May 23, 2011 • Issue 11:05:02

The Sony breach is not a game

MEDAL OF DISHONOR

Among the conclusions security and payments industry insiders emphasize in the wake of the massive Sony Corp. data breach are: consumers should be more outraged, the most secure payment systems are the systems that hold no consumer data and no system is invulnerable to cyber attack.

There are also continuing concerns about how Sony handled itself post-breach. Sony said the theft occurred April 16 and 17, 2011, but the video game giant waited over a week to alert the public of the break-in after it was notified by third parties of the hack. So far Sony has discovered more than 100 million of its customers have had personal information compromised.

Though there have been reports of 2.2 million credit card and customer verification value numbers from the theft for sale on black market websites, Sony maintains it is unsure if any credit card information was stolen.

On May 3, Reuters reported the Sony breach could be the most expensive data breach in history and may cost Sony and credit card issuers up to $2 billion. Reuters believes most of Sony's expense after the data theft will be in addressing technical issues, setting up communications with customers and resolving credit card problems with affected cardholders.

The Green Sheet Inc.

AdvisoryBoard

NotableQuote

I believe the bulk of the reputational issues this industry faces are a result of the rates and fees we charge and the subsequent merchant dissatisfaction. There is no single source for these problems as it exists on virtually all levels.

Inside this issue:
CONTINUED

WINNER 41 Awards in 9 years

Forum

Taking note of mobile coverage

I really like your new section – The Mobile Buzz. The Street Savings article is positioned very nicely.

Dana Webster
Nurenu Brand Marketing LLC

Dana,

Thank you for noticing. The mobile arena is demonstrating great innovation right now, and we look forward to continuing to spotlight payment solutions for on-the-go-merchants and their customers. We hope Street Savings Chief Operating Officer Pal Flagg, who penned the inaugural article for The Mobile Buzz, will continue to grace the section.

Editor

More on integrated POS systems

I read the article about integrated payment systems with great interest ["Integrated systems create a new POS paradigm," *The Green Sheet*, May 9, 2011, issue 11:05:01]. I found it curious that you didn't interview anyone in the retail systems reseller community that was delivering the vast majority of these point-of-sale systems.

Datacap's payment middleware (hardware and software) is integrated to hundreds of ECRs, POS systems, car washes, parking systems, etc., and we have created a number of product rental programs with the acquiring industry that create cooperative selling and support relationships between the retail systems resellers and those acquirers.

These programs have had amazing success, showing that the go-it-alone model you've described is not the only way to get into the integrated payments market. Contrary to what was articulated in that article, POS systems developers nearly always support all major processors. Our one-to-many interfaces enable that.

Although many of these resellers have favorite acquirer relationships (who doesn't have favorite business relationships?), they tend to fully support all the processors so that they don't lose systems sales, which is after all their bread-and-butter revenue stream.

However, there can no longer be any question that Member Service Providers that are trying to hold on by selling dial terminals against these integrated systems are losing ground fast. Integrated payments to a merchant are like a big screen TV or high-speed Internet to a consumer. Once you have it, you don't want to go back.

Terry H. Zeigler
Datacap Systems Inc.

Terry,

We appreciate your bringing to our attention the importance of the retail systems reseller community's views when discussing integrated POS systems. We will keep your name on hand so that next time we cover the topic, we can broaden our reach to include a greater diversity of perspectives.

Editor

Buyers Guide phone numbers to fix

The Green Sheet has corrected the following phone numbers in the online version of the "2011 Buyers Guide," GSQ Vol. 14, No. 1, April 2011. The companies and their correct contact numbers are:

Cardware International: 740-522-2150, ext. 220
MSI Merchant Service Inc: 800-351-2591
Network Merchants Inc: 800-617-4850
USA ePay: 866-872-3729

We sincerely regret that the guide went to print before the errors came to our attention.

Call us, write us

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*? Email 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.

1

Cover Story

The Sony breach is not a game

As data breaches go, the one at video game giant Sony Corp. might be the biggest in history. The breach seems to be the product of lax security. But Sony's response to the breach has been criticized as being lax as well. With uncertainty swirling over what data was compromised and the consequences of the breach for affected consumers, industry experts analyze what it all means for the state of data security.

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View

Mobilizing banking's payment franchise

The ISIS contactless mobile payments venture was big news in late 2010, as the payments ecosystem seemed on the verge of a revolution. But, lately, ISIS' grand designs seem to have been scaled back, and the traditional bedrock of payments – banks and the card brands – may remain the dominant rails that mobile contactless payments ride on after all.

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Feature

The triple bottom line: people, planet, profits

Jeff Marcous, President and cofounder of Dharma Merchant Services, has a unique perspective on the selling of bankcard processing. Profits are not Marcous' only measure of success. In this Q&A conducted by Eureka Payments LLC President Ken Musante, Marcous mines his history in payments to inform his definition of success.

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Feature

IQPC survey raises regulatory alarm

With the 5th Prepaid Cards and Mobile Payments Conference set to convene in Denver in June, the International Quality & Productivity Center published metrics that detailed the convergence of prepaid cards and mobile payments. One survey finding is that prepaid card regulation is something many providers have not yet addressed.

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News

Legislation in the works

A number of bills involving the payments industry are currently being considered in Congress. The bills address data security and Internet gambling concerns. To keep abreast of legislative developments, visit *The Green Sheet*'s new online resource, Legislative Roundup, found at *www.greensheet.com/ legislation.php.*

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News

Webinar delves into fraud threats, solutions

Fraud drives away one out of every three customers from a merchant that experienced a data breach, according to a webinar hosted by LexisNexis based on research conducted by Javelin Strategy & Research. An even bigger problem is that fraud triples the cost of the original theft for merchants.

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- Rhoda Steward, Director of Strategic Partnerships and Marketing

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Education

Raising the bar on PCI compliance

Before you know it, the December 2011 deadline for compliance with version 2.0 of the Payment Card Industry Data Security Standard will be here. Concern about where Level 4 merchants are in the compliance process is warranted. It is the job of ISOs and MLSs to help micro-merchants gain compliance. It is also an opportunity.

72
Education

Social media as a sales tool

As the new frontier in marketing, social media is becoming a powerful way for merchants to connect with customers. But it also can be used by ISOs and MLSs to advance brand awareness. Follow these five tips while keeping in mind the four P's of successful marketing: product, price, place and promotion.

76
Feature

Views on regulation and registration

With payments under ever greater legislative and regulatory scrutiny by the federal government, the industry is wrestling with how to police itself. We asked our advisory board to share opinions on self-regulation strategies, and where licensing and registration fit into the complex but necessary equation.

89
Inspiration

Spurring sales with valued-added verbs

The basis of a successful sales pitch is the phrases sellers use and the word choices they make. Follow this simple but powerful advice to make openings supple yet forceful. Getting the jump on the competition means getting past hello.

New Agent Power Tools

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YOUR OWN WEBSITE
To help legitimize your business

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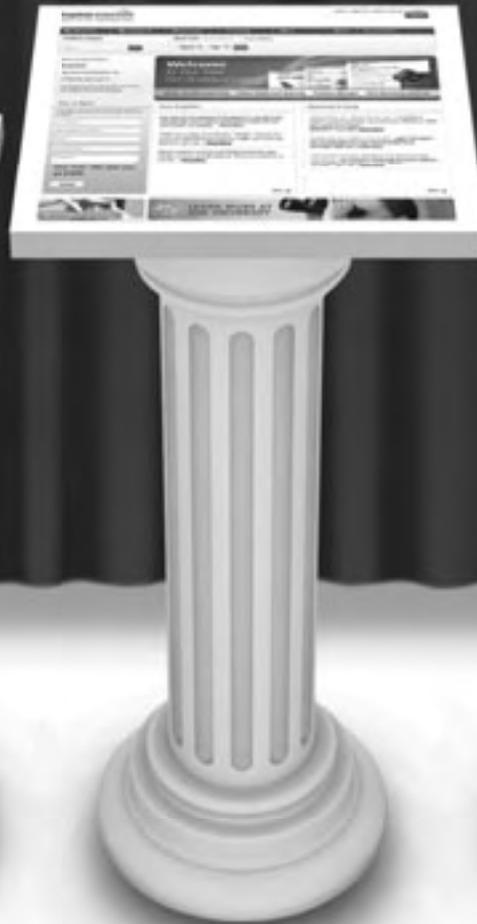
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NEWS

Check out ACH e-check webinars

The free webinar series presented by **ACH Direct Inc.** in conjunction with the **Upper Midwest ACH Association** continues with summer and autumn sessions concerning the automated clearing house (ACH) network. Upcoming webinar topics include:

- Unauthorized Entry and Stop Payment, June 21, 2011, will provide details on why and when an entry is returned as unauthorized, and what the business' role and obligations are as the originator.
- E-Check Conversion Products, July 19, 2011, will cover requirements for originators for web (Internet-initiated) and telephone (phone-initiated) entries.
- Web and Telephone Entries, Aug. 16, 2011, will examine the conversion of paper checks to ACH transactions, specifically accounts receivable conversion, point of purchase and back office conversion.
- Check Basics/Check 21, Sept. 13, 2011, will review basic information on how check payments are routed, the participants in the process, and regulations and an overview of Check 21.
- Remote Deposit Capture/Corporate Capture, Oct. 18, 2011, will cover the corporate benefits of using remote deposit capture; company warranties; how to avoid duplicate processing; and secure storage and the destruction of paper checks.

Each 90-minute session includes a question and answer period. Pre-registration is required at *www.achdirect.com.*

Encryption and tokenization crucial to mobile acceptance

Encryption and tokenization are vital to secure mobile card acceptance, according to **Visa Inc.** The card brand issued a set of best practices for merchants, software developers and device manufacturers regarding mobile payment acceptance. Two factors raise the bar in ensuring the safety of cardholder data as it passes through mobile devices and networks. One, merchants do not control the security of their wireless networks. And two, mobile devices and attachments are not designed to the same security requirements as traditional payment terminals.

Visa advised merchants and device makers to:

- Encrypt all account data at the card-reader level and in transmission between the acceptance device and the processor
- Enable truncation or tokenization of card numbers, allowing the merchant to identify the cardholder without storing full account data

For the full version of the guidelines, visit Visa's website at *www.visa.com/cisp.*

Bergerons donate $1 million to MS society

Douglas and **Sandra Bergeron** donated $1 million to the Multiple Sclerosis Society of Canada. VeriFone Systems Inc. Chief Executive Officer Douglas Bergeron's father, George, lived with multiple sclerosis (MS) for 28 years. It is the couple's second such gift. Their original donation of $1 million, made in 2000, was the largest single gift ever received by the society.

In addition to targeting MS research at the Mayo Clinic in Minneapolis, the money has underwritten local initia-

BOTTOM
LINES

HEADLINES
FROM THE
RETAIL
WORLD

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

- According to **MasterCard Worldwide**'s *SpendingPulse*, e-commerce posted its highest single month of year-over-year growth since July 2007, up 19.2 percent in April 2011. U.S. apparel sales for the same period rose 10.4 percent; spending on electronics and appliances declined 1.8 percent.

- Luxury spending in the United States is projected to reach $77 billion in 2011, up 8 percent from 2010, according to **Bain and Co. Inc.**'s *Spring 2011 Update: Luxury Goods Worldwide Market Study*. Similar growth is expected in the category globally, with projected spending on luxury goods and services worldwide at $274 billion, the consultancy predicts.

- Recent **U.S. Department of Commerce** data revealed total U.S. retail store sales hit $348.03 billion in April 2011, up from $326.61 billion a year ago and 0.31 percent above the $346.94 billion reported in March 2011.

tives at the Windsor-Essex Chapter in Ontario, Canada. The new donation will fund support services for people in the Windsor area who are touched by MS.

ANNOUNCEMENTS

BlueStar one of Cincinnati's Fast 55

The *Cincinnati Business Courier* named **BlueStar Inc.** to its Fast 55 list. The POS device and signage supplier is one of the fastest growing privately held companies in the 17-county region of Ohio.

Celent updates website

Payments industry consultancy **Celent LLC** launched a new website to create what it called a more targeted, user-friendly experience. The site offers greater navigation, improved search functionality and increased interaction with Celent clients, the consultancy said.

CrossCheck, Optio to upgrade corporate offices

Rohnert Park, Calif.-based **CrossCheck Inc.** will relocate to a newly renovated office space in the Redwood Business Park in nearby Petaluma, Calif., by September

2011. The 40,000 square foot building in Sonoma County will accommodate over 170 employees of check approval and guarantee company CrossCheck and its debt recovery subsidiary Optio Solutions LLC.

PayPal volume expands

Payment volume at PayPal drove growth at **eBay Inc.** for the financial quarter that ended March 31, 2011.

Driven by 38 percent growth in its merchant services business globally, PayPal's net payment volume grew 28 percent to $27.4 billion for the first quarter of 2011, compared to the same financial period in 2010. The number of registered accounts also rose 16 percent year over year. EBay's revenue for the quarter increased to $2.5 billion, a 16 percent rise year over year.

Electronic Payments' Nardy up for entrepreneurial award

Michael Nardy, founder and CEO of **Electronic Payments Inc.**, was named a finalist for Ernst & Young LLP's Entrepreneur of the Year 2011 New York Award. The program recognizes leaders who demonstrate extraordinary success in innovation, financial performance and personal commitment. Nardy was chosen as a finalist by a panel of independent judges from among 70 nominations. Winners will be announced June 8.

Ethoca, Regulatory Strategies publish anti-fraud guide

E-commerce anti-fraud specialist **Ethoca** and a regulatory expert at **Regulatory Strategies Ltd.** released a guide entitled *The Challenges and Opportunities of Sharing Data to Prevent Fraud*. It details best practices for sharing e-commerce data as part of anti-fraud efforts.

Mike Bradford, Director at Regulatory Strategies, cited examples of other consumer industries sharing data. In a typical data sharing arrangement, firms join an anti-fraud organization and agree to confidentiality and reciprocity regarding information on fraud incidents, he said. For more information, visit *www.ethoca.com/datasharing*.

Canadian supplier certifies and distributes Hypercom

Processor **Everlink Payment Services Inc.**, which operates in Canada, Class A certified **Hypercom**'s SPOS32 payment software V3.3, which supports both mag stripe cards and Europay/MasterCard/Visa-compliant contactless cards, as well as supports Everlink's MFC (Merchant Flexible Close) POS specification on the Optimum T4200 and M4200 product families. Everlink distributors can now carry Hypercom systems, significantly broadening distribution of the brand to Canadian ISOs.

Federated Payments expands

Federated Payments LLC opened a new call center in Dickson City, Penn., which expands the company's services into the Scranton/Wilkes-Barre area. The company is hiring, with the goal of augmenting the sales and marketing activities of Federated's New York operations.

Economic recovery spurs First Data growth

Growth in debit network fees and merchant services due to U.S. economic expansion, as well as growth in international volumes, drove a 6 percent increase in **First Data Corp.**'s first quarter 2011 revenue over the same period in 2010. Sales improved by $142 million, to $2.5 billion for the quarter, First Data said, and added that adjusted revenue, which excludes reimbursables, grew 2 percent. A net loss attributable to First Data of $217 million represented a 10 percent improvement over the loss for the same period last year. "Higher volumes and good sales performance in our domestic and international merchant acquiring businesses, coupled with lower expenses, led to increased profitability across the board," said Jonathan Judge, Chief Executive Officer at First Data.

Hypercom M5000 certified to PCI PTS 2.1

Hypercom Corp. said its M5000 mobile payment terminal achieved Payment Card Industry (PCI) Payment Transaction Security 2.1 certification. It is the second in a series of products that run on Hypercom's next generation platform, after the L5000 multilane family.

TMS broadens free wireless terminal program

Total Merchant Services Inc. expanded its free wireless terminal program. It now offers sales partners the ROAMpay swipe device with free Nurit 8000 GPRS terminals. The device, from ROAM Data Inc., supports most mobile phones. The only additional cost is the mobile gateway fee of $5 a month for each phone connected to the service. Sales partners also receive free demonstration devices. TMS provides one free swipe unit per merchant.

Trustwave makes the cut for Illinois tech award

Chicago-headquartered data security solutions provider **Trustwave** was chosen as a finalist for the 2011 Illinois Technology Association CityLights award, in the Lighthouse category. The award is given to an Illinois-based company that has taken a leading role in its market and attracted national attention to the Illinois technology industry. A panel of 40 tech industry judges picked the finalists.

ViVOtech wins Visa Europe-sponsored contactless award

ViVOtech Inc. won the Visa Europe-sponsored 2011 Contactless Monkey Award in the On High Street category. ViVOtech brought home the prize for its near field communication technology pilot using Visa contactless cards. The National Bank of Kuwait and Kuwait's Mobile Telecommunications Co. were ViVOtech's partners in the pilot.

PARTNERSHIPS

Fifth Third turns to Voltage, Hypercom for encryption

Fifth Third Processing Solutions LLC began support for **Hypercom**'s payment software with point-to-point data encryption from **Voltage Security Inc.** This added layer of data security uses strong encryption to protect card data during processing. Fifth Third has Class A certified Hypercom's SPOS32 payment software with Voltage Security's encryption to help merchants who use Hypercom's Optimum T4205, T4210 and T4220 countertop terminals.

GearHost signs with Host Merchant Services

Cloud technology provider **GearHost Inc.** signed an

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IndustryUpdate

agreement with **Host Merchant Services Inc.** for card processing. The partnership provides GearHost clients with full e-commerce services.

VigiTrust and Mako Networks team in the U.K.

Mako Networks, a PCI Digital Security Standard Level 1 service provider for card present payment services over Internet protocol connections, teamed with **VigiTrust Ltd.** to expand accreditation services in the U.K. and Ireland. The partnership integrates VigiTrust's online portal with Mako's plug-and-play system to ensure merchants comply with the PCI Data Security Standard.

Magellan chooses Merchant e-Solutions for processing

MiTAC Digital Corp. picked **Merchant e-Solutions** as the payment processor for its Magellan e-commerce store. Magellan is a leading brand of global positioning system equipment. The merchant account and payment gateway connects to Magellan's NetSuite Inc.-based e-store for payment processing and back-office operations.

UP Solution to supply iPayment clients

United POS Solution Inc., doing business as **UP Solution**,

will supply POS systems to ISO partners and merchants of **iPayment Inc.** UP Solution will handle services to end users, including software configuration, installation, training and support.

CrossCheck, USA ePay get together

USA ePay, a subsidiary of GorCorp Inc., teamed with **CrossCheck** to provide merchants with ACH and e-check services. CrossCheck's services are now available through the USA ePay payment gateway, as part of USA's eCheck service.

USA Technologies teams with ViVOtech

USA Technologies Inc. partnered with NFC technology provider **ViVOtech** on mobile payment technology for vending and wireless POS systems. USA Technologies' USAT ePort terminals accept mobile, as well as other forms of payment. The companies demonstrated their collaborative technology at the National Automatic Merchandising Association's convention for the self-service vending industry, called the NAMA OneShow Expo, held April 2011 in Chicago.

Wireless partnership promotes vending machine payments

Verizon Wireless and **USA Technologies** are collaborating to enable small-ticket wireless, cashless payments at vending machines via traditional bankcards. The service will use USA Technologies' ePort Connect Service and Verizon's machine-to-machine management center.

ACQUISITIONS

TSYS extends its reach

Total System Services Inc. (TSYS) bought **TermNet Merchant Services**, an Atlanta-based acquirer. TermNet will be rebranded TSYS and integrated into TSYS Merchant Solutions – formerly First National Merchant Solutions LLC, another recent TSYS acquisition based in Omaha, Neb. TermNet is ranked the 52nd largest acquirer in the United States by dollar volume, according to *The Nilson Report*. With the merger, TSYS now serves more than 327,000 locations nationally. Terms of the deal were not disclosed.

WorldPay to buy Envoy Services

WorldPay reportedly is acquiring **Envoy Services Ltd.**, a provider of alternative payment options to e-commerce merchants. Envoy is a U.K.-based global payments service with connections to 200 bank accounts, 40 alternative payment services and a leading fraud screening service. Following the acquisition, Envoy will continue to operate under its current business model, while the existing management team will join the senior leadership of WorldPay's e-commerce business unit. The deal was expected to close in May 2011.

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IndustryUpdate

APPOINTMENTS

MRC appoints film industry vet as exec

The Merchant Risk Council named **Greg Goeckner** Executive Director. Previously, he was Executive Vice President and General Counsel for the Motion Picture Association of America.

Herrington joins First Data Executive Committee

First Data promoted **Mark Herrington** to Executive Vice President, Global Product Management and Innovation, and named him to the executive committee. He is a cofounder of Money Network, now a First Data company. Previously, Herrington was General Manager of First Data's Retail Solutions Division.

Kim named to Planet Payment board

Shane Ho Kim joined the board of Planet Payment Inc. as a nonexecutive director. He is a Managing Member of private equity firm Camden Partners, where he specializes in payments and transaction processing investments.

Cynergy hires Oswald as VP of Client Relations

Cynergy Data LLC appointed former professional football player and payments industry professional **Paul Oswald** as Vice President of Client Relations. He joined Cynergy Data in 2009 as Vice President of Third Party Acquiring, after working in the industry for 18 years. Oswald was a lineman for the Pittsburgh Steelers, the Dallas Cowboys and the Atlanta Falcons in the 1980s.

Planet Payment taps Soinski

Planet Payment hired **E. Drew Soinski** as Managing Director, Americas. Previously, he was Vice President of Global Payments at Voltage Security Inc. and was an executive at Hypercom.

Ingenico shakes up management

Ingenico announced several management changes. **Pierre-Antoine Vacheron**, Executive Vice President of Finance and Support, became head of the Single Euro Payments Area – Europe Region. **Jean-Yves Schapiro** was hired as Executive Vice President and Chief Financial Officer. Ingenico veteran **Siegfried Heimgartner** was promoted to Executive Vice President, Chief of Staff of the Presidency.

The next wave in the payments industry is here!

INTRODUCING
UNITED BANK CARD'S
FREE*
POS PROGRAM

United Bank Card changes the game yet again with our newest initiative: our sales partners are now able to offer merchants a free* Harbortouch point of sale (POS) system with integrated payments! Harbortouch accounts offer higher than average residuals, up-front commissions and virtually non-existent attrition while providing a valuable tool to your merchant customers.

Why would a merchant opt for a standard credit card terminal when they can receive a full-featured, touch-screen POS system for free?

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Built-in time clock		●

✓ Merchants benefit from streamlined operations, detailed reporting, inventory tracking, labor management and many other time and money saving features

✓ State of the art software combined with top of the line hardware

✓ Simplified setup process and intuitive user interface offer an easy transition for merchants

✓ Comparative systems sell for tens of thousands of dollars, while you can offer them for free

PLUS:

✓ $300 up-front commission per POS terminal. An average merchant utilizes three terminals, providing a typical commission of $900 per deal!

✓ Free "Harbortouch Sales Center" software allows you to demo the system and sign up a merchant from start to finish on your laptop

HARBORTOUCH UNIVERSITY

To participate in this program, our sales partners must complete Harbortouch University, a comprehensive online training course intended to provide a fundamental understanding of POS systems. This training course has been developed to ensure that you have the knowledge about Harbortouch to succeed.

FREE HARBORTOUCH LEADS!

To help bolster your new pipeline of deals, we are also providing complimentary leads to all active participants in the free POS program! Each month you will receive pre-set appointments with merchants in your area that are specifically interested in a Harbortouch POS system.

With free POS systems, free leads, residuals and up-front commissions, this program offers the complete package: a truly unparalleled sales tool the likes of which has never been seen in the ISO community!

* To receive a Harbortouch POS system as part of this program, merchant must sign a credit card processing agreement and equipment service contract. Other charges may apply.

For more information, contact:
Brian Jones, EVP Sales and Marketing: 800-201-0461 x 136
Jonathan Brandon, National Sales Manager East: 800-201-0461 x 145
Max Sinovoi, National Sales Manager West: 800-201-0461 x 219
Brian Fitzgerald, National Sales Manager Central: 800-201-0461 x 257
or log on to www.isoprogam.com

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A simple and intuitive online wizard offers merchants two customization options:
▸ Choose from a wide selection of pre-designed card templates
▸ Upload custom artwork, images or company logo

Merchants can further customize their cards with their business information. They can select different fonts, colors and text placement to suit their unique business needs.

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UnitedBank Card had developed the most flexible revenue sharing program available. With three different options to choose from, you can customize your own residual program by selecting the best option for each deal you submit!

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The newest generation of our revolutionary Free Terminal Program offers the most diverse selection of free equipment available from any processor, including the Verifone Vx510, Hypercom T4210/T4220, Nurit 8120 (wireless), Hypercom T7Plus, Nurit 8320 and Nurit 2085.

▶ FREE ELECTRONIC CASH REGISTER PROGRAM

The industry's first and only fully integrated electronic cash register program, delivered free of charge to merchants. The most popular Casio cash register models integrated with credit card processing technology deliver the ultimate sales tool to our ISO partners.

▶ FREE HARBORTOUCH POS SYSTEMS

United Bank Card's newest addition to our free equipment offerings, Harbortouch POS systems offer unmatched value to merchants while providing our ISO partners with lucrative commissions, residuals and the ultimate retention tool.

▶ FREE HARBORTOUCH LEADS

UBC is providing complimentary leads to all active participants in the free POS program! Each month you will receive pre-set appointments with merchants in your area that are specifically interested in a Harbortouch POS system. You will be given access to our online Lead Management System (LMS) to manage these appointments in real-time and utilize its advanced CRM functionality, including text and e-mail alerts.

United Bank Card, Inc. is a top 40 merchant acquirer with an impeccable reputation of excellence in the payment processing industry. UBC provides payment services for over 110,000 businesses throughout the county and processes in excess of 9 billion dollars annually. Consistently recognized for being at the forefront of innovation, our programs will continue to provide our agents with a competitive edge.

Contact United Bank Card to find out how our dynamic programs can improve your sales performance and improve your earnings!

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United Bank Card

View

Mobilizing banking's payment franchise

By Patti Murphy

The Takoma Group

Recent developments in the mobile payments sphere illustrate why the bank-centric model for payments is seemingly immovable. I present this thesis gingerly, however, because consumers entering adulthood today are unlike any generation before.

Consumers born after 1990 have entirely different expectations about banking and shopping than do their elders. "They've been raised and live in a 24-hour electronic world," said George Warfel, Consulting Director at banking technology firm Fiserv Inc. "They see electronic payments as natural."

And there are plenty of nonbanks offering electronic payment options – companies like PayPal Inc., Google Inc., even Facebook Inc. – that have millions of loyal clients.

Banks are trusted and pros

Nonbanks have lusted after the banking industry's payment franchise for a long time. And for good reason: it is a revenue engine, generating more than $282 billion in yearly revenues for banks, according to First Annapolis Consulting.

A recent nonbank mobile payment venture, ISIS, was heralded in late 2010 by AT&T, T-Mobile USA and Verizon Wireless. A press release proclaimed ISIS would lead the U.S. payments industry from cards to mobile payments while also delivering "new levels of competition and value to consumers and merchants."

Focused initially on brick-and-mortar payments, ISIS plans to use smart phones and near field communication (NFC) technologies. Barclays PLC's card unit, Barclaycard US, will be the issuer of these payment-enabled devices, and Discover Financial Services will handle clearing and settlement of payments.

The selection of Discover was noteworthy because the Discover brand was created 25 years ago during an attempt by Sears Roebuck and Co. to move into the bank-dominated payments space.

According to published reports, mobile carriers are now in talks with Visa Inc. and MasterCard Worldwide, the bank-centered card companies, suggesting the carriers,

similarly to Sears, concluded it is a formidable task to create, build and sustain payment systems without banks.

"Banks have a natural advantage," Warfel said. That advantage stems in large part from the demand deposit account (DDA) relationship. As Warfel noted, "Any mobile payment has to be moved from [bank] account to [bank] account."

Banks are also adept at fraud management and at integrating payments with other services (like lending, investments and cash management). Also, people trust banks, even though bank-bashing seems in vogue. "Banks have a huge built-in trust advantage," Warfel said. A social scientist by training, Warfel has studied consumer attitudes extensively through surveys, focus groups and other customer-centric techniques. When asked to rank bank brands against other product brands, consumers always rank banks highest, he noted.

Results of a consumer survey conducted by Fiserv drive home this point. Nearly two-thirds (65 percent) of consumers polled want mobile payments offered by banks; 75 percent think it's important that mobile payments be deposited to DDAs.

Richard Crone of Crone Consulting LLC agrees banks have a natural advantage. "The question is, will merchants and banks move quickly enough to take advantage of their own self-branded [mobile] offerings?" Crone asked.

Mobile is here to stay

Long heralded as the next big shift in payments, mobile payments appear at long last to be on the cusp of something big, brought on by a convergence of factors, including the proliferation of smart phones, advances in NFC technologies and shifting consumer attitudes. Gwenn Bezard, Research Director at Aite Group LLC, sees huge potential for mobile POS payments: a growth from $1 billion in 2010 to $55 billion by 2015.

Stop by any Starbucks location and see for yourself. "The Starbucks mobile payment app [introduced in January] is the most successful launch of a new payment type in the industry," Crone said. He noted the chain rang up more than 1 million mobile transactions in just 30 days.

The app is available as a free download for select smart phones, including BlackBerrys and iPhones; it can be used

View

at over 6,800 company stores as well as at Starbucks booths at more than 1,000 Target stores.

Starbucks Corp. claims more than a third of its U.S. customers use smart phones and that nearly three-quarters of those customers carry BlackBerry- or iPhone-branded devices. The mobile app rolled out in January builds on Starbucks' prepaid loyalty card program, which is believed to be among the most popular in the United States. The company estimates that one in five customers pays using a Starbucks card.

PayPal Inc. expects to process more than $2 billion in mobile payments this year, or nearly three times the total it processed last year. The company also

has purchased Fig Card, a low-cost USB device that retailers can plug in to a POS device to support mobile payment acceptance. Executives at PayPal's parent company, eBay Inc., reported during a recent earnings call that they expect strong growth in mobile payments because, with the PayPal model, there's no need for consumers to enter credit card information, making it highly secure. Payment information is conveyed by sending a photo of a bill or text message to PayPal; authorization is by password.

The chief reason the PayPal model works is that it rides on the bank-controlled card network rails. Although Visa and MasterCard are no longer owned exclusively by banks, bankers continue to hold significant sway, both as board members and customers. And Visa, MasterCard and other card companies take security seriously; these days that means focusing more on mobile payments.

"We must move fast together to make sure mobile solutions are built with the level of security the industry needs, and not something that's just bolted on," said Ellen Richey, Visa's Chief Enterprise Risk Officer, in addressing the Visa 2011 Global Security Summit in Washington in April. That's why Visa developed and made public a set of best practices guidelines for merchants, software developers and device manufacturers that want to use mobile phones to facilitate card payments, Richey added.

Visa has also invested in Square Inc., which markets a miniature card-swipe device that plugs into smart phones, thereby allowing just about anyone with a Square device to accept card payments. Visa's backing should help dispel some of the criticism Square had encountered about being a potentially insecure method of payment. See "Square gaining momentum despite security concerns," *The Green Sheet*, March 28, 2011, issue 11:03:02. ▣

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.

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The triple bottom line: people, planet, profits

By Ken Musante

Eureka Payments LLC

I appreciate individuals with a deep history of our industry. They have the knowledge and experience to put current events into historical perspective. Jeff Marcous, President and cofounder of Dharma Merchant Services, is one such individual.

Q: How did you enter the payments industry and what types of jobs have you had?

A: I answered an ad in the paper in 1992 from Harbridge Merchant Services. It was to sell directly to merchants: cold calling. At that time there were many opportunities because many merchants were not yet accepting cards or were not accepting cards electronically.

Merchants were still using warning books and calling in for authorizations above the floor limit. All sales came with a terminal lease. No residual income was paid to sales representatives and I had no base salary. I received a draw that was deducted once we started earning commission.

Card Establishment Services acquired Harbridge two months after I began. CES ran very much like Harbridge. However, I moved from Maine to Colorado. Within a year after working for CES it was acquired by First Data. First Data gave me an opportunity to be a territory manager out of Phoenix.

I managed 15 sales representatives who worked out of their homes. Most representatives were intimidated by the lodging industry, so I learned the hotel applications and consequently we were able to garner a larger share of a very big industry. By teaching that technique to my representatives, they too were able to be successful within the lodging niche.

Next, I was hired by Cardservice International around 1994 to be a regional manager. CSI was the dominant industry ISO and they had just begun hiring regional managers to cover the U.S. They hired six managers and I moved to Portland, Ore., and covered Alaska, Hawaii, Northern California, Oregon, Washington, Montana, Utah, Wyoming, Idaho, North Dakota and South Dakota.

CSI had ample resources and was aggressively boarding merchants. When you think of all the payment professionals that started their careers at CSI, it really gives you perspective of how innovative CSI was.

Q: CSI was a revolutionary ISO. Did you realize that while working there?

A: Because CSI was the one of the biggest and well known ISOs, it was easy to market our programs because partners sought us out. CSI was revolutionary in that they were the first to have a sales force of agents and worked very hard to remove conflict from the channel and [they] thought of the agent as their primary customer. That was revolutionary.

Q: You also worked for Authorize.net during its formative years. Did it seem that the company's actions and activities were revolutionary?

A: I began working for Authorize.net in February of 1998. In August of 1999, the company was sold for $90 million. Yes, it was an interesting story.

While at CSI, I got a call from a guy out of the blue who wanted to be an agent with CSI. Jeff Knowles became a representative for CSI and worked under my territory for about a year. Jeff developed a prototype payment gateway to do real time authorizations…not sales. He sold merchants on this newly developed payment gateway. His intention was not to develop a reseller program for agents but to sell directly to merchants.

Through my involvement, we came up with the reseller model where we offered the gateway to resellers with a buy rate. Originally we did not charge for transactions, but we signed a merchant called Paypal and their numbers were so enormous that we had to start charging a transaction fee in order to keep up with the needed bandwidth.

We were the forerunners in the payment gateway space and there was no script to follow. We did not set out to be revolutionary, merely to solve merchant issues. Unfortunately, because our business plan was innovative, we encountered unforeseen issues. One day upon returning from vacation on Jan. 2, 2001, we received a call from MasterCard informing us that hackers had breached a merchant's site. That's when we discovered we needed real security and developed robust security protocol.

This was a long and arduous journey that was necessary, but if we did not police ourselves MasterCard was going to impose very stern measures. This was a watershed Web security event that changed the direction of our company.

Q: What was among the biggest mistakes/errors/regrets of your career? And what did you learn from it?

A: Not negotiating an ownership position when I went to work for Authorize.net (laughs). I don't necessarily regret this, however, as if I did I would likely not be doing what I do today. Sometimes time grants you perspective on why things occur and now I have a company called Dharma Merchant Services. "Dharma" is a sanskrit word which refers to one's path. Dharma loosely translated means right intentions, right actions, right speech.

I should have started my own company earlier. I did not because I was content to work for others and appreciated the security that provided. I also had a fear of failure and knew if I stepped out or let go of the branch, it was permanent.

Q: Your ISO is innovative in its approach: no ICs, sustainable resources, donating a portion of your receipts to nonprofits. What was the inspiration for your business plan? What, if anything, would you do differently?

A: The genesis was an article I was reading on Life's purpose from a non-profit organization I have been a part of for 20 years. And it dawned on me that the triple bottom line of people, planet and profits could actually be achieved by someone within our industry by leveraging my knowledge in my community.

My heart has always been in conservationism and no one in our industry was catering to green businesses. I donate 10 percent of gross profit to a charity of our merchant's choosing. In speaking to my daughter, Alexia, she also thought it was a great idea. She is our cofounder and my partner. Dharma is a perfect reflection of who we are. We started in March 2007.

I also want to mention that we have come to recognize business' responsibility in making a difference in how our society evolves toward greater stewardship of the planet and caring for its inhabitants. If enough companies take on that role, then we are in line for great change and awakening.

Q: Any other observations you would like to share?

A: The industry continues to provide opportunities. We hear about the commoditization of our industry. However, we have taken a contrarian view and run a successful business by not focusing on the bottom line of profits. We never use the amount of money we are making as the sole measure of success. "Our abundance is not measured by money or possessions" and "Doing the right thing is success" are on our white board.

Jeff is a long time friend of mine. But by interviewing him, I learned things I never would have otherwise. I remain

My heart has always been in conservationism and no one in our industry was catering to green businesses. I donate 10 percent of gross profit to a charity of our merchant's choosing. In speaking to my daughter, Alexia, she also thought it was a great idea. She is our cofounder and my partner. Dharma is a perfect reflection of who we are.

impressed by his continual ability to reinvent himself within our industry.

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Selling**Prepaid**

Prepaid in brief

NEWS

Prepaid meter pilot begins in India

The Times of India reported that the **Maharashtra State Electricity Distribution Company Ltd.** installed 30 prepaid electricity meters at commercial establishments in Lonavla, a city in the Pune district of the Maharashtra province of India. The meters can be recharged over the Internet, as well as via "coupons" in the form of prepaid cards inserted into the meters.

According to the report, consumers who opt for prepaid meters in their homes can buy units of power by making advance payments; once the units are exhausted, consumers can buy recharge coupon prepaid cards from designated MSEDCL centers.

Kenya power company makes push with prepaid electricity meters

According to Kenya's *Daily Nation*, the **Kenya Power and Lighting Company Ltd.** is expanding its prepaid electricity meter program in the East African country. Power customers will be able to pay for electricity in advance via funds loaded onto "scratch" prepaid cards and converted into "utility units," the online news outlet said.

KPLC contracted with South Africa prepaid meter supplier Actaris for the initial delivery of 250,000 meters for a largely domestic utility customer base. KPLC's reported goal is to transition 1.4 million customers to prepaid meter usage, using approximately 300,000 meters installed at a cost of 2.5 billion Kenyan shillings (around $30 million).

The initiative follows KPLC's prepaid meter pilot program that ran in Nairobi and outlying areas from April 2009 to February 2010, the *Daily Nation* said.

U.S. Treasury begins phasing out paper check benefit payments

As of May 1, 2011, new applicants for Social Security, Veterans Affairs or other federal benefits must choose to have funds either direct deposited to bank accounts or loaded onto prepaid cards. With paper checks no longer an option, U.S. taxpayers will reportedly save $1 billion over the next 10 years.

The **U.S. Treasury Department** said approximately eight out of 10 federal benefit recipients already receive payments via direct deposit or the Direct Express Debit MasterCard prepaid card. Recipients who received payments via paper check prior to May 1 have until March 1, 2013, to switch to one of the two electronic payment options.

ANNOUNCEMENTS

Blackhawk goes south with gift card mall

Safeway Inc. subsidiary **Blackhawk Network** integrated gift card malls into hundreds of Office Depot and Comercial Mexicana stores in Mexico. Retailers included in the gift card malls are Lo Mejor de Mexico, Experimenta, Bueno, todito Card, Saludo, Hablando Derecho, 10 en Tareas, Xbox Live, todito Cash and Paysafe card, Blackhawk said.

The Philippines gets money transfer service

Money transfer specialist **MoneyGram International** said it will introduce a new cash-to-account money transfer service in the Philippines. The service, set to launch in late May 2011, will enable consumers to transfer money via MoneyGram locations and its website directly into the bank accounts of recipients in the Philippines.

Parago CFO Reeves named top Dallas exec

Incentive and loyalty card provider Parago Inc. reported its Chief Financial Officer, **Mae Reeves,** was named a top corporate finance executive in Dallas-Fort Worth by the *D CEO Magazine* 2011 Financial Executives Awards.

STS goes 'interactive' with loyalty card

Gift card and customer loyalty program provider **Smart Transaction Systems** launched an interactive loyalty card that utilizes two-dimensional QR (quick response) barcode technology. Consumers scan QR codes printed on the backs of the cards into smart phones to access loyalty point totals, cash balances, transaction histories and promotional messaging from card issuing merchants, according to STS.

improve consumer engagement and relationship build-
ing effectiveness, Cardtronics said.

Feature

IQPC survey raises regulatory alarm

According to a survey commissioned by the
New York-based International Quality &
Productivity Center, over 30 percent of respon-
dents have not been proactive in address-
ing the new and changing regulatory environment for
the prepaid card industry. Lisa Marie Jackson, Program
Director at the IQPC, called that statistic "alarming" and
something that needs to be addressed.

The survey, conducted in advance of the 5th Prepaid Cards
and Mobile Payments Conference and the 2nd Mobile
Commerce Conference to be held concurrently June 2011
in Denver, received replies from almost 100 decision mak-
ers at companies in the mobile commerce and prepaid
card spheres. Over 35 percent of the respondents have in-
house legal departments working on understanding and
complying with regulations.

But an equal percentage of respondents seek outside legal
assistance or have not taken any action at all. Jackson
called that last category evidence that the regulation of
prepaid cards has become "the big elephant in the room
for many organizations."

"All of the new regulations can be overwhelming and
perceived to be a hindrance when many need to realize
how much of an attribute these regulations can be," she
added. "I hope that this conference can assist in further
highlighting this issue."

Regulation redefining prepaid

In a IQPC podcast moderated by Chris Archer, Online
Content Manager at IQPC, the complex regulatory land-
scape for the prepaid card industry was discussed, with
attention given to the effect legislation like The Credit
Card Accountability Responsibility and Disclosure Act of
2009 (the Credit CARD Act) and the Durbin Amendment
to the 2010 Dodd-Frank Wall Street Reform and Consumer
Protection Act will have on the industry.

Carol Van Cleef, Partner at Patton Boggs LLP, said pre-
paid card providers are not subject to a regulation here
and there, but instead must deal with an increasingly
complex interaction of federal and state statutes. "The

PARTNERSHIPS

Eliminating e-gift card fraud behind new partnership

E-gift card provider **Giftango Corp.** partnered with
Vesta Corp. to offer Giftango's merchant consumers
the new indemnified payment services offered by Vesta
which includes fulfillment of virtual cards, customer
service, processor connectivity, payment processing and
indemnification from fraudulent transactions. Giftango
said Vesta's service eliminates merchants' fraud risk.

Higher One, Green Dot collaborate

Higher One Inc., a subsidiary of technology and pay-
ment services company Higher One Holdings Inc.,
chose **Green Dot Corp.** to be its cash transfer partner.
The relationship will enable Higher One OneAccount
college student customers to transfer cash to other
accounts via the Green Dot MoneyPak.

Prepaid titans team for in-lane money transfers

Prepaid card marketer, processor and distributor
InComm made a pact with **MoneyGram** for the distri-
bution and activation of the MoneyGram Xpress in-lane
money transfer service.

The service will be available at InComm's network of
over 225,000 retail locations, including grocery and con-
venience stores, pharmacies, and mass merchandisers.

OTP Bank, Oberthur strengthen 'citizen card' tandem

Oberthur Technologies said it reinforced its partner-
ship with **OTP Bank** to provide MasterCard-branded
Maestro "citizen cards" to the inhabitants of Pécs, the
fifth largest city in Hungary. The open-loop, network-
branded card is accepted by 150 million merchants
worldwide, Oberthur reported.

APPOINTMENTS

Socialwise shifts players at the top

Socialwise Inc., the parent company of BillMyParents,
said **James Collas** resigned as chairman and Chief
Executive Officer to devote himself full-time to the inter-
nal operations of the company. **Mark Sandson**, a direc-
tor of the company, was named interim chairman and
CEO and is leading the search for Socialwise's next CEO.

Parago CEO elected to Cardtronics' board

Cardtronics Inc. welcomed Parago President and CEO
Juli Spottiswood to its board of directors. Spottiswood
brings over a decade of experience in helping companies

degree of regulation is redefining the prepaid card marketplace and players in the marketplace," she said.

Jim Tingey, President of the Electronic Banking Division of First California Bank, said processors, program managers and issuing banks "must understand the regulations thoroughly, must have proper counsel in regard to understanding those regulations and the intent behind the regulations more than just the regulation itself."

Tingey and Van Cleef, who will co-chair a panel discussion at the prepaid card conference on the new regulations, agree that regulation on the whole is a positive development for the industry, as it gives a standardized framework under which all prepaid card businesses operate and will thus spur economic growth for the industry.

Regulations provide a "specific functionality and structure that the regulators want to see in a product," Tingey said. "And if those items are in place, then the growth can be unrestricted."

However, with that framework comes increasing costs of compliance, which may result in less entrepreneurship, Van Cleef said. New entrants into prepaid must have the financial wherewithal to cover heavy compliance costs, eliminating underfunded start-ups from entering the

industry, thereby "squeezing out some of the entrepreneurial spirit that we saw early on with prepaid cards," she added.

Integration runway

While it appears innovation will not be a casualty of regulation, IQPC's survey reveals that many businesses have not yet integrated prepaid services with mobile phones. Only 15 percent of survey respondents market prepaid products via the mobile channel, while 50 percent engage in website marketing. "This percentage was an expected occurrence because the e-commerce channel was considered the primary means of digital marketing prior to the current social media and emerging mobile commerce wave," Jackson said. Of the respondents that have integrated mobile payments into their product offerings, short message services (SMS) text messaging comes in at 60 percent, followed by direct mobile and contactless (40 percent), and QR (quick response) codes at 30 percent.

"SMS as a payment method has been largely adopted by the commercial and retail industries over the last 5 years," Jackson said. "Since this form of method does not require a smart phone, any type of cell phone can use an SMS payment method. QR codes are limited currently as they require a smart phone and barcode-enabled application to function properly. However, the proliferation of

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smart devices is increasing the popularity of QR codes. Furthermore, QR codes are just beginning to be leveraged as a payment method tool."

USPS to sell AmEx gift cards

Despite looming budget problems and shrinking mail volume, the U.S. Postal Service is moving forward on a gift card pilot program designed to offer more convenience and value to consumers at post offices.

According to Steven E. Mills, Manager of Retail Products at the USPS, the targeted roll-out date for the pilot is June 10, 2011, and can run up to two years. American Express Co. won the contract to manage the pilot and issue open-loop, single-use gift cards. The initial roll-out will involve 1,800 to 1,900 post offices nationwide, at locations where greeting cards are already sold. The pilot is set to expand to about 3,000 additional locations in October to take advantage of holiday sales.

Mills said the cards will be AmEx Gold prepaid cards denominated in $25 and $50, with a variable card that can be loaded with a value anywhere between $25 and

$100. The cards might incorporate postal imagery, such as stamp designs, at some point in the pilot, Mills said, with holiday-themed art that appears on postage potentially gracing the cards as well.

The cards will be displayed in 16-pocket "spinners" and located on retail countertops. The cards may also be co-located with greeting cards in select locations, Mills said. USPS retail associates will be trained on how to activate the cards on the post office's POS system. The USPS will share in revenue from card purchase (activation) fees, Mills added.

Pathway to prepaid

Mills said the USPS has been eyeing prepaid cards for 15 years, but held off until now because the prepaid card industry had not yet matured. The USPS once offered the Liberty Cash Card, which was a closed-loop prepaid card that could only be used at postal outlets. The program ended in the mid 1990s. "The industry wasn't developed at that point and there wasn't enough demand to sustain that program," he noted. While including closed-loop, retailer-specific gift cards in the product mix has not been ruled out in the future, Mills said the USPS settled on open-loop cards because they supply customers with the widest possible range of choices for redeeming the value on the cards.

It was reported in Post & Parcel that the USPS may face a $2 billion to $3 billion budget shortfall by the fall of 2011. But the USPS has not projected how much the cards will generate in revenue for the postal service. "That's what the pilot is for, to see whether this is something that we want to continue to do in the future and determine how much revenue, how much customer demand and satisfaction would be for this type of program," Mills said.

Post-abilities

The USPS has two main goals for selling gift cards. The cash-strapped agency is looking to gift cards to increase revenues and as a way to offer more convenience to consumers, Mills said. "We currently offer ReadyPost, which is our mailing and shipping supplies," he noted. "We have greeting cards in select post offices. We have mail related items such as stamps, stamp holders. We have select philatelic items and an assortment of branded and promotional items like tote bags to promote our Go Green stamps. Offering gift cards is really a way to offer one-stop shopping for our customer while they're in the post office."

"We are not really looking to become a destination shopping location," he continued. "We're really trying to add that convenience. We know the customers need to come to post offices and, while they're there, … make it more desirable for them to be there and check more than one thing off on their to-do list. It would just make it a better experience for our customers while they are in our lobbies already."

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Company**Profile**

PARAGON
APPLICATION SYSTEMS

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ISO/MLS benefits:
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- Simulate financial messaging on cards in over 90 formats
- Conduct ATM testing without damaging the actual machines
- Replicate card brand financial messaging to assist with messaging updates
- Leverage EMV compliance expertise

System simulating to perfection

The underlying workings of electronic payment systems involve automated messages, codes and communications. It is this web of data that Paragon Application Systems Inc. is focused on. The North Carolina-based company conducts maintenance, interfacing and troubleshooting of payment networks and ATMs around the world, using its expertise in financial messaging and the deployment of different network simulations.

"We're not a production system, we're a testing system," said Martha Engemen, Marketing Manager at Paragon. "We can simulate anything that happens in the production payment system."

In a number of ways, the company is involved in securing the integrity of the payment processing chain. Its services include identifying and pinpointing problems with communication, coding and other system errors; upgrading systems to comply with new mandates and other compatibility issues; system migrations; and conducting stress tests to gauge a system's capacity for supporting high transaction levels.

Change manager

Paragon provides these services primarily through a suite of software products, sold both directly to financial services clients and through resale channels. The company also provides in-person and phone-based technical support as a complement to its software offerings.

"At the highest level, we help our customers manage change," said Jim Perry, Chief Marketing Officer at Paragon. "The payments industry is

always evolving and changing, and customers have to maintain their systems to make sure they're compliant and efficient, and that they run 24 hours a day. So our software helps their quality control people make sure systems are reliable and meet the demands put on them every day.

"Our primary audience is developers, quality assessors and pre-certification people. It's all the work that happens before production. Once they're certified and verified and everything is ready for production, we're out of the scene at that point. But we're back on the scene for developers working on the next project for a later date or certification."

Most of Paragon's system tests involve the use of simulations, where the company essentially provides a stand-in for some real-world entity or device that allows the client to conduct troubleshooting and calibration tests in a testing vacuum outside of the client's real-world network, Perry said.

Environment simulator

A common example relates to the periodic updates made to financial messaging by the card brands to ensure that networks stay up to date on the changing conditions of payment acceptance and settlement. The updates usually apply to all payment entities which connect to the card brand networks, and typically require changes to the way financial messages are processed, sent and received, according to Perry.

He explained that a company that installs an upgrade has to be sure of two things: that the upgrade works

If you're managing 5,000 merchants down stream, it's pretty difficult to manage certification. Merchants are looking for a way to automate this without anyone else on the end of the line, and we provide that."

– Jim Perry
Chief Marketing Officer, Paragon

on the company's system, and that the upgrade doesn't compromise any existing functions. Businesses that partner with Paragon, or integrate its software into their systems, can make those determinations through a series of simulations conducted outside of real-world networks, Perry added. Such simulated environments allow the user to conduct testing without the constraints and variables inherent in live networks.

"The card associations change their message [machine-generated communications on the network] to support these updates and say, 'We want you to update your product to support that as well,'" Perry said. "So, first we make that change to our customer's [software]. Then we act like Visa or MasterCard for them, and now they can bounce transactions off of us to make sure the internal systems are running properly in a real-time environment."

According to Perry, the benefits of simulated testing over testing on a regular network can include substantial savings in time and money – largely because testing on a network necessitates time and costs around appointment scheduling and other logistical matters.

"It really depends," he said. "For a big merchant acquirer, there's a pretty attractive return on investment."

Compatibility enabler

Paragon's clients include banks, merchant acquirers, credit unions, processors, card brands and merchant aggregators servicing e-commerce merchants, Perry said.

For example, aggregators that contract with a range of different merchants have the unique and unenviable task of ensuring that each merchant's system is compatible with the network to which they're connected; compatibility is necessary so that batches of aggregated data from various merchants can be sent off for processing over one network, Perry explained.

For aggregators, the work of ensuring that all of their

CompanyProfile

different merchants are properly set up for network participation can be a painstaking chore requiring numerous phone calls, according to Engeman.

"Generally it's a trial-and-error process over a couple of months to make sure that everything is just right between your two [connecting systems]," she said. "You need to make sure of everything. You need to make sure the different messages are properly communicated, that the connection works properly, that the transaction data is not being exposed."

Paragon's software program allows merchants to certify their systems for use on the network through an automated computer process that cuts out the acquiring entity – meaning the merchant acquirer does not have to be

involved in the testing process, and thus minimizes phone time with the merchant, Perry said. He added that the product also allows 100 merchants on a given network to test their systems at one time, whereas the typical process allows only 20.

"If you're managing 5,000 merchants down stream, it's pretty difficult to manage certification," Perry said. "Merchants are looking for a way to automate this without anyone else on the end of the line, and we provide that. When they see they've successfully run all the transaction data, all the acquirer has to do is get on the phone and approve a final certification. Everything else is already taken care of."

ATM and EMV-card tester

Another primary area of focus for Paragon is the ATM industry, where much of an ATM provider's work centers on the same kind of simulation testing Paragon conducts for back-end payment networks. Paragon offers an ATM simulator for banks and ATM sellers that allows for the testing of one feature or another without risking damage to a real machine.

"For example, you might have a printer jam [inside the ATM], and you don't want to simulate that with a real printer," Engeman said.

Perry said one of the biggest growth niche markets for Paragon is simulation testing for equipment based on the Europay/MasterCard/Visa (EMV) security standard. Testing on EMV-compliant machines brings a new level of complication to network encoding and programming, he added.

In addition to serving businesses in foreign countries that have adopted the EMV standard, Perry said Paragon has begun to provide EMV testing in the United States – for example, U.S. merchants near the northern border who want EMV-acceptance capacity for Canadian visitors or Americans traveling abroad who are increasingly requesting EMV-enabled cards for use during trips.

Company**Profile**

Paragon has helped businesses and banks conduct EMV card simulations. One example is a simulated EMV card it developed for testing an ATM mechanism that deactivates cards that have been reported stolen, Perry said. The action renders stolen EMV cards permanently useless, he explained. He called the solution a more cost-effective way to test the stolen card-blocker, as it doesn't waste actual EMV cards, which are expensive to produce.

Furthermore, the simulated EMV card gives users a unique chance to see the card's coding functions at work. "The EMV cards have got all these crypto-grams and things in there and you can't see them on a traditional card – part of security," Engemen said. "We've created virtual cards that allow you to see into

the card. So if you test it and it fails, you have to know why it failed."

"When you have a card and put it into an ATM, there are a lot of things happening," Perry added. "It's like a black box – you have no visibility to what might be causing a problem somewhere in your system.

"Our software lets you see the interaction between card and terminal generating certain keys and values."

Expertise purveyor

Perry characterized Paragon personnel as "financial message experts," with expertise at the host, processor and device levels. The Paragon team also brings extensive experience with electronic funds transfer systems.

"We know as much about financial transaction processing as anybody, and typically more," he said.

"We get down to the bits and bytes of messages, and we know exactly how they work. ... We can simulate over 90 financial message formats – like when you swipe your credit card, there is a financial message that's sent out to the machine … Numbers, letters. Different parts mean different things. We generate an appropriate response and send it back. If the request has an error, we'll tell them what it was. We'll also send the request to them."

"There's a wealth of experience here," Engemen added. "It's a private company that has grown internally, and we bring in people with a lot of experience in a lot of areas of message processing. And people tend to stay here."

The company's clients include seven of the top 10 international banks, three of the top four international card networks, three of the top five credit unions and most of the biggest international processors and acquirers, according to Perry. Overall the company has 525 clients spread out over 86 countries.

"Not bad for a 35-person company outside of Raleigh, North Carolina," Perry said.

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Legislation in the works

Regulation of the bankcard industry is the dominant theme of federal and state legislation introduced in 2010 and 2011. This kind of legislation appears to have bipartisan support in Washington and across the country.

On the federal level there is much attention on regulating and policing personal identification security issues. Federal legislators also are looking to legalize and regulate online gambling – but without credit card transactions – and lawmakers are demonstrating an interest in protecting Internet freedom.

Federal actions

More to the point for ISOs and merchant level salespeople are bills currently being considered in Washington. HR 1125, introduced by Rep. Chaka Fattah, D-Pa., would put a 1 percent tax on every electronic transaction; in return the money collected from the new tax would be used to eliminate the national debt and the national income tax.

The U.S. Senate and U.S. House of Representatives are both offering legislation to protect cyber information.

The White House recently offered a cyber security legislative proposal that is supposed to help guide and perhaps consolidate all of this legislation.

Among the cyber security measures currently on the legislative docket are S 799, sponsored by Sen. John Kerry, D-Mass., to put the Federal Trade Commission in charge of creating personal privacy protections and policing those rules once they are created. A second House bill, HR 1707, would similarly set policies and procedures for ensuring the protection of personal data.

Another bill in the works, HR 1174, would make Internet gambling legal, but the legislation would not allow credit card payments, according to the bill's language.

State moves

There is an effort in five states to enforce the restrictions on the kinds of prohibitions, restrictions and fees credit card companies can impose on merchants. These bills are remarkably similar in language and intent and generally enjoy bipartisan support though they are moving sluggishly through their legislatures when they move at all.

For more information on these bills, as well as other legislation of interest to payment professionals, please visit our new resource, Legislative Roundup, at *www.green sheet.com/legislation.php*.

Webinar delves into fraud threats, solutions

A new payment trends and fraud study for LexisNexis by Javelin Strategy & Research found there were more than $100 billion in fraud losses in the payments industry in 2010. The study also concluded technology is developing so rapidly the payments industry is unable to keep up with new fraud techniques.

Fraud, the study reported, drives one in three customers away from merchants and creates wariness among consumers toward online retail merchants. However, the author of the new study said fraud can be mitigated with the right tools and solutions.

Javelin President James Van Dyke told a LexisNexis webinar audience April 28, 2011, the problem is not just that fraud cannot be stopped. The bigger problem is that multipliers associated with payment fraud can triple the cost of the theft for merchants.

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The payment trends study

Van Dyke offered his audience the second-year results of independent payment fraud research his firm has been doing for LexisNexis. Titled *Online Payment Trends and the LexisNexis True Cost of Fraud Study*, the report states the percentage of online shoppers was up 14 percent and online retail sales rose 18 percent in 2010. The study additionally concluded there is also a consumer trend away from credit cards.

Van Dyke said by 2015 the 15-to-25-year-old age demographic, the so-called generation Y, will be the leading consumer spenders. This generation is moving away from credit cards to debit cards and other forms of alternative payment. "Gen Y has very different buying preferences than the preceding generations," Van Dyke said. "They prefer real-time payments such as debit cards. I expect debit growth to remain steady. Gen Y likes anything that is not credit, revolving balance especially. Alternative payments is driving the growth in payment volume."

Van Dyke warned his audience not to confuse growth rate with volume, as credit cards, with a volume of $111 billion last year, easily outdistance the debit card volume of $84 billion. Other payment alternatives like PayPal Inc. are continuing to grow, he added. "There's a lot of swirling around and change [in the payments market now]," he said. "This drives fraud risk up, not down."

A personal ID problem

Van Dyke said the payments industry's fraud problem is really an Internet personal identification problem. His study found consumers are often as afraid of merchants selling their private information as they are of thieves stealing their identities online.

"It's a problem of authentication," he said. "Consumers like to know merchants are confirming their identity. If merchants can confirm identity, online business will grow."

Payment volumes are slowly increasing in every payment type, and a diversified fraud mitigation strategy is essential for both exclusively online merchants and multiplatform merchants, Van Dyke reported. The most important thing a business can do to fight fraud is to be certain the mitigation strategy is "payment type agnostic," meaning the merchant needs a strategy that addresses all forms of payment, be it credit, cash, debit, check or other alternatives. "Economic conditions can, and will, dictate fraud incidence," he added.

The study found that exclusively online merchants experienced 66 percent of their fraud through credit cards in 2010, 22 percent through alternative payment methods and 14 percent through debit card use. Check fraud accounted for only 3 percent of payment theft nationwide. Statistics from all retail merchants show 45 percent of their fraud was credit card fraud, 9 percent was alternative payment fraud, 26 percent was check fraud and 22 percent was debit fraud.

Van Dyke said the statistics show "frictionless payments result in frictionless fraud." The good news is fewer merchants are reporting fraud. But Van Dyke doesn't expect that trend to last.

The multiplier

Van Dyke said the study revealed that every $100 of payment fraud costs the merchant $310. "The multiplier effect is three times the loss figure," Van Dyke said. "Merchants are penalized for payment fraud with higher rates and chargeback fees, and then they have to battle with the acquirers over the chargebacks."

The study also rated consumer feelings toward specific payment security solutions. At the bottom of the list of favored consumer options were fingerprinting devices. "There are more concerns on device fingerprinting than with any other verification method," Van Dyke stated. He added it is important for merchants "to understand who ends up holding the bag if fraud occurs. You have to be careful to know who owns the liability and how your methods integrate with your fraud investigation tools."

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New fraud calculator

LexisNexis used the last moments of the webinar to introduce and demonstrate its new Retail Fraud ROI Calculator. Jim Rice, LexisNexis Director of Market Planning for Retail and Communications Markets, said the ROI calculator will assess existing and benchmark-related fraud costs against other fraud costs in the merchant's specific market and measure revenue gains after fraud solutions are applied.

Rice said the LexisNexis solution is payment agnostic, and he offered this advice, "You have to make sure you have the right tools and solutions in place. If you don't know if you have the right solutions, work with a solutions provider who can advise you."

Texting for redemption at the ETA

If a smart phone can be a computer, a camera, a television set and a music player, why does an ATM or a card reader have to be limited to accepting credit and debit cards? They don't, said Pal Flagg, Chief Operating Officer of San Diego-based Street Savings. He believes Street Savings technology opens new marketing opportunities for ISOs, merchant level salespeople (MLSs) and small businesses.

Street Savings uses text messaging to promote gift and loyalty programs through payment devices such as ATMs and POS terminals. The company said short message service (SMS) communications have the advantage of usually being opened within minutes of arrival, with coupons sent by SMS redeemed 10 times more often than paper coupons.

"With the growth of text messaging, we started to work with the bankcard industry to solve a problem – redemption," Flagg told *The Green Sheet*. "We are tracking the offers. No other company has a way to track coupons like we do. This is a product designed for the small merchant. It is simplified, packaged up and made easy for the small guy to use."

Easy text it

Mobile marketing is a new and rapidly changing environment and it is hard to know what will work for different merchants. Street Savings allows merchants to see what offers work for them in terms of real dollars coming back to them from advertising. "Most businesses don't have a whole lot of time to figure out mobile marketing," Flagg explained. "We tried to make this easy for the agent to understand. This product is easy to use, it's inexpensive to use and it works."

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>
> – Pal Flagg
> Chief Operating Officer, Street Savings

Street Savings allows merchants to key text messages into a database system. The system manages the messages and sends them out according to criteria set by the merchant. For instance, a merchant could key in a message to send customers a message saying, "We miss you. We've added $2 into your account. Thanks for being a great customer."

The message would include an expiration date for the offer and a barcode and/or key for redeeming the coupon. The system would then be able to collect data on who used the coupon, how much the customer spent and other information.

"We can now track revenue from the coupons because they key in the whole account," Flagg noted. "There is nothing better than sending out and tracking revenue from an advertising deal."

MLS swag

Street Savings introduced MLSs to its mobile marketing coupons and rewards at the 2011 Electronic Transactions Association's Annual Meeting & Expo in San Diego on May 11 and 12. The company worked with gift and loyalty partners Valutec, Secure Payment Systems and Synergy World Inc. to provide ETA participants text message offers from restaurants and retail merchants in San Diego's famous Gaslamp Quarter.

The agents were able to redeem the offers using ATM kiosks, text-to-join responses, credit card terminals, POS terminals, web sign-ups, social media, quick response codes, and "tap-to-join" solutions using near field communication technology.

"The hardware is ubiquitous," Flagg said. "The hardware is everywhere. For the agent this is significant. The merchant doesn't have to buy new devices to use Street Savings. No one has access to POS terminals except the agent. So nobody else can touch the device. This product is fun to sell. The agent is selling at the intersection of technology and opportunity."

Verizon, Secret Service release data breach report

Data breaches, though common, more destructive and more targeted than ever before, can most often be prevented using common, inexpensive security procedures, stated a new report released by the Verizon Risk Team.

In April 2011, just as the massive Sony PlayStation Network data breach panicked media, alerted processors, and aggravated 77 million PlayStation users, the Verizon Risk Team released its *2011 Data Breach Investigations Report.* This is the fourth report compiled using statistics from Verizon and the second using data from the Secret Service. This year the study also includes data from the Dutch High Tech Crime Unit. Verizon has gathered and published data breach investigation reports for seven years, collecting data on more than 1,700 breaches and 900 million compromised records.

Public-private cooperation

Secret Service Agent Robert Novy of the U.S. Secret Service Office of Government and Public Affairs said the agency looks for opportunities to cooperate and share information with the public and private sectors.

The Secret Service's mission, in part, is to defend the integrity of the U.S. financial system.

The public-private cooperation is part of the mission of the Secret Service's Electronic Crimes Task Force. The task force is tasked with working with private partners in a cyber crime fighting effort. There are 31 ECTF branches, two of them overseas.

Novy said the Secret Service is sharing "non-attributable data" from 667 data breach investigations in 2010 and pointed out that information contained in the Verizon report is applicable anywhere in the world.

Fascinating findings

The 2011 study includes findings that sometimes even puzzle investigators. For instance, the Verizon study found more data breaches are being reported and investigated than ever before (more than 760 data breach incidents were investigated in 2010), but the volume of data actually stolen dropped dramatically from an estimated 144 million compromised records in 2009 to only 4 million compromised records in 2010. Last year was the lowest volume of data loss since the Verizon data breach reports were started in 2008.

"It is fascinating from a research standpoint that the all-time lowest amount of data loss occurred in the same year as the all-time highest amount of incidents investigated," the authors wrote in the report summary. "In addition to being the largest caseload ever, it was also extremely diverse in the threat agents, threat actions, affected assets and security attributes involved."

The report describes last year's external attacks as "highly automated and prolific." The attacks included using strategies such as low and slow attacks, internal fraud rings, device tampering schemes, social engineering, and other plots to gain access to system-stored information.

The report indicates the number of these diverse kinds of fraud is climbing even though the proportion of data breaches in each of the diverse areas (external, internal and partners) to total aggregate data breaches remains the same.

"Ten percent used to mean approximately 10 to 15 breaches across an annual caseload averaging 100 to 150; it now means 75 breaches in the context of the 2010 caseload," the report noted.

Targets of opportunity

According to the report, most data breaches should never have happened or could have been easily prevented. The study stated, "Your security woes are not caused by the

News

lack of something new. They almost surely have more to do with not using, under using, or misusing something old."

The authors believe the industry must try harder to challenge hackers. "Year after year our data seems to suggest that we are not [making hackers scramble to adapt], and that is something that needs to change," they wrote. "If they adapt, then they adapt. *C'est la vie*. But let's quit allowing them to find success in stagnation."

The report also found 92 percent of the 2010 data breaches were the result of external attacks. This is a 22 percent increase from 2009. Meanwhile, data breaches as a result of insider attacks were down 31 percent but are still the second most common form of data breach at 17 percent.

"[We found] a huge increase in smaller external attacks rather than a decrease in insider activity," the report stated. "Partner-caused breaches continued their steady decline."

Fifty percent of 2010's breaches were the result of hacking (up 10 percent) and 49 percent were from malware (up 11 percent). "Absent, weak and stolen credentials are careening out of control," the report said.

In 83 percent of the attacks, the victims were merely targets of opportunity. Most of the attacks (92 percent) had a low level of difficulty. Most of the stolen data (76 percent) was taken from servers. Most breaches (86 percent) were found by third parties, not by the hacked system.

Preventive measures

The report claims 96 percent of breaches could have been prevented with simple or intermediate controls. It also found 89 percent of the victims who are required to comply with the Payment Card Industry Data Security Standard were not compliant when they were attacked. The authors concluded, "Almost all breaches are avoidable (at least in hindsight) without difficult or expensive corrective action."

Here are some of the report's recommendations for defending against data breaches:

- **Achieve essential, and then worry about excellent:** "We find many organizations achieve very high levels of security in numerous areas but neglect others. Criminals will almost always prefer the easier route. Identifying a set of essential controls and ensuring their implementation across the organization without exception, and then moving on to more advanced controls where needed is a superior strategy against real-world attacks."

- **Change default credentials:** "Simple and sweet, when system/network admins stand up a new system, change the password. If you outsource this to

a third party, check that they've changed the password."

- **User account review:** "The review should consist of a formal process to confirm that active accounts are valid, necessary, properly configured, and given appropriate privileges."

- **Restrict and monitor privileged users:** "Don't give users more privileges than they need and use separation of duties."

- **Secure remote access services:** "In many instances, remote access services have been enabled and are Internet-facing. … It's important to limit access to sensitive systems within the network. Many organizations will allow any device on the network to connect and remotely access any other device; we highly recommend not managing your devices this way."

- **Monitor and filter egress network traffic:** "At some point during the sequence of events in many breaches, something (data, communications, connections) goes out that, if prevented, could break the chain and stop the breach. By monitoring, understanding, and controlling outbound traffic, an organization will greatly increase its chances of mitigating malicious activity."

- **Application testing and code review:** "It is no secret that attackers are moving up the stack and targeting the application layer. Why don't our defenses follow suit? As with everything else, put out the fires first: even lightweight Web application scanning and testing would have found many of the problems that led to major breaches in the past year."

- **Enable application and network witness logs and monitor them:** "Processes that provide sensible, efficient and effective monitoring and response are critical to protecting data."

- **Train employees and customers to look for signs of tampering and fraud:** "ATM and pay-at-the-pump tampering/fraud seem to be increasing in number and scope. Organizations operating such devices should consider conducting regular examinations of them."

- **Create an incident response plan:** "An effective incident response plan helps reduce the scale of a breach and ensures that evidence is collected in the proper manner."

A copy of the report may be found at *www.verizon business.com/resources/reports/rp_data-breach-investigations-report-2011_en_xg.pdf.*

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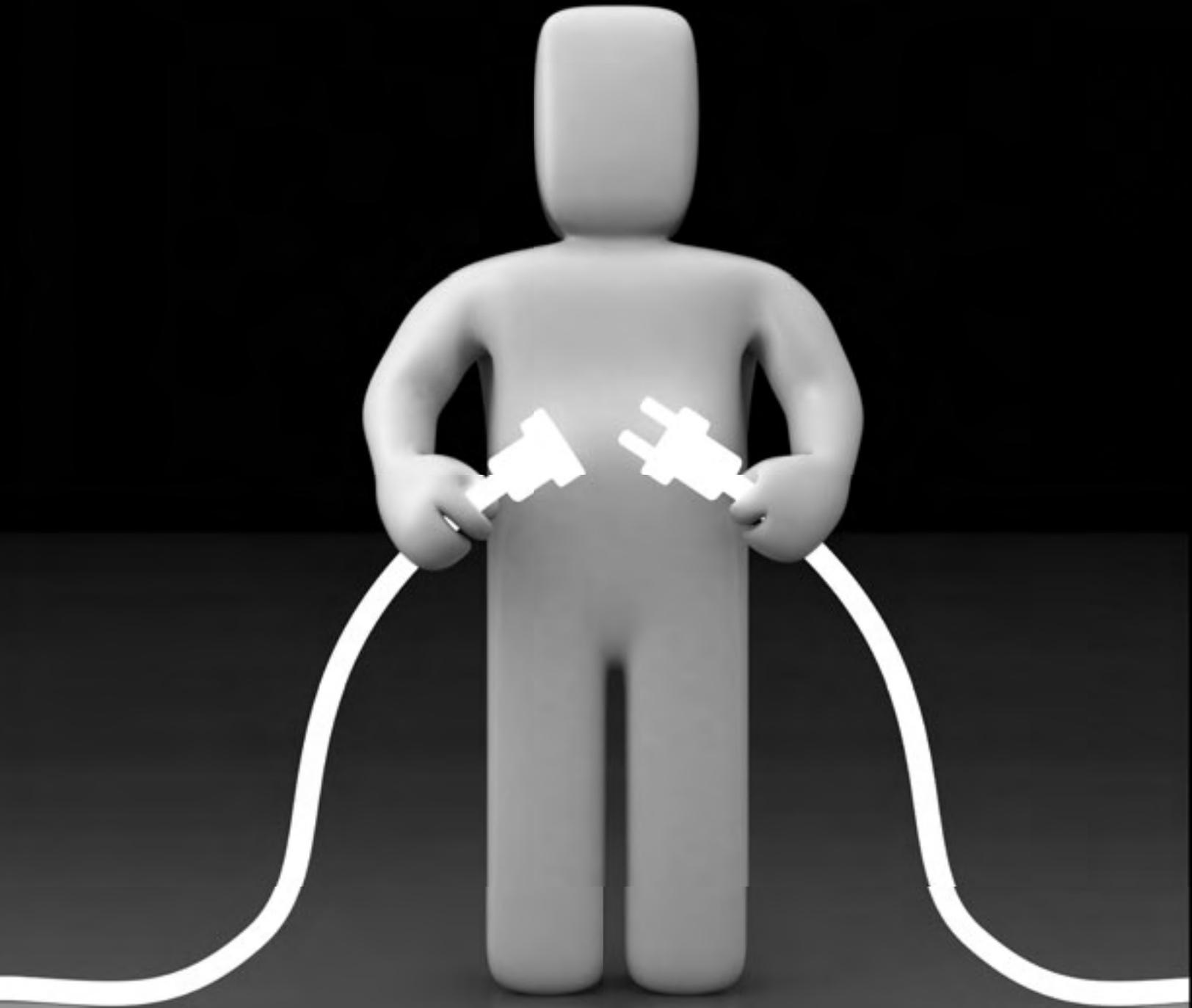
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Is Sony PCI compliant?

Many security companies contacted for this article refused to comment on the Sony breach. Additionally, the PCI Security Standards Council LLC (PCI SSC) would not address whether Sony was compliant with the Payment Card Industry (PCI) Data Security Standard (DSS) at the time of the breach.

Tim Cranny, President and Chief Executive Officer of Panoptic Security Inc., speculated that data security firms are intimidated by the entertainment behemoth. "They may have been worried about getting involved with litigation," he said, adding that the companies may not want to upset a potential client.

But even determining something as seemingly simple as whether an entertainment merchant like Sony has to be PCI complaint, or who polices a company's compliance with the PCI DSS, was a surprisingly difficult task.

In response to questions about whether Sony networks are required to be PCI compliant and subject to PCI regulations, the council's general manager, Bob Russo, said, "Regarding the circumstances of this and any other data breach incidents, the council does not monitor or track compliance, nor does it engage in forensics investigations, so we do not have insight into the details of any specific breach."

In a separate statement, the council said, "We do not have anything to do with compliance. The individual participating payment brands separately determine what entities must be compliant, including any brand-specific enforcement programs."

Paul Martaus, President of consulting firm Martaus & Associates, said, "It's up to the card brands to maintain the integrity of their brands. They choose standards by which everyone must become compliant. They do not have their own police, however. They outsource the responsibility for policing their brands to financial institutions."

Martaus added that if Sony is a registered merchant, you would need to determine its sponsoring bank to learn if the institution requires Sony to be PCI compliant.

The eight-page letter

Congressional hearings on the Sony breach were held May 4 before the House Subcommittee on Commerce, Manufacturing and Trade. Sony provided answers to 13 questions submitted by lawmakers, but did not testify due to its continuing investigation into the data theft.

In lieu of testimony, Kazuo Hirai, Chairman of Sony Corp. subsidiary Sony Computer Entertainment America, addressed an eight-page letter to the subcommittee where he publicly acknowledged for the first time the data theft was likely the work of a group of "hacktivists" who col-

lectively call themselves Anonymous.

Hirai said neither Sony nor the FBI had yet identified the individuals responsible for the breach. "What is becoming more and more evident is that Sony has been the victim of a very carefully planned, very professional, highly sophisticated criminal cyber attack designed to steal personal and credit card information for illegal purposes," he said. "When Sony discovered data from its servers had been stolen, it also found the intruders had planted a file on one server that said, 'We are Legion.'"

Anonymous is pegged in the computer world as an anarchistic collective of programmers, often unknown even to each other, who collaborate on protests and other strategies to promote Internet freedom and Internet freedom of speech. The Sony breach is reportedly typical of the kind of action Anonymous is known for.

Hirai said the data theft came weeks after Sony was the target of a previous Anonymous attack that shut down the Sony network by flooding the system with distributed denial of service (DDoS) notices. The Sony chairman said the attacks were likely in retaliation for Sony's decision to prosecute George Hotz, a Massachusetts gamer who the company believes is a member of FailOverFlow, a group that managed to hack Sony's PlayStation console to run

pirated software on the PlayStation network.

Hirai pointed to at least three possible reasons Sony did not know when its networks had been breached: the break-in was highly sophisticated, the hackers found a hole in the software of which the company was unaware and Sony technicians were so busy fending off DDoS attacks that they missed the break-in.

"Whether those who participated in the denial of services attacks were conspirators or whether they were simply duped into providing cover for a very clever thief, we may never know," Hirai noted.

Hirai's letter said Sony hired three unnamed firms to conduct forensics investigations of its network breaches. *The Wall Street Journal* reported those companies are international security consulting firm Protiviti Inc., Pasadena, Calif.-based software solutions firm Guidance Software Inc. and the software development firm Dataforce Development Force headquartered in Santa Cruz, Calif.

Sony reportedly hired the international law firm of Baker & McKenzie to represent it in the data breach matter. *The Wall Street Journal* also said it confirmed that hackers got into the Sony system through a Malaysia-based server.

Responses to Sony's answers

Subcommittee Chairman Rep. Mary Bono Mack, R-Calif., was critical of Sony's response to the data theft. "I hate to pile on, but – in essence – Sony put the burden on consumers to search for information, instead of accepting the burden of notifying them," she said. "If I have anything to do with it, that kind of halfhearted, half-baked response is not going to fly in the future. This ongoing mess only reinforces my long-held belief that much more needs to be done to protect sensitive consumer information."

Bono Mack was not the only one with concerns about the Sony response to the data theft. Security professionals also expressed doubts. Security consultant Cranny said, "I'm surprised the basic information has to be publicly dragged out of Sony like this. I'm surprised at how long it took Sony to take charge of this story and face up to the issues."

Cranny believes that from a public relations perspective, Heartland Payment Systems Inc. did a better job of addressing private and public concerns following the processor's data breach in 2008. In that incident, information from an estimated 100 million cardholders was compromised.

Cranny noted that the PCI SSC has on a number of occasions followed a major theft of information with forensic analysis of the break-in. "So far, no one has been both breached and PCI compliant at the time of breach," he said. "It is impossible to know if a company is compliant. It is possible in theory to comply with DSS and still be breached, but so far that is not what the council has found. There is nothing that can make you invulnerable to attack."

Martaus has a more acerbic view. "It's a fallacy when the PCI council says there has never been a breach if a company is following PCI-compliant rules," he said. "But it's a Catch-22. The other side of the coin is that, by PCI definition, a company that has been breached is not PCI compliant. The breach itself puts the company out of compliance. That's the only reason PCI can say a system in compliance has never been breached."

Cranny agrees with experts who say the best security system is the system that keeps no sensitive customer information at all. But that's not an option for everyone. "Sony did a risk assessment on what data to keep," he said. "Obviously something went horribly wrong."

Important take-aways

Sony still claims not to know if the breach resulted in

credit card account information being stolen. Hirai wrote to the subcommittee, "As of today, the major credit card companies have not reported that they have seen any increase in the number of fraudulent credit card transactions as a result of the attack, and they have not reported to us any fraudulent transactions that they believe are a direct result of the intrusions."

Approximately 12.3 million accountholders worldwide had credit card information on the PlayStation network, with 5.6 million of those account holders residing in the United States, according to Hirai.

Hirai promised new security measures for the Sony networks, including: automated software to defend against attacks; more data protection and encryption; a greater ability to detect intrusions, unauthorized access and unusual activity; the addition of more firewalls; a move to a new data center with enhanced security; and the naming of a new chief information security officer.

Cranny believes the Sony breach has taught the industry at least one lesson: data piracy is getting more sophisticated and more focused.

"It is unacceptable for a large company to suppose it won't be attacked," he said. "The cost of the damages greatly outweighs the cost of doing the right thing in the first place. I think companies like Heartland and TJ Maxx [associated with the TJX Companies Inc. breach of 2007] and Sony would dearly love a second chance to address their problems in the first place rather than going back and fixing them."

Alan Paller, Director of Research at The System Administration, Networking and Security (SANS) Institute, said there is a 90 percent probability it was a phishing scheme that initiated the Sony breach.

"Almost all high-priority targets are attacked the same way," Paller said. "The hackers get in by fooling a system administrator into opening an infected attachment, allowing the hacker to easily take advantage of vulnerability. That's how they get in. Once in, it's coding errors in the regular software that lets them find the data."

Paller recommends companies practice good system hygiene. There are simple ways businesses can protect sensitive information, he said. They include:

- Store personal information and credit card data in encrypted files.
- Ensure programmers have security-minded programming skills.
- Put a team in place that can locate attacks quickly.

"You can't stop all perimeter attacks," Paller said. "It is very hard. There are only a very few people in the world who can do it. Still, 90 – 95 percent of the major companies

do not have a team in place. It's tough. The bad guys are invisible."

Martaus said data security is a tough problem for the industry to solve and that the root of the problem is public apathy. "The reason breaches are occurring so frequently is the general populace is almost becoming inured to these break-ins," he said. "I know that doesn't sound good because we should be outraged by these data thefts. Instead we say … it's part of the cost of doing business."

Martaus feels the worst possible outcome for a Sony customer in the aftermath of the break-in is identity theft. "The gamers just care about getting back on line," he said. "The attitude is this happens all the time: 'So what?' 'What's the big deal?' But if your identity is stolen, you are in a world of hurt. There is nothing you can do about it. The American consumer should be jumping up and down and demanding something be done."

Martaus implied customers may have a point with their adoption of a laid-back attitude toward personal information hacks. He noted that the Heartland breach resulted in very little subsequent credit card fraud. "On the surface the Heartland breach seemed like a huge theft that in the long run amounted to nothing," he said.

What lies ahead?

Martaus is complimentary of the banking industry for its consumer policies regarding data breaches and believes bankers have been savvy in their approach to responding to reports of credit card fraud.

"The banks are being stand-up by saying to consumers, 'We know this is not your fault; as long as you meet our requirements we will reimburse your loss,'" he said.

"The reason banks aren't raising a big deal about this is because the amount of fraud we are talking about is statistically insignificant. It is not large enough to raise alarm bells. All the fraud that is occurring is statistically *de minimus*. It is not a big deal to banks or consumers, apparently.

"PayPal did an internal study, and apparently 70 percent of the people with active accounts have no problem providing their checking account information."

This is a dangerous public attitude, because anyone can get hacked, Martaus added. "RSA got hacked," he said. "They are a premier company providing security. ... Their customers include the CIA, FBI, NSA and the Department of Defense. It got hacked. How do you protect against that?"

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Is now the time for registration?

By Bill Pirtle
MPCT Publishing Co.

Like many terms in the credit card processing industry, "registration" means different things to different people. Most in our industry understand registration to be the steps ISOs and processors take to become authorized by an acquiring bank and the major card brands to accept and process payments tendered with credit and debit cards issued by those brands.

For the purpose of this article, the term "registration" refers to registering all levels of the processing chain to a specific entity for the purpose of cleaning up our industry.

My first Street Smarts article, "Straight talk on professional certification," *The Green Sheet*, April 11, 2011, issue 11:04:01, covered the Electronic Transactions Association's Certified Payment Provider program. One member of GS Online's MLS Forum asked me privately why I wanted to rehash my first column so soon. He feels, as many do, that "certification" is the same as "registration"; it is not.

Pros and cons of registration

"Certification" is the earning of a certificate or a designation that is only as valued as the entity that grants it. The process of "registration" can include licensing and tracking for compliance purposes by a single entity for a set geographical area.

MTY MSI was the first forum member to offer an opinion on registration, "[T]he only way registration will ever work is if the [card brands] are behind it and enforcing it."

And that doesn't appear to be about to happen anytime soon. Anything less is merely window dressing, and that includes the ETA's upcoming and apparently ridiculously priced [Certified Payment Provider] program. ISO and/or

MLS registration without the [card brands'] involvement is an exercise in futility."

JDECKARD said, "I can't see anything changing from having agents register. There simply isn't an entity that has the 'power' to have it make a difference. … While it is idealistic to believe that it would make a difference ... the truth is that without any 'teeth' it's just window dressing."

"This topic gets a lot of discussion, but the ones who would likely suffer the most (if 'suffer' is the proper word) are often those not posting here but instead are out selling and know no better," **CLEARENT** noted. "They are MLSs with companies that keep them insulated from the market, milk them dry [and] then cut them loose."

Then **N2NSOLUTIONS** posted, "I'd like the ETA to license MLSs like the SEC and NASD [National Association of Securities Dealers] does financial advisors. ETA would have the corresponding authority to levy fines and suspensions. Finally, the MLS must be licensed by any state they do business in. That would totally clean up our industry."

The role of existing regulatory agencies

This comment brought two quick comments. First, **JOHN GALT?** said, "[T]hat would clean it up just like the SEC and NASD – now FINRA [Financial Industry Regulatory Authority] – prevented Bernie Madoff from getting in, and it certainly kept Enron, World-Com, Tyco, and AIG

"We all know who the bad guys are, and if the FTC would get off of their duffs and send out some investigators to the scenes of the crimes, you would see the 'hired gun' rogue reps, and crooked ISOs that are paying them, running like roaches when you turn on the lights."

Forum member **SLICK STREETMAN**

honest. Yep, all those regulations have kept Wall Street just squeaky clean."

JDECKARD followed up, "Exactly! Might I add, [the] last time I checked, the SEC was a government entity, which means they have the 'teeth' to do something. [Plus,] the NASD hasn't existed since they were gobbled up back in 2007 by what is now FINRA … and again, they have the 'teeth' to do something. … The ETA could fine me $10,000,000 tomorrow, and all it would do is make me laugh. [T]hey have absolutely zero authority to do anything."

"If someone could get the FTC to do their job, like they did when they swooped in and grabbed CMS/ TMS by the [ears], our problems would be over," **SLICK STREETMAN** posted. "We all know who the bad guys are, and if the FTC would get off of their duffs and send out some investigators to the scenes of the crimes, you would see the 'hired gun' rogue reps, and crooked ISOs that are paying them, running like roaches when you turn on the lights."

For years, Congress and the courts have viewed consumer contracts differently from business contracts. Business owners are normally considered to be savvier than consumers and receive less protection from federal law. Many business owners are under the assumption that they can cancel a contract within a set number of days; some agents even tell owners this (some not knowing it doesn't apply for business owners).

Unless it finds specific and "systemic" instances of fraud, the Federal Trade Commission is not likely to charge to the rescue of business owners. **SDSORENSEN** said, "Forcing MLS registration is simply a way for ISOs to take the focus off of the real problem – themselves. I don't understand why the 'registered' ISOs aren't held accountable for their deceptive, lying, dishonest sales training and tactics. And as I typed that I wondered, if ISO registration hasn't done a darn thing to clean up our industry, why would MLS registration be any different?"

Don't plan on help from the card brands. Did anyone else notice how the card companies threw their member banks under the bus with Sen. Richard Durbin's, D-Ill., amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010? The card brands wanted to stay off the legislative radar and knew their income would only be reduced if overall card usage declines.

Taking action against processors who violate their rules would only bring outside attention that could affect their stock prices, so I do not see it happening.

If the card brands will not act to clean up the industry and organizations like the ETA lack the authority to mandate participation, we need to find a new solution.

How registration could work

"MLSs are not the problem and registration solves nothing," stated **WWW.PAYMENTLOGISTICS.COM**. "The problem lies with the service providers who encourage and tolerate unethical behavior.

Show me an MLS who's a repeat offender, and I'll show you a service provider who may be grossly negligent but most likely is just crooked [itself]." This is a sentiment shared by many MLSs. For a registration program to be embraced by the MLS community, it cannot be limited to the MLS. It would need to include the entire chain from the MLS to the acquiring bank.

Any organization that forms to take the registration banner should be a nonprofit company or association that does not sell memberships. Its officers and staff should know the industry but not be receiving payments from the industry (to eliminate conflicts of interest). And an educational program must be in place before any attempt to move to the second phase.

As MLS Forum members pointed out, registration will not work without card brand or government involvement. We know the card brands won't do it, so that leaves the government – not the federal government, but the states. Once a specific plan that includes education is in place, let's approach the states individually to propose a registration program.

Provided the designated organization has a solid business plan and answers to questions a legislature might ask, it would likely be selected to administer part of the registration. Fees for the training would cover the salaries of the organization's employees and fund its needs.

Testing may have a set cost, but test administration should not be a concern, as there are state-certified testing centers that handle other state required testing.

One way to track registered entities (from MLSs through to the acquiring banks) would be to assign each entity

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"When there is cooperation between a state government and industry, the industry can be regulated by someone experienced in that industry. If we, as an industry, wait for someone to regulate us, we will wind up being regulated by people who do not have a clue as to how the industry operates."

Bill Pirtle

a unique identifier, mandate entry of the identifier from each entity on applications and then track complaints. For example, an identifier in Michigan could begin 37 or MI followed by a unique number.

If the entity registered in other states, the identifier would consist of the same unique number, but with a different state code for each state (the exact method would need to be part of the plan presented to the states).

The FTC and other agencies have budgetary and logistical constraints that will limit their actions. This would not be as much of an issue with registration through a state agency. The tracking system and investigations could be paid for by registration or licensing fees and fines. Plus, with industry representation, claims could be properly investigated.

Registration fees could be as little as $100 per year for agents and $1,000 to $5,000 each year for ISOs, processors and banks.

One fear of many in the payments industry is that if the industry is regulated, we would be controlled by entities outside of the industry. I do not believe this would necessarily be the case. For example, in April 2011, Kevin Clinton was named Michigan's Insurance Commissioner to head the state's Office of Financial and Insurance Regulation.

A government press release stated Clinton will "oversee the state agency charged with protecting consumers by ensuring insurance companies are financially solvent and able to pay claims." Various news outlets reported that Clinton was a "longtime insurance executive." What a novel approach: let an industry expert head a regulatory agency for that industry.

Benefits to the industry

A registration program would bring the following benefits to many forum members:

- Create a barrier to the industry for the inexperienced.

- Make it possible to compile complaints against all levels on the processing chain.

- Limit damage caused by rogue ISOs who hire the inexperienced agents and give poor training. Even

if they licensed the training and performed it in-house, agents would still need to pass the exam.

- Eliminate mass turnover. Paying $100 per agent per state will limit much of the churn and burn of some processors.

- Standardize industry training, making agents aware that they risk their license if they fail to follow the rules.

- Create an atmosphere with state government where there is enforcement with penalties for non-compliance to eliminate problems.

- By using an organization that is not offering memberships, there is less chance of a conflict of interest.

- Possibly lead to higher margins due to the combined education requirement and removal of the smoke-and-mirrors pricing tricks.

When there is cooperation between a state government and industry, the industry can be regulated by someone experienced in that industry. If we, as an industry, wait for someone to regulate us, we will wind up being regulated by people who do not have a clue as to how the industry operates.

The Durbin Amendment is a good example. Merchants confused the rates they pay with interchange and asked for caps on interchange. Had Durbin investigated on his own, he would have known interchange, along with dues and assessments, comprise only the "wholesale" cost of credit card processing, which all processors pay and, in most cases, has no bearing on the merchant cost.

Do we really want to risk letting uninformed officials dictate how our industry should be run? If we can create a great plan, including education and registration for our industry, we can keep industry experts in the driver's seat. Congress members have shown that they do not know anything about our industry and therefore cannot be trusted to be the ones implementing changes. 🖼

Bill Pirtle is the President of MPCT Publishing Co. and author of Navigating Through the Risks of Credit Card Processing. *He is also a merchant level salesperson for Clearent LLC, Electronic Payments Inc. and Electronic Merchant Systems Inc. Bill's website is* www.creditcardprocessingbook.com, *and his email address is* billpirtle@yahoo.com. *He welcomes all connections on Facebook and LinkedIn.*

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Technology game changers

By Dale S. Laszig

Castles Technology Co. Ltd.

When smart phone payments and mobile coupons become as American as baseball and apple pie, it's time merchants get in the game. Emerging technologies, social media and mobility are changing every aspect of work and play, including how we communicate, transact, and share information and services. These technologies are also widening the playing field for electronic transactions.

Game on

In the new game, transactions are no longer restricted to card swipes through stationary readers. Payments can be contactless, card-not-present or MO/TO, e-commerce or recurring. Additionally, payments can run the gamut from credit, debit, and electronic benefit transfer, to an expanding array of alternative payments like those provided by PayPal Inc. and Google Checkout.

No longer relegated to backroom activities in stores, restaurants and online, transactions are increasingly being woven into our lives wherever we are, whether at the restaurant table, in the dressing room or at the ballpark.

Coaches needed

These trends are impacting merchants in a number of ways. Consumers are beginning to ask whether merchants accept mobile coupons at the POS, if they can "check in" via geolocation applications, and what kind of loyalty, gift, and frequency programs are being offered both at brick-and-mortar locations and through merchant websites.

Since merchants prefer to answer yes to these questions, more than ever they are turning to merchant level salespeople (MLSs) to steer them to the right technologies. There has never been a better time for MLSs to demonstrate industry knowledge and thought leadership by helping merchants adopt mobile strategies and technology solutions that leverage new trends in relationship marketing and payments technology.

The payments community has yet to achieve a consensus on the best approach to mobile payments and social media, but that's exactly what keeps our business vibrant and energized. The list of certified and proven solutions available to merchants continues to expand. So reassure merchants they won't miss the technology bus by offering them basic gear to get them in the game. Here are ways to get merchants started.

Contactless readers

Promote contactless solutions. The use of near field communication (NFC)-enabled smart phones for payment at mass transit and the POS is a prevalent trend in Asia and Europe, but it's just beginning to catch on in the United States. Many new smart phones come equipped with contactless chips that support mobile wallet applications. Older smart phones without internal contactless chips can be retrofitted with external stickers to provide the same functionality.

Willem Bulthuis, Chief Technology Officer and Group Vice President at Giesecke & Devrient GmBH, noted a "a strong trend towards convergence of secure solutions for transit, between tickets and mobile phones with NFC, and between transit and other payment schemes." Merchants can choose from an array of contactless readers integrated into POS devices or standalone peripherals. Check with your processor or support desk for a list of certified and supported models.

Social media

Rapidly changing mobile applications and relationship marketing can overwhelm merchants.

Charles Di Bartolo, a website and Internet marketing specialist with a payments industry background, recommends a measured approach when introducing merchants to social media. On his website, *www.charlesdibartolo.com*, he commented, "In a virtual sea of social media, it's easy to get caught up in too many social media sites. Pick one or two that fit your market demographics and begin there. Don't spread yourself too thin."

"It's not always what you say but how you say it" is an axiom that definitely applies when setting up a Facebook page or Twitter account. Encourage merchants to plan carefully and adopt the right tone before publishing anything on the Internet. Di Bartolo advises businesses to plan what they are going to say and not react too quickly when negative situations occur online.

"Once you publish on a social media site you may never be able to retract it," he added. "Too many comments are put together in haste that can cost your company revenue and even a bad reputation. Also remember that your competitors can read everything you post."

According to Di Bartolo, another thing to keep in mind is to remember that social media marketing is not what you say about yourself, but what others say about you that matters. "You can self promote until you're blue in the face, but one kind word from a customer or a rave review is worth one thousand self promotions," he wrote. "Use positive feedback and testimonials in your advertising. It is much more effective."

Mobility

It's best to adopt a two-pronged approach when discussing mobility with merchants. First, review the benefits of accepting payments from anywhere, and then help them create the right

kind of consumer environment that supports mobile payments and coupons from smart phones.

Seasonal merchants with high transaction volumes, such as fireworks stand operators or holiday craft dealers, need rugged, high-performance mobile POS devices. For merchants with low transaction volumes, such as consultants or contractors, a smart phone paired with a card reader and printer may be a more practical solution.

Smack it out of the park

Getting merchants involved in emerging technologies and relationship marketing can be fun and profitable. Encourage them to think about what makes their brands unique and special. Show them Facebook pages from other businesses in their industry so they can see how others promote goods and services.

Additional tips can be found in Mitch Meyerson's book, *Success Secrets of the Social Media Marketing Superstars*. Meyerson suggests that the biggest game changer of all for both merchants and MLSs is a winning attitude. "You absolutely must care about your customers, your peers, your prospects, even your competition," Meyerson wrote. "This is about going the extra mile, delivering exemplary customer service, keeping your finger on the pulse, and looking for ways to really demonstrate how much you deeply and passionately care about your people." What's new about that?

Dale S. Laszig is Senior 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.

Raising the bar on PCI compliance

By Heather V. Foster

ControlScan Inc.

At this point, anyone reading this article is familiar with the Payment Card Industry (PCI) Data Security Standard (DSS) and the Dec. 31, 2011, deadline for PCI DSS 2.0 compliance. While you may understand the above deadline is only seven months away, you may be concerned about the progress being made by your Level 4 merchants toward compliance and at the overall compliance rates in your portfolios.

In an October 2010 research report by ControlScan Inc. and Merchant Warehouse entitled *Diversity Reigns: The Second Annual Industry Survey of Level 4 Merchant PCI Compliance Trends*, a glimpse is given into how small and mid-sized merchants perceive data security and the steps they take to protect sensitive information.

When asked about their familiarity with PCI DSS, a majority of micro-merchants (businesses that employ fewer than 10 employees and rarely process more than 250,000 credit card transactions annually) were either "unsure" of the standard or "not at all familiar with it." The remaining micro-merchants were familiar with the guidelines to some degree, but only 16 percent were "very familiar with the standard."

Unfortunately, an ISO's exposure to PCI and understanding the importance of the PCI DSS may not be mirrored by its portfolio of small merchants. The survey points to the need for ISOs and acquirers to take a leadership role in helping Level 4 merchants understand the importance of bolstering their security postures.

This article will explore how ISOs can take the informa-

How a Level 4 merchant can become PCI compliant

1. Identify merchant validation type.
2. Complete the Self-Assessment Questionnaire (SAQ) version appropriate for the merchant's business.
3. Complete the relevant Attestation of Compliance in it is entirety.
4. For merchants who require vulnerability scanning, complete and obtain evidence of a passing scan from an Approved Scanning Vendor.
5. Submit validation documentation to ISO/acquirer as required (To maintain compliance, revalidate the SAQ every year, and do a scan every quarter.)

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tion they are absorbing and use it as a means to drive merchant engagement, increase compliance rates and, ultimately, reduce risk for you and your merchants.

Set the context for compliance

Most small to mid-sized merchants are unsure of where to begin the PCI compliance process and can become overwhelmed quickly. Unlike larger merchants faced with PCI issues every day due to monthly or even weekly transaction volumes surpassing 250,000, Level 4 merchants, especially micro-merchants, need more context setting at the start. They should be educated on the fundamentals of PCI compliance, why they are required to comply with it and how it benefits their businesses.

However, sending the same messages or correspondence to all of your merchants, regardless of size and type, is not an effective approach to PCI compliance education. Instead, leverage your PCI compliance solutions provider to segment the types of businesses in your portfolio. From there, you can evaluate their risk levels and better tailor PCI education to increase the likelihood of action. Below are common characteristics, which can be the starting point for portfolio segmentation.

- **Low volume, high risk:** Micro-merchants think their lower transaction values and volumes make them less attractive to hackers and, therefore, less susceptible to data breaches. According to Visa Inc.'s *Data Security Best Practices for Small Businesses* presentation, 85 percent of all compromises occur at Level 4 merchant locations, which include low-volume merchants viewed as easy targets by hackers.

- **E-commerce versus traditional merchants:** Level 4 e-commerce merchants, however, seem to get it. For online retailers, data security was a much higher priority than for brick-and-mortar merchants (61 percent versus 41 percent). Sixty percent of online retailers said they were familiar with the PCI DSS compared to 37 percent for traditional retailers. This heightened interest on the part of online merchants is likely attributable to the greater perceived risk of card-not-present environments to fraud.

Segmentation can also be based on the industry in which merchants operate (such as retail, hospitality, health care or service sectors) and method of processing (such as POS, terminal or shopping cart).

Overcoming misconceptions

You may also want to consider addressing common misconceptions among merchants within your portfolio.

- **Internal breaches:** One mistaken belief among small merchants is that attacks only occur from the outside. In many cases, compromises originate from within their places of business. Failure to

perform background checks on new hires, or to educate employees on how to properly safeguard cardholder data, can lead to breach events.

- **Once compliant, always compliant:** While some merchants see value in PCI compliance, most may not be dutifully integrating the security requirements into the fiber of their companies. This is your opportunity to stress the difference between security and compliance. More specifically, compliance is a point-in-time measurement, and the underlying requirements must be adhered to on a daily basis.

- **Little to no technical expertise:** Few Level 4 merchants have the information technology or security staff available to fully manage the PCI compliance process. The survey stated 54 percent of merchants who had not validated compliance said it was due to not having the resources.

Stick or carrot?

In addition to understanding the types of businesses in your portfolio, PCI education will also depend on where merchants are in the process. Have they begun work on PCI compliance yet? Has their PCI compliance expired? Is it time for revalidation?

It will also be important to know whether your merchants are moving quickly through the process or have stalled at a certain step. In some cases, creating an incentive, such as a rebate or no fee for the first year, will incent merchants to progress through the PCI compliance process.

In other cases, it may be necessary to drive activity through fees for noncompliance or, in extreme cases where major risk is posed, suspend or even stop processing their transactions. These penalties should be carefully applied and only enacted after a reasonable timeframe has been allotted for them to complete the PCI compliance process.

Develop an outreach program

Now that you better understand the businesses in your portfolio, their level of PCI compliance understanding and what motivates them to action, you are better prepared to communicate with your merchants using the appropriate tone, type and frequency. Personalization at this level leads to both consistent merchant engagement and increased compliance rates.

- **Launch:** Getting a merchant started down the path of PCI compliance is an ideal time for education and engagement. Point them in the direction of education resources, such as frequently asked questions documents online

Education

(see *https://www.controlscan.com/support_ resources_library.php#qa*) or webinars (see *https://www.controlscan.com/support_resources_library php#podcasts)* conducted by industry experts on the topic of PCI.

Next, engage merchants through a combination of statement messages, direct mail and email about how to start the PCI compliance process and why it is helpful to their businesses. Email is the easiest and most cost effective form of communication. But since acquirers often do not have email addresses for their merchants, other communication methods should be used. Direct mail, statement inserts and even statement messages represent other alternatives.

• **Measure milestones:** As merchants reach various stages of the compliance process, acknowledge their progress and encourage them to complete the process. The communication that comes from behavioral targeting can be done through direct mail, email and calling campaigns. Merchants will appreciate your recognition and demystification of what to do next and by when.

• **Revalidate:** Many merchants believe PCI compli-

> ### What support you should get from a PCI compliance solutions provider:
>
> #### Acquirer support
>
> • Programs tailored to achieve your PCI program goals
>
> • Training for all merchant-facing employees
>
> • Tools to measure portfolio risk and merchant progress
>
> • Comprehensive merchant outreach programs
>
> #### Merchant support
>
> • Educational resources to help merchants learn about the PCI DSS requirements and initiate the process
>
> • Tools to complete the SAQ and scans for merchants that require them
>
> • Access to real support people to assist merchants through the compliance process

ance is a one-time process; they need to be educated on the fact that compliance is either a quarterly or annual event. Revalidation is another opportunity to reach out to merchants in your portfolio, while maintaining compliance rates. Again, consider using statement messages, direct mail and email.

• **Call merchants:** There may come a point when simple education and one-way communications are no longer moving the needle. That is when you will need to consider a targeted outbound calling program. Your PCI compliance solutions provider should be prepared to reach out to your merchants with different and personalized scripts depending on their business and where they are in the process.

PCI DSS 2.0 compliance

On Jan. 1, 2011, the latest version of the PCI DSS 2.0 went into effect. The revisions, which modify the Self-Assessment Questionnaires (SAQs), call for discontinuance of the existing PCI DSS version and SAQ forms by Dec. 31, 2011.

The PCI DSS 2.0 is another opportunity for you to engage merchants in active PCI education, provide valuable security information that strengthens the relationship and increase compliance rates throughout the portfolio. Use this information and leverage your PCI compliance solutions provider to build a strong and consistent communication and compliance plan. ◪

Heather V. Foster is Vice President of Marketing for Atlanta-based ControlScan Inc., a provider of PCI compliance solutions that fit the specific needs of small to mid-sized merchants. She also serves on the Education Committee of the Electronic Transactions Association and can be reached at hfoster@controlscan.com.

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Social media as a sales tool

By Nicholas P. Cucci

Network Merchants Inc.

With the global economy struggling to correct itself and businesses working under ever tighter budgets, social media's role as a cost effective marketing tool has gained a foothold as merchants and ISOs seek new ways to expand business and connect with customers in more personal ways.

Beginning last year, corporate use of social media marketing reached a tipping point. Companies became so sophisticated with their social media marketing campaigns that employee adoption of social media as an internal vehicle for sharing company news skyrocketed.

With social media marketing on the rise, many companies are finding that, to be effective, social media can no longer be just about the number of people you place your product in front of, but about the audience itself. Audience demographics play an important role in social media. For

example, a demographic profile might target male car enthusiasts, ages 25 to 34 and college educated. After all, you wouldn't advertise products that appeal to women in a sports car magazine, would you?

According to *The Nilson Report*, 38.5 percent of the time an individual spends on a smart phone is devoted to email activities. Everything is forwarded to email today. Social media updates can even trigger emails if set up properly.

The report also revealed that 75 percent of marketers plan to include some sort of mobile marketing in their marketing mix this year.

Accelerate your brand

Here are five quick tips that all businesses in the payments industry should incorporate in their marketing strategies for the remainder of 2011:

1. **Build a reliable brand.** You don't need tens of thousands of followers to be successful. It's not about quantity, it's all about quality. Be selective in appealing to retail niches you're already familiar with, where merchants stand to benefit from your personal expertise.

2. **Be great in one area rather than average in all.** You need to focus on the core benefits your company can deliver and build your brand around it. Selling points should emphasize your company's unique attributes to build value and recognition among prospective clients.

3. **Create quality content.** It's not enough to just post or update your Facebook or Twitter profile with random updates. Every post needs to have a purpose. The Internet is a cluttered place. Producing quality content not only increases your index ranking, but it will help drive well deserved attention to your company.

4. **Move more marketing dollars into social media.** It sounds simple, but let your marketing team dive into social media. If done correctly it can be a cost effective way to keep your customers informed, whether they are in the office or not. The beautiful thing about social media is it can be read from anywhere, computers, cell phones and so on. You don't have to be in the office.

5. **Increase your brand with social media marketing.** With online marketing you are able to increase brand awareness. Post links to case studies, articles, or anything that pertains to you or your company that parallels your branding identity efforts. The more high-quality content you provide, the better off your campaign will be, because as your

Education

following grows, your company image continues to gain strength and validity among present and future customers.

The plan

When creating your marketing campaign, keep the four P's of marketing in mind:

- **Product** is what you are offering to your target market, be it a product or service.

- **Price** is the amount you will charge for your product to make sure it's competitive.

- **Place** is the channels your product will traverse to reach customers.

- **Promotion** is how you will raise awareness in your target market, for example, print advertisements, press releases and blog posts.

Your marketing plan's short- and long-term projections should describe the tangible results that are expected and how you intend to achieve them. Be sure to include any anticipated revenues, expenses and potential outcomes related to additional merchants boarded and so on. Conclude your plan with a brief summary outlining the key points covered.

Other drivers

J.P. Morgan Senior Analyst Imran Kahn predicted U.S. online retail will continue to grow at a 12.4 percent compound annual growth rate from an estimated $166 billion in 2010 to $235 billion in 2013. If the 2010 holiday season was any indicator, the popularity of online purchases through trusted websites will continue to erode market share for traditional brick-and-mortar retailers.

Although it currently represents a small percentage of sales, social media shopping is expected to expand its influence due to its ability to target and reach consumers early in the decision process.

Also, group buying via Groupon Inc. and its competitors will continue to be a growing trend as long as marketers can make money from these promotions.

Nicholas Cucci is the Director of Marketing for Network Merchants Inc., a graduate of Benedictine University and a licensed Certified Fraud Examiner. Cucci is also a member of the Advisory Board and Anti-Fraud Technology Committee for the Association of Certified Fraud Examiners. NMI builds e-commerce payment gateways for companies that want to process transactions online in real time anywhere in the world. Contact him at ncucci@nmi.com.
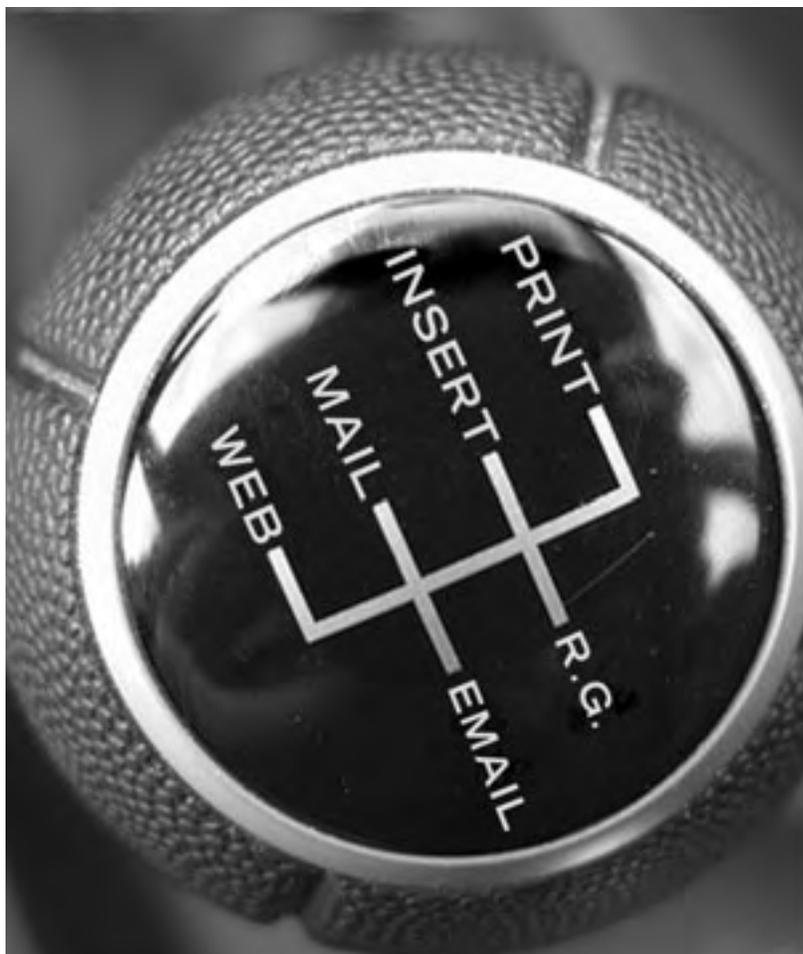
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ADVISORY BOARD

Views on regulation and registration

The collective eye of the federal government has finally turned toward the payments industry because merchants got its collective ear. Large, determined and well organized merchant advocacy groups successfully lobbied legislators on Capitol Hill to make card processing a hot-button topic.

The outcome of that combined lobbying effort resulted in passage of the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the details of which show just how far reaching this new level of federal scrutiny can be.

New initiatives to stave off further legislative incursions into the payments sphere are being promulgated by the industry – from the Electronic Transactions Association's recently launched ISO certification program to ideas circulating about agent registration.

It is clear the time is right for the industry, as a whole, to step up efforts to police itself. Otherwise, the feds will, with potentially damaging repercussions for the economic health and well being of payments.

With that in mind, we asked members of our advisory board the following questions:

1. Are reputational problems within our industry primarily due to the actions of rogue agents, or are they more systemic in nature? In either case, who or what needs to change for the better?

2. What type of oversight do you think would be appropriate, and who should do it?

3. Who needs to be certified and/or registered? And why?

4. Are there programs currently in place that may help with self policing efforts?

Adam Atlas
Attorney at Law

1. The reputational issues in our industry flow from dishonesty and greed. However, these weaknesses are amplified in our industry because businesses give an individual so much power to steal on a grand scale. I think that there is a kind of natural selection that goes on within the industry whereby dishonest players are weeded out, although some do have remarkable staying power.

   I am against greater government regulation because that will interfere with pricing and competition, which is necessary for our business to thrive. I think ISOs and agents, over the long run, have the choice to behave in an ethical manner and place their merchants with honest processors.

   If their processor or super ISO is gauging merchants, it's just a question of time before it does the same to its ISOs and agents. In this sense, it is worthwhile being wary of successful processors.

2. I would be in favor of some additional oversight as it relates to the honesty of sales organizations, but I would be against any regulation of pricing as that could put an end to a number of the participants in our industry.

3. Registered ISOs should be registered with the associations, as they are now required to do. I think ISOs should police their agents; creating a government or industry licensing bureau is a layer of bureaucracy and potential corruption that is perhaps not necessary.

4. Indeed, various industry associations have drafted and discussed ethical codes, but none have become mandatory.

Jared Isaacman
United Bankcard Inc.

1. I believe the bulk of the reputational issues this industry faces are a result of the rates and fees we charge and the subsequent merchant dissatisfaction. There is no single source for these problems as it exists on virtually all levels. If you start from the top, Visa and MasterCard have made the interchange rates incredibly complicated and extremely volatile.

   The most significant changes to a merchant's pricing happen once or twice a year and these are almost always initiated by Visa and MasterCard in the form of changes to the interchange rates. I don't

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necessarily think that this is a bad thing as it creates some natural churn in the market and permits margin adjustments for merchants with exceptional pricing. However, it does naturally create a level of dissatisfaction for merchants when the rates they signed up for may potentially change a few months later.

In addition to the card associations, there are external factors that can affect merchants, such as the PCI Data Security Standard or government legislation like the 1099 IRS reporting requirements. Many of these new initiatives or standards are beneficial, but they all have associated costs that ultimately get passed on to the merchant in the form of new fees or expenses. Again, this translates to a customer satisfaction issue.

The next layer down from the card associations are the processors and super ISOs. We have driven margins down substantially over the years with the aggressive use of interchange plus pricing, loss leader price strategies and compensation models that reward "production" over profitability. As such, you are seeing many more miscellaneous fees introduced to offset the reduced margins on the merchant account rates. Any time a merchant pays a rate or fee they were not expecting, that will naturally reduce their level of satisfaction.

Below the processors and super ISOs, on the ISO/MLS level, are a number of things wrong. First, there isn't any standardized training program or certification that sales reps are required to complete in order to sell merchant services. There is really no barrier to entry and this creates a situation where anyone can "try their hand" at selling merchant accounts without really being invested in the future of the industry, the future of their portfolio or the future of their merchant customers.

Compounding this problem is the fact that, since many of these reps are independent contractors, there is very little oversight on their sales practices. This type of environment enables reps to utilize unscrupulous sales tactics that result in further merchant dissatisfaction and a loss of trust in the industry as a whole.

In addition, the bulk of the compensation to these agents has shifted to "production bonuses" that reward selling lots of accounts but with little regard to pricing. This inevitably leads to price increases once the merchant has been boarded or the inception of new fees to compensate for such low pricing.

All of these factors combine to create an environ-

ment of uncertainty for merchants in which the costs associated with credit card processing are constantly changing. Even if there are logical causes for the cost fluctuation, merchants perceive that they are being taken advantage of by these rate and fee increases. This volatility is naturally going to create merchant dissatisfaction and result in a reputational issue for our industry.

2. On an industry level, the card associations are the primary enforcement authorities and the sponsor banks are the primary oversight authorities. This works well in most cases, unless it's one of these entities themselves that are contributing to the reputation problems, such as the excessive number of interchange rates and constantly changing fee/rate structures. These factors play a big role in the merchant's satisfaction with our services.

Below the bank level, the oversight and enforcement responsibilities transition to the processors and super ISOs. This is where enforcement becomes very difficult. Given the non-exclusive nature of our industry, a processor can terminate an ISO/agent for cause, and they can simply sign up with another company offering similar services. There is no definitive way to rid the industry of a fraudulent or detrimental agent and this is a major problem.

The only way I can see oversight and enforcement being done properly is through an independent association tasked with certifying and supervising ISOs and agents. The problem with this concept is an innate conflict of interest. Who would run or influence the association?

Naturally, one competitor could use the power of this association to disrupt another competitor's business. It wouldn't matter if it were banks or the card associations themselves; there are potential conflicts of interest on all levels. Visa and MasterCard are public companies designed to drive profits. They are not the "associations" of the past.

It would be very difficult for any card brand (Visa/MC), bank or processor to sit on an impartial board designed to certify, oversee and enforce ISO and agent standards. If we really believe it must come to that level of regulation, then it would need to be done by the government or a body that can truly avoid any conflict of interest.

3. Sponsor banks, third-party processors, registered ISO/MSPs and ISO/MLS agents should all have some sort of certification or licensing process in place. Requiring each level of the acquiring industry sales process to adhere to such as stan-

dard is the only way to effectively enforce proper industry practices. In today's environment, a bad agent or ISO can be terminated from one company and simply sign up with another company; there is no overarching oversight or enforcement at this level. There needs to be a standardized certification process in order to prevent these bad elements from becoming a detriment to our industry.

4. None that I am aware of. The NAOPP [National Association of Payment Professionals] tried to put something together years ago and it failed. It failed because of the inevitable conflicts of interest that arise when individuals who are active in a business try to be impartial. It just wasn't possible.

I know that the ETA also looked into this a few years back, but nothing developed from it. It would be very challenging to do within the industry as it is extremely competitive and many interests are always at play.

Dee Karawadra
Impact PaySystems

1. I believe the reputational issue lies more on the few bad apples who are both agents and ISOs. Not too long ago, there were organizations who focused on leasing 49.95/48 month leases and in return would "save" the merchant money, and in reality the merchant was stuck with a 48-month lease and no savings.

As an ISO, it was very hard to overcome the reputation issue. I don't think there is a single group or item that needs to change. I believe there is a great need for overall reform, led by the associations. After all, the associations are the ones that can implement and control the process better than any government mandate.

2. I do believe the ETA has a good idea regarding certification. However, it would be nice if the associations managed it. Perhaps collectively (like PCI), they could join forces and get the government off our backs. A system that would allow ISOs to have a "blacklist" of agents, and processors for the ISOs list, that was maintained by the associations would be a good tool to have, and eliminate the bad apples.

3. ISOs are already registered and monitored. However, they need to be closely monitored. Also, the agents need to be monitored. Why? These are the two channels that are the feet on the street. They are the ones that have created the problem.

4. Not successful ones.

David Parker
Polymath Consulting Ltd.

1. There will always be bad apples in a barrel. It happens in every industry and we are naive to think that the prepaid card industry is any different. Whether bad through "over claims" or other factors, they will always exist.

However, an equally big issue is that as an industry, we need to educate the media/journalists about what prepaid is. There is still the belief by many that cash is free to the consumer and that prepaid, as almost a form of electronic cash, should also be free – the banks are big enough; they can pay for this.

As an industry we need to create better value propositions, often meaning that prepaid becomes a feature of a product rather than the product itself. With better consumer value propositions and better media education as to the true cost of cash, then the value of prepaid, and thus the fees needed to be charged, can be understood.

2. At this point I will answer from a European perspective, as it is very different from the U.S. In Europe, the buck stops with the financial institution – not always a bank – which are in turn regulated by the financial service authorities [FSAs] in each market.

Their compliance teams must approve all communications and aspects of a program. The system works well in that there are hefty fines if rules are breached.

3. If we look at the overall value chain, scheme members are registered through the country's FSA and schemes; funds deposit holders – i.e. banks are covered by FSAs; processors are certified by schemes; program managers are covered/managed by bank compliance; and, for MasterCard, registered.

The only potential gap is that neither MasterCard nor Visa, as far as I am aware, publish a list of all program managers, whether banks or otherwise.

This means that sometimes companies can pass themselves off as program managers without having all the required skill sets and relationships. In fact, I have seen resellers for program managers pass themselves off as the direct program managers.

4. Yes, the PIF [Prepaid International Forum] certification process.

Research

Credit card use grows with economy

The *Online Credit Card Report 2010* released in April 2011 found 20 percent of U.S. cardholders shopped for new cards; but among consumers who told researchers the economy is improving, the number of people shopping for new cards rose to 34 percent.

ComScore said the 2010 study shows rising consumer interest in perks and incentives, such as low-interest rates and rewards programs, as well as a consumer shift to websites and mobile applications when shopping for new cards.

Sarah Lenart, comScore's Vice President of Financial Services, commented, "As we see consumer economic sentiment improve, we're also seeing a corresponding increase in retail and e-commerce spending along with increased card shopping, especially among those in the subprime sector. With shopping and card applications expected to continue to increase in 2011, consumers are likely to place even greater emphasis on competitive card features and offerings as well as enticing rewards programs."

The report analyzed responses from a research panel of 1 million consumers and a survey of 2,000 Internet users in the United States. It found the most popular credit card reward offerings are cash back (57 percent), merchant rewards (13 percent) and airline miles (10 percent).

Lenart said, "As people increasingly rely on digital channels to manage their credit card accounts, it's important to understand what degree consumers are using them and how these access methods create value for issuers' key customer segments."

A copy of the comScore Online Credit Card Report 2010 can be found at www.comscore.com/Press_Events/Presentations_ *Whitepapers/2011/The_2010_Online_Credit_Card_Report.*

Verification information consumers will allow for card transactions

Driver's license number	2%
Social Security number	4%
Zip code	9%
Name	14%
Home address	16%
Telephone number	17%
Date of bith	34%
Planned future purchases	35%
Purchase history	39%
Types of software applications residing on device	54%
IP address	59%
Type of browser	65%
Browser settings	71%
Internet service provider	76%
Type and make of computer	83%
Serial number of computer	88%

Source: ThreatMetrix, *Consumer's Reaction to Online Fraud*

Mobile payments biggest fraud risk

A survey conducted by UKFRAUD.co.uk and fraudconference.co.uk shows 60 percent of fraud specialists surveyed in the U.K. believe mobile payments options are the greatest potential card fraud risk. The specialists believe card-not-present transactions present the greatest fraud risk.

First Data SpendTrend shows growth

Rising gas prices and a late Easter contributed to continuing growth in consumer spending in April 2011, First Data Corp. found in its *SpendTrend* analysis. The survey reported transaction growth remained steady at 6.7 percent in March and April. Dollar volume grew 6.7 percent (excluding gas purchases).

Fraud acute for Level 4 merchants

According to *Payment Card Trends and Risks for Small Merchants*, Trustwave's supplement to its 2011 Global Security Report, nearly 90 percent of data breaches occur in small merchant (Level 4) businesses. The Level 4 merchants have been slow to adopt security procedures for processing, the report concluded. The survey also found 75 percent of data theft occurring in food and beverage and retail sales businesses.

Retailer, banker relationship changing

In 2010, 80 percent of retailers switched banks to lower costs, the new *2011 AFP Retail Industry Survey* found. Retailers started with new banks to obtain better pricing (53 percent), diversify risk (29 percent) or to secure access to credit (24 percent), said the survey.

Rundown

Economy shows signs of life

Semper International LLC's *2nd Quarter Industry Insight Survey 2011* shows positive economic indicators after years of recession. The study authors conclude when the economy starts expanding, business models need to change to reflect the changes in the market.

Few consumers believe PII well protected

Consumers Reaction to Online Fraud, a new survey released by ThreatMetrix and the Ponemon Institute, said 85 percent of consumers surveyed for the report said they were worried about personally identifiable information (PII) being stolen from computer records and are dissatisfied with the PII protection levels provided by online businesses

Restaurant credit card sales increase

Brick-and-mortar retailers and service providers saw profits continue to decline in credit and debit card sales while restaurant credit and debit sales are increasing, according to a Capital Access Network Inc. report. CAN's Data Services Division, which conducted the report, said it is the 14th consecutive quarter of year-to-year credit and signature debit card sales declines.

E-commerce platform solutions analyzed

A new Javelin Strategy and Research report analyzes and compares the e-commerce platform solutions offered by 11 different companies. The report identifies the key features of each firm's platform and looks at each company's pricing, market positioning and differentiation.

Mobile more popular than PC for shopping

A report released by the independent mobile ad network InMobi concludes U.S. consumers prefer shopping from mobile phones to shopping from PCs.

InMobi said of the 310 million U.S. consumers, 74 million – nearly one in four – shop on mobile phones. The research, based on a survey of nearly 2,500 mobile phone users, found more U.S. shoppers, almost 49 percent, still prefer shopping in a store.

However, 35 percent of the consumers surveyed said they are now ready to shop with mobile phones. Only 16 percent of those surveyed said they preferred shopping on PCs to shopping in-store or shopping on mobile phones. This compares with 16 million mobile phone users in the U.K. who choose to shop using mobile phones.

The report notes mobile phone shopping doubled between 2010 and 2011, from $1.2 billion to $2.4 billion in the United States. The company predicts mobile shopping will soar to $9 billion by next year.

"The key finding is that mobile is going to cannibalize PC consumption," said InMobi Vice President James Lamberti. "This will have a big impact on marketers as they begin to leverage mobile in a way they aren't doing today. Marketers need to understand this and look for ways to influence this shopping behavior."

Lamberti added, "It's an exciting time for the consumer, retailer and manufacturer as mobile shopping solutions will become more intelligent and compelling to use. [It is] clear consumer acceptance has opened huge opportunities in the world of mobile advertising."

For more information, go to:
research@InMobi.com
or visit the InMobi blog at *222.inmobi.com/inmobiblog*

Year-to-year transaction volume and dollar value growth

April transaction growth

Credit +4.6%
Signature Debit +9.5%
PIN Debit +4.8%
Check -9.4%

April dollar volume growth

Credit +7.4%
Signature Debit +9.9%
PIN Debit +7.2%
Check -1.2%
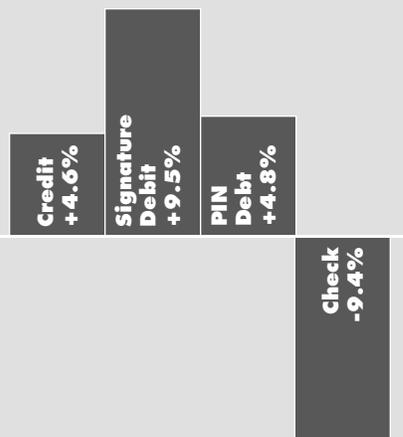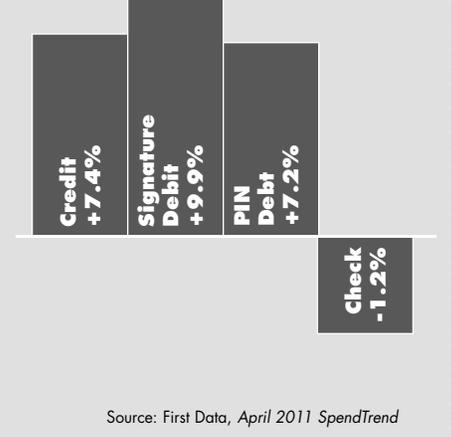
Source: First Data, *April 2011 SpendTrend*

NewProduct

The mobile business card

Product: Txt Biz Card

Company: Field Guide Enterprises LLC

If the thought of brandishing a dog-eared business card from a wallet or purse elicits a wince, perhaps it's time to switch to an electronic business card. Field Guide Enterprises LLC, long recognized in the industry for its Field Guide Seminars, partnered with Zen Mobile Solutions to deliver an interactive sales tool for connecting merchant level salespeople (MLSs) to merchant prospects much faster via the text business card.

"Business cards are great and people expect to use them, but this is the electronic business card," stated Mark Dunn, President and Founder of Field Guide Enterprises. "It is the fastest way to get the contact information directly into the real estate that they're looking at every day. Sometimes as many as 20 or 30 times a day they're interacting with their cell phone. If they have a smart phone, they may be using it for five hours a day. It's really meant for salespeople."

Field Guide's Txt Biz Card application enables agents to link their business contact information to a designated "keyword" which, when sent as a text message to a short code, sends an automatic response text message back to merchant prospects containing the agent's pertinent information.

BlackBerry users also have the option of selecting the vCard link to upload information directly to the device's contact list. Field Guide plans to expand its vCard feature to include other popular smart phone models soon. Meanwhile, any mobile phone with text capability can receive the contact information, the only difference being that users must manually copy and paste the information into the phone's address book.

Real world link to merchants

Dunn said many agents do real-world networking, whether they attend a chamber of commerce meeting or a family sporting event. In those situations, he said an agent could ask the prospect, "Do you have your cell phone?" If the answer is yes, the follow-up might be, "Okay, text 'Mark' to 511511." Once the agent's keyword has been texted, a beep on the sender's mobile phone signals that the incoming contact information has been received.

According to Dunn, a text business card saves time when dealing with frequent phone or email inquiries. "In fact, this happened yesterday," Dunn said. "A guy called me and said, 'Hey, I got your name and telephone number

Features of Txt Biz Card include:

- Sends contact information directly to prospect's mobile device

- Retains agent contact information within prospect's mobile directory

- Reports phone numbers of text business card recipients

- Includes unlimited text card distribution and usage

- Offers both monthly and annual service plans
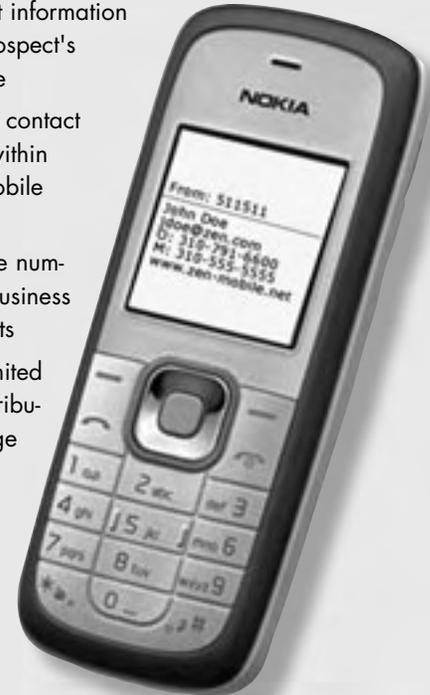
from a guy who went to the Southeast Acquirers' conference. He's a buddy of mine and he said you might be able to help me.'" When a caller or email sender requests contact information, the keyword and short code are all that's required, he added.

The application permits agents to track which prospects have texted their keyword. "You can go to the website and you can download the cell phone numbers of those who have called in to get your information," Dunn said. "Now, the idea is not to spam those or anything. It just simply gives you the cell phone numbers of anyone that reaches out to you." He added that because text messages are retrievable, users can search previous messages by date to reconnect instantly.

According to Dunn, the service works with any mobile phone carrier that offers text message capabilities. Messages can be formatted based on individual preferences within the application's 140-character limit. MLSs have the option of paying a monthly fee or a reduced annual rate for the service; alternative payment options are available to larger ISOs that require multiple accounts.

Field Guide Enterprises LLC

262-966-2215
www.txtmycard.com/gofieldguide

DateBook

Industry Events

SourceMedia and American Banker

Mobile Banking & Emerging Applications Summit

Highlights: The event covers a range of topics, from the basics of mobile banking and payments to emerging applications that will take financial institutions into the next phase of mobile financial services.

It brings together the various constituencies in the mobile financial services value chain, including banks, payment networks and processors, manufacturers, retailers, mobile vendors and service providers, who will be sharing perspectives and experiences.

Workshops will cover the mobile marketing channel, mobile devices as a payment tool, security and fraud management, content and application development, mobile commerce, and other topics.

When: June 5 – 7, 2011
Where: Hilton New Orleans Riverside, New Orleans
Registration: *www.americanbanker.com/conferences/mobile11*

Trade Associations

Women's Network in Electronic Transactions (W.net)

LINC Northern California Networking Meeting

Highlights: W.net LINC Northern California will host an afternoon of networking and special guest speakers from Google Inc., First Data Corp. and others.

W.net's LINC meetings occur periodically throughout the United States and provide a forum for women in the payments industry to empower and inspire each other through networking opportunities. Upcoming LINC meetings are scheduled in Atlanta; Oak Brook, Ill.; Houston; and Burlingame, Calif. For more information on these meetings, go to *www.w-net.biz/news*.

When: June 14, 2011
Where: Visa Inc., 900 Metro Center Blvd., San Mateo, Calif.
Registration: *www.w-net.biz/PageDisplay.asp?p1=7965*

Industry Events

International Quality & Productivity Center

5th Prepaid Cards and Mobile Payments Conference

The world of prepaid cards is undergoing continuous change, particularly in terms of government regulations, emerging technologies and improved methodologies. This conference promises to help attendees learn how to effectively capitalize on the dynamic shifts within the industry.

With a dual focus on prepaid cards and mobile commerce, the slated sessions include:The Next Level in Prepaid Cards – Integrating Card Benefits into E-Commerce and Mobile Platforms; Staying Ahead of the Game – Understanding Prepaid Regulatory & Compliance Trends to Advance Prepaid Card Strategy and Development; Maximizing the Value of Prepaid Cards through Integrated Merchandising; and What's Next in Payments? Insight into Driving Payment Innovation through Mobile Solutions.

When: June 20 – 22, 2011
Where: Four Seasons Hotel Denver, Denver
Registration: *https://secure.iqpc.com/srs2k.dll/ chooseregistration*

Trade Associations

Midwest Acquirers Association

MWAA 9th Annual Conference

Highlights: This year's conference's theme is rethink, reinvent, renew. The event will focus on timely industry topics and will feature the ever-popular educational sessions from Field Guide Seminars, a vendor's exhibit hall, and opportunities to meet payments industry leaders and innovators.

If you want to spend three days developing your merchant services business, learning how to make more money, playing a round of golf on an award-winning golf course, enjoying the company of friends and networking with people from across the bankcard industry, the MWAA's annual conference is the place for you.

When: July 26 – 29, 2011
Where: The Oak Brook Hills Marriott Resort, Oak Brook, Ill.
Registration: *www.midwestacquirers.com/next_event.php*

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Inspiration

"Words are tools which automatically carve concepts out of experience."
– Julian Sorrell Huxley

Spurring sales with valued-added verbs

Great sellers work sales calls like great comedians work crowds. Top performing merchant level salespeople (MLSs) pick up prospects' verbal and nonverbal signals and tailor pitches accordingly. But the foundation of the successful pitch is based on simple, tried-and-true techniques that, practiced and employed over time, become second nature.

One aspect of that foundation is word choice. Seasoned sellers know how to phrase statements to jump-start the sales pitch. Decide for yourselves which is better:

This: Do you want to hear about my service?

Or this: Tell me about your current POS setup.

This: Do you have a check problem?

Or this: Let's discuss how we can increase the check-acceptance speed at your POS.

The first lines of the pairs are questions; the second lines are statements. This demonstrates the difference between striking a passive tone and taking an active approach. It also speaks to the need to control your interactions with merchants from the outset.

If you structure the opening carefully, you can guide your prospects to supply important information about their businesses and avoid giving them the chance to stop the pitch with a quick no before it has time to develop.

Break bad habits

All sellers are guilty of using stock phrases in sales calls. But getting into a linguistic rut will make your pitches stale. One way to break the habit and keep sales calls fresh is to tweak the language. Such as:

- In place of the word "save," say "slash," "shrink," "slice," "trim," "modify," "eliminate" or "salvage."

- Instead of using "cost," try "expense," "charge," "waste" or "burden."

- Take out "profits" and insert "dollars," "revenue," "cash," "income" or "market share."

By using fresh, action words in your presentation, not only do you keep prospects from getting bored, but you keep yourself interested and engaged as well.

Use appropriate lingo

Every standout MLS speaks to merchants in their own language. Your objective is to make merchants believe you have a feel for their businesses and vertical markets. For example:

- When talking to an auto dealership, refer to the employee responsible for securing financing for, and completing paperwork for, car buyers as the "F&I person."

- When talking to the controller of a hotel, call the detailed list of hotel charges "the folio."

You can learn industry- and business-specific language by reading industry trade publications and paying close attention to editorials and letters to the editor.

By beginning with confident instead of tentative language, using action words in presentations and speaking the language of the merchant, you can differentiate yourself from the competition and make pitches more effective. Call it words of wisdom.

Good Selling![SM]

Paul H. Green, President and CEO

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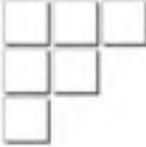
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Total Merchant Services protects you and your merchants with total transparency. We take a reasonable approach in disclosing the financial details of our Compliance Program to every new merchant on our Schedule Of Fees in simple, clear language.

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All our merchants receive the Compliance Program at no additional charge during the first year of their processing relationship with us and these services may be accessed immediately. On the 13th month of processing, and from that point forward, merchants will be assessed a fee of $4.95 per month. We even offer a $25,000 Compliance Reimbursement Program to make sure our merchants feel good as they are getting something in return.

Honesty is our Everyday Policy

At Total Merchant Services, you'll find no compliance fee trickery and zero surprises. We believe in being up front, honest and ethical in all of our business dealings. We will not use bait and switch tricks or surprises to get over on merchants or sales partners. We know that doing anything less would be a recipe for disaster—not growth.

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