeshow and off-site jobs, as well as used for line busting.

See Smartphones on page 51

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Notable Quote

I understand most prognosticators believe Visa Inc. and MasterCard Worldwide are not vulnerable to upstarts and that, while nontraditional business lines will grow faster than Visa and MasterCard, they will not cause an appreciable dent in the card brands' business. And it is exactly that confidence that causes me to worry.

See story on page 54



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Danielle Thorpe
Asst. VP of Advertising Sales
danielle@greensheet.com
707-586-4737



President and CEO:

Paul H. Green paul@greensheet.com

General Manager and Chief Operating Officer:

Kate Rodriguez kate@greensheet.com

CFO/Vice President Human Resources & Accounting:

Brandee Cummins brandee@greensheet.com

Assistant VP, Editorial:

Laura McHale Holland laura@greensheet.com

Senior Editor:

Patti Murphy patti@greensheet.com

Senior Staff Writer:

Dan Watkins dan@greensheet.com

Staff Writers:

Joe Rosenheim joe@greensheet.com

Ann Train ann@greensheet.com

Assistant VP, Production and Art Director:

Troy Vera troy@greensheet.com

Production Manager:

Lewis Kimble lewis@greensheet.com

Assistant VP, Advertising Sales:

Danielle Thorpe danielle@greensheet.com

National Advertising Sales Manager:

Rita Francis rita@greensheet.com

Advertising Coordinator:

Kat Doherty kat@greensheet.com

Circulation Assistant:

Vicki Keith vicki@greensheet.com

Correspondence:

The Green Sheet, Inc.

800-757-4441 • Fax: 707-586-4747

6145 State Farm Drive, Rohnert Park, CA 94928

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

Send press releases to press@greensheet.com

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

Print Production:

Hudson Printing Company

Contributing Writers:

Thom Aldredge thom@worldgiftcard.com

Nicholas Cucci ncucci@nmi.com

Nancy Drexler nancyd@signapay.net

Dale S. Laszig dale_laszig@castech.com.tw

Ken Musante kenm@eurekaypayments.com

Barry Sloane bsloane@newtekbusinessservices.com

Sarah Weston sweston@jaffelaw.com

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Forum

Fix that microfinance story

I am a frequent reader of *The Green Sheet* and usually find information that is useful to pass along to the members of our trade association. However, today in your article, "The United States of microfinance," I found two errors that gave me pause.

The first: "Treasury also plans to redouble efforts to get more recipients of federal payments to accept direct deposit and to enroll those who don't want to deal with banks in a prepaid debit card program using the MasterCard Worldwide Direct Express debit card. More than 12 million benefits recipients have signed up for the Direct Express card since it was introduced in 2008, according to a Treasury spokeswoman."

Treasury is not merely redoubling their efforts to get federal benefits recipients to use direct deposit – they have made it law! As of March 2011, all federal benefits recipients will be required to receive their benefits direct deposited either into bank accounts of their own or into the Direct Express card. Consumer groups are actually lobbying against this restrictive law, as for some people, a paper check is the best instrument for them to use to manage their finances.

The second: "Mango is the brainchild of two brothers, Roy and Bertrand Sosa, who previously founded NetSpend Corp. and sold the prepaid debit card company to Capital One Financial Corp. for a reported \$700 million."

While it is true that the Sosas founded NetSpend, they did not sell it to Capital One. The acquisition of NetSpend by Capital One fell through; NetSpend remained independent and changed CEOs. Now NetSpend is in a quiet period awaiting their IPO.

This is the kind of information I expect *The Green Sheet* to be distributing to readers – not the other way around.

Cynthia Vega
Financial Service Centers of America Inc.

Cynthia,

Thank you for calling the errors in the lead article "The United States of microfinance" to our attention. In addition to printing your correction, we will also see that the HTML online version of the article is corrected.

We endeavor to produce an entirely accurate publication. We regret that we let you down this time and hope it doesn't happen again.

Editor

Statistics wanted

I've just subscribed to your service; I'm looking for industry statistics and information in order to put together a business plan.

Would you be able to direct me to where I could find transaction statistics like number, value, credit card versus debit, average swipe amount by types of retailer (for example, restaurant, gas, groceries)? Anything that could help me develop a forecast – also, any information on the large providers like PayTech and Electronic Payments.

Any help would be greatly appreciated.

Marcel Mercia
Cybersurf Internet Access

Marcel,

Thank you for subscribing to *The Green Sheet*. We have a wealth of information archived on our website, www.greensheet.com, but we have not organized the type of industry statistics you seek in a central location. But you can develop a good sense for the market by reviewing back issues of the GSQ, a quarterly available on our website for download. Each issue delves into a specific topic, for example, top acquirers, payment security requirements and technology issues.

In addition, a search function, Fast Finder, in the upper left-hand corner of our home page can locate articles in past issues of *The Green Sheet* that contain relevant information. This will likely be helpful to you in learning about specific companies and markets.

Please note, however, that we are a trade magazine and not a consulting service.

Editor

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Would you like us to cover a particular topic? Is there someone you consider an industry leader? Did you like or dislike a recent article in *The Green Sheet*? What do you think of our latest GSQ? E-mail your comments and feedback to greensheet@greensheet.com or call us at 800-757-4441.

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

Cover Story

1

Will smart phones drive out plastic cards?

.....

Growing smart phone adoption, pending debit card regulation and the news of budding consortiums around contactless payments may herald the downfall of magnetic stripe cards and a reimagining of the payments landscape. This article explores the rise of smart phones and the ways they are changing both payments and payment acceptance.

Feature

33

Suit the gift card to the merchant

.....

Gift card programs represent an opportunity for merchants to engage with their customers through promotions, discounts and specials. Closed-loop gift card programs differ from open-loop programs in many ways, but the most important difference lies in the ultimate use of the value on the card.

View

26

Cash still standing its ground

.....

A new report suggests the protracted recession has given rise to a new, "cautious consumer" who prefers pay-now options to credit cards. Meanwhile, in one country across the Atlantic, officials are trying to wean their citizens off what they contend is a dangerous cash habit.

News

42

VeriFone expands mobile payment footprint

.....

VeriFone Systems Inc. recently acquired WAY Systems Inc. and Semtek to augment its long-range mobile payment solutions strategy. VeriFone paid an upfront price of \$6 million to purchase WAY, an acquisition that adds 25,000 mobile merchants to its customer base.

View

28

Further fraud trends in 2010

.....

"Fraud trends in 2010," an Aug. 23, 2010, article in *The Green Sheet*, discussed the repercussions of various types of financial fraud and listed the current top five fraud trends. Here are five additional significant fraud trends to keep an eye on.

News

43

Is Cimbals' proximity payment network a game changer?

.....

A software-based proximity payment offering that uses two-dimensional bar codes as payment drivers has reignited discussion about alternative POS payments. Cimbals believes its new product can break the proximity payments stalemate because it is more easily integrated than conventional near field communication (NFC) offerings, but not everybody agrees.

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News

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IDC's take on mobile payment schemes

An IDC Financial Insights study revealed that most successful mobile payment schemes across the globe effectively combine financial institution and telephone company assets into viable solutions, but in the United States no single carrier or bank dominates, which creates challenges.

Education

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The power of word of mouth

The world's oldest marketing vehicle remains one of our most powerful. Harnessing the energy of word of mouth can yield amazing results at the lowest possible cost. This article provides several proven ways to put that process in motion.

Education

54

Street SmartsSM: Are mobile payments a threat to ISOs? - Part 1

Many believe Visa Inc. and MasterCard Worldwide are not vulnerable to upstarts and that, while nontraditional business lines will grow faster than Visa and MasterCard, they will not cause an appreciable dent in the brands' market shares. Others say news of high-profile ventures around NFC payments indicate a veritable challenge to the existing payment structure.

Education

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Who's your counterparty?

It is great to submit deals, but if the counterparty you select cannot perform, the sales you have worked so hard to make will have disappearing residuals due to nonpayment by a weak or disingenuous counterparty. Why is it that in the merchant processing world, few participants focus on counterparty risk until it's too late?

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Education

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Four things to know about security interests

You've seen the language in merchant agreements, but do you know what taking a security interest in collateral really means? How do they protect you, and how do you recoup on the underlying collateral? Here are answers to your questions and tips on how to effectively use security interests.

Feature

68

Eight payment companies listed on Inc. 500

The annual Inc. 500/5000 rankings of the fastest growing private U.S. companies was released in August 2010. In all, 42 payments industry enterprises were recognized among the top 5,000 companies, with eight earning the distinction of inclusion in the top 500. Among payment firms, a company out of Frisco, Texas, ranked the highest.

Education

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Command performance meetings

A meeting, like any theatrical production, has three essential ingredients: timing, action and plot. If any of these are lacking, the reviews will not be kind. This article discusses how to conduct a meeting that is not only productive, but also engaging.

Inspiration

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If you're in business, you need a plan

How can you turn your goals into action if you have only a vague notion of where you are going and how you will get there? There are multiple reasons for crafting a business plan. This article discusses what they are, as well as what a solid business plan should contain.

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IndustryUpdate

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NEWS

CFSI endorses tax-refund debit card program

A U.S. Department of the Treasury program to deliver tax refunds in 2011 via debit card accounts will bring millions of unbanked individuals into the financial system, according to the **Center for Financial Services Innovation**. The organization, an advocate for unbanked and underbanked consumers, endorsed the pilot program. "Over 30 million underbanked individuals and families would have easy access to a tool to help them on the path toward financial prosperity," stated Policy Director Melissa Koide.

The pilot offers lower-income tax filers the option to have refunds deposited directly into accounts with reloadable debit card access. "If rolled out nationwide, this program will ... provide underbanked tax filers with a safe and affordable product that meets their basic financial services needs," Koide stated.

Heartland settles with Discover over breach

Heartland Payment Systems Inc. and **Discover Financial Services** agreed to a settlement stemming from the criminal hacking of Heartland's payment system in 2008. Heartland agreed to pay Discover \$5 million to resolve all issues related to the intrusion.

The settlement marks Heartland's final agreement with a card brand related to the incident, according to Chairman and Chief Executive Officer Robert O. Carr. Heartland previously settled with both Visa Inc. and MasterCard Worldwide. Some 97 percent of Visa card-issuing banks agreed to accept \$60 million, while Heartland agreed

to pay \$41.4 million to MasterCard issuers. And a preliminary settlement has been reached in U.S. District Court with cardholders eligible for reimbursement of identity theft expenses relating to the breach.

Amazon extends reach of Checkout

Amazon Payments Inc. said its next generation of Checkout by Amazon (CBA) enables Amazon.com account holders to make purchases on other merchants' sites using their account credentials, without leaving those merchants' sites. The strategy eliminates redirection – the practice of sending the customers of partner merchants to the Amazon site once they click the checkout button.

The change is expected to reduce the abandonment of merchant shopping carts after redirection. E-commerce platform provider Demandware Inc. enables the tighter integration of CBA with partner merchants.

ANNOUNCEMENTS

CO-OP Financial adds credit card processing

Credit union-owned **CO-OP Financial Services** added credit card processing to its service offerings. The cooperative already provides credit unions with debit and ATM processing services.

Cash advance firm steps up acceptance

Merchant Cash & Capital LLC broadened its acceptance of merchant cash advances. With a tightened credit environment, the firm stated it filled a void by offering up to 200 percent of average monthly credit card processing with abbreviated underwriting.

Since the policy change, the New York-based firm has

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- Price comparison website **InvisibleHand** research showed Internet shopping is highest at 4 p.m. on Wednesdays, with traffic increasing by 75 percent over the quietest periods. Sunday night tracked the second highest online shopping figures.
- A recent **Airline Information LLC** survey, sponsored by online payment processor **Adyen**, found that 33 percent of airlines accept payments from mobile devices, 50 percent accept self-service kiosk payments and 70 percent aren't planning to surcharge for credit card payments.
- **MasterCard Worldwide's** *SpendingPulse* August 2010 report indicated appliance sales were up 9.4 percent over last year; e-commerce grew by more than 7.2 percent, the smallest year-over-year increase so far in 2010; U.S. apparel sales were up 2.6 percent; monthly consumer electronic purchases rose 2.3 percent.

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Industry Update

funded more deals than usual, the company reported.

CEO Stephen Sheinbaum said, "We made a commitment to saying 'yes,' to listening to our ISOs and creating programs that work for the merchant and for us."

Mobile banking hits new milestone

Mobile banking services provider **mFoundry** now has more than 1 million users. Annual user adoption growth of approximately 300 percent comes from mFoundry's bank and credit union customers, the company stated.

STAR Network moves toward chip-based debit encryption

The **STAR Network** instituted a PIN debit application on contactless cards embedded with smart chips. In an effort to fight fraudulent debit transactions, the STAR CertiFlash on-chip technology encrypts and transmits a card number good for a single transaction.

The technology reportedly foils card skimming. Also, cardholders' real account information is withheld from payment transactions, making it unavailable to hackers of compromised merchant systems. CertiFlash is available to all STAR Network financial institution members.

Starbucks introduces payment app for BlackBerry

Starbucks Coffee Co. recently unveiled the Starbucks Card Mobile App for BlackBerry. The company reported that the app is designed to save customers time and give them access to their Starbucks Card and My Starbucks Rewards information via their Research in Motion Ltd. BlackBerry smart phones. Its five key features include the ability to:

1. Check Starbucks Card balances
2. Reload Starbucks Card accounts with major credit cards
3. Pay for Starbucks purchases using the mobile payment feature in more than 1,000 Starbucks in U.S. Target Corp. stores and in 16 trial stores in Seattle and Northern California
4. Find nearby Starbucks cafes with a store locator feature
5. Access My Starbucks Rewards status reports

Targan included in prestigious list of leading attorneys

Payments specialist **Holli Hart Targan**, a partner with law firm Jaffee Raitt Heuer Weiss P.C., was selected for inclusion in *The Best Lawyers in America* (2011) for her work in information technology law.

Attorneys chosen for inclusion in the guide are selected by votes cast by 39,000 lawyers. Attorneys do not pay fees to be included. Targan specializes in card processing and payment systems law.

PARTNERSHIPS

Dejavoo terminal certified by Apriva

Apriva Inc. certified the M GPRS wireless payment terminal from **Dejavoo Systems**. The Class A certification allows merchants using the terminals to process all credit card transaction types on Apriva's Intelligent Gateway.

USAePay and Big Hairy Dog swoosh Nike sales

Big Hairy Dog Information Systems teamed up with **USAePay** to speed the sale of **Nike Inc.** gear at the Nike World Basketball Festival in New York City. During the four-day event, Nike salespeople accepted credit card and cash payments using Apple Inc. iPhones equipped with USAePay's PaySaber and Big Hairy Dog's POS software.

Bank BNP Paribas picks Clear2Pay

BNP Paribas is implementing a single payment management platform with Open Payment Framework technology from Belgium-based **Clear2Pay**. The

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Industry Update

platform will serve BNP Paribas payment operations in 13 Asian countries.

Calypso certifies Ingenico

Calypso Networks Association certified selected terminals from Ingenico. The agreement enables CNA distributors to acquire the Ingenico iPA280 payment terminal.

Cielo deploys Hypercom terminals

Payment network Cielo SA bought 30,000 countertop terminals from Hypercom Corp. for its merchant clients in Brazil. The network is deploying the Optimum T4205 model.

Domino's turns to ACI Worldwide

Domino's Pizza Inc. chose ACI Worldwide Inc. to consolidate its payment processing. The ACI payment system and services will enable the pizza chain to accept new payment types and is available to all franchisees.

TrustCash partners with FC Financial

Florida-based payment consultant FC Financial LLC will market services from TrustCash Holdings Inc. The TrustCash platform provides open access, online payment processing.

Intuit, mophie launch card processing for iPhone

Intuit Inc. and mophie partnered to create a card processing product and service for the iPhone. Integrating Intuit's GoPayment card processing app and merchant account activation with the mophie iPhone credit card reader, the Complete Credit Card Solution reportedly allows small businesses to process card payments.

Moneris deploys Inetco system

Moneris Solutions Inc. bought the Inetco Insight transaction management system from Inetco Systems Ltd. The system enables banks and payment processors to monitor network performance and transaction data.

NYCB expands relationship with TransFirst

New York Community Bancorp Inc. expanded its partnership with processor TransFirst. Following a bank acquisition, NYCB consolidated all of its banking institutions under a new five-year exclusive merchant services contract with TransFirst.

STAR debit network teams with Obopay

Obopay Inc. agreed to incorporate the STAR Expedited Transfer Service into its own Mobile Money for Banks offering. The agreement enables Obopay to offer financial institutions (FIs) a mobile money transfer service with real-time capabilities.

FIs using the combined service can give customers a fast way to send and receive money via mobile phones. STAR, a debit network, is a First Data Corp. company.

PayTrace adds the Chase Paymentech network

PayTrace LLC, a provider of virtual terminal and gateway interfaces, rolled out transaction processing on the Tampa processing network of Chase Paymentech Solutions LLC. Services include MO/TO, e-commerce, retail and levels 2 and 3 data processing.

QuickPay offers card swiper for phones

QuickPay Merchant Services now offers clients the ROAMpay credit card swiper for smart phones.

Made by ROAM Data Inc., the device enables merchants using smart phones to process credit cards for real-time authorizations.

Signature turns to PPI

Signature Systems Inc., developer of the PDQ POS System, partnered with Payment Processing Inc., which processes for 40,000 merchants. PPI's PayMover reportedly will provide users of PDQ restaurant POS software with secure processing and reduced liability.

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IndustryUpdate

Squirrel picks Vendor Safe for PCI compliance

Squirrel Systems Inc., a developer of restaurant POS systems, chose **Vendor Safe Technologies LLC** to help clients become compliant with the Payment Card Industry (PCI) Data Security Standard (DSS). Squirrel clients will use Vendor Safe's online services and software.

D.C. vending machine operator opts for Apriva

Washington Vending, a distributor of snacks and products in buildings throughout the nation's capitol, deployed cashless vending technology from **Apriva Inc.** Apriva Vend has been installed at 70 locations to help Washington Vending reduce theft and vandalism.

ACQUISITIONS

IT firm buys Indian acquirer

France-based information technology company **Atos Origin SA** bought **Venture Infotek**, which is estimated to have 35 percent of the payment market in India.

Founded in 1991, Venture Infotek is a merchant

acquirer and processor on behalf of major Indian banks and retailers.

BankServ acquires NetDeposit

BankServ bought the assets of **NetDeposit LLC**, a subsidiary of Zions Bancorp. The acquisition, which closed in September, doubles BankServ's client base in payment processing. NetDeposit specializes in remote deposit capture and image processing.

APPOINTMENTS

ComplyGuard hires Bibles

Jim Bibles joined the management team at Comply Guard Networks Inc., a qualified security assessor and approved scan vendor.

Most recently, Bibles managed business development at Qualys Inc. for its PCI product. Previously, he managed PCI compliance at Wells Fargo Merchant Services.

Ersek takes reins at Western Union

The Western Union Co. named **Hikmet Ersek** President and CEO. He succeeds Christina Gold, who retired. Ersek had been Chief Operating Officer.

Charge Anywhere hires Foster

Judy Foster joined Charge Anywhere LLC as Sales Director. Founding President of the Southeast Acquirers Association, Foster previously sold merchant service accounts for Wachovia Corp.

Hypercom bolsters sales team

Hypercom strengthened its sales team with recent appointments and promotions. **Heidi Goff** was promoted to the newly created position of Senior Vice President, Global Strategic Accounts. Her previous title was President and Managing Director, the Americas.

David S. Cronin was appointed President and Managing Director for North America. Most recently, Cronin was Senior Vice President of Business Development for Borderlinx Europe SA.

Clint Jones was named Acting President and Managing Director for Latin America, pending the outcome of an executive search. Jones was Chief Operating Officer of the Americas.

Guzman joins Panoptic Security

PCI compliance specialist Panoptic Security Inc. hired **Mark Guzman** as Senior Sales Director, focusing on business development among card processors and ISOs. Previously, Guzman was Vice President at Merchant Cash Group.

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Industry Update

Jakobsen heads Mi-Pay

Mobile money service provider Mi-Pay Ltd. named **Allan Jakobsen** CEO. Jakobsen is a former President and CEO of Dannet/MACH.

MCPS hires Linden

Todd Linden joined Merchants' Choice Payment Solutions, also known as Delta Card Services, as Senior Vice President of Strategic Market Development. Previously, Linden was Senior Vice President of Business Development for EVO Merchant Services Inc.

TMG adds five card services pros

The Members Group, a subsidiary of the Affiliates Management Co., added five members to its team.

Dan Lozier, previously of National Creditors Connection Inc., joined as Director of Client Relations.

Wendy Stanczyk, formerly Vice President of Sales in card services at Town North Bank, and **Lesley Hastings**, previously with Western Union Co., were named as a Directors of New Client Partnerships.

Ivy Sprague and **Brian Day** joined TMG as product

architects. Each has a background in debit card management.

GPS hires Martinez

ISO and merchant services provider Global Processing Systems Inc. hired **Steve Martinez** as National Director of Sales.

He has 15 years of experience in sales management and business development. GPS said it plans to add up to 75 outside sales agents in the Los Angeles market over the next six months.

Shift4 bulks up

Shift4 Corp. made a series of management promotions and appointments.

Daniel Montellano was promoted to Director of Strategic Business Development, and **Bob Lowe** was named Director of Strategic Relationships. In new hires, appointments include: **Gianna Vivo** as Director of Marketing; **Bob Arsenault** as Manager of Business Development, Hospitality; **Bruce Hildreth** as Director of Development; and **Mark Dunaisky** as IT Project Manager. 📱



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Insider's report on payments**Cash still standing its ground****By Patti Murphy***The Takoma Group*

Despite decades of innovation and public relations campaigns promoting electronic payments, cash is still the most popular way to transfer monetary value in most parts of the world.

Economic conditions clearly impact the use of cash, with usage rising in times of economic uncertainty. In July 2010, for example, consumer credit outstanding in the United States fell for the sixth straight month, according to the Federal Reserve. At \$3.6 billion, the decline works out to 1.75 percent on an annualized basis.

A new report by San Francisco-based Javelin Strategy & Research suggests the protracted recession has given rise to a new, "cautious consumer" who prefers pay-now options to credit cards.

The report, *Payment Card Issuer Strategies 2010: The Rise of the 'Cautious Consumer'*, paints a bleak picture of changing consumer spending habits, with a precipitous decline in credit card usage, as more payments shift to cash, checks, prepaid and debit cards.

The situation is especially pronounced in California and Texas, which combined represent almost 20 percent of the U.S. population, Javelin said. Both of these states have suffered huge losses in jobs and real estate values since 2008.

Recent legislative and regulatory initiatives also play a role in driving down credit card usage, Javelin said – legislation such as the Credit Card Accountability Responsibility and Disclosure Act of 2009, which prohibits card companies from marketing to college students.

Taken together, these trends contributed to a 31 percent drop in consumer credit card usage between 2007 and 2009, Javelin reported. If this downward spiral continues, the report added, fewer than 50 percent of consumers will be regularly using credit cards by the end of 2010.

Debit and prepaid card usage, however, continues to rise, with debit card volumes eclipsing credit card transactions, according to both Visa Inc. and MasterCard Worldwide.

"Javelin's research shows that as the economy recovers, many credit card-wary, cash-hoarding consumers have the means, but simply lack the motivation to spend," said James Van Dyke, Javelin's President and founder.

Even before the recession, however, U.S. consumers were increasing their use of debit cards and cash. The U.S. Department of the Treasury calculates that paper money in circulation grew nearly 700 percent between 1975 and 2005.

In 2006, consumers spent four times as much using cash as they did using credit cards, according to the Federal Reserve Bank of Boston. In 2007, Treasury's Bureau of Engraving and Printing produced nearly 38 million banknotes of varying denominations each day, and the U.S. Mint produced an average of 42 million coins a day.

Cash and kidnapping?

Meanwhile, in Ireland, which has the dubious honor of being the most cash-dependent nation in the European Union, there's an emerging effort to wean folks from cash by portraying electronic money as a crime prevention measure.

I was amused when I heard the recent news report. Apparently, in Ireland, bankers and their families have become prone to kidnappings for ransom – a crime often referred to as "tiger kidnappings." In one such incident, a banker's wife was held hostage for several hours and released only after the banker handed over to the kidnapers the equivalent of about \$460,000 in cash from the vault of the bank branch he ran.

Following this latest kidnapping, the Irish Minister of Justice, Dermot Ahern, made a plea for his countrymen to kick their cash habit.

One idea he had that's apt to strike a chord with bankers is to start charging for ATM withdrawals. Irish law generally forbids ATM fees. Last year, the Irish withdrew the equivalent of \$38 billion from ATMs, according to a report by National Irish Bank, a Dublin-based commercial bank.

"The reliance on paper-based payments has a number of high costs for our society," said Dr. Ronnie O'Toole, the National Irish Bank's Chief Economist. O'Toole estimates annual savings, nationally, of about \$1.5 billion if all paper payments were converted to electronic methods, like credit and debit cards.

O'Toole also agrees that less cash in circulation would thwart crime. "People don't often make a connection between their ATM usage and criminal attacks such as tiger kidnappings, but the connection is very real," O'Toole said in a statement. "The way to stop these attacks is to stop transporting so much cash."

Specific suggestions O'Toole offers include retailer incentives for customers to use credit or debit cards and requiring all taxi cabs in Ireland to accept payment cards.

Cash as king

Despite my Irish heritage, I don't know much about Ireland or its economy. Nor do I claim any knowledge of the impetus behind tiger raids.

What I do understand, however, is that the relationship between people and cash spans at least 25 centuries and that governments and bankers have been trying to supplant cash for at least 600 years, when the first paper checks were introduced in Europe.

Yet, despite these protracted efforts to supplant coin and currency, cash continues to grease the wheels of commerce in Europe and the world.

Card-based alternatives like debit and prepaid may be gaining rapid and broad-based adoption, but these innovations have done little to diminish the cash economy. And it's also not just criminals who like cash.

According to the Federal Deposit Insurance Corp., there are at least 9 million U.S. households where no one has a bank account. For these folks, cash is king.

"Cash has unique and durable qualities, including being 'human friendly'," noted Mike Lee, Chief Executive Officer of the ATM Industry Association, in a 2008 presentation titled "The Long-Term Future of Cash." Some of the most obvious of these qualities are that cash:

- Is fee free for consumers
- Is the most tangible and liquid form of money
- Has no credit risk attached to its use
- Is a public asset, controlled by the central bank (in the United States, that's the Federal Reserve)
- Is easy to use
- Is accepted everywhere
- Enjoys instantaneous settlement

Or, as a friend of mine is fond of saying, "Cash has no enemies."

There may be some businesses, like airlines, that prefer not to be bothered handling cash and coins. But for most individuals and businesses, cash is a tangible representation of wealth that few would be willing to part with even in the best of economic times. 📄

Patti Murphy is Senior Editor of The Green Sheet and President of The Takoma Group. She is also the founder of InsideMicrofinance.com. Email her at patti@greensheet.com.



partnership | pɑrtnər sh ɪp| noun

close cooperation, association, collaboration, alliance, relationship, connection, working together.

excellence | ɛksəlɛns| noun

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Further fraud trends in 2010

By Nicholas Cucci

Network Merchants Inc.

In "Fraud trends in 2010," *The Green Sheet*, Aug. 23, 2010, issue 10:08:02, I discussed the repercussions of various types of financial fraud. I also listed the current top five fraud trends.

Following are five additional significant fraud trends that, when combined with those listed previously, round out the top 10 trends this year:

1. Insider fraud

Lost jobs. Overwhelming debt. Desperate times. The challenging economy has decimated the finances of many. Even virtuous people sometimes resort to crime in times of personal crisis if an unmonitored opportunity occurs, said the TowerGroup, a research and advisory services firm for the financial services industry.

Celent LLC, also a research and advisory firm, estimates approximately 60 percent of bank fraud cases involving data breaches or theft of funds are inside jobs. Unfortunately, employees and contractors with access to financial institutions' systems are positioned to exploit the systems' vulnerabilities.

The face of internal fraud is changing due to the increasingly sophisticated underground economy. Historically, employee fraud involved account skimming and other small-scale attacks that put money in the employee's pocket. Today, with access to the online fraud forums, employees can advertise and sell customers' personal and financial information without stealing directly from accounts. Employees more easily rationalize this type of fraud, especially those acting out of desperation.

2. Use of money mules

In November 2009, the Federal Deposit Insurance Corp. warned financial institutions about an uptick in scams involving unauthorized funds transfers from hacked online bank accounts to "money mules," who are people hired through work-at-home scams to help cybercriminals launder money.

Typically hired via Internet job search websites, money mules move money for generic-sounding international corporations. Under the pretense of job titles such as "finance manager," they wire deposits made into their personal accounts to overseas accounts via Western Union Co. or MoneyGram International.

The FDIC provided the following examples of suspicious events that may indicate money-mule account activity:

- A customer who just opened a new account suddenly receives one or several deposits, each totaling a little less than \$10,000, and then immediately withdraws all but approximately 8 to 10 percent of the total (possibly the mule's "commission").
- A foreign exchange student with a J-1 visa and fraudulent passport opens a student account with a high volume of incoming and outgoing money and transfer and wire activity.

3. Exploitation of avatars and virtual markets

In the virtual worlds of massively multiplayer online games (MMOG), players use 3-D representations of themselves, called avatars, to interact with other players online.

Residents in virtual worlds can move about, chat with other residents, participate in activities, and trade or buy virtual items and services from other residents. However, just like in the real world, criminals have discovered that virtual worlds can be lucrative.

According to the *Journal of Virtual Worlds Research*, criminals cause many problems in Second Life, one of the most popular MMOG sites. With little regulation or observation by law enforcement, the fraud underground has found ways to operate within Second Life and other online gaming environments, using the following:

- **Phishing:** Criminals email potential victims, posing as employees of Linden Research Inc., the operator of Second Life, and asking to confirm usernames and passwords via a link in the email. Once attackers possess the users' credentials, they can transfer funds out of accounts, assume users' identities and perform other actions as if they are the users.
- **Money laundering:** Second Life has a real economy in which users can buy and sell items using Linden Dollars. Several online resources allow residents to convert Linden Dollars into U.S. dollars or other currency, and vice versa. Rates fluctuate based on supply and demand. Currently, no federal agency monitors these transactions. This situation provides an excellent back channel for terrorists, criminals and even legitimate business owners to transfer funds to parties undetected.
- **Skimming using fake SLExchange terminals:** This fraud occurs when a perpetrator places a fake terminal on top of an actual SLExchange terminal within the game. Once this is done, the attacker sits back and waits for victims to use the terminal.

A victim's avatar comes along and deposits money into what the avatar believes to be his or her SLExchange account. Instead, the money is depos-

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ited into the attacker's account, and the victim is unaware until the money is long gone.

4. Sale of black market data

At the heart of the underground economy is the selling of stolen data.

From credit card numbers to bank account credentials, every piece of information has a price and is subject to the law of supply and demand. The supply is constantly growing along with increased overseas demand for stolen data.

For example, credit cards have different prices based on their country of origin and card type (Visa Inc., MasterCard Worldwide, American Express Co. and others).

Visa Platinum cards go for more than Visa Classic cards. Often, data from multiple cards are sold in batches at relatively low prices.


Similar to legitimate online retailers, sellers of black market data frequently receive ratings on the quality of their data. Also, many of the crooks are acquainted and know where to go when they want to obtain certain types of information.

5. Creative money laundering

Most people don't have too much cash on hand. But after selling stolen data or using stolen data, criminals don't want to raise suspicions by having too much money in bank accounts or risk keeping it on hand.

Fraudsters rely on a range of money-laundering tactics to hide their money. Unique to the fraud underground is the use of money mules, as described earlier, to transfer money into foreign bank accounts.

Criminals also launder money through otherwise-legitimate online enterprises and invest in large-scale brick-and-mortar enterprises to hide their ill-gotten gains.

Examples include buying restaurants or developing real estate. Albert Gonzalez, who admitted to participating in the notorious TJX Companies Inc. breach, reportedly was ready to purchase equity in a Miami nightclub before his arrest. 

Nicholas Cucci is the Marketing Director for Network Merchants Inc. He is a graduate of Benedictine University. Prior to joining NMI, 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.

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Selling Prepaid



Prepaid in brief

NEWS

MoneyGram, Visa respond to flooding in Pakistan

To aid disaster relief efforts in Pakistan, **MoneyGram International** and **Visa Inc.** launched campaigns designed to ease the financial burdens of victims caught in floods that have claimed over 2,000 lives and destroyed over 1 million homes. Through Sept. 20, 2010, money transfer specialist MoneyGram is donating to the American Red Cross the \$3 send fee from every MoneyGram electronic money transfer sent to Pakistan. Meanwhile, Visa partnered with United Bank Ltd. Pakistan and local Pakistani agencies to distribute relief funds to 2 million flood-affected families via the Watan Visa prepaid debit card. The equivalent of \$230 is loaded on each card, Visa said.

Tax firm claims N.J. law will affect prepaid

Dallas-headquartered tax service **Ryan Inc.** said a New Jersey unclaimed property law will negatively affect issuers of prepaid cards. The law, which is expected to go into affect Oct. 1, 2010, will require companies, such as prepaid card issuers holding funds that go unclaimed by consumers, to report and remit the funds to the state after two years of card inactivity, the company said.

ANNOUNCEMENTS

Blackhawk adds products, services

Blackhawk Network launched PayPower, a suite of prepaid products and services designed to help consumers control spending, and the Myplash MasterCard prepaid gift card that leverages the popularity of the "The Twilight Saga" movies.

Coinstar one fast growing company

Fortune magazine ranked coin counting kiosk provider **Coinstar Inc.** number 61 on its 2010 100 Fastest-Growing Companies list. In other news, Coinstar Chief Executive Officer Paul Davis rang the NASDAQ Stock Market opening bell in New York City's Times Square on Sept. 3.

Evolution Benefits named to Inc. 5000 list

Inc. Magazine ranked **Evolution Benefits Inc.** number 1,468 on its fourth annual *Inc.* 5000 list. It is the third year Evolution Benefits has been on the list.

Travellex named Prepaid Award finalist

Foreign exchange specialist **Travellex** reported it is a finalist for the 2010 Prepaid Awards in the Best Prepaid Program Manager category.

PARTNERSHIPS

Game publishers dig Digital River

Seven massively multiplayer role-playing game publishers tapped **Digital River Inc.** to manage virtual economies and monetize games through virtual goods and currencies to micro-transactions, global payments, billing, analytics and e-marketing.

Univision gets MoneyGram as reload partner

MoneyGram International struck a deal with **Univision Communications Inc.** to give Univision MasterCard prepaid cardholders the ability to load cards at approximately 35,000 MoneyGram agent locations nationwide.

Valutec certifies Street Savings for m-marketing

Mobile marketer **Street Savings** received certification from gift and loyalty card solutions provider **Valutec Card Solutions** to provide Valutec's merchants with a mobile marketing solution for their customers.

New partners for contactless m-payments

Near field communication technology provider **ViVOtech Inc.** and mobile contactless company **DeviceFidelity** teamed to bring contactless mobile payments, loyalty, transit, ticketing and coupon redemption capabilities to smart phones, including Research in Motion Ltd. Blackberrys and Apple Inc. iPhones.

ACQUISITIONS

New players for prepaid in Dominican Republic

Earthcom Service Inc., a subsidiary of O2 Secure Wireless Inc., agreed to acquire 50 percent equity interest in a 30-year-old Dominican Republic financial institution. Earthcom said the acquisition sets the stage for the expansion of MasterCard Worldwide-branded prepaid cards in the Central American market, where prepaid phone use is dominant.

Coinstar to sell money transfer business to Sigue

Sigue Corp., an international money transfer services

provider, signed a definitive agreement to purchase Coinstar's money transfer business for \$41.5 million.

APPOINTMENTS

Kapner named President of Spot Mobile

Wireless phone service provider Spot Mobile International Ltd. tapped **Jeffrey Kapner** as President of its prepaid phone card subsidiary Spot Mobile Corp. Kapner is a former executive at Total Call International.


Karls joins Coinstar as CPO

Coinstar named **Raquel Karls** Chief People Officer. Karls brings 20 years' experience as talent recruiter to her new job, Coinstar said.

Mahr, Fauss join executive team at Prepaid Solutions

Prepaid Solutions Inc. expanded its management team with the additions of **Peter Mahr** as Executive Vice President of Sales and **Brad Fauss** as Executive Vice President and General Counsel. Mahr has a background in prepaid program management and debit processing, while Fauss is an expert on legal, regulatory and compliance issues affecting the debit, credit and prepaid card industries, the company said.

Zuong joins eCommLink as CIO

Prepaid card processor eCommLink Inc. hired **Peter Zuong** as Chief Information Officer. Zuong will bring 20 years of information technology experience in the financial services sector to the job, the company said. 



Feature

Suit the gift card to the merchant

By **Thom Aldredge**

World Gift Card

So far we have looked at the difference between closed- and open-loop gift card programs. We've explored the use of gift cards as an alternative form of payment, and we've examined the recent federal legislation regarding the payment card industry and its effect on closed- and open-loop gift card programs. We will now turn to the merchants' use of such programs and the various benefits.

In my previous article ("Legislative fallout for gift card providers," *The Green Sheet*, Aug, 23, 2010, issue 10:08:02),

I examined the human desire to give and how gift cards have facilitated that generosity to a degree we may not have expected. Gift card programs also represent an opportunity for merchants to engage in the same act with their customers through promotions, discounts and specials. Recognition of good customers has always been an important aspect of marketing. A gift, in whatever form, is always gladly accepted.

Card type tied to use

Closed-loop gift card programs differ from open-loop programs in many ways, but the most important difference lies in the ultimate use of the value on the card. The balance on a closed-loop card either gets spent at the location(s) of the issuer, or it does not get spent. Network-branded, open-loop cards can be used at any location that accepts the brand, such as Visa Inc. or MasterCard Worldwide. So, in that sense, the merchant should use closed-loop cards to bring the bearers of those cards back to a desired location and use open-loop cards to bestow gratitude upon deserving recipients who may feel an obligation to reciprocate by using the card balance at a specific location.

Merchants manage their own closed-loop programs to their benefit. Merchants, for the most part, buy the open-loop cards and, depending upon the structure of their relationships to gift card vendors, either sell them or give them away. Due to the limitations of the USA Patriot Act, other anti-terrorism legislation, and new payments industry and banking regulation, documentation requirements have become more stringent for both closed-loop and open-loop card programs.

Currently, closed-loop cards are relatively easy for merchants to distribute, as they can be sold to anyone and can be used by anyone due to their anonymous nature. Open-loop cards often require documentation of the purchaser for the card to be sold or distributed. To offer open-loop cards, merchants normally must provide extensive information about their operation and purpose.

Closed-loop cards represent a low per-card investment for merchants and can be used more freely to entice new customers, reward existing ones and to carve out a presence in the community. The cards are reloadable and help the merchant maintain the program in perpetuity; customers have the opportunity to return and re-use the closed-loop cards. Open-loop cards are more expensive, based on their acquisition fees and reporting, and have a more meaningful application in direct rewards to known individuals.

Some, but not all, open-loop cards are reloadable. The reload does not necessarily occur with the merchant that issued the card. A closed-loop card could be mailed to a list of prospective customers unknown to the merchant and contain a small amount of value to attract new business. An open-loop card could be bestowed as a gift to

Selling Prepaid

a merchant's top 10 customers. In both instances, the gifting begets new or renewed interest in that merchant.

Card program specifics

In another sense, closed-loop cards can be offered in a more open context, and open-loop cards can be useful in a more restrictive sense. Some card programs are designed to encourage groups (associations) of merchants to come together to share a card. A franchise operation is a common form of such programs, although chambers of commerce, business associations and retailers at tourist destinations are just a few other examples of how groups can use closed-loop programs in an "open" way. Open-loop cards can be narrowed down to an offering such as a shopping mall card, with the beneficiaries being the mer-

chants found in a specific mall. Unlike closed-loop cards in this scenario, all of the merchants in the mall can accept the branded, open-loop cards, but there are restrictions (in many cases) to their use with only those mall merchants.

Closed-loop card programs can help merchants benefit nonprofit groups by allowing a discounted purchase of the cards that are then sold at face value. Merchants might also return a percentage of any sale from one of those cards. In return, merchants have sales forces in the nonprofit organizations driving business their way through the resale of the cards and can track how well the programs brought customers in. Open-loop card programs can be offered at discounts and at nonprofits auctions.

Advantages of card diversity

The idea is that different gift card types apply in different types of situations. Merchants can certainly take advantage of both programs to attract, accommodate and reward the customer base. As the payments industry changes, and the types of payment that a merchant will accept are affected by law, preference and consumer sentiment, gift cards will continue to play a larger role in merchants' overall plans. Adapting to, and inventing new strategies for, the use of gift cards will prove to be beneficial both from a revenue perspective as well as a public relations perspective. ISOs equipped to offer merchants both the closed-loop and open-loop gift card programs will reap the benefits of increased interest, ongoing opportunity and additional residual or override income.

In my next article, I will address whether state laws pertaining to gift card expiration, fee structure and escheatment (unclaimed property) clash with the treatment of gift cards by the Credit Card Accountability, Responsibility and Disclosure Act of 2009. 📧

Thom Aldredge is President of World Gift Card, a turnkey gift and loyalty card program provider based in Plano, Texas. He is a spokesperson for the gift card industry and serves on the Electronic Transactions Association Government Relations Committee. Call Thom at 888-745-4112 or e-mail him at thom@worldgiftcard.com.



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CompanyProfile



Blackhawk Network

ISO/MLS Contact:

Teri Llach
Chief Marketing Officer
Phone: 925-226-9028
Email: teri.llach@bhnetwork.com

Company address:

6220 Stoneridge Mall Road
Pleasanton, CA 94588
Phone: 925-226-9990
Fax: 925-226-9083
Email: corporate@blackhawknetwork.com
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Mall of the 21st century

Among the most successful innovations to come out of the prepaid card industry is the gift card mall. The concentration of hundreds of open- and closed-loop prepaid cards into a standalone "mall" has proven to be a magnet for consumers and a main driver of growth in the prepaid sector.

Naturally, Blackhawk Network, the originator of the gift card mall, has reaped the benefits. Blackhawk remains a strong growth area for Safeway Inc., Blackhawk's parent company. In Safeway's first quarter 2010 earnings report, Chairman, President and Chief Executive Officer Steve Burd said the face value on cards sold through Blackhawk's gift card malls increased 28 percent over first quarter 2009 totals.

"This increase is larger than any quarter in 2009, and represents a significant acceleration from what we experienced in the fourth quarter of 2009," he said. In fact, Burd correlated the growth of Blackhawk's prepaid card mall to a slow but discernable improvement in the U.S. economy.

Gifting

Gift cards are of course Blackhawk's bread and butter. In 2001, when Blackhawk started, the novelty of the first gift card malls was the main attraction. Teri Llach, Group Vice President of Marketing at Blackhawk, remembered the time, saying, "When we're putting racks in stores and we're hanging gift cards, you got people just walking by going, 'Ooh, what's this?' 'OK, that's cool.' 'Oh, I need one of those.' 'Oh, good, I'll get that.'"

But times have changed and the Pleasanton, Calif.-based company is now focused on expanding its selection and adding more functionality and convenience to the cards, Llach said. To do that, the company has targeted two main growth areas: gifting and alternative financial services.

In 2009 Blackhawk launched its online channel for gift cards, GiftCardMall.com, which now features over 100 different cards, many of them customizable with messages and photographs. Blackhawk also launched e-gift cards – virtual cards that allow card recipients to instantly shop online or print out the cards for use in-store.

Listening to consumers who wanted more variety for stocking stuffers and other gift giving opportunities, Blackhawk further developed gift card packets with three to five cards that come in several low-dollar denominations but are activated via one bar code.

Llach said customers wanted to have the ability to pick the amount of money they load on cards. So Blackhawk added another wrinkle with variable load cards. "It gives that consumer that added flexibility," she said. "Maybe they don't want \$25 or \$50. Maybe they want \$35."

Providing customers with greater flexibility in their prepaid choices goes hand in hand with Safeway's grocery store philosophy. "You know, you don't get one kind of pickle," Llach said. "There's lots of kinds of pickles. And we want the consumer to be able to go in and be able to get the pickle they want. So we extended that into prepaid."

Company Profile

Alternative and everyday

Llach stressed that Blackhawk has also been aggressive on the "everyday-use" front. With the state of the economy, consumers want to avoid overdraft fees and other fees associated with credit and debit cards, she said. But she pointed out people are shying away from carrying cash as well.

"So they're finding these prepaid debit cards," she said. "They put \$400 on a card and then use it down and then load it up again."

Consumers can better track their expenses using open-loop, network-branded, reloadable cards. Llach said, "Consumers are really saying, 'Hey, I prefer that.

I prefer controlling how I spend and I don't want some charge from a bank because I bought a Slurpee for \$3 and I only had \$2 in the account."

Other popular everyday uses of open-loop cards are for purchasing advance tickets to amusement parks like Disneyland or Universal Studios, Llach added. Although the consumer base for everyday-use cards is small in relation to closed-loop gift cards, Llach said the category is one of the fastest growing in the prepaid card industry.

International

In addition to Safeway store placement, Blackhawk's gift card malls are now in about 92 percent of all U.S. grocery stores. And Blackhawk's growth domestically is now mirrored by its international expansions. To date, it has ventured into Australia, Canada, the United Kingdom and Mexico.

Llach said Blackhawk is "big" in the Australian postal system, as well as in Woolworths Ltd. – the "Target of Australia." As for Canada, Llach said Blackhawk has 100 percent of the grocery market. In Mexico, the company is piloting programs in smaller chain stores.

Llach believes Blackhawk's success, both international and domestic, is largely a product of its ability to listen to customers and react to their feedback.

"It varies by region of the country," she said. "It varies by retailers. Someone shopping at a Kroger might want something different than someone shopping at a grocery outlet. So, you have to be smart, and you have to tailor the program to the retailer, to the region of the country, and you have to listen and look at what sells, and market effectively to the consumer. ... So it's listening, listening to the consumer."

Tech driven

Another main component of Blackhawk's success is the technology the company employs. Llach pointed out that Blackhawk is foremost a network that connects retailers and pro-

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cessors. The technology that underlies those connections has to be quick and virtually seamless.

"At the end of the year, the holidays, nobody wants to have any kind of slowdown or stoppages," she said. "We pride ourselves on a technology that is extremely cutting edge and very effective."

Mike Blandino, Chief Technology Officer at Blackhawk, said the company lives or dies by its technology. "We sell hundreds of thousands of cards on a normal day," he said. "And during the holiday season, we sell millions, multiple millions. And the closer that gets to Christmas, the more compact that time is. ... And so the stability, the reliability of our system and making sure we process those transactions in a timely manner, is critical."

Blackhawk operates two data centers, one in Santa Clara, Calif., and the other in Seattle. Both centers are capable of processing 2,700 transactions per second, according to Blandino. To quantify that processing power, he pointed out that during the busiest time of Christmas 2009, Blackhawk's systems peaked at 500 transactions per second.

Down market, too


Despite Blackhawk's size and scope, the company has not

overlooked the small mom-and-pop stores. Through the Local and Regional Card (LARC) program, also referred to as the Local Stars program, Blackhawk offers gift card malls featuring the cards of area merchants, thus creating localized merchant offerings in the gift card mall.

Another program targeted toward smaller merchants, but available to all of Blackhawk's partners, is PayGo.

It is a terminal-based acquiring platform – a back-end, turnkey solution comprising both hardware and software – for customers who need a stand-alone tool that helps with managing transactions for gift card purchases and phone card top-ups.

It seems Blackhawk has been thorough in leveraging the gift card mall concept in as many directions as possible. Llach, who came from a marketing background, said her experience at Blackhawk has been a marketer's dream.

"I've been here for nine years, and it's probably been one of the most interesting rides I've had, just because of the sheer acceptance of these products by consumers," she said. A company's goals are much easier to achieve when demand for its product is palpable. "So the consumer wants what I'm selling," Llach said. "Yea! That's great." 

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VeriFone expands mobile payment footprint

VeriFone Systems Inc. recently acquired WAY Systems Inc. and Semtek to augment its long-range mobile payment solutions strategy. To that end, VeriFone will focus on building recurring revenue opportunities through its sales network and offer royalty-free software licenses to enable device manufacturers and payment processors to integrate Semtek's patented encryption technology into their own products, sources reported.

VeriFone paid an upfront price of \$6 million to purchase WAY, a mobile POS solutions and gateway services provider; up to an additional \$3 million will be payable in one year should certain performance targets be met.

The acquisition adds 25,000 mobile merchants to VeriFone's existing customer base, expanding the company's PAYware Connect Gateway infrastructure and mobile portfolio.

Opportunities for ISOs

VeriFone media relations representative Pete Bartolik said, "WAY built its business model on equipping merchants with a mobile-phone like device that connects it through its gateway to payment processors, which is something that we have taken a similar approach with in our gateway mobile product for the iPhone that connects merchants to our gateway.

"This opens up a much larger market to the ISOs because it enables them to reach out to a target market that has been historically resistant to a dedicated device.

"They have the opportunity to sell hardware right away. They also get the opportunity to resell the monthly gateway service agreement to those merchants. So they get a piece of the pie in that regard."

Through VeriFone's gateway services, ISOs not only have the opportunity to sell a paid, ongoing revenue relationship with a merchant, but they also have the ability to pre-package additional applications or value-added services at a future point in time, Bartolik added.

The future of payments

As to what the future holds, Bartolik said, "I would say the big differentiation between the U.S. and other markets is the continued reliance on mag stripe as opposed to an EMV type of technology. Today it's a mag stripe world in the U.S. But that's changing to some degree, maybe not in terms of actuality, but certainly in terms of discussion."

Bartolik said a major hurdle for new technologies will be to convince merchants there is a reason to upgrade their equipment. He believes near field communication technology could be the game changer. "With the ability to advance into handsets or add relatively low-cost add-ons to a mobile phone or a smart phone, then all of a sudden you put the consumer into the picture," he said. "Once they get that capability and start using it in one place, they're going to want to use it other places."

Security protection at the POS

The VeriFone PayWare Mobile credit card encryption sleeve is available through ISOs and Apple Inc. retail stores. The sleeve fits any iPhone 3G or 3GS model and delivers VeriShield Protect format-preserving, end-to-end (E2E) encryption from the point the card is swiped to the point the bank receives the card data.

VeriShield Protect was the first commercial offering of E2E encryption for payments using Semtek's patented technology, which VeriFone began implementing across its product line starting in April 2008. In the acquisition, Semtek shareholders received VeriFone common shares that valued the acquired company at \$18 million. Semtek will be absorbed into VeriFone's Integrated Systems organization. ■

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Is Cimbals proximity payment network a game changer?

A software-based proximity payment offering that uses two-dimensional bar codes as payment drivers has reignited discussion about alternative POS payments.

The service, an offering of Calif.-based software firm Cimbals Inc., was introduced Aug. 31, 2010, for person-to-person (P2P) payments. The service is available on the Apple Inc. iPhone and will soon be made available on Google Inc.'s Android operating system and Research In Motion Ltd.'s BlackBerry devices, according to Florian Brody, Vice President of Marketing for Cimbals. He also said consumer-to-merchant payments with Cimbals would be available in the coming months.

The service requires that merchants and customers register their respective bank account data with Cimbals. To conduct a payment, the payee creates a two-dimensional bar code on a smart phone or POS system; the payer then accesses the system by entering a PIN code, and uses his or her phone's high-resolution camera to capture the bar code, at which time the transaction is authenticated through Cimbals's back-end payment network.

"We collect the bank account information," Brody said. "Then the customer goes to the store, and the merchant presents the code. You open the application; there is a PIN; then you just hold the phone and phone camera to the code; it makes a 'bing' and you're done."

According to Brody, the service helps protect payment information by keeping it out of every transaction. The bar code created by the payee "refers to the payment transaction with no personal information in the code," he said. Instead, the processing of payment information and subsequent transfer of funds from one bank account to another is conducted through Cimbals's back-end network, in conjunction with the automated clearing house (ACH) network.

"The code itself is completely useless and expires; it is a one-time code," Brody said.

Trying to break the stalemate

Cimbals is not technically a near field communication (NFC) payment product because it does not use radio frequency transmissions to convey payment information, although it does function in a similar way by allowing consumers to make quick POS payments using a cell phone and without having to key in numbers.

"For merchants, the opportunity to integrate everything from loyalty programs to specialty coupons to benefits to additional features creates a very interesting additional incentive."

— Florian Brody
Vice President of Marketing, Cimbals

While NFC and other proximity payment products have waited for years in the offing in the United States, Cimbals has the potential to break that stalemate because it is more easily integrated than conventional NFC offerings, Brody said. While most NFC products require that merchants obtain new hardware for their POS systems, Cimbals requires only a quick POS software upgrade, he said. Cimbals also allows two consumers to make P2P payments if they both have smart phones, a function not allowed by some NFC networks.

Brody added that Cimbals will offer merchants the same



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marketing advantages touted by NFC providers – namely that they will be able to market to consumers by targeting the same device (a customer's phone) used to make payments. He said that the system, by bypassing the use of an intermediate payment device like a credit card, will be able to charge merchants "about half" of their customary interchange rate for transactions.

"For merchants, the opportunity to integrate everything from loyalty programs to specialty coupons to benefits to additional features creates a very interesting additional incentive," he said

Industry observers who have watched proximity payments struggle to take off over the years are more skeptical about Cimbale's prospects. Adil Moussa, Analyst at Aite Group LLC, said that, while the product would be easier for merchants to integrate, it may lack the incentive to spur widespread consumer adoption.

"It's premature to say if this is going to work or not," he said. "Looking at what has happened so far, every development [with proximity payments] has faced a gigantic barrier of entry. This has going for it the P2P offering and the linking to the ACH system... but they're touting the 'wow' factor as the first selling point, that it's really cool, but cool itself doesn't sell, especially in the payments world.

"What is my incentive as a consumer to do this?" he added. "That's really what most people forget. What value are you bringing to the consumer besides the 'wow' factor that I can pay with my phone? I don't see anything else, quite honestly." ■

IDC's take on mobile payment schemes

DC Financial Insights held a webinar to address the impacts of a possible joint venture between Verizon Wireless, AT&T and T-Mobile USA, supported by Barclays PLC and Discover Financial Services, to test a smart phone program in the United States that enables near field communication (NFC) payments at the POS (see "Have NFC payments reached tipping point?" *The Green Sheet*, Aug. 23, 2010, issue 10:08:02).

"Mobile Payments Coffee Break" presenter Aaron McPherson, IDC Practice Director, Payments and Security, cited findings from an IDC study, *Best Practices: Mobile Payments Action – Five Case Studies from Around the World*, that revealed most successful mobile payment schemes across the globe effectively combine financial institution and telephone company assets into viable solutions, but in the United States no single carrier or bank dominates, which creates challenges.

Carrier and bank integration

"What the carrier provides, specifically, is distribution," McPherson stated. "They provide access to handsets, the conduit on which to preload a payment application." He said that while many startups offer carrier-independent solutions, what has worked well in Japan and South Korea is either a telephone company buying a bank or a joint venture relationship.

He pointed out that what financial institutions have that carriers lack is direct access to the source of funds, be it a credit line or a deposit account. And he believes the knowledge banks have about consumer purchasing habits is a powerful leveraging tool, making them indispensable in the evolution of mobile payments. And since carriers tend not to want to hold deposits or take on credit risks, he said brick-and-mortar purchases are likely to remain the provenance of banks.

"I think there is a lot banks can do in terms of making funds transfers much easier and more affordable through their mobile apps," McPherson said. "And then I think pushing to be included in the joint venture and being flexible about the terms, in other words working on rewards platforms that are merchant-funded and merchant-specific, are important." He said platforms that

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Of the estimated 4 to 5 million terminals deployed in the United States for Visa and MasterCard usage, roughly 140,000 are contactless devices located in high-traffic establishments.

work with debit and credit cards are critical to the mobile payment process.

Advantages of NFC

"The most important thing about NFC is that it is a two-way communication protocol, kind of like Bluetooth really, in that it can send as well as receive," McPherson said. "The difference versus PayPass or Visa payWave is the basic contactless that's found in cards, stickers and key fobs today in the United States is a passive technology. It requires a power breeder at the POS to bring the chip online so that it can deliver the payment information."

NFC can create a pop-up that is activated when the phone receives the appropriate signal. It can also act as a contactless terminal. In its passive mode, where it emulates a contactless chip, users wave the phone in front of a contactless POS reader. NFC-enabled devices can store coupons and value, and according to McPherson, they're more user friendly than short message service-, app- or browser-based systems that require users to open a site, begin a chat and initiate a message.

McPherson said a critical component in NFC-enabled phones is the active connection to a carrier and network. The technology permits merchants to amplify spending by delivering targeted offers directly to individual devices while customers shop, creating true one-to-one marketing. He believes merchant-centered NFC rewards and loyalty programs could eventually supplant less targeted mass-market promotions.

Card brands in the picture

As to whether NFC mobile payments will render plastic cards obsolete, displacing Visa Inc. and MasterCard Worldwide, McPherson said, "In my opinion, you don't get any benefit from a carrier perspective by excluding them. All you do is retard your own growth. One of the advantages that Discover has is that they're both the issuer and acquirer, so they can just make a deal. Visa and MasterCard have to think about all these competing interests.


"I could see some kind of disintermediation attempt where they essentially emulated Visa or MasterCard with a source of funds or something else like bank accounts or the decoupled debit formula. Real-time ACH would make that more possible." But he pointed out that Visa and MasterCard wouldn't see any real change because they would continue to collect switch fees; card issuers would receive transactions via automated clearing house instead of debit or credit cards.

Of the estimated 4 to 5 million terminals deployed in the

United States for Visa and MasterCard usage, roughly 140,000 are contactless devices located in high-traffic establishments. McPherson said adoption of tap-and-go cards a few years ago was stymied by lack of consumer awareness, a marginal difference in transaction speed and the timing of the rollout, which coincided with the economic downturn.

Starting point for NFC

McPherson suggested NFC mobile payments will initially focus on niche applications like mass transit, where contactless cards for ticketing already exists in most major metropolitan areas. He believes further regulations and interoperability will be necessary in dealing with mobile payments security and usage in the United States, where multiple carriers and bank systems co-exist.

Managing digital certificates, the keys that authenticate people into the system for identity verification at the point of transaction, will be a key determinant in whether new mobile payment methods are widely used and accepted. 



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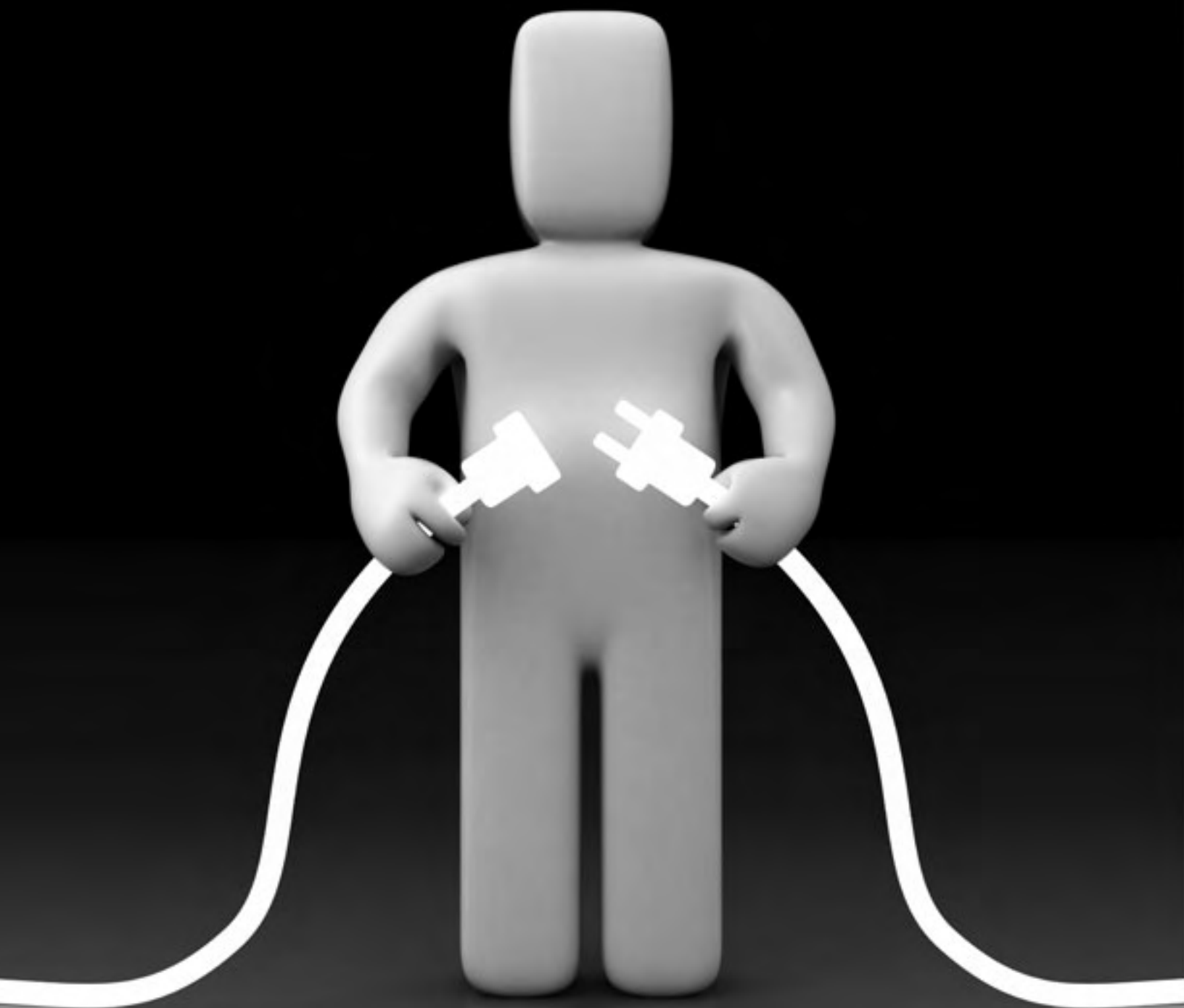
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Smartphones from page 1

Finally, sources say, smart phones lend themselves to innovation, making them the ultimate product for add-ons. Whereas conventional terminals usually rely on a narrow channel for upgrades and services, smart phones have the advantage of developers working the world over to create new software enhancements, many of which can be incorporated with an easy download.

"With purpose-built wireless devices, they were a little more challenging to use when you wanted to integrate into a more robust system that had inventory and SKU management and everything like that," said Scott Henry, Director of North America Product Marketing for Verifone. "It was a payment-specific device. Using a device such as the iPhone, the BlackBerry or any other, you can have third-party developers that create other applications for the industry, and it really opens the doors for companies like ours to enter new markets."

The 'reverse flow' phenomenon

Steve Kimberling, Executive Vice President of Sales and Marketing for the Calif.-based ISO Eureka Payments LLC., which specializes in boarding mobile merchants, said purpose-built wireless terminals and smart phone terminals aren't always mutually exclusive.

He said that, while smart phone terminals have opened new markets of merchants who could not previously afford the costs of card acceptance, they are also finding an audience among clients who are using them as adjuncts to their purpose-built devices or online gateways. Among them are e-commerce merchants looking to add revenue with periodic in-person transactions, Kimberling said.

"Years ago, the trend was, you have a retail store and now you want to go online to make additional money," he said. "What we're seeing now is folks who are predominantly Internet-based saying, 'Hey, I can occasionally attend this specific event and have the opportunity to make more with face to face transactions as an add-on piece of business.' So I think it's a reverse-flow from what we saw years back. It's Internet merchants augmenting their sales in retail-type environments."

Yet, while Kimberling agreed that smart phones lend themselves to more complex back-end systems used for data management and marketing, he also said the lack of across-the-board compatibility is a problem with some types of payment acceptance software. That issue, he said, has proven to be the biggest stumbling block to wider adoption.

Many in the industry expect compatibility issues will likely be ironed out with time; some software companies are already working to address them. Perhaps the best example is ROAM Data Inc., which has developed a middleware product that makes ROAM's payment technology "agnostic," meaning it is compatible with any smart phone, according to William Graylin, ROAM's

Chief Executive Officer. Graylin said the wide growth of smart phone payment acceptance hinges on developing technology that is "scalable" and capable of being adopted by mass numbers of users across various types of businesses and platforms.

"People who just build an iPhone application will quickly figure out that it's not enough," Graylin said. "They need a mobile strategy that allows them to scale across mobile devices and keep up when devices change. It can't be a static application fixed to a particular hardware device."

Glut of terminal providers and security

Another issue around smart phone payment acceptance is security. Because smart phone terminals are relatively easy to construct and market, entrepreneurs without much payment experience are popping up in droves with the newest offering.

Although smart phone terminals are subject to the same Payment Application Data Security Standard (PA DSS) provisions that apply to all payment acceptance devices, sources say the glut of mobile offerings on the market include quite a few that aren't PA DSS certified.

"When you think of the iPhone, it has opened new markets, so everybody and their brother thinks they can do

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payments now," Henry said. "What they don't understand is there are a lot of companies that have spent the better part of 15 or 20 years hardening these devices, and we know how to do it very well."

Henry added that resellers who partner with noncertified terminal providers run a particularly high risk. "If data is compromised, believe you me, the card associations are going to find out who's responsible," he said. "Chances are that a small operation working out of a garage that put up a payment application and didn't get it properly certified isn't going to be the one holding the bag, so all the resellers need to scrutinize what they're selling."

Consumer use of smart phones

Rising in concert with the use of smart phone payment acceptance among merchants are smart phone payments among consumers. And here the potential for growth is even more precipitous. According *Mobile Commerce*, a report from ABI Research, consumers in the United States spent \$1.2 billion in 2009 using their mobile phones, up from \$396 million in 2008. ABI also predicted that mobile commerce would account for 8 percent of all e-commerce shopping worldwide by 2015.

Part of that shift is being driven by the migration of key payment players to the mobile space, according to

Brent Samuels, Senior Consultant for payments industry-focused First Annapolis Consulting. Those include payment applications from such companies as PayPal Inc. and Google Inc., as well as shopper assistance programs from major retailers.

"Look at what Target has done with their smart phone application," Samuels said. "It's a pretty integrated app they've already created that allows consumers to figure out what hot stuff is on sale, create shopping lists they can manage in real time to navigate through the stores – it's pretty cool stuff."

Yet, while mobile commerce remains almost exclusively Internet-based in the United States, the real game changer would be its shift into the POS market. Presumably, that shift would entail the long-awaited emergence of NFC, whereby consumers could make payments at the POS by simply selecting a payment option on a smart phone and then pointing that phone (or smart card) at an NFC terminal, which would register the payment via the transmission of radio waves.

While there is plenty of skepticism about a service that has long struggled to gain a foothold in the United States, many say rising smart phone adoption in the coming years may prove a flashpoint in NFC's quest for acceptance.

"You can look at smart phones as finally having delivered a level of technology that works with NFC and that consumers have confidence will work," Samuels said.

Another indication of a turning tide is the involvement of payment players in the United States that have long sat on the sidelines. Within the last few years, a number of major retailers have incorporated NFC acceptance equipment in the anticipation of its rollout, including Wal-Mart Stores Inc., Target Corp., Home Depot U.S.A. and McDonald's Corp., according to Mohammad Khan, President and founder of NFC technology firm ViVOtech Inc.

Meanwhile, two reports have surfaced in recent months of major consortiums among banks, mobile providers and card brands to test the use of smart phones at the POS. On Aug. 2, 2010, Bloomberg L.P. reported a partnership between AT&T, Verizon, and Discover Financial Services, among other firms, to pilot NFC in a handful of U.S. cities; on Aug. 19, Reuters reported a separate consortium between Bank of America Corp. and Visa Inc., to pilot contactless payments in the New York area. It has since been reported that Wells Fargo & Co. and U.S. Bank have signed on to that endeavor as well.

Such activity may be creating what payment consultant Steve Mott calls "a perfect storm" that will propel NFC into the mainstream, with smart phones replacing plastic cards as the main drivers of electronic payments. Mott argues that NFC will not only change the way consum-

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ers pay, but also revolutionize the entire payments world by giving rise to a chip and PIN system like the Europay, MasterCard and Visa (EMV) system used across Europe.

"We're at a point where we can no longer cling to the mag stripe," Mott said. "Just about everybody, including, I think, the bankcard associations, have had it with the mag stripe, and the only people stopping the progress of civilization are the big banks. Now it's a national security issue. When al-Qaida's using stolen credit card credentials they get on websites for less than a dollar, we're an embarrassment.

"Especially if we go to an EMV system with a PIN, this would be safer than any payment system we've ever done. Everything would be done digitally, everything would be done over protected networks and it would all be encrypted."

If, as Mott predicts, NFC payments replace mag stripe cards, how the new profit arrangement will work is anyone's guess.

One thing is almost certain, however: the entry of new players like mobile carriers and over-the-air-provisioning firms into the payments space, coupled with the new regulation of debit card interchange (which many predict

will be followed by the regulation of credit card interchange) would compel payment providers to look for profit sources outside of the per-transaction fee.

The two-way factor

But Mott feels there is opportunity aplenty in the "two-way" capability that NFC can deliver – where merchants and their service providers will be able to build gift, loyalty and other marketing programs in increasingly creative and sophisticated ways, using things like the global positioning system, bar code scanning and other customer management tools that drive consumer spending. It is with these devices that the money will flow and the full power of smart phones will become known, Mott noted.

"Two-way NFC allows, in effect, the merchant and buyer to interact electronically in real time, with location awareness, with security and with privacy as the consumer specifies," Mott said. "And incentives can be provided by any of those people – banks, carriers, merchants, third parties – to enhance and promote transactions, for which the merchant would gladly pay because he's getting something tangible he didn't have before. Most of the money to be made won't be because of the payment capability but because of the new economics of the system. That will involve improving the convenience and gratification of the buyer-seller interaction." ■



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Education

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Are mobile payments a threat to ISOs? - Part 1

By Ken Musante

Eureka Payments LLC

If you are like me, you are paranoid about competition from nontraditional sources. Not competition from other ISOs and acquirers. We can all foresee that and develop strategies to help us become successful. It's the game changers that concern me.

I understand most prognosticators believe Visa Inc. and MasterCard Worldwide are not vulnerable to upstarts and that, while nontraditional business lines will grow faster than Visa and MasterCard, they will not cause an appreciable dent in the card brands' business. And it is exactly that confidence that causes me to worry.

Since going public, both Visa and MasterCard have radically increased their fees. Not interchange: their fees. Assessments went up approximately 20 percent at both firms, and the network fees increased by over 300 percent. Cross-border fees at both brands also skyrocketed.

Interestingly, however, each of these increases occurred within nearly identical time frames and continued to allow for record profits, despite the wobbly economy. Eventually these higher fees and the brands' hubris will allow for competitors to overtake them.

Serious or seriously funny?

With that in mind, I posted the following on the GS Online MLS Forum: Many of you have seen the article (and press release) on AT&T and Verizon's new wireless venture to displace credit and debit cards with smart phones. I'm interested in the impact you all expect from this launch. How vulnerable are Visa and MasterCard? If you do not see this as a threat to them, why not? Do you see any other threats to Visa and MasterCard?"

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In short, a Bloomberg article discussed the collaboration between Verizon Wireless, AT&T Inc. and T-Mobile USA for a smart phone program that enables near field communication payments. The solution is purportedly designed to work with Discover Financial Service's payment network in a three-city trial to allow customers to pay with the wave of their smart phones.

BILL PIRTLE started us off with an oft echoed sentiment: "I don't see it as anything to worry about. Most people over 35 don't trust PayPal, and you'd think that same age divider will exist here. Younger consumers might try, but I have much more confidence in keeping track of my credit cards than in my cell phone. I'm sure I'm not the only one who uses the house phone to set off the ringer on the cell phone so I can find the darn thing."

CARDPLAYER did not even take the threat seriously. "Ken, are you kidding?" he wrote. "Love to help, but really..."

POB SERVICE SALES believed the solution may gain a following but questioned the solution's security. He said, "When you think about it, it is a stroke of genius for the smart phone companies and cellular phone service providers, 'cause with this new service they just opened up a whole new revenue stream. ... And the banking industry will be crying foul here shortly over this as they will begin to see a dent in their revenue soon."

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"From an acquirer's standpoint, I see it only as an opportunity: more equipment sales, more opportunity to differentiate your company as a payment systems expert and new ways to market an existing system."

Forum member WWW.PAYMENTLOGISTICS.COM

"My question is ... are these phones PCI compliant? Seems like some hackers are gonna get rich before this is perfected, but then again maybe they have good security on these things."

Bust or bust the stranglehold?

CLEARNT illuminated why he believes this new solution will falter when he said, "This will require consumers all having app-enabled phones and ... their issuing bank (or the regular bank) supporting that system."

I am not sure that will happen anytime soon, because I don't see banks investing a lot of time and effort in making that work. They have too many other irons in the fire, so to speak, to care about ... how their cards are supported.

"I see this more in the small-ticket, contactless world in

the near and long term. We will see more phones with apps that allow for contactless, as there are still few cards with this capability.

"Let's not forget, as long as security is important, the swiping of a physical card is still a key step to avoid fraud. Until the card associations are comfortable with phone or mobile applications that have that same safety factor, the odds are strong that the cost for these transactions will remain higher."

THECREDITCARDMAN brought up discussion points on why this solution might work. "As was discussed in another thread, I think this is the strongest attack to the current stranglehold that V/MC currently has," he stated. "Other potential invaders such as Gratis/Revolution tried to storm the system from within, with a little twist.

"Putting aside the security issue for the moment, which is a major hurdle but not insurmountable, the cell charge potential is realistic. The time frame is unclear, but consider the 'younger' generation are umbilical tied to these devices, [which] are the future of processing.

"My empirical and superficial evaluation is that the cell charge providers, who already have a built-in infrastructure, need only minor technological advances to actually be a legitimate contender. They have the consumer base, they are tremendous marketers and they have the internal ability to collect funds.

"It is a natural progression for a maturing industry with unused capacity to seek compatible markets to grow and expand profits. They see a multibillion dollar opportunity to invade a space that is ripe, and with the proper pricing (no interchange?), a decent market share is achievable."

Inopportune or great opportunity?

WWW.PAYMENTLOGISTICS.COM believes the solution could lead to greater opportunity for all of us. He wrote, "From an acquirer's standpoint, I see it only as an opportunity: more equipment sales, more opportunity to differentiate your company as a payment systems expert and new ways to market an existing system.

"In the article Ken linked to, it references Discover's participation. I don't see any significant difference from traditional acquiring and contactless payments than with this new venture. It's just a creative way for Discover and its issuing partners to gain more market share.

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"Look no further than PayPass 'tap-n-go.'... how many NFC-enabled (NFC = near field communications, aka, contactless) bankcards are in circulation? How many readers?"

Forum member **CARDPLAYER**

"Think about it. All they are doing is replacing a credit card with an electronic device – in this case a cell phone. This technology is not new either – RFID [radio frequency identification] chips can be embedded in just about anything. And what's to stop Visa, MasterCard, AmEx and their issuing banks from doing the same thing?"

"As long as there is chargeback liability, acquirers will be needed, and these transactions will have to run over traditional payment networks. I don't see it as a significant threat to Visa and MasterCard – just an innovative way to gain market share for Discover and other participating issuers. An opportunity Visa and MasterCard have as well."

"In the article it says the wireless carriers are experts at processing payments. My guess is they won't process a single payment under this program and, instead, will just be glorified sales outlets for issuers / card brands that jump on board."

"It's not like AT&T or Verizon are going to manage an issuing program. They might provide a technology and billing conduit, but the program in my estimation will most certainly be underwritten and managed by banks and their vendors. [This] puts a whole new twist on private-labeled program but probably nothing more than that."

CARDPLAYER added, "Look no further than PayPass 'tap-n-go.'... how many NFC-enabled (NFC = near field communications, aka, contactless) bankcards are in circulation? How many readers? ... A contactless V or MC built into your phone is about as exciting as a stale pretzel."

"FDC [First Data Corp.] ran an experiment and gave a bunch of consumers NFC chips that could be placed on the back of their phones as stickers. No traction on that pilot. When was the last time a merchant asked you about an NFC reader because their customers were demanding to 'tap-n-go'?"

"The way this becomes viable is if the cell carriers enable cell phone purchases to be billed to your cell phone account. Now you have a purchase mechanism that operates outside of, and competes with, the bankcard credit/debit infrastructure. But can the cell companies raise enough capital to fund any purchase volume and carry the outstandings? Can they manage risk? What happens when you lose your phone?"

"Classic chicken and egg ... and the same thing that happened with PayPass ... merchants don't want to buy the hardware until the cards are out there, and consumers

don't care about the cards because they don't see the readers anywhere." I read that Bloomberg article, and terms like 'game changer' are only being bantered about to attract investment capital, not because somebody invented the next bread slicer."

Are consumers game?

I'm not sure consumers are yet ready for charges to be assessed through cell phone carriers. In addition to the tariffs and surcharges that will push up costs, many consumers do not own their own phones or pay their own cell phone bill. Other considerations also come into play. In Part 2 of this discussion, we will address them."

Until next time, when in doubt, sell something. 📧

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

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Education (continued)

The power of word of mouth

By Nancy Drexler

Marketing Consultant

Think of something that might be of interest or value to someone you know. It can be a hot stock tip, a juicy bit of gossip, a joke or a delectable restaurant find. Share it with just two people. Here is what will happen: if each of your two people share it with just two others, and this sharing process continues at this rate of only two "shares" per person, by the 27th time your message is shared, 134 million people would have heard it.

That is the power of word of mouth.

How many magazine ads deliver 134 million viewers? How many radio commercials deliver that number? Who among us can afford to print and mail 134 million postcards or develop an email list 134 million strong?

More importantly, what marketing message comes with the clout of a message shared by someone you know or trust? Wouldn't you be more likely to visit a restaurant raved about by a friend or co-worker than one you're aware of simply because you've seen it advertised? Even if you've already decided to visit a restaurant based on its advertising, if someone tells you the food is terrible, are you still likely to go?

That is the power of word of mouth.

The world's oldest marketing vehicle remains one of our most powerful. Harnessing the energy of word of mouth can yield amazing results at the lowest possible cost. So how do you do it?

Discerning degrees of separation

We've all heard the term "six degrees of separation." It was the name of a study conducted by psychologist Stanley Milgram in 1967. Milgram gave letters to 160 students and charged them with getting these letters to a stockbroker in Massachusetts – not by mailing them, but by hand-delivering them to someone they thought would get them closer to their target and requesting that person do the same.

As most of us now know, it took an average of six connections for each student to meet the goal and get the letter delivered.

The study was repeated at Columbia University in 2003; this time a website was used to recruit 61,000 volunteers to send messages to 18 targets worldwide. Once again, the study found six degrees of separation between onset and completion.

What this tells us, as marketers, is that the right messages can be delivered quickly and effortlessly to virtually any target in the world. Additionally, it reminds us that social media may be the perfect vehicle for harnessing the powers of both word of mouth and six degrees of separation.

Spreading the word

Remember: if two people share a message with two others who share it with two others, and this happens 27 times, nearly 1.5 million people will receive the message. Now multiply this by 10, 20, 100 or tens of thousands. That is the power of the social media.

From Facebook to LinkedIn, from association websites to industry-specific blogs, from emailing to tweeting, the Internet allows us to build social networks and spread the word at a pace unimaginable less than a decade ago.

Today, it is difficult to imagine sharing a message with only two people, when it is just as easy to share it with dozens, who then share it with dozens more, who then, as a whole, can directly impact your sales.

Making social media work

It is one thing to tweet about a celebrity's latest handbag. It is quite another to tweet about credit card processing. While the former fits squarely within the realm of social media, the latter is not quite so comfortable there. That is the challenge we in the payments business face.

Social media are meant to be exactly what the name implies: social. Networkers frown on hard selling or even hidden selling. And if they don't like what you have to say, they won't share what you have to say, which clearly defeats the purpose.

The messages we have to share aren't for everyone; they are for a clearly defined business niche. On the one hand, being in a narrow industry offers a decided marketing advantage: it is easy to describe, find and reach our customers.

Rather than blasting out messages everywhere, we can purchase mailing lists and use advertising and public relations vehicles that speak directly to our market and thus enhance the value of our messaging.

Apply that principal to online marketing, however, and the benefits don't quite pan out in the same way. Social media deliver huge breadth and scope, but narrowing and targeting an online market takes time and effort, which can cost money rather than save it.

Twitter is great for sharing information about a hot new restaurant or commenting on an A-lister's handbag; a big announcement about mid-qualified rates, on the other hand, might not exactly spread like wildfire.

To succeed in the social media universe, we have to do two things right: we have to create the right message, and we have to put it in the right context.

Finding the right context

Succeeding online begins by finding the right places to communicate meaningfully with our buyers. Human behavior is very much influenced by environment. The time, place and medium for communicating a message can measurably add to (or detract from) the message's impact and credibility.

This is why we all like to see ourselves mentioned in the *The Green Sheet*. Being included in a major trade paper implies that we are legitimate and worthy of quoting; it indicates we are playing the real game in the real world.

Our messages can speak directly to members of our target market while they are thinking about, and receptive to, information about payments.

We can make our names visible and familiar. Surrounded by similar, relevant messaging, the combined weight of the publication creates a context that lends professionalism, relevance and impact to the weight of each individual contribution.

In short, we are perceived as one of the experts chosen by the editors because we are experienced, insightful and credible industry players.

These perceptions are created not just by what we have to say, but by the vehicle in which we say it. And today, there are a lot more places that will help us build our reputations as industry experts. Facebook and LinkedIn may not be good choices because the context is wrong.

Look instead for the online versions of leading trade publications, for bloggers talking directly to small business owners, and for websites that have become resources for restaurant owners, dentists, auto repair shops or whatever vertical you service. These venues will help you build visibility with context and with weight.

Making the message move

While social media can speed marketing and sales messages to worldwide destinations, it is clear that some messages will be picked up and passed on while others will fall flat. In his best-selling book *The Tipping Point*, Malcolm Gladwell examines what makes "ideas and products and messages and behaviors spread like viruses do."

Gladwell calls it the stickiness factor. It is that special something that makes a message contagious, like a virus. And it is essential to succeeding in the social media environment.

To be spreadable, messages have to interest and excite the reader. They have to offer something new or interesting or relevant to the needs of the social media user. They must capture attention and stand out from the pack. It helps if they are catchy, witty or inspiring, but above all they must be memorable.

Only messages like these will harness the power of social media. Without an appropriate message for the medium and the market, your messages will not be noticed and will certainly not be shared. Without the power of word of mouth, social media marketing is a waste.

Becoming an industry leader

Can you think of a message that will appeal to the millions of people using social media? Can you craft it in a way that will encourage them to share it – that will make your message contagious?

Can you create a sales and marketing model that turns the power of word of mouth into a sales channel? If you can, you could be generating thousands of leads a day. ■

Nancy Drexler is a Marketing Consultant in the payments industry who has worked for MasterCard Worldwide, EVO Merchant Services, Cynergy Data LLC, Merchant Cash and Capital LLC, SignaPay Ltd. and SeñorPay. Reach her at nancyd@signapay.net.

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Education (continued)

Who's your counterparty?

By Barry Sloane

Newtek Business Services Inc.

I have been in the workplace for more than 30 years and have been trained in three industries: consumer retail, financial services and electronic payment processing. All of my mentors have stressed counterparty risk.

Why is it that in the merchant processing world, few participants focus on counterparty risk until it's too late? It is great to submit deals, but if the counterparty you select cannot perform, the sales you have worked so hard to make will have disappearing residuals due to nonpayment by a weak or disingenuous counterparty.

Do you need your ISOs or processors to file for bankruptcy before you look at their financials? Do you need to have a fraud issue before you do an extensive background check on a potential business partner? Would you transmit all of your or your clients' sensitive information (birth dates, addresses, Social Security numbers, bank account

information) via fax without knowing if the information was secure? If you are a merchant level salesperson (MLS), do you know if you are covered by your ISO for security breaches?


Do your due diligence

Often, merchants are giving out sensitive data without understanding where that information can and will be going. Their business cash flows may be running through entities they have zero financial information on.

MLSs depend on residuals from processors and ISOs, but they often cannot assess the likelihood of receipt; they just assume funds will show up in their accounts and that the long-term financial health of the processors and ISOs is destined to be positive.

Things to do to protect yourself and your customers:

- Demand financials from any prospective counterparty.
- Ask what application information the company secures and how it ensures the information cannot be stolen or hacked.
- Ask whether the counterparty is a public company subject to Sarbanes-Oxley regulations. And if so, find out if it is compliant with the Statement on Auditing Standards No. 70. (For more information, visit <http://sas70.com>.)
- If the counterparty is a private company, determine whether its financials demonstrate sufficient capital, profitability and data security.
- Determine whether the company is compliant with all applicable Payment Card Industry device, application and data security standards. (For further information, visit <https://www.pcisecuritystandards.org>.)
- If the counterparty is a regulated bank, find out if it is in compliance with all regulatory requirements.
- If the counterparty is PayPal Inc. or eBay Inc., determine whether your funds will be secured or unsecured.
- Find out whether your money will be kept in a segregated account.

Gathering this information will help you make informed decisions. Know your risks, and do business only with counterparties that are respectful of them. It's not just about price. 

Barry Sloane is the President, Chairman and Chief Executive Officer of Newtek Business Services Inc., The Small Business Authority, a direct distributor of a range of business services and financial products to the small and midsize business market (www.newtekbusinessservices.com). Prior to joining Newtek, Sloane was a Managing Director of Smith Barney Inc. In addition, he was founder and President of Aegis Capital Markets, as well as Senior Vice President of Donaldson, Lufkin and Jenrette. He can be reached at 212-356-9550 or bsloane@newtekbusinessservices.com.



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Education (continued)

Four things to know about security interests

By Sarah Weston

Jaffe, Raitt, Heuer & Weiss PC

You've seen the language in merchant agreements, but do you know what taking a security interest in collateral really means? What are security interests, how do they protect you and how do you recoup on the underlying collateral?

This article will provide answers to your questions and tips on how to effectively use security interests.

1. What is a security interest anyway?

Generally, a security interest is a lien created by an agreement between a debtor and a creditor. Usually a security interest is created to ensure a debtor actually repays a debt or fulfills some other obligation.

In the electronic payments world, you might be familiar with taking a security interest in POS terminals, inventory or funds in a merchant's settlement account. But how does taking a security interest in this collateral actually help you? The answer depends on several variables.

2. How can security interests protect you?

If the debtor (in this case, a merchant) defaults under the terms of its agreement and can't pay the amounts it owes, a secured creditor (the party holding the security interest) has a better chance of being reimbursed for its losses by selling the collateral and paying itself back. Even better, obtaining a security interest is relatively cheap.

But, of course, there has to be a catch. While obtaining a security interest may be inexpensive, you must take several precise steps to make sure a security interest is effective against third parties.

For example, if a merchant gives you a security interest in collateral, you are immediately a secured creditor as between you and the merchant. Between you and third parties, however, additional steps must be taken.

This concept is called "perfection" and your security interests must be "perfected" for you to secure your place in line before third parties that obtain later liens on the property.

3. How can you perfect a security interest?

How to perfect a security interest depends on the type of property you are trying to take a security interest in. For example, security interests in tangible personal property (such as POS terminals) may be perfected by the debtor authenticating (signing) a security agreement (such as one

contained in a typical merchant agreement) that describes the collateral and then filing a financing statement in the merchant's location.

The cost of filing a financing statement is nominal; however, a handful of states collect taxes upon the filing of financing statements based on the amount of the debt being secured.

Business entities are located in the state where the merchant is organized, which may or may not be where the merchant has an office or where the collateral is located. So make sure you know the merchant's state of organization if the merchant has several locations.

Security interests in promissory notes may be perfected by taking physical possession of the note.

If the security interest covers funds in a deposit account (for example, a merchant's settlement account that is held at the merchant's bank), the secured party must perfect its security interest by taking "control" of such an account.

In other words, to perfect a security interest in funds held in a merchant's settlement account, you must also enter into an "Account Control Agreement" with the merchant's financial institution, pursuant to the terms of a security agreement with the merchant.

This agreement provides that the merchant's bank must comply with your instructions regarding disposition of the funds in the account without requiring any further consent from the merchant.

4. You have a perfected security interest - now what?

So you have a properly perfected security interest in the merchant's collateral and the merchant is in default. What do you do? The first thing to do is check the language in the applicable agreement under which the merchant has defaulted and make sure you comply with its terms.

It should have language that states your rights and obligations, as well as the merchant's rights and obligations, upon default.

You could be required to give the merchant notice of default in a specific manner, to a specific address, or be required to give the merchant a period to cure the default without penalty.

Next, have your attorney perform a lien search to find out if other creditors have liens on the collateral. This infor-

If you have concerns about supplying services or goods to a merchant who is financially unstable or a startup without a strong financial history, there are ways to minimize your risk. Talk to your attorney about taking a security interest in their terminals, inventory or funds in their settlement account and make sure you are perfected.

mation will help you determine what actions to take next. This search is quick and usually inexpensive. If you perfect your security interests before other creditors, all other creditors of the merchant must get in line behind you and wait until you are reimbursed before they get their crack at the merchant's collateral.

Watch out for an especially sneaky type of security interest called a Purchase Money Security Interest (PMSI). A PMSI is a lien taken by a secured party at the moment the debtor purchases goods.

In some cases, even if you were the first secured party to perfect your security interest in the merchant's collateral, a secured party holding a PMSI lien might end up as the first paid.

For example, if another secured party files and perfects a PMSI after you (even if that secured party knows about your first-in-line security interest) the PMSI secured party – after following proper notice – is able to take cuts ahead of you because of the type of security interest taken.

If you are the secured party with first priority over other secured parties, you should be in a position to foreclose on the collateral and sell it, then apply the proceeds of that sale to repay yourself for the amounts you are owed.

If the collateral you are looking to sell is tangible property, such as terminals, your security agreement should include a right to make a claim against the merchant and demand to take immediate possession of the collateral upon the merchant's default.

This process can be arduous if the merchant has many locations but relatively simple if the merchant has few locations and is willing to cooperate. Your attorney can assist you with the foreclosure and sale of the property.

If you have a lien on funds in a settlement account that is perfected by an Account Control Agreement, you will need to provide instructions to the applicable financial institution with regard to the funds in the account, up to the amount of the debt owed to you.

Consult your attorney if you are concerned

If you have concerns about supplying services or goods to

a merchant who is financially unstable or a startup without a strong financial history, there are ways to minimize your risk. Talk to your attorney about taking a security interest in their terminals, inventory or funds in their settlement account and make sure you are perfected.

That way, if things do go sour down the road, you won't be the party left holding the bag. ☑

The recommendations herein are general suggestions; they are not a substitute for legal advice. For specific information, consult experienced legal counsel. Sarah Weston is an attorney at Jaffe, Raitt, Heuer & Weiss PC and advises businesses on contract and regulatory issues in the merchant acquiring, stored value, automated clearing house and payment systems industries. You can reach her at 248-351-3000 or at sweston@jaffelaw.com.

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Education (continued)

Command performance meetings

By Dale S. Laszig

Castles Technology Co. Ltd.

Can you remember the last time you felt excited about going to a meeting? Perhaps it was an invitation with a paper umbrella announcing a company bash or the unveiling of a new product line. Meetings can be meaningful and productive, but they too often miss the intended mark.

A meeting, like any theatrical production, has three essential ingredients: timing, action and plot. If any of these are lacking, the reviews will not be kind.

Avoid common pitfalls

Here are the most common complaints among critics:

- **They take too long:** As we all know, time is money, so when we leave our customers, friends and families to attend a meeting, we're looking for a return on investment (ROI). We hope to gain knowledge that can be applied toward increasing productivity and staying ahead of our competition.

We've all suffered through lengthy performances where speakers promised to be brief. We've seen the devastating consequences of "meeting creep" brought about by presenters exceeding their time limits, causing other speakers to be bumped and meeting agendas scrapped.

Most of us would rather leave early than take long breaks. High-level overviews are preferable to complicated trainings that go into too much detail. Hand-outs with links and recommended reading extend a meeting's useful life, perpetuate its objectives, and enable us to continue our research and follow-up at our own pace – long after the event has ended.

- **They are boring:** Good meetings have fast-moving agendas presented by knowledgeable professionals who don't take themselves too seriously. Presenters don't have to be professionally trained actors to be fun and interesting. They just have to care about their audience and subject and convey that in an animated way.
- **They have technical difficulties:** Props and technology can enhance a meeting's entertainment value. Short, three-minute video clips and interactive exercises can spice up a presentation, as long as they support the main theme of the event and illustrate a point. Long videos can turn an engaged audience into couch potatoes, and distribution of free items as rewards for those willing to speak up can alienate the introspective geniuses in the room while rewarding the shouters.

In the absence of a face to face meeting, webinars provide an effective medium for interactive discussions because they support graphic presentations and allow for multiple presenters.

Video conferencing, which works best when used in small groups, can sometimes pose problems. The casual spontaneity of webcams is viewed by some multinational companies as too informal and unprofessional.

Video conference technologies can be useful in building rapport within cross-functional teams, but they could prove counterproductive when used to communicate with overseas clients. In the latter case, visual distractions could undermine a meeting's agenda and priorities.

- **They lack focus:** It's a good idea to share a meeting's primary objectives ahead of time, as well as the allotted times for presentation, discussion,

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Education

question-and-answer periods and breaks. Having a set schedule and list of talking points will make it easier to stay on track.

Maintaining a meeting's focus takes advance planning and gets easier with practice. Effective managers circulate an agenda before the meeting begins. Once the meeting is in session, they check in with attendees to make sure that everyone is in sync, and they stay on course by relegating less pertinent questions to separate, offline discussions.

Put on a show

A good meeting resembles a three-act play, with each act contributing equally to the structure and integrity of the event. Here are some ways to make each act a bravura performance:

- **Act one: Set the stage:** Insist on everyone's undivided attention. Just as we have only one chance to make a first impression, a presenter or moderator must take control of the meeting at the very beginning to establish credibility and ensure participation. It's demoralizing to a presenter and damaging to a meeting if attendees are watching laptops and smart phones instead of the speaker

Review the agenda. Make clear, inclusive opening statements that advance meeting objectives and make all participants feel directly involved in the event. Share the rules of engagement. The meeting chair should advise whether it's preferable to ask questions during the formal presentation or wait for a designated question-and-answer period.

- **Act two: Engage and motivate:** Make the meeting interactive. No one likes a talking head. The most productive meetings are those that engage participants, solicit feedback, and reward new ideas or correct answers. And make the meeting fun. The best meeting I attended was a scripted product demo with music and dancing that occurred in the midst of a conventional conference. The audience jumped to its feet, singing and dancing through the rest of the production. Years later, attendees are still talking about it and buying the products.

Also, state the value proposition. What is the ROI for attendees, and how will the information or action plan shared in this meeting directly benefit them?

- **Act three: Summarize and agree on next steps:** Close on the meeting objectives by summarizing main points. If your meeting is a sales presentation, ask for the order. If it's a call to action, agree on next steps. Distribute handouts to extend the meeting's life and encourage follow-ups. Resolve to execute on all action items to make the goals of the meeting a reality.

Grab the spotlight

Finally, it's no accident that carefully planned meetings tend to be more memorable than hastily arranged assemblies. But even spontaneous gatherings can be productive and successful if a bit of theatricality is applied.

Devising a theme for the meeting will add a sense of fun and adventure to the intended call to action. Good timing, combined with audience engagement and a strong story line, will set the stage for a command performance. 🎭

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



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Eight payment companies listed on Inc. 500

The annual *Inc.* 500/5000 rankings of the fastest growing private U.S. companies, based on revenue growth from 2006 to 2009, was released Aug. 24, 2010. Aggregate revenue among the *Inc.* 500 was \$11.3 billion, down from \$18.4 billion last year, and median three-year growth at 1,231 percent was up from 880.5 percent in 2009. In all, 42 payments industry enterprises were recognized among the top 5000 companies, with eight earning the distinction of inclusion in the top 500.

Century Payments Inc., of Frisco, Texas, rated 11th overall, was the highest ranking payment company, in terms of growth, on this year's *Inc.* 500 list. An emerging industry leader, Century reported three-year sales growth of 10,471 percent. It has more than 200 full-time employees throughout the United States.

"To be number 11 in our first year of eligibility is exciting," said Robert Wechsler, Century's Chief Executive Officer. "We are the only company in our industry that develops, builds and manages sales forces for companies looking to expand their offerings and services to electronic

payments." The company is recognized for delivering a nationwide cause-based distribution network of professionals through its Every Swipe Counts branded program.

Electronic Payments Inc., of Calverton, N.Y., secured a spot in the top 500 for the third consecutive year, with revenue of \$31.9 million in 2009 and 13,359 percent growth reported since 2004. The company was ranked 240th overall this year, and placed 15th in the financial services industry category, up from 70th in this category for 2009. Michael Nardy, founder and CEO of EPI, stated, "It's an amazing honor to be a three-time consecutive *Inc.* 500 honoree, and our entire team of employees and agents are excited to see all our hard work materialize into such an honor."

Central Payment Corp., a San Rafael, Calif., company founded in 2006 by twin brothers Matthew and Zachary Hyman, was recognized for an annualized growth rate of 976 percent in the past three years. The company ranked 18 among financial services companies, debuting at 309 on the overall list of the 500 fastest growing companies.

2010 payment companies ranked in *Inc.* 500:

Century Payments Inc.

- Overall 2010 ranking: 11
- 2010 Financial Services ranking: 2
- Growth (2006-2009): 10,471 percent
- Revenue (2009): \$15.7 million
- Year founded: 2006
- Website: www.centurypayments.com
- Business: Payment processing and consulting services

Q2eBanking

- Overall 2010 ranking: 124
- 2010 Financial Services ranking: 9
- Growth (2006-2009): 2,048 percent
- Revenue (2009): \$11.2 million
- Year founded: 2004
- Website: www.q2ebanking.com
- Business: Software and services for online, mobile, voice banking

BluePay Processing LLC

- Overall 2010 ranking: 128
- 2010 Financial Services ranking: 10
- Growth (2006-2009): 2,017 percent
- Revenue (2009): \$60.4 million
- Year founded: 2003
- Website: www.bluepay.com
- Business: Global credit, debit, electronic check payment processing

PaymentMax Processing Inc.

- Overall 2010 ranking: 151
- 2010 Financial Services ranking: 12
- Growth (2006-2009): 1,830 percent
- Revenue (2009): \$5.8 million
- Year founded: 2004
- Website: www.paymentmax.com
- Business: Retail, health care, online, wireless payment processing

Electronic Payments Inc.

- Overall 2010 ranking: 240
- 2010 Financial Services ranking: 14
- Growth (2006-2009): 1,284 percent
- Revenue (2009): \$31.9 million
- Year founded: 2000
- Website: www.electronicpayments.com
- Business: Credit and debit card payment processing

Central Payment Corp.

- Overall 2010 ranking: 309
- 2010 Financial Services ranking: 18
- Growth (2006-2009): 976 percent
- Revenue (2009): \$47.2 million
- Year founded: 2006
- Website: www.centralpaymentcorp.com
- Business: Credit, debit, gift card, check payment processing

Diamond Mind Business Services

- Overall 2010 ranking: 383
- 2010 Financial Services ranking: 21
- Growth (2006-2009): 788 percent
- Revenue (2009): \$6.6 million
- Year founded: 2004
- Website: www.diamondmindschools.com
- Business: Electronic payment services to K-12 independent schools

Merchant One

- Overall 2010 ranking: 436
- 2010 Financial Services ranking: 24
- Growth (2006-2009): 691 percent
- Revenue (2009): \$17.2 million
- Year founded: 2001
- Website: www.merchantone.com
- Business: Credit card processing services for businesses of all sizes



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Sometimes being innovative requires not creating or building on something, but distilling an existing product into a finer or simplified form. That is what gateway and software development firm eProcessing Network LLC is attempting to do with its new inventory and reporting product for merchants.

The product, ePNInventory, is intended for small merchants who want a relatively inexpensive and simple way to maintain a back-end inventory system that operates in real time, according to Brett Mansdorf, Director of Business Development for eProcessing Network.

"It's a simplified way for merchants to utilize bar codes with an over-the-counter bar code scanner and maintain a perpetual inventory with a full suite of reporting without the cost of \$1,000-, \$2,000-priced products out there today

Features of ePNInventory include:

- Is cost-effective and simple to use
- Connects to both brick-and-mortar and e-commerce sales systems
- Provides online portal and mobile application
- Tracks inventory in real time
- Includes in-house phone support system

that need to be customized in a lot of cases and end up requiring that merchants front a lot of money," Mansdorf said. "The big kicker with this product is the price point."

Making what's round 'rounder'

With ePNInventory, eProcessing is not "trying to reinvent the wheel," Mansdorf said; it is streamlining a long-standing product so that it becomes easier to use and less cost prohibitive. He stated that merchants can set up the software in minutes, and from there they have a computerized way to track in real time any changes to inventory – be they product acquisitions or sales.

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Both brick-and-mortar and e-commerce sales are part of the tracking system, Mandsdorf added. Brick-and-mortar sales and product acquisitions are recorded through bar code scanning, while merchant e-commerce portals can be connected to the system through a processing back-end.

The program is accessed through eProcessing's online portal and comes with a host of other services that are accessible within the same website, including gift and loyalty services, an e-commerce shopping cart, recurring payment and collection tools, and accounting services. All of these services, including ePNInventory, are sold exclusively through ISO resellers, Mandsdorf noted.

"There are some add-ons like the shipping, the calculators, the check [processing], gift cards, and everything else," he said. "It all ties into one master database for that merchant. ... Then there are different sections of the website when they log in that deal with the different pieces, whether it's the shopping cart or e-commerce stuff or the gift cards or the inventory or the mobile for that matter."

Making smart 'smarter'

Mandsdorf said merchants can also track inventory through a smart phone, which, like its desktop counterpart, hooks into the system for real-time recording of inventory changes by downloading a single application.

"A merchant can go out to a flea market and be on a cell phone and process all this stuff," he said. "Then when he goes back to his hotel at night he can log into the ePN website and see everything that went through in real time."

He added that, for merchants who do have technical difficulties, a support line is manned by people with specific knowledge of the product.

"It's homogenous, so when you pick up the phone and call our support desk because you have a problem with the inventory system, you're actually talking to people who support it, as well as designed it and implemented it, and that gives us a bit of a lead on the rest of the marketplace," he said.

"And the guys that designed all our other software also designed the inventory system; our personnel know everything through and through – and how it all interacts." ■

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- An outside law firm, The Lustigman Firm, has been enlisted to help ensure that the promotion has been structured in a legally compliant manner.
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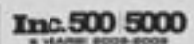
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Visit www.greensheet.com/gs_tradeshow_events.php for more events and a year-at-a-glance event chart.



Western States Acquirers Association

WSAA Annual Sales Conference

Highlights: The Western States Acquirers Association's 2010 Annual Sales Conference will be held at the San Diego Marriott La Jolla, an ocean-side location minutes away from beaches, vistas, theme parks and other attractions. The conference will include panel sessions, an exhibition hall and seminars.

The first day of the conference will comprise the Field Guide for ISOs seminar and an opening reception. The general session will begin the morning of the second day, and a closing session will be held that night.

The theme of this year's conference is "Catch the Wave of New Opportunities."

When: Oct. 13 – 14, 2010

Where: Marriott La Jolla, San Diego

Registration: <http://cwp.marriott.com/sanlj/westernstatesacquires>



Women Networking in Electronic Transactions

Designer Bootcamp and DIVA awards

Highlights: A project of Women Networking in Electronic Transactions (W.net), this is a prime educational and networking event for women in the payments industry, providing them with resources to become exemplary professionals and better leaders.

The day follows WSAA's conference and will include a keynote address followed by seminars on topics ranging from globalization to business etiquette to the economics that drive the payment chain's various players. The event also promises a wine and cheese welcome and networking breaks.

As a lead-in to the Designer Bootcamp, W.net will host the Driving Improvement Via Action (DIVA) Awards at 8:30 a.m. The awards honor outstanding achievements of individuals, companies and W.net members who, throughout the course of the past year, have shown an unwavering commitment to W.net's mission to inspire and empower women in the electronic transactions industry.

When: Oct. 15, 2010

Where: Marriott La Jolla, San Diego

Registration: www.w-net.biz/pagedisplay.asp?p1=7260

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Inspiration

WaterCoolerWisdom:

Victorious warriors win first and then go to war, while defeated warriors go to war first and then seek to win.

- Sun Tzu

If you're in business, you need a plan

Do you have a business plan? Even if you are working for yourself and have no employees, a plan for your business is essential. It serves as a map created to guide your future performance. It sets forth where you'd like your business to be within a certain time (typically five years) and describes how you intend to get there.

After all, how can you turn your goals into action if you have only a vague notion of where you are going and how you will get there?

Plans address real needs

There are multiple reasons for creating a business plan. For example:

- If you are seeking capital, the first thing an investor will want to see is your business plan.
- If you want to know if your business is meeting expectations, your business plan will provide the benchmarks needed for accurate assessments.
- If you want your business to have high standards, a business plan can define them and help you implement them.
- If you want to follow a consistent strategy, your business plan can describe that strategy and serve as a reference tool.

No one is exempt

You may feel that preparing a business plan is too daunting or you're too busy running your company to prepare a plan. Even if you've been in business for years without a written plan, it doesn't mean you don't need one. It means you're probably not as focused as you could be and thereby hindering your performance.

No matter where you are in your career, you need to know where you are

heading. If you want your business to expand, how will you make that happen? If you plan to retire, how much money will you need to live in comfort, and how will you get it? These are just some of the issues a business plan can address.

Preparation is the key

Crafting a business plan isn't difficult, but it does require careful preparation. Many software packages and websites are available to help you create a business plan or improve the one you have. To get started, google "business plan," or ask other business owners for recommendations.

An effective business plan will contain the following:

- Executive summary, including a mission statement
- Business concept, the market the company serves and what it offers
- Honest competitive analysis, including current business position, major achievements and challenges
- Organizational structure, ownership and management
- Marketing plan
- Financial information and needs, including financial statements

Use your goals as the springboard for your mission statement. Then flesh out the other components of your business plan. Show the plan to colleagues you trust, and make adjustments as needed. Once you've created a plan that serves your needs, review and update the document at least every two years. And enjoy the results.

Good Selling!SM



Paul H. Green, President and CEO



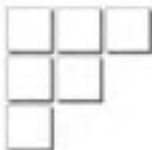
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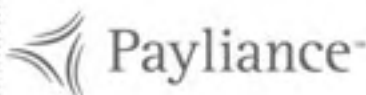
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Inserts

Alpha Card Services
 Charge Card Systems
 Federated Payment Systems
 North American Bancard
 Total Merchant Services
 United Bank Card Inc.

Cover Wrap

Electronic Payments
Business Reply Card
 North American Bancard



... THERE WAS AN AD THAT HAD A GUY HOLDING A TERMINAL AND HE WAS WEARING A SPORT COAT AND THE PRICE WAS LIKE \$149 OR SOMETHING AND IT WAS BACK IN THE SUMMER. WHAT WAS THE COMPANY'S PHONE NUMBER ON THAT AD?*

FREE PDF ARCHIVES OF ISSUES BACK TO OCTOBER 2001 (ISSUE 01:10:01). LOCATE PREVIOUS ADS, OR RESEARCH YOUR COMPANY'S AD HISTORY.

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LATEST NEWS

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1

0 Hold Times
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Transaction Fees

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- 6 Approved.....\$300 Bonus
- 10 Approved.....\$800 Bonus
- 20 Approved.....\$2000 Bonus
- 50 Approved.....\$5500 Bonus
- 100 Approved.....\$12500 Bonus

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Trust

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Let's look at the profit:

60 month lease* x \$49.99/Month:

***Note: Even though 90% equipment is leased, cash price when sold outright averages \$1,595**

Lease Funded Amount	\$1,886
Equipment Cost (<i>Canadian VX570 chip compliant</i>)	<u>– \$503</u>
Equipment Profit	<u>\$1,383</u>
Application Fees	+ \$125
Set up Fee (<i>Misc.</i>)	+ \$199
Standard Upfront Profit (Per Merchant)	<u><u>\$1,707</u></u>

In addition, you can commonly charge any or all of these upfront reasonable and customary fees including but not limited to:

- Application fees
- Administrative fee
- Encryption fees
- Site survey fees
- Set up fees
- Training fees
- Activation fee
- MOPO set up fees
- Programming fee
- Settlement fee
- Installation fee
- Wireless set up fees



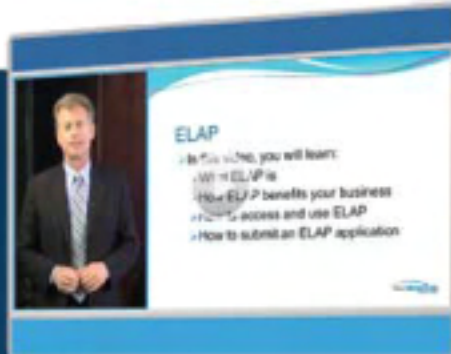
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Monday 8
Expand into petro market to
increase \$\$\$

- Video?
- Unique marketing materials?

Tuesday 9
Check merchant status
(set up customized
alerts?)

Wednesday 10
Learn how to set-up my
Free Website

Lunch w/ Al
(Al's Dry Cleaning)

Thursday 11
Sally's Soccer Game ^{Oil change}
-do NOT be late!!!

Friday 12
Dinner w/ Gen. Manager
Kim's Birthday!

Saturday 13
Sunday 14

Monday 15

Tuesday 16

Wednesday 17

Thursday 18

Friday 19

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All The Answers,

Anytime I
want!!!



EXPENSES

NOTES

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OR

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* A fee will apply for each lead provided. Please contact your National Sales Manager for details.
**Visit www.isoprogram.com for complete contest information.



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For more information, contact:
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Jonathan Brandon, National Sales Manager East: 800-201-0461 x 145
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