September 26, 2011 • Issue 11:09:02

Square: Passing fad or market changer?

By Patti Murphy
ProScribes Inc.

J ack Dorsey – a serial entrepreneur who cofounded social media phenomenon Twitter Inc. and founded payment upstart Square Inc. – finally rolled out the Square mobile payment dongle in the latter part of 2010 after getting off to a rocky start. And he was promptly derided by banks and their partners.

Douglas Bergeron, Chief Executive Officer of terminal manufacturer VeriFone Inc., even took Dorsey to task publicly over alleged security lapses created by Square. (For more information, see "Square gaining momentum despite security concerns," *The Green Sheet*, March 28, 2011, issue 11:03:02).

Square was among a group of innovators releasing promising mobile payment solutions of their own. In April 2010, Roam Data Inc. earned the Electronic Transactions Association's Technology Innovation Award for ROAMpay, a miniature card-reader, or dongle, that plugs into the headphone jack on smart phones. It resembles Square but is said to be more secure.

Not long after criticizing Square, VeriFone unveiled PAYware, a "sleeve" placed over smart phones to facilitate payments. That was followed in short order by Intuit Inc.'s GoPayment toggle and a plug-in device developed specifically for mobile sales forces by SalesVu, an Austin, Texas-based firm supported by a cloud-based network. Several others followed.

Now Erply Ltd., a global software-as-a-service company with roots in Estonia, is rolling out a card swipe plug-in for Apple Inc. iPhones and iPads that integrates with a cloud-based inventory management system claimed by the company to be operating in over 20,000 retailers. Attach the Erply device to the charging port on an iPad and, with one swipe, a merchant captures encrypted payment information that initiates transaction processing and simultaneously updates inventory.

The Erply device, which sells for $50, supports near field communication (NFC) technology as well as traditional swipe authorization. NFC requires radio frequency identification (RFID) chip cards and compatible readers to support two-way communication using the existing payments infrastructure.

Mixing NFC and mag stripe functionality is a feature combination that positions the company and merchants to evolve with the market, according to Erply CEO Kris Hiiemaa. "As technology changes, we are giving consumers the ability to pay for items the way they want to," he said, adding that transaction fees using Erply represent 1.9 percent of the ticket. In comparison, Square charges 2.9 percent.

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Notable**Quote**

No matter what payment options are available, consumers must feel comfortable using them in order for them to succeed. Just as it took consumers a long time to begin feeling comfortable transacting online, the same will happen in the mobile world.

From page 46

Inside this issue:
CONTINUED

WINNER
43 Awards in 10 years

Green Sheet, Inc. — Winner
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Forum

1099 reporting fees

I am so disappointed at companies charging merchants $4.95 a month for collecting the data for 1099 reporting. It is my understanding from your article that the IRS does not allow this. While I understand it's a new regulation and extra work on the merchant service providers and acquirers, why is someone not policing our industry? When is it going to stop?

First Data Merchant Services is charging $4.95 a month per merchant. Considering the size of the FDMS merchant book, this is becoming a money-maker for them. They should be ashamed of themselves and investigated. I can understand a minor monthly fee of some kind ($1.00), but this is highway robbery. The merchants are becoming more and more aware of our industry, and with fees like this, it's going to put an even bigger damper on our industry.

Bruce I. Reisman
Focus Financial Solutions LLC

Bruce,

Thank you for sharing your opinion on this important issue. First Data Corp. spokesman Andy Payment confirmed in an interview for "IRS says no merchant fees for 1099K reporting: Who's listening?" The Green Sheet, Aug. 22, 2011, issue 11:08:02, that First Data instituted a fee "for a new suite of services related to IRS 6050W regulations, as well as proposed legislative changes, which encompass much more than processing the 1099 forms."

Payment also indicated First Data's pricing is tiered from $3.95 to $1 per merchant per month, based on the number of merchants in an ISO's portfolio. Some ISOs are adamant they will not charge merchants for 6050W compliance. Payment professionals are indeed divided on whether charging new compliance fees will serve the long-term interests of individual payment companies and the industry as a whole.

Editor

From GS Online's MLS Forum

The premier online network for payment pros

Registration merits

GS Online MLS Forum member **JDECKARD** asked GS Online's MLS Forum for help understanding the ISO registration process. He said, "Let's say I have ISO A, who I prefer to send my everyday, vanilla, brick-and-mortar merchants to; ISO B, who I like for e-commerce/POS systems; and ISO C, who thinks outside the box and will take higher risk merchants. If I step up and register once, say through ISO A, can I still contract with all three ISOs to provide the same service, but branded with my info? Or do I have to send all deals through the ISO that I registered through?"

Here are some of the responses **JDECKARD** received:

- You can register under ISO A to get your own app and statement branding. You can still send deals to ISO B and ISO C anytime you want; you just won't have your branding at B and C. **– TIMIGROUP**

- You could choose to co-brand through two of them, or even all of them, without registering. – **SECONDGLANCE**

- Registering through one is all that is needed if you are concerned about full branding. Co-branding can be done through them all. But I have yet to see a reason to register with many, especially if you are a sales engine. … Ask yourself, is branding (not co-branding, but solely branding) worth the first $10,000 investment and ongoing registration fees. Plus the added marketing costs? If the answer is yes, then that goes a long way in helping you make your decision. If it is, "wow, probably not," then co-branding or some other form of marketing is your direction. – **CLEARENT**

- In my opinion the greatest value asset obtained by registering is [this link] … *http://usa.visa.com/download/merchants/ list-of-registered-independent-sales-organizations.pdf*. Take for instance Acquiring Solutions, Capitol Payment Systems and Electronic Payments (as examples). All of these companies use their own name when trading. Imagine a sales rep under one of these companies opening his own company and visiting a merchant and presenting a business card for Bob's Card Processing or Mike's Merchant Services. Being able to have a merchant actually see that we are registered to do what we say we can do … is a valuable asset especially when you are, or might be, in a competitive situation. – **STEVEN_PEISNER**

To see all the responses to this question, click on the "Understanding Registering" thread in the MLS Forum, which can be accessed via the Forums link at *www.greensheet.com*.

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QSGS

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

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Industry**Update**

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NEWS

Visa reports new POS fraud

Visa Inc. reported in a Sept. 1, 2011, bulletin that thieves can now skim credit cards from POS PIN entry devices (PEDs) using Bluetooth technology. Visa said thieves are removing the original PEDs and replacing them with modified devices. The rogue devices skim account and PIN information entered at the POS and transmit the data automatically via Bluetooth to the crooks. Surveillance video reveals the criminals are able to swap the PEDs in seconds.

Visa said the Bluetooth skimming problem can be addressed using a terminal authentication system to constantly affirm the PED's serial number and be sure the terminal is online and running correctly. To further help prevent skimming Visa recommends:

- Regularly inspecting terminals to identify anything out of the ordinary, including missing or altered seals or screws, unusual wiring, new holes in the device, or new labels or other devices that could disguise damage done to the device
- Securing terminals and cable connections to a solid anchor like a counter to prevent theft of PEDs
- Locking unused terminals in secure storage
- Tracking all devices to be certain they are secure and unaltered
- Checking all repair technicians' credentials to be sure they are legitimate
- Weighing devices to compare current weights to manufacturer specifications
- Periodically scanning for any unknown Bluetooth signals

Visit *http://usa.visa.com/merchants/index.html* for more information on fraud control.

Discover discontinues online disposable card numbers

Discover Financial Services LLC no longer offers customers its Secure Online Account Numbers (SOAN) program, a company spokesman confirmed for *The Green Sheet*. The program ended Sept. 8, 2011, said Matthew Towson, Discover Senior Manager for Community Affairs and Media Relations.

The SOAN program gave Discover customers the ability to generate a temporary card number when online shopping, a safety feature designed to prevent thieves from using any information if the card numbers were stolen.

"Given the existing security measures taken today by Discover and all credit card companies, we felt that SOANs were no longer needed to keep card members' accounts secure," Towson said. He added that Discover card members are protected by the company's fraud liability guarantee. The guarantee means card members have no liability for unauthorized purchases on their accounts. Discover customers were notified by email in August 2011 of the SOAN program's discontinuation.

BOTTOM LINES
HEADLINES FROM THE RETAIL WORLD

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

- An **AlixPartners** *Grocery Shopper Preferences Survey* found the average consumer makes 1.8 trips per week for groceries: 51 percent visit traditional supermarkets, 30 percent shop at mass merchants, 5 percent visit dollar stores and 5 percent frequent drug stores.

- A **comScore Inc.** *State of the US Online Retail Economy in Q2 2011* analysis revealed online sales jumped 16 percent in the first quarter of 2011, from $33 to $38 billion, compared to the same period last year.

- Of the estimated 10.2 million POS terminals shipped to U.S. retailers in 2010, 25 percent were equipped with wireless connectivity, according to **ABI Research**, which projects wireless terminals will comprise 30 percent of terminal shipments by 2016.

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IndustryUpdate

Canadian communications giant looks to cards

Rogers Communications Inc., a Canadian cable television, Internet, and phone services provider, filed a request with the Canadian government for a bank license to enable the company to issue credit cards and financial products. This report came shortly after the Canadian Federal Government issued a discussion paper titled *The Way We Pay*. This look into the Canadian payments system criticizes the country's payment industry for being slow to adopt mobile payments and too concentrated in its ownership.

According to published reports, approximately a dozen requests for Canadian bank licenses are pending. Rogers has more than 9 million wireless subscribers. A bank license would allow Rogers to issue credit cards to its mobile phone subscriber base and could quickly move Rogers into a leadership role in the yet to emerge Canadian mobile payments market. More than $40-trillion in transactions is processed annually in Canada.

The Way We Pay noted, "The Canadian payments system has proven resistant to change. As a result, Canada is falling behind, especially in mobile payments and electronic invoicing and payments (straight through processing)."

The paper offers an outline of legislation, governance, infrastructure and oversight needed to increase the safety and security of the payments industry while opening up the market to innovation and new players and technology.

S1 reschedules merger vote

S1 Corp., battling with **ACI Worldwide Inc.** over S1's future, rescheduled its special stockholders meeting called to vote on its proposed merger. S1 has a $700 million all-stock offer on the table to merge with **Fundtech Ltd.**, an Israeli financial services and software company. ACI disrupted S1's merger ambitions when it offered to buy S1 for $540 million cash.

S1's board rejected ACI's overture and continues to pursue its merger with Fundtech, but the matter will be decided when S1 stockholders meet to vote on the proposed Fundtech merger. The meeting is now scheduled for Oct. 24, 2011. ACI is urging S1 stockholders to vote against the Fundtech merger. ACI filed an investor presentation with the U.S. Securities and Exchange Commission Sept. 7, 2011, outlining the advantages it sees in its acquisition of S1. It also sweetened its initial offer by 50 cents a share.

In related news, three lawsuits related to this matter were filed in Delaware against S1. The cases were consolidated and a preliminary hearing occurred Sept. 16, 2011.

Big investment in Cardlytics' transaction-driven marketing

Groupe Aeroplan Inc., a global loyalty management company headquartered in the United Kingdom, is partnering with **Cardlytics Corp.** in a strategic alliance and also joining a group making a $33 million investment in Cardlytics. Cardlytics technology links merchant offers with transactions business using mobile, text message, email and online banking services to directly market to customers.

Others in the investment group include Canaan Partners, Polaris Venture Partners, TTV Capital, ITC Holdings Corp. and Kinetic Ventures

ANNOUNCEMENTS

Apriva's DeRosse honored

Paul DeRosse, Apriva's Vice President of Business Development for Canada, was recognized by ACT Canada with its Hero of 2011 award. ACT Canada is a nonprofit association dedicated to working with key stakeholders, addressing business and technology matters to enable profitability and competitive advantage for its members.

Strategic Payment Systems formed

Rick Pylant, former Chairman and President of CoCard Marketing Group LLC, and Jon Stevens, CoCard's former Vice President, recently formed **Strategic Payment Systems Inc.**, an ISO based in Canton, Mass. Both individuals were instrumental in the formation of CoCard.

Targan among the best

Holli Targan, a partner in the Southfield office of Michigan-based law firm Jaffe Raitt Heuer & Weiss, P.C., was recently selected by her peers for inclusion in The Best Lawyers in America 2012 in the field of information technology. Targan now serves as Immediate Past President of the Electronic Transactions Association. She also is a founder and Past President of Women Networking in Electronic Transactions, a nonprofit, national association of women in the electronic transactions industry.

Vantiv signs three CUs, enhances platform

Three credit unions signed contracts with **Vantiv LLC** (formerly Fifth Third Processing Solutions LLC) for credit card processing. **Paducah Federal Credit Union** and **Border Federal Credit Union** are existing Vantiv clients and will be expanding their services with the

processor. **Sonoma County Grange Credit Union** is just starting a credit card program and believes Vantiv offers the capabilities and support the financial cooperative needs to manage it.

In other company news, Vantiv introduced Vantiv Direct API, a simplified application programming interface (API) designed to expedite development for Vantiv processing platforms. Vantiv Direct API offers ease of integration for large merchants, vendors and third parties, while shortening the certification cycle, the company said.

VeriFone includes Hypercom distributors

VeriFone Inc. is integrating distributors in its newly acquired **Hypercom Corp.** network into the VeriFone International Partner (VIP) program. The program gives distributors access to VeriFone resources and technology. The VIP program includes product and sales training and access to strategic, product and technology information.

PARTNERSHIPS

Century Payments, Trustwave team for PCI compliance

Century Payments Inc. is working with **Trustwave** to provide Payment Card Industry (PCI) Data Security Standard (DSS) compliance validation to Level 4 merchants (fewer than 20,000 online transactions per year or up to 1 million transactions per year). Century Payments customers will have access to Trustwave's security and compliance web portal, TrustKeeper, featuring PCI Wizard, which simplifies PCI DSS compliance.

CRE Secure, X-Cart partner to limit PCI scope

CRE Secure Payments LLC and **X-Cart**, a division of Qualiteam Corp., are partnering on a fully integrated X-Cart module. According to the partners, the X-Cart platform will be exempt from much of the scope of the PCI DSS; the partners said the CRE Secure integrated shopping cart module reduces PCI DSS requirements to the lowest, least costly compliance level.

First Data working with ConnectYourCare, Mutual of Omaha

First Data Corp. and **ConnectYourCare LLC** signed a five-year agreement to continue their partnership providing processing services to health care accounts. First Data will continue to process ConnectYourCare benefit debit cards, which access pretax money saved for health care in flexible spending accounts, health reimbursement accounts and health savings accounts.

In other company news, **First Data** and **Mutual of Omaha Bank** reached a multiyear payment processing agreement. Mutual of Omaha will be issuing MasterCard credit cards to consumers and businesses beginning in November 2011. First Data will process all electronic payments, including credit, debit and gift cards, as well as electronic check verification, for Mutual of Omaha Bank.

Marketron, Chase Paymentech partner

Marketron Broadcast Solutions LLC, a provider of business software solutions and services to media companies, selected **Chase Paymentech Solutions LLC** for processing credit card and electronic payments from advertising customers. Marketron said the partnership will reduce days sales outstanding and collection costs.

TouchNet, Western Union team for student payments

New payment options for college students is the goal of a partnership between **TouchNet Information Systems Inc.** and **Western Union Holdings Inc.** International students will be able to pay tuition in local currencies right from their bank accounts and have the option to pay cash at Western Union Agent

locations around the world. TouchNet technology already allows schools to accept tuition payments through its U.Commerce System.

UBC, Charge Anywhere team for mobile

United Bank Card Inc. and **Charge Anywhere LLC** are teaming on a mobile payment solution with free hardware. Merchants will be able to accept secure credit and debit payments through a smart phone or tablet using the Charge Anywhere software application that works with the major mobile operating systems. The audio jack card reader is free, and the software license fee is being waived for all new mobile accounts.

ACQUISITIONS

EFT Canada credit card gateway deal approved

The **EFT Canada Inc.** deal to buy credit card gateway technology from **Linterna Technologies Ltd.** was approved by the TSX Venture Exchange and the EFT Board of Directors. EFT Canada paid $325,000 cash and $325,000 in common shares of its stock for LTL. The LTL technology gives EFT Canada broader access to web-based POS terminals and the option to accept mobile e-wallet payments.

FTS combines with EPP, creates new brand, website

Cleveland-based **Financial Transaction Services LLC** recently acquired **Efficient Payment Processing LLC**. EPP, an ISO founded in Chicago in 2008, provides electronic payment processing services for niche merchant communities in need of integrated payment platforms and enterprise solutions. FTS said this acquisition will increase its annual bankcard processing volume by $100 million.

FTS also updated its logo and website to give the company a new look that it said better reflects its scope and technology platforms. FTS is moving beyond payment processing into a range of financial consulting services. It has also recently released FTS Connect, a web-based payment processing platform for businesses and government organizations.

MIG snaps up Zaypay

United Kingdom company **Mobile Interactive Group Ltd.**, a worldwide global digital and mobile communications business, acquired Amsterdam mobile payments startup **Zaypay International B.V.** for an undisclosed amount in an all-cash deal. Zaypay allows third-party developers to process international micropayments through SMS, phone, in-app and other payment methods. It is available in 44 countries.

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APPOINTMENTS

Burns makes CEO, Viera COO at First Atlantic

First Atlantic Commerce Ltd., an international payment solutions provider headquartered in Bermuda, appointed **Christopher Burns** Chief Executive Officer and **Ronnie Viera** Chief Operating Officer. Burns was the company's Senior Vice President of Business Development prior to the appointment. Viera previously served as Senior Vice President of Information Technology and Operations.

Daily named ISO sales director

Michael Daily was named National Director of ISO Sales for Genesis Capital LLC, a merchant cash advance company. Daily was formerly National Director of Sales for Merchant Cash and Capital LLC and a contributor to *The Green Sheet* forum under the handle 'Approved.'

Cynergy Data names Ford to executive position

Dottie Ford is the new Western Region Client Executive for Cynergy Data LLC. Ford left SignaPay LLC, where she was Vice President for Operations to take the Cynergy Data job. She is charged with helping ISO clients grow and increase sales.

Merchant Warehouse hires two

Merchant Warehouse added two members to its executive management team. **Brian Graham** is now the company's Executive Vice President of Sales; **David McSweeney** is Vice President of Merchant Experience.

Graham has more than 25 years' experience in sales and business development; he most recently served as Senior Sales Leader at Hewett Associates. McSweeney brings 20 years of experience in customer service to his new position. Directly prior, he was Vice President of Merchant Processing at Cross Country Automotive.

SEAA committee loses Sheff, adds Edgar

Terry Sheff resigned her post on the Southeast Acquirers Association's Advisory Committee after many years of service to the organization. After bidding a fond farewell to Sheff, the SEAA Board of Directors elected **Laura Edgar**, National Sales Director at Total Merchant Services, to fill the vacant Advisory Committee position.

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PCI update addresses holes in wireless security

Commenting on the release of an update to the *PCI DSS Wireless Guidelines Information Supplement*, security experts agreed that securing wireless payment networks is possible but more difficult than securing hardwired networks. Despite having more potential security holes, wireless networks can still meet the Payment Card Industry (PCI) Data Security Standard (DSS) requirements, according to the experts.

"As any security professional will tell you, there is no such thing as an absolute security – there will always be an evolution of attack sources and methods," said Al Hannagan, Senior Vice President of Internal Risk and Compliance at Trustwave Holdings Inc., a provider of on-demand data security and PCI compliance management. "However, there is a concept of reasonable security, whereby the means of securing the data make it either cost or time prohibitive for the attacker."

Hannagan said leading wireless security methods are now good enough to provide a "reasonable level of security" for stored personally identifiable information. "A properly implemented wireless system can be compliant with the current PCI DSS requirements," he noted.

Take care with CDEs

The wireless guidelines, formulated by the Wireless Special Interest Group (SIG) and first published by the PCI Security Standards Council (PCI SSC) in July 2009 as a supplement to the PCI DSS, were created to help companies limit PCI DSS scope on wireless networks and advise on how to deploy secure wireless payments.

"Wireless networks continue to be an easy target for data compromise, especially as new devices are added to these devices," PCI SSC General Manager Bob Russo said. "This resource remains an important tool for understanding how to secure your payment card data when using wireless technologies."

The PCI DSS has three cardholder data environment (CDE) classifications for wireless payments: CDEs with no known wireless local area network (WLAN), CDEs with a known WLAN access point (AP) outside the CDE, and a known WLAN AP inside the CDE.

The wireless guidelines recommend changing default passwords and enabling a wireless encryption program known as Wi-Fi protected access (WPA). The guidelines also suggest setting up APs in WPA or WPA2 mode and limiting access to only wireless devices known by the local network.

The guidelines mandate wireless logs be archived for a year, reviewed daily, and that each organization should have clearly stated use policies.

Watch out for rogue APs

The updated guidelines require a firewall be erected between the CDE and the environment outside the network. The firewall should be able to filter packets, inspect connections, and monitor and log traffic allowed and denied by the firewall.

The SIG also advises checking for rogue access points, even if the network has no known authorized access points. The supplement recommends using a wireless analyzer or a wireless intrusion detection/prevention system to check the network for rogue access points.

Additionally, the guidelines offer recommendations for security when using Bluetooth technology, as well as best practices for testing and finding unauthorized wireless access points to local networks. This is the first update to the council's guideline for secure wireless payments technology.

Headed by VeriFone Holdings Inc. Director of Product Security Doug Manchester, the SIG had more than 40 organizations working on the final guidelines. The group included POS vendors, network security companies, acquiring banks and merchants. The supplement adds no additional requirements to the PCI standards, and it endorses no individual technologies.

Stay away from WEP

Tim Cranny, President and Chief Executive Officer of security and PCI compliance company Panoptic Security Inc., agreed with Hannagan's assessment of the wireless guidelines.

"Secure wireless is one of the more challenging areas," he said. "Can wireless be PCI compliant? Yes. But it is more difficult. It's easy when you have a wired, static topology. When you have a contained environment, the network security is relatively easy. Wireless is more difficult."

Cranny explained that wireless systems remain difficult because of "eavesdropping" possibilities, where thieves can literally pluck transmitted information right out of the air. This ability emphasizes the need for end-to-end encryption, he said, adding that good encryption solutions are available to secure wireless networks. "The boring, obvious choice is almost always a good one," he said.

Cranny warned wireless payment providers to stay away from the once popular, but seriously flawed, wireless equivalent privacy (WEP) technology and focus instead on WPA and, even better, WPA2 security.

"The new guidelines are saying, upfront, WEP is unacceptable," Cranny said. "The new guidelines are not revolutionary. They offer clarification and more insight."

The *PCI DSS Wireless Guidelines Information Supplement* can be accessed at *www.pcisecuritystandards.org/pdfs/PCI_DSS_Wireless_Guidelines.pdf.* 🖼

SmartMetric initiates suit against Visa, MasterCard

SmartMetric Inc. Chief Executive Officer and President C. Hendrick recently promised his company would sue Visa Inc. and MasterCard Worldwide to protect a SmartMetric patent for contact and contactless smart card technology used to access card company networks automatically via contact points such as POS devices and ATMs.

On Sept. 2, 2011, Hendrick kept his promise alleging Visa and MasterCard infringe on SmartMetric's U.S. Patent 6,792,464 (also known as '464) titled *System for Automatic Connection to a Network*.

In *SmartMetric v. MasterCard and Visa (No. CV11-7126)* SmartMetric claims the two card companies are infringing on its U.S. patent '464 "by selling, offering to sell and using contact and contactless credit card systems that use data cards that, when inserted into a data card reader, help to establish a connection to a network."

The SmartMetric complaint asks for an injunction against both MasterCard and Visa prohibiting them from infringing on the '464 patent. SmartMetric also asks the court to award it royalties for every transaction Visa and MasterCard enabled that violated its '464 patent.

Visa/MasterCard push

Meanwhile, both defendants are pushing for greater use of smart card technology in the United States. Visa recently said it will attempt to jump start domestic contactless payments by incentivizing merchants to install POS devices that accept Europay/MasterCard/Visa (EMV) cards – the card standard in Europe and much of the rest of the world.

News

EMV cards are smart cards; they use microchips instead of magnetic stripes to store cardholder information and transmit this information to the POS.

MasterCard confirmed it will apply its liability shift program to Maestro ATM transactions "as part of an effort to align technology efforts to prevent and manage fraud." According to MasterCard, the chip liability shift means that "when a counterfeit fraud transaction occurs in a country or region that has migrated to the chip platform, the liability for the transaction will shift to the non–chip-compliant party" – in most cases the acquirer.

Appeals process

SmartMetric is appealing a decision in a Markman hearing handed down by the U.S. Central District Court of California. A Markman hearing, also known as a claim construction hearing, is a pretrial hearing at which a judge rules on the meaning of key words in a patent infringement case. SmartMetric has repeatedly said it believes the court unfairly narrowed its patent with a "wrongful and inaccurate interpretation" of key words in its patent.

"SmartMetric asserts with great confidence that the court's construction of meaning is fundamentally wrong and flawed and that the court has made a substantial error that SmartMetric Inc. is confident will be overturned in a higher court," the company said in a June 2011 news release.

In the same release, SmartMetric noted it is still free to sue "patent infringers who fall within the court's own interpretation of the patent, namely the use of 'contact' cards to make a connection to a network."

Complaint filed

Rather than wait on the appeal of the Markman hearing, SmartMetric decided to press its two remaining viable claims. SmartMetric claims Visa and MasterCard violate its patented system for automatic connection to a network each time a MasterCard or Visa card is swiped and routed through a database of network service providers. SmartMetric also alleges its patent is violated by the card companies when a card is read by radio frequency identification and connected to a network.

In a U.S. Securities and Exchange filing shortly after the Markman decision, SmartMetric noted, "While the company is confident that the [Markman] judgment in the Visa and MasterCard case … will be overturned on appeal, the results of any litigation [are] inherently uncertain, and there can be no assurance that we will prevail in the appeal of the litigation matters. We plan to pursue our claims and defenses vigorously and expect that the litigation matter … will be protracted."

Eight payment companies on Inc. 500

I*nc.* magazine has good news for the payments sphere – the industry is among the fastest growing sectors in the U.S. economy. In 2010, the financial services industry grew 108 percent over 2009, the publication said in its annual *Inc.* 500/5000 rankings of the fastest growing businesses. The rankings are based on revenue growth from the end of 2007 through 2010.

Eight payment companies made it to the top 500 fastest growing companies list – the same number as in 2010; 44 payments industry companies reached the

top 5,000. The top 500 list reports aggregate 2010 revenue of $10.5 billion while the reported aggregate revenue of the top 5,000 list is $185 billion, with a median three-year growth of 147 percent.

"Fast growth at any time is a big achievement; fast growth during the past few years is just short of miraculous," *Inc.* Editor Jane Berentson said. "The *Inc.* 500 consists of these just-short-of-miraculous companies, the ones that through ingenuity and ambition have increased revenue, hired employees and grown fast in difficult economic times."

Leading the payments industry on the list was PaymentMax Processing Inc. of Thousand Oaks, Calif., which placed at number 11 on the top 500 list. This company experienced growth of 10,058 percent over the three years and $10.8 million in revenue in 2010. An indication of how phenomenal the growth has been for this company is that last year it was listed at 151 on the top 500 list. PaymentMax said in a release the secret to its success is "lower rates, quicker account setup for merchants, rapid funding, more flexibility and around the clock customer support."

Century Payments Inc. came in at 12 on the top 500 list with 9,258 percent growth over three years and $22.5 million in revenue last year. "We are the only company in our industry that develops, builds and manages sales forces for companies looking to expand their offerings and services to electronic payments," Century Payments Chief Executive Officer Robert Wechsler said, "We are thrilled and humbled to be included in such good company on this prestigious ranking."

Braintree Inc. finished 47th with 4,199 percent growth over three years and was listed sixth on the financial industries list. "The most exciting part is that we're just getting started," Braintree CEO Bryan Johnson said. "We have big plans for the future of online and mobile commerce."

Electronic Payments Inc. finished 493 on the top 500 list. The company's founder and CEO Michael Nardy said, "I see the history of public companies that have previously made the *Inc.* 500 list such as Oracle and Microsoft as well as several of my contemporaries and industry peers. It's exciting to be part of this list."

A list of ISOs and payment processors included on the 2011 *Inc.* 500 List follows:

PaymentMax Processing Inc.

- Overall 2011 ranking: 11
- 2011 Financial Services ranking: 1
- 3-year Growth: 10,058 percent
- Revenue (2010): $10.8 million
- Year Founded: 2006
- Website: *www.paymentmax.com*
- Business: payment processing

Century Payments Inc.

- Overall 2011 ranking: 12
- 2011 Financial Services ranking: 2
- 3-year Growth: 9,258 percent
- Revenue (2010): $22.5 million
- Year Founded: 2006
- Website: *www.centurypayments.com*
- Business: payment processing and ISO

Entrust Bankcard

- Overall 2011 ranking: 18
- 2011 Financial Services ranking: 3
- 3-year Growth: 8,417 percent
- Revenue (2010): $9.4 million
- Year Founded: 2006
- Website: *www.entrustbankcard.com*
- Business: payment processing and ISO

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Electronic Cash Systems Inc.

- Overall 2011 ranking: 32
- 2011 Financial Services ranking: 5
- 3-year Growth: 6,133 percent
- Revenue (2010): $148.7 million
- Year Founded: 1997
- Website: *www.ecspayments.com*
- Business: payment processing and ISO

Braintree Inc.

- Overall 2011 ranking: 47
- 2011 Financial Services ranking: 6
- 3-year Growth: 4,199 percent
- Revenue (2010): $4.6 million
- Year Founded: 2007
- Website: *www.braintreepayments.com*
- Business: payment processing

ECS Prepaid LLC

- Overall 2011 ranking: 69
- 2011 Financial Services ranking: 7
- 3-year Growth: 3,188 percent
- Revenue (2010): $81.2 million
- Year Founded: 1997
- Website: *www.electroniccheckservices.com*
- Business: payment processing and ISO

Merchant Services Direct

- Overall 2011 ranking: 237
- 2011 Financial Services ranking: 18
- 3-year Growth: 1,336 percent
- Revenue (2010): $2.4 million
- Year Founded: 2007
- Website: *www.msdmerchants.com*
- Business: payment processing and ISO

Electronic Payments Inc.

- Overall 2011 ranking: 493
- 2011 Financial Services ranking: 23
- 3-year Growth: 689 percent
- Revenue (2010): $42.7 million
- Year Founded: 2000
- Website: *www.electronicpayments.com*
- Business: payment processing and ISO

Is self learning the next step in the fraud fight?

In May 2011, Michaels Stores Inc. reported a network breach that involved about 90 tampered PIN pads in retail locations across 20 states and resulted in the compromise of tens of thousands of cardholder accounts. Cards had been skimmed on the tampered terminals as far back as December 2010.

According to Mike Alford, Managing Director of U.K.-based fraud prevention specialist Alaric International, the Michaels breach would have been detected earlier if the card issuing banks involved had used Alaric's self-learning fraud detection model, called Fractals (short for Fraud Risk Analysis – Creation, Testing and Learning System).

"One of the big advantages of self learning for card issuers is that it greatly increases the chance of stopping a fraud run early, often on the first fraudulent transaction in a run on the card," Alford said. "So the answer is yes, self learning would have enabled card issuers to catch a Michaels-style fraud very early."

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Train the artificial brain

In a July 2011 white paper, Alford said the fraud detection rate rises from around 70 percent for a conventional model to 85 to 90 percent using Alaric's self-learning model. According to Alford, a typical fraud model might catch about 40 percent of fraud by recognizing that first transaction is a fraudulent one, while Fractals would catch that first fraudulent transaction approximately 65 percent of the time.

Fractals is more agile and proficient at detecting fraud because of the way the self-learning model is initially "trained," Alford noted. "You take maybe three months of data or six months of data for a given financial institution," he said. "That data will have had fraud transaction marks in it. And what you do is you train the model on that data so that it learns from the data so that it can predict future fraud."

It is that ability to self-adjust as fraud changes that sets Fractals apart, according to Alford. Using Fractals, no two issuing bank's fraud systems are the same, as the model adapts to the institution's specific fraud patterns.

Additionally, a typical fraud detection system has to be taken off line to be retrained, which could last several days, Alford said. Fractals is deployed through a point-and-click user interface that allows rules to be "set up, tested and deployed in something like three to four minutes without any programming, coding or scripting being required," he added.

Banks have indicated that, as a consequence to the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, they will be shorted debit card interchange revenues they could reinvest in fraud prevention. Alford said Alaric's system would allow financial institutions to maintain their anti-fraud standards in a post-Durbin environment.

"Self learning delivers a major detection performance boost but is delivered as a part of our normal competitively priced Fractals offering. … It is not expensive to implement self learning," Alford said.

The prize of artificial intelligence

Kent Poulson, Chief Operating Officer at American Fork,

Utah-based Chargeback Guardian Inc, questioned whether self learning is any different from other fraud detection methods when it comes to major shifts in fraud. "The problem you run into is, now that you've got this self learning, what if there's all of a sudden a change in the market?" he said. "Now you've got all these things that are happening. … Now you have to reset it and start from zero again if you have a major shift."

Alford responded, saying, "In general, our self-learning approach will recognize emerging fraud patterns unless the new pattern is somehow a strong function of some new variable which has not been used when the model was initially built." In case a Fractals model needs to be retrained, the process is done remotely by Alaric and typically takes a "few hours," he added.

TradeAssociationNews

ETA to host three events in Chicago

Three events in three days are promised by the Electronic Transactions Association Oct. 25, 26 and 27, 2011, at the Palmer House Hilton in Chicago. The ETA is hosting its first Mobile Commerce Summit Oct. 25. It is also sponsoring its annual Strategic Leadership Forum from Oct. 25 to Oct. 27 and offering a Compliance Day Oct. 27.

The ETA stated the Mobile Commerce Summit is an educational opportunity covering the overall direction of the mobile commerce industry, looking at competition in the mobile marketplace, and identifying threats and opportunities in the mobile commerce environment. The Strategic Leadership Forum is targeted to senior-level payments industry executives. It provides attendees an opportunity to meet with peers and discuss the industry's trends, technologies and pressing issues.

Compliance Day offers a chance to hear major card brand representatives discuss complex compliance issues. A special forum will focus on the obligations and liabilities of banks, processors, ISOs and agents in areas such as sponsor and ISO registration, due diligence, merchant agreements, risk monitoring and Payment Card Industry Data Security Standard compliance. To register go to: *www.electran.org/slf11/?page_id=3546.*

SCA security comments

The Smart Card Alliance submitted comments on the National Strategy for Trusted Identities in Cyberspace (NSTIC) to the National Institute of Standards and Technology in August 2011. The 170-member organization submitted remarks on governance, inclusion and participation, fairness and funding. The SCA's Identity Council, a group made up of smart card manufacturers, systems integrators and end users, focused its remarks on identity management and secure identity authentication – both strong suits for the industry. The SCA recommended:

- The NSTIC be governed by the private sector and the government participate as a stakeholder with minimum legal impact on the organization
- The government provide seed money for the NSTIC until the organization determines how to fund and maintain itself
- All members of the NSTIC have equal standing, regardless of organizational size
- The NSTIC steering group be transparent, with processes open to all members and the public
- The NSTIC actively engage the international community in its work

- The organization's focus be on existing infrastructure and standards and industry weaknesses

For more information, visit *www.smartcardalliance.org.*

NAAIO and ASCP form new trade association

The National Association of ATM ISOs and Operators is combining with the Alliance of Specialized Communications Providers to form the National ATM Council, a 501(c)(6) nonprofit trade association that will represent a majority of the independently owned ATMs in the United States. Independents account for approximately half the ATMs in use in the United States. Curt Selman of Selman Telecommunications Investment Group LLC was named the first NAC Chairman. Bruce Renard, a telecommunications and technology attorney, was appointed Executive Director and will oversee NAC's day-to-day operations.

"Formation of NAC is a significant event in the history and evolution of the dynamic ATM industry," Selman said. "As independent owners of ATMs in the United States face challenging times, our industry requires an organization focused on promoting the interests of the nation's independent ATM owners and ensuring the continued widespread availability of independent ATM locations for the convenience of the American consumer." NAC Vice Chairman Jim Cabe of Cabe & Cato Inc. said, "NAC will work to improve our members' services by pursuing the most advanced and efficient technologies, fostering awareness of and compliance with applicable regulations, and promoting industry 'best practices.'"

NAMAA gains five new members

Five companies joined the North American Merchant Advance Association, bringing the total number of members to 16. Joining the NAMAA are Genesis Capital LLC, Merchant Advance Funding, Merchant Capital Source LLC, Strategic Funding Source Inc. and Swift Capital Corp. NAMAA services include a database of more than 10,000 merchants who have defaulted on merchant cash advance providers. It also has a system for checking to see if a merchant is already being funded by a merchant cash advance provider. President David Golden said the NAMAA represents over 95 percent of the significant merchant cash advance providers in the marketplace, making us the only 'true, unbiased voice' for the merchant cash advance industry," NAMAA President David Goldin said.

View

Debit after Durbin

By Patti Murphy

ProScribes Inc.

Is the Durbin Amendment the death knell for debit card programs? The answer depends on where one falls along the debit card food chain. Acquirers, ISOs, merchant level salespeople and regional EFT networks could fare well.

Card issuers, consumers and smaller merchants may not be as fortunate. The Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (named for its chief author, Sen. Richard Durbin, D-Ill.) established for the first time federal price controls on debit cards.

> *Just about everyone I've interviewed lately expects implementation of the Durbin Amendment to push more issuers to adopt chip and PIN technologies.*

It directed the Federal Reserve Board to establish rules capping interchange assessed by the largest banks issuing debit cards at rates deemed by the Fed to be "reasonable and proportional" to the costs issuers incur handling debit card transactions.

Financial institutions with less than $10 billion in assets (this includes thousands of community banks and credit unions) are exempt from these price caps.

In response to the legislation, the Fed articulated Regulation II, a new set of rules that cap debit interchange initially at 21 cents, plus an additional 0.05 percent of the transaction amount to cover fraud losses. The Fed also approved an additional fee of one cent per transaction, on an interim basis, for card-issuing banks that satisfy certain fraud prevention requirements.

Eliminating network exclusivity

The debit card interchange caps take effect Oct. 1, 2011. Meanwhile, all card issuers (not just the over $10 billion in assets crowd) have until April 21, 2012, to comply with another key Durbin Amendment requirement: ensuring their customers' debit card payments can be processed on at least two unaffiliated payment networks. This rule against network exclusivity aims to help merchants save money by being able to select least-cost processing options for customers' debit card payments. It also could spur shifts in transaction volumes to regional EFT networks.

"This is a real game-changer," said Dan Fisher, President of Copper River Group. Fisher, a former banker, expects a lot of community bank debit card programs will fare better than those of larger banks, given the $10 billion asset cut-off.

The exceptions are issuers that piggyback their debit card programs on those of correspondents, which are more likely to be covered by the law by virtue of size.

Fighting fraud and revenue shifts

Just about everyone I've interviewed lately expects implementation of the Durbin Amendment to push more issuers to adopt chip and PIN technologies. "Customers are going to demand it," said Fisher of the advanced fraud protection provided with chip and PIN.

Federal regulators are also looking closely at risks and risk management routines associated with retail payments and online banking. The Federal Financial Institutions Examination Council issued a statement in June 2011 reiterating its concerns about online banking security.

A similar document addressing risk management practices related to retail payment systems – check, card and automated clearing house payments – was issued in 2010. The FFIEC is an interagency body that coordinates the standards and routines for regulating commercial banks, credit unions and savings banks.

One irony of the Durbin Amendment is that it lacks any method or mechanism to ensure the anticipated shift in issuer revenues finds a way to merchants accepting debit cards.

I'm not talking about largest (Tier 1) retailers: brands like Wal-Mart Stores Inc. and Target Corp. that negotiate directly with large processors and acquirers. It's the other million-plus small to mid-sized businesses that generate the bulk of interchange income.

These merchants typically pay acquirers a blended fee for card transactions, as opposed to interchange-plus pricing, which is what Tier 1 merchants pay, said industry consultant Paul Martaus. The result: a number of acquirers and their sales partners are anticipating revenue windfalls from lower transaction fees that aren't passed along to merchants.

Recouping costs

Martaus also predicted issuing banks and acquirers will raise credit card fees to cover anticipated shortfalls in debit card income and the cost of administering new

pricing schemes. "The overwhelming majority of businesses may actually see costs increase, not decrease," he said.

I agree, especially considering the new regulatory compliance fees some ISOs and acquirers have concocted in response to new Internal Revenue Service reporting requirements established under the Housing and Economic Development Act of 2008.

Acquirers and their agents must now collect verified taxpayer identification numbers and business names on all card-accepting merchants and, starting with tax year 2011, file a 1099-K form with the IRS for each.

Banks will also be looking to recoup more costs from consumers. Several large card-issuing banks, as well as smaller financial institutions, have begun eliminating debit card rewards programs and instituted new debit cardholder fees.

My bank now charges customers a $5 monthly fee for debit card use, and it dropped a program whereby customers were reimbursed for surcharges paid to outside-network ATM operators.

If ever there were a harbinger that the days of free checking are numbered, this is it. But I don't envy bankers navigating this transition. Deservedly or not, banks have been taking a lot of flak from the public in recent years, especially regarding fees, so anything done to recoup diminished debit card revenues is likely to be met with strong public resistance.

In March 2011, nearly two out of three U.S. consumers (64 percent) surveyed on behalf of Bankrate Inc. said they'd consider switching banks if their banks raised checking account fees.

Those most likely to switch were young (71 percent of folks under 30) and affluent (75 percent of those earning more than $75,000 a year). More recently, media outlets have been heralding the news of higher checking account and debit card fees, sowing consumer indignation in their wake.

Fisher said community banks can use this public sentiment to advantage – at least those not affected by interchange caps – by promoting low-cost or free checking account and card privileges.

There's plenty of market share up for grabs since, by most estimates, just a handful of the largest banks account for more than 50 percent of checking accounts in the country today.

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

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A fresh perspective on POS innovation

By Brandes Elitch

CrossCheck Inc.

The late 1990s marked a pinnacle in the U.S. economy. For many Americans, owning a home was still an attainable dream, the federal government actually had budget surpluses and dot.com businesses were sitting on the cusp of a stratospheric boom.

Things have changed, and more change is in the works. Sometime over the next few years, the hardware and software your merchants currently use to process card and card-not-present transactions will be transformed.

Historically, merchants have looked to the ISO community, not their banks, for guidance on which equipment to choose and how to buy, program, install and train end users.

Right now many talented people are working on next-generation offerings. There is plenty of talk about the consumer "paradigm shift," and how merchants will be affected. Many new products will be introduced in this space, but not all of them will succeed. As an ISO or merchant level salesperson, you want to be very careful about which of these new products you introduce to your merchants because you will have to support them for years to come.

Just today, Hewlett Packard announced it will discontinue its tablet computer and smart phone products and may even sell or spin off its PC division. Make no mistake – this is a big deal. Remember that just 10 years ago, HP spent more than $24 billion to acquire Compaq Computer Corp. with the goal of dominating the PC market. Moreover, the company then spent almost $2 billion on Palm Computing for its WebOS software.

Unfortunately, consumers preferred Apple Inc. iPads, iPhones and smart phones running Google Inc.'s Android software. It looks like the only companies that seem to be getting it right are Google and Apple, but are they? In this article, I would like to add a bit of perspective to this unfolding scenario.

Moon shots

One of my favorite writers is Jack Baruth, who writes for

an e-zine called *The Truth About Cars*. He has observed that it is not unusual to hear that some company "wants to be just like Apple." Baruth reminds us of what Apple was like in the early 1980s: "a navel-gazing maze of slightly insane people who had been isolated from the real world by a tidal wave of cash, success and public acclaim," he wrote.

The company's "moon shot" was called the Apple Lisa, and Apple likes its moon shots. (Coming up with a true paradigm shift is risky but if successful can have a big payoff – the iPhone, for example.) Baruth reported that with the Lisa, "feature creep, wild enthusiasm and a desire to leapfrog the competition rather than merely beat it" resulted in a technological dead end.

Apple emerged from the Lisa fiasco by diverting resources to less ambitious but more effective projects, like the Macintosh, which had a good 10-year run. "Ironically, what saved Apple in 1998 (the arrival of Steve Jobs and his crazy ideas) was what almost killed Apple in 1983," Baruth said, adding that the lesson learned from Apple is this: "Sometimes, you can't learn anything from history or competitive comparisons, at all!" Confusing, isn't it?

> *Things have changed, and more change is in the works. Sometime over the next few years, the hardware and software your merchants currently use to process card and card-not-present transactions will be transformed.*

Practice makes perfect

Apple looks invincible today, but if you look more closely, Apple didn't always get it right. The Apple III (1981) lost the business computer market to IBM. The NeXT computer (1989) was too expensive. The round USB puck mouse (1998) was impossible to use. The Cube (2000) failed because it was too expensive. The iTower (2005) had too little storage and was too slow. The Apple TV (2007) was expensive and complicated and had low resolution.

In Evan Schuman's excellent blog *StorefrontBacktalk*, writer Frank Hayes wrote, "Will any retailer ever use a non-Apple device for mobile POS again?" In mid-August, both Lowe's and Urban Outfitters reported they will finish rolling out in-store mobile devices to their associates by the end of 2011 (iPhones at Lowe's and iPod Touches at Urban Outfitters). Nordstrom, JCPenney and Gucci are also piloting iPads for in-store use.

Urban Outfitters attaches sleds for swiping payment cards, and this might be enough to keep in-store mobile devices out of the dreaded PCI scope – if card data is immediately encrypted after swiping and before it actually enters the phone or tablet. Apple's trump card here is less expensive hardware and software, a wider selection of peripherals and a bigger base of developers to create

custom software. And as of mid-August, no major retailer has indicated it will use the Google Android phone as an in-store POS.

Not without risks

But technology is changing quickly. Mobility is the heart of the matter, since it is about the cloud, credit card-sized tablets and phones. Google's recent acquisition of Motorola Mobility fits this category. Does Google want to stay in the manufacturing industry? Google, essentially an online advertising business, paid $12 billion for Motorola patents the company thinks it needs to make the Android operating system work better. Some analysts see this as a purely defensive move.

There are risks here. Google risks antagonizing its partners: companies like LG and Samsung that now may look at Google as a competitor, rather than a partner. There is also a regulatory risk. It could take a year to get this deal approved. Cost is another risk. Google paid $3 billion for DoubleClick in 2006, $1.7 billion for AdMob in 2010 and the Motorola acquisition consumed a third of its cash position. Clearly, the stakes are very high in the payments game.

There is more to innovation than a paradigm shift. Price is one consideration, profit another. And then there is the sales process. If you have ever been to an Apple Retail Store, you'll understand. Apple has made the buying experience easy for both the customer and the salesperson and, as someone pointed out, "as choreographed as a Disney ride." Can we really say that your sales call on a merchant to explain why they need to buy new equipment is this seamless and easy for both parties?

Make no assumptions

We cannot assume merchants will be enthusiastic about replacing their POS hardware just because of a consumer paradigm shift. If the merchant has a 2 percent net profit as a percentage of sales, he or she has to generate $5,000 in sales to recover a $100 expense. As an ISO, would you dare to ask your merchant, "How do you plan to generate $5,000 in sales to cover this new expense?"

Everybody gets excited about a paradigm shift, but few business leaders and product managers project accurately. That's because they tend to make decisions about future products based on what happened in the past. They use straight-line assumptions, forecasting directly from a spreadsheet without considering the business cycle. They focus on the business, not on the science of forecasting, hence the write-offs that HP and its ilk will experience.

Change is an ongoing process, not a one-time event. Many observers have pointed out that during times of change, the economy does not revert to the "old normal," but moves to a "new normal," which has different marginal costs and benefits.

If you look at three companies that used to be part of the Dow Jones Index – General Motors, Bethlehem Steel and Woolworth – you will see these firms declined not because of any single event, but because each increasingly lost touch with its core market, or what should be its core business. The underlying framework and customer dynamics changed, but the companies did not. They weren't paying attention, or they just didn't want to pay attention.

The pace of change has accelerated since then. When you talk to your merchants about the changes in card processing coming down the pike, it might be worthwhile to keep this perspective in mind. Apple succeeded by learning from its past mistakes and modifying its products accordingly. On the other hand, there is an old saying, "Microsoft always gets it right - the third time." You will not have that chance with your merchants, so pay attention.

Selling**Prepaid**

Prepaid in brief

NEWS

Details of FIS breach emerge

In May 2011, prepaid card processor **Fidelity National Information Services Inc.** (FIS) approximated the loss from a data breach at $13 million. According to the blog *KrebsonSecurity*, and based on information blogger Brian Krebs obtained from sources apparently close to the investigation, fraudsters hacked into the FIS network and stole information on 22 prepaid card accounts. This led to a March 5, 2011, withdrawal of $13 million from ATMs in Europe, Greece and Russia.

With unauthorized access to FIS' Sunrise platform, the fraudsters were able to reload the cards remotely for repeated withdrawals from the ATMs on that day, Krebs said. The blog post is available at *www.krebsonsecurity.com/2011/08/coordinated-atm-heist-nets-thieves-13m/*.

Europe gets 'first' multicurrency travel card

CashCase prepaid card provider **Touchdown Prepaid**, in collaboration with global prepaid card company **Rev Worldwide**, launched what the companies call Europe's first multiple currency travel card. The CashCase Visa Prepaid Card allows users to move money between British pounds, euros and U.S. dollars. The chip and PIN-enabled card permits travelers to lock in exchange rates before they embark on journeys.

PIF's India chapter to drive prepaid expansion

The global trade organization **Prepaid International Forum** reported its India chapter will implement prepaid card programs to accelerate expansion of the products across the South Asia country. The first rollouts will be focused on expanding the use of government benefits cards and on promoting prepaid cards as alternative financial tools for India's unbanked, PIF said.

ANNOUNCEMENTS

AmEx moves into e-gifting

American Express Co. entered the virtual gifting realm with the American Express eGift Card for online purchase and use. Like the physical American Express Gift Card, the virtual card comes with no activation, balance check or monthly maintenance fees, as well as no expiration dates, AmEx said.

Founding member becomes NBPCA sponsor

The Bancorp Bank, a subsidiary of The Bancorp Inc. and founding member of the Network Branded Prepaid Card Association, plans to sponsor the 2012 NBPCA Annual Congress, called The Power of Prepaid, to be held June 3 through 5 in Washington, D.C.

EB (now Evolution1) inked to Inc. list

Inc. magazine ranked health care benefits card processor **Evolution Benefits Inc.** (which became Evolution1 upon its merger with Lighthouse1 LLC) at number 1,528 on the fifth annual Inc. 500|5000 list of the nation's fastest-growing private companies.

Nexon begins Karma Koin Card phase-in

Nexon America, the U.S. division of online free-to-play game developer Nexon Corp., began distributing Karma Koin prepaid cards to replace Nexon Game Cards. While the card functionality will remain the same, Nexon intends to eventually expand Karma Koin Card into a payment platform.

Parago propels forward with portal

Incentive and reward card processor **Parago Inc.** unveiled the Parago Reward Ordering Portal, a proprietary online platform that provides large organizations a centralized hub for ordering, loading, activating and customizing Visa-branded prepaid cards.

SelectCore receives trademark for ReCash

The Canadian Intellectual Property Office granted prepaid telecom card provider **SelectCore Ltd.** license to use ReCash as the brand name for its reload network. SelectCore reported it is still working on its patent pending technology that will power ReCash.

RushCard adds mobile app

UniRush LLC said it introduced a free mobile phone application that offers RushCard users balance inquiries and transaction histories on Apple Inc. iPhones and other smart phones that run on Google Inc.'s Android operating system.

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24/7 Card offers punch for Filipinos

24/7 Card, a Los Angeles-based financial services company promoted by boxing champion and Philippine congressman Manny Pacquiao, started the Ambassador Program – a prepaid card pilot aimed at Filipinos and other minorities living in the United States.

WRL launches RAN-enabled cards

Online prepaid card provider **Wolfe LLC**, through its subsidiary Wolfe Rewards & Loyalty, unveiled a restricted authorization network card program that limits Discover Network-branded SelectSpend rewards cards to select merchants in particular merchant categories or geographic regions.

PARTNERSHIPS

Alpha Card chooses SparkBase for loyalty/gift

Pennsylvania payments solution provider **Alpha Card Services Inc.** chose stored-value account processor **SparkBase** for its merchant loyalty and gift card program. Alpha Card is also offering SparkBase's new Paycloud mobile loyalty and marketing program, which enables smart phones to become mobile wallets delivering rewards, coupons and promotions.

InComm is game with GAME Group

Atlanta-headquartered prepaid card distributor **InComm**, via its Hampshire, England-based division InComm Europe, inked a deal with video game retailer the **GAME Group PLC** to distribute gift cards through Clinton Cards stores in the U.K.

New team translates coins into certificates

Restaurant.com and **Coinstar Inc.** joined to offer a coin-to-certificate program. For every $10 in coins cashed in at Coinstar kiosks, consumers can receive a $25 virtual certificate redeemable at over 18,000 restaurants in Restaurant.com's national network.

Transact Network becomes White Eagle's BIN sponsor

Gibraltar-based prepaid card issuer **Transact Network Ltd.** is now providing bank identification number (BIN) sponsorship for **White Eagle (Europe) PLC**, a prepaid program manager in the U.K. White Eagle said it migrated over a dozen prepaid card programs to Transact Network's BIN in less than 12 months.

Game card distribution expands in Europe

Social network game developer **Zynga Inc.** and prepaid card distributor **epay** teamed to distribute Zynga's prepaid game cards to retailers in 18 countries across Europe, making it the first time the cards will be available in many of the countries, according to epay.

ACQUISITIONS

Saratoga Electronic Solutions sells Car-Tel

Saratoga Electronic Solutions Inc., a financial services company in Montreal, agreed to sell its calling card subsidiary Distributions Car-Tel Inc. to Luc Charlebois, a member of Car-Tel management, for approximately $1.36 million. Saratoga Electronic Solutions said the prepaid cellular and long distance card market in Canada reached maturity in 2010.

paysafecard gets Wallie

Vienna, Austria-based **Paysafecard.com Wertkarten AG**, the holding company of paysafecard group, purchased Haarlem, The Netherlands-based Wallie card provider **Wallie Holding International Payment Services B.V.**, to expand its prepaid card programs in Europe.

APPOINTMENTS

Botta to run CashZone

Metropolitan National Bank, a New York City-based community bank, tapped **Al Botta** for the position of Senior Vice President at the bank and Senior Vice President, Marketing & Operations, CashZone. At the CashZone prepaid program management subsidiary, Botta is expected to grow the bank's prepaid card business.

Green Dot hires Duehring

Green Dot Corp. hired marketing and branding expert **Eric Duehring** as General Manager of its Card Business Unit. Duehring will oversee the sales of Green Dot-branded cards in retail and online markets, in addition to related Green Dot marketing activities.

Frank joins SparkBase as COO

White-label reward and gift card processor SparkBase appointed **Ted Frank** Chief Operating Officer. Frank comes to SparkBase from JumpStart, an online gaming site for children, where he was a venture partner who worked with emerging technology companies.

Mason named Managing Director at Wave Crest

Prepaid program management service provider Wave Crest Group hired **Chris Mason** to the position of Managing Director, Europe. Mason was formerly Managing Director of AIBMS, a joint venture between First Data Corp. and Allied Irish Banks. 🐾

Features

Mobile prepaid builds bridge for underbanked

The ubiquity of mobile phones combined with the increasing relevance of prepaid cards as alternative bank accounts makes for a potent value proposition for both underbanked consumers and prepaid card providers, according to a Center for Financial Services Innovation webinar. In *The Mobile Opportunity: Extending Financial Services to Underbanked Consumers*, CFSI Analyst Kate Marshall outlined that value proposition.

The vast majority of underbanked consumers with minimal access to bank accounts and other traditional financial services use mobile phones, she said. In addition, the upward trend in general purpose reloadable (GPR) prepaid card usage, and the resulting familiarity of that product among the financially underserved, lead Marshall to conclude that GPR cards represent an "important piece" in the mobile payment equation.

The cashless bridge

Marshall cited a 2009 Federal Deposit Insurance Corp. study that found only 12 percent of consumers in unbanked households and 16 percent of people in underbanked households used GPR cards. Since the underbanked are typically cash users, new revenue sources can be tapped by transitioning them to electronic payments, she said.

"So an important role in mobile financial services for underbanked consumers in the U.S. basically means increased access to these accounts," Marshall noted. "And since prepaid debit accounts are already available through the Internet, through a handful of companies, we think the transition to offering these accounts directly through the mobile channel will be quick." Marshall advised financial services companies to include prepaid accounts as an important component of mobile wallet strategies.

A bridge worth buying

A companion research report to the webinar, co-written by CFSI and payment consultancy Celent LLC and entitled *Reaching Underbanked Consumers through Mobile Services*, said mobile payment accounts in emerging markets have evolved in a similar fashion to GPR card

accounts in the United States. According to the report, both types of accounts are easy to obtain, require limited personal information to open and employ upfront, usage-based pricing structures.

"The accounts use a prepaid model of funding, so consumers can spend or use only as much money as is in the account," the report said. "And both models rely on a distribution network made up of familiar merchants with whom consumers transact for other goods and services."

One opportunity emerging stateside involves New York-based prepaid program manager Plastyc Inc., which enables prepaid phone users to add mobile airtime to phones via GPR cards, the report said.

Another prepaid card trend is developing abroad, the report said. Mobile telecommunication providers Telefonica O2 UK and Orange UK now offer GPR cards with prepaid mobile phone programs to increase revenue and customer loyalty. "So we see a lot of potential for similar products here in the U.S.," Marshall said.

FTC redresses consumers for prepaid card scam

The Federal Trade Commission is returning approximately $1.9 million to consumers who were tricked into buying prepaid debit cards when they filled out payday loan applications online. In the scheme, applicants unknowingly were charged up to $54.95 per application for unrelated prepaid debit cards with zero balances, according to the FTC.

The FTC said Palo Alto, Calif.-based payday loan marketer Swish Marketing Inc. worked with San Clemente, Calif.-based debit card provider VirtualWorks LLC to design the payday loan application form that, when filled out on various websites, duped applicants into signing up for Visa Inc. and MasterCard Worldwide-branded prepaid debit cards.

Thousands of consumers were charged an enrollment fee of up to $54.95, and many were also charged fees and penalties from their banks when the prepaid card accounts were overdrawn. An FTC spokesman said the banks that issued the prepaid cards were not disclosed because they were not mentioned in the litigation, making their identities not public information.

The FTC, which settled with the defendants in August 2009, is mailing over 110,000 refund checks to affected consumers. The average check is between $10 and $15.

Act spurs prepaid fraud

Terry Maher, General Counsel for the Network Branded Prepaid Card Association, said it is difficult to determine whether the payday loan-prepaid card scheme is a prevalent one but that it may be the result of The Credit Card Accountability, Responsibility and Disclosure Act of 2009 (the Credit CARD Act), which limited "harvester fees" on credit cards.

Harvester fees were at issue in the FTC's case against CompuCredit Corp. in 2008. The credit card marketer was charged in June of that year with, among other things, charging consumers upfront, ill-disclosed fees that drained the available balances on so-called secure credit cards. The case was settled in December 2008 and forced CompuCredit to return at least $114 million in credits to consumers.

The fee restrictions imposed by the Credit CARD Act may have forced scammers to shift from credit card to prepaid card schemes, Maher said. He noted that the Federal Deposit Insurance Corp. slapped CompuCredit credit card issuers First Bank of Delaware and Brookings, N.D.-based First Bank & Trust with "some very substantial fines because they weren't necessarily monitoring some businesses that were marketing credit cards on their behalf."

In the current case, the issuing banks were apparently not caught up in litigation because "all they did was issue a prepaid card with no balance," Maher said. The scam may have been harder to detect because of that fact, he added. "As far as the issuer is concerned who issues the card, all they know is the GPR [general purpose reloadable] card went out with a zero balance, which is not unusual," he said.

According to Maher, the real fraud occurred when, having obtained consumers' bank account information, the scammers transferred funds from those bank accounts via the automated clearing house to pay the upfront fees on the prepaid cards.

Association responds

Since the inception of the Credit CARD Act, oversight responsibilities have been clarified for financial institutions (FIs) that sponsor card programs marketed by third parties, Maher said; it boils down to FIs knowing what companies they do business with. "The financial institutions that are members of the NBPCA take seriously their obligations to do appropriate due diligence and oversight and monitoring of the business partners," Maher noted.

Toward that goal, the NBPCA is in the process of forming a prepaid card anti-fraud forum that allows issuing banks, processors and program managers a venue for the real-time exchange of information about fraud and fraud patterns, Maher said. The NBPCA is also working on anti-fraud best practices to be disseminated to association members in "the next several months," he added.

TheMobileBuzz

Alternative payments in the mobile space

By Alex Grinberg

eWise

When e-commerce was in its infancy, few options existed for making payments online, with credit cards being the de facto method of choice. However, as this industry grew, so too did the number of payment methods available, leading to a crowded market of alternative payment providers. Today, there are close to 30 alternative payment methods for e-commerce transactions.

Today, the same thing is happening in the world of mobile payments or m-commerce. Driven by the rapid growth of smart phone adoption, the mobile payments industry is heating up, and companies are rushing to innovate and develop new applications to grab a share of this burgeoning market.

According to Yankee Group's latest Mobile Money Forecast, the value of global mobile transactions will grow from $241 billion in 2011 to more than $1 trillion by 2015, a compound annual growth rate of 56 percent.

Mobile payment contenders

The four primary methods of mobile payments today are:

1. Premium short message service-based transactional payments
2. Direct mobile billing
3. Mobile web payments
4. Contactless, near field communication

While there is plenty of innovation among these payment options, the market is still young, and several barriers need to be overcome before we will see widespread adoption. First, consumers are reluctant to use mobile payments because of security and privacy concerns. According to the latest Consumer Reports findings, the "continuing launch of new forms of payment options does little to offer consumers guaranteed protection against unauthorized transactions."

In fact, despite the hype around mobile payments, a recent survey by Consumer Reports National Research Center found that very few consumers – 5 percent of the respondents - use the service.

Another barrier to entry is the lack of interoperability among mobile technologies. With so many vendors rushing to develop superior solutions and be first to market, it is difficult for mobile payments to be standardized. Lastly, while merchants and ISOs are receptive to new payment methods, they are looking for solutions that enable them to authenticate payments and reduce interchange fees.

OBeP alternatives

A new category of alternative payments is emerging in the mobile space that addresses many of these challenges. Online Banking ePayment (OBeP) systems allow consumers to make purchases using their most trusted financial institutions – their banks. With this approach, consumers don't have to share their personal information with merchants and can better manage their money by paying for goods directly from their bank accounts.

These types of networks are successfully growing in The Netherlands, Germany, Canada and Columbia and are starting to gain traction in the United States. Merchants and ISOs benefit from lower interchange fees as well as payments that are authenticated in real-time and guaranteed. These payment options can lead to increased customer loyalty and repeat transactions.

To address the technology challenges, the International Council of Payment Network Operators was formed by a group of companies to establish the rules and standards for joining the global payment networks together for the benefit of all involved.

No matter what payment options are available, consumers must feel comfortable using them in order for them to succeed. Just as it took consumers a long time to begin feeling comfortable transacting online, the same will happen in the mobile world. Consumers will demand convenience, privacy and trust from any alternative payment method.

If the promise of simplicity, speed and security for the consumer counts in traditional payments, then these three simple propositions are paramount for any mobile alternative to make a visible difference. A payment type that is fast, easy and secure for the consumer; improves conversion and offers guaranteed funds for the merchant; and drives revenue for the bank is a win-win for the industry and will move the mobile payments industry forward.

As Chief Executive Officer and founder of eWise, Alex Grinberg has established the company as an international provider of innovative payment services and solutions for the financial services industry. Prior to eWise, Alex held a number of senior legal and operations roles with Oracle Corp. in Australasia and Europe. You can reach him by email at agrinberg@ewise.com or by phone at 720-258-4300; the eWise website is www.ewise.com.

Envisioning an advertising-sponsored mobile payment network

By Richard K. Crone

Crone Consulting LLC

The most meaningful opportunity in mobile payments is the $20 to $30 trillion spent at the physical POS worldwide; all other mobile payment segments, be they person-to-person, carrier billing or international remittances, are very small compared to the opportunity at the physical POS.

Payment is a powerful way to reinforce a financial institution's (FI's), retailer's or any other issuer's brand. A mobile wallet makes the payment branding point interactive and magnifies both the risk and opportunity in mobile payments.

Because payment is the primary touch point for reinforcing account issuers' relationships with customers and the most important utility provided to account holders, mobile wallets will play a pivotal role in financial services.

Given this, the mobile wallet, just as the paper check, ATM, and credit and debit card before it, will become the way to differentiate the account access/convenience quotient for payment accounts. Thus, FIs and retailers must define their "protect" and "extend" strategies for mobile wallets, and mobile payments in particular.

The issue for FIs and retailers is that new, nonbank, third-party intermediaries are trying to come between them and their customers. This is true not only for credit, debit and prepaid accounts issued by FIs but also for retailers and other program managers that sponsor their own tenders such as private-label credit cards, prepaid gift cards and the like.

Crone's Rule

As FIs and retailers evaluate their options for mobile wallets, they have a choice: to aggregate or be aggregated. In other words, will retailer and bank mobile cross-channel strategies allow them to collect and aggregate customer payment accounts in advance of third-party intermediaries?

Or will banks and retailers be too slow to mobilize, and in doing so, be at risk of being aggregated by third-party intermediaries? Crone's Rule applies here, namely, the one who enrolls is the one who controls.

Retailer and bank mobile platform strategies must address the "control," "time-to-market" and "future-proof" trifecta of their cross-channel, self-service plans. This is not to say third-party intermediaries won't also play a role, but savvy banks and retailers understand they will need to control their own mobile payment offerings if they are to preserve and grow their hard-won customer relationships.

One key goal for retailers and banks should be to leverage their own mobile apps and the authentication tokens they own and control (for example, user name, password, PIN, phone hardware, fingerprint, etc.) for payment. If they don't, third-party intermediaries will enroll the customers and broker back the connection – for a fee.

If third-party intermediaries do not broker back the connection, FIs, retailers and their mobile banking and shopping app infrastructure may become a funding source for the intermediaries' preferred tender type, such as the prepaid mobile "payment" offering featured inside Google Inc.'s Google Wallet – potentially marginalizing retailers' private-label credit and prepaid gift cards and banks' payment-based accounts.

Sophisticated retailers and FIs are evaluating the potential income from rendering mobile advertising and offers to their customers through their own mobile apps and the real cost of surrendering this revenue stream to third-party intermediaries.

Key questions for retailers and banks to ask themselves are:

- Will we be walking away from the opportunity to create our own network of promotional offers and advertising through our own mobile banking or mobile shopping platform?
- Will the platform we select and the vendor we choose relegate us to being another line item in a third party's aggregated search?
- Will we be forced to pay for premium positioning at the top of someone else's wallet to reach our own customers?

Mobile cash access

Another consideration for the mobile wallet is mobile cash access (MCA). A smart phone serves as a more secure token for user authentication than a card and enables users to prescreen transactions in the privacy of their own phones before using an ATM.

ATM transaction activity is in the saturation stage of the product life cycle. And many ATMs are unprofitable because they lack the transaction volume around fee- and interchange-based services, the primary sources of revenue for ATM deployers or owners. MCA is a new way to provide premium-based offerings that easily justify charging higher value-added fees.

TheMobileBuzz

Cash access through ATMs has been limited to network-registered cards using magnetic stripes and PINs. With MCA, it is now possible to use a smart phone app/mobile wallet to activate and access traditional and advanced functionality at ATMs – without equipping the ATM with any new hardware.

The issuer of the smart phone app/mobile wallet can control authentication credentials without participation by the card brands. This could dramatically disrupt the existing value chain and provide new branding and product development opportunities.

MCA provides a differentiated, "plus one" feature for traditional funding accounts and opens up new markets for accounts that don't typically issue debit, credit and prepaid cards.

MCA can leverage the same strong multifactor user authentication credentials (user name, password, device fingerprint, etc.) that funding account processors control today for online and mobile applications, thus eliminating the dependencies and limitations of card company-controlled account number schemes, authentication credentials and their associated interchange costs and royalties for both magnetic stripe and near field communication (NFC) chips, etc.

In such applications, the registration of mobile credentials and customer communications preferences is vital to enhancing the issuer's customer relationships and cross-sell/up-sell opportunities. Again, Crone's Rule applies: the one who enrolls is the one who controls.

Customer 'contactability'

MCA and ATM advanced functionality leverage the connection to the mobile phone as a new way to not only authenticate customers but also to make them easy to contact before, during and after every mobile purchase or ATM transaction. This "contactability" opens up new opportunities for services and attendant revenues.

Following are two examples of how a mobile wallet can enable new revenue streams beyond payment:

1. Provide mobile e-receipt communications with sponsored advertising and offers, similar to today's cash register receipt promotions by InStreamMedia and Catalina Marketing. InStreamMedia and Catalina Marketing command the highest advertising rates in the industry because of the "known geography" component.

   However the highest advertising rates go to those with both an enrolled user base and a known geography. Mobile initiated payment and MCA activated ATM transactions provide both, which positions mobile wallet issuers for a new stream of advertising revenue. The e-receipt advertising medium

extends beyond the POS payment and ATM experience, expanding the sphere of influence and thus the revenue potential.

2. Use mobile wallets, and MCA in particular, to vertically integrate and create a new network for mobile cash access directly with non-credit card, non-demand deposit account and non-general purpose reloadable accounts for nonbanks such as brokerages, mutual funds, private-label credit, Internet payment schemes and other funding accounts that currently don't provide ATM cash access.

Making customers contactable before, during and after every payment is the big new opportunity in mobile payments. Mobile wallets make an advertising sponsored mobile payment network possible. In fact, by the end of 2012, about 75 percent of in-store sales will be mobile-influenced in some way, setting the stage for integrating mobile payments and opt-in, user-defined self-marketing and loyalty programs at the physical POS.

Major retailers are already scrambling to integrate mobile self-marketing and mobile payments into their in-store footprints. Combining mobile registration credentials with payment and opt-in offers and promotions can open up the local advertising market, which accounts for about half of all the promotional spend by businesses.

While banks may be tempted to wait for Europay/MasterCard/Visa (EMV) and NFC deployment for mobile payments, retailers will fight to protect their "friendly tenders" and will be reluctant to bear the cost of new EMV and NFC hardware at the POS. It is likely disruptive new technologies slated for release in the next year or so could essentially render the EMV issue moot and NFC obsolete.

Banks and retailers seeking a role in the unfolding mobile commerce ecosystem must deploy solutions that leverage the computing power and full capabilities of the smartphone apps they control today.

Solutions exist that require no new hardware for merchant participation; enable strong authentication, not only for payments but also for mobile cash access; and create a closer bond between banks, retailers and their respective enrolled customers. Those who stand on the sidelines risk disintermediation by new entrants to the payments system.

Richard K. Crone is the Chief Executive Officer and founder of Crone Consulting LLC, an advisory firm for FIs, merchants, billers, processors and investors on channel optimization, electronic payment and mobile commerce strategies. Located in San Carlos, Calif., Crone Consulting has done an exhaustive review of more than 100 companies, both domestic and abroad, and detailed due diligence on many of the largest investments, mergers and acquisitions in the mobile commerce space. To reach Richard, email rcrone@croneconsulting.com.

Company**Profile**

Point of Sale System Services Inc.

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ISO/MLS benefits:
- Full-scale POS capabilities in a mobile environment
- Sales, ticketing, inventory and manufacturing management
- Brick-and-mortar, MO/TO, e-commerce, mobile retail support
- Comprehensive, end-to-end mobile commerce solution
- Monthly software-as-a-service residual income opportunity

A mobile engine for driving key verticals

In the early 1990s, well before the advent of mobile commerce as we know it today, retail consulting firm Point of Sale System Services Inc. was developing POS applications to operate on a variety of handheld devices. In 2001, the company set a mandate to build one application that would support the more than 70 custom applications PSS had already deployed across multiple sectors. By 2004, PSS' signature transactional engine had a name, MobileTE.

"We were showing it pretty much as a line-busting application at that time, not so much true mobile, but as a line-busting app to add on to your various systems," said Jeffrey Swann, Vice President Sales and Development of PSS. "We did a lot of work with Triversity [bought by enterprise software provider SAP in 2005] as a line-busting app. Out of that we went back to doing a lot of custom apps where we would configure it, so MobileTE was built to be a mobile app."

According to Swann, the company initially targeted nonretail businesses in the manufacturing, distribution and government sectors. While the transaction engine itself was essentially the same for all applications, PSS modified the software's parameters to fulfill industry-specific functions.

Spotlight on mobile merchants

Swann said that as PSS began to focus on advancing its mobile commerce footprint, he received a barrage of requests for custom software configurations. "The broadness of the market is good because it provides lots of opportunities," he said. "It's also a challenge because they're not all corralled into one spot. We took MobileTE and configured it specifically to do mobile commerce, not line busting."

For example, Swann said PSS was tasked with creating an application that could track inventory and process payments at tradeshows. An importer of organic coffee and tea adapted the application in building brand recognition and selling products at high-end food shows.

Another application PSS developed enabled tour guides to direct-sell walking tour tickets for a historic American Revolution trail set in Boston. In this case, the application necessitated tracking weather conditions, which guides were leading tour groups at any given time and the number of guests participating in each tour. The application also gave tour guides the ability to handle split tendering and process coupons and gift certificates.

"It's been excellent for us," said Mimi LaCamera, President of The Freedom Trail Foundation. "They've been very nice to work with, and they just recently upgraded all the software. The reporting features are excellent."

The company's restaurant configuration proved essential for an upscale wine bar and restaurant on the East Coast. Armed with a Micros POS system, the wine bar needed an interface to manage inventory and simplify wine purchasing. PSS' solution enabled cashiers to scan the bar codes on wine bottles and to print tickets on the spot or in batch mode.

CompanyProfile

Vertical dimensions

The overall product suite developed by PSS, which it calls MobileTY, comprises of modules designed around the MobileTE terminal application and the system's web portal, MobileVE. Functioning as a stand-alone application in a touch-screen environment for mobile enterprises, MobileTE also interfaces with merchants' existing POS systems and product lookup codes.

Technically speaking, the terminal application provides a multiplatform, configurable, Windows CE-based transaction engine that operates in batch, local area network, wide area network or radio frequency modes, which is suitable for most retail mobile environments. The MobilePAY Internet server offers a secure payment processing network that interfaces with the MobileTY suite.

In the past two decades, PSS has compiled a repertoire of software configurations that serve a broad spectrum of niche markets. Capable of delivering sales, ticketing, inventory and manufacturing management, statistical and data reporting and bar code scanning, MobileTY's modular system is ready for deployment in eight prime vertical market segments.

Here are the MOBILeTY configurations and key features, by vertical market:

- Distribution...................Pick and pack, item ID routing, receiving
- Field mobile..................Route accounting, delivery, reorders
- Food..............................Shelf labels, weights and measures, price check
- Health care....................Patient tracking, asset tracking, dispensary tracking
- Hospitality.....................Customer relationship management, concierge, baggage check
- Manufacturing..............Production tracking, work orders, inventory, receiving
- Restaurant.....................Food safety, inventory, food rotation
- Retail.............................Mobile POS, merchandise movement, sales, mark downs, returns

The portable store

Redefining retail as a mobile option is what PSS' MobileStore does best. The turnkey, end-to-end platform enables mobile retailers and service and delivery businesses to process payments and merchandise through either broadband, Wi-Fi or non-real time modes.

Built upon a scalable software platform, the store interfaces with most major accounting and inventory systems on the market today. With encrypted access, secure user authentication, a transaction archive, and real-time credit card, check and cash processing, the portable store is literally at hand. Using the system's store-and-forward mode, the rate of throughput for credit card processing is approximately 30 cards per minute.

"MobileStore has become the credit card processing piece that you see at the acquirers shows," Swann said. "We are providing all the features that you would find when you walk up to a store register, but in a handheld device – promos, discounts, markdowns, loyalty points, points redemption, gift certificate sales, SKUs [stock-keeping units], all the things that go on when you walk up to a register in a brick-and-mortar store."

Beyond its standard features, the scope of data collection available through the modules is one of its chief benefits to merchants, according to Swann. "We provide a growing number of reports for them, including a consolidated financial merchandise report, a department class report – and they can export the data on demand," he said. "So if they want to push that to QuickBooks or their own system, they can do that also, which allows them to process it."

The system's MobileDB database provides a command and control console that permits merchants to store, maintain and review data files in real-time. Data can be imported, exported and formatted based on individual merchant preferences.

One arena where Swann has seen progressive movement is placement at event and convention venues. In 2008, MobileStore was deployed at over 1,200 events. By 2010, the number of events had reportedly skyrocketed to 24,000, with 5,000 units in operation processing over $26 million in credit card sales and representing over 27 million product SKUs.

However, Swann cautioned retailers intent on selling at events and conventions that the business model differs from brick-and-mortar stores. He encountered a group of sporting goods retailers who rented space at a charitable golf tournament. Unfortunately, the group had no way of installing systems on site to record sales. "They were all over the map," he said, adding that MobileStore did enable the group to operate and sell seamlessly throughout the event.

The SaaS expansion plan

To expand even further into the retail sector, Swann demonstrated PSS' core products in March 2011 at the Southeast Acquirers Association's annual conference.

PSS also offers two additional programs for mobile applications. MobileEnforcement is a parking law enforcement system that has photo capture, multiple fine calculation and GPS location coordinates capabilities built in.

And its MobileAccess system leverages radio frequency identification device technology to control access to parking garages, gated communities and other locations where physical access must be controlled.

Offered as a software-as-a-service (SaaS) product and billed monthly per device, PSS' mobile program includes software updates, customer service, and merchant server account hosting and maintenance. "Our model is a monthly bill, so ISOs receive ongoing residual income charged to the end user" for the SaaS, Swann said.

"We currently run on 38 different platforms from nine or 10 different hardware vendors," he said. "We try to position our device selection to make sure that we're covering the full spectrum of form factor requests that we might get. They all have touch screens, because our app relies on a touch screen." A printer may be added to the handheld device or receipts can be emailed to customers. PSS offers a selection of handheld devices for ISO resale as well.

PSS offers WebEx online training, but Swann said anyone familiar with ATM-style keys can quickly learn to navigate the system. "A lot of people design their handheld applications like forms, so that it's a series of boxes on the screen and you fill in the boxes," he said. "That's an old style of designing handheld applications. We used a single constant space on the screen where you enter in all data and above that is a single constant space where it tells you what to enter."

PSS' system integrates with payment processors via a wireless payment gateway. According to Swann, MobileTY is Payment Card Industry Data Security Standard compliant and PSS has alliances with multiple gateway partners. "So far our client base has driven us to work with Hypercom, Merchant Warehouse and Mercury Payment Systems, but our system was designed to be open to anybody," he said. With an open software platform, Swann added that the system can integrate with additional gateway partners.

"We view the ISO as getting three big bonuses from working with us," Swann said. "They get flexibility in what they offer in terms of the ability for us to define and address the needs of the end user fairly quickly. Two, they get all the money they would get from their credit card processing, because we're still doing credit card processing. Three, they get the margin from the hardware that they would sell," whether purchasing hardware directly from PSS or from other sources that meet form factor requirements.

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Cover Story

> *"American consumers are losing their affinity for what constitutes a bank account."*
>
> Paul Martaus
> Martus & Associates

Hip to be square

Dorsey said his motivation for creating Square was to allow the smallest merchants to accept credit and debit card payments. This summer Sitter Pals LLC, a social network connecting parents with "trusted" babysitters, launched with much fanfare a partnership with Square that provides babysitters with free application downloads and Square dongles, thus enabling babysitters to accept card payments.

"This is something that could spur us all to start up cottage businesses," said Linda Echard, President and CEO of ICBA Bancard Inc., an affiliate of the Washington, D.C.-based Independent Community Bankers Association.

Dan Kramer, Senior Vice President at electronic funds transfer network Shazam, agreed, but cautioned that Square is not a product for every customer. "Banks are going to need assurances of creditworthiness," Kramer said.

Provided that small merchants are not dealing with high-dollar tickets, "those doing one to two transactions a month, it's not a bad option," said Markiyan Malko, Product Manager at Boston-based ISO Merchant Warehouse. But she believes the Square device itself is no great shakes. "Square is essentially PayPal with a card reader," she said.

Merchant Warehouse offers two MagTek devices: iDynamo, a card reader that plugs into Apple devices, and BulleT, a Bluetooth card reader for non-Apple smart phones and tablet PCs – popular devices with the ISO's merchants, according to Malko.

The box getting bigger

Despite the competition, Square is gaining traction. Its coffers brimming with $100 million in fresh funding, the company stated in late July 2011 it was processing $6 million in card payments daily and expected to double that daily total by October.

The company claimed to have shipped more than 500,000 Square card readers in the past year, although this number cannot be independently verified. Square's plug-in devices are also available for sale through Apple Stores.

Still, Square has detractors, especially among bankers and bank consultants who view Square as another attempt on the part of nonbanks to squeeze financial institutions out of the payments value chain.

"American consumers are losing their affinity for what constitutes a bank account," said industry consultant Paul Martaus. They use PayPal, Square or Google as dispassionately as they write checks or use credit cards. "Eventually, they won't care because their decisions are just buttons on a [smart] phone." Martaus believes that eventually "an overwhelming number of mobile systems will not be bank-centric. It will be Google or Amazon or something like that."

Lee Manfred, a partner with First Annapolis Consulting Inc., isn't convinced of that, however. He noted that most person-to-person payments, absent a solution like PayPal or Square, are done with cash and checks. "Square could be very important from an acquiring perspective," he said. "It enhances the utility of a network and the [bank's] deposit relationship with its customers."

Consumers appear not to be convinced about newer payment contenders either. When advertising and public relations firm Ogilvy & Mather recently asked consumers what entity they most trusted to handle mobile payments, the traditional card brands – Visa Inc., MasterCard Worldwide and American Express Co. – got the highest ratings.

Survey respondents were also more likely to trust the United States Post Office with mobile payments (24.6 percent) than Apple (22.9 percent), Microsoft Corp. (22.3 percent) or Google (19.5 percent), the firm reported.

Regardless of which approaches win out, most experts agree mobile payments are on the cusp of something big. Yankee Group Research Inc. predicted $246 billion in mobile payments will be made worldwide this year and expected almost a quarter of that total ($59 billion) to be spent in North America.

In a report released this summer, Juniper Research Ltd. predicted nearly a three-fold increase in mobile payments by 2015, when the worldwide total is expected to reach $670 billion. IE Market Research Corp. is even more optimistic, forecasting $945 billion in mobile payments worldwide in 2015. To put this number into perspective, consider that it took more than two decades for the automated clearing house (ACH) to reach the $1 trillion a year in payments mark.

"Square is just a small part" of a much bigger trend concerning the widespread adoption of mobile payments, Martaus said; recent actions on the part of Visa add substance to this assessment. In addition to investing in

Square, Visa has a relationship with ISIS, an NFC-based project spearheaded by AT&T Mobility, Verizon Wireless and T-Mobile. (MasterCard, Discover Financial Services and AmEx also have agreements with ISIS.)

Visa also said it plans to launch an electronic wallet along with several large issuing banks this fall that will be built around cell phone and NFC technologies. And in August, the card giant announced a new scheme to stoke U.S. merchant adoption of Europay/MasterCard/Visa (EMV) chip technology. Merchants installing EMV-compatible terminals will get a pass on Payment Card Industry (PCI) Data Security Standard (DSS) compliance validation, since chip cards eliminate the possibility of merchants storing data, Visa said.

EMV has traction in Europe and is now being rolled out in Canada, but U.S. adoption lags. U.S. Bank, parent of leading acquirer Elavon Inc., recently became one of the first banks in the United States to issue EMV chip cards. Although EMV is promoted as inherently safer than mag stripe technology, that is not always the case.

"It doesn't help with CNP [card-not-present] transactions," said David Abouchar, Senior Director, Product Management, at the PCI compliance specialty firm ControlScan Inc. "To really take advantage of chip card technology, consumers would need personal swipe devices when making CNP purchases."

Security, no small consideration

Bergeron, in his open letter to Square, took issue with a "serious security flaw" in the design of the dongle that could render cardholders vulnerable to skimming – using the devices to illicitly capture cardholder information.

Square responded by agreeing to make design and technology changes. Company executives said a new reader is on the drawing board that encrypts data as it's captured from a card's magnetic stripe, but at this writing, it had not been rolled out. Square's commitment to encryption was announced the same day Visa revealed it made a financial investment in the company. JPMorgan Chase & Co. also has put money behind Square, which processes transactions through its merchant acquiring business, Chase Paymentech Solutions LLC.

Despite Square's achievements, and its financial backing, concerns continue to be voiced about the viability of the device. "Spam is a big problem already," said Dee Karawadra, President and CEO of Impact PaySystem LLC, a Memphis-based ISO.

Impact PaySystem charted some early successes with Square, rebranded as iphoneswiper.com and featuring a built-in receipt printer. "We've had many ex-Square merchants come to us as they want a tangible receipt," Karawadra said. But overall demand for the product has slackened lately, he noted. That's not the case at ROAM

Data, which stated in August 2011 it had become the "number one provider of secure mobile phone card readers in the world," with 300,000 of its devices distributed so far. The firm said it expects more than 1 million of its devices will be in use by the fall of 2012.

ROAM Data's ultra-secure plug-in card readers can be private-labeled and are sold through several ISOs, including Sage Payment Solutions Inc., North American Bancard, National Processing Co. and Total Merchant Services Inc. The devices are also available for sale through Intuit and Verizon Wireless outlets.

Online reviews of Square point to other shortcomings, including transaction limits, difficulties sorting through transactions that number into the dozens and costs. For example, a former Square customer who runs a beer pub, and recently switched to SalesVu, complained in an interview recorded by SalesVu that, despite Square's published fee of 2.9 percent of the transaction total, that fee jumped to 3.5 percent for transactions keyed in by hand because of mag stripe reader problems, a problem he often encountered.

ROAM Data's August announcement followed two separate demonstrations at a security confab (the Black Hat Conference) of Square's security shortcomings. One demonstrated the ease with which Square can be misused as a card-skimming device, the technology news and product review site CNET reported.

The other used a simple programming script to convert stolen card data to audio tones and fed that information to the Square application by way of the headphone jack, thereby eliminating the need for a physical card, according to CNET.

"ROAM's entire system was designed with PCI security from the start," said ROAM Data CEO Will Graylin. The Square security shortcomings demonstrated at Black Hat are not shared by ROAM "because ROAM's readers fully encrypt the track data before it reaches the phone and the data can only be decrypted by a secure payment server, never exposed on the phone," he added. "By design, neither ROAM's app nor server would recognize third-party audio signals from recorded files."

Some experts have suggested the problems with Square demonstrated at Black Hat say more about the shortcomings of mag stripe cards than of Square. Graylin doesn't agree. "The reality is that, for a variety of reasons, mag stripes in our wallets will be around for a long time to come," he said. "Therefore, those providing payment services with mag stripe have a serious responsibility to make their services as secure as they possibly can."

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Research**Rundown**

Mobile payment transactions growing to $150 billion

Mobile payment (m-payment) options are being rapidly accepted by consumers and are working so well that m-payment transactions are expected to reach $150 billion by the end of 2011 and $556 billion by 2016 – an annual projected growth rate of 30 percent, a Visiongain Ltd. management report stated.

The *Mobile Payment: Operator Strategies, Opportunities and Challenges Report 2011* said m-payment growth is due to the ever increasing number of mobile subscribers, which is expected to reach 6.4 billion by 2016. The number of m-payment users is expected to grow from 140 million at the end of 2011 to 750 million in 2016.

"Repeated studies have proven that there is a considerable consumer demand, potential for consumption, conducive industrial environment and the commitment on the part of its stakeholders to make this growth happen," the report said. "The issues which need urgent attention and redressal at this point by the industry are the lack of standardization and guaranteed security solutions."

The authors believe they have conservatively estimated the growth potential of the m-payment sphere. Western Europe is expected to grow at the most rapid rate in its adoption of m-payment (37.3 percent) technology. The authors noted more than 50 million Japanese favor near field communication (NFC) technology on their phones as their preferred payment option. The authors expect India and China to quickly follow with wide NFC adoption.

"The adoption of NFC will continue to gain momentum, and Visiongain believes that by 2016, 658 million mobile phones will be enabled with NFC," the company stated. Visiongain feels the great advantage of NFC is security. Data can be securely encrypted using the Advanced Encryption Standard, which the authors stated is particularly important for the ever more popular mobile wallets. They noted many NFC systems also use time-based tokens that change credit card numbers every few seconds.

"Our usage surveys reflect a trend of mobile payments growing commonplace in the Western world, corroborated by the fact North American and Western European markets are geared up for the beginning stages of a full-fledged adoption of the digital wallet."

Nizar Assanie, Vice President of Research, IE Market Research Corp
Source: IEMR 3Q.2011 Global Mobile Payment Market Forecast 2011 – 2015

First Research looks at processing industry

First Research, a sales research and intelligence company, released a new report that looks at the advantages and disadvantages of large versus small processing companies in the U.S. card processing industry. The report, *Financial Transaction Processing,* revealed there are approximately 2,000 U.S. processing companies with combined annual revenue of about $40 billion. It stated the industry is heavily concentrated with about 50 companies accounting for 85 percent of the industry revenue.

Increasing importance of VARs and ISVs to ISOs

Value-added resellers (VARs) and independent software vendors (ISVs) are becoming more important to ISO profitability, a new report from the Aite Group LLC titled *The Increasing Role of VARs and ISVs in U.S. Merchant Acquiring* found. Aite Senior Analyst and report co-author Adil Moussa said that in addition to competing to attract merchants directly, acquirers also now compete to become default acquirers for merchant software solutions.

Significant increase in malware on mobile platforms

A new report from McAfee Inc. said mobile phone operating systems are increasingly targeted by malware, and Android devices are the world's most attacked device. The *McAfee Threats Report: Second Quarter 2011* revealed attacks on Android devices increased 76 percent from the first quarter of 2011. The report authors called the first half of 2011 "the busiest … in malware history."

Paying by mobile

Percentage of smart phone users making payments by phone, per country
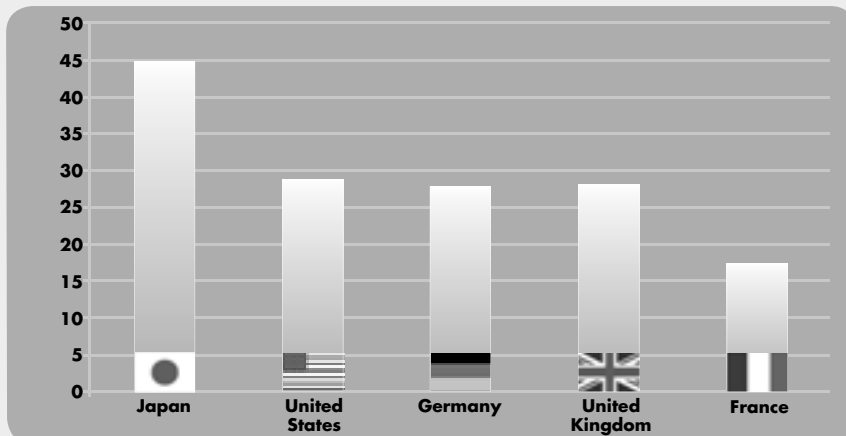
Source: Google Inc./Mobile Marketing Association June 2011 research paper titled *Global Perspectives: The Smartphone User & The Mobile Marketer*

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PCI essentials for MLSs

By Bill Pirtle
MPCT Publishing Co.

The Payment Card Industry (PCI) Data Security Standard (DSS) can be confusing for processors, merchant level salespeople (MLSs) and for merchants alike. When I met Trustwave Vice President Greg Leos at the Midwest Acquirers Association meeting in July, I requested the opportunity to submit questions from GS Online's MLS Forum to him to further our understanding of PCI so we can help our merchants stay compliant.

Following is a Q&A between Leos and myself. It covers PCI basics. My next article will delve into specific rules pertaining to the Self-Assessment Questionnaire (SAQ) and will feature input from Trustwave's SAQ guru, Greg Rosenberg.

Bill Pirtle: I hear terms like "Level 1 merchants" and "Tier 4 merchants." What do these mean and what's the difference between them?

Greg Leos: Many payments industry terms are used interchangeably (ISO and processor; agent and MLS, etc.), and it is often confusing. This is also the case with terminology around the PCI DSS.

Taken straight from the Visa website, *http://usa.visa. com/merchants/risk_management/cisp_merchants.htm*l, the following chart is an easy to understand listing of the various merchant levels and corresponding validation requirements.

Merchant levels and validation requirements

Level/tier	Merchant Visa transactions	Validation requirements
1	Over 6 million annually	Annual Report of Compliance by Qualified Security Assessor (QSA) or internal auditor if signed off; quarterly network scan by Approved Scan Vendor (ASV); Attestation of Compliance form
2	1 to 6 million annually	Annual Self Assessment Questionnaire (SAQ); quarterly network scan by ASV; Attestation of Compliance form
3	20,000 to 1 million e-commerce transactions	Annual SAQ; quarterly network scan by ASV; Attestation of Compliance form
4	Up to 20,000 e-commerce transactions All others up to 1 million	Annual SAQ recommended; quarterly network scan by ASV if applicable; acquirer sets compliance requirements validation

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Small merchants (based on acceptance channel and processing volume) will fall into the Level 4 designation. Unless the merchant has an Internet Protocol address to scan, the business would simply need to successfully complete an annual SAQ to be considered compliant with the PCI DSS.

To help in this process, these merchants would be provided with an automated, online version of the SAQ … to reduce the amount of time and effort required to complete it. It's important to note that the SAQ is designed to help discover vulnerabilities, so merchants should not be discouraged if they don't pass it the first time.

BP: What points regarding PCI compliance should ISOs and MLSs know?

GL: There is a lot of confusion among ISOs and MLSs about PCI compliance. This is unfortunate because data security creates an opportunity to strengthen the value that MLSs bring to their merchants. In my opinion, it's one of the more compelling and impactful topics I've seen in the payments industry in the last 10 years. While there are many things MLSs and ISOs should consider, here are my top three:

1. MLS should recognize that the PCI DSS and Payment Application (PA) DSS are not marketing slogans promoted by the card brands, but a true set of standards created to reduce card fraud. Merchants – even small merchants on antiquated dial-up terminals – are exposed to some level of risk every time they accept a payment card.

It's vital that merchants understand their transaction processing environment and use the tools available to them to comply with the PCI standards to reduce their risk. The consequences of not doing so can range from having to pay card brand fines and remediation costs to forcing some merchants out of business.

Likewise, it's important that ISOs assist MLSs to understand the importance of PCI so that they can, in turn, properly communicate to their portfolio of merchants. [It is important that ISOs have] relevant PCI information that can easily be shared with merchant-facing salespeople to keep them up to date on important industry developments related to data security.

2. Educating merchants on PCI can help position MLSs as business payments advisers. How often does a sales prospect immediately ask to see the lowest rate an MLS can provide them? By having a general understanding of PCI compliance and why it's important for merchants of all sizes, MLSs can begin to move conversations with merchants away from price and toward value.

Is saving two basis points on card acceptance really

as important as having a program that can prevent you from paying thousands of dollars in fees and fines? Likewise, for those merchants already in an MLS's portfolio, a strong PCI program can create the "stickiness" that reduces merchant attrition and increases the value the MLS brings to merchants.

Helping merchants become aware of MLSs as an integral part of their businesses is key to keeping them engaged and successful, and I'm a big believer that a good understanding of PCI can help make this happen.

ISOs can help MLSs by providing them with a PCI merchant compliance program that is easy to understand, automated and efficient for both merchants and MLSs. This gives them the tools they need to be able to leverage PCI when selling to new customers and retaining the ones they already have.

3. A merchant compromise impacts everyone on the payments food chain, particularly MLSs. I often hear the argument that small merchants with a dial-up POS that don't process many transactions don't really need to validate PCI compliance. I couldn't disagree more with this statement. It's these small merchants that cannot sustain the financial consequences of a breach.

Card replacement costs, card brand fines and breach remediation costs can add up fast, and the final tally can be in the tens of thousands of dollars. Local merchants like the dry cleaner, the deli or the small diner are often the lifeblood of an MLS's residual stream.

The ability to keep them in business and out of harm's way ties directly to continued success in the payments business. It's critical to protect residuals by helping merchants protect themselves against what can be a business-changing event.

Comment from BP: Leos makes a great point. Many MLSs focus on how scans are not needed by Level 4 merchants using dial-up terminals. If we did a better job of teaching merchants how to secure card data, they would likely become more viable constituents in our portfolios.

BP: How much benefit do you feel mandating EMV chips in cards will actually bring?

GL: Visa recently indicated that it has plans to push for migration to EMV technology in the United States. While I believe that adding additional layers of security within the payments cycle is generally beneficial to everyone involved, I do have some questions as to the impact EMV will have moving forward.

The term EMV refers to the Europay/MasterCard/Visa

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chip card that's used in many parts of the world but has never been embraced by merchants or deployed with much success in the United States. These cards use a more complex authentication process at the POS than the traditional magnetic card stripe swipe, thereby reducing a merchant's risk and exposure to fraud in a card-present environment.

Obviously, reducing exposure to a data breach is added value that merchants acknowledge as good for their businesses. The challenge is that while current POS systems will accept EMV cards, most don't have the capability to take advantage of the contactless, data security features that these types of cards offer.

The time and cost barriers at the merchant level may impede the speed of adoption, which will reduce the positive impact EMV could bring to our industry.

Any impact from the announcement is going to take time, as the rollout doesn't begin until October 2012. It will also be interesting to see if the other card brands follow Visa.

Comment from BP: One benefit for MLSs, along with terminal suppliers, is that mandating EMV will create a need for EMV-capable terminals. While I'm not a fan of

leasing single terminals, this would be an ideal way to bring more income to MLSs and benefit merchants, provided the leases are reasonable. The effect new terminal needs would have on ISOs that provide free terminals to merchants is unknown.

Banks are limited by Durbin Amendment enactment to recover fraud costs, and merchants bear the brunt of fraudulent use. Perhaps mandating EMV in the United States will pay for itself quickly by limiting fraud for card-present transactions.

Banks could phase in the new cards, and MLSs could justify the requisite new terminals in terms of reduced fraud expenses for brick-and-mortar merchants.

BP: Beyond the small-merchant compliance portal, does Trustwave offer other services merchants might need? Is there someone there merchants can contact if they have a breach?

GL: Yes, Trustwave is a comprehensive data security and compliance company that serves merchants of all sizes. For our ISO and acquiring partners, we excel at Level 4 merchant compliance programs and automation.

We're both a QSA and an ASV for the PCI Security Standards Council, providing a wide range of products and solutions to merchants of all sizes.

Trustwave can work with merchant service providers directly to conduct their assessment. In addition, our … forensics investigation team (Trustwave SpiderLabs) conducts research and forensics investigations in the event that a merchant does have a data breach.

For the small-merchant population (Level 4), we believe the most effective way for MLSs to get their merchants PCI-compliant is to work through their merchant acquirers to enroll these merchants into cost-effective, automated PCI programs.

Thanks to Greg Leos for answering these questions on the PCI DSS, as well as for making Greg Rosenberg available to dig down to details needed for better understanding of PCI and the SAQ. Look for Rosenberg's insights on the SAQ in issue 11:10:01. If you'd like to contact Leos directly, email him at *gleos@trustwave.com*, or phone him at 312-873-7689.

What you do today determines your tomorrow.

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How to plan your dream life

By Dale S. Laszig

Castles Technology Co. Ltd.

Whether you're managing a team or working independently, crafting strategy is a process, not a one-time event. Plans that look good on paper will need to be changed in response to real-world situations. The best strategists use this to their advantage by studying results and making adjustments.

In today's mature and slow-growing payments market, merchants have become more sophisticated and demand more for less. Products and services have become commoditized. Economies of scale among major acquirers make it harder for small businesses to stay in the game.

Merchant level salespeople (MLSs) who compete for the same installed base of accounts may soon find that sacrificing margins is no longer a sustainable strategy. Competing in this climate requires the right mix of operational efficiencies, competitive advantage, managed growth, and fresh new ways to attract and retain customers.

Picturing tomorrow and beyond

How will you compete in this tough environment, made even tougher by economic uncertainties and regulatory oversight? Before you answer, take a step back from your career and consider where you want to be next year and the year after that. What does your dream life look like? Knowing where you want to be and deciding how to get there is what planning is all about.

Planning is a continuous process that involves problem-solving, listening, asking questions and assessing needs. Working is the tactical part where the plan itself gets implemented. Both are needed to create a process flow that will support growth and change and keep you ahead of your competition. Following are four proven ways to plan your work.

1. **Write it down:** "It's not a goal unless it's written down with a date attached," is a basic tenet of selling. So you write a number in a notebook or on a white board. This number is burned into your brain; you live, breathe, eat and sleep this number. You don't just try to make the goal within the allotted time frame; you try to double and triple it, maybe for an additional bonus or for the sheer joy of achieving a new personal best.

   What else gets written into your action plan? Some

MLSs break the goal into more manageable daily, weekly and monthly increments that combine to make a quarterly or annual goal. Some use a formula based on their average closing ratio to determine how many sales calls they'll need to make per day, per week and per month to make their number. Others write strategic account plans for each customer, detailing how they will research requirements, develop rapport, solve a problem and close a sale.

You can find several ways to record your goals and make them real. Choose a method that's meaningful to you, even if it means creating something other than what you show your sales manager. It could be as complex as a 10-page business plan or as simple as a picture of a new car with "my next commission" written on it.

> *Planning is a continuous process that involves problem-solving, listening, asking questions and assessing needs.*

2. **Organize your office:** Time management and organization are the twin engines of selling. Both are essential for takeoff when you're just getting started and just as important when you've achieved cruising altitude by building a profitable portfolio of accounts.

   Whether you belong to the Clean Desk Club or prefer to build a nest of papers, it's crucial to create the kind of system that helps you:

   - Manage your calendar
   - Arrive 15 minutes early to appointments
   - Follow up impeccably
   - Prioritize tasks

   Organization also means staying committed to work/life balance, according to Julie Morgenstern, author and time management consultant to major corporations, including American Express Co., Microsoft Corp., IKEA and the National Basketball Association's Miami Heat.

   "I've noticed that the top-tier performers are deeply committed to their work/life balance," Morgenstern wrote in *Making Work Work*. "[Top performers] are very thoughtful about their leisure, so that they make excellent use of time away from the office. This is a critical skill – especially if you're working long hours, because you have fewer hours to play with in the first place.

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3. **Research your market:** When you have a strategic vision and write down the goals and time-tables for how to get there, you will have a plan that lays out your future direction, performance targets and strategy. Before you begin to execute that strategy, it's best to understand the playing field. Advances in technology are transforming a mature payments indu try into a fast-moving market. To survive in these dynamic conditions, stay current with industry trends and understand how they affect you and your customers.

Merchants gravitate to experts who can help them navigate the changing payments ecosystem. Changing your competitive advantage in response to market conditions will help you keep existing customers and attract new ones. Continually updating your product mix will help you differentiate yourself from the competition, demonstrate leadership and build your personal brand.

4. **Keep going:** In a recent Reuters interview, Citigroup Inc. executive Paul Galant recognized the need for his company to grow its business in a way that aligned with the rules of the Durbin Amendment to the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act. "The cards businesses are incredibly vibrant and power virtually all of us today," Galant said. "These businesses are not going to disappear because of a single law."

Times may be tough. But Galant and other payments industry leaders believe that our best days are still ahead of us. If we stay in tune with the market and continue to adjust our strategies, we can turn challenges into opportunities.

A sales manager once said, "If this job were easy, we'd ask anyone to do it. But it's not easy. That's why we're counting on you." Selling merchant services in this market takes vision, guts and stamina. If you persist in planning your work and working your plan, success will inevitably follow. 🖼

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ISOs and social media: Staying in compliance

By Adam Atlas

Attorney at Law

Where business goes, so go ISOs and merchant level salespeople (MLSs). Today, businesses are making social media the cornerstone of marketing channels, as well as a means of communicating with customers and agents. Each business has its own approach to the new channels.

From a legal perspective, social media raise issues of concern to the payments industry's feet on the street. The purpose of this article is to highlight a few of those issues.

Five tips

1. **Follow the rules:** When conducting face-to-face solicitation for merchant accounts, ISOs are used to complying with Visa Inc. and MasterCard

Worldwide rules that require them to do such solicitations only under a name that has been registered. Trawling around Facebook and Twitter has a somewhat different feel than walking into merchant locations on Main Street, but the same rules still apply.

For example, an ISO should identify itself on social media using its registered name, giving credit to its sponsoring bank or processor – as required under the applicable rules. Instead of using a Twitter name such as @CreditCardGuy, an ISO whose name is Acme Merchant Services would be better off using @AcmeMerchantServices. Be careful not to slip into believing the casual atmosphere of social networking somehow removes it from the general application of our industry's rules.

2. **Don't leave a trail:** The sales cycle provides plenty of embarrassing moments; don't make them permanent blemishes for your clients, agents and processors to see. For example, if you have something negative to say about a competitor, don't put it in writing on a social networking site. It may come back to haunt you in the form of a libel claim, or it may simply end up making you look worse than the competitor you were wishing to criticize.

3. **Remember confidentiality:** Most agent and ISO agreements require the sales organization to keep pricing confidential. Obviously, when soliciting a potential merchant you have to disclose pricing.

However, remember that processors would rather not have their pricing posted hither and yon throughout the Internet, as that would interfere with the normal solicitation process by various ISOs of the processor. Social networking probably best serves to generate leads for a given ISO or MLS, with that individual following up on those leads to pursue accounts through the ordinary solicitation process.

4. **Protect your business:** ISOs bemoan the loss of their agents to competitors. Baring the structure of your organization to the world through social media is a way of exposing your organization to attacks from competitors. An ordinary surfer should not be able to determine the identity of all of your MLSs, referral sources and employees through simple social networking searches.

This is obviously a challenging issue because ISOs are trying to strike a balance between being accessible on the one hand and preserving a hold on their teams on the other hand. One way to address this issue is to have your sales organization manage its social media presence as a team, rather than

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on a segregated basis with each MLS having his or her own online presence.

For example, if you have 15 agents, they don't all have to have their own individual Facebook accounts related to your business. Instead, the business can have a single Facebook account that a handful of agents will administer.

Those administrators will distribute to the broader group of MLSs the leads generated by social networking. This approach is advantageous because it also allows the ISO to create a more consistent social networking identity and have a greater expectation of remaining within the parameters of the rules.

5. **Honor electronic contracts:** The question of whether electronic contracts are binding was settled in the 1990s, but this fact has been slow to percolate through our industry because banks have often required physical paper even where statute did not require it.

As a general rule, an electronic contract – for which the parties have been authenticated and an electronic record of the contract has been

created and is accessible to the parties – will have the same general legal effect on the parties as a paper version. This general rule, which has some exceptions, is in place thanks to the federal Electronic Signatures in Global and National Commerce Act of 2000, also known as E-Sign.

New horizons

Expect a general shift toward paperless signup. This is happening not because the banks have taken the lead; it is happening because merchants, especially younger ones, perceive paperless to be the norm. Fortunately, the fact of a contract being paperless need not interfere with the general sales cycle or the general structure by which ISOs and MLSs recruit new merchants.

To make the best of the contemporary marketplace, establish a presence in social media. But take precautions in order to remain compliant and protect your interests in this new territory for our industry.

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10 tips for building a stronger LinkedIn profile

By Marc W. Halpert
Your Best Interest LLC

Over 120 million business professionals use LinkedIn. To make the most of this social media powerhouse, you must put your best foot forward to define who you really are, not what you do. Designed as a follow-up to "The proper care and feeding of LinkedIn," published in *The Green Sheet* Aug. 23, 2010, issue 10:08:02, this article contains 10 tips to help you, as ISOs and merchant level salespeople, rethink your LinkedIn profiles and, hopefully, spur you to make improvements.

These tips can help you enhance your current profile to generate incremental business.

1. Remember, your profile is not a resume

Overall, your LinkedIn profile shows your experience, present efforts and future aspirations. It does more than just recount the past as resumes do. Describe your rich experience and how it contributes to your current and future aspirations. Use short blocks of copy with keywords and rich textual images – in easily digestible bites.

2. Write a dynamic personal tagline

That 120-character line of text under your name is the first impression you make in your profile. It brands you all over LinkedIn. Make it intriguing. Succinctly tell others who you really are and why they should choose you over the competition; do not merely list your title and company name.

3. Put your polished elevator pitch to even better use

Your elevator speech, practiced and refined, is your self-description, the essence of who you are and the vehicle that pitches what you do. Hone it, and place it in your LinkedIn profile Summary section. Engage potential connections in the 15 seconds they will spend reading this; capture their attention.

4. Point out your skills, certifications, languages, publications and more

The Experience and Specialties fields can display the unique professional abilities, personal skills, interests and values you bring to the proverbial table that round out your professional background and show you as a whole person. Cite an excerpt from one of your publications; express your skills, attributes and passion.

5. Post a good photo

A clear picture of what you look like, showing a friendly, approachable professional is one basic, yet underutilized, tool that will reinforce your brand. Your photo should make it easy for someone to spot you in a coffee shop for an initial meeting.

6. Differentiate yourself from the crowd

Use the free LinkedIn applications to showcase your singular ideas and voice. With these, you can provide easy downloads of your multimedia marketing materials, which will add even more depth to your profile. These include SlideShare, Box.net and Portfolio Display to name a few.

7. Make your profile 100 percent complete

By completing your profile, you will look your very best and provide a well-rounded view of who you really are. Showing your current position, two past positions, education, profile summary, photo, specialties and three recommendations helps search engine optimization on Google, too.

8. Obtain a personalized LinkedIn URL

Personalize your LinkedIn URL, instead of using the default. Use that URL on business cards, email signatures and all marketing materials so you can be found on LinkedIn. See instructions at *https://help.linkedin.com/app/answers/detail/a_id/87/kw/personalized%20URL.*

9. Recommend and get recommended

Using LinkedIn, you can easily give worthy people recommendations they were not expecting (nice surprise) or ask someone to recommend you for a specific aspect of your work. The 2 percent rule applies: 98 percent people in your network like you; 2 percent so greatly admire you they are willing to recommend you.

10. This is just a start

Continuously "work" LinkedIn as a power tool in your marketing toolbox. Social media, and LinkedIn in particular, are not spectator sports; they are actively changing marketplaces in which you have to continuously contribute and participate.

Marc W. Halpert owns Your Best Interest LLC, which offers businesses specialized, paperless electronic payment services to optimize cash flow; e-giving, which helps professional organizations and not-for-profits optimize online payments and donations; and Connect2Collaborate (www.connect2collaborate.com), a division of Your Best Interest that offers businesspeople training and coaching in the best uses of LinkedIn. He serves as Lead Instructor at the local University of Phoenix campus and is a SCORE counselor. Contact him at 203-373-0875 or ybillc@optonline.net.

ISO SUCCESS

Bryan and Eric have placed **over 60 free Harbortouch POS systems in 8 months!**

REJUVINATE YOUR RESIDUALS:

Bryan: I cannot imagine going back to 2010 and not having the free POS program. This program has changed everything, and we are extremely excited to have such an incredible program to offer to our customers. Harbortouch has completed the package.

Eric: Harbortouch has invigorated our office tremendously. Who else can walk into a meeting and even *begin* to have a conversation about providing a $10,000 to $30,000 system to run and manage their business? It seems to intrigue merchants enough that they feel they have to find out more information.

Bryan/Eric: Harbortouch has changed everything. We now have a product offering that allows us to reach the mid to large merchants that we might not have been able to approach before. The other free soutions are great, but they most often open doors to smaller merchants. It was hard for a larger restaurant to get excited about an ECR when that did not serve them well. When I can go in with the free POS offer I am usually thanked for coming in and talking with them. Merchants are blown away that we can offer such a program, and they are happy to tell their friends about it as well. Referrals have never been easier to obtain than they are with the free Harbortouch program.

THE HARBORTOUCH ADVANTAGE:

Bryan: Success with Harbortouch has come in the form of being able to walk in cold to a new location and, with confidence, know that I am the only one talking about a free POS system. Everyone else is talking about saving them money on the processing, while I am able to help them run their entire business, not just their credit cards.

Eric: Harbortouch gives you the ability to have a *different* conversation with every prospective merchant. When dozens of MLS come by every month or every week with the same old story, Harbortouch is something they have not yet heard of.

Our merchants are talking too...

Dave
from Jake's Bar & Grill

"When we decided to open Jake's, we searched numerous POS systems to find the best choice. We determined that Harbortouch offered a much greater value than the others. You just get much more bang for your buck. I've used various other POS systems in the past and I can tell you that Harbortouch stands up to these systems with no problem."

ABOUT INSTALLATION & TRAINING:

"Harbortouch was committed to the job and did what needed to be done in order to get us up and running successfully. I really appreciated the personal interest they seemed to take in our restaurant. Once the system was installed, the employees picked it up quickly and were proficient in no time."

ABOUT EFFICIENCY:

"With Harbortouch, we're able to get the food tickets to the kitchen more quickly, resulting in faster table turns. On the back-end, the reporting features have proven to be very valuable. It gives us easy access to financial and sales information, labor reports, customer counts and product mix reports."

ABOUT CUSTOMER SUPPORT:

"We've been open 7 months now without any problems. The only times we've had to call Harbortouch customer support were for small questions and they were always very helpful. Overall, I'm very happy with our Harbortouch POS system. This is probably not my last venture in the restaurant industry and I would definitely go with Harbortouch again."

Visit www.harbortouch.com/testimonials to watch the video

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Open New Doors with Harbortouch POS

Similar systems sell for tens of thousands of dollars, and now you can offer the Harbortouch POS system with integrated payments for free!

- Free state of the art software combined with top of the line hardware
- Simplified setup process and intuitive user interface
- Streamlined operations, detailed reporting, inventory tracking and labor management
- 24/7 customer service and technical support including remote support
- With the "Lighthouse", merchants can run reports or update their menu from any computer with an Internet connection

FEATURE	CREDIT CARD TERMINAL	HARBORTOUCH POS
Process Credit Cards	●	●
Print Receipts	●	●
Detailed Reporting		●
Inventory Tracking		●
Employee Scheduling		●
Built-in Time Clock		●

Make an average of $900.00 commission per POS deal!

Why would a merchant opt for a standalone credit card terminal when they can receive a full featured touch-screen POS system for free? Why would a merchant pay tens of thousands of dollars for a POS system when they can get one for free? The ability to offer a free POS system will set you apart from all the other bank card sales representatives and POS dealers. With Harbortouch, you will have a unique product offering that the competition can't touch!

Participants in this program will be able to supply merchants with a free Harbortouch POS system with no upfront costs, no money down and no cost at all for the equipment*.

- In addition to impressive residuals, you will receive a $300.00 up-front commission per free POS terminal. An average merchant location requires three terminals, resulting in an average commission of $900.00 per POS deal!
- Free "Harbortouch Sales Center" software allows you to demo the POS system and sign up merchants from start to finish on your laptop at their location.
- "Harbortouch University" offers a comprehensive online training course to provide the knowledge about Harbortouch POS you need to succeed.
- Through our complimentary leads program, you will receive pre-set appointments with merchants in your area that are specifically interested in acquiring a Harbortouch POS system.

Harbortouch: a truly unparalleled sales tool the likes of which has never been seen in the ISO community.

Contact us today to learn how you can start selling Harbortouch POS.

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HARBORTOUCH

Making use of receipt real estate

By Stephen Enfield

POS Supply Solutions

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Now more than ever, businesses are looking for ways to stretch their sales and marketing budgets. Utilizing a credit card receipt to cross sell products and services is one of the most cost-effective marketing vehicles available. Unlike traditional advertisements, the receipt actually leaves the store and stays with the customer. This means information printed on the receipt, if presented properly, will catch the eye of customers and could compel them to action.

Educating your customers on the benefits of receipt advertising is a win-win situation. Providing merchants with this value-added service not only gives them the tools to further grow their business; it helps you stand out from the competition.

Technological advances have made it easier than ever to add custom content to credit card receipts. We spoke with three major credit card terminal manufacturers, Ingenico, VeriFone Inc. and Hypercom Corp., to determine their printing capabilities.

Harnessing advanced technology

A representative at Hypercom gave us the following information: "Optimum terminals with printers (Optimum T4205, T4210, T4220 and T4230 countertops, M4240 Bluetooth, and M4230 GPRS mobile terminals) can print eight lines of merchant-specific information, including logos and graphics, and can print between 10 to 15 lines per second."

Tobi North, who oversees channel marketing for VeriFone, said, "Using our devices and SoftPay, merchants can program messages and coupons into their payment devices. Up to six lines of print are available in the header and up to four lines in the footer. Using basic settings, a merchant is able to set up static messages. Using the automation tools in VeriCentre allows merchants to change or rotate special messaging or coupons. You can also program the device to print logos or images."

Gregory Boardman, Senior Vice President Product and Development at Ingenico, stated, "We have worked with millions of retailers worldwide, and in our experience, we have seen the receipt play a vital role in the POS transaction – from the very smallest mom-and-pop merchant to the largest retailer."

Ingenico software allows the user to print as many lines as needed on their receipts. While a receipt head-er is typically three to four lines, there is no set limitation with Ingenico terminals. Their solutions enjoy a variety of innovations to help customers manage and maintain their terminal estates. These include content delivery and updates.

Features such as dual communications, automated post call scheduling and thin client technology provide new and unobtrusive ways to update content to the POS. Many choices simplify the way content is delivered so that advertising campaigns can be updated more frequently.

Getting the word out

Ingenico has long recognized the connection between the inherent potential of utilizing transaction receipts for advertisement or message conveyance to provide value to both cardholders and merchants. The receipt is one of the few opportunities that merchants have to present meaningful information to the cardholder.

"The process of adding content to the receipt is not a new one but has become easier over time," Boardman said. "I can recall that even back in the early '90s, certain manufacturers used receipt logos as a way to differentiate their products. As time passed, some manufacturers invested quite heavily in the systems required to pass advertisement and coupon data to a POS terminal in a managed fashion, but most failed due to performance limitations.

"The biggest impediment to this evolution has always been the technology. Most of the POS devices during these early periods used

BEFORE

AFTER

dial connections, and terminal estates employed disparate applications, making the prospect of seamless content management a troubled one."

The near ubiquity of Ethernet connectivity combined with the introduction of more robust POS devices has paved the way for a more manageable, practical system of managing content delivery to the POS.

We also spoke with First Data Corp. representatives about the company's FD line of terminals. They explained that their terminals can print up to six customizable lines in the header and four in the footer.

Putting receipts to work

Here are a few ideas you can share with your merchant customers to help them use credit card receipts as sales and marketing tools:

> **Logos and website:** If you are new to receipt marketing, the first place to start is the receipt header. This is the area at the very top of the receipt, above the transaction information. Normally, a standard header will include the company name, address and phone number. Just by adding a logo, you now have a simple way to promote your company,

build brand awareness and provide a more professional appearance.

If your business has a website, this is also a great place to promote it. If you have an online store, the addition of a website address will allow customers an alternative to shopping in a retail location.

> **Coupons and specials:** To add additional information to the receipt, look no further than the footer located at the very bottom of the receipt, below the transaction information. Simply by adding a coupon or special, you help customers save money as well as drive incremental revenue and increase guest frequency. During these tough economic times, many customers base purchase decisions on sales and specials. Promotions are a great way to edge out the competition.

> **Email registration:** Email registration can help to build a strong relationship with your customer. Stay in the forefront of their mind with regular emails that promote sales, specials and company news. Offering an incentive at the time of sign up will help boost registration rates.

> **Survey customers:** Show customers you value their opinion, and receive valuable data in the process. Surveys not only drive customers to your website; they also provide important feedback.

> **Training employees:** Now that you have some pointers on how to market to your customers, be sure your customers see the message. It is vital that you train your staff to point out the message by circling or highlighting it with a marker in order to increase read rates.

> **Taking it one step further:** In addition to printing messages directly onto receipts, you may also want to consider using custom-printed receipt paper rolls. Your message can be printed in full color, which has been shown in studies to increase customer retention.

As you can see, by simply adding a logo or a special message to a credit card receipt, your customer is taking advantage of a marketing tool that is sure to increase sales and customer retention. Not utilizing this simple tool is certainly a missed opportunity. 🖼

Stephen Enfield founded POS Supply Solutions in 1999 and has over two decades of experience in the point of sale industry, working with large multinational accounts as well as small business accounts. Stephen is an innovative, entrepreneurial professional with an unwavering focus on customer satisfaction and a down to earth approach. For more information, visit www.possupply.com, *or contact Stephen at* senfield@possupply.com *or 888-431-5800.*

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Education (continued)

Peering into payments' not so crystal ball

By Nicholas P. Cucci

Network Merchants Inc.

The credit concept has been around for centuries. Back in the 1800s, general stores allowed customers to purchase products and services without paying for them in full. This enabled sellers to reach a larger base of customers, letting them pay their debts over time. The concept obviously spread like wildfire, even in the 1800s.

The first bankcard – named Charg-It – was introduced in 1946 by John Biggins of the Flatbush National Bank of Brooklyn, N.Y. The program benefited bank customers and local merchants. This advancement was followed in 1950 by the Diners Club Card, which was the next step in credit cards. By 1951, 20,000 Diners Club cards were in circulation.Cards issued by Diners Club and American Express Co. "functioned in what is known as a 'closed-loop' system, made up of the consumer, the merchant and the issuer of the card," Stan Sienkiewicz wrote in a paper for the Philadelphia Federal Reserve entitled

Credit Cards and Payment Efficiency. He noted, "In this structure, the issuer both authorizes and handles all aspects of the transaction and settles directly with both the consumer and the merchant."

The (re)invention of revolving balances

In 1959, the option of maintaining a revolving balance was introduced, according to MasterCard. This meant cardholders no longer had to pay their bills in full at the end of each billing cycle. While this carried the risk of accumulating finance charges, it gave customers greater flexibility in managing their money. As in centuries past, today we find ourselves torn between maintaining credit balances and paying our debts instantly. We are beginning to see signs of changing consumer behavior when it comes to making payments, especially in the e-commerce world. We have also seen certain new features, such as MasterCard's PayPass contactless card technology, pop up in the retail environment.

The decline of credit

According to a recent report by Javelin Strategy & Research, online credit card use "continues to decline, representing a sustained and ongoing change in customer behavior." Javelin reported that total payment volume from credit cards fell to 40 percent in 2010, down from 44 percent in 2009. As the Internet emerged and people started buying more online, the credit card became more versatile. Yet it was obviously not designed with the Internet in mind, which has since created problems. For example, repeatedly entering credit card information every time you make a purchase over the Internet has become an exercise in annoyance.

The advent of NFC

Today, certain technologies are emerging, such as near field communication (NFC), which allows for simplified transactions, data exchange and wireless connections between two devices – typically smart phones. However, these devices are expected to communicate at a distance of up to only 10 centimeters (four inches).

NFC can be used for a variety of activities:

- File sharing of contacts, photos, songs, applications and videos
- Sharing of electronic business cards and resumes
- Electronic payments between friends by tapping two devices together and selecting the amount to pay
- Mobile gaming, including multiplayer games
- Mobile wallet, including credit card payments made by touching the terminal when checking out, after a PIN is entered

- Boarding passes for air travel, reducing delays
- Instant coupons sent to smart phones by retailers to attract potential customers, based upon the location of the consumer's NFC device, providing a Groupon-like experience

The Javelin report provides a few more key statistics:

- The total dollar volume of online alternative payments sales grew to almost $43 billion in 2010, up from approximately $34 billion in 2009.
- The total dollar volume of online alternative payments sales is projected to reach $86.6 billion by 2015.
- Forty-six percent of online consumers made an alternative payment within the past year.
- Thirty-six percent of online shoppers report using an online alternative payment option due to "greater protection from fraud or other misuse of my information."
- Ninety-one percent of online consumers have used PayPal Inc.; 24 percent have used Checkout by Amazon, and 9 percent have used Google Checkout.

End of the beginning

The adoption of alternative payments doesn't spell the end for credit card payments. All payments will continue to evolve in the near future for the following reasons:

1. **Increased sales:** All types of industries are switching over to mobile processing. Customers don't always carry cash on them, and offering another method of payment only increases sales, especially when the other method offered is more convenient.

2. **Portability:** Credit cards are accepted anywhere you can do business. Merchants need not spend thousands of dollars on mobile hardware from a vendor. They may simply buy or download an app to a smart phone.

Professions that benefit are plumbers, electricians, carpenters and delivery drivers.

3. **Secure transactions:** Your data is always transmitted securely when you are mobile. Mobile processing even cuts down on fraud. A check can get lost or bounce when cashed. Sensitive card information used to be written down and processed later back at the office, passing through multiple hands and leaving card data more susceptible to fraud.

4. **Fast processing:** Account setup and maintenance are extremely fast and efficient. Funds are also transferred to your bank instantly, or within a few days.

5. **Low cost:** Some mobile credit card processing services do not have contracts, termination fees or monthly minimums. For example, some Apple Inc. iPhone apps may be free to download but carry a monthly fee of $5 because the swipe is hardware encrypted. Overall, the cost of mobile processing is significantly lower in literally every way.

Mobile devices could be the wave of the future for payments. These solutions help integrate e-commerce with retail transactions. We are right on the cusp of another emerging technological advance in the payments industry. It remains to be seen what solution will take the lead. ◻

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.

Pillars of payments

An interview with Alex Goretsky

By Ken Musante

Eureka Payments LLC

Alex Goretsky is founder and Chief Financial Officer at USA ePay, an online gateway provider headquartered in Los Angeles. I first met Alex when he and his brother were splitting from their first partners. He was involved in all aspects of his company's operations from direct sales, to merchant setup, to finance and program design; I admire his willingness to do whatever needed to get done, regardless of his title.

Q. How did you begin in the industry?

A: We got into this industry by someone approaching us as an investor in 1996. The promise was to build a way of accepting cards online. Back then, there was not a solution that did this. In addition to investing money, along with the other two investor owners, we began selling merchant accounts directly.

As we developed our Internet solution, we targeted in-person merchants to maintain our cash flow. To allow Internet merchants to process, we got an enterprise software solution. We did not even private-label it.

We utilized a Transmission Control Protocol/Internet Protocol connection from each merchant to our location, and then we had a dial-up connection to the processor. Later we connected to the authorization center via high-speed Digital Subscriber Line. We got to know the software better than the company that designed the software.

In total, all three investors collectively invested $500,000. The most difficult aspect of the business was finding the sales staff. (Some things never change.)

Daily, I commuted a good distance from L.A. to Newport Beach. To expedite my commute, I wanted to travel in the carpool lane. To allow this, we hired my brother Ben, part time, so he could share the commute with me and ride in the carpool lane to the office.

Q. How was USA ePay born?

A: In 1997, the partnership broke up because one of

the partners was stealing from the company. We were placing about 60 units per month, and he was stealing approximately 10 of those. As the partnership unraveled, it needed more capital. Rather than matching the other member's capital call, I chose to walk away and forfeit my investment. I had $30,000 left to start a new business. I partnered with my brother Ben and we started what later became USA ePay.

We spent about $20,000 on equipment. We continued to sell accounts directly and leased equipment to merchants to pay the bills and provide cash flow. We evolved from one of the rooms in my mother's duplex (where we lived).

At that time, we had one room for our servers and one for our business office. Today we have an 11,000 square-foot office and employ 35 individuals. Starting as we did allows us to appreciate smaller businesses and understand what some of our resellers are going through.

Q. Why have you never partnered with an outside investor?

A. First Data was the first platform we integrated with. We then went to TSYS. We were constantly evaluating whether to buy more equipment or buy advertising or do a show, but funds were tight so we had to choose. We knew we were not interested in venture capitalists but additional funds would allow for faster growth.

Consequently in 1999, I did speak with a friend's father. The friend was actually a part-time staff person and would have become one of my partners. I was offering 25 percent of the company for approximately $700,000.

The money was to be released over time to pay for marketing, salaries and tradeshows. The potential investor was a direct marketer and really did not get our business.

As fate would have it, because I did not get the funds, I could not afford to continue paying for shows, travel expenses and legal fees. My brother Ben was the only one who had enough faith in our business to continue without any significant salary.

Our corporate structure was a sole proprietor from 1998 until 2003. It just did not make sense to change our corporate structure because we were barely making enough money to pay our bills.

Since then, I have had many offers to accept

outside investment but neither Ben nor I want outside influence. We are singularly focused, not distracted with the interest of an investor who may be more short-term focused or more focused on the financial reporting than we are. Today, Ben and I own the entire company individually.

Q. How did your gateway evolve?

A. I recognized that accepting cards over the Internet was the future and this was the business I wanted to get into. Although we were interfacing with First Data for years (via our enterprise software), after First Data developed their first application protocol interface, the specifications required an actual gateway.

We wanted to use a domain name so I purchased the name "pccharge.com." We were selling about 50 PC Charge licenses per month and understood the software better than they did.

Although I approached PC Charge to partner with them, their response was a legal action. They came after us for the domain name. We were small and could not afford a protracted legal fight, so we settled. After the legal fees were paid, we received a small settlement which left us with $12,000, but we agreed to relinquish the PC Charge domain name.

We then needed a new name and we came up with USAePay.com. Strangely enough, it was not about the money. We alerted [PC Charge] to our practices and we actually wanted to do business with them.

Now that we were no longer selling PC Charge, we created our own payment gateway from scratch. We began working with Tim McEwen who owned a company called Powerful Hosting.

We hired Tim part time and he created our first gateway. Ben, my brother, developed the graphical user interface and the aesthetics of the gateway. Tim wrote the technical specifications. He lived in Albany, N.Y., and telecommuted for approximately 10 years before moving to L.A. He worked part time for the first six, seven years. This included the early 2000s when programming time was even more expensive than today.

Q. What is your biggest challenge?

A. Like anything else, staying on the cutting edge. Providing the market what they need. However, we are developing services today that will not get rolled out for some period of time, so we have to anticipate what our customers will want.

The hardware aspect is the most difficult aspect of our business. The hardware is necessary to support the wireless services and the development and engineering is enormously expensive. Any delay is very expensive.

For example, we developed an all-in-one POS system called the PaySaber that has an integrated bar scanner and printer. We are now competing with free equipment that does not have the advanced features of the PaySaber, but not all merchants utilize the additional features.

As a result, we did not get the commitments that we planned, so we are now building products like the PaySaber Jr and the PaySaber clip that do not have all the features of the original PaySaber and can be sold much less expensively.

We want to maintain proprietary hardware with our gateway which does not interface with other gateways. Most other resellers develop gateway-agnostic equipment. Our gateway works with this equipment, but our hardware does not interface with other gateways because what we care most about is the gateway.

Feature

Q. What is your company's greatest competitive advantage and why?

A. Our greatest competitive advantage is our communication. We are a flat organization and we can deliver immediate changes when needed. We are in a service business which is the best business to be in because we have recurring revenue. But if we don't service our customers, someone else will. Our pricing is very competitive but there is always lower pricing.

We really don't have one competitor. On the gateway side, Authorize.net is the most well known, but they cost more. On the software side, Intuit is the strongest competitor. Our retail ePay product competes head to head with Intuit. With our mobile processors, eProcessing Network, Apriva and VeriFone are all competitors, but we have many different products and believe we can win in each niche.

Q. What is your biggest failure and what did you learn from it?

A. Not starting earlier. I also should have made the

PaySaber without scanners. The units are fully loaded and it's like selling fully loaded vehicles and not having some of the upgrades optional. We will change that down the road because not all merchants need the scanners. Consequently we can offer a less expensive option.

I remember working with Alex and Ben before they had a gateway and listening to their design process. We worked closely with both card brands as they developed registration processes.

Because of how small USA ePay was at the time, it was much more difficult for them to comply with the card network's compliance guidelines.

I also worked with them in integrating with their second and third front-ends in order to reach a wider customer base. It's inspiring to see what USA ePay has become during my interaction with the company and individuals through the Internet boom and bust and subsequent growth into the wireless space. 🖼

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

Boost**Your**Biz

Website in your pocket

Today, a website is like a business card. And for many potential partners and merchant customers, your website will be their first point of contact with your company. It is important that your site make the very best impression on them.

How well does your website represent your business? Is it easy to navigate? If so, this will reflect positively on your organizational skills. Does the design strike the right balance between originality and cohesion with your company's philosophy and purpose?

This alone can encourage people to explore your pages and contact you. And is your messaging tightly written and typo free? If so, people will likely conclude you are professional in your business dealings.

Don't worry about being cool or flashy. When someone clicks on your corporate site, entertainment is not the primary driver. People are looking for information about you and the products and services you offer. Having a rotating globe on your home page probably won't sway them one way or the other.

Three tips

In the pursuit of providing information clearly, in an orderly fashion and in a pleasing format, here are three tips to help you maximize your website's effectiveness:

1. **Keep it simple:** A good rule of thumb is to discard whatever does not provide concise information. Look at your site from the perspective of someone who has never seen it before. If, from that viewpoint, a certain design element or block of text is distracting, eliminate it.

2. **Reach out:** Make it easy for people to contact you. Phone numbers, email addresses, even snail mail addresses and fax numbers should be easily found and prominently displayed.

3. **Go mobile:** As the smart phone ecosystem expands, having your site configured for mobile web browsing is important, even vital.

As the new business card, the website is moving from your wallet to your pocket – because that's where you keep your cell phone. 🖼

NewProducts

A gateway to profit

Product: RetailPAY

Company: Nationwide Payment Solutions LLC

Nationwide Payment Solutions LLC recently launched RetailPAY, a hosted payment engine designed to integrate with software applications without requiring apps to store or transmit critical cardholder data. Banking on RetailPAY in the merchant sphere, NPS also offers a parallel version called MuniciPAY, which targets municipalities, utilities and educational institutions.

"RetailPAY is a payment gateway that can be plugged into other existing solutions, whether it's a software company, like a traditional retailer's POS system, or it could be an e-commerce type of shopping cart or some type of customized solution overall," stated Jamie Nonni, Chief Executive Officer of NPS.

According to Nonni, the goal in creating the new product was twofold. The first objective was to build a customizable platform for virtually any type of payment solution, thus expanding NPS' merchant services and processing capabilities as a Level 1 Payment Card Industry Data Security Standard-certified provider. The second was to partner with POS equipment providers seeking to add a secure payment component.

The current version processes credit card and check transactions, but future releases will include gift card processing, electronic check conversion, PIN-based debit and recurring billing. RetailPAY also processes automated clearing house transactions online or via POS terminals. "So it's not just an e-commerce product," he said. "RetailPAY works over the counter with a card reader or it can be integrated into the existing over-the-counter POS system."

Advanced features

Nonni pointed out that RetailPAY and MuniciPAY have advanced features that enable payment aggregation. "That's really where we started," he said. "We have a very large amount of government clients that have multiple merchant accounts that needed a single interface so that when the customer makes a payment, they make one payment, one time, one card swipe or key entered one time."

Aggregated payments can streamline retail payments as well. "Take a salon that might have seven merchants inside the salon," he said. "They can have each with their own login, but it all works through one PC."

Another example Nonni offered is auto dealers that have multiple departments. Using RetailPay, a dealership can

Features of RetailPay include:

- Plug-and-play payment engine
- Robust reporting capabilities
- Direct API integration with tokenization
- Convenience fee models
- Co-brandable payment gateway

have each department set up with a separate merchant account. Yet, when a customer purchases items from multiple departments, the customer only has to pay with one card swipe.

Enhanced data collection is another programmable feature. "For example, if a POS company wants to collect a person's phone number or an additional piece of data, we allow an unlimited amount of enhanced data to be collected in the shopping cart, and the POS company can get that back through that channel," Nonni said. "So they don't have to program that in themselves. We can do that for them."

Curb appeal

Merchants pay a setup fee and monthly gateway fee for RetailPAY. "However, our biggest gain, because we're a payment processor, is that we don't have to rely upon those revenues, because we're getting it from the credit card processing," Nonni noted. "We don't charge any per transaction surcharge, no e-commerce per item fees, so that's a big gain."

When POS companies partner with NPS, fees are waived. "If they're going to give us five accounts per month, we won't bill any gateway fees associated with that because we are gaining merchant processing business," he said. "Whether they're an agent or a salesperson or anybody that can bring in that business, this solution is a good solution for somebody looking to transition away from terminals. … It's also a good solution for someone who deals with POS relationships or cash register type relationships and is looking to integrate more depth in the relationship."

Beyond being co-brandable, the benefit of RetailPay to the merchant level salesperson channel "is once they're integrated, these people are never going anywhere," Nonni said.

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DateBook

Visit *www.greensheet.com/datebook.php* for more events
and a year-at-a-glance event chart.

Industry Events

Bank Administration Institute

BAI Retail Delivery Conference & Expo 2011

Highlights: During a time of rapid changes in retail banking, the theme of this year's conference, Retailocity: Powering Breakthrough Banking, will focus on financial service opportunities in driving top-line revenue growth for organizations and delivering quality products and services that bank customers cost effectively.

Keynote speakers will include former President Bill Clinton; Howard Putnam, former Chief Executive Officer, Southwest Airlines Co.; and Randi Zuckerberg, former Director of Market Development, Facebook. General sessions will be divided into four categories: sales effectiveness, technology for business, multichannel strategy and marketing, and product development. Over 200 global technology and service providers will exhibit.

When: Oct. 11 – 13, 2011
Where: McCormick Place, Chicago
Registration: *www.bai.org/retaildelivery*

Trade Associations

Midwest Acquirers Association

Wisconsin Payments Professionals, Chicago Payments Professionals

Highlights: The Midwest Acquirers Association has formed several local chapters that offer a networking forum for payment professionals to exchange ideas and share industry knowledge on topics of importance to payment services.

The association's Madison, Wisc. chapter plans to host a networking session at Kavanaugh's Esquire Club. For more information call 608-249-0193. Payment professionals in the Chicago region will have an opportunity to participate in a network session at the Oak Brook Hills Marriott Resort. For details call 630-850-5555. Meeting hours for both chapter sessions will be from 5:30 to 8:00 p.m.

Wisconsin Payments Professionals
When: Oct. 11, 2011
Where: Kavanaugh's Esquire Club, Madison, Wisc.
Registration: *www.midwestacquirers.com*

Chicago Payments Professionals
When: Oct. 12, 2011
Where: Oak Brook Hills Marriott Resort, Oak Brook, Ill.
Registration: *www.midwestacquirers.com*

Trade Associations

Electronic Transactions Association

2011 Strategic Leadership Forum

Highlights: Considered the premier event for senior level payments industry executives, the ETA's annual Strategic Leadership Forum will combine three events in three days – in one location.

The forum promises an unprecedented lineup of mobile, security, technology and top-level experts who will examine the latest trends influencing merchants, new technology shaping the future of payments and the most pressing issues facing the industry.

The competitive landscape in mobile commerce will be the focus of the association's inaugural Mobile Commerce Summit, held on Oct. 25. Compliance Day held on Oct. 27, the forum's final day, is designed to provide critical information on compliance, security standards and card company rules and mandates. Representatives from the major card brands will be on hand.

When: Oct. 25 – 27, 2011
Where: The Palmer House Hilton, Chicago
Registration: *www.electran.org*

Industry Events

Payments Source

19th Annual ATM, Debit & Prepaid Forum

Highlights: Major players in the payments industry will converge in Las Vegas for panel discussions and keynote addresses on five concurrent tracks. The event will address such issues as the future of payments in a post-Durbin Amendment environment, which mobile payment business models will gain traction, ATM access and prepaid opportunities.

More than 80 speakers will discuss best practices and offer perspectives on evolving trends and challenges in an era of increased government scrutiny.

Workshop Day, held on opening day, will offer sessions covering social media, prepaid programs and mobile commerce. The following Payments Innovation day will highlight emerging trends in banking and payments.

When: Nov. 1 – 4, 2011
Where: Bellagio, Las Vegas
Registration:
www.paymentssource.com/conferences/atm/debit/

Inspiration

A problem well put is half solved.
– John Dewey

Your merchant ground control unit

Every businessperson experiences downturns in sales cycles. It's a natural part of doing business. But how you deal with slower sales periods can be a key determinant in whether you achieve your long-term vision. The next time you find yourself wedged in a sales rut, you might want to try this pragmatic approach for breaking through to renewed business vitality.

First, recognize that a problem exists and then identify the source. Ask yourself what caused the recent dip in sales and residuals. Is it the loss of a major account or perhaps several accounts? Have sales leads slowed to a trickle, or are they just not generating the desired outcome? Maybe you simply feel less motivated than you'd like to be.

Now that you've underscored the problem, here's an underutilized resource you can draw upon to help you get back on track.

Ground control

Before deciding upon any remedial steps, consult with your "ground control" unit – your loyal merchant base – to gauge current market conditions and foresee any changes on the horizon. Your satisfied merchant customers can provide invaluable insights into the retail picture, scoping it from all angles.

Ask this core group to describe their individual situations. Ask them what seems to be working and what obstacles might be impacting their profitability. Find out what you're doing that is particularly helpful to them and what they'd like to see you do better. Scratch below the surface to unearth any technical, compliance or processing issues in need of resolution. Ask them what they have heard from others pertaining to current and future market conditions. And by all means, ask for referrals from each member of this group to help jump-start your sales efforts.

Applied strategy

The inside intelligence gleaned from your core merchants will help in structuring an action plan. Analyze the information you've gathered, and apply what you've learned to future sales calls. Periodically check with your ground

control merchants until you've regained footing and are positioned to stay on course in the future. And remember to thank them for their time and support, offering rewards to those whose ideas are most likely to translate into tangible results.

When revamping your sales strategy, it's important to not over-correct areas that are working properly. For example, if your sales pitch has succeeded with countless merchants in the past, it probably only needs a minor adjustment.

With renewed vigor and clarity gained from ground control, you are now ready to entice prospects with relevant products and services connected to emerging trends. Lay out the benefits based on discussions you've had with your loyal merchant base. Provide plenty of specific examples of how prospects can benefit from what you have to offer. Before you know it, the excitement in your voice will begin to reap rewards.

As you continue to refine the sales process, continuously analyze all the variables to identify further strengths and weaknesses you can either exploit or correct. Have you targeted the right merchant types? Has your new approach positively impacted the size of the deal? How is your bottom line looking this month? What are your income projections for the next three to six months? The answers to these questions will help guide you to renewed profitability.

Selling is an evolutionary process that requires vigilant monitoring and feedback. When you engage loyal merchants, you're one step closer to finding another perfect merchant match.

Good Selling![SM]

Paul H. Green, President and CEO

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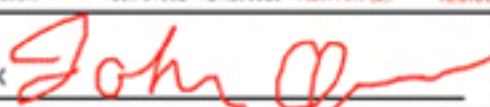
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Seattle, WA

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Employee Scheduling		●
Built-in Time Clock		●

*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.