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October 24, 2011 • Issue 11:10:02

Oct. 1, 2011: D-Day for debit cards?

When the history of the payments industry is updated, Oct. 1, 2011, is apt to stand out as D-Day: the day debit interchange controls kicked in under the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Said amendment instructed the Federal Reserve Board to cap debit card interchange at a rate deemed "reasonable and proportional" to costs incurred by issuing banks.

Following a contentious public comment period and implementation delays, a Fed-established cap of 21 cents plus 0.05 percent of the transaction on debit card payments (with an additional penny for issuers that take certain security measures) took effect on Oct. 1. But not without hues and cries from all sides of the debate.

The largest banks – which, combined, issue about 45 percent of the debit cards in U.S. consumers' wallets – reacted, as expected, with new fees and deep cuts in card-based rewards programs.

New York attorney Lloyd Constantine challenged claims by Bank of America Corp. and JPMorgan Chase & Co. that the fee changes were a direct result of the new interchange caps. He characterized BofA's public statements as "an attempt to rationalize and obfuscate one of the largest illegal transfers of wealth from consumers to banks in American history," in an opinion piece titled "Charging for Debit Cards is Robbery" and published Oct. 6 in the *New York Times*.

Constantine led a class-action lawsuit on behalf of retailers and against MasterCard Worldwide and Visa Inc. that ended with out-of-court settlements in 2003 and the card companies subsequently shelling out \$3.4 billion to merchants to cover alleged overcharges.

Sen. Dick Durbin, D-Ill., who wrote the legislation that now bears his name, also took BofA to task, urging customers to "vote with your feet. Get the heck out of that bank."

Differing bank stances on new fees

It's not as though consumers need encouragement to leave big banks: community banks and credit unions added 5 million new checking accounts for disgruntled former big bank customers last year, according to Moebs Services Inc., an Illinois firm that tracks consumer banking trends.

Mike Moebs, an economist and the firm's Chief Executive Officer, predicts at least another 8 million checking accountholders will flee the largest banks and turn to free checking accounts with debit cards at community banks and credit unions. "To paraphrase Mark Twain, the death of free checking has been greatly exaggerated," Moebs said.

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- » Dan D. Wolfe–Teledraft Inc.

NotableQuote

The big question on everyone's mind: Is the Square model sustainable? I know many experts who work in the mobile payments industry, and each one believes it is not. The fees collected are too small, and the merchant acquisition expense is too high.

See story on page 31



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Forum

Linking to your website

I am new to being an ISO and have developed my own website. As part of the website, I wanted to provide industry updates. Would it be possible to link certain articles that *The Green Sheet* publishes from my site back to yours?

Jason Benz
Merchant Truth

Jason,

Thank you for relying on The Green Sheet as a resource in your career as an ISO, and congratulations on your website's launch. As long as you're just linking to articles published on our website, and not uploading them to your website, you have The Green Sheet's approval to go ahead with this.

Editor

Latest MasterCard and Visa interchange rates

Do you know how I can access current interchange rates for Visa and MasterCard? With all the controversy in the news about interchange, I want to be sure I can point to the most up-to-date information when talking with my merchants about what they call "swipe fees."

Dave Easterly
Spot-On Payments Inc.

Dave,

We, at The Green Sheet, agree it's important to have current information on hand when speaking with merchants, who rely on professionals like you for guidance regarding interchange and other matters pertaining to transaction processing and related services.

Visa Inc.'s most recent rates are on the web at http://usa.visa.com/merchants/operations/interchange_rates.html. MasterCard Worldwide rates are posted at www.mastercard.com/us/merchant/pdf/MasterCard_Interchange_Rates_and_Criteria.pdf.

We also provide these links on our website's Resources page (www.greensheet.com/resources.php) under Card Brand Interchange Rates.

Editor

The skinny on the CPP exam

How can I find more information about the new Certified Payments Professional program recently put in place by the ETA?

I'm relatively new to the industry and think, in some sales situations, becoming certified could make a difference between landing and losing a new merchant account.

Doreen Gabler
MLS

Doreen

Even at this early stage – before there is widespread knowledge of the Electronic Transactions Association's Certified Payments Professional (CPP) program among merchants and the industry's feet on the street – the CPP designation will likely demonstrate a commitment to excellence and knowledge of payments industry best practices on the part of those who pass the exam.

That type of effort typically benefits a person's career in the long run.

The ETA provides a 19-page pamphlet titled Electronic Transactions Association Certified Payments Professional: Candidate Handbook, which can be found on the web at www.electran.org/docs/ETACPPHandbook.pdf.

The handbook covers what candidates need to know about the purpose of the program, who is eligible to take the exam, how to apply and prepare for the exam, and where and when the exam is being offered.

The exam is administered twice a year.

The deadline for 2011 testing has passed; the deadline for testing in May 2012 is April 1.

Editor

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QSGS

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

Cover Story

1

Oct. 1, 2011: D-Day for debit cards?

As debit interchange price caps go into effect, financial institutions are implementing a variety of strategies. Big banks are eliminating free checking. Smaller players are boosting their programs, hoping to capitalize on consumer discontent with the big banks. In the merchant acquiring industry, is it time to start selling the benefits of lower interchange for merchants?

News

26

Heartland offers Durbin impact insights

All changes affecting free markets result in winners and losers. According to Heartland Payment Systems Inc., quick service restaurants have been negatively impacted by the Durbin Amendment to the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, as small-ticket purchases are costing more to process.

News

24

Balakgie leaves a stronger, more influential ETA

Over eight years ago, Carla Balakgie joined the Electronic Transactions Association as its Chief Executive Officer. During her tenure, Balakgie oversaw the ETA's relocation to Washington, D.C., helped grow its annual tradeshow into a major industry event and advanced rule change guidelines at the card brand level. The ETA offers a fond farewell to its capable leader.

News

27

Operation Swiper succeeds, cyber theft continues

A sophisticated, global fraud ring was busted after criminals reportedly purchased over \$13 million in goods using stolen bankcard information. Some experts believe the continuing problem with the abuse of card data worldwide resides in decades-old mag-stripe technology and will likely be abated with the adoption of smart cards and end-to-end data encryption.

News

25

New Visa, MasterCard rates take effect

The new interchange rates issued by the card brands reflect the impact of the Federal Reserve-imposed debit interchange cap. The new rates may not significantly impact business today, but bigger changes could be coming down the line. Now might be a good time for processors to investigate reducing or otherwise changing pricing.

Feature

30

Square versus the payments world

The debate over Square Inc.'s ability to secure data at the POS is complicated by Visa Inc.'s investment in Square. Why did the world's largest card brand and a leading proponent of data security in the payments industry invest in a device VeriFone demonstrated was patently unsecure?

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- Shawn Dillon, Director of Sales



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View

32

Merchants lack focus, fraud eats profits

As "Operation Swiper" attests, the fraud scheme known as card skimming is gaining popularity, as it exploits vulnerabilities in mag-stripe technology. But research supports claims that merchants are unable or unwilling to take the steps to guard against it. A Verizon report provides two possible reasons – complacency and fatigue.

Education

56

Street SmartsSM: Vertical market tradeshow hold many helpful surprises

A recent industry tradeshow, the Holiday Food & Beverage Show, stimulated discussion about how to compete for merchants when competitors offer lower prices. It also demonstrated a new sales tool merchant level salespeople (MLs) can use to help merchants fight old-school fraud.

Feature

38

First Data powers prepaid for Google Wallet

First Data Corp. is playing a prominent role in Google Wallet. Prepaid cards are central to Google Inc.'s tap-and-go mobile payments strategy, and First Data is processing those transactions, not to mention providing data security and trusted service manager capabilities.

Education

62

Fraud's twists and turns in 2011

As fraud goes, 2011 has been eventful. Sony Corp. experienced one of the costliest data breaches in history, and one of its alleged perpetrators exposed the changing face of the enterprising fraudster. The federal government got serious about legislation to combat fraud, and the online poker industry was caught up in scandal. The beat goes on.

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Education

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Customer longevity in the new commerce chain

In merchant services, the end is always the beginning. Closing a merchant services deal is therefore not a conclusion, but hopefully the beginning of a lasting, mutually beneficial relationship. To keep merchants happy over the long term, ISOs and MLSs must not only manage relationships but also manage change itself.

Feature

70

An interview with Douglas Bergeron

Douglas Bergeron, Chief Executive Officer of VeriFone Inc., said he found a Rembrandt at a garage sale when he led the effort to purchase VeriFone from Hewlett-Packard Co. in 2001. From the future of terminal sales to dishing on Square Inc., Bergeron offers his assessment of the POS hardware business and where sales agents fit into the changing value chain.

Education

66

Steps toward efficient IRS 1099-K reporting

The Internal Revenue Service's 1099-K reporting requirements go into effect Jan. 1, 2012, when processors will become merchant record keepers for the government. If ISOs and MLSs are confused about what to do, they're not alone. But there is still time to take action and turn the reporting burden into an opportunity.

Inspiration

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It really is about you

For better or worse, first impressions are important. In our connected, 24/7 world, first impressions often occur online, with prospects pointing browsers at the websites of merchant service providers. To create positive initial responses, tailor sites to convey honesty, creativity and competency.

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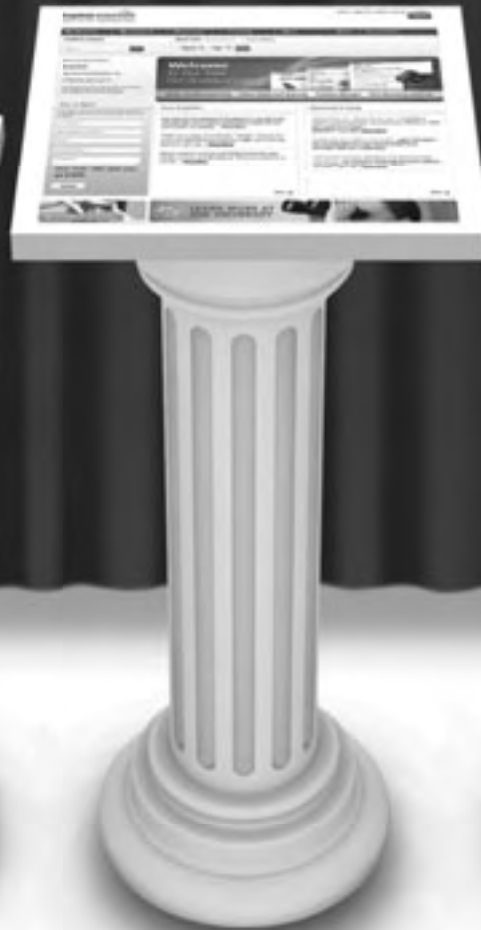
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NEWS

New 1099-K merchant reporting forms available

Merchant acquirers must report all merchant card transactions to the United States **Internal Revenue Service** beginning in January 2012. Each merchant's report must be submitted on IRS form **1099-K**, which the IRS has recently revised. The new 1099-K form includes a box for each merchant's IRS merchant category code (MCC).

The IRS MCCs do not match the MCCs used by the payments industry for merchant classification. The revised form is at www.irs.gov/pub/irs-pdf/f1099k.pdf; the IRS MCC list is at www.irs.gov/irb/2004-31_IRB/ar17.html.

Forum approves new NFC protocol

A new protocol for near field communication (NFC) that allows NFC-enabled devices to send and receive messages was adopted by the nonprofit industry association **NFC Forum**. The new NFC data exchange format (NDEF), called Simple NDEF Exchange Protocol, is a request/response protocol that makes it possible for NFC devices to exchange data – for instance, business cards and advertising can be collected with just the tap of a phone or card.

The new protocol is "agnostic," making no distinction between reader-writer and peer-to-peer operation modes, thus overcoming one of the major barriers to interoperability of NFC applications, the forum said. Developers can now be more creative by easily adding

data transfer capabilities to applications without having to write software for that purpose, according to the NFC Forum. More information about the new protocol can be found at www.nfc-forum.org/specs/spec_list/.

S1 surrenders to ACI Worldwide

After rebuffing **ACI Worldwide Inc.**'s overtures for months, **S1 Corp.** recently agreed to its acquisition by ACI. Under terms of the agreement, ACI will pay \$9.55 per share in cash and shares of ACI common stock. This is an increase of 42 cents over the last ACI offer. In a press release about the acquisition, ACI stated the sale "will create a full-service global leader of financial and payment solutions."

S1 had attempted to merge with the Israeli company Fundtech Ltd. while fending off ACI's acquisition efforts. Fundtech walked away from a proposed merger with S1 in September 2011, opting to merge instead with GTCR Fund X/A LP. S1 Board Chairman John Spiegel said significant improvements in ACI's offer persuaded the company's board to accept it.

Trade groups ask Fed for fraud adjustment increase

In a Sept. 30, 2011, letter to the **Federal Reserve**, 23 banking, credit union and bank-owned automated clearing house trade groups petitioned the Fed to increase the fraud adjustment in the debit interchange fee cap.

A new rule mandated by the Durbin Amendment to the 2010 Wall Street Reform and Consumer Protection Act

BOTTOM
LINES

HEADLINES
FROM THE
RETAIL
WORLD

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- **Deloitte LLP**'s retail group projected 2011 holiday retail sales of between \$873 billion and \$877 billion, a gain of 2.5 to 3 percent over the 2010 holiday season. Sales not associated with brick-and-mortar stores could eclipse last year's sales by 14 percent; the online channel is expected to capture 75 percent of those.
- In *Mobile Food Services: A Global Strategic Business Report*, **companiesandmarkets.com** reported mobile food service sales could reach \$2.6 billion globally by 2017, driven by growth in the U.S. gourmet food truck market and long-term growth in European and Asia-Pacific markets.
- According to the **National Retail Federation**'s *2011 Halloween Consumer Intentions and Actions Survey*, U.S. consumers will spend on average \$72.31 (and \$6.86 billion overall) on Halloween decorations, costumes and candy.

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Industry Update

cut the debit interchange rate to 21 cents plus no more than 1 cent per transaction for fraud adjustment.

The letter informed the Fed that fraud protection is expensive, costing the industry about \$680 million in 2010. The financial institutions said 1 cent is not sufficient to cover the true costs of fraud prevention and that separate PIN debit and signature debit fraud prevention cost adjustments are not needed. The letter is posted on www.cuna.org/download/nn_093011.pdf.

Subway accepts contactless payments

Subway, the sandwich franchise and a registered trademark of Doctor's Associates Inc., will accept **MasterCard Worldwide PayPass** contactless payments at over 7,000 Subway locations in the United States.

Subway expects the new payment system to be fully operational by early 2012, when consumers will be able to tap an NFC-enabled MasterCard PayPass bankcard or device at the register to pay for purchases. Payment is faster with contactless payments because customers do not have to sign receipts for purchases under \$50, MasterCard said.

PayPass can be used on a number of devices, including smart phones, cards, key fobs and mobile payment tags.

The technology is predicted to be particularly useful in businesses where speed and convenience are priorities, such as at quick service restaurants, retail locations, airports, sports stadiums and arenas, supermarkets, vending machines, and in taxis.

ANNOUNCEMENTS

AdvanceMe taps restaurants for metrics

Merchant cash advance provider **AdvanceMe Inc.** is asking the restaurant industry to share feedback to be used in a nine-week Restaurant Marketing Tip Series featured on AdvanceMe's blog, at www.advanceme.com/blog. The series is based on three main issues (in order of importance): how can restaurants gain more customers, keep customers happy and get them to return for more meals.

The series will provide advice and ideas to enable restaurateurs to address these issues. The first blog post in the series was released on Sept. 21, 2011, and discussed five ways to know your customers.

Apriva reaches milestone

End-to-end security solutions firm **Apriva** expanded its roster of POS channel partners to over 500. Apriva's partners – a mix of merchant acquirers, ISOs and wireless communication service providers located in the United States and Canada – resell Apriva's wireless POS payment solutions. Apriva said it has experienced a surge over the past 18 months in channel partners reselling such services as the AprivaPay mobile payment application and the Apriva Vend cashless vending solution.

PBTF receives \$50,000 donation

Card Payment Services Inc. and its President, Sam Caine, donated \$50,802 to the Pediatric Brain Tumor Foundation. The donation was composed of contributions made by Caine and other ISOs, agents and professionals that were matched by CPS. The donation was presented to PBTF at the October 2011 Ride for Kids event in Grapevine, Texas.

CardWare improves encryption

CardWare International, a registered encryption services organization, introduced FutureX's Secure Key Injector, SKI 9000. The SKI 9000 technology allows for the injection of multiple encryption keys into several PIN entry devices at one time.

eProcessing Network integrates shipping calculator

Houston-based payment gateway operator and software developer **eProcessing Network LLC** unveiled

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Industry Update

ePNShip, a real-time shipping rate calculator that integrates into eProcessing Network's online shopping cart service, ePNCart. The calculator allows customers to choose the shipping method that works best for them – United States Postal Service, Federal Express Corp. or United Parcel Service of America Inc.

Meritus makes fastest growing list

Meritus Payment Solutions, a Santa Ana, Calif.-based ISO founded in 2009, ranks number four out of 100 on the fifth annual fastest growing companies list compiled by the *Orange County Business Journal*. The list ranks companies by revenue growth from June 2009 through June 2011. Meritus reported revenue growth of over 700 percent in that period.

Mobeam secures funding for LBC technology

Mobeam Inc. closed on \$4.9 million in Series A venture capital funding for its patented, light-based communications (LBC) technology designed to overcome the technical barrier preventing smart phones from interacting with laser scanners installed at retail POSs. Funding will be used to establish mobeam's LBC technology as an industry standard and accelerate the development of mobile couponing and mobile commerce initiatives.

Payscape Advisors commits to CPP program

Payscape Advisors, an Atlanta-based ISO, made a commitment to support and participate in the Electronic Transactions Association's Certified Payments Professional program. Payscape Advisors is implementing the CPP program throughout its organization and said it will extend CPP to all of its account managers over the next year.

Paysentinel adds new platforms to gateway

Paysentinel LLC made new processing platforms available through its Paysentinel Gateway. The gateway platform now supports the processing platforms of Checkgateway and NACHA - The Electronic Payments Association's Secure Vault Payments, as well as the automated clearing house. In other news, the company said it is working on a new mobile application for the U.S. market that will operate on Apple Inc., Android and BlackBerry smart-phone systems.

Pyramid pinpoints m-payment opportunities

A new research service from **Pyramid Research** identifies opportunities in mobile payments. Mobile Commerce Landscape Insight Pack allows users to track analytics on current trends and gain insights into best practices and market forecasts for mobile payments in emerging and developed markets. The service includes an in-depth report and live session with a senior Pyramid analyst.

3Delta Systems promotes cyber security awareness

Online credit card processor and data security company **3Delta Systems Inc.** observed National Cyber Security Awareness Month by issuing *10 Business Best Practices for Fighting Credit Card Theft and Fraud*, a set of best practices for protecting customer credit card account information and minimizing corporate exposure to online payment scams.

Voltage Security enters Hall of Innovation

Data security firm **Voltage Security Inc.** was inducted into the JPMorgan Chase Hall of Innovation on Oct. 4, 2011, in Palo Alto, Calif. The award recognizes Voltage for its innovative, data-centric encryption approach to security for data centers, the cloud and mobile devices.

PARTNERSHIPS

Private-label card agreement inked

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IndustryUpdate

will provide private-label credit card services for home decor retailer **Pier 1 Imports Inc.** ADS will supply account acquisition, multichannel marketing and customer service for Pier 1 Imports. The portfolio conversion from Pier 1 Imports' current private-label credit card provider is expected to occur early in 2012.

First Data, Associated Bank renew partnership

First Data Corp. and Green Bay, Wisc.-based **Associated Bank N.A.** renewed their merchant services agreement. Under the new contract, First Data will continue to provide merchant processing services to the bank's business clients nationwide.

About the renewal, First Data Senior Vice President Neal Korzekwinski said, "Our ability to provide mission critical products and services to the commercial clients of Associated Bank has been the cornerstone of our enterprise. We look forward to our continued growth together."

Fiserv, AFCU partner

Payment software provider **Fiserv Inc.** and **America First Credit Union** teamed to allow AFCU to use Fiserv's Mobiliti, an application that allows customers

to access accounts via text message, mobile browser and mobile app. More than 25,000 users reportedly enrolled in AFCU's mobile banking service within five weeks of the launch.

Vantiv, AmeriMerchant partner for working capital

Vantiv LLC and **AmeriMerchant LLC** joined to offer merchant cash advance (MCA) services. Vantiv will refer merchants looking for working capital to AmeriMerchant. Vantiv subsidiary National Processing Co. will make the MCA program available through its partners and agents.

ACQUISITIONS

Heartland gains School-Link Technologies

Heartland School Solutions, a division of Heartland Payment Systems Inc., acquired **School-Link Technologies Inc.**, a privately held provider of comprehensive school nutrition and POS solutions for schools serving kindergarten through twelfth-grade (K-12) students. Heartland said it also acquired three other providers in the K-12 space over the past 10 months:

LunchBox, an integrated school nutrition and POS management application; Comalex Inc., software for school nutrition programs and POS systems; and MySchoolBucks.com, a website and online service for parents to pay for their children's school meals and student activity fees using a credit or debit card or via electronic check.

Heartland reported it now serves more than 19,000 K-12 public schools across the United States, representing almost 20 percent market share.

TransFirst acquires USMS

Trans First LLC purchased RST Ventures Inc., a company doing business as **US Merchant Services** in Cypress, Calif. US Merchant Services has worked as a sales partner with TransFirst since 2004. RST Ventures' USMS is not related to US Merchant Services Inc. in Port St. Lucie, Fla.

U.S. Travelex division buys Pay 24-7

Travelex Global Business Payments Inc. purchased **Pay 24-7**, a subsidiary of ParentPay Ltd. that provides an online payments system to universities and higher education institutions in the United Kingdom, North America, Europe and Asia. The program reduces the banking and administrative costs of collecting fees from overseas students and enables a speedier payments process.



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APPOINTMENTS

Cole takes CMO job at Trustwave

Leo Cole joined information security and compliance solutions company Trustwave Inc. as Chief Marketing Officer. Cole was formerly Vice President of Marketing for Guidance Software Inc. Cole will be in charge of Trustwave's global marketing strategy.

Fiserv hires Gupta as group president

Rahul Gupta was appointed Group President of the Digital Payments Group at Fiserv Inc. Gupta joined Fiserv in 2006 after serving as President of U.S. Operations at eFunds Corp.

In his new position, Gupta will be responsible for overseeing electronic bill payment and presentment, biller solutions, card services and global payment solutions.

Krugel joins Visa's global mobile team

Gavin Krugel joined Visa Inc. as Head of Customer Strategy and Market Activation for Fundamo. Krugel, formerly a Senior Director at telecommunication industry association GSMA, will be in charge of developing markets in Asia Pacific, Central Europe, Middle East and Africa via Fundamo, a South Africa-based mobile payments platform acquired by Visa in June 2011.


Krugel's responsibilities include supporting activation of Fundamo mobile money programs for unbanked consumers in developing economies.

Leehy accepts ATMIA position

John J. Leehey, President and Chief Executive Officer of ISO and ATM provider Payment Alliance International Inc., was appointed to the ATM Industry Association Board of Directors. At PAI, Leehey oversees a network of nonaffiliated ATMs placed in over 56,000 locations.

Van de Pavert, Panyasiri go to eMerchantPay

International payment processor eMerchantPay Ltd. added two members to its executive team. **Bartek van de Pavert** was named Vice President of International Sales.

Van de Pavert previously headed the travel and e-retail business at Paysafecard.com Wertkarten AG. Additionally, **Stephane Panyasiri** was named the company's Executive Vice President of Business Development Global Gaming Market. He formerly managed business development for payment solution companies 123Ticket and BilltoMobile. 

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Trade Association News

Balakgie leaves a stronger, more influential ETA

Carla Balakgie, Chief Executive Officer of the Electronic Transactions Association, resigned to become CEO at the National Automatic Merchandising Association. Her legacy is populated by a long list of accomplishments that leaves the organization, and her successor, well situated to meet the challenges of the rapidly evolving payments industry.

"When Carla joined the ETA we were run by volunteers," ETA President Richard (Rick) Pylant told *The Green Sheet*. "It was a daunting task to bring all that internally. Now we have a very strong operating entity that is self sufficient.

"We can go forward with her legacy in place. She has built an organization with the people in place who can step in while we are going on with our search process."

Pylant praised Balakgie for building the ETA's influence in national and state government and making the ETA a leader in industry education.

Balakgie will remain with the ETA until mid-November, Pylant said. ETA Deputy Director Pamela Furneaux will fill in for Balakgie during the board's search for a new CEO.

ETA directors will soon hire a search firm to look for and assess potential applicants for the CEO position. "We will have a candidate ASAP," Pylant said. He confirmed Furneaux is a candidate for the job.

The challenges

When Balakgie joined the ETA in May 2003, the 13-year-old organization presented her with significant challenges. In her first two months on the job, Balakgie managed the ETA's move from its old headquarters in Kansas City, Mo., to new headquarters in Washington, D.C. She also hired new staff and revamped operations.

She told *The Green Sheet* at the time, "ETA had grown

and evolved in its developmental cycle to where the [leadership] wanted to do things differently – to bring a new level of resources, including the management approach and the move to Washington with increased access to government and other agencies. They were ready to move to the next level."

Further accomplishments

Balakgie's additional accomplishments include:

- Creating the Strategic Leadership Forum
- Advancing a set of association guidelines for major card networks to follow when issuing rule changes or adjustments to operating requirements
- Creating and launching the Certified Payments Professional program

About the ETA's evolution during her tenure, Balakgie said, "The transition was fundamental. Our education component with programs such as the ETA University (both live and online) was very important.

"The Certified Payments Professional program as a measurement of knowledge was a huge building block.

"The government relations function at the federal level, state level and at the grass roots through our Voice of Payments portal has been very successful, as we've become an influential resource and player in Washington."

Despite its efforts in Washington, the payments industry has been hammered by recent regulatory legislation such as the IRS 1099-K merchant reporting requirement and cuts in debit interchange fees.

"The only disappointment is that there was regulation at all," Balakgie said when asked about recent legislative developments. "Any time the government intervenes in a market, I don't think it is a good thing."

Balakgie said she expects to remain close to the payments industry through her new role as a leader in the vending industry. "I think with my contacts in the payments industry, I will have the ability to facilitate a win-win situation and growth on both sides," she said. ■



Carla Balakgie
Chief Executive Officer, ETA

New Visa, MasterCard rates take effect

Visa Inc. and MasterCard Worldwide implemented new interchange rates Oct. 1, 2011. Though Visa quietly disclosed the rate changes in a bulletin sent to bankcard issuers and acquirers in August, the company refused to talk about its interchange rates with *The Green Sheet*. MasterCard and Discover also declined to talk about changes in their interchange rates.

Visa set its debit interchange rates at the maximum allowed under the Durbin Amendment to the Wall Street Reform and Consumer Protection Act of 2010 for its Visa Check Card, Consumer Prepaid, Commercial Prepaid, Interlink PIN, Small Business Debit and Interregional Debit cards. Visa also made a number of modifications to its rates.

Rates on the rise

The new Visa Inc. rate schedule made modifications in 19 prepaid interchange categories – most of them increased. The basic rate went from 0.95 percent plus 20 cents to 1.15 percent plus 15 cents. An average \$38 purchase will now cost merchants 59 cents in interchange fees – a five percent increase from the previous 56 cents.

The petroleum category took the biggest Visa rate hit. Merchants will pay 73 cents on a \$50 purchase, an increase from 55 cents. The interchange rate for prepaid transactions at gas stations was increased by 29 percent on an average sale. A number of e-commerce and travel and entertainment categories had double digit rate increases. Rates for utilities and tax payments were lowered for debit and prepaid cards.

The interchange rate for small transactions will go from 1.55 percent and 4 cents to 1.6 percent and 5 cents – a 9 percent increase on the average fast food ticket.

Following are some of the further modifications Visa made to its interchange rates:

- Visa Regulated Check Card Interchange applies to card-present and card-not-present transactions in all industry categories.
- The card brand consolidated its Debit Credit voucher interchange programs.
- Visa no longer offers retail and supermarket debit performance thresholds, but it lowered retail and supermarket credit interchange rates.
- The company introduced a new interchange program and rate for charity merchants (merchant

category code 8398) on Oct. 15, 2011. This new rate (1.35 percent plus 5 cents) applies only to consumer credit transactions, not debit.

- Also as of Oct. 15, 2011, grocery stores, supermarkets, convenience stores and service stations have access to Visa CPS/Small Ticket interchange.
- Visa is offering six new U.S. domestic interchange programs under a new Visa Business Enhanced Card Fee Program.

To see all of Visa's updated rates, see the company's Interchange Reimbursement Fee table at <http://usa.visa.com/download/merchants/visa-usa-interchange-reimbursement-fees-october2011.pdf>.

MasterCard now has two new interchange rate programs: regulated POS debit at 0.05 percent plus 21 cents and regulated POS Debit with Fraud Adjustment at 0.05 percent plus 22 cents. Discover instituted two new interchange rates for nonexempt and prepaid cards.

Discover cards with no fraud prevention adjustment will pay 0.05 percent plus 21 cents. The Discover card rate where the issuer has a certified fraud prevention procedure is 0.05 percent plus 22 cents.



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Industry reaction

Jeff Fortney, Business Development Director at Clearent LLC, believes the interchange rate modifications are not all that significant, although transactions for tickets under \$12 did go up. He believes, based on the card companies' history over his years in the business, significant rate changes will come later. "I wouldn't worry about what happened in October," he said. "I'd be more cognizant of what happens down the road. Visa will not sit still; they will do something."

Fortney expects the changes he anticipates will take at least a year to institute. "Beginning in April, I think, based on its history, Visa will begin little tweaks," he said. But regardless of what Visa and other card companies do with rates, the Durbin Amendment has consequences ISOs need to think about, Fortney added.

"ISOs need to talk to their processing partners and find what options they truly have," he said. "ISOs need to know if they can reduce or change their merchant pricing with the contract they have."

"They need to know how to protect their portfolio by determining which accounts are at risk. If they are on an interchange pass-through, there is a real chance for gain."

If you discount merchants you need to identify the merchants in your portfolio that are at risk and find out what your processing partner will allow."

Industry consultant Paul Martaus told *The Green Sheet* he has talked to "a significant number of ISOs" about the effects of the Durbin Amendment.

He believes ISOs with blended rate contracts will increase profit on their monthly receipts and still be able to tell their merchants the impact on their monthly charges will be negligible although merchants will see a slight raise on credit card rates. "All the ISOs I talk to are saying they are taking the money and running with it," he said. ■

Heartland offers Durbin impact insights

Life under the Durbin Amendment to the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act has begun, and some merchant segments are seeing substantial benefits. But not all card-accepting businesses are faring well; those with large volumes of small-ticket items are paying more to accept debit cards than they were before Oct. 1, 2011.

QSRs lose, others gain

For example, Heartland Payment Systems Inc. reported that quick service restaurants (QSRs) it services are paying an effective interchange rate of 2.15 percent now compared to 2.08 percent in September.

That's because Visa Inc. and MasterCard Worldwide eliminated the small-ticket interchange rates QSRs had enjoyed before the new pricing regimen imposed by the Durbin Amendment, Heartland noted in a statement detailing "actual Durbin impact statistics."

More upscale restaurants (and QSRs with average tickets exceeding \$11) are among the biggest winners among Heartland's clients. The company reported that from Oct. 1 through 3, it passed along \$671,652 in debit interchange price reductions to restaurants and, altogether, passed along nearly \$1.78 million in debit interchange price cuts to customers during that three-day period.

"These savings are just the tip of the iceberg," said Bob Baldwin, Heartland's President. The company estimates the average merchant in its portfolio will save more than \$1,000 in debit interchange between now and this time next year.

The Durbin Amendment directed the Federal Reserve Board to study and come up with a cap for the inter-

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change assessments card acquirers collect from merchants on behalf of card-issuing banks.

The Fed set an initial cap of 21-cents plus 0.05 percent of the transaction plus an additional penny provided certain security requirements are met. That amounted to about a 40 percent discount on the going rate for debit interchange in 2010, but it only officially applies to banks with \$10 billion and more in assets.

The Durbin Amendment also requires debit card issuers to accept transactions routed through at least two competing electronic funds transfer networks.

Post-Durbin pricing

Heartland has been vocal about its intent to pass along merchant savings on debit interchange in the wake of debit interchange caps imposed under the Durbin Amendment, even as other acquirers and ISOs have hinted they plan otherwise. Several industry experts suggested that Heartland's position on interchange is driven largely by the fact that it uses an interchange-plus pricing scheme.

"Durbin Dollars should stay where they belong – in merchant's bank accounts – and Heartland is helping business owners keep more of their hard-earned cash," Baldwin said. "Merchants shouldn't take this for granted."

Here are some other post-Durbin Amendment statistics concerning Heartland's portfolio. Between Oct. 1 and 3, across Heartland's portfolio of 250,000 merchant locations:

- Sixty-five percent of debit card sales volume was subject to the mandated interchange caps.
- The average fee paid for regulated signature debit cards was 23 cents.
- The average fee paid for unregulated signature debit cards was 44 cents.
- The effective interchange rate for payments made using regulated signature debit cards was 0.80 percent.
- The effective rate for payments made using unregulated signature debit cards is 1.55 percent. ■

Operation Swiper succeeds, cyber theft continues

On Oct. 7, 2011, the Queens, N.Y., District Attorney Richard Brown indicated a credit card fraud and identity theft investigation dubbed Operation Swiper yielded 111 arrests

and 10 indictments in Queens County, N.Y. The thieves allegedly stole more than \$13 million in their 16 months of operation and were reportedly members of five credit card forgery and identity theft rings operating in the United States, Europe, Asia, Africa and the Middle East.

"This is by far the largest – and certainly among the most sophisticated – identity theft/credit card fraud cases that law enforcement has come across," Brown said.

According to the indictment, the thieves acquired stolen credit card information in various ways – among them, direct theft from cards, insider theft of card information, and purchasing stolen card data from underground websites selling data breach information. The stolen information was transmitted to a factory where bogus cards were forged using the information.

The newly minted fraudulent cards were then distributed to a network of gangs that would spread out to malls across the United States to buy high end electronics, clothing and other popular items with the phony cards. These items were then sold at discount to fencing operations that resold the goods to shady retailers.

Cyber crime still thriving

Unfortunately, some industry experts believe the arrests



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will have little effect on global cyber crime because hundreds of similarly sophisticated cyber theft gangs are still operating undetected around the world.

In talking about the case, Randy Vanderhoof, Executive Director of the Smart Card Alliance, a nonprofit organization working for adoption of smart card technology, said, "It is extraordinary law enforcement officials were able to catch up to and arrest as many as they did. There are actually few cases that are successfully investigated and the criminals rounded up. This is one of hundreds of cases. Most cases either go undetected or, because there are limited resources, law enforcement lets the hard task of cyber security go by while they focus on bigger and easier targets."

Vanderhoof believes a large part of the problem lies with the magnetic stripe technology used on most credit cards in the United States. He noted that the European Payments Council is drafting recommendations for the elimination of magnetic stripe cards there because of security concerns. "Mag stripe is the easiest point of attack," he said. "It is a static form of card information holder and not protected in any way."

Vanderhoof said while the Payment Card Industry (PCI) Data Security Standard (DSS) hardens the payment network for mag stripe data, it is not 100 percent effective. "Investment in PCI has not stopped fraud entirely," he said. "All it has done is slow it down."

Cyber security strategies

Mark Bower, Vice President at Voltage Security Inc. in Cupertino, Calif., said, "It's interesting to have a story like this surface because what it shows is, while

law enforcement did a good job finding and arresting these people, [the criminals] still operated for 16 months converting stolen information into cash.

"It was also interesting to see there were apparently a number of criminal organizations coordinating to achieve this kind of heist of information not protected in the system's ecosystem. Clearly, the promise of \$13 million can create a sophisticated network."

Bower believes end-to-end encryption, a solution his company sells, is at least part of the answer to building a healthy and secure payment network. "The vast majority of merchants shouldn't have to worry about security," he said. "They want transparency, security, and plug-in and play."

Bower anticipates cyber theft will continue at unprecedented rates. "You don't need to rob banks these days to get access to information and convert it to cash," he said. "The bottom line at the end of the day is if you are in a system that hasn't taken steps to protect the information it stores it's a matter of time, not a matter of if you are going to get hacked." ■

World payments growing in recession

The global payments industry is robust and growing even through the worldwide recession, according to a study released in September 2011. The *World Payments Report 2011*, the seventh annual study sponsored by U.K. companies Capgemini S.A. and the Royal Bank of Scotland PLC, as well as by the European Financial Management Association, looked at trends in payment volumes and the payment tools used by the industry. It also studied regulatory and industry changes driving change in the industry and successful strategies for coping in the resulting new environment.



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"Payments have weathered the economic crisis well: the volume of noncash payments globally continued to grow in 2009, albeit at a more modest pace than in recent years," the paper said. "Initial data suggests the growth in volumes picked up again in 2010, but several external and internal factors are driving banks and forcing transformation in the industry."

ISO impact

The report said the impact of the shifting regulatory environment, the rapidity of technological change, the standardization of the industry and the blurring of lines among traditional payment transactions will significantly impact ISOs. It also stated that ISOs and merchant level salespeople (MLSs) must learn to specialize and rely more on their "ability to build a distinctive set of products and services."

The report said it is likely the industry will eventually sort itself into companies that sell wholesale processing services and companies that focus on merchant level sales "since few are likely to have the scale, capabilities, strategic ambition or will to pursue both ends of the value chain as it disaggregates."

In addition, the report predicted a wholesale shift in the way banks, processors and ISOs will do business and concluded consolidation of the processing industry is "inevitable" because only a few large banks will have the capacity for this task.

Emerging trends

The study found that the trends driving change include:

- Increased regulation to minimize financial risk in the aftermath of the world financial crisis
- Initiatives to standardize the industry with efficiencies, streamlining and cost reductions
- Transparency impacting how payment companies do business, particularly in areas such as service fees
- Blurring of lines between traditional payment methods leading to increased competition between real-time gross settlement providers and automated clearing house networks for low-value payments
- More specialization as new technologies like near field communication and mobile payment devices hit the marketplace

The report also indicated ISOs and MLSs may be better positioned than banks to leverage technology and harness it to customer needs.


Deeper analysis

The *World Payments Report 2011*, based on data collected in 2009 and including preliminary data from 2010, also found the global volume of noncash payments (direct

debit, credit transfers, cards and checks) grew 5 percent in 2009, to 260 billion transactions. However, the rate of volume increase is slowing despite the predicted double-digit payment volume growth for most of the world's major markets.

Additionally, the report found the use of credit and debit cards continues to grow worldwide, with transaction volumes up 9.7 percent. And while cards remain the payment method of choice for more than 40 percent of the market, the average value per credit card transaction continues to fall.

The report also stated that mobile and Internet commerce growth continues to skyrocket; by 2013, e-payments are expected to reach 30.3 billion transactions while m-payments are projected to reach 15.3 billion. In addition, government use of e-payments is speeding the move to noncash payments in developed countries, and standardization is making it harder for competitors to differentiate products and services, which has forced businesses to find differentiators in other business processes, such as in distribution and production.

To see the full document, visit www.capgemini.com/insights-and-resources/by-publication/world-payments-report-2011. 



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The Mobile Buzz

Square versus the payments world

By Tim McWeeney

Earlier this year, VeriFone Inc. Chief Executive Officer Douglas Bergeron posted a video on the Internet showing how easily the Square Inc. reader could be compromised. In fact, Bergeron's own staff did it with less than an hour of effort.

Normally, this would have generated an outcry from all members of the electronic payments community, including the card brands themselves, demanding the removal of such an unsecure device from the market, but we don't live in normal times.

What reaction there was came, mostly, from the world of blogs, and mostly the reaction condemned VeriFone for piling on poor little Square. That's right, most of the reaction came down against the organization that "outed" Square as an unsecure device subject to easy hacking and theft of credit card information.

Recently, at another conference, Square's vulnerability was demonstrated again, not by VeriFone but by nonpartisan individuals who, once again, hacked the Square reader.

Square responded to the VeriFone video by saying, essentially, that hacking credit cards is a way of life, and the server Square uses is secure. The problem Square CEO Jack Dorsey conveniently ignored was that the compromise happens long before the transaction ever hits the server. The data is stolen at the point of the swipe.

Unsettling contradictions

With the exception of a few mobile payments industry leaders, our side of the industry has been quiet about the lack of security in the Square reader. And what was Visa Inc.'s reaction to all this? Outrage? Demands for the removal of all unsecure Square devices in the market? Immediately shutting down of Square's ability to process credit cards?

No, Visa invested an undisclosed amount in Square; venture capital firm Kleiner, Perkins, Caufield & Byers subsequently invested a paltry \$100 million. Toto, I have a feeling we're not in Kansas anymore.

While not formally endorsing Square at the May 2011 Electronic Transactions Association Annual Meeting & Expo, Steve Wozniak (Woz) told a group of listeners that he liked the device and appreciated the simplicity of it. Woz did not address the security concerns because, seemingly, he did not care about them. ... They would get worked out somehow.

All Woz cared about was simplicity. And why not? He helped launch a company with open architecture that redefined the word: Simple.

Dorsey said after the VeriFone assault that Square was coming out with a secure reader, but Dorsey has never promised to remove all the unsecure readers the company has flooded the market with thus far. This leaves a significant vulnerability Square must correct.

We are left to one conclusion: no matter what Visa has said about how it frowns on aggregation and demands security, clearly, in the case of Square, the rules do not apply. The question is why?

Forgotten merchants

Think about it: micro merchants processing less than \$500 a month. These are people who would never have signed up for a legitimate merchant account in the first place. Square has created a new level of merchant ("Level 5") and the numbers are in the millions.

These people don't care how long it takes to get their money or the discount fees associated with it. They want it free and simple to get started.

Historically, these "merchants" have been of little interest to the ISO or banking community unless fees were associated with the account to make it profitable – statement fees, monthly minimums, etc. Square has blown that model to smithereens.

No equipment to buy, rent or lease and no monthly fees, but the company isn't stopping there. Square is now moving into traditional spaces for legitimate merchant accounts.

The big question on everyone's mind: Is the Square model sustainable? I know many experts who work in the mobile payments industry, and each one believes it is not.

The fees collected are too small, and the merchant acquisition expense is too high. It is bound to crash like so many other Silicon Valley startups.

Add to this the flood of competitors who use mobile payments as an ancillary product to their existing, profitable lines of business, and you have a waiting game being played on the Indianapolis 500 speedway because the mobile payments sphere is moving at the speed of light.

Those of us who still believe security is important and merchants ought to have more invested in their businesses than a smart phone and an unsecure reader will continue to build business safely and effectively.

Square continues to operate on its own, completely independent of the traditional payments industry. Time will tell if its model will sustain. ☒



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Insider's report on payments**Merchants lack focus, fraud eats profits****By Patti Murphy***ProScribes Inc.*

As reports filtered out about the "largest ID fraud case in U.S. history" (among them, "Operation Swiper succeeds, cyber theft continues" on page 27 of this issue of *The Green Sheet*), those of us in the merchant acquiring space were reminded once again just how big a threat card skimming and associated fraud schemes have become to merchants, consumers and the card systems.

According to law enforcement officials in New York, the skimming was conducted by waiters and service sector workers who passed on the information to international crime syndicates that created bogus credit cards to finance a \$13 million shopping spree. A total of 111 people from five different criminal gangs were indicted on a slew of charges following a two-year investigation known as "Operation Swiper."

The fraudulent shopping spree focused primarily on Apple Inc.-branded products that were sold in overseas markets. Police reported seizing Apple devices worth tens of thousands of dollars during raids in and around New York City in early October, as well as \$850,000 worth of other computer equipment, \$650,000 in cash, and a truckload of designer shoes, electronics, watches and other fraudulently purchased items.

Skimming an ongoing problem

The extensive nature of this fraud illustrates just how quick fraudsters are to retool in response to stepped up enforcement.

Although card skimming has been around almost as long as magnetic stripe cards have been in use, it seems to have become more prevalent in recent years as increasingly more successful network intrusions (hackings) have grabbed headlines and forced greater attention to breaches within the processing stream. Think Payment Card Industry (PCI) Data Security Standard (DSS).

Skimming, on the other hand, often occurs outside the processing stream. That kid at the ice cream stand? The one who took your credit card around the corner to run it the other day?

He could have had a card-skimming device back there (or even in his pocket) that snagged information off the mag stripe before he ever ran the card for your milkshake. Or what about that ATM you just used? Card skimming is a huge problem with ATMs and unattended gas pumps.

The PCI Security Standards Council addressed the problem of card skimming in an August 2009 supplement to its transaction security standards for PIN entry devices (PEDs) titled *Skimming Prevention – Best Practices for Merchants*.

That document, which places much of the responsibility for combating skimming on merchants, isn't pertinent just to PIN transactions.

"Merchants are the first line of defense for POS fraud," the guidance stated, adding that merchants must "enhance the security provided by the current PCI DSS standards and payment terminal vendors." That is to say, merchants need to accept that protecting against card skimming is as important as keeping card databases and terminals safe from hackers.

The guidelines and best practices offered in the document fall into three areas of focus:

- Physical location and security controls
- Terminals and terminal infrastructure security
- Staff conduct and access to payment devices

Like the PCI DSS, these guidelines can be prescriptive. For example, merchants are advised to place surveillance cameras "such that they record the area around the POS PED device, without actually being able to record the PIN number entered."

But let's get real: merchants aren't eager to spend money on sophisticated surveillance technologies. After all, there's no immediate financial impact felt by individual merchants when credit cards are skimmed due to compromised terminals or fraudulent employees, although good arguments can be made that they can lose customer trust and future sales.

PCI (non)compliance

The PCI DSS is inherently flawed because payment card security is a moving target. Even the best prepared organizations can be compromised. Just ask the folks at Heartland Payment Systems Inc., which uncovered a major breach in 2010, not long after it had a compliance review that suggested it was operating in line with the PCI DSS.

"Even the best organizations make mistakes, but all too many businesses simply put a band-aid over bullet holes in the hope that the effort will last until the assessor has left," stated a new report from Verizon – the *Verizon 2011 Payment Card Industry Compliance Report*. Verizon employs



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teams of Qualified Security Assessors (QSAs) that conduct security assessments required under PCI DSS. Its latest report distills QSAs filed over the past year.

Verizon reported only 21 percent of organizations it assessed over the past year were fully PCI DSS compliant at the time of their assessments.

This is one percentage point higher than Verizon reported last year, which is practically unchanged. "This lack of change is a bit disappointing, as many in the industry were hoping to see an increase in overall compliance as the PCI DSS became more familiar to an increasing number of organizations," the report said.

Tested organizations, on average, met 78 percent of the requirements laid out in the PCI DSS, Verizon noted. Organizations assessed by Verizon's QSAs struggled most with four of the 12 core requirements of the PCI DSS. These were:

- Protecting stored cardholder data
- Tracking and monitoring access to systems containing card data
- Regularly testing systems and processes
- Maintaining clearly articulated security policies

Verizon said the PCI requirements that seemed least problematic for businesses were encryption, installing and updating anti-virus software, and restricting staff access to cardholder data.

The PCI standards for card security have been in place for at least six years. So why are merchants and their processors having difficulties keeping in step with them? The Verizon report offered several possibilities, including complacency and fatigue.

Merchants complain about the costs of doing business – costs like interchange. But the interchange dollars they pay pale in comparison to the amount of money lost to fraud. According to the *LexisNexis True Cost of Fraud Benchmark Study*, published in 2009, identity theft fraud costs U.S. merchants \$100 billion a year, or \$191 billion when the cost of lost and stolen merchandise is factored in.

Maybe it's time for merchants to take a rest from fighting for interchange reform and spend more time and money combating card fraud. Yeah, sure. ☑

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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Selling Prepaid



Prepaid in brief

NEWS

Durbin could reduce GPR card features

According to a **Federal Reserve Board of Atlanta** post on its *Portals and Rails* blog, consumers could lose payment functionality with prepaid cards due to provisions of the Durbin Amendment to the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act. The blog said general purpose reloadable (GPR) cards can be subject to the interchange fee cap, which could result in prepaid card providers eliminating card features to gain exemption from the Durbin regulations.

State EBT card program under scrutiny

Jack Wagner, Auditor General of Pennsylvania, said Pennsylvanian welfare recipients used electronic benefit transfer (EBT) cards to make 94,947 out-of-state transactions or cash withdrawals worth \$5.2 million in May 2010. However, the legality of the transactions could not be determined because the Pennsylvania Department of Public Welfare refused the auditor general's requests to provide documentation for them, according to Wagner.

As of May 2010, approximately 750,000 Pennsylvanians had EBT cards which account for about \$200 million in spend monthly, the auditor general noted.

MasterCard grows the prepaid pie

At **MasterCard Worldwide's** annual Investment Community Meeting held Sept 15, 2011, in New York City, an executive said general purpose reloadable, corporate and government benefit cards are central to the card brand's global strategy.

According to Timothy Murphy, Chief Product Officer at MasterCard, prepaid cards will represent an \$840 billion global market by 2017, with the fastest growth in the market occurring outside the United States. Murphy said prepaid cards can create a bridge to financial inclusion for 2.5 billion adults worldwide who lack access to mainstream banking services.

ANNOUNCEMENTS

ACI to hold 2012 compliance forum in D.C.

Think tank and conference organizer **American Conference Institute** said the 5th Annual Forum on Prepaid Card Compliance will be held in Washington on Jan. 30 and 31, 2012.

Bank Freedom cardholder deposits way up

Prepaid program manager **Bank Freedom**, a subsidiary of PrepaYd Inc., reported that cardholders deposited approximately \$50,600,000 in the third quarter of 2011, up from \$14,148,000 in the third quarter of 2010, representing 357 percent growth.

CFSI organizes roundtable, development lab

The **Center for Financial Services Innovation** hosted an Innovators Roundtable meeting in New York on Oct. 4 and 5, 2011, focused on helping financially underserved consumers achieve financial stability and prosperity.

The Chicago-based advocacy group also launched the Bay Area Financial Capability Innovators Development Lab in collaboration with Charles Schwab Corp. entities – the Charles Schwab Bank and Charles Schwab Foundation.

SVS joins Prepaid Forum Deutschland

Gift card processor **Ceridian Stored Value Solutions GmbH (SVS)** became a founding member of Prepaid Forum Deutschland, a recently formed trade organization for the rapidly growing prepaid card market in Germany.

Evolution1 makes Marcum Tech Top 40

Health care benefit card processor **Evolution1 Inc.** was named to the Marcum Tech Top 40, an annual list of the 40 fastest growing technology companies in Connecticut compiled by accounting firm Marcum LLP.

A-Rod to promote Dynasty card

Alex Rodriguez, third baseman for the New York Yankees, became a spokesman for UniRush LLC's Visa Inc.-branded Dynasty prepaid card.



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PARTNERSHIPS

Antero, PayRoll Innovations team for paycards

Antero Payment Solutions Inc., the subsidiary of e-commerce platform provider Anoteros Inc., inked a deal with payroll card program manager **PayRoll Innovations LLC** to offer prepaid payroll card programs via the ISO channel and direct employer relationships.

New mobile prepaid RDC tandem

Check technology provider **Chexar Networks Inc.** reached agreement with mobile remote deposit capture (RDC) company **Cachet Financial Solutions Inc.** and prepaid card processor **FirstView LLC** to enable real-time mobile RDC deposits to FirstView's MasterCard-branded prepaid cards.

PATCO, Cubic to offer prepaid for transit riders

The **Port Authority Transit Corp.**, which is operated by the Delaware River Port Authority, and **Cubic Transportation Systems**, the automated fare collection system provider and Cubic Corp. subsidiary, began a pilot to provide commuters in the Philadelphia/New Jersey region with what they call the world's first transit-branded, open-loop, contactless Visa prepaid card.

ACQUISITIONS

FleetCor enters Mexico's prepaid fuel card market

Fleet card provider **FleetCor Technologies Inc.** acquired an unnamed prepaid fuel card company in Mexico. The acquired company serves over 10,000 businesses in Mexico with over 800,000 cardholders and beneficiaries, FleetCor said.

APPOINTMENTS

FSV adds execs, creates new SVP role

Network branded prepaid card processor **FSV Payment Systems Inc.** said **Darryl Clukey** joined FSV as Senior Vice President of Client Services and **Timothy Leonard** joined as Controller. Additionally, **Matt Frye** was named the company's first Senior Vice President of Product Development.

Lyons joins Global Payout board

Brand Acceleration CEO **John Lyons** was appointed to the Board of Directors of **Global Payout Inc.** to help develop prepaid debit and closed-loop card

opportunities in the retail, entertainment, professional sports and health care sectors.

McCoy named Chairman, CEO

BillMyParents, the teen payment solutions brand of **Socialwise Inc.**, tapped **Michael R. McCoy** as the company's new Chairman of the Board and Chief Executive Officer. McCoy comes from Wells Fargo N.A. where he served as President and Head of Wells Fargo Consumer Credit Cards.

Transact Network appoints four new execs

Gibraltar-based prepaid card service provider **Transact Network** made several moves, naming **Kiran Sidhu** as Executive Chairman, **Deependra Bhartari** as Chief Operating Officer, **LeAnna Sidhu** as Marketing Director and **J. Francisco A. Turner** as Business Development Director. Also, **Damian Asquez**, appointed earlier in 2011 as the company's Finance Director, assumed day-to-day operational management of the company's bank identification number sponsorship business.

Giftango hires Wright

Giftango Corp. named **Tracy McFadden Wright** as the e-gift card provider's Director of Merchant Development and Promotions. Wright was formerly Vice President of Merchant Partnerships at **InteliSpend Prepaid Solutions LLC**, a joint venture between **American Express Corp.** and **Maritz Inc.**



Features

First Data powers prepaid for Google Wallet

On Sept. 19, 2011, Google Inc. rolled out the first version of Google Wallet, its mobile payments venture that initially allows Sprint Nextel Corp. customers with Nexus S 4G phones to not only store virtual credit cards but also store virtual prepaid cards on smart phones.

The wallet supports the Google Prepaid Card and private-label gift cards offered at participating merchants, as well as the Citi Platinum Select MasterCard, a credit card issued by Citibank N.A.

Google Wallet is the result of a partnership that includes Citibank, MasterCard Worldwide, First Data Corp. and

Sprint. "As one of the partners in this launch for Google Wallet, we certainly wanted to make sure that, as we approached the consumers, we provided them as broad of an opportunity to use Google Wallet," said George Zirkel, Vice President Mobile Solutions for First Data. To spur use of Google Wallet, \$10 is loaded onto the virtual prepaid card after users download the wallet to their phones.

Google's program manager

As a trusted service manager, First Data delivers Google's virtual accounts to consumer handsets. "We're tied into the infrastructure of Google Wallet by facilitating provisioning of any card type down to the wallet and by providing other technologies that are unique to prepaid," Zirkel said.

One of those technologies is First Data's Money Network. "We provide the Money Network account along with all of the technology, from being able to run those transactions as well as reload the account," Zirkel said. "First Data is responsible for all of the authorization traffic. We're basically the program manager for that Google prepaid account."

First Data also provides PIN security, Zirkel added. "Gaining access to use that wallet on the phone requires a consumer to take an additional step and provide a PIN

code to gain access to the accounts that are inside that handset," he said. "The antenna in the handset is not activated, so you can't make a connection with a contactless reader or use it to pay unless you've activated the phone and entered the PIN code into the wallet."

Double the functionality

First Data is also working with Google to place closed-loop, merchant-specific gift cards in the wallet. According to Google's website, Google Wallet can store closed-loop gift cards issued by retailers that include Bloomingdale's Inc., The Container Store Inc., Peet's Coffee & Tea, RadioShack Corp. and Subway.

As such, the wallet offers two levels of prepaid card functionality – the open-loop card and closed-loop gift card – depending on the level of merchant integration.

"The single tap would be coupon redemption and loyalty point accumulation," Zirkel said. "Let's say American Eagle wanted to give a 10 percent off coupon. And so a user of Google Wallet had downloaded that coupon to Google Wallet, they could go to American Eagle, use their \$10 prepaid account balance, in addition to redeeming the 10 percent coupon provided by American Eagle. They'll get both experiences."



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On the other hand, the 140,000 PayPass-enabled merchants may opt to accept tap-and-go payments without the added functionality of deeper gift card integration. Zirkel noted that customers can reload the virtual accounts in Google Wallet using credit or debit cards branded by MasterCard, Visa Inc., American Express Co., or Discover Financial Services and toggle back and forth between accounts, depending on payment preferences

While Zirkel believes plastic cards still have a long trajectory in the United States, he's convinced mobile payments represent the future. "The way that we hope the marketplace evolves is that any payment form factor that a consumer has, closed-loop prepaid, open-loop prepaid, credit cards, debit cards, all of those would be able to transition into Google Wallet," Zirkel said. "The consumer would have the same account selections as they do in the physical plastic world." 📱

Prepaid spot-on for incentives

A study conducted by the Incentive Research Foundation examining how businesses administer incentive programs shows prepaid cards often represent the top means of delivering rewards to employees and sales partners.

Program administrators cited the efficiency and ease of use of prepaid cards as reasons why the cards were chosen over cash, travel and merchandise to facilitate spot rewards programs, according to the study titled *The Use of Awards in Organizations*.

Survey respondents preferred prepaid cards for "spot rewards" – frequently administered rewards with relatively low dollar amounts – because cards made the programs easy to administer. "When people say that [prepaid] is easy to administer, the data is the primary thing that they are talking about," said IRF President Melissa Van Dyke. "It's very easy to get data, to execute your programs to see how they've been used, etc."

Of the study's 170 respondents, 65 percent used prepaid cards for incentive programs and 26 percent used only prepaid cards for programs that rewarded employees and channel partners.

That data suggests to Van Dyke that businesses are more loyal to prepaid card programs as rewards tools than to either merchandise or travel rewards. "Fifty percent of respondents said that they use only one reward type," she said. "And that was driven heavily by prepaid card users. ... That wasn't true with merchandise and travel."

Good for programs on a budget

The research showed prepaid cards were most used for

programs budgeted at under \$10,000. Just over 35 percent of respondents employed prepaid card incentive programs on limited budgets. As budgets went up, prepaid card usage went down. For budgets of between \$10,001 and \$50,000, 20.7 percent used prepaid cards, while percentages dropped below 10 percent for bigger budgets.

The most common amount loaded onto prepaid cards was under \$100; the second most common amount – loaded only about 1 percent less often than amounts \$100 and smaller – ranged between \$101 and \$500. The number of respondents who loaded larger amounts onto the cards dipped below 10 percent.

The average amount loaded onto prepaid cards was \$240. In comparison, the average amounts of cash and travel rewards were \$732 and \$3,115, respectively. The report said the average travel amount reflects an annual award rewarded for some achievement, as well as a larger budget than that for other types of rewards.

Determining ROI

The report also found program administrators lacked the statistical tools to help them quantify program effectiveness. Over 50 percent of respondents said they relied on intuition or experience to gauge how well programs performed in relation to sales or productivity objectives. In other words, businesses were saying they had no good measure of return on investment (ROI), Van Dyke said.

On its website, the IRF offers the free-to-use Master Measurement Calculator designed to help businesses measure the impact of rewards programs. Van Dyke said the calculator takes users through two phases. The first phase forecasts possible ROI. Phase two calculates actual ROI based on data imputed in phase one.

Van Dyke said, "One of the problems in calculating ROI we've seen in the past, and we've heard when we've interviewed individuals, was that a program might be very, very effective, but the senior management will say something along the lines of, 'I know the program contributed to the success of wellness or sales or retention' – whatever it is they were targeting – 'but I don't think it was the only thing.'"

Therefore, phase two allows for adjustments based on how much a program attributed to an overall goal, represented by a percentage, and the level of confidence senior management has in a program's effectiveness, also displayed as a percentage.

"If the senior management is highly risk averse and says, 'I only have about a 60 percent belief that those numbers are accurate,' then you can adjust for that, as well, to give you your actual benefit/cost ratio and actual ROI," Van Dyke said. The report and ROI calculator can be found at www.theirf.org. 📱

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Helping to expand services while minimizing costs

No longer can most ISOs sit on the sizable revenue streams that once flowed in from high-volume merchant portfolios, said Linda Grimm, who in March 2011 launched the merchant services consulting business, Linda Grimm Consulting.

Grimm said margin compression caused by new payment acceptance forms, like mobile, and increasingly stringent regulations are the main reasons ISOs are broadening their sales strategies to include an array of revenue sources. Grimm's business has the dual focus of finding new revenue channels and streamlining operational tasks for ISOs and other payment entities – processors, acquiring banks and software providers among them – that seek her help.

"ISOs need to be aware of what's going on, and they need to start proactive measures," Grimm said. "As margins compress, ISOs need to find alternative ways to keep merchants and generate revenue. I can assist a processor or ISO by saying, 'Let's look at your portfolio and what makes sense for your business,'" she said. "Maybe there are other things we can add."

Top-notch services

She pointed out that the expanded service component her company provides largely revolves around providing top-flight risk management and compliance services. She partnered with a software company to develop a risk management and underwriting program that provides transaction parameters and monitors work flows. She said the program's fraud filter is based on "standard industry exceptions," but the program can be adjusted to fit particular businesses or verticals.

Regarding Payment Card Industry (PCI) Data Security Standard (DSS) compliance, Grimm advises merchant service providers to remove all customer data from a merchant's environment whenever possible. She also helps make sure ISOs provide merchants the proper assistance for completing Self-Assessment Questionnaires, as well as appropriate resources for POS system scanning and compliance level monitoring.

Grimm added that, while the PCI DSS is a crucial tool, merchant service providers must recognize the pieces it doesn't cover. For example, within certain verticals like health care, the protection of personally identifiable information, such as Social Security numbers, driver's license numbers and birth dates is essential.



Linda Grimm, Founder
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An efficiency expert

Grimm began her merchant services career 14 years ago with Humboldt Merchant Services in California, where she oversaw the company's risk management, underwriting, compliance with card brand and government regulations, and customer service operations.

"When I took over the customer service area, we had all of our employees doing everything," she said. "They'd take an incoming call, and if it needed research, they'd do all of that. The learning curve was about six months for employees to function autonomously."

"So we moved the job duties into smaller chunks, and the [entry level] learning curve went from six months to a month, and the other benefit was employees had another level to get to for career growth. I think we had been answering 65 percent of calls within one minute, and we increased that to 85 percent."

Grimm said she works with ISOs to find ways of "improving efficiency, so you can take on more volume without having to hire staff at the same rate." That also includes examining whether a company's operations are in line with its mission. For example, making sure that the portfolios taken on are in keeping with a company's underwriting policy – a common problem in the industry, Grimm noted.

Based in California but providing services to businesses across the country, Linda Grimm Consulting offers a personalized service at a much lower cost than what big consulting firms typically charge, Grimm said.

"I'm going to be able to give them very targeted and personalized service at a rate that's going to be far lower than the larger players out there," she said. "My niche is the smaller ISOs that don't want to pay the fees of a large consulting firm, but I bring to the table the same level of professionalism and expertise." ■

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Lead Source Call Center

ISO/MLS contact:

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Call Center Manager
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Company address:

3251 Highland Ave., Suite 100
Cincinnati, OH 45213
Phone: 866-789-5722
Fax: 513-769-6424
Website: www.leadsourcecallcenter.com

ISO/MLS benefits

- Proven expertise in generating merchant leads and obtaining merchant statements
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- Full reporting statements for ISOs weekly or monthly, detailing calls made to merchants, number of appointments made, number of statements obtained, etc.
- 24/7 representative availability, virtually eliminating wait times for callers

Warm leads - and merchant statements

Steve Wachs, Founder of Cincinnati-based Lead Source Call Center has found that cold calls to potential merchant clients that secure follow-up appointments but do not gather information about the merchants' businesses result in, on average, a 10 percent merchant boarding rate

That's not a bad ratio in itself, but the Holy Grail of lead generation is a call that yields a merchant processing statement, according to Wachs. Getting that statement in advance of an appointment gives the service provider at least a 50 percent chance of boarding the merchant in question; with some companies, that figure is as high as 80 percent, Wachs said.

That is the outcome sought by Lead Source Call Center employees working leads on behalf of merchant services firms. And Wachs believes it is the Lead Source phone brigade's uniquely successful methods for obtaining merchant statements that set it apart from other outbound callers.

Providing more than appointments

"A lot of companies can get you an appointment," Wachs said. "We're interested in getting you that appointment, but we also want to get them the kind of specific information they can use to really sell the merchant. When you get a statement, it's such a commitment [by the merchant] that you really have them in the palm of your hand. Getting that statement and giving our clients warm leads that they can work with is our number one goal."

According to Wachs, obtaining statements aids in identifying merchants' "pain points," which service providers can use in leveraging sales. Common pain points include high interchange rates, hidden fees, payment terminals that are rented instead of owned and inflexible merchant service agreements.

Wachs said Lead Source callers are skilled at identifying merchant pain points, thus making it easier for them to obtain merchant statements. For example, a Lead Source representative can tell a merchant that, because his or her interchange rates are too high, it would behoove the merchant's company to do a price comparison that could yield something better.

From there, ISOs can use the information from statements to sell the merchant on an offer that is more enticing than the existing service agreement. Such ISOs have the clear upper hand, according to Wachs.

Results from perseverance

For Lead Source representatives, persistence is a key, as sales jobs often require multiple rounds of calls and information gathering. For instance, a merchant may express interest in switching service providers, but only at the end of the merchant's current contract, Wachs said. Good lead generation entails painstaking data gathering that ensures merchants are not only followed up with, but contacted in a time-specific manner that maximizes every sales opportunity, he added.

Lead Source records its phone calls and maintains extensive computer records

Merchants also have the option of a live online chat, during which Lead Source call representatives can answer questions regarding everything from contractual points to technical issues through instant messenger (IM).

about when calls were made to what merchant, and what the upshot of each call was. If a merchant doesn't want to be called again, the individual is placed on the company's own "do not call list." If a merchant wants to be called back at a certain time, that is noted in the database, and a call representative is automatically alerted to make that call on the designated day and time.

"If you tell me your contract's due to expire in November, you're going to get a call then," said Jerry Jenkins, Call Center Manager for Lead Source. "Having that time set and the hard figures about that client can really help you get that client's attention."

From mortgages to merchant services

Lead Source Call center was founded in 2001 as an outbound calling floor strictly for the subprime mortgage business. When that industry hit some well-known bumps in the years that followed, Lead Source branched out into other industries, which led to its involvement in the payments industry.

Wachs said the difficulty of working in the floundering mortgage space prepared the company for the challenges and complexity of selling transaction processing services to merchants. In particular, the business-to-business calls between mortgage brokers were instrumental in developing a cutting-edge system of lead generation that included finesse calls seeking nonpublic information.

"We cut our teeth doing difficult work, and it forced us to find good people who could generate strong leads," he said.

Twenty-five people work the calling floor at Lead Source, which is a relatively small number for the cold-calling business, Wachs said. But the company's callers are mostly longstanding employees who work with extreme efficiency: the average caller working merchant services generates one lead an hour and one statement every three hours; all told, the call center makes up to 10,000 calls a day, Wachs added.

Reps always on duty

Lead Source's inbound and outbound calling services are always open. "It drives me crazy when you call a business at 5:02 p.m. and you get a voicemail," he said. "We're 24/7. We'll take a call at 4 a.m."

The majority of inbound calls go immediately to a service representative without a wait time, and callers who, on

occasion, are put on hold wait a few seconds to a minute. "Are there times when calls can spike?" Wachs said. "Yeah, it's possible. But you generally get a person on the phone right away."

Merchants also have the option of a live online chat, during which Lead Source call representatives can answer questions regarding everything from contractual points to technical issues through instant messenger (IM).

"IM is great for getting an immediate response to basic questions that we can answer in real time," Jenkins said. "You get questions ... like, 'What's your interchange rate? [Do you have] batch fees?' Or if the person wants to know whether to purchase or rent their equipment, 'How much do machines cost?' These kinds of questions can be turned around in real time."

Wachs attested that the company's callers are well trained in the specifics of the industries they service. These include mortgage, insurance, health care, construction, debt collection, order fulfillment and merchant processing. There is some crossover. For example, merchant service firms that use Lead Source Call Center for lead generation might also use the company for order fulfillment for merchants needing equipment and supplies.

Wachs said that, while every caller is trained to make and receive calls for all the industries Lead Source Call Center serves, certain callers have special expertise in particular segments, and calls can be referred to them when complex, industry-specific questions crop up.

Automation for efficiency

Beyond that, the company's computer system facilitates the call process. Outbound calls are made automatically, based on a list of prospects compiled by either the client, by Lead Source or by the two partners together.

"As you develop a list, you have to make a script concerning what companies you want to target, what sized companies you want to focus on, what areas or ZIP codes you want to target, the types of business they do – things like that," Wachs said. "Most of our clients provide us a list, but we can also help them make that list if they want us to."

Most notably, the company keeps a thorough database with information about the existing and potential merchants of its ISO and processing clients. When a busi-

ness in the Lead Source Database calls, the information pertaining to the client is immediately presented on the computer of the rep fielding that call.

"It tells the callers who they're talking to and all the pertinent information, such as the particular service agreement," Wachs noted. "So all of that background information does not have to be re-obtained again and again."

Wachs also pointed out that merchants who call with customer service issues get a seamless experience through which they feel as if they're talking to their ISOs. The service rep who answers a given merchant's call knows exactly who that merchant is, the ISO or processor the merchant is contracted with and the specifics of that contract.

In addition, for merchant prospects who express interest in new processing partners, Lead Source has a direct connection feature that allows callers to transfer merchants directly to ISOs, keeping merchants on the line while leads are still hot, according to Wachs.

Research and reporting

The company's outbound call campaigns include not only lead generation and management but also customized research campaigns to help clients better gauge how

to target merchant prospects, as well as how to serve current merchant customers. Such campaigns typically include a series of five to 10 questions that center on customer satisfaction.

"We want to know what their clients like about working with them," Wachs said. "Do they understand the rates and billing? Is the customer service top rate? When they call the company they're under contract with, are they put on hold and have to wait?"

ISOs that enlist the services of Lead Source get a full reporting suite at the end of every week or every month that shows them, for example, how many hours were spent calling, how many merchants were called, the names of those merchants, how many leads and statements were generated, what merchants were removed from the call list and what merchants requested follow-up phone calls.

Jenkins added that, while Lead Source Call Center services merchant processing firms of all sizes, most of its clients tend to be small to midsize businesses looking for ways to cut costs. "We're perfect for a smaller company that doesn't want to staff someone to take calls and develop leads," Jenkins said. "This is just a much cheaper and easier way to do all that legwork." ■

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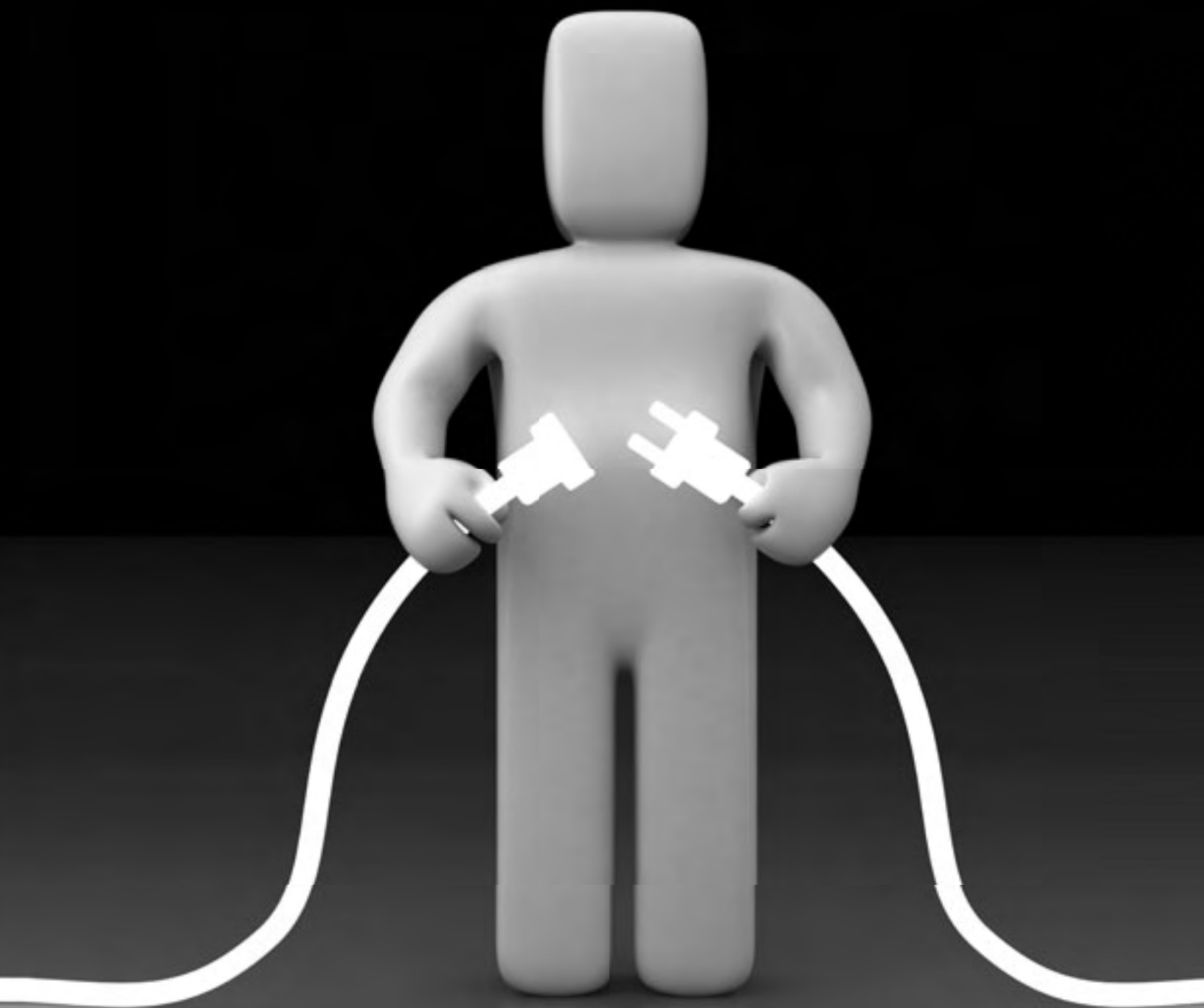
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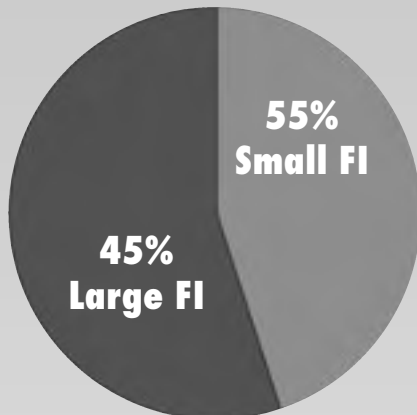
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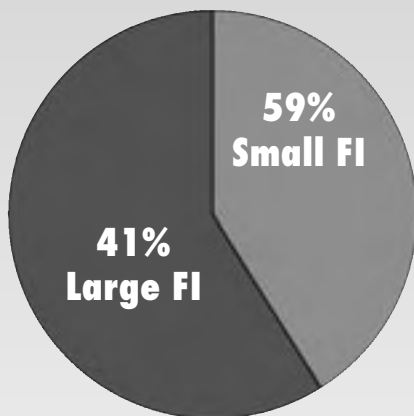
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Share of the checking market for Financial Institutions (FI)

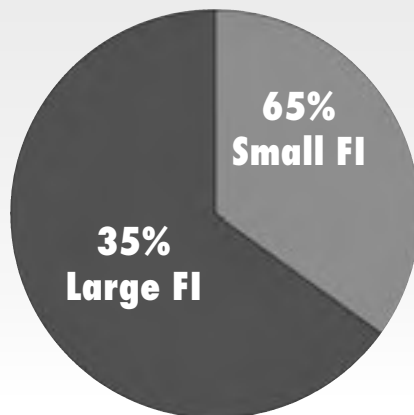
2009



2010



2011



Source: Moebis Services

A recent press release from the American Bankers Association seems to back that assertion. A survey of consumers conducted on behalf of the ABA in August 2011 found 71 percent pay no monthly bank account fees. Eleven percent of consumers said they paid \$3 or less in monthly account fees.

Meanwhile, credit unions, card acquiring organizations and some smaller banks are making public relations hay with pledges to buck the big-bank trend by not cutting back, and even enhancing, the value of debit cards to cardholders and merchants.

Arvest Bank, a regional bank operating in Arkansas, Oklahoma, Missouri and Kansas, affirmed in October its "commitment to providing a feature-rich free checking account" with free checks, debit cards with rewards, and free online and mobile access.

But executives at most of the remaining 20,000-plus banks and credit unions said they're bracing for big dips in revenues and searching for products and services to help fill those anticipated shortfalls. "It is highly likely, especially beginning about 18 months after the effective date of Durbin that rates [charged by large and small issuers alike] will move ever closer to one another," said Lee Manfred, a Partner at First Annapolis Consulting Inc. in Linthicum, Md.

Similarly, although some retailers are reaping the fruits of lower debit interchange, tens of thousands of small to midsize businesses may be left out of the interchange fee bonanza, at least for now.

"The only retailers that are really going to be able to take advantage of this are the Tier 1 merchants" and any other businesses that have negotiated interchange-plus pricing with their service providers, said Paul Martaus of Martaus & Associates of Mountain Home, Ark.

Greater burden on consumers

Dennis Nixon, Chairman and CEO of International Bancshares Corp., said, "Government many times passes regulations that end up hurting the very people they were intended to help. This appears to be one of those cases." Headquartered in Laredo, Texas, IBC is an \$11.8 billion multibank holding company with ATMs and branches serving 107 Texas communities.

In September, Nixon said the bank would shutter 55 branches operating in grocery stores to make up for anticipated cuts in debit interchange revenues rather than impose new debit card or other fees on its customers.

An analysis of the Fed's original cap proposal (12-cents instead of 21-cents), published earlier this year by a trio of respected economists, indicated consumers and small businesses alike will wind up paying more for bank services, up to \$33 billion more in the first 24 months under debit interchange caps. That study – authored by David S. Evans, Robert E. Litan and Richard Schmalensee – also predicted the ranks of unbanked Americans will grow as new fees push more Americans away from banks.

Martaus noted that a similar shift occurred when the government of Australia capped debit interchange in the 1990s. "In Australia all rewards programs disappeared in 30 days of debit rates being cut," he said, adding that "prices went up at the point of sale."

In fact, a report published in 2008 by the Reserve Bank of Australia (that country's central bank) stated that limitations imposed on credit and debit interchange previously "have clearly harmed consumers by causing higher

CoverStory

cardholder fees and less valuable rewards programmes," and by reducing incentives for banks to issue more cards.

Opportunities for smaller banks, ISOs

Martaus believes acquirers and ISOs that offer interchange-plus pricing would do well to hype the fact that customers can discern first-hand the cash flow benefits of interchange caps. Steve Norell, CEO of US Merchant Services, offered similar advice.

He said it's time for those charging interchange plus to start spreading the good news about lower prices, as well as look at selling to merchants who aren't seeing interchange cost savings from their ISOs.

Merchant Warehouse is trying to use the implementation of Durbin interchange caps to solidify its relationships with merchants. The Boston-based ISO published best practices and other advice online addressing how small merchants can use the new debit card caps to their advantage. "Small businesses need someone knowledgeable to guide them through this process, and as a payment processor, Merchant Warehouse sees an opportunity to guide and consult these merchants," said Henry Helgeson, the company's co-CEO.

Leading acquirer Heartland Payment Systems Inc.

revealed it had passed along to customers over \$1.7 million in lower debit interchange costs just in the first three days of October. Heartland also launched a public relations campaign, dubbed Durbin Dollars, that employs online tools and videos "to educate retailers about the rate changes and their cost savings potential," a company press release stated.

Heartland President Bob Baldwin said, "Business owners work hard for every penny they earn, and Heartland is helping them keep more of their money." He went on to describe the \$1.7 million as "just the tip of the iceberg" of savings available to businesses under Durbin.

Some bankers describe the Durbin Amendment as a giveaway to large retailers. For their part, retailers balk at suggestions that the savings merchants see on debit card interchange aren't going to trickle down to consumers.

"Retailers across the nation are developing a wide range of innovative ways to pass these savings along to their customers with lower prices and better value," said Mallory Duncan, Senior Vice President and General Counsel at the National Retail Federation.

The NRF is credited with leading the opposition to legislation considered by Congress this summer that would have delayed implementation of the Durbin Amendment.

A media advisory issued by the Food Marketing Institute was more circumspect when it stated, "While we anticipate our members to try discounting for debit at some stores, this is a competitive industry, so we will only see change over time."

High stakes in the bankcard game

Interchange is a huge money maker for banks. According to the consulting firm Aite Group LLC, debit card issuers were on track to earn \$19 billion in debit card interchange this year before the Durbin Amendment kicked in. Aite estimated the top 50 debit card issuers, combined, could lose as much as \$8 billion a year due to lower interchange revenues.

But the current price capping regimen is not cast in concrete, as the Fed will be monitoring the debit card market and collecting data on interchange costs and fees. "These data will help the Board, as well as issuers (both large and small), merchants, networks, consumers, and Congress assess whether the statute and the rule are effectively accomplishing their intended goals," Fed Chairman Ben Bernanke said in June.

Merchants and their allies are counting on that and hoping the Fed further lowers debit interchange. "The debit swipe fees that went into effect October 1 are a positive start toward fostering a competitive marketplace for plastic, but the reforms are just a first step toward correcting a much larger problem of concentrated market power that

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What is the Durbin Amendment?

The Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act is the most consequential legislation to the acquiring sector, possibly since the industry's inception. The legislation directed the Federal Reserve Board to regulate debit cards by capping the amount of interchange card issuers can assess merchants for POS debit card transactions, and to do so at a rate it considered "reasonable and proportional" to issuer costs.

But not all debit cards are covered – just those issued by banks with assets over \$10 billion. Prepaid debit cards also are exempt from price caps.

The Fed published its response as Regulation II. Here's what it says:

- Debit card issuers are limited to collecting 21 cents per transaction, plus 0.05 percent of the ticket.
- Issuers that undertake certain proscribed security measures can charge up to a penny more per transaction.

The Durbin Amendment also requires that debit card issuers support processing by merchants via two unaffiliated debit card networks (such as the Visa and Shazam networks), beginning in April 2012. Expect all networks to roll out new products and services in a competitive scramble.

is stifling innovation in the payment card market to the detriment of merchants and consumers," the Merchants Payments Coalition wrote in an Oct. 6 letter to members of Congress.

The MPC, which led the lobbying campaign that resulted in passage of the Durbin Amendment, has complained that the Fed's new debit interchange caps aren't low enough and that businesses dominated by small-ticket items are now paying more to accept debit cards than before.

Those higher costs are not a direct result of the rate cap, but because of new interchange rates implemented by MasterCard and Visa to coincide with implementation of the Durbin price controls.

While the card companies capped debit interchange in line with what the Fed directed, they also eliminated preferential pricing that had been in place to encourage card acceptance for small-ticket items. For example, Heartland reported that its quick service restaurant clients now pay an effective interchange rate of 2.15 percent, up from 2.08 percent in September.

Katherine Lugar, Executive Vice President of the Retail Industry Leaders Association, a group based in Arlington, Va., told the congressional daily *The Hill* that retailers aren't about to give up battling interchange fees. "Debit is step one; credit is next," Lugar told *The Hill*. "We're heading there very aggressively."

However, banking industry lobbyists told the paper that they believe retailers will have a tougher time convincing Congress to cap credit card interchange. "Credit card interchange has been historically untouchable because the value proposition is more obvious," since it's an extension

of credit, Electronic Payments Coalition spokeswoman Trish Wexler told *The Hill*.

At this writing, no legislation addressing credit card interchange is pending in the House or in the Senate. ☐



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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 solutions 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.

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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.

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Education

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Vertical market tradeshow hold many helpful surprises

By **Bill Pirtle**

MPCT Publishing Co.

In September 2011, I attended the Holiday Food & Beverage Show produced by the Associated Food & Petroleum Dealers. I was invited by my brother, an assistant manager for a small grocery store chain.

His reason for attending was to sample liquors for his holiday ordering; mine was to be his designated driver. I went to help him out and to see the hundreds of independent retailers, and a few chains, the show caters to.

The reasons to attend tradeshow differ depending on your focus. Industry tradeshow allow attendees to meet others within a certain industry, including potential partners. For me, the AFPD's Holiday Food & Beverage Show provided a look not just at the food and beverage merchants, but also at their vendors. If you are a merchant level salesperson (MLS), this sort of exposure can allow you to discover topics of interest to the merchants you are pursuing.

There was one area of great interest to me and perhaps to others in our industry. The AFPD works as a voice for its merchant members (convenience stores, groceries, restaurants, gas stations and auto repair shops) and offers great deals from select supplier members.

Four bankcard processors are members of this organization, along with three ATM companies. Chase Paymentech Solutions LLC offers AFPD members pricing at interchange (IC) plus 6.5 cents per transaction with "no other fees," provided the merchant accepts statements via email; otherwise a \$5 statement fee per month is charged.

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Why join if your rates are higher?

This rate is so low that I cannot touch it. So why are other ISOs paying to be members when they cannot compete with the pricing? Why doesn't Chase have the group locked in? GS Online's MLS Forum offered some answers.

CARDPLAYER wrote, "This [rate structure] is not uncommon if the 'merchant organization' is a franchise group. Chase has salaried national salespeople who don't earn residuals and chase these franchise deals. The price is low, but they will make money.

Poor participation in the Chase program is likely due to: a) Chase doesn't get a table at these types of events and get the word out, b) the 'organization' does a poor job of publicizing the program to its members, or c) Chase has a poor track record servicing these merchants and the word is out among the members to avoid them."

"Although IC + 6.5 cents is really low, you might want to check the disclaimers about minimum billing, enhanced billback, enhanced IC+ [where basis points (BPS) are added to the downgrades], and the average ticket," said **BIGRED_DAVE**. "I would write a \$5 to \$7 average ticket all day long if I had a hard cost of, say, \$0.05 cents. The extra \$0.015 cents equates to .30 BPS on a \$5



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The cultural makeup idea makes sense. The association handles the states of Michigan and Ohio, but only has one chamber of commerce member, The Chaldean American Chamber of Commerce. Personal experience has shown me that some cultures greatly prefer to deal with people they know.

average ticket. Not great, but I'd take it on thousands of transactions a month."

CLEARENT said, "Chase Paymentech has had for years a division called 'Proactive' Sales. This division specializes in associations and merchant groups. Yes, these employees are salaried with smaller bonus programs, and expected to market to the association membership.

"They do all this over the phone and via mail, etc. As a result, they will make some money, understanding that their overall costs are diluted by the elimination of higher paid, commissioned salespeople.

Since they are all direct, they probably have a true cost closer to 3 cents before any overrides. So they can do what they're doing, and can be successful.



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"They probably are not penetrating the association due to a failure in some form of their marketing. It isn't working, and they likely need to change the approach."

Andy Patros (known as **PATROS** on the MLS Forum) called me regarding my forum post about this topic. Andy is a member of the AFPD, and his organization competes with some success. He believes several factors are involved in the lack of penetration into the AFPD.

First, they are not offering free equipment, he said. Second, the cultural makeup of many business owners is such that personal contact or an established relationship is required. Finally, only an 800 number is provided, with no indication of whether there is a local contact.

The cultural makeup idea makes sense. The association handles the states of Michigan and Ohio, but only has one chamber of commerce member, The Chaldean American Chamber of Commerce. Personal experience has shown me that some cultures greatly prefer to deal with people they know.

STEVE NORELL believes members of the AFPD think Chase Paymentech's pricing is "either too good to be true or it is so low that sooner or later they would be raising the price. So even though Chase can operate the way they do and still exist, they don't always get the business."

STEVE NORELL later added, "Mr. Merchant, you are asking me to provide you with quality, price and service. I really want to give you that, but you need to pick two since no one can do all three and survive." That is a great point.

Attending a tradeshow aimed at a merchant group also allows you to meet vendors serving merchants. Vendors can be clients, but they can also be great referral partners. The key to remember here is that vendors are there to gain new clients. Introduce yourself briefly if there's an opportunity. Otherwise, use the directory of vendors to introduce yourself later.

Remember, this is a two-way street. If you cannot or will not find vendors referrals, the arrangement will not work.

A business-boosting find

I discovered another tool for my sales toolbox at this event: the Validator100. This device features a magnetic

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ink detector and an ultraviolet light. It can detect counterfeit bills, distinguish between a bank-issued check and one printed on a printer, quickly spot holograms on legitimate credit cards and spot fake state identification.

The Validator100 was invented after a man had his credit card skimmed and discovered someone was swiping his card number through a building supply store almost 1,500 miles away within hours. It is perfect for convenience stores and many other businesses.

There is a new trend of removing the ink from \$1 and \$5 bills and then printing the image of a \$100 bill onto the bills. When presented to a cashier, this kind of counterfeit bill will be accepted as genuine if tested only with a counterfeit detection pen because the pen only verifies the type of paper used. (To research the trend, I googled several related terms and I found this link, among others: www.youtube.com/watch?v=gflB9hO4ZuE.)

When the Validator100 is scanned over the face of a bill, it will beep if the ink is magnetic ink, the type used in printing currency. The ultraviolet light will help the user detect the vertical strip on currency that spells out the bill's denomination.

While I was in the showroom, the device's owner actually found a counterfeit \$50 while a store owner was buying his products. The tool also illuminates the holographic images on a genuine credit card.

Visa Inc. reported that 74 percent of fraud could be eliminated if cashiers verified the cards at the POS. The Validator100 can be used to quickly illuminate the security features on credit cards, which can help validate the card, as well as the last four numbers against the number swiped.

I've been asked by several MLSs why I consider the Validator100 a valuable tool. On the credit card side, the ultraviolet light illuminating the security features saves only a few seconds over tilting the card at various angles. But the magnetic ink detector is a great tool for MLSs. Most merchants accept cash and credit.

By getting this tool into your clients' hands, you will provide value that other processing agents may not. If you deal with convenience stores, getting this tool into their hands will let them spot fake IDs quickly.

Further resources for MLSs

The site for Validator100 is www.validator100.com. It's worth a look. There are plenty of other tools available to MLSs for use in landing and keeping clients. I highly recommend reading the *The Green Sheet* cover to cover.

Fellow forum member Steve Norell is now contributing articles to help with marketing. Come to the MLS Forum and ask questions; most members will be glad to help you. LinkedIn also has groups that allow members to share ideas.

Attend payments industry tradeshows, as well as those sponsored by chambers of commerce and those catering to specific vertical markets you're pursuing. You never know where you will find tools to put into your toolbox.

Also, even if a processor is offering a dynamite deal that you cannot match, it is possible to find common ground where you can fill a need that the big processor cannot. Never let a big company keep you from attending a trade-show. And always be open to new ideas.

What you do today determines your tomorrow. 

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



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Education (continued)

Fraud's twists and turns in 2011

By Nicholas P. Cucci

Network Merchants Inc.

2011 may go down as a pivotal year in the fight against fraud. The year has seen one of the biggest breaches in history, the development of organized fraud rings with members who exhibit rather unpredictable motivations, federal efforts to tighten up breach notification laws and a new type of Ponzi scheme involving online poker.

In April, the now infamous Sony Corp. network breaches were disclosed. The information of over 100 million gamers was reportedly compromised. One of several breaches forced Sony's popular PlayStation online game network to go dark for 23 days. The total amount of damages to Sony exceeds \$170 million thus far.

On the upside, in just a few months after the hack, multiple suspects were arrested. The most recent arrest was of Cody Andrew Kretsinger, a 23 year-old network security student at the University of Advancing Technology in

Tempe, Ariz. He is believed to be a member of computer hacker group Lulz Security, commonly called LulzSec. He is also said to be a former associate at another notorious hacking group, Anonymous.

According to the indictment, Kretsinger was involved in executing, and later, promoting the high-profile and costly attacks on Sony's networks. Oddly enough, he was named Student of the Month at UAT in July 2011.

In an interview originally published in the UAT Student of the Month newsletter, Kretsinger talked about his plans for the future.

After graduation Kretsinger hopes to work as a network security professional for the U.S. Department of Defense. "From what I hear, they're pretty good at what I want to do," Kretsinger said in the newsletter. More specifically, the enterprising hacker thinks it would be "fun" to build networks from the ground up and then secure them.

Perhaps Kretsinger represents the changing face of fraud. One day he's arrested for taking part in one of the most costly hacks in history. The next day he's a celebrity aiming for a cushy job in the public sector.

Tightening breach notifications

LulzSec claimed to have breached other networks, namely those of the CIA and the U.S. Senate. Such activity spurred Capitol Hill to prioritize data security on the legislative agenda; numerous bills focused on data security are now working their way through Congress.

In July, the House Subcommittee on Commerce, Manufacturing and Trade approved by voice vote a version of a data breach notification bill designed to enhance protection of consumers' personal information by establishing uniform national standards.

Then, in September, the Senate Judiciary Committee OK'd the Personal Data Privacy and Security Act, the Data Breach Notification Act and the Personal Data Protection and Breach Accountability Act. Of that last bill, key provisions would require businesses to:

- Maintain personally identifiable information on 10,000 or more U.S. consumers to develop a personal data privacy and security program to regularly assess, manage and control risks
- Provide employee training
- Conduct tests to identify system vulnerabilities
- Ensure that overseas service providers retained to handle personally identifiable information take reasonable steps to secure that data
- Periodically assess data privacy and security programs to ensure the programs address current threats

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When someone mentions online gambling, the first thing that comes to mind is poker and what happened to the popular online pastime this year.

- Notify affected individuals of a breach by telephone or email within 60 days

Additionally, the bill would require breached organizations to post media notices and alert credit reporting agencies if individual hacks involve the information of 5,000 or more individuals. Exceptions to these provisions are provided in cases where notification could threaten criminal investigations.

The proposed federal law would also preempt state laws on breach notification, with the exception of state laws that provide consumers with information about victim protection assistance that may be available to consumers in a particular state.

Because the breach notification requirements in the bill do not apply to state and local governments, this provision would not preempt state or local laws regarding obligations by businesses in those jurisdictions to provide notice of data breaches to affected consumers.

There are 18 members on the Senate committee – 10 Democrats and 8 Republicans. Despite political differences, the committee's main goal is to strengthen privacy protection and nationalize breach notification practices. It seems each committee member understands the magnitude of the problem that confronts the nation.

A revealing hand of poker

When someone mentions online gambling, the first thing that comes to mind is poker and what happened to the popular online pastime this year. In September, Chicago's *Daily Herald* reported in "U.S.: Online gaming site is Ponzi, not poker" about the woes of online gambling site Full Tilt Poker, and how most online poker companies have been shut down.

According to the report, Full Tilt Poker and its operators built a global Ponzi scheme that cost its online poker players at least \$390 million. Full Tilt Poker, PokerStars and Absolute Poker were shuttered in April, and a grand jury indicted Full Tilt Poker founder and Chief Executive Officer Raymond Bitar and 10 other executives on charges of bank fraud, money laundering and gambling law violations.

PokerStars returned proceeds to U.S. players in the wake of federal actions. Absolute Poker agreed to refund what

it owed. But Full Tilt Poker, with only \$60 million in its coffers, didn't have enough funds to pay back players, the report said.

In an interesting turn of events, Full Tilt Poker was reportedly scammed by a U.S. payment processing network that stole \$42 million from the poker site, preventing it from pulling money from customers' bank accounts to fund online gambling credits.

Instead of disclosing the problem, Full Tilt maintained a false image of financial stability by crediting players' accounts with \$130 million in "phantom funds," according to prosecutors quoted in the *Daily Herald* article. When players gambled with these funds and lost to other players, a "massive shortfall" developed, the prosecutors said.

And so it goes. ■

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

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Customer longevity in the new commerce chain

By Dale S. Laszig

Castles Technology Co. Ltd.

BusinessDictionary.com defines selling as the last step in the chain of commerce when a buyer exchanges cash for goods or services. But in the merchant services trade, a closed sale is just the first step in the commerce chain.

The signed application is then reviewed for accuracy, entered into the system, assigned a merchant identification number and terminal identification number so the account can be boarded and installed. The success of each sale is measured over time by customer longevity and transaction volumes.

Considering all the time, money and effort invested in boarding new accounts, what else can we do to keep our merchants happily processing month after month, year after year? Here are some tips from sales pros and payments industry experts on retaining merchants.

Manage expectations

You know the old saying, "Under promise and over deliver"? It's so important in our business. Why promise to "overnight" a welcome kit to a new account when you can offer to "expedite" it instead? Fulfillment centers and overnight shipments can be subject to delays. You'll convey the same sense of urgency and can-do attitude when you promise expedited delivery. If the product shows up the next day, you'll be a hero. If it shows up the same week, you'll still look good.

Does your merchant know how to operate the equipment you've provided, as well as the number to call for assistance, voice authorizations and supply orders? It's tempting to cut and run as soon as you get a signed application, but taking time to review pricing, technology and back-office procedures will help transition new customers to your company's way of doing things and prevent unwelcome surprises.

Mary Anne Davis, author of *The Sales Messenger: 10 Lessons for Sales Success in Your Business and Personal Lives* recommends managing expectations as a practical way to close sales and grow relationships.

"Manage expectations by checking in before proceeding to the close of sale," she wrote. "In other words, find out the customer's opinion about ideas, products or service before asking them to make a decision. Ask if it meets their expectations. [It's better to] get an objection here than at the time of decision. Negotiation skills in selling start here."

Establish trust

The merchant services business is a relationship business, and good relationships are based on trust. As Paul Green wrote in *Good Selling!SM 2: Thirteen Weeks to Personal Success*, "Trust is paramount to the exchange of knowledge, and, as every successful sales professional knows, merchant knowledge is power. Trust is born of a common sense of commitment and desire to obtain like goals. Trust must be ingrained, a part of your business persona. It is the coaxial cable that connects you with your merchants."

Make a habit of routinely checking in with your merchants, even if it's not your primary responsibility. A quick call or email takes only minutes, keeps you connected and shows customers that you care.

Think partner, not vendor

Does your merchant think of you as a vendor or a partner? Vendors provide goods and services. Partners share in the responsibilities, outcomes and profits of a merchant's business. If you're not exploring a business fit between your merchant and your company, you could be leaving more than just money on the table, according to Mark Shonka and Dan Kosch, authors of *Beyond Selling Value, A Proven Process to Avoid the Vendor Trap*.

"We have to say, 'We're not going to be vendors any more; we won't be commoditized; we refuse to compete exclusively on price,'" they wrote. "Instead of focusing on features and price, or selling to gatekeepers who insist on contorting value into a grid, we must proactively understand how our customers do business, find ways to address pressing business issues, and recommend strategic solutions that improve the way our customers do business."

It means stepping away from a limited focus on departmental solutions in favor of a big-picture business value. It means presenting business fit, not product fit."

Put business first, product second

Changing the focus from product fit to business fit may seem like a tall order for many merchant level salespeople who have been trained to sell on features and benefits and whose merchants have been trained to negotiate low rates and free terminals. There's a saying in our business that if you live by rate you will die by rate. This is why it's critical to rise above the mob mentality and differentiate.

If we're serious about breaking out of the vendor trap, we can't lead with products or even value-added solutions. We must begin by interviewing merchants to find out as

The payments industry was built on change, moving from paper to electronic transactions, from analog to digital, from brick-and-mortar to virtual, scalable systems.

much as possible about their businesses, customers, pain points, and pros and cons of their current processing systems. If we're serious about doing our research, we must be willing to go beyond publicly available information on company websites to gain a deeper understanding of what's really going on behind the scenes.


Manage change

If we're committed to a relationship, we'll find ways to improve it so it will continue to grow. Organizations change all the time. The payments industry was built on change, moving from paper to electronic transactions, from analog to digital, from brick-and-mortar to virtual, scalable systems. Former Senior Vice President at Hypercom Corp. and payments industry all-star John Marshall used to say, "We have to find ways to use change as a competitive advantage."

The changing payments landscape in the U.S. market is a call to action to think globally and act locally. While

we may be laggards when it comes to implementing Europay/MasterCard/Visa and near field communication technologies, we can use our late-to-the-party advantage by designing solutions that address our merchants' requirements while making them uniquely and creatively American.

Stay connected

Amid all the hype and excitement of mobile payments and social media, it makes sense to stay in touch with our merchants. Whether they're pioneering early adopters of new payment technology or the solid, dependable late majority, they're our partners who make innovation possible. Let's stay connected so we can continue to be their strongest link in the expanding chain of commerce. 

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

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Education (continued)

Steps toward efficient IRS 1099-K reporting

By Troy Thibodeau

Convey Compliance Systems Inc.

Implementation of Section 6050W to the Internal Revenue Service tax code means that in January 2012, payment processors will have to submit information via 1099-K forms on all electronic transactions they have handled on behalf of merchants for the 2011 tax year.

January will soon be upon us; the next steps are implementing a smooth compliance process and preparing to take advantage of opportunities.

If you process payment information for merchants, and you have not begun to evaluate how you will handle the new tax information reporting regulations in January 2012, there is still time.

Convey is talking to some of the biggest organizations in

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this industry, and they are still in the dark as to what the regulation means and what they need to do to get things right and keep their customers happy. Now is the time to take action.

Employ best practices for TIN collection, matching

The first thing an organization needs to do is to collate all the correct names and taxpayer identification numbers (TINs) from its merchant customers. The most logical first step in this process is to focus on clients who have not offered their TIN information or have submitted what the IRS would deem an "obviously incorrect TIN" (that is, a TIN with too few or too many numbers or a clearly fake number such as xxx-xx-xxxx).

This process is by far the most critical step. Should these merchants, for whatever reason, not provide the correct information by Jan. 1, an acquirer must withhold funds. Those who have submitted correct names and valid TINs will not be subject to withholding unless the IRS sends a B-Notice sometime in 2012.

Once an acquirer has all "clean" data from merchants, it must consider how it will manage this process going forward. This regulation isn't going away, and in 2013 all your new merchant customers will also have had to submit correct data – which means planning the process for collection and verification every year.

Leveraging a real-time TIN verification service is a cost-effective, efficient process for flagging and remedying incorrect name and TIN information before new merchant accounts are even boarded.

Emphasize stellar customer service

In addition to managing the logistics of complying with this new regulation, acquirers have to consider the customer service aspect of whatever approach they pursue. How is the business tracking down missing or incorrect data? What questions are being asked of customers? How is the company working with merchants to help them understand why they must send data and what it means for their tax filing activities?

Many merchants may be oblivious to this new regulation and will need their hands held. They know the importance of customer service from running their own businesses and will appreciate having crucial customer service at the initiation of a new set of processes.

Remember, those with a clear process win

IRS Section 6050W isn't just a burden; it is an opportunity to take advantage of the latecomers by creating a process that's easy, efficient and likely allows you to increase market share by providing a clear reporting process for merchants.



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Education

The new regulation isn't just TIN and name collection; it's a whole process of filling in forms correctly and then handling any discrepancies or customer-initiated changes as quickly as possible. So how will your company handle correcting forms? How will it track down incorrect information? What will it say to merchants who are simply not complying with this IRS regulation?

Convey has been suggesting a multipronged strategy to deal with customer relations. Some merchants may prefer phone calls to make sense of what they have to provide, some may want to amend forms online and some may work better with hard copies delivered by mail.

Working with some of the biggest merchant processors in the United States has shown Convey that providing a variety of engagement approaches is the cheapest, most effective route.

Keep merchants happy, gain more business

While it's prudent to offer flexibility, acquirers should consider how to make this whole process an electronic one. The reason for this is an electronic statement saves acquirers time and money.

Printing and mailing forms is a costly endeavor and

becomes even more costly when you consider providing instructional guides and FAQs along with the 1099-K forms. Paperwork is no business's friend; minimizing it helps everyone. Electronic statements convert a delayed printing and mailing process into a real-time process, making access to much needed information instantaneous.

New regulations from Section 6050W aren't easy for anyone, but they are here and require preparation. Those acquirers that find ways to efficiently collect and manage data and help merchants through the process will benefit from increased customer loyalty and more new business. Process-heavy tax regulation has a tendency to anger and confuse people.

Acquirers that can turn that anger and confusion into education and opportunity are most likely to benefit from this new market dynamic. ■

Troy Thibodeau, Executive Vice President of Convey Compliance Systems Inc., began his 20-plus year career as a CPA at Price Waterhouse and has spent the past 12 years helping organizations automate regulatory and financial processes. With Convey, he ensures the company provides its clients the best possible tax information reporting experience. For more information, visit www.convey.com, call 800-334-1099 or email tthibodeau@convey.com.

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Pillars of payments**An interview with
Douglas Bergeron**

By Ken Musante

Eureka Payments LLC

Douglas Bergeron, Chief Executive Officer of VeriFone Inc., spearheaded the acquisition of the POS device manufacturer from Hewlett-Packard Co. in July 2001. VeriFone became a publicly traded company in April 2005. In Bergeron's tenure as CEO, VeriFone's sales have more than tripled.

Q. Share with us your early days at VeriFone.

A. The reason we believed VeriFone was a good acquisition is that VeriFone was profitable prior to HP's ownership, and the industry dynamics had not radically changed. Payments was (and remains) a growing industry. What we had was a Rembrandt on sale in a garage sale; we had to blow the dust off and clean it up.

We purchased the company, changed focus and radically increased the value of the company. When we bought the company, VeriFone had revenues of \$297 million and was losing money. In 2012, we'll have revenues of \$1.5 to \$2 billion.

Q. Tell us about your most difficult time at VeriFone.

A. The most difficult time at VeriFone was during the early days. Most of the funding for the purchase was borrowed money, so we did not have substantial reserves, and there was a point at which we needed to collect receivables in order to make payroll.

The biggest change upon taking the reins was changing the culture to focus on doing fewer things better rather than more things half right.

The 2008 and 2009 recession was also extremely difficult. But because of the defensive work we did during that period, we positioned ourselves well for 2010 and 2011, despite the worldwide economic morass. We remain the "go to" guys in the payments systems industry.

Even when businesses are cutting back, they'll continue to buy from VeriFone while they pull back from smaller competitors.

Q. What was your greatest professional accomplishment?

A. We bought the company for \$50 million and borrowed most of that. We have made hundreds of millionaires out of VeriFone employees and done well for the original investors. People are proud to work here. I feel good and take pride that we've brought good fortune to a lot of hard-working people.

We are still midway through a transition to a service- and solutions-based company. Ten years ago we sold a lot of boxes. Today we sell more software and services. Perhaps we could have embarked on this transition sooner, but we needed the industry to consolidate before we could push to a services-based business.

The consolidation, which we largely engineered through our acquisitions of Lipman, Hypercom and others, not only allowed us to buy additional service platforms, it enabled us to direct our energies more economically.

Q. What do you expect for the future distribution of terminals? What role will ISOs and merchant level salespeople (MLSs) play in their distribution?

A. VeriFone will continue to sell directly to big businesses and fleets. These customers are far more concerned about the interface between their own systems and their point of sale than the price of the box. Because of this dynamic, we sell directly to this market, and there is not necessarily an opportunity for the MLS in this transaction.

In the United States, MLSs will continue to play an important role in the small merchant segment. ISOs will continue to play an important part of the distribution channel here because we're trying to reach tens of millions of small merchants.

But, in the future, ISOs will sell more services and perhaps wrap in a payment device as a part of the services offered. The vast majority of our research and development expenditure is on software and, although that technology may exist in a box (or terminal), it is the software that makes it valuable.

In emerging markets [outside the United States], growth for devices remains strong, and we are still selling "boxes." But in more advanced markets, we sell more integration with existing systems, security solutions and PIN pads.

Keep in mind, over two-thirds of our workforce and revenues are non-U.S. based. This gives us tremendous diversity; however, in many emerging markets, ISOs are simply not part of the distribution channel.

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Feature

Q. How do you expect Square to impact the mobile payments market?

A. The upside to mobile payments will be turning cards into phones for more convenient payments and value-added services. Square is not in that market. To a large extent, Square's customers are merchants that have been rejected by traditional card processors.

According to their own reporting, 60 percent of their customers have been declined by traditional processing services. I think Square is a social experiment and will blow up in the next phase of venture capital.

Q. What do you think of Visa's investment in Square?

A. Visa's investment was tiny and not any substantial amount, but I think there are some anti-competitive issues that may need to be examined. Regardless, I think the bigger market within mobile payments is what is happening with Google and VeriFone and ISIS and VeriFone.

Unlike Square, both use NFC and encryption. VeriFone is running Google and ISIS applications

within a point of sale system. The software in that system is written by VeriFone. We are assisting retailers to enable NFC capability at the point of sale.

Q. How do you expect the Durbin Amendment to change our industry? Will it affect VeriFone?

A. [Durbin] will not impact VeriFone. Further, I do not believe this will impact PIN debit. Over time, I think Durbin will move more transactions to debit (both PIN and signature), but not in a meaningful way. So I don't expect a big change.

Although banks will issue fewer signature debit cards because that card is not as secure, fees to consumers will go up. PIN debit will see a rise in transactions because of this.

PIN transactions have lower fraud rates, so the industry will plug that hole because of government-sponsored mispricing. With all this change, however, and given the size of our business from the U.S. market, this will not cause meaningful change to VeriFone.

Notes on VeriFone

On the day of my interview with Douglas Bergeron, VeriFone held its third quarter 2011 earnings call. In the accompanying release, he said, "With the acquisition of Hypercom, VeriFone is stronger than at any point in our 30-year history." That's strong words for such a dynamic company, but encouraging news given its role as a bellwether of economic growth.

When further examining VeriFone's financials in North America versus the rest of the world, I see what a small part of the overall earnings the ISO community actually contributes. However, as Bergeron pointed out, we are the best distribution channel for small to midsize merchants.

As a final note, I appreciated Bergeron's perspective on Square. Though I believe the startup to be a more formidable competitor than he does, I was intrigued by his analysis.

So much existing infrastructure exists within the United States, and the fraud ratio has remained acceptable, that converting to near field communication (NFC) has been slow to materialize.

Because of that, and the monthly costs associated with traditional wireless merchant accounts, I see Square as continuing in its niche for some time to come. ☐

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

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NewProducts

A complete online payment center

Product: Transaction Express

Company: TransFirst LLC

TransFirst LLC recently introduced Transaction Express, a proprietary payment gateway and virtual POS terminal that promises a complete online payment processing experience for retail, e-commerce, MO/TO, government, membership organization, utility and health care enterprises.

"Transaction Express gives TransFirst the opportunity to offer its customers true virtual terminal functionality, with stronger stability and scalability, greater feature options, and a more nimble, customizable experience for the user," said John Shlonsky, TransFirst President and Chief Executive Officer.

TransFirst reported that Transaction Express delivers real-time payment processing on most Internet connected devices. It also offers a multimerchant and multiuser platform, web integration, batch processing and direct swipe via USB connection.

Its customized reporting provides up to five user-defined fields to drive reports. Among its other features are advanced merchant grouping capabilities with single sign-on, merchant and customer email management, and tokenization for one-time and recurring payments.

"Transaction Express can process swiped retail transactions through its virtual terminal or through a customer integration using its web services," the company noted.

Not only does it process all major credit card brands, but signature debit card transactions can be processed as well. TransFirst also reported that future enhancements will include PIN debit, automated clearing house transactions and mobile payments.

"On our side of the transaction, it puts us in the position of having a true front-end, with the freedom and flexibility to work directly with the card associations and keep more control over our business," Shlonsky said.

Transaction Express is also designed to offer merchants a high degree of user control. During the off-season, merchants may switch their Transaction Express accounts to an inactive status to control costs.

The company suggests setting up individual accounts for each legal entity or business location and based on the input type, whether it's from the merchant or customer side.

TransFirst noted that Transaction Express supports both manual and automatic transaction capture. Manual transaction capture allows merchants to flag which transactions to include in settlement, whereas automatic capture includes all transactions in settlement.

According to TransFirst, the gateway is fully Payment Card Industry (PCI) Data Security Standard (DSS) compliant and Payment Application DSS certified.

The company also pointed out that to help merchants qualify for the best possible rates and processing fees, Transaction Express supports corporate and purchase card transactions with purchase order numbers, tax amounts and tax indicator information. ■

TransFirst LLC

800-745-2659

www.transfirst.com

Cloud-based POS comes in three flavors

Product: Morris

Company: Moneris Solutions Inc.

Moneris Solutions Inc. recently launched Morris, a web-based POS software system in three modules designed for utmost convenience. The software-as-a-service (SaaS) program is being deployed in Canada initially; the U.S. market release is slated for 2012.

"Moneris is committed to delivering innovative solutions that meet the needs of retailers," said John Florinis, Director, Product Marketing & Business Development at Moneris. "By offering three distinctive modules, Morris will offer the right feature set for businesses of all sizes."

Developed as a cloud-based, SaaS model, Morris enables merchants to process payments, manage inventory and maintain real-time reporting.

In addition, two of the modules offer comprehensive tools for customer relationship management. According to Moneris, Morris is Payment Application Data Security Standard compliant, offering merchants a secure platform for processing payments.

Morris is available in the following modules:

Morris Register: This is a conventional cash regis-

NewProducts

ter replacement with advanced POS functionality for up to five users that offers real-time reporting and information backup secured by Moneris.

Morris Pro: For expansion-minded retailers, this version offers advanced inventory features for up to 15 users, as well as purchase order and customer relationship management tools.

Morris Enterprise: Developed to provide the most advanced reporting features, this version allows an unlimited number of users in various departments within an organization (corporate, information technology, store operations) to manage franchise or multilocation retailers.

Functions for each module were chosen carefully, Moneris said. For example, in the cash register module, merchants can process sales, refunds, exchanges, apply discounts and assign customers to sales without double entry of data into a separate terminal.

In the customer management section, merchants can set up customer profiles, track purchase histories and assign customers to pricing groups so discounts can be applied automatically.

Inventory management can be configured to generate purchase orders, produce invoicing, manage layaway programs and sort data by category, brand, attributes and pricing groups, Moneris noted.

The reporting features included with Morris offer a spectrum of financial, inventory, customer, employee and miscellaneous reports, which can be imported to other systems for further analysis and recordkeeping.

To operate Morris, merchants can plug the Moneris PIN pad into an existing PC and add peripherals, which include a printer, scanner and cash drawer.

Other options for integrating Morris include Bundle A (a total POS solution featuring a 15-inch touch screen monitor, PC, printer, scanner and cash drawer) or Bundle B (essentially the same package as Bundle A, but with a 19-inch LCD monitor). ■

Moneris Solutions Inc.

877-635-3570

www.moneris.com

Boost Your Biz

Excelling at social media marketing

Like all attention drivers, social media as a marketing tool is a double-edged sword. Through Facebook posts, Twitter tweets and YouTube videos, businesses can increase visibility and sales. However, misguided virtual message delivery vehicles can also damage a brand or skew the message you want to deliver.

For example, a company develops a recruiting video to present itself as a hip, trendy place to work. It posts the video on YouTube and then blogs about it, hoping the video will go viral and generate millions of new website hits and potential recruits. But the video comes across as laughably pretentious and amateurish, giving the impression the company is run by people who are woefully inept. The video does go viral – but for all the wrong reasons.

Three tips

To avoid this outcome and other social media pitfalls, start with these three suggestions:

1. Develop a plan: What, exactly, is your goal from a

social media campaign? Are you attempting to create a buzz around a particular product or greater overall brand awareness? The goal will dictate which outlets to use and the audiences you wish to reach.

- 2. Know your audience:** Which social media vehicles do you think will accomplish your target goal? Posts on Facebook and LinkedIn groups will reach different audiences. And different audiences respond to different types of communications. Technical jargon will play better on a payments industry blog than on Facebook, for example. Also, test your important initiatives with sample audiences before going live.
- 3. Vary the delivery:** Not everyone consumes information the same way. Some people prefer reading to watching videos. If you market via a blog, try posting a written comment one day and a video product demo the next. This variety will foster greater interactivity with your audience.

Remember, social media marketing takes a nuanced, well-designed approach. In the online realm, a standard of communication has developed that rewards honesty, consistency and creativity. By tapping into those attributes, your marketing can be as dynamic as the Internet itself. ■

Research Rundown

Merchant best practices in a post-Durbin era

When the Federal Reserve's new debit interchange fee regulations went into effect Oct. 1, many small retailers were left wondering how to effectively manage debit card acceptance costs. To address merchant concerns about the impact of the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Merchant Warehouse launched the Durbin Education Center, a web resource devoted to all facets of the legislation.

"Small businesses could be affected most by this regulation simply because they do not have the resources large retailers have dedicated to ensuring this amendment works in their favor," said Henry Helgeson, co-Chief Executive Officer of Merchant Warehouse. "Small businesses need someone knowledgeable to guide them through this process, and as a payment processor, Merchant Warehouse sees an opportunity to guide and consult these merchants."

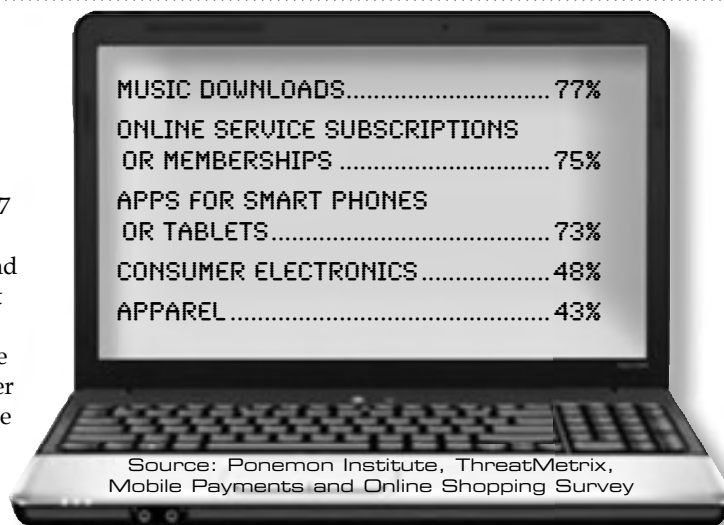
In addition to explaining key points under the new regulations, Merchant Warehouse's resource guide describes best practices to assure revisions to interchange work in the merchants' favor, including the following steps:

- Before seeking assistance to develop a better pricing strategy, examine existing transaction data to ascertain the ratio of credit to debit card transactions being processed.
- Check current merchant account pricing to gain an understanding of what is being paid to a bank or processor, which in October should reflect updated savings under the new regulations.
- Analyze the monthly statement for October, and compare it against the previous month to identify reductions applied; if unchanged, consult the bank or processor to discuss ways to save.

Merchant Warehouse encourages merchant level salespeople to educate merchants and to refer merchants to the Durbin Education Center located at <http://merchantwarehouse.com/durbin/>.

Holiday 2011 mobile/online shopping trends

A survey of mobile and online shoppers found 49 percent plan to use PCs and laptops for holiday shopping, 37 percent will use smart phones and 12 percent tablet devices. Following is a list of the most sought after items using these devices.



"Our survey demonstrates that very few business owners have taken a necessary precaution of having a professional data security firm perform a current assessment of vulnerabilities on their commercial website or database applications. ...We believe that small to medium-sized business owners need to review all aspects of their data security and disaster recovery efforts."

- Barry Sloane, President and CEO,
The Small Business Authority
Source: SB Authority Market Sentiment Survey

National Cyber Security Awareness Month

In observance of National Cyber Security Awareness Month, 3Delta Systems Inc. released *Top 10 Business Best Practices for Fighting Credit Card Theft and Fraud*, downloadable from www.3dsi.com/about/press_releases.htm. Best practices range from building a multilayered offense to forming an internal security team to establish and enforce policies. For additional information, visit the National Cyber Security Alliance at www.staysafeonline.org.

Consumer angle on mobile payments

Mercator Advisory Group released the second of eight reports in its Customer Monitor Survey Series. The report, *Consumers and Mobile Payments: Familiarity Paving the Way*, explores consumer perspectives on mobile payments. It delves into consumers' confidence in mobile payment applications, current mobile payment usage, receptivity to payment concepts, concerns about security and interest in new mobile applications such as e-coupons. For more information about the report, visit www.mercatoradvisorygroup.com.

Remote payments or NFC?

A white paper commissioned by Vesta Corp., *Remote Payments Drive Near-Term M-Commerce Revenue Opportunity for Mobile Operators*, discusses how remote payments could outperform near field communication (NFC) in driving the projected \$22.5 billion mobile commerce market by 2014; money transfer services are expected to drive \$6 billion in end-user revenues by 2014. For more information, visit www.trustvesta.com/whitepapers.aspx.

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Underbanked in America

By Patti Murphy

ProScribes Inc.

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It's scary, but it's true: a large and growing number of Americans would be hard-pressed to get their hands on money to cover emergencies, such as illnesses or unexpected auto repairs.

The National Bureau of Economic Research revealed in May 2011 that half of all U.S. households would be unable to come up with \$2,000 within 30 days to cover an emergency of this sort.

What's more, an additional 19 percent said the only ways they could obtain that kind of money would be to pawn possessions or strike deals with payday lenders.

More recently, a National Foundation for Credit Counseling survey found that only 36 percent of Americans would be able to tap into savings accounts to cover an unplanned expense of \$1,000. The remaining 64 percent said they would have to turn to family, friends or nontraditional lenders; pawn possessions; or forego paying other financial obligations to cover a \$1,000 emergency, the NFCC reported.

This is not just a data exercise. I know folks in this situation; I suspect many readers do, also. A few years ago, I urged my friend Linda to open a savings account and to start making regular (albeit modest) deposits. A single mother of three who lives below the "poverty line," Linda agreed, but reaching and maintaining her goal of at least \$1,000 in savings has been a struggle.

"Every time I get close, something comes up. This time it was the truck," she said recently. Sure, but things would have been worse had she not had \$600 in a bank that she could use for those truck repairs. "People often say they can't afford to save, but the truth is they can't afford not to," said Gail Cunningham, a spokeswoman for the NFCC. "Without adequate savings, consumers have poor resolution choices when an emergency arises."

Washington hosts topic

Washington was abuzz this week with talk of the

unbanked and financially underserved – a sector of the U.S. population that exceeds 25 million households. There was a public policy forum on Capitol Hill Sept. 21, sponsored by several think tanks, including the National Urban League, the Competitive Enterprise Institute and the Hispanic Leadership Fund.

A day later the House Financial Services Subcommittee on Financial Institutions and Consumer Credit brought together regulators, academics and advocates for consumers and banks to address the availability of credit for consumers, or more precisely the lack of affordable bank credit for low-income Americans. (The Federal Deposit Insurance Corp. estimates two-thirds of unbanked and underbanked U.S. households earn less than \$50,000 a year.)

One witness at the House hearing, Gerri Guzman, Executive Director of the nonprofit Consumer Rights Coalition, gave a compelling account of how this plays out. "I know first-hand that traditional bank products don't always offer

"I know first-hand that traditional bank products don't always offer a realistic solution for people without a significant financial cushion to help absorb unexpected expenses"

Gerri Guzman,
Executive Director of the nonprofit Consumer Rights Coalition

a realistic solution for people without a significant financial cushion to help absorb unexpected expenses," Guzman said. "I relied on a payday loan when I was in danger of losing my home.

It was simple, transparent, and less expensive than bouncing a check or making a late payment. And I knew it wouldn't damage my credit rating."

Representing the Center for Financial Services Innovation, Melissa Koide, the group's Policy Vice President, raised concerns about lax oversight of nonbank lenders and called for stepped up regulatory scrutiny and better consumer protections. And she pointed to the newly opened federal Consumer Financial Protection Bureau as a logical starting point.

Earlier in the week, the full Financial Services Committee announced that it has five bills under consideration that address small company credit needs.

And what about consumer credit and the unbanked? My research suggests only one bill addressing unbanked Americans is on the panel's docket. That bill, titled the FFSCC Charter Act, would direct the Office of the Comptroller of the Currency (the federal regulator that charters many of the largest banks in the country) to establish procedures for chartering national, nonbank credit providers to the unbanked. ■

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.

ISOMetrics

Payroll and gen Y

In conjunction with National Payroll Week (Sept. 5 to 9, 2011), Javelin Strategy & Research and NACHA – The Electronic Payments Association published a study that details how Generation Y employees receive their pay. Gen Yers – defined in the report as people born in 1979 or later – prefer direct deposit to paper checks. However, when Gen Yers are segmented into three tech adoption-based subcategories (early adopters, cautious adopters and laggards), interesting dynamics emerge. ■

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	Early Adopters	Cautious Adopters	Laggards
Direct deposit versus paper checks			
Receive pay via direct deposit	78%	74%	74%
Receive pay via paper checks	22%	25%	25%
Receive both direct deposit & checks	0%	1%	1%
Reasons for receiving pay by direct deposit			
Convenience	64%	77%	73%
Safety	46%	36%	26%
Reduces clutter	32%	25%	17%
Reduces environmental impact	28%	22%	15%
Employer requirement	31%	29%	38%
Who splits pay over multiple accounts			
One account	63%	79%	85%
Two accounts	28%	14%	11%
Three accounts	7%	6%	3%
More than three accounts	2%	1%	1%

DateBook

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



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.paymentsource.com/conferences/atm/debit/



Smart Card Alliance

10th Annual Government Conference

Highlights: This event will bring together 50 exhibitors, 70 speakers and more than 700 attendees interested in the opportunities and challenges involved with smart card implementation for government issuers, accreditation and testing authorities, procurement programs, and more.

The conference will draw on key decision makers from every level of government and industry. It will spotlight evolving global standards and cover authentication technology used in federal, state and local government identity programs.

It will also discuss developments in the National Strategy for Trusted Identities in Cyberspace and trusted identification on both the Internet and mobile devices. Presentations will emphasize the real-world experiences of program implementers and administrators.

When: Nov. 1 – 4, 2011

Where: Ronald Reagan International Trade Center, Washington, D.C.

Registration:

www.cvent.com/events/10th-annual-smart-card-alliance-government-conference/registration-a227fff690e14b98b9ea29e-2fe1fdb2e.aspx



Payments Source

4th Annual Cards and Payments Loyalty Conference

Highlights: In the increasingly commoditized world of loyalty and reward card programs, changing consumer preferences and stricter regulatory oversight are causing program managers to rethink the way loyalty programs are structured.

Bankcard issuers, loyalty and rewards program managers, card portfolio managers, retailers, and travel organizations can benefit from participation in this informative, one-day conference.

A powerhouse of expert speakers and thought-provoking sessions are designed to help rewards program managers define new concepts, understand which practices to adopt today and how to chart a course for the future. Attendees will also learn how issuers are improving customer loyalty through mobile offers, social media and moving toward a customer-centric approach.

When: Dec. 5, 2011

Where: The Roosevelt Hotel, New York

Registration:

http://register.sourcemediaconferences.com/iebms/reg/reg_p4_promo.aspx?&sessionid=ejfff1fe1fbkfc4fekei5



Women's Network in

Electronic Transactions

(W.net)

LINC Atlanta

Highlights: The W.net LINC Atlanta regional meeting will present an evening of networking and holiday cheer for professional women in the payments industry. Included with the registration fee are hors d'oeuvres, wine and holiday beverages served in a luxurious club setting.

W.net's LINC meetings occur periodically throughout the United States and provide a forum for women in the payments industry to empower and inspire each other through networking opportunities. To view other upcoming LINC events, visit www.w-net.biz.

When: Dec. 6, 2011

Where: Capital City Club – Brookhaven, Atlanta

Registration: www.w-net.biz

Inspiration

Self-image sets the boundaries of individual accomplishment.

- Maxwell Maltz

WaterCoolerWisdom:

It really is about you

Have you ever pondered what prospective merchant customers might actually be thinking when they view your company website for the first time? You should, because right now merchants are searching the web looking to connect with payment professionals like you.

But will their quest lead to you? The answer is all about you. Prime real estate on a well-crafted website should lead visitors to the "about us" page, the Internet equivalent of an introductory handshake. If this page is not executed properly or if it's out of date, an "about us" page can quickly turn into a relationship-ending encounter, not the lead-generation tool you desire.

What should prospects gain from their first virtual impression of you? The sense that your company is a strong candidate for their business, that's what. The overall design of the site must be professional and in keeping with the nature of the payments business.

It must convey through colors, text and graphics a sense of authority, reliability and warmth. And the "about us" page must validate your company as an authentic, reputable place to do business. But how is this done?

How the best do it

Here are some pointers from best-of-class businesses that should help you create a standout "about us" section. According to most experts, your "about us" message should:

- 1. Emphasize who you are, not what you do.** What was the inspiration behind starting your business? Was there an altruistic aspect or did you feel you could offer a better approach? Tell them your story.
- 2. Highlight key people within your organization.** People work with people they can trust. Prospects want to know who you are and your level of expertise. They also want reassurance that you'll stand behind the products and services you offer.
- 3. Show off your creativity.** A well-positioned video on this page can provide an insider's view of the people, values and team spirit merchants will encounter once they sign with you. Add a



favorite quote that captures the company's vision, or include a few customer endorsements.

- 4. Be honest.** Experts warn against making exaggerated claims about company size or years in business. Many prospects prefer working with smaller, more attentive businesses. Spotlight your strengths, illustrating where your business may fill a void not offered by larger companies.
- 5. Maintain consistency.** Use the same voice throughout the "about us" section. Be sure to select words payment professionals use, as well as words merchants commonly use when talking about payment processing and related services. This will help guide prospects' word searches to your company website.

Remember, first impressions can make or break a deal. You may be an incredible salesperson over the phone and in person, but if you neglect the silent handshakes taking place every day on your website, you're missing out on important opportunities.

Take the time to build an "about us" page that works around the clock to bring you business – because it truly is all about you.

Good Selling!SM

Paul H. Green, President and CEO

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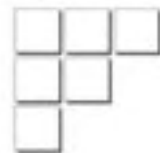
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