The Green Sheet

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November 14, 2011 • Issue 11:11:01

Turbulence expected for 1099-K reporting, be prepared

The Internal Revenue Service recently announced a one-year delay in the penalty provisions of newly mandated requirements for yearly reporting of merchant credit and debit card receipts by acquirers and processors. That's good news for companies that have been struggling to provide more processes and systems for collecting that information. Those companies also need to be ready to support backup withholding when TIN matching discrepancies arise and are not resolved in accordance with the new IRS procedures.

In a statement released in late October 2011, the IRS also said it would delay by a year the start of penalty assessments for filing incorrect TINs and related information, provided "good faith efforts" are made by acquirers and other covered organizations to file required information correctly. Backup withholding requirements are delayed, as well, until January 2013.

The reporting requirements set forth under IRS Code Section 6050W have been the source of much consternation for an industry still reeling from the financial sting of Payment Card Industry (PCI) Data Security Standard (DSS) compliance and backlash from the Durbin Amendment to the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

Section 6050W established a new annual reporting document – Form 1099-K – that processors and acquirers

6050W: What is it?

Section 6050W is a new section of the Internal Revenue Code that requires acquirers and third-party settlement agents to file yearly information returns with the IRS and processing clients. The returns must detail the gross amount of credit and debit card transactions submitted for processing by each client.

The IRS said it intends to use the information – submitted using IRS Form 1099-K – to help identify underreporting of income on those businesses' yearly tax filings. Form 1099-K details a client's legal business name, taxpayer identification number (TIN), address and gross yearly card payment amounts broken down by month.

Submitted 1099-Ks with missing or incorrect information will be rejected and carry an IRS-imposed penalty of $100 on acquirers for each notice on each rejected form. Filers also must follow strict procedures and deadlines for getting merchants to correct the problems. Merchants who fail to resolve issues related to missing or inaccurate TINs will be subject to 28 percent backup withholding, under IRS orders, beginning January 2013.

1099-K reporting continued on page 51

The Green Sheet Inc.

NotableQuote

I am not saying EMV would not be an improvement in the security of transaction processing; it would be. However, to say that merchants don't have to comply with the PCI DSS is a stretch.

See story on page 64

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Correspondence:
The Green Sheet, Inc.
800-757-4441 • Fax: 707-586-4747
6145 State Farm Drive, Rohnert Park, CA 94928
Send questions, comments and feedback togreensheet@greensheet.com
Send press releases to....................press@greensheet.com
NOTE – Please do not send PDF versions of press releases.

Print Production:
Hudson Printing Company

Contributing Writers:
Adam Atlas....................atlas@adamatlas.com
Jerry Cibley....................jcibley@harbortouch.com
Tim Cranny....................tim.cranny@panopticsecurity.com
Brandes Elitch....................brandese@cross-check.com
Jeff Fortney....................jeff@clearent.com
Linda Grimm....................linda@lgrimmconsulting.com
Carrie Hometh....................chometh@rocket-pay.com
Peggy Bekavac Olson....................peggyolson@smktg.com
Bill Pirtle....................bill@c3et.net

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Forum

Thoughts on Visa and Square

In "Square versus the payments world" – published in *The Green Sheet*'s Oct. 24, 2011, issue – Tim McWeeney asks why Square continues to operate with impunity despite valid security concerns. There are three simple reasons:

1. The card associations [now companies], more specifically Visa, have a Square agenda beyond their investment.
2. Visa often speaks out of many sides of its mouth, as well as other parts of its body, in the discriminatory enforcement of its rules.
3. The card association silos, Visa more so, don't often confer before commenting, hence the multi-sided mouth(s).

One only has to look back to Jim Elliott and Cherry Payments and their gouging of merchants in leasing $300 POS terminals for $2,500 or more. Visa got complaints, took note, made public comments about investigating, yet did absolutely nothing. Why? As with Square, Cherry Payments was advancing a Visa goal: the electronification of merchant payments that dramatically cut expenses for Visa and its processors.

Square has the potential of dramatically increasing card acceptance, that is to say, substantially adding processing and interchange revenue at the expense of security: a classic case of greed over profit. So a data breach of a merchant using the Square dongle is the merchant's responsibility while the card associations give tacit approval by doing nothing.

So to increase profits the card associations turn a blind eye to the rape of the merchant much like the Catholic Church turned a blind eye to the Holocaust.

In my opinion, by doing nothing to address dongle security concerns the card associations expose themselves to another class action lawsuit by breached merchants using them.

Biff Matthews
CardWare International

Biff,

Thank you for sharing your perspectives on Visa Inc. and Square Inc. While The Green Sheet *does not endorse any positions regarding the security of Square, Visa Inc.'s motivations, nor the actions of other organizations you've mentioned, we do believe it is important for payment professionals to discuss their concerns openly so they can make wise decisions for the future of their businesses and for the health of the industry overall.*

Editor

Setting the record straight

We wish to let our colleagues in the payments industry know that Tim McWeeney was not employed by North American Bancard when he wrote "Square versus the payments world," which was published in *The Green Sheet* on Oct. 24, 2011, issue 11:10:02.

The opinions shared in the article are solely those of Tim McWeeney, not those of NAB. Our company does not condone or promote editorial writing that treats our competitors with anything less than full respect. We believe in fostering a healthy, congenial competitive environment.

The Green Sheet was not able to remove our company's name in the byline and bio for the print version of the article, but all mention of NAB has been removed from the article online. If you have questions or need any clarifications, please do not hesitate to contact me at *jalderman@nabancard.com*.

North American Bancard

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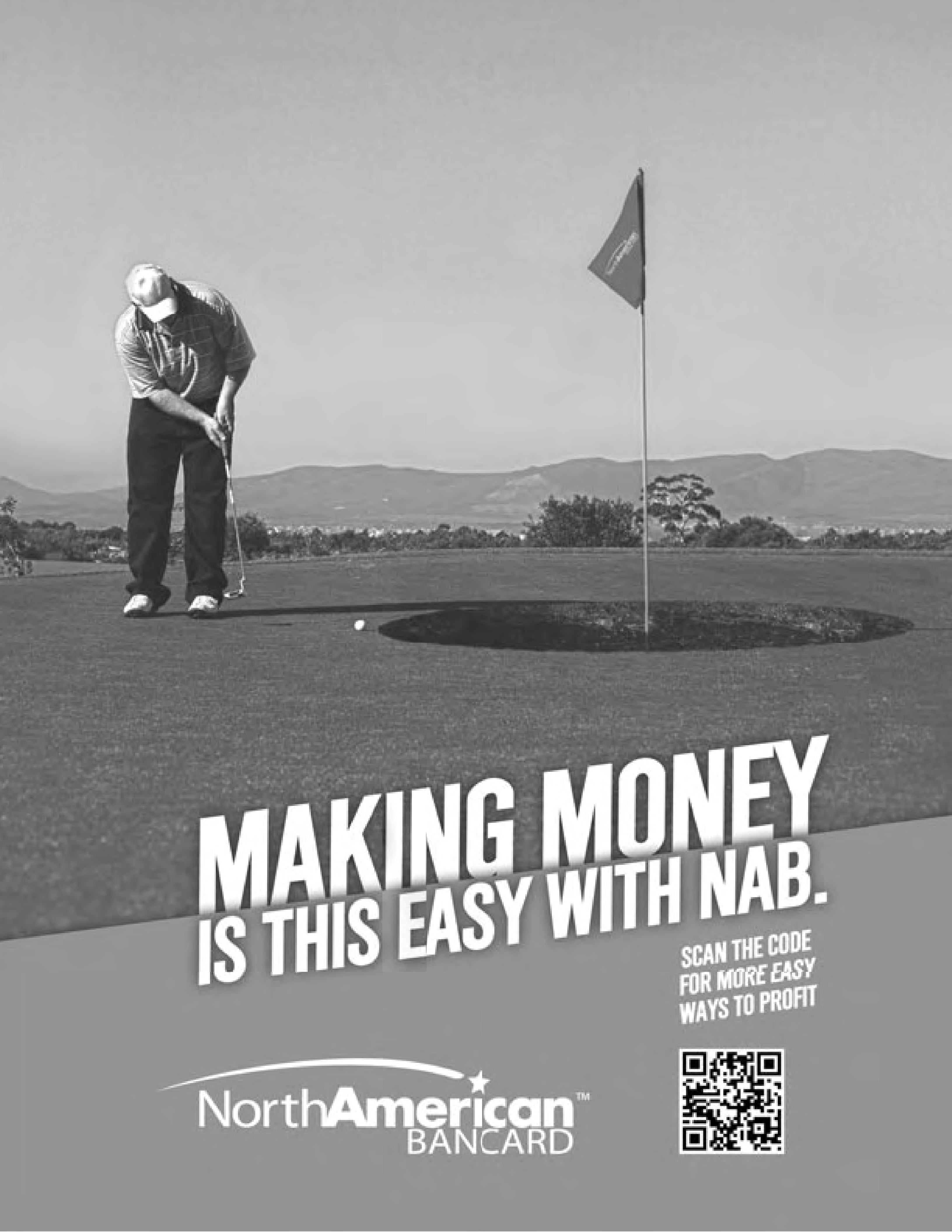
Would you like us to cover a particular topic? Do you have a question you'd like us to answer? Is there someone you consider an industry leader? Did you like or dislike a recent article in T*he Green Sheet*? What do you think of our latest *GSQ*? Email your comments and feedback to *greensheet@greensheet.com* or call us at 800-757-4441.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QSGS

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

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Cover Story

Turbulence expected for 1099-K reporting, be prepared

While the Internal Revenue Service will not penalize merchants and processors for missing the Jan. 1, 2011, deadline for compliance with the new 1099-K reporting requirements, that doesn't get the payments industry off the hook. An extra year to get compliance programs up to speed only highlights how difficult the process will be for many ISOs and acquirers.

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News

CEOs advise wait and see at ETA forum

At the ETA's Strategic Leadership Forum, industry movers and shakers agreed that the future success of ISOs rests on their ability to provide merchants with services that alternative payment providers can't. That necessity requires that ISOs change business models to include services like marketing and loyalty programs – solutions that force ISOs out of their comfort zones.

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News

Washington takes second look at Durbin

The Durbin Amendment to the Wall Street Reform and Consumer Protection Act of 2010 has barely taken effect and already a movement is underway to repeal it. Critics label the amendment as disastrous to businesses in the United States; supporters say repeal will grant banks a victory over merchants and consumers.

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View

ISOs and the new frontier of payments

It's no longer business as usual. Disruptions in payments threaten traditional business models. Alternative payment companies like PayPal and Apple are laying the groundwork for ecosystems where the role of the card brands (and interchange) are reduced or effectively eliminated. Therefore, ISOs need to figure out how they are going to keep merchants – now.

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News

Big card brands, big banks hit with more antitrust suits

One lawsuit filed against Visa Inc. and MasterCard Worldwide alleges the card brands suppress competition via ATM fees and by prohibiting ATM operators from offering discounts to consumers for using payment cards processed over alternative networks. Another suit charges the card brands with colluding with banks to fix prices on "foreign" ATM access fees.

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Feature

Holiday gift cards get personal

As the holiday season approaches, merchants are gearing up with gift card programs. Gift card marketer and producer Arroweye Solutions is leveraging its on-demand platform to allow consumers to personalize gift cards, which ends up boomeranging back to retailers in the form of bigger holiday profits.

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Education

Street Smarts℠: Agent training – more than taking a test

With the first round of testing underway for the Electronic Transactions Association's Certified Payment Professional (CPP) program, GS Online's MLS Forum members discussed the best ways to train sales agents. Training for the goal of simply passing a test is not enough. The industry is too complicated to assume a passing grade automatically makes for competent merchant level salespeople (MLSs).

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Education

Visa to eliminate PCI DSS requirements with EMV – not

The fact that Europay/MasterCard/Visa (EMV) chip and PIN technology is more secure than mag stripe technology doesn't mean adoption of EMV gets merchants off the hook for PCI DSS compliance. Visa Inc.'s push for EMV in the United States comes with a host of qualifiers, such as the meaning of such terms as "eligible merchants" and "other qualification criteria."

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Education

When big money meets small ISOs

In a shaky economy, outside investors are delighted to find a business model that is relatively stable and profitable. And ISOs are equally happy to have funding sources available to them when banks have turned away. However, there are many variables to consider when entities seek to invest in ISOs or purchase portfolios, the least of which is – what are the ground rules?

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Education

How does a credit card salesperson learn to sell POS?

Sales agents new to selling integrated POS systems are at a disadvantage to POS veterans. The seasoned seller understands the lingo of restaurants and bars, what their pain points are and the complex terminal applications designed to solve them. To succeed with this complicated but lucrative strategy, newbies need persistence, patience and a thorough grasp of the industry.

IndustryUpdate

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NEWS

PCI starts formal feedback on 2.0 standards

Work is nearly complete on versions 2.0 of the Payment Card Industry (PCI) Data Security Standard (DSS) and Payment Application DSS. All merchants must be compliant with the new 2.0 standards by Dec. 31, 2011. All that is left for the **PCI Security Standards Council** (PCI SSC) to finish is the collection and evaluation of six months of formal feedback on versions 2.0 for development of the 3.0 PCI standards.

The formal feedback period began Nov. 1, 2011. When the period is over in April 2012, the information will be compiled and distributed for analysis and action. This feedback period is the end of the three-year process to develop and institute the 2.0 security standards, and it initiates the start of the three-year development process for the 3.0 standards.

PCI SSC General Manager Bob Russo said information culled from the feedback will be shared with participating organizations and the PCI community at the 2012 PCI Community Meetings.

Tagtile like Square for loyalty and rewards

Tagtile, a subsidiary of **Malbec Labs Inc.**, recently launched a new device, also named Tagtile, that brings customer loyalty management and rewards programs to small merchants. "Tagtile is a stand alone hardware device sold to merchants to help run loyalty and direct marketing programs," Tagtile Chief Executive Officer Abheek Anand said.

Tagtile is a hardware cube, much like **Square Inc.**'s dongle, that attaches to and works with smart phones and tablets as if it were a near field communication (NFC) device. Customers tap their phones to Tagtile cubes to receive their rewards, coupons or discounts.

The partners stated Tagtile is meant to bridge the gap until full NFC adoption. "By then we will be in position where we will have our merchant relations in place for our device," Anand said. "We will support NFC, but this is a way to get a head start on the ecosystem. I like to joke that people have been saying 'NFC is two years away' for 10 years now."

Google Wallet expanding

Google Inc.'s **Google Wallet** rolled out at major retailers in October 2011. The new smart phone NFC payment system allows customers at **American Eagle Outfitters**, **The Container Store**, **Foot Locker**, **Guess**, **Jamba Juice**, **Macy's**, **OfficeMax** and **Toys"R"Us** to pay, redeem coupons and earn rewards with a simple tap of a smart phone to an NFC terminal.

To celebrate the launch, Google created a new Featured Offers section in the Google Wallet app with discounts on items in its partner stores. The featured items are automatically discounted when the customer taps the phone at checkout. Foot Locker, Guess, OfficeMax and

BOTTOM LINES

HEADLINES FROM THE RETAIL WORLD

- According to an **American Express Co.** *American Express Spending & Saving Tracker*, three in 10 U.S. consumers plan to travel during the 2011 holiday season; a family of four is expected to spend an average of $2,636 on travel, an increase of nearly $200 over last year.

- A **Companiesandmarkets.com** report titled *Light Electric Vehicles 2011-2021* projects electric bikes and scooters, combined, will reach 130 million units sold annually by 2025. China, Japan, the European Union and other markets impacted by escalating fuel costs will lead the rise.

- The **National Retail Federation**'s *2011 Holiday Consumer Intentions and Actions Survey* forecasts total retail spending in November and December 2011 will reach $465.6 billion, 46.7 percent of which will be spent online – 2.8 percent above last year's overall and online totals.

American Eagle Outfitters have all set up loyalty card programs for Google Wallet. Google Wallet is available on the Sprint Nexus S 4G smart phone.

Card companies join card security association

Visa Inc., **MasterCard Worldwide** and **PayPal** have all accepted invitations to join the **International AntiCounterfeiting Coalition**, according to Robert Caldwell, **G2 Web Services LLC** founder and Managing Partner. Caldwell first mentioned the major card companies are joining the IACC in a speech he gave at the Electronic Transactions Association's October 2011 Strategic Leadership Forum in Chicago.

Caldwell confirmed his remarks to *The Green Sheet* and added that the payments industry, the IACC, the **White House Intellectual Property Enforcement Coordinator** and brand holders such as **Gucci America Inc.** and **Louis Vuitton North America Inc.** are all cooperating in the effort to fight cybercrime.

Caldwell said G2 Web Services recently signed a deal with the IACC to develop a portal-based system to detect rogue websites selling counterfeit merchandise online. According to the IACC, the G2 deal represents a new strategy to shut down crooks' ability to process payments.

Internet gambling regulation revisited

At an Oct. 24, 2011, U**.S. House Energy and Commerce Subcommittee on Commerce Manufacturing and Trades** hearing experts testified that government oversight and regulation of Internet gambling activity in the United States is the best way to protect consumers.

Pending legislation to regulate the industry reportedly would ensure consumer safeguards, generate tens of billions in new government revenue and create tens of thousands of new jobs. "

People are playing poker on the Internet in the U.S for money today," said Rep. Joe Barton, R-Texas. "It's not regulated and so these sites are offshore, overseas and, consequently, outside the ability for us to tax the winnings and make sure it's a fair game."

ANNOUNCEMENTS

Citi's WorldLink expands

Citigroup Inc. said its **Global Transaction Services** unit is expanding its **WorldLink Payment Services**, a cross-border payment platform, into eight new countries. This will bring the number of countries in Europe, Africa, Asia and the Americas where WorldLink is available to 29.

Kudos now available in United States

Kudos, a payment acceptance kit manufactured by **NetSecure Payments Inc.**, is available for the first time in the United States. The Kudos' credit card acceptance kit reportedly turns a phone and computer system into a complete POS system. The kit is equipped with a swipe terminal, POS software and merchant account software. The company stated the per-transaction cost is a flat rate of 2.7 percent of the sale plus 20 cents. There are no monthly fees.

Improved payment app for Apple and Android

North American Bancard released the latest version of its Pay Anywhere application for Apple iOS and Google Android operating systems. New features include cash transactions, discounts, a store and forward device, and multimerchant accounting.

The company noted that Pay Anywhere now allows merchants to accept and record cash transactions and save and process sales if the Internet is not available. The new app can be downloaded at the Apple App Store or the Android Market.

Blackberry phones win MasterCard certification

Research in Motion Ltd. reported its BlackBerry Bold 9900 and BlackBerry Curve 9360 smart phones have been certified by **MasterCard Worldwide** as PayPass-approved devices. The two phones are the first subscriber identity module (SIM)-based NFC smart phones certified as PayPass approved. The certification means PayPass-issuing banks around the world can place PayPass-enabled accounts on the SIM cards of these phones.

SLIM CD free iPhone app

Software provider **SLIM CD Inc.** released its free SlimCD application for iPhone. The product allows customers to process card-present transactions with or without an optional encrypted card reader. The new app includes a sales reporting solution, desktop application, data on demand, gateway services, fraud detection services, shopping cart and mobile website.

Square coming to Wal-Mart

Square Inc. CEO Keith Rabois told Bloomberg news services **Wal-Mart Stores Inc.** will join **Apple stores**, **Target Corp.**, **RadioShack Corp.** and **Best Buy Co.** in selling the popular Square dongle. Square's dongle accepts credit and debit card purchases. The dongle attaches to smart phones and other smart devices and, when the card is swiped, the information is sent via the Internet for processing.

USA Technologies on Deloitte's Fast 500

USA Technologies Inc. has been named to **Deloitte LLP**'s 2011 Technology Fast 500 list of the fastest growing technology companies in North America. USA Technologies ranked 480 in North America based on the percentage of revenue growth between 2006 and 2010.

Companies have to own the proprietary intellectual property or proprietary technology in the products that make up the majority of company sales in order to be eligible for the award.

In other company news, USA Technologies Chairman and CEO George Jensen resigned in October 2011 after allegations surfaced that Jensen was posting company information on an online investor site.

The company's investigation revealed Jensen allegedly posted approximately 450 comments on a Yahoo message board. Most of these messages were posted over a two-month period under the name "investor.texas."

PARTNERSHIPS

Chase Paymentech, Impark team

Chase Paymentech Solutions LLC and **Imperial Parking Canada Corp.** are teaming to bring Chase Paymentech processing to one of Canada's largest parking businesses. Impark owns more than 1,600 parking lots.

Coca-Cola, Google Wallet partner

Coca-Cola Co. is testing **Google Inc.**'s Google Wallet. People who own Google Android NFC-enabled phones will be able to buy a Coke at more than 200 vending machines by tapping their phones against payment devices on the machines.

First Data picks VeriFone

First Data Corp. selected **VeriFone Inc.** as the exclusive provider of Class A POS payment acceptance systems in the Caribbean region.

"We selected VeriFone as our exclusive POS product offering in this region as their devices go beyond traditional magnetic stripe transactions by providing advanced EMV [EuroPay/MasterCard/Visa] card processing, which increases a merchant's security and authentication measures to help reduce fraud," said Phil Steurer, Senior Vice President, Central America and Caribbean for First Data.

Meritus working with STAFDA

Meritus Payment Solutions partnered with the **Specialty Tools & Fasteners Distributors Association** to offer wholesale payment processing rates to the association's 2,500 members. Meritus will also provide webinars to educate members on payment issues such as credit card fraud, and it will be part of the organization's annual convention.

Monitise, Visa partner

Monitise PLC and **Visa Europe** announced a $39 million Visa Europe investment in Monitise. Peter Ayliffe, Visa Europe President and CEO, will join Monitise's board of directors.

Monitise, a mobile payment business, also agreed to acquire a 51 percent share (valued at $29.4 million) of Monitise Americas from Metavante Corp. Metavante will receive a 3.3 percent stake in Monitise in return. Visa Europe now holds an 8.8 percent share of Monitise.

Office Depot, Century Payments partner

Office Depot Inc. and **Century Payments Inc.** are partnering on a new payment processing service for small and midsize businesses called Office Depot Merchant Services. Office Depot is the first office supply retailer to offer merchants a privately branded solution. The service has customizable payment solutions, banking, and a rate-matching option that will meet or beat other offers.

TransFirst, CoCard ally

Processing services provider **TransFirst LLC** and ISO and merchant level salesperson cooperative **CoCard Marketing Group** formed an alliance. CoCard agents will now sell TransFirst products, including its payment gateway Transaction Express, its online reporting system TransLink, and PayFox, its mobile payment processing solution for Apple products.

CoCard noted it has more than 70 U.S. offices and 300 sales agents.

Three CUs sign with Vantiv

Payment processor **Vantiv LLC** reported **Community Credit Union** in Sacramento, Calif., **Fort Worth Community Credit Union** of Bedford, Texas, and **USSCO Johnstown Federal Credit Union** of Johnstown, Pa., have signed contracts with Vantiv.

The agreements are for single-sourced comprehensive electronic processing services, including ATM and debit card transaction processing, card production, gateway services, rewards and debit portfolio management.

ACQUISITIONS

Cardtronics buys Access to Money

Retail ATM owner **Cardtronics Inc.** completed its purchase of **Access to Money Inc.** Cardtronics CEO Steve Rathgaber said the acquisition has the benefit of bringing a number of seasoned industry professionals to his company, and he is looking forward to "harvesting operational synergies."

TSYS buys Vanguard Payment portfolio

Total System Services Inc. (TSYS) purchased the merchant portfolio of **Vanguard Payment Systems Inc.** Vanguard, based in Clearwater, Fla., has been a payment provider since 2005. Its portfolio included restaurants and medical and dental offices.

Western Union acquires Finint

Western Union Co. acquired **Finint S.r.l.**, one of Western Union's European money transfer network agents. Finint has more than 10,000 locations in Italy, Spain and the U.K. Western Union acquired two other European network agents recently, FEXCO in 2009 and Angelo Costa S.r.l. in 2011.

APPOINTMENTS

Boyer signs on at Galileo

Steve Boyer is the new Executive Vice President of Business Development at Galileo Processing Inc. He will be responsible for "assisting existing and future partners [to] leverage Galileo's [payment] platform." Boyer was a founder of the gift card business, ValueLink Inc.

Macey appointed to Europe's MRC board

Kieran Macey, Head of Risk for U.K. and Europe for Retail Decisions (ReD) PLC, a payment fraud prevention and payment processing company, was appointed to the European Merchant Risk Council board. The MRC is a nonprofit association working to stop e-commerce fraud and promote payments to its merchant members. More than 900 brands hold ReD membership.

Paull new EVP at ROAM Data

Ken Paull will fill the newly created position of Executive Vice President at ROAM Data Inc. In his new job Paull is responsible for sales, marketing and business development. Paull previously served as Director of the consulting firm Market Platform Dynamics where he worked with ROAM Data to develop strategies and scale for emerging companies.

Ready new BrainTree CEO

Bill Ready was named CEO of BrainTree Payment Solutions Inc. Ready previously served as an executive in residence at Accel Partners, and he formerly worked as President of iPay Technologies LLC.

CPP selects Shaw

Tom Shaw joined Certified Payment Processing as Senior Vice President of Operations and Administration. Shaw will supervise training, human resources and telemarketing. Shaw was previously Vice President of Human Resources for Noble Royalties Inc.

BlueStar appointments

BlueStar Inc., a European-based distributor of payment technology, made two additions to its executive staff. **Mike Strube** was named Business Development Manager for Panasonic and Star Micronics products. He is responsible for management, product promotions, asset management, and vendor relations. **Melanie Muschinski** is a new Marketing Manager for Bluestar. She is responsible for marketing and event management.


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Washington takes a second look at Durbin

Within weeks of the Oct. 1, 2011, implementation of the Durbin Amendment to the Wall Street Reform and Consumer Protection Act of 2010, a movement began in Washington to repeal it. Rep. Jason Chaffetz, R-Utah, and Rep. Bill Owens, D-N.Y., introduced HR 3156, the Consumer Debit Card Protection Act, a bipartisan effort to repeal the amendment.

The bill was introduced Oct. 12, 2011, and referred to committee. The congressmen said the bill is an effort to restore balance to the electronic payments system.

"This is a perfect example of the dangers of price controls and the inefficiency of government intervention in the free market," Chaffetz said. "The Durbin Amendment is an affront to consumers and the banking industry. These legislatively enacted price controls have compelled banks to charge consumers higher (and in some cases new) fees to make up for lost revenue."

Chaffetz said repealing the Durbin Amendment will fix "the disastrous consequences" of the amendment. "Congress must repeal this egregious provision that increases the costs of doing business on everyone," he said.

Owens had a slightly different take on repeal. "The Durbin Amendment is harmful for community banks, credit unions and the communities they serve," he said. "While Congress clearly intended to exempt these smaller institutions from the cap on interchange fees, it's clear the Durbin Amendment will have unintended costly consequences for my constituents and their checking accounts."

Durbin's office responds

Max Gleischman, a spokesman for Sen. Richard Durbin, D-Ill., responded to the repeal effort by saying, "This new bill is another big bank bailout – nothing more, nothing less. Claims that swipe fee reforms are hurting small banks and credit unions willfully ignore reality; those institutions are exempt from the new regulation and have actually seen a surge in new accounts since reform took effect."

Gleischman added that efforts to kill swipe fee reform have tried and failed in the Senate. "Last year's reforms added fairness, transparency and competition to a market that operated for years without," he said.

The National Retail Federation protested the proposed legislation. "The banks tried to stop this law from being passed, they tried to delay it once it was passed, and they managed to water down the amount merchants and consumers will save," the NRF said in a press release. "Now that it's just barely taken effect, they are trying to repeal it before anyone can benefit. Congress needs to stop doing the bidding of the banks and think about the people who paid for the bank bailout not so long ago – consumers and Main Street merchants."

Call for antitrust investigation

A day after the anti-Durbin bill was introduced, congressional Democrats asked Attorney General Eric Holder to consider an anti-trust investigation of financial institutions on grounds they are colluding to create new fees to cover losses related to the Durbin Amendment's debit interchange fee cap.

On Oct. 13, 2011, five Democratic congressmen led by Chief Deputy Whip Peter Welch, D-Vt., wrote Holder asking for the anti-trust investigation of "big banks [that] are coordinating their fee strategies in violation of federal anti-trust laws."

According to Welch, banks and their trade associations are coordinating efforts to justify fee increases to consumers after the Durbin Amendment. The letter points to statements made by executives with Wells Fargo & Co., the American Banking Association, the Independent Community Bankers Association and the Texas Bankers Association to demonstrate collusion among U.S. bankers.

The representatives said Bank of America Corp.'s intention to begin charging monthly fees for use of debit cards highlighted their concerns. Bank of America and other large banks have since scrapped plans to charge consumers monthly fees for debit card use.

Big card brands, big banks hit with more antitrust suits

Visa Inc. and MasterCard Worldwide were recently hit by two new class action complaints alleging the companies fix ATM fees. These complaints came less than a week after the National ATM Council Inc. and more than a dozen independent ATM operators filed an antitrust lawsuit on the same grounds (see "NAC sues MasterCard, Visa alleging antitrust" posted Oct. 14, 2011, under Breaking News at *www.greensheet.com/breakingnews.php?flag=breaking_news*). All three suits were filed in the U.S. District Court for the District of Columbia.

The Bartron complaint

Lynne Bartron and Charles Brown et al. v. Visa Inc. et al. was filed Oct. 18, 2011, by Washington D.C. attorney John Kern on behalf all U.S. customers who have paid ATM fees on or after Oct. 1, 2007. Kern's firm was joined in bringing the suit by Hagens Berman Sobol Shapiro LLP and The Paynter Law Firm PLLC.

The plaintiffs in this case refer to themselves as "indirect purchasers" and ask the court to certify 50 indirect purchaser subclasses – one for each U.S. state. Otherwise this complaint resembles the one filed in The *National ATM Council Inc. et al., v. Visa Inc., et al.* on Oct. 12. Both complaints allege the card companies' ATM fees suppress competition and illegally prohibit discounts for transactions that don't use the Visa or MasterCard networks.

"The violation in this case is a horizontal agreement among every bank that issues Visa- or MasterCard-branded payment cards – including every principal U.S. bank – organized and supervised by the defendants as ringleaders and enforcers for the purpose of fixing the surcharge that consumers pay for ATM services," the Bartron complaint states.

The complaint also asserts, "While couched in terms of a ceiling on ATM access fees, the ATM restraints actually operate to prohibit discounting by competing ATM operators. The 'ceiling' price is the 'floor' price due to the ATM restraints."

The plaintiffs believe other ATM networks should be able to introduce lower-cost PIN-based transactions or offer rebates but are prohibited from doing so by the card companies. "The ATM restraints put a competitive straightjacket on ATM operators and injure plaintiffs," the complaint alleges.

The Bartron lawsuit asks the court to certify the complaint as a class action; declare the imposition of ATM fees to be a restraint of trade in violation of the Sherman Antitrust Act; issue an injunction requiring the card companies to eliminate the ATM restraints; forbid the card companies from fixing or specifying access fees for ATM transactions; issue an order against the card companies prohibiting or preventing cardholders from choosing to use an alternate network; make the card companies "fund programs to inform consumers and ATM operators of their right to choose network routing"; and award treble damages for each member of the class.

The Genese complaint

The second new complaint, *Justin Genese v. Visa Inc. et al.*, alleges the two card companies illegally conspired with three major banks – and the companies processing merchant transactions for those banks – to fix prices for "foreign" ATM access fees.

A foreign ATM transaction occurs when a customer of one bank withdraws money from his or her account using an ATM owned or operated by another bank. In a foreign transaction, the customer pays the ATM operator for use of the ATM, and the operator pays its bank a foreign ATM fee.

The Genese lawsuit was filed Oct. 18, 2011, by Craig Brikin of Mehri & Skalet PLLC and Labaton Sucharow LLP. The action names Bank of America N.A., BA Merchant Services LLC, JPMorgan Chase & Co., Chase Paymentech Solutions LLC, and Wells Fargo & Co. as defendants in addition to Visa and MasterCard.

The complaint alleges the banks joined in a conspiracy with the card companies to fix ATM access fees. It asks for certification as a class action; a finding that the defendants are in violation of the Sherman Antitrust Act; an injunction requiring the card companies and the banks to eliminate the ATM restraints; an injunction prohibiting the defendants from fixing ATM access fees for ATM services; and treble damages and costs.

Defendant responses

MasterCard spokesman Seth Eisen responded to a request for comment saying, "The claims challenging certain MasterCard ATM rules are without merit. These rules were put in place to protect consumers from ATM operators seeking to impose discriminatory surcharges on our cardholders. We believe these important consumer protections must be preserved and we will vigorously defend against the claims brought against us."

Regarding this suit, Lisa Westermann, Wells Fargo Assistant Vice President Public Relations, said, "We believe the allegations of the complaint are without merit and plan to vigorously defend the case." A spokesman from BofA declined to comment. Neither Visa nor JPMorgan Chase responded to a request for comment.

CEOs advise wait and see at ETA forum

Four industry leaders participating in the Electronic Transactions Association Strategic Leadership Forum's CEO round-table discussion, titled *Is This a Revolution or an Evolution?*, agreed ISOs that can master and adopt the best technology while broadening the scope of their services will hold their own against new tech companies entering the payments space.

The forum was held in Chicago from Oct. 25 to 27, 2011. Round-table participants included Moneris Solutions

Corp. President Greg Cohen; Adam Coyle, President of National Processing Co. Inc.; Roam Data Inc. Chief Executive Officer Will Graylin; and Chris Spinella, CEO of Apriva LLC.

ISO relevance

All panelists believe the new POS systems, terminals, smart phones and tablets that support new add-ons like Square Inc.'s dongle or PayPal Inc.'s cardless payment system are important developments and present new challenges in the payments space. But they won't push ISOs out of business. "The market still needs service providers who can teach [merchants] how to adopt and use the technology," Spinella said.

Cohen pointed out that technology companies are a different type of value proposition. "ISOs have to build new models that compete," he said. He explained that ISOs are the conduit and pipeline into retail sales. The key to ISO success is the ability of the ISO to expand the pipeline to include different types of value propositions such as advertising and loyalty solutions for merchants.

"We need to be selling advantages," Cohen added. "This is not the traditional ISO role. We are asking the industry to sell something it is not used to selling."

Spinella said ISOs need to focus on "making sure they help merchants with realizing new customers, retaining those customers and help drive up revenues." He said ISOs no longer just provide businesses with processing services; ISOs are educating merchants on tools they can use to grow their businesses.

Coyle noted that technology doesn't make things easier. "It expands the demands of what people want," he said.

Conservative approach

But which technology will win customer loyalty and merchant support? According to the round-table participants, the answer isn't clear.

Cohen said most industry leaders are waiting to see how the technology will evolve. "You can't turn your entire business around 180 degrees overnight because everyone says this is the way to go now," he said. He advised ISOs seeking to evaluate new technologies to talk with merchants about what they want.

"We are having to ride the wave in the direction it leads us," Coyle said. Value propositions like payroll systems, loyalty and rewards programs and other platform add-ons will be driving sales in the payments industry for years, he said.

The panelists indicated small players, often from outside the industry, will continue to enter the payments market with new technology. They said they are happy to let the new entries take the risks inherent in marketing new technology while they watch and see what happens.

"To what point do we want to have risk?" Spinella asked. "I like Square. I think it is interesting. The question is, What is the risk? Let's see how it evolves. Let's let innovation come from outside the industry and see what works."

End game

Graylin said it is important for ISOs to understand they are not competing against innovations like Square. To Graylin, Square is just another technology ISOs can adapt and use to go out and win merchants. (Some ISOs are exploring partnership arrangements with Square, for example.) ISOs that fail to adopt new technology are going into the battle for merchants armed with axes and swords when the other side has machine guns, Graylin said.

Cohen predicted the end result will be more specialization among ISOs, more concentration on certain market segments and more attention to the needs of merchants.

Participants also agreed technology represents opportunity for ISOs. "Anytime you are forced to change your business model it is an opportunity," Coyle said. "We have to capitalize on this. It's not about payments; it's about providing solutions." In the end, the ISO advantage is that relationships drive sales, he added.

Update feeds need for more PTS guidance

The PCI Security Standards Council (PCI SSC) updated the standard that mandates security requirements for PIN entry devices to incorporate devices that do not offer PIN entry.

The PIN Transaction Security (PTS) Data Security Standard (DSS) was expanded to include guidance for determining whether non-PIN accepting devices meet the requirements of point-to-point encryption (P2PE) – the technology many security experts believe is the most secure way to protect personal information and other card transaction data.

The update to the PTS DSS, a companion to the overarching Payment Card Industry (PCI) DSS, provides guidelines for the testing of any card acceptance device to determine if it can be used with P2PE technology. The PCI SSC said that, until now, the PTS DSS applied to PIN acceptance devices only. But with the release of version 3.1 of the PTS DSS, any device used for the acceptance of electronic payments can now be tested for its compatibility with P2PE technology.

Guidance for SCRs

Additionally, the new version of PTS DSS addresses secure card readers (SCRs) – devices that encrypt card data at the point of swipe, such as mag-stripe reading "sleeves" and dongles that fit on smart phones to transform them into payment acceptance devices.

"Merchants looking to use magnetic stripe readers (MSRs) or MSR plug-ins now can ensure these devices have been tested and approved to encrypt data on the reader before it reaches the device," the PCI SSC said.

The council hopes the release of the update will promote the use of open payment platforms, exemplified by smart phone payment systems. PCI SSC General Manager Bob Russo said, "We know how eager the market is to implement P2PE. By releasing these updated requirements now, merchants using any type of card acceptance device will have the ability to encrypt data at the point of interaction and ensure its protection.

Additionally, we've opened the standard up to address mobile devices – another area of great interest to our stakeholders."

New features

Version 3.0 of PTS DSS was released in April 2010. The October 2011 update, v3.1, can be accessed at *www.pcisecuritystandards.org/documents/PCI_PTS_POI_SRs_v3_1.pdf* and includes these new features:

- A single evaluation process that addresses all point-of-interaction (POI) devices and models, including PIN pads, dedicated POS devices, vending machines, kiosks and other payment devices
- Guidance for the evaluation and integration of components (divided into two groups: device integration requirements and POI device core requirements)
- A new set of requirements and evaluation modules for open protocols (helping with the interface of POI terminals to open networks) and the secure reading and exchange of data (helping to support secure encryption of data collected in a terminal)
- Inclusion of non-PIN acceptance devices and secure card readers in POI evaluation categories
- An approved PTS device list

The PCI SSC hosted two free webinars outlining PTS DSS v3.1, followed by live Q&As. The webinars were held Nov. 8 and Nov. 10, 2011.


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ISOs and the new frontier of payments

By Brandes Elitch
CrossCheck Inc.

The sea change occurring in the payments industry is largely due to emerging technologies. But some of the disruption is being caused by inexorable pressure on interchange-based pricing. It's important for ISOs to understand how these factors will affect both their merchants and their own revenue streams.

In September 2011, the National Retail Federation began a lobbying campaign to reform credit card interchange fees, which it said generates $30 billion a year for banks and card brands. This is the next stage of the Durbin Amendment. The NRF represents 1.6 million retail businesses that employ one in five U.S. workers.

When we talk about the credit card business, we're talking primarily about the card brands – Visa Inc., MasterCard Worldwide and Discover Financial Services – which collectively comprise about 90 percent of the market. This is a "network" business, meaning the bigger the network, the more benefits for consumers and merchants, up to a point.

The network can dominate the business, at least until a new technology comes along, and that is what's happening now. It is also a "two-sided" market because the card companies compete for both merchants and consumers.

The evolution of fees

Steven Pearlstein noted in a Feb. 5, 2011, *Washington Post* column that, in the industry's early years, the emphasis was on signing more merchants, so merchant fees had to be kept low. Card companies charged more of their costs to cardholders, with annual fees and high interest rates.

But as time went by, and the card brands were almost universally accepted by large merchants, the acquirers gained the ability to raise merchant fees with little attrition. Now things have reversed: price sensitivity is higher with the cardholders and lower with the merchants.

The result is that the brands have increased merchant fees to pay for the rewards cards that now make up half the card base, and pay cash rebates to get new cardholders.

The U.S. Government Accountability Office found that card processing fees have increased 25 percent since 2005. On top of that, issuers charge an extra 50 basis points for interchange on rewards cards.

In an April 2008 report, The Kansas City Federal Reserve Bank showed that, from 1996 to 2005, average interchange went from 1.3 percent to 1.6 percent, and is nearly 2 percent today. From 2001 to 2008, total interchange tripled – from $16 billion to $48 billion. This model doesn't seem sustainable, at least not to me.

Meanwhile, no significant new technology has emerged at the retail POS since the adoption of electronic ticket capture. That is about to change. With more efficient technology and lower cost, lower prices result, in theory.

These new payment products will not necessarily generate interchange for the card brands, and by implication, will not generate interchange-based commissions for ISOs, which is why sales agents should be following these developments. Merchants certainly are.

Interchange intervention

In September 2011, the National Retail Federation began a lobbying campaign to reform credit card interchange fees, which it said generates $30 billion a year for banks and card brands. This is the next stage of the Durbin Amendment. The NRF represents 1.6 million retail businesses that employ one in five U.S. workers.

Similarly, the Merchants Payments Coalition and the Retail Industry Leaders Association have lined up on the side of interchange reform.

In testimony given a year ago to the U.S. House of Representatives Financial Services Committee, the general counsel of the NRF, Mallory Duncan, presented 2008 data from *Cards and Payments* that showed the numbers behind issuer interchange profitability.

Given that issuers make half their money from revolving credit card debt, it is surprising that cost of funds is 6.3 percent, operations and marketing are 28.6 percent combined, fraud is 4.5 percent, and pretax profit is 60.7 percent. Total fee numbers break down as follows: annual fees, $3 billion; cash advance fees, $8 billion; penalty fees, $18 billion; and merchant fees, $42 billion.

Another perspective is to compare profit margins of the retailers with those of the card brands. Visa's profit margin is around 40 percent, and MasterCard's is not far behind. Large oil companies are between 15 and 20 percent. A study of profit margins for large retail corporations between 2003 and 2007 showed retail profits as a share of sales to vary from 2 to 4 percent.

All this talk about interchange (both for credit and signature debit) came to a head with the Durbin Amendment, where the Federal Reserve found a "market failure" in debit card pricing by the card brands.

This is not unprecedented. Most people are unaware that among the motivations behind the establishment of the Fed in 1913 was to end the widespread practice at that time of banks charging something like an interchange fee for cashing paper checks, which was viewed as an impediment to interstate commerce.

With fewer than a dozen major bank card issuers and large acquirers (bank and nonbank), it might come as a surprise the concentration of ISOs in the industry. On its website, Visa lists 1,253 ISOs that provide sales, customer service, training and transaction solicitation.

An October 2011 study by First Annapolis Consulting revealed that the majority of ISOs are small, with over half of them generating less than $500,000 in annual revenue, while a number of large ISOs generate over $20 million in annual revenue, and they represent about 94 percent of the total annual revenue for the market.

Changes in store

While the large issuing banks and large acquirers increase their market share and total revenue, technology could change the current network model, and it could change the whole revenue model for ISOs. Some key players behind the new technology are eBay Inc. and its subsidiary PayPal Inc., Google Inc., and Apple Inc. And they've all been in the news lately.

Frank Hayes recently blogged on *StorefrontBacktalk*, "Not unlike IBM in the '80s and '90s, Apple is in the highly enviable position that it can wait until it's time [for a new infrastructure] and then still dominate the market. … Indeed, it might even be easier and more effective to do it that way.

"That strategy will determine who will define the retail NFC standards that matter – the ones on the checkout counter and the retailer's data center. And that won't be Apple."

In other words, Apple should let Visa, Google, PayPal, Square Inc., and ISIS fight it out as they pay for the new payment infrastructure. And then, when the bugs have been worked out, Apple can jump in.

American Express Co., Citigroup Inc., Discover, MasterCard and Visa have signed on as credit card partners for Google Wallet. Consumers can walk into large retailers like Macy's and Toys "R" Us and tap their phones to pay.

The expectation is consumers will load Google Wallet loyalty cards onto mobile phone apps and expand the number of participating merchants. However, Google Wallet currently works only with the Sprint Nexus S 4G smart phone.

With the mobile wallet, stores can pull consumers in via time-, location- and preference-based marketing. This can expand purchases, much like the credit card did.

In fact, expanding payment choices was probably the biggest contribution of the credit card; it allowed consumers to buy on unsecured credit, so merchants were able to make sales that wouldn't have happened before credit cards came along.

Mobile wallets and cloud solutions will create sales in a different way.

NFC near and far

In October 2011, PayPal Director of Communications Anuj Nayar gave the company view on Google Wallet and near field communication (NFC). John Donahoe, eBay Chief Executive Officer, has already called NFC "not for commerce." But PayPal is supporting Google's Android operating system, although right now not many consumers are using NFC-enabled phones, and merchant adoption is limited.

Nayar said mass adoption of NFC is at least three years away. But, even then, it will not replace mobile payments. PayPal is instead investing in a solution for in-store merchants to integrate PayPal into the checkout experience.

In a few months, PayPal will unveil a one-stop shop for merchants to manage payments, which will include payments accessible from any device and at brick-and-mortar stores. PayPal has 100 million users, and they can customize offers based on existing user profiles.

At the recent opening of the Web 2.0 Summit, Sean Parker, best known for founding Napster, said, "Facebook would have to screw up royally, and Google would have to do something really smart" for Google's social network to prevail. (Facebook has 800 million users to Google's 40 million).

At the same conference, Marc Benioff, founder of Salesforce.com, stated, "Facebook is becoming a vision of what the next-generation consumer operating system is." Google has a great online search and advertising platform; Facebook has a widely embraced social platform; eBay has an entrenched e-commerce platform.

In October 2011, eBay launched the PayPal Access online identity program and an open X.commerce platform for payments to let merchants tap into cashless transactions.

X.commerce will match merchants with independent developers building new ways to handle checkouts and other aspects of running shops with online outlets. PayPal Access will let people shop at websites using names and passwords from accounts at eBay's financial transactions service.

Buy now, sort later

One of the sharpest observers in this space is Russ Jones. Writing in the Oct. 17, 2011, Glenbrook Payments Views blog, he said, "PayPal is … rethinking how shopping could be made easier for both buyers and sellers. … A shopping list could be built online and then shared with the merchant upon in-store check-in" to match with product availability and purchase incentives.

PayPal imagines users would have a wallet capability that would hold the consumer's payment methods, current offers, loyalty and gift cards, available points, purchase history, and digital payments. But who controls the wallet and where does the payment data reside?

In PayPal's case, the wallet would be one of the functions inside the PayPal Mobile app, and the wallet would act as the user interface to the consumer's payment data in the cloud. This is in sharp contrast to Google and ISIS, where the wallet is the app and the payment data resides in the phone.

Here is where it gets interesting for ISOs. According to Jones, PayPal envisions offering buyers the ability to adjust their funding methods after they leave the store.

Buyers have the ability to sit down at the end of the day and adjust how they want to fund purchases, perhaps using their bank account for budgeted purchases, their credit card for discretionary purchases, and installment purchases for large ticket items, Jones wrote.

Now, as an ISO, which of these revenue streams are you participating in, and how can you add value to the merchant now?

Brandes Elitch, Director of Partner Acquisition for CrossCheck Inc., has been a cash management practitioner for several Fortune 500 companies, sold cash management services for major banks and served as a consultant to bankcard acquirers. A Certified Cash Manager and Accredited ACH Professional, Brandes has a Master's in Business Administration from New York University and a Juris Doctor from Santa Clara University. He can be reached at brandese@cross-check.com.

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Prepaid in brief

NEWS

FinCEN pushes for cross-border reporting

The **Financial Crimes Enforcement Network** (FinCEN) is proposing that general purpose reloadable (GPR) prepaid cards and certain kinds of gift cards be included on Currency and Monetary Instrument Reports (CMIRs) used to report the transportation of funds across U.S. borders.

According to FinCEN, CMIRs must be filed to report the international transportation of monetary instruments – coins, checks, traveler's checks, promissory notes, money orders and bearers of bonds – that, in aggregate, exceed $10,000. FinCEN recently updated anti-money laundering regulations to include prepaid cards among those monetary instruments.

ITS sues Green Dot, NetSpend

Integrated Technological Systems Inc., a Nevada-based technology company, sued Green Dot Corp. and NetSpend Holdings Inc., alleging the prepaid card providers are infringing on ITS' money transfer patent. Seattle-based law firm Hagens Berman Sobol Shapiro LLP filed two lawsuits on behalf of ITS. The lawsuits were filed in the United States District Court for the District of Nevada and ask the court to prevent the prepaid card companies from infringing on the patent, as well as award damages to ITS.

Governor vetoes paycard bill

On Oct. 9, 2011, California Gov. **Jerry Brown** vetoed a state bill that would have forced employers that offer employees prepaid payroll card programs to also provide employees free banking services.

In vetoing SB 931, Brown said the bill would impose numerous and costly requirements on paycard providers and likely result in banks and employers eliminating the service, to the detriment of the workers the bill aimed to protect.

ANNOUNCEMENTS

CardSmith integrates Bee Card

Campus card provider and program manager **CardSmith** launched the Bee Card, a multi-functional ID and payment card for the University of Baltimore. The card will offer students cashless access to campus facilities and services, including the bookstore, campus offices, copy center, parking services and shuttle, and select off-campus merchants.

Citi Prepaid Services enters new markets

Citigroup Inc.'s Global Transaction Services expanded its commercial card business into five new markets in the Europe, Middle East and Africa region, including Bulgaria, Egypt, Pakistan, Kenya, and Nigeria. As part of that expansion, **Citi Prepaid Services** entered Egypt, Pakistan and Bahrain.

Cruise line ships out with SeaPay

Windstar Cruises, operators of three sailing yachts in Europe, the Americas and the Caribbean, selected telecommunication technology company **CTI Group Inc.** for its SeaPay maritime prepaid payroll card. The program will be used by the crews on the Wind Star, Wind Spirit and Wind Surf ships.

'Pawn Stars' enters affinity card space

The Gold and Silver Coin Shop Inc., the owners and employees of which are featured in the popular reality TV show "Pawn Stars," launched the limited edition Modern Cash Prepaid MasterCard that offers no activation or monthly maintenance fees if cardholders deposit at least $2,000 monthly on the cards. Affinity card provider **Redwood Hills Financial Group Inc.** is managing the program.

New TMG department for prepaid

The Members Group, a payment solution aggregator and integrator based in Des Moines, Iowa, created a new client-service department, the TMG Retail Payments Team, to address an influx of financial institutions now offering TMG's ATIRA-brand suite of Visa Inc.-branded prepaid card products. The suite includes two general purpose reloadable, open-loop gift and payroll card programs.

PreCash supports hunger fight

PreCash, a Houston-based processor and prepaid card provider, helped deliver 5,704 meals to support the Houston Food Bank. Seventy PreCash employees volunteered their time to sort, inspect, clean and box donated items.

Winners galore at awards ceremony

Among the winners at **The Prepaid Awards** ceremony held Oct. 6, 2011, in London, were **Oberthur Technologies** (Best Prepaid Manufacturer), **Paycorp Holdings (Pty) Ltd.**'s DrawCard (Best Corporate Prepaid Card), **ElectraCard Services** (Best Global Prepaid Service Provider), **Kiwibank Ltd.**'s Loaded for Travel (Best Prepaid Travel Program).

Tyburn Group employs flexibility

Prepaid card program manager **The Tyburn Group Inc.** unveiled the MasterCard Worldwide-branded FlexBlue payroll card.

For employers, FlexBlue eliminates paper check costs and reduces overhead, while unbanked employees benefit from no check cashing fees and increased convenience in receiving pay, The Tyburn Group said.

PARTNERSHIPS

MoneyGram extends money transfers

AccountNow Inc. inked a deal with **MoneyGram International** to become the first online agent offering MoneyGram's money transfer services. The agreement enables AccountNow customers to send funds to any MoneyGram location in the world via AccountNow's website.

Blackhawk expands mall with Green Dot

Blackhawk Network, the Pleasanton, Calif.-based Safeway Inc. subsidiary, agreed with **Green Dot** to offer the Monrovia, Calif.-based company's GPR prepaid cards through Blackhawk gift card malls. Green Dot expects its GPR cards to be available at 10,000 gift card mall locations over the next 24 months.

7-Eleven to offer NetSpend reloads

NetSpend expanded its reload network to include over 6,000 **7-Eleven Inc.** store locations nationwide. A 7-Eleven representative said the deal with NetSpend is only the beginning of a partnership that will expand the convenience store chain's prepaid financial services program.

The blinx On-Off card is on

Two-dimensional barcode developer **Veritec Inc.** signed an agreement with card processor **Secopay Inc.** to offer the blinx On-Off card as a money transfer service to banked and unbanked consumers. Veritec said the solution will allow users to turn cards "on or off" via phones or the Internet.

Western Union extends GPR reach

The Western Union Co. said its MoneyWise GPR cards will be available at **7-Eleven** store locations nationally by early 2012. The agreement positions 7-Eleven as the largest retail seller of MoneyWise prepaid cards in the United States, Western Union said.

ACQUISITIONS

Blackhawk jumps into exchange market

Blackhawk Network acquired San Francisco-based gift card exchange provider **Cardpool Inc.** to expand services to consumers. The addition of Cardpool provides users of Blackhawk distributed products a way to exchange gift cards online.

APPOINTMENTS

Hastings elected to NCA board

Lesley Hastings, Director of New Client Partnerships at The Members Group, was elected to the board of directors for the Northwest Card Association. Hastings, who joined TMG in July 2010 from her role as a national account executive at Western Union, is an expert in prepaid card processing.

Features

Union Privilege makes savings a plus

Economic pressures abound, forcing consumers to get creative to save money. Union Privilege, the consumer benefits arm of the AFL-CIO labor union federation, got creative too by including a savings account feature on its new Union Plus prepaid card.

"Workers and their pay checks are really being squeezed in this economy," said Leslie Tolf, President of Union Privilege. "We have 13 million union members and 3 million retirees who are looking for alternative ways of paying in this society. … And we said, what can we provide that's different than what's out there?"

The card, launched in July 2011, offers a 5.1 percent annual percentage yield on balances up to $5,000 and is being used by members of 63 unions as alternative bank accounts, Tolf said; members are depositing pay checks onto the cards and then directing portions of those funds into the savings account bucket.

"It's a very powerful financial empowerment tool for our middle-class members as they struggle to save more for their retirement and their kids' educations," Tolf added.

The union of need and solution

Union Plus cardholders are typically lower middle class economically and work as bus drivers, janitors, and in hotels and restaurants, Tolf said. They also often lack access to bank accounts and lines of credit, which accounts for one of the prepaid card's primary functions, as a tool for reaching short-term savings goals.

"People are saving for the next event, whether it be their kid's wedding or the refrigerator that they have to replace," Tolf said. "And it's just a nice way to put the money in a flexible situation. You're not having to park it at Wal-Mart or park it at a bank."

A second population of users are employing the card as a debt management device. "Many of our members don't want to be in the credit card world anymore," Tolf said. "And this is a way for them to discipline themselves around how they budget."

A third category of user are parents with college-age children. With companion cards farmed out to children, parents load the cards with cash and then track the spending of their children away at college.

United around low fees

Basic bank accounts are getting more expensive for consumers to maintain. With reduced debit card interchange revenues due to implementation of the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, some banks are starting to charge consumers fees on formerly free checking accounts, even adding monthly maintenance fees for the use of debit cards.

Such fees can erode the precarious account balances of people living paycheck to paycheck.

In August 2009, *The Financial Times* reported that U.S. banks were on pace to make $38.5 billion in overdraft fees that year. On the other hand, prefunded prepaid card




accounts are by definition overdraft resistant, Tolf said.

Inter National Bank is issuing the Visa Inc.-branded cards, and Rev Worldwide is processing them. Some of the card programs are being co-branded by particular union affiliations.

For example, the American Federation of Musicians recently launched its version of the Union Plus card for the direct deposit of not only payroll but also royalty payments. The card is expected to be especially helpful for traveling musicians.

Holiday gift cards get personal

As retailers begin to execute year-end strategies with expectations of ringing up robust sales this holiday season, many are tapping on-demand channels to bolster bottom lines. No longer restricted to physical kiosks for selling prepaid gift cards, larger merchants with online presences are going virtual with their open- and closed-loop card campaigns.

While many prepaid card providers continue to focus on producing millions of cards with few designs, Chicago-based Arroweye Solutions offers a slightly different approach.

The company, which specializes in customized gift, incentive and payment cards, is leveraging its on-demand technology to allow merchants and customers to personally brand the prepaid gift card experience.

"We provide the e-commerce technology and fulfillment," said Render Dahiya, Arroweye President and Chief Executive Officer. "We do it in a digital fashion, so there's a physical card being sent out where we use digital printing techniques.

"We have a fulfillment center in Nevada where we create the gift card, create the greeting card, put them together, put them in a nice envelope and send it to the recipient."

Instead of requiring merchants to order 100,000 gift cards in one static design, Arroweye offers diversity and variety. Dahiya said a customer who visits Macys.com, for example, can place a personal photo on the gift card, select an image from Arroweye's library of greeting card images, add a personal message and have it ship the next day.

For last-minute shoppers, the e-delivery option allows e-certificates to be downloaded by recipients, he said.

Arroweye adds physical greeting cards to the package because 50 percent of consumers buy greeting cards after purchasing gift cards, according to Dahiya.

Branding extends shelf life

Dahiya said gift card users tend to retain personally branded gift cards longer than generic cards, meaning fewer personalized cards are discarded, thus increasing the likelihood of reloads.

"I've heard of people using our gift cards, where they've uploaded their grandchildren's photo on it, and they've refused to ever give it away," he noted. "Adding customization or the ability to have a lot of designs makes it very relatable. It makes people keep them in their wallet."

Other benefits to merchants involve the increased revenues generated by higher load amounts on Arroweye cards, as well as additional spend beyond what's on the cards. "The consumers who choose our product put 20 percent more dollars on the gift card than the consumers who use a standard gift card," Dahiya said.

Furthermore, customers who use Arroweye spend on average between 15 to 20 percent over the value on cards, which makes retailers less focused on making money off the card itself and more on the additional revenue in products sold, he added.

Three trends to watch

Dahiya said smaller retailers have yet to adopt the Arroweye platform in substantial numbers, but the platform can be a key differentiator for midsized regional retailers and large national brands. "They're getting enough pop off of their e-commerce site to make this worthwhile," he said.

Testing of the merchant acquiring waters is underway at Arroweye, as the company recently struck a deal with an unnamed merchant acquirer. "If the client chooses to buy a gift card as part of what's being processed through them, the client can get co-branded gift cards that have their full color brand on them through us," Dahiya said. "This is the first time we've tried this, and so far we've seen really good rates of success with it."

For sales agents, Dahiya pointed to three notable prepaid gift card trends to watch this holiday season. First, retailers are ordering large volumes of gift cards, so expect to see a tremendous marketing push for gift card usage. Second, bounce-back programs are gaining in popularity.

"We've had very successful restaurants say, 'Hey, if you order $100 worth of gift cards, we'll send you a $25 gift card for free,'" Dahiya said. And, finally, retailers are beginning to integrate e-gift cards into their programs.

Thus, the 2011 holiday season seems poised once again to be prime time for gift cards, both virtual and plastic.

ResearchRundown

BRT issues national cyber security strategy

The Business Roundtable (BRT), a forum of chief executives of several leading U.S. companies, issued *Mission Critical: A Public-Private Strategy for Effective Cybersecurity*, a report calling for creation of a modern, flexible, collaborative approach to protecting national secrets and strategic information.

"Safeguarding America's strategic information systems, most of which are privately owned and operated, is 'mission critical' for U.S. business and government," MasterCard Worldwide President and Chief Executive Officer Ajay Banga said. "We need government to do its part by providing the tools only government can provide – including strategic threat assessments, technical assistance and much more robust public-private information sharing partnerships – to help businesses effectively counter growing threats."

The report's recommendations, which can be found at *http://businessroundtable.org/studies-and-reports/mission-critical/*, include:

- Integrating the resources of the U.S. government to protect U.S. strategic information systems
- Avoiding a prescriptive approach to cyber security that cannot keep up with a rapidly evolving threat environment
- Providing U.S. businesses with the tools to combat cyber security threats
- Strengthening cyber crime penalties and sentencing

"Mobile technology is changing the way people across the globe access information, and we're starting to experience the full capabilities of the digital revolution," said Dr. Paul E. Jacobs, Chairman and CEO of Qualcomm Inc. "However, the promise and potential of technology may be limited by growing cyber threats. America runs on information, so we must address the need for cyber security in order to realize the full potential of this revolution."

BRT's executive leaders represent U.S. companies with combined annual revenues of more than $6 trillion and over 14 million employees. Member companies comprise nearly one-third of the total value of the U.S. stock market and invest more than $150 billion annually in research and development.

Mobilizing strategies for retailers

Retail Systems Research LLC analyzed business drivers, opportunities and baseline mobile strategies being deployed by a range of retailers. The following chart reveals the mobile channel capabilities retailers prefer most.

Retail mobile capability preferences

Search for merchandise	**83 percent**
Store locator	**76 percent**
Receive coupons/offers	**63 percent**
Access product reviews	**61 percent**
Check order status	**55 percent**
Access product ratings	**54 percent**
Redeem coupons/offers	**53 percent**

Source: RSR Research, 2011 Benchmark Report, *Keeping Up with the Mobile Consumer*

"M-commerce and mobile contactless transactions, driven by their allure of convenience, are poised to promote 'less-cash' societies all over the world. Our usage surveys reflect a trend of mobile payments growing commonplace in the Western world, corroborated by the fact North American and Western European markets are geared up for the beginning stages of a full-fledged adoption of the digital wallet."

– Nizar Assanie, Vice President Research, IE Market Research Corp.

Source: *3Q, 2011 Global Mobile Payment Market Forecast 2011 – 2015*

Leveraging private-label in retail

A Mercator Advisory Group Inc. report, *Private Label 2011: Innovative Reward Strategies & Retail Lending*, reveals how retailers are revamping private-label programs to leverage sales and using rewards as a point of differentiation. Report highlights include private-label credit market trends during the past decade, a discussion of key features and best practices, and the potential impacts of these programs on future retail lending.

Durbin impact varies by state

From Oct. 1 to 16, 2011, Heartland Payment Systems Inc. collected state-specific data on the impact of the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Data from HPS' portfolio of 250,000 merchant locations found that for every $100,000 in Visa Inc. and MasterCard Worldwide signature debit and credit card volume processed, average savings per merchant nationwide was $260.24. Washington, D.C., merchants ranked highest, saving an average $333.94, and Montana merchants were lowest at $127.87.

Asia-Pacific to fuel card growth

Asia-Pacific is expected to move from the third to second largest card payment market in volume worldwide in the years ahead, according to the Research and Markets' report titled *Assessing the Payment Landscape in Asia Pacific*. It identifies growth sectors and factors driving change in global card payments, and projects debit will fuel the largest growth in cards circulated and payment volume.

CompanyProfile

POS Portal Inc.

ISO/MLS contact:
Joe Villamil
Vice President, Business Development and Sales
Phone: 916-993-4205
Email: *jvillamil@posportal.com*

Company address:
180 Promenade Circle, Suite 215
Sacramento, CA 95834
Phone: 866-276-7289
Fax: 916-993-4201
Email: *sales@posportal.com*
Website: *www.posportal.com*

ISO/MLS benefits:

- On-demand, modular system delivers CRM configured for merchant acquirers
- Hosted suite mitigates risk and manages sales leads, applications and transaction data
- System offers single-point control of residual income from multiple processors
- System automates distribution and deployment of merchant POS equipment and supplies
- Technical support caters to CRM and tactical needs of individual ISOs

A sales portal that virtually runs the office

Simultaneously satisfying merchants and galvanizing sales agents in the fast-paced world of merchant acquiring can be arduous for ISOs. But customer relationship management (CRM) and sales automation tools exist that can help payment professionals do just that.

Since April 2000, Sacramento, Calif.-based POS Portal Inc. has striven to set new standards not only for the merchant acquisition and boarding process but also for the ongoing delivery of merchant services. Today, the company is proud to report its automated POS equipment deployment services and on-demand, cloud-based solutions have thus far enabled scores of ISOs to secure long-term relationships with agents and merchants – and thereby maximize the profitability of their merchant portfolios.

Meeting of minds

Two people who have been instrumental in POS Portal's development are co-founders Kent "Buzz" Stryker, the company's President and Chief Executive Officer, and J. Benjamin Smith, its Chief Information Officer. Stryker, with 20 years' prior sales and deployment services experience, meshed perfectly with Smith, who brought to the venture equal tenure in software development, forensics and information technology.

"Buzz did the sales aspect and had the vision of how he wanted the software solutions to look uniquely tailored to the acquiring industry, and Ben had the development talent," said Joe Villamil, Vice President, Business Development and Sales for POS Portal. "We entered deployment services, providing equipment and just-in-time deployment services to the acquiring industry.

"We've also been in the equipment wholesale business since inception, and we've been providing software solutions for our clients … specifically sales automation and CRM applications for the merchant acquiring industry."

POS Portal operates two deployment facilities, one in Sacramento and the other in Louisville, Ky., and has the capacity to ship 6,000 orders daily. The company reportedly provides equipment deployment services to eight of the top 40 payment processors, who in turn serve the deployment needs of over 700,000 merchant locations nationwide.

According to Villamil, POS Portal serves everyone from Tier 1 acquirers to merchant level salespeople (MLSs). The company also has a niche providing equipment rentals "both in a white-label environment to our Tier 1 financial institution acquirers and a non-white-label solution that we provide to any ISO or MLS agent who would like to provide a rental opportunity in their portfolio," Villamil said.

To further advance the automation process, POS Portal released a free smart phone application that connects ISOs to POS Portal's Online Store. With POS Portal Mobile App (see "An app that could clench the deal," *The Green Sheet*, Feb. 28, 2011, issue 11:02:02), agents can view real-time pricing, check availability, and place orders for POS equipment and supplies.

"We needed something that integrated with our call center along with our sales team and our management team – one interface that we could all look into and see real-time updates on client activity, tracking prospects, closed opportunities, things of that nature."

Joff Moine, Chief Operations Officer at Infintech

Growing the P2 platform

The software side of POS Portal can be described as analogous to a large, professional software shop. "We have about 13 developers," Villamil said. He added that the company has distinct staff dedicated to information technology, quality assurance, project management and business management.

Scott Agatep, POS Portal Vice President, Product and Marketing, said the company's fleet of developers created its new platform, P2, which launched in 2010 and was built on Salesforce.com's web application platform, Force. com. "We're bringing a very modern, cloud-based CRM application that's preconfigured for the merchant acquiring industry," he noted.

Cincinnati-based merchant services provider Infintech LLC routinely boards 150 accounts each month and feels P2's CRM system has been essential in establishing the company as one of the area's fastest growing businesses.

"We're much more efficient, especially our tracking," said Joff Moine, Chief Operations Officer at Infintech. "We needed something that integrated with our call center along with our sales team and our management team – one interface that we could all look into and see real-time updates on client activity, tracking prospects, closed opportunities, things of that nature.

"This gave us that single-point solution that we were all able to interface with, and it's really made us a lot more efficient. We don't have things slipping through the cracks anymore."

Agatep pointed out that P2 is very much an end-to-end solution. He said it "goes all the way from a lead coming on the sales side and tracking all the activity around sales, through the back-office or application processing cycle of boarding that merchant and all the activities and statuses around that, to post-boarding activities of customer service, deployment, risk monitoring, chargeback management and all the post-boarding activities that an acquirer or ISO would need to do."

POS Portal indicated it is Payment Card Industry Data Security Standard compliant, and all of its online P2 modules for ISO office functions, residual payout and risk management are supported by fully redundant data centers. "We have two data centers, so there's an option to house transaction data at POS Portal," Agatep said. "It's a product called Transaction Data Hosting and it delivers that transaction data through P2 to our customers.

"The product itself has the ability to support the larger acquirers as well as support the smaller independent sales organizations that maybe have four or five users and are building their portfolio over time." He added that with the hosting service, ISOs can stay connected with multiple payment processors and simultaneously house all data in a secure environment.

The profit trackers

Another P2 module is the Residual Payout Engine, which allows ISOs to work with files from multiple processors.

"The product enables them to upload all files into our system and not only calculate residuals for all of their sales agents, be it W-2 or 1099, but it also provides them profitability and analytics from a portfolio level so they can see their entire portfolio within our P2 solution," Villamil said. "Once an ISO has calculated residuals using the payout engine, they can post residuals to the sales portal so that 1099 sales agents can see their overall profitability and see how much they're being paid by the ISO."

The authenticated sales agent portal provides agents a quick overview of which merchants are processing payments and which ones are not, Villamil noted. He added that P2 also "enables the ISO office to attract more agents, get more business, because they have their brand front and center of the agents who are out there in the market.

"They are offering them a tool that allows them to manage their opportunities as well as provide them the ability to see their payouts all in one spot rather than creating emails and phone calls and other offline sorts of communication."

Brady Nash, CEO of BNG Holdings Inc., a North Dakota-based ISO, also relies on POS Portal. "I'm the CEO, but I'm also a sales guy at heart," he said. He feels POS Portal makes it easier "to work with someone, reach an agreement to get their business coming to us … find what's going to work for them, whether it's lower rates, bonuses, high residual splits or free terminals, and really put together a package on a per case basis for the rep and still track it without any manual processes.

"Where I think a lot of companies really screw up is they don't give you the flexibility to control your compensation. [POS Portal's] CRM does a very good job of that, and what I mean by that is when you get income sources from different areas, there are certain things that ISOs want to be able to do."

Villamil offered an example of POS Portal's flexibility: ISOs working with referral partners to generate leads can have each partner enter leads directly into a referral partner portal. The partner can then track the status of each lead and monitor residual income through the system. "That's hard to come by in the industry, something that's affordable but yet is robust enough for people to use," Villamil said.

POS Portal also augments ISO residuals via online marketing. "[For] the large acquirer who we're co-branding, some email marketing goes out to their merchants, and then their merchants can order supplies and we'll fulfill the orders on their behalf," Villamil said. He added that residual income on each order is calculated and processed automatically.

Formula for success

"They get to know your business," said Moine of Infintech. "They flew out here, got to know us, got to know our salespeople, found out what we like to do, met with our call center, spent a lot of time with us getting to know our business and how we operate, especially in an industry where there are so many different ISOs.

"We all do things a little differently. They weren't trying to create a generic solution."

BNG's Nash agreed. "I work with a lot of different companies, and anytime there has ever been an issue or something needed to be fixed, they answer their phone, they answer their emails, and they work on it and let you know what's going on versus not believing you and not responding," he said.

Do problems arise? Sure. But POS Portal is "always working to make it better and they take our input, so that's pretty valuable," Nash said. "I really believe the CRM can manage your whole business. If that's not right, if your sales guys can't get accurate information, you're not going to keep your sales guys."

It appears POS Portal is in synch with its stated core mission: to provide exceptional service to the payments industry through partnership.

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1099-K reporting from page 1

The only businesses that don't require 1099-Ks are those that process fewer than 200 credit and debit card receipts, when the total of those receipts does not exceed $20,000.

must generate yearly, just as they now complete 1099 forms for contract workers. The 1099-K reporting requirement, which was passed into law as part of the Housing and Economic Recovery Act of 2008, goes into effect in Jan. 1, 2012, when the first 1099-K reports need to be generated and filed. The reports can be filed with the IRS electronically or as paper documents.

Meanwhile, at least three states (California, New York and Hawaii) plan to follow the IRS lead with new information reports for state tax filing purposes; so far, only California has called for backup withholding. "On its face, perhaps, it seems easy," said Jeff Fortney, Vice President, ISO Channel Management at Clearent LLC, a Missouri-based processor. But it takes a lot of time, money and effort to comply with the new IRS rules, he added.

Aite Group LLC, a consultancy headquartered in Boston, estimated that 35 percent of U.S. merchants were not in compliance with IRS 6050W, and that as many as 560,000 merchants (8 percent of the total) could still be at risk for mandatory withholding at the end of January 2012. For example, the IRS noted in a statement about its decision to delay implementation of the penalty and withholding requirements that it "does not apply to a payor who erroneously fails to file an information return or payee statement."

Filling a gap

Questions about the new IRS reporting rules also have been raised by government auditors. A report issued in July 2011 by U.S. Department of the Treasury said the new 1099-K form may actually hinder the stated purpose of the new reporting requirement: to match income from credit and debit card sales against income claimed by a business on its tax returns.

"We found that improvements must be made if this effort is to function as intended, which is to help reduce the tax gap," said J. Russell George, Treasury Department Inspector General for Tax Administration.

The tax gap refers to the total amount in taxes the IRS estimates it fails to collect each year due to income that is either underreported or not reported at all. In a report published in 2009, the IRS estimated the cumulative business sector tax gap was $345 billion a year between 1996 and 2001 (the most recent period for which complete data was available).

After accounting for taxes collected through enforcement actions and other late payments, the net amount of the tax gap was $290 billion a year, the IRS said. To put this into perspective, consider that the stop-gap spending bill passed by Congress in late September 2011 provided roughly $150 billion to keep the federal government running for not quite two months.

In a 2009 report – *Update on Reducing the Federal Tax Gap and Improving Voluntary Compliance* – the IRS said it was committed to narrowing the tax gap through increased enforcement and working with Congress on new legislative initiatives. In the case of the 1099-K requirement, the idea is to provide the IRS with a clearer picture of how much money a business brings in by comparing its yearly bankcard receipt tallies to amounts reported on the company's tax filings.

The requirements apply to all but the smallest merchants. The only businesses that don't require 1099-Ks are those that process fewer than 200 credit and debit card receipts, when the total of those receipts does not exceed $20,000. Failure to file the form, or to do it correctly, can result in hefty fines to the banks/acquirers responsible for filing the forms with the IRS.

The IRS estimated the information it collects via the new 1099-K will lead to the addition of almost $10 billion in tax revenues to federal coffers in the first 10 years. There are questions about the accuracy of that estimate, however. "While the Department of the Treasury made its own estimate of the benefits of this law, the IRS currently does not have a completed estimate of how much it expects to collect," the Inspector General's office wrote in its report.

That report also noted the impact of the new rules on the IRS could be substantial. "[T]his new requirement will add millions of additional information reporting documents to IRS computer systems," the Inspector General's office noted in a press release highlighting the report.

That report – *Plans for the Implementation of Merchant Card Reporting Could Result in Burden for Taxpayers and Problems for the Internal Revenue Service* – took the IRS to task for several shortcomings in its implementation plans. For example, it pointed out that the new Form 1099-K requests gross card receipts, an amount that for many can include cash-back amounts that do not constitute revenues.

Tedious and costly

From the perspective of acquirers and other third-party settlement agents covered by the new rules, collecting and verifying the information for the reports and then distributing 1099-K forms to clients and the IRS is a process fraught with complications and added costs.

Aite puts the average cost of compliance at $17.60 per merchant per year. Smaller ISOs will be hit particularly hard, Aite said in an Impact Note, *U.S. Merchant Acquiring and 1099-K Regulation: Christmas Comes Early.* In some cases, small business compliance could end up costing twice the per-merchant average.

Fortney called it a huge financial hit for Clearent. He said only the cost of a new processing platform, implemented four years ago, exceeded what Clearent spent developing a system to ensure compliance with IRS Section 6050W; in terms of time and effort spent in preparation, IRS reporting rivals what Clearent spends on PCI DSS compliance.

Aite surveyed leading stakeholders in the acquiring sector this summer to get a handle on implementation issues. The biggest challenges cited were:

- Cleaning up databases and ensuring merchant TINs and legal names match up perfectly with how the IRS identifies them
- Upgrading and/or developing systems and processes from scratch for everything from boarding merchants to mandatory backup withholding
- Dealing with opportunity costs that arise when projects get delayed because resources need to be refocused on the new reporting rules
- Struggling with lack of clarity and support from the IRS
- Managing customer service nightmares triggered by mandatory backup withholding (at least half of all processors are fearful of losing merchants over mandated withholding)

Some banks and acquirers have said they don't intend to deal with backup withholding – opting to cut clients loose rather than deal with the hassles of the mandate. Others have said they may threaten to freeze the accounts of merchants with incorrect/missing information.

"It's much easier from a logistical standpoint," said Greg Cohen, President of Moneris Solutions USA. Most merchants that haven't responded to queries for correct TINs and related information either did not receive notices, or they did and just haven't gotten around to the task, Cohen said. But he added, "If you threaten to hold all their money, they're going to get around to it."

Section 6050W requires that the IRS reject any 1099-K with erroneous or missing TINs or other information, and penalize the bank/acquirer/processor $100 for each rejected form.

And the hoops don't stop there: there are strict requirements and deadlines for correcting and resubmitting rejected 1099-Ks, as well as a backup withholding mandate (28 percent withholding) that kicks in for any business with incorrect or missing TINs. Going forward, several acquirers and ISOs said they intend to integrate IRS 6050W requirements into the initial underwriting processes.

'Quirks' in the system

In an effort to get out in front of anticipated rejections in the first go-around of reporting, however, ISOs and their partners reported they are spending countless hours accessing an online registry for validating TINs. Apparently, the number of people trying to access the IRS-run registry has overloaded the system; ISOs report spending up to three hours a day trying to access it.

Other sources of frustration include IRS-established merchant category codes (MCCs) that differ from the MCCs Visa Inc. and MasterCard Worldwide use and a system quirk that doesn't recognize apostrophes. In other words, a business legally named "Joe's Pub" has to be registered with the IRS as "Joes Pub," and the required MCC is probably not the same one used on its processing contract.

As the Treasury Department's Inspector General's office noted, the sheer volume of new reporting documents will make it difficult to resolve information mismatches before mandatory withholding requirements kick in. That was one of the reasons the IRS gave for delaying startup of mandatory withholding until 2013.

While the delay was welcomed, experts agree time is a wasting for those not focused on complying with the new reporting requirements. "We really need to remain diligent," Fortney said. Some companies might also use the time to determine how best to recoup some of the money spent preparing for the new reporting requirements. Although IRS rules specifically prohibit charging fees for the distribution of 1099-Ks to clients, many have adopted what are being labeled "regulatory compliance fees" to cover costs associated with new reporting and other requirements.

"There are going to be real costs incurred with this," Fortney said. He thinks fees in the range of $30 a year are fair; recent posts to *The Green Sheet*'s MLS Online Forum suggested some acquirers are assessing compliance fees that exceed $100 a year.

Troy Thibodeau, Executive Vice President at Convey Compliance Systems Inc., a Minnesota firm that specializes in 1099 reporting solutions, doesn't believe these fees will hold up over time, however. He pointed to the recent backtrack by many large banks regarding debit card fees. Convey's experience suggests companies that make new 1099 reporting compliance customer friendly will fare better over the long term. "This can be a point of competitive differentiation; it doesn't have to be just another cost," Thibodeau said of the reporting process.

Legislative update, November 2011

Federal regulation is having a significant impact on the payments industry. Many payment businesses have spent 2011 wrestling with the new Internal Revenue Service 1099-K reporting requirements contained in the Housing and Economic Recovery Act of 2008. The industry is also creating new pricing structures in the wake of debit card interchange caps imposed by the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

This year lawmakers introduced a plethora of bills aimed at increasing the security of personal information used in transactions and mitigating the effects of the Durbin Amendment. Below is an update on this federal legislation.

H.R. 3156: The Consumer Debit Card Protection Act
Purpose: This bill would repeal the Durbin Amendment.
Sponsor: Rep. Jason Chaffetz, R-Utah, and Rep. Bill Owens, D-N.Y.
Status: House Financial Services Committee

H.R. 3190: To amend the Federal Deposit Insurance Act to prohibit insured depository institutions from charging consumers fees for the use of debit cards
Purpose: Some banks are attempting to recover revenue lost to the Durbin Amendment debit card interchange cuts by imposing fees for using debit cards. This legislation would block that practice.
Sponsor: Rep. David Cicilline, D-R.I.
Status: House Financial Services Committee

S. 575: Debit Interchange Fee Study Act of 2011
Purpose: This Senate bill calls for a study of debit card interchange fees.
Sponsor: Sen. Jon Tester, D-Mont.
Status: Senate Banking, Housing, and Urban Affairs Committee

S. 1408: Data Breach Notification Act of 2011
Purpose: This bill would require federal agencies and persons engaged in interstate commerce who are in possession of data containing personally identifiable information to disclose any breach of that information.
Sponsor: Sen. Diane Feinstein, D-Calif.
Status: Passed Senate Judiciary Committee Sept. 22, 2011. Scheduled for debate.

S. 1535: Personal Data Protection and Breach Accountability Act of 2011
Purpose: This bill would strive to lessen the impact on consumers of personal information theft, require breach notification, hold companies responsible for breaches, help facilitate the sharing of information among companies after a breach, and increase penalties for data theft and computer fraud.
Sponsor: Sen. Richard Blumenthal, D-Conn.
Status: Passed Senate Judiciary Committee Sept. 12, 2011. Scheduled for debate.

S. 799: Commercial Privacy Bill of Rights Act of 2011
Purpose: This bill would put the Federal Trade Commission in charge of creating and policing personal identification security regulations.
Sponsor: Sen. John Kerry, D-Mass.
Status: Senate Commerce, Science, and Transportation Committee

H.R. 1707: Data Accountability and Trust Act
Purpose: This bill would set security policies and procedures for protecting personal data. It also would require nationwide alerts when personal data has been stolen.
Sponsor: Rep. Bobby Rush, D-Ill.
Status: House Energy and Commerce Committee's Subcommittee on Commerce, Manufacturing, and Trade

H.R. 1841: To protect consumers by requiring reasonable security policies and procedures to protect computerized data containing personal information, and to provide for nationwide notice in the event of a security breach
Purpose: This bill would make the FTC responsible for creating regulations requiring anyone storing sensitive personal information to have appropriate security and procedures in place.
Sponsor: Rep. Clifford Stearns, R-Fla.
Status: House Energy and Commerce Committee's Subcommittee on Commerce, Manufacturing, and Trade

S. 890: Fighting Fraud to Protect Taxpayers Act of 2011
Purpose: This bill would increase penalties for password and personal identification theft and other forms of computer fraud.
Sponsor: Sen. Patrick Leahy, D-Vt.
Status: Judiciary Committee's Subcommittee on Administrative Oversight and the Courts

S. 1434: Data Security Act of 2011
Purpose: This bill would attempt to protect consumer information and require notice of security breaches.
Sponsor: Sen. Thomas Carper, D-Del.
Status: Committee on Banking, Housing, and Urban Affairs

More details on current legislation can be found at *www.greensheet.com/legislation.php.*

ISO SUCCESS

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

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

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

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

THE HARBORTOUCH ADVANTAGE:

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

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

Our merchants are talking too...

Dave
from Jake's Bar & Grill

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

ABOUT INSTALLATION & TRAINING:

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

ABOUT EFFICIENCY:

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

ABOUT CUSTOMER SUPPORT:

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

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

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

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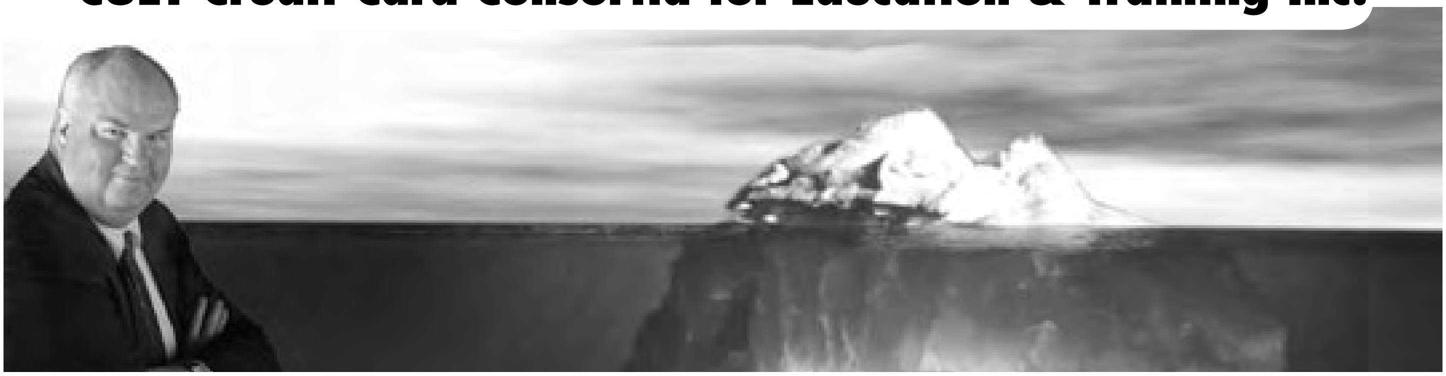

Agent training – more than taking a test

By Bill Pirtle
C3ET Credit Card Consortia for Education & Training Inc.

In my third Street Smarts article, "Let's reform our industry's education and training," (*The Green Sheet*, May 9, 2011, issue 11:05:01) I discussed the education of ISOs and merchant level salespeople (MLSs). I am revisiting the topic due to a discussion that arose on the GS Online MLS Forum regarding the Oct. 1, 2011, application deadline for the first round of testing for the Electronic Transactions Association's Certified Payment Professional (CPP) program.

In a post **JDECKARD** asked the following questions:

- "If a training program were to be created that would take an individual with zero industry knowledge and produce an agent that could hit the bricks and converse intelligently with a merchant, what do you think it should teach?
- If you were going to hire that agent after he completed the program, what would you want him to know?
- What do you wish you had been taught before you had to 'learn it the hard way'?
- What are the questions that you get asked a hundred times by new agents that you wish someone would have taught them?"

MBRUNO, who works in business development at Payment Logistics, said he is very involved in the training of new agents. He is the author of a training guide designed to streamline the education of agents at the ISO. He prefaced the following list with the assumption that a new agent has the necessary innate selling ability.

Education index

Following is **MBRUNO**'s list – in order of priority:

"1. Understanding our industry is all about follow-up, and there's more to it than just pricing or rates. Sell on savings, lose on savings. Always include a value add. You don't work for Visa or MasterCard, etc.

2. General understanding of pricing so they can provide realistic expectations to merchants and spot troublesome IC categories (i.e. EIRF [electronic interchange reimbursement fee]). This is not necessarily enough knowledge to be able to create their own proposals, but enough so they can talk intelligently about a competitor's statement and the like.

3. Knowledge of popular terminals, POS systems and payment gateways. For terminals, they should know enough to build their own files and perform a basic download for at least three or four popular terminals (even if they need a cheat sheet). The ISO may take care of this for them, but it's good to know how to do this in a pinch.

For POS systems, they should know how the top systems in the area/their market integrate with the networks and what may/may not be needed. For payment gateways, know the popular ones and which ones your company supports.

If there's an in-house gateway, know the pricing, the benefits and in what situations would the gateway be applicable. Knowledge = Creditability. Creditability = Trust. Trust = Applications.

4. Knowledge of company products and policies. New agents (and seasoned agents who start submitting deals to a new ISO) should review corporate websites, documents and schedule training on products with their support staff as soon as possible. You can't sell what you don't know.

   Likewise, making sure you know the company's 'way' will eliminate delays in boarding and reduce frustrations on both sides."

Don't spill your candy

After an ISO executive sought to clarify whether the agent seeking the training was sending business to the ISO, **JDECKARD** replied, "I'm not asking anybody to 'spill their candy.' I was thinking more in general terms, the questions that get asked on the Forum every time a new agent manages to find his way here."

Everyone seems to want to complain about the lack of knowledge and training new agents have, yet nobody really wants to provide it for fear that they may be training their competition.

So, if you were new to the industry and didn't have years of experience or connections, hadn't yet found *The Green Sheet*, and didn't want to get turned into a 'flying monkey' (a *The Wizard of Oz* reference meaning agents and ISOs that mislead merchants), what information would you want to have?

"We take training very seriously at Merchant Warehouse," **SMAILS** said. "There are two weekly trainings required for new agents: one is procedural (paperwork, underwriting, pricing, etc.) and the second is sales training (I personally do that training every week).

"As we all know, there is no magic formula to sales in this industry, but I try to give our agents some tips and advice on good ways to spend their time and hopefully sign on good merchants and a valuable portfolio.

"We also send out a monthly training calendar to our agents. This month we are having eight separate training sessions on everything from statement analysis and pricing strategies to selling POS, Durbin and more.

"As most of you know, we also have Merchant Warehouse University (*www.mw-university.com*) where we provide training to anyone in the industry. There are currently 14 archived webinars and three scheduled for next month.

"This might be perceived as 'training the competition,' but we think it's important to get information out to the industry. I'm not trying to make this post into a MW commercial, just answering the question. To answer with a 'broad stroke,' I don't think agents can get too much training on any topic pertinent to our industry."

MXS added, "I have been training sales agents for 11 years now. After taking a few years off, I am just now starting to hire and train sales reps again. I guess the first question would be, 'Are you hiring sales reps or agents?' There is a big difference! I have looked at hiring and training agents and, after only a short time, I will never try that again.

"We only hire sales reps and train them on the different fees that are charged to merchants and how to sell our services to the merchant.

"As far as teaching them how to read statements, we are not even going down that road with them. We will have the rep fax the statement to us, and we will email or fax them back how much we can save them and different things about our services.

"But you have to remember, we are not training MLS/agents; we are training sales reps. They get paid from each merchant that is signed and, if they sell equipment, we pay them for that.

"We know going into this that most sales reps will not last more than 45 to 60 days unless they really work hard. And the truth is, out of 500 sales reps, we might find two who will be able to make the move over to being an MLS/agent. It is a numbers game."

Relying on guidance

While this thread was gathering input from Forum members, I began another thread to find experts for a new training book I have in development. I also asked MLSs and small ISOs about topics that they would like to see in a training guide.

THECREDITCARDMAN gave us a good list. "If I were writing the book, I would structure it like the timeline of my experience in the industry," he wrote. Following are the chapters he proposed:

1. What intrigues me
2. Picking a partner
3. Contracts
4. Prospecting
   4a. in person
   4b. on the phone
5. The presentation, a & b

6. Overcoming objections
7. Understanding interchange
8. The close
9. Basic BC math
10. Add-on products
11. Does post-sale service matter?
12. Understanding your residuals
13. Hiring agents, 1099 or W2?
14. Managing an office
15. Terminal types, a tech guide
16. POS
17. What is PCI?
18. Registering, does it make sense for you?
19. Training agents
20. Exit strategy
21. Glossary

"I did not mention ethics," **THECREDITCARDMAN** added. "Sometimes giving examples of unethical behavior teaches otherwise ethical people to adopt a 'me too' mentality in search of a shortcut and a 'grass is greener' philosophy."

Can you test for ethics?

The topic of ethics is critical. It does not just entail explicitly distinguishing good behavior from bad. Ethics is about teaching agents, both new and established, the right way to do things.

For some reason, people in the industry want to see a connection between the CPP program and education or training modules being developed by several companies, including my own. I believe there is much more to an educational book or program than simply helping agents to pass a test or obtain a certification.

The CPP is designed to test the knowledge of people with at least three years of experience in the payments industry and certify those who pass the test. Whether people with three years' experience will pass such an exam depends on training by their processors. And training varies greatly between processors – some require book work, some computer-based training and some give their agents as little information as possible.

In the next couple of years, several books and industry training programs will come on the market. It is up to the ISOs and the MLSs to decide whether they simply want to pass an exam for certification or if they want to get more comprehensive tools, training and tips from industry experts to be successful in this industry.

The CPP can help the industry, but complete training materials will be needed to help agents master the industry for their own success – three years before they are eligible to even take the certification exam.

What you do today determines your tomorrow.

Bill Pirtle is the President of C3ET Credit Card Consortia for Education & Training Inc., a joint venture with Theodore Svoronos of Merchant University. Created to establish a comprehensive training program for ISOs and merchant level salespeople, C3ET is working with industry experts to produce a training guide to be published in early 2012. Bill's email address is billpirtle@yahoo.com. *He welcomes all connections on Facebook and LinkedIn.*

When big money meets small ISOs

By Adam Atlas
Attorney at Law

For certain businesses, big money is cheaper to come by than ever. As a result, some of that money is finding its way into the payments niche. The purpose of this article is to share a few thoughts on this development, which is exciting but risky for all concerned.

One person's money

Private equity investment cash – some of it borrowed at historically low interest rates – doesn't have the same gravitas as the money earned by feet-on-the-street sales organizations that grew their residuals one merchant at a time. These differing perspectives actually make for a good marriage.

Investors from the mergers and acquisitions world – having lost principal in markets like real estate and dot-coms – are stunned to find a business model that earns money in a reasonably predictable way. ISOs, on the other hand, have for years been turned away by traditional banks for financing and are delighted to meet investors willing to compete to lend to them or purchase their portfolios.

Valuation for the investor

Investors from outside our industry often think in terms of multiples of annual earnings. A starting benchmark for investing in traditional businesses is the premise that a business is worth about twice its annual revenue. Then, investors may increase or decrease the multiple as a function of the specific characteristics of the business.

For instance, the business may show great promise of growth or have rights to a coveted patent. Or investors may get carried away by a simple idea, as in the case of Groupon Inc.

The challenge for investment firms from outside the industry is to understand the ISO perspective and translate that into something meaningful for their investors.

Valuation for the ISO

ISOs and merchant level salespeople (MLSs) evaluate their portfolios as a function of monthly multiples. In very broad strokes, the range is about 10 to 50 times monthly residuals. In Wall Street parlance, that translates to about one to four times annual earnings.

ISOs have the challenge of receiving residuals from more than one source, such as one or two acquiring relationships, check processing, gift card residuals, and automated clearing house processing and leasing. ISOs see all of these sources of income as parts of one basket.

ISOs then have the challenge of explaining to investors new to the industry why these various sources of income can be grouped together or how to sever them if an investor is looking to buy only some of them.

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Defining residuals

A key provision in a purchase or investment deal is the definition of residuals. This asset can determine other important trigger points in the deal, such as earn-outs of the purchase price, entitlement to future buyouts, duration of exclusivity, and pricing on new deals.

Having advised on a number of investments for lenders, borrowers, buyers and sellers, I have concluded that taking the time to properly define residuals is of enormous benefit to all concerned.

For example, are they calculated before or after agent payouts? Are residuals calculated with or without Payment Card Industry Data Security Standard compliance fees, IRS fees, and annual and minimum fees, etc.?

Some deals work as a function of not only actual residuals but also the rate of growth of new residuals, merchant count or merchant processing volume. The individual set of variables changes from deal to deal, as different ISOs have different qualities.

For example, some ISOs get new merchants only through call centers and rely on monthly minimums as a major source of residuals. Other ISOs sell only face to face and rely on lease revenue as a major residual source.

Documenting the transaction

In our industry, big-money investors often bring their own law firms into transactions – firms with expertise in many fields, except merchant acquiring. This is advantageous to ISOs because law firms from outside our industry are not usually equipped to adequately protect their clients from the rough and tumble world of ISOs, MLSs and some of the pirates in our marketplace.

Yet bringing nonindustry lawyers into transactions is bothersome to ISOs because it tends to make the deals paper-heavy and much slower to close. We have advised on agent buyouts that range from two-page buyout agreements to deals exceeding one hundred pages of documentation.

The length of the agreement is not usually an indicator of its quality. However, it is usually an indicator of the transaction's legal fees.

Processor rights

Keep in mind that most ISO agreements contain confidentiality clauses. If an ISO discloses to a potential investor the pricing applicable under the ISO agreement without the consent of the ISO's processor, the sales organization may be in breach of its agreement.

ISOs are sometimes reluctant to speak to their processors about possible investments or acquisitions because either could be perceived as a sign of weakness. ISOs should take comfort that, if they are meeting their commitments, their processors should not meddle in the financing.

Another factor to remember is the processor's right of first refusal for residual sales often granted in ISO agreements. While processors rarely exercise that right, it is important to grant the right to the processor in order to avoid surprises or, more importantly, breaches.

Not selling

ISOs have their own reasons to sell or seek financing. Some need cash to expand their businesses or pay off personal debts. Readers should know, however, that a good number of agents and ISOs decide never to sell. Even compared to a sale at a high multiple, an ISO that provides good service to its merchants will earn more money over the long run if it does not sell.

Think of it this way: investors would never buy a portfolio unless they believed it would earn more over time than the purchase price. When a buyer dangles offer numbers in the hundreds of thousands or millions of dollars, a typical ISO will find it difficult to refuse. ISOs should, however, consider the option of not selling.

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Country-specific alternative payments

By Carrie Hometh
RocketPay LLC

Just as customers prefer to make purchases in the currency of their own countries, they also favor specific payment types. Online retailers have found that working effectively with international customers means they must offer locally preferred payment types.

While traditional credit and debit cards are utilized heavily in the United States and the United Kingdom, that is not the case throughout the world. The best example of this is in Germany where 70 percent of all online transactions are conducted using nontraditional payments. Research has shown that 24 percent of customers, globally, will abandon sales if their preferred payment options are not available.

Common types of payments used internationally

What are the types of local payments used online internationally? They fall into four categories:

1. Real-time bank transfers
2. Prepaid or domestic cards
3. Vouchers
4. E-wallets

Let's take a moment to define these categories.

- **Real-time bank transfers** allow consumers to make instant bank transfer purchases from their banks. Examples of this type of payment are regional – such as GluePay in Europe. Or they are country specific or locally used. For example, in Slovakia, consumers use Sporopay; in Germany, they select Sofortuberweisung.de or GiroPay; in the Netherlands, they use iDeal; in Spain, they employ laCaixa; and in Finland, they use Euteller.
- **Prepaid or domestic cards** can be loaded online or in a store, and then either used in another store or in an e-commerce environment. Examples of this type of card used internationally are the Neosurf relied on by consumers in France, Italy, Spain and Belgium, and the toditoCash used in Mexico.
- **Vouchers** are types of local payments generated online and printed; then cash is paid in physical stores or outlets. In Brazil, consumers opt for the Boleto Bancario. In Chile, they use Santander. In Poland, they favor the eCard.
- **E-wallets** have generated buzz lately and are proliferating around the world. Consumers from Argentina, Mexico and Chile use the DineroMail. Buyers from Sweden, Norway and Denmark reach for the eWire.

How do Germans like to pay?

Germany is a widely used example of a country that prefers "alternative payments." Following is a chart listing the payment methods Germans prefer, along with the percentage of the population favoring each type:

Payment method	Percentage
Credit card	37.1
Bank transfer	27.8
PayPal	10.3
Debit card	8.5
Cash/check in mail	2.8
Cash on delivery	2.3
Money transfer	2.0
Prepaid card	1.1
Prepaid voucher	1.1
Google Checkout	0.1

Source: Datamonitor's *Consumer Attitudes to Online Payments 2009*

How to help merchants reach an international clientele

Let's say you are working with an e-commerce merchant who wants to expand his or her payment capabilities to be more appealing to German consumers. The real-time bank transfer widely preferred in that country is the sofortuberweisung.de. In fact, 31.1 percent of merchants in Germany are already offering this payment type. Offering this option is particularly important if your merchant wants to target young German shoppers because 66.7 percent of that demographic select sofortuberweisung.de when checking out.

Online merchants in the United States understand they need to offer automated clearing house as a payment type for their customers because it is a popular form of alternative payment in this country. Similarly, merchants selling in other countries must make informed decisions about the consumer payment preferences in those markets and then align with the appropriate partners to offer country-specific alternative payments. Sales increases and revenue will follow.

Caroline (Carrie) Hometh is the Executive Vice President, Sales for RocketPay LLC. She can be reached via email at chometh@rocket-pay.com; *via office phone at 978-255-3109, wireless at 978-807-5047 and direct at 978-462-3459; via the web at* www.rocket-pay.com; *via Facebook at* www.facebook.com/pages/RocketPay/142009625847128; *and via LinkedIn at* www.linkedin.com/company/rocketpay-llc. *She regularly tweets at:* http://twitter.com/rocketpay.

Visa to eliminate PCI DSS requirements with EMV – not

By Linda Grimm
Linda Grimm Consulting

Remember what your mother told you: if it sounds too good to be true, it probably isn't true. Don't change your sales pitch just yet; the Payment Card Industry (PCI) Data Security Standard (DSS) is not going away.

I've been hearing rumors about Visa Inc.'s push for adoption of EMV. For those of you unfamiliar with the acronym, EMV stands for Europay/MasterCard/Visa and refers to the chip-enabled devices that help to reduce fraud in face-to-face transactions. The comments I've been getting sound something like, Have you heard? Visa is going to eliminate PCI DSS compliance for merchants using EMV enabled devices!

Not so fast

Hmmm, really? While this sounds sexy and, I'm sure, makes a great sales pitch (Hey, Mr. Merchant, buy this chip enabled terminal from me for $200, and you won't have to mess with expensive and time consuming PCI DSS compliance), can it really be true?

Naturally, having a risk/compliance mindset, I was skeptical. I've been working with the PCI DSS and Visa's Cardholder Information Security Program for longer than I care to admit, and the notion that Visa would exempt merchants from complying with the PCI DSS just because they use EMV chip-enabled technology seems unrealistic and irrational to me.

If you talk to any self-respecting compliance or risk manager in the industry, I think you'll get a similar perspective. I am not saying EMV would not be an improvement in the security of transaction processing; it would be. However, to say that merchants don't have to comply with the PCI DSS is a stretch.

What Visa said

Let's take a look at what Visa is saying and what it really means. The Aug. 9, 2011, Visa Bulletin entitled "Visa Announces Plans to Accelerate Chip Migration and Adoption of Mobile Payments" states the card brand's plan includes:

- Merchant incentives to upgrade to EMV chip-enabled terminals
- Requirements for acquirer processors to support chip acceptance
- Introduction of U.S. liability shift policies

This is a noble plan and one I hope will help spur action within the industry to move to EMV chip-enabled terminals, as clearly that is a more secure method of processing than mag-stripe. However, let's look at what Visa is actually saying about PCI DSS requirements. Visa's Aug. 9 bulletin states it will waive PCI DSS compliance validation requirements to encourage merchants to invest in contact and contactless chip payment terminals.

Further, in the "Visa Expands Technology Innovation Program for U.S. Merchants to Adopt Dual Interface Terminals" bulletin, also published on Aug. 9, Visa describes the expansion of the Technology Innovation Program (TIP) into the United States, effective October 2012.

This program eliminates the requirement that eligible merchants annually validate their compliance with PCI DSS for any year in which at least 75 percent of the merchant's Visa transactions originate from dual-interface EMV chip-enabled terminals, in addition to meeting other qualification criteria.

That sounds easy enough. All you need is to process 75 percent of your transactions through an EMV chip-enabled terminal and your requirement to validate compliance with the PCI DSS is waived, right? Wrong. Note the terms in the above excerpt, key words are "eligible merchants," "dual-interface" and "other qualification criteria."

The nitty gritty

What, you mean there are other qualifications? My skepticism seems well justified at this point. What are the additional qualifications, you ask? They include:

- Terminals must be enabled to support both EMV contact and contactless chip acceptance, including contactless based on near field communication technology.
- The merchant must have validated PCI DSS compliance within the previous 12 months or have submitted to Visa a defined remediation plan for achieving compliance, based on a gap analysis.
- The merchant must have confirmed that sensitive authentication data (that is, full contents of magnetic stripe, Card Verification Value 2 and/or PIN data) is not stored, as defined in the PCI DSS.
- At least 75 percent of the merchant's total transaction count must originate from dual-interface enabled chip-reading device terminals.
- The merchant must not be involved in a breach

of cardholder data. Breached merchants may qualify for TIP if they have subsequently validated PCI DSS compliance.

- Merchants whose transaction volume is primarily from e-commerce and MO/TO acceptance channels are still required to validate PCI DSS compliance annually.

But wait, there's more: Visa will require the acquirer to submit a program application for each "qualifying" merchant, which will be reviewed, verified and approved by Visa. Additionally, the acquirer will have specific reporting requirements for qualified and approved merchants, the details of which were not published.

Not for mom-and-pops

And for anyone who still thinks that selling a merchant an EMV chip-enabled terminal will eliminate the merchant's burden to become and remain PCI DSS compliant, the coup de grâce, and I quote: "Although Visa may waive the annual validation requirement for qualifying merchants, all merchants are required to maintain ongoing PCI DSS compliance.

"Acquirers retain full responsibility for merchants' PCI DSS compliance, as well as responsibility for any fees, fines or penalties that may be applicable in the event of a data breach."

The world of "eligible" merchants has gotten very small; this push by Visa to expand EMV chip-enabled technology into the U.S. market is clearly directed at Level 1, big-box merchants, which make up what percent of your portfolio? I thought so.

As I mentioned before, this is a noble effort, and Visa's approach makes sense. Incent the big guys to adopt the acceptance technology, thereby creating an environment that will foster greater demand from consumers and, hopefully, result in greater adoption by issuers of initiatives to issue chip-enabled cards and lower fraud rates in the U.S. retail market.

However, this push does not impact the majority of merchants. The incentive for adopting the technology for the smaller merchant that will not qualify for the TIP program is a reduction in fraud and eventually a shift in liability, but that conversation is for another article.

Linda Grimm is a seasoned payments executive holding a Certified Information Privacy Professional (CIPP) accreditation who has worked for national and international merchant acquirers. She has extensive knowledge and expertise in the area of Merchant Acquiring Operations including risk mitigation and regulatory compliance. For questions or consulting services you can reach Linda at 707-834-5147 or via email at linda@lgrimmconsulting.com.

How does a credit card salesperson learn to sell POS?

By Jerry Cibley
United Bank Card Inc.

Over the past few months, I have written numerous articles regarding the shifting paradigm of the POS sales world. Recent articles contain information about how the traditional POS model is changing and the need to change with it, how controlling the POS can virtually eliminate customer attrition, and how to find the correct fit for the end user.

I have been contacted by many ISOs who have read these articles, and the central theme is focused around a single question: How can an ISO with limited or no POS knowledge compete against the likes of the seasoned POS salespeople?

A complex challenge

While the credit card sale and the POS system generally go hand in hand, they each require a distinct skill set and knowledge base for salespeople to succeed. If you work in a restaurant as a bartender, you probably have a pretty good foundation as a server.

If you are a server, odds are you are familiar with the inner workings of the kitchen and how it all goes together on a busy Friday evening. Such is not the case in the POS industry.

Previously, as a POS man, I knew only a tiny bit about the processing side of things. I was getting a residual stream on a monthly basis but was not involved in merchant boarding. I would simply pass on the name of the merchant to the ISO representative, who would sign the merchant and simply send a check to me at the end of the month.

Wow – was I in for a shock when I sold my business to a local ISO and became immersed in credit card processing and first learned to say "interchange" and talk in terms of basis points. The credit card processing business is complex in and of itself, but learning its inner workings allowed me to lift the profitability for my POS deals to new levels.

The webinar solution

In my current role, it is my job to teach ISOs how to sell POS systems. But how can you take 25 years of heavy duty POS experience and figure out a way of transferring that knowledge?

Well, I began with a series of webinars. My colleagues at United Bank Card Inc. and I created POS 101, POS 102, POS 103, etc., and focused on the fundamental concepts I learned through making sales presentations to restaurateurs 25 years ago.

I taught the basic lingo to my students and even had a section called "learning to speak restaurant." Words and phrases like "86," "in the weeds," "Expo," and "remote printer" suddenly had meaning to my group of neophyte POS trainees.

Each week we covered a new topic, and despite the fact that we were doing this all remotely, I was seeing something I never expected to see: repeat names on multiple presentations.

There was one man by the name of John who attended practically every webinar I offered. He must have sat through POS 101 at least six times, and he was not the only one. I questioned him, and he said he needed to have a complete understanding of the industry if he was going to be successful.

We, at UBC, agreed. We set up rigorous tests that required a grade of 85 or above to pass. I saw ISOs take these tests

We had ISOs and MLSs who chose not to hang out at a bar and socialize, opting instead to spend the entire evening practicing at the terminals. The following day we tested nearly 100 students.

multiple times; eventually they all passed. But they still were not ready to go out and demo against seasoned POS veterans.

The boot camp finale

We set up a POS boot camp in Ft. Lauderdale, Fla. We brought in 50 POS stations and enrolled nearly 100 ISOs and merchant level salespeople (MLSs) in our POS certification course. We brought a team of 10 POS technicians to help with the training and testing and had two and one-half days of intensive training on how to demo the software.

We allowed the attendees to practice and had the POS training room open from 8:00 a.m. until midnight every day. We had ISOs and MLSs who chose not to hang out at a bar and socialize, opting instead to spend the entire evening practicing at the terminals. The following day we tested nearly 100 students.

Although all did not pass at first, we worked with each of the students individually to make sure everyone achieved certification. I am certain that some of my graduates have prevailed in deals against some of the major brand names, and I look forward to our next training class.

If you wish to make the leap to selling POS systems, make certain the training you receive is comprehensive enough to position you against a seasoned POS salesperson.

Jerry Cibley is a 25-year veteran of the POS industry. He has been the founder of three POS dealerships servicing New England during his career. Today, Jerry is the National Sales Trainer for United Bank Card's Harbortouch POS division. As National Sales Trainer, his role with UBC is to train the company's sales partners on the intricacies of the POS business so that they can become POS experts themselves, ensuring their success with the free Harbortouch POS program. Jerry can be reached at jcibley@harbortouch.com.

CREDOMATIC announces

FREE POS SOLUTION for the iPad®

CREDOMATIC has partnered with **ORDYX** to offer bankcard professionals a cost effective Hospitality POS System that locks in the processing and offers a single source solution for both POS and Payment Processing.

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PR and press release basics

By Peggy Bekavac Olson
Strategic Marketing

Payment companies frequently ask me how they can promote their businesses so people know who they are and what they do. Marketing takes time and effort. As I've written previously, repetition using one or more marketing communications vehicles is key (for example, see "The remarkable results of repetition, repetition," *The Green Sheet*, Sept. 12, 2011, issue 11:09:01).

One effective approach to getting the word out about your company is utilizing public relations – especially press releases – to attract favorable media attention. Press releases can be a cost-effective marketing tool generating publicity and increased awareness to build credibility and enhance the image of your business.

Press releases can quickly and efficiently reach the masses while also spreading your message to targeted audiences, such as global media, analysts, investors, industry trade publications, social networkers, bloggers, customers and prospects. Press releases also provide valuable inbound links to drive traffic to your company's website and raise search engine rankings.

Information about a variety of newsworthy topics can be conveyed through press releases, including showcased products and services; personnel promotions and new hires; company awards celebrations, milestones and other accomplishments; financial information, funding sources and corporate changes; and upcoming events such as tradeshows and webinars.

The mechanics

A well-written press release provides reporters with the basic building blocks and information to develop news stories. Press releases follow a standard format that contains these elements:

- **AP style:** Write your news in AP style, as delineated in *The Associated Press Stylebook.* Having information presented in AP style enables journalists to quickly cut and paste portions of press releases into stories they are writing.
- **Logo:** Include your company's logo at the top of your release to build brand recognition and awareness.
- **Contact information:** Specify the name, phone number, fax number and email address for your company's media relations designee.
- **Timing:** The timing of your distribution, such as "For Immediate Release" or "Embargoed until Nov. 15, 2011, at 10:00 a.m.," should be listed in the upper left-hand corner in bold text with every letter capitalized. You may request an embargo for media to hold back your news until a specified date and time; however, the embargo may not be honored.
- **Headline:** Headlines make or break your press release. Grab the attention of journalists with a well-crafted headline that summarizes your news in boldface text. Be straightforward, using fewer than 22 words or 67 characters to facilitate proper indexing by search engines.
- **Subheading:** While not mandatory, subheadings work well to incorporate keywords not included in your headline and provide more detail about your news.
- **Dateline:** In bold lettering, the dateline contains the originating city and state of the press release (certain well-known cities are not followed by state names; see the AP stylebook for a list of those), release date, and newswire service used for distribution. For example: "Phoenix, Ariz., Nov. 15, 2011 (Business Wire)".

- **Lead paragraph:** The opening text answers the who, what, when, where and why questions about your news. Journalists reading only the lead paragraph should have everything they need to start writing their stories.
- **Body:** The main text of your press release is where you fully develop your message using explanation, statistics, background, quotes and other relevant details. It serves to back up whatever claims you made in the headline and lead paragraph.
- **Boilerplate:** A standard, one-paragraph description of your company, including items such as your company's name, stock symbol (if applicable), website address (URL), plus year founded, history, mission, vision, values and industry awards.
- **Close:** The symbol "###" appears after the boilerplate, indicating the end of the release.
- **Hyperlinks:** These link readers to specific destinations on your website or other pertinent sites that reinforce your message. They facilitate and deepen understanding. They also help search engines associate your content with websites, which improves release ranking. Additionally, creating links to specific web pages rather than simply linking to homepages boosts rankings.
- **Photos and video:** Images tell a story that requires little translation. Including pictures or other multimedia-like presentations, such as executive photos, charts, graphs, or promotional and instructional videos, in your press releases can substantially increase readership, click-through rates and search engine indexing.

Distribution

Paid distribution stands head and shoulders above free distribution. So for important press releases, use a paid newswire distribution service such as PRNewswire, Business Wire or PRWeb.com to obtain the widest possible coverage, along with detailed reporting. For less critical press releases, it's OK to use reputable free distribution services such as PR.com, PRLog or NewswireToday.

You can also send a press release directly to newspaper and magazine editors by pasting it into an email so editors don't have to click and open an attachment. It's desirable to build relationships with key journalists in your target markets. So a follow-up telephone call asking politely for coverage never hurts.

Another great way to expand and amplify reach is to post releases on social media sites like Facebook, LinkedIn, Twitter and blogs. And don't forget to add your press releases in a timely fashion to your own company website and blog. If your press releases are unique, interesting and newsworthy, they will be picked up by one or more media outlets for publication in journals, posting on websites, or airing on radio and television, and more. You may even be contacted for more information or an interview.

On the road to success

Surely the most important factor for public relations success is the content of your press releases. What you write about your company – the actual news – has the most impact on getting a press release found, seen and shared. Good content well presented, appropriately distributed and followed-up on should be your goal and mantra.

Remember the importance of repetition. Distributing a steady stream of press releases is a good way to attract favorable media attention and get the word out about your company.

So give it a whirl and experience what the power of publicity can do for your business.

Peggy Bekavac Olson founded Strategic Marketing, a full-service marketing and communications firm specializing in financial services and electronic payment companies, after serving as Vice President of Marketing and Communications for TSYS. She can be reached at 480-706-0816 or peggyolson@smktg.com. *Information about Strategic Marketing can be found at* www.smktg.com.

Managing infrastructure in a virtual world

By Tim Cranny
Panoptic Security Inc.

Virtualization is a hot topic. Many people in the payments industry are being forced to deal with the question of what happens when virtualization meets the Payment Card Industry (PCI) Data Security Standard (DSS) and related PCI standards. It turns out to be a complicated and important issue. So, this article will look at what virtualization is and how it impacts PCI and security in general.

Virtualization is not a single technology: It is an entire approach to building and operating technology infrastructure. The key idea is this: a modern technology environment needs to perform many different tasks, which usually means maintaining a lot of different servers.

Yet modern computers are very powerful, often more powerful than any single task really needs. One approach is to buy enough servers to dedicate each one to a single function. But running dedicated servers at partial capacity is inefficient and expensive. You wind up paying a lot to get more computing power than you truly need.

An alternative approach is to simply buy fewer servers and load them to perform multiple jobs. This saves money, but can be very messy and inflexible. Sometimes, different programs need fundamentally different types of servers, and programs can interfere with each other and cause problems. And at times, certain tasks need temporary additional capacity on their own servers, making the sharing of servers problematic.

Having our cake (and eating it too)

It seems we want an impossible combination. We wish we could run many tasks on a single server to save money. Yet we also wish we could have all these tasks running on their own servers to ensure that the programs don't interfere with each other. And for true flexibility, we'd also like the ability to magically create new servers of whatever type we need, when we need them. On a day when the web servers are being hammered, we want more web servers to become instantly available.

Virtualization technology comes surprisingly close to granting us all three of these wishes. Instead of just loading multiple tasks onto a single powerful server and hoping they live happily together, we use virtualization to simulate multiple "virtual" servers that run software side by side on the server hardware. This way, we can run different tasks within different virtual servers.

The real hardware server is therefore handling multiple tasks – our first wish – but each task is isolated as a single virtual machine (VM). And each VM uses just the right server type and operating system for its particular task – our second wish. Furthermore, if the real server has enough capacity, we can create more virtual web or database servers whenever we need them – our third wish.

Be careful what you wish for

Virtualization can work surprisingly well and lead to dramatic savings and efficiency in setting up a modern computer center. This is why so many organizations are moving to virtualized environments.

But it is critical that they realize virtualization was never intended to be a security boost for organizations. In fact, the technology introduces more security problems than it solves. We need to consider and address the reasons for this when evaluating an operation's PCI status.

The first and most fundamental point is that virtualization is complicated compared to the traditional inefficient-but-simpler server approach. And complexity is always the enemy of security. In a virtualized world, we have more things to worry about, such as a greater attack surface. You have to worry about the virtual machines and everything they do, which is almost identical to the security issues of nonvirtual servers.

Additionally, you have to worry about the real hardware server that underlies the virtual machines and the new virtualization-specific software that is required. The real server uses "*hypervisor*" software, which manages the VMs. The hypervisor is also called a virtual machine manager. If the real server or the hypervisor is taken over by an attacker, it follows that the virtual machines are also compromised.

Secondly, virtualization is still a young technology, which means the solutions and their security are still untested by time and experience. There could be systematic weaknesses with the current solutions that we haven't stumbled across. Furthermore, people don't have a deep pool of experience with virtualization security from which to draw.

Thirdly, some security concerns arise directly from the nature of virtualization. Potential weaknesses can come from data or attacks leaking from one virtual machine to another on the same underlying hardware server, from the VM to the hardware server or from the hardware server to the VM.

The situation becomes particularly complicated when you maintain multiple virtual machines of differing

The development of virtualization

This green technology got its start decades ago at IBM Corp. But VMware Inc. was the first to develop and market the software for broad commercial use, beginning in 1999. The technology enabled corporations to radically cut back the size of their server farms, thereby reducing expenses – especially the electricity to run and cool servers.

Virtualization also allows information technology managers to control and instantaneously update software on all corporate computers from a remote location and to simplify disaster recovery. Microsoft Corp. and others have since released their own virtualization technology. But VMware, which is projected to have $3.76 billion in revenue in 2011, is still considered the Mercedes in this category for its advanced functionality and security features.

security levels – for example a highly secured VM side by side with a less-secure sibling VM – together on a single hardware server.

Another situation occurs only in a virtualized environment: the entire virtual machine is ultimately software and data that can be captured, even accidentally, as part of a software image or backup of the real server.

This capture includes all the sensitive data the virtual machine was using at the time. Furthermore, a virtual server can easily be put into a dormant state that cuts it off from system updates and normal protective measures.

The 'scope' of the problem

Virtualization can be particularly messy from a PCI perspective, because much of the PCI DSS operates on the fundamental idea of *scope*: which systems are in play and which are not. Virtualization, by its very nature, confuses that issue.

Given all these problems, what should you do to protect a virtualized environment and your PCI compliance status? The PCI Security Standards Council recently released an information supplement (available at *www.pcisecuritystandards.org/documents/Virtualization_InfoSupp_v2.pdf*), which lays out the problems and offers advice.

Most of the advice is good and reasonable. But it is also regrettably very general and high level – for example, "Implement defense in depth," which is never wrong. The document is certainly worth reading, both to understand virtualization better and to plan the changes your security program will eventually need. At the end of the day, the key takeaway should be that virtualization can offer larger organizations significant savings in terms of infrastructure and resource management. But the technology complicates rather than simplifies security and compliance issues.

Organizations need to consider these negatives as well as the positives before deciding how to proceed. The worst possible approach is to ignore the security problems raised by the new technology.

Dr. Tim Cranny is an internationally recognized security and compliance expert and is Chief Executive Officer of Panoptic Security Inc. (www.panopticsecurity.com). *He speaks and writes frequently for the national and international press on compliance and technology issues. Contact him at* tim.cranny@panopticsecurity.com *or 801-599-3454.*

Caution: Assumptions ahead

By Jeff Fortney
Clearent LLC

The best sales reps know that assumptions place roadblocks before a successful sale, leading even to a failed sales attempt. They know how to avoid these roadblocks by following a simple mantra: never assume anything.

Hundreds of words in the English language are better left unsaid. Most of them are profane in nature, as you may have guessed. However, one word is so bad that if practiced, it could jeopardize everything you are working to accomplish. It has the ability to limit your revenues, hamper or even destroy your sales efforts, and ultimately cripple your business.

That word is "assume"; it is a dangerous concept. Salespeople can use it to talk themselves out of sales. For example, a merchant level salesperson (MLS) may assume a merchant knows why he or she is paying an extra fee. Therefore, the MLS doesn't see a need to explain it. Or the MLS might assume the merchant won't accept a given proposal, so the agent doesn't make the initial phone call.

Sometimes assumptions come into play when an ambiguous question is posed. Rather than asking for clarification of the question, the MLS might answer what is perceived to be the question. Since the question was not properly understood, the answer is likely to miss the mark. Moreover, the MLS is prone to another assumption: that the merchant understands the payments business.

Danger: Never assume

The best sales reps know that assumptions place roadblocks before a successful sale, leading even to a failed sales attempt. They know how to avoid these roadblocks by following a simple mantra: never assume anything. As you can imagine, this is not easy to do. The first step is to eliminate the word from your vocabulary. By intentionally avoiding the word, you reduce the temptation to make an assumption.

The second step is to recognize words and actions that mask assumptions. For example, we often use knowledge of the industry to examine a statement or discuss a merchant's current relationship. That knowledge can lead to conclusions that may not be true. In essence, an assumption is based on what we know, not on fact.

Stop: When in doubt, clarify

You can avoid drawing the wrong conclusion by seeking clarification, even when you think you know the answer. If you see an ambiguous fee on a merchant's statement that you think is for Payment Card Industry Data Security Standard compliance, say, "I see a monthly fee that has a unique name. Did you know this was here? Do you know what it's for?"

And when discussing a merchant's issues, you may assume you know your competitive advantages over the merchant's current processor. Instead of explaining these advantages, ask, "What do you think caused these problems with your current processor? How did he explain them?" In both cases, be specific and look for the facts from the merchant – not from your industry knowledge.

Even the best MLSs know they can fall into the assumption trap. But what you do next can free you from the trap and avoid the ill effects of assumptions. For example, in responding to a merchant's question, have you ever realized by the look on the merchant's face that you lost his or her attention?

When that happens, ask yourself if you made an assumption, and then apologize, assume responsibility and say, "I assumed that I understood your question, and obviously I didn't. Could you clarify it for me?" If you accept responsibility, the merchant will most likely give you another chance, allowing you to potentially salvage the sale.

Lesson: Take five

The last step is often the most difficult. Before responding to a question, count to five. By not rushing into a response, you are less likely to fill in missing facts instead of asking for clarification. No matter how exciting you think your answer will be, pause and count to five before responding.

Also, when you do make an assumption, know that it's not the end of the world. It happens to all of us. The key, however, is how you handle it. Instead of moving on as if you had not made an inaccurate assumption, admit your error and ask for clarification.

It will be well worth the effort, and that is not an assumption; it's a fact.

Jeff Fortney is Vice President, ISO Channel Management with Clearent LLC. He has more than 17 years' experience in the payments industry. Contact him at jeff@clearent.com or 972-618-7340. To learn about how Clearent can help you grow faster and go further, visit www.clearent.com.

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Five key lessons e-commerce merchants can learn from the 2010 holiday season

By Michael Duffy

Chase Paymentech Solutions LLC

The term "Happy Holidays" has been somewhat of an oxymoron to retailers over the past few years. As the economy tumbled in recent years, holiday retail fell right along with it. Even e-commerce retail, where double-digit growth rates had been the norm, saw a dramatic decline in growth rates.

Online retailers, however, have returned to growth much faster than their brick and-mortar counterparts, seeing modest year-over-year increases.

The 2010 e-commerce holiday shopping season finally brought with it a return to pre-recession growth rates, according to the 2010 Chase Paymentech Cyber Holiday Pulse Index (*http://pulse.chasepaymentech.com*). For the full season, year-over-year transactions rose 38 percent, sales grew 24 percent and average ticket declined 10 percent.

The Chase Paymentech Pulse Index presents year-over-year trends, providing historical context to holiday shopping statistics and identifying emerging online shopping trends.

The Pulse Index tracks millions of payment transactions daily throughout the holiday season, taken from a sample of 50 of the top U.S. retail websites as ranked by *Internet Retailer* magazine. Unlike similar data sources, the Pulse Index data reflects empirical merchant purchase data – it is not a consumer sample, a survey or an estimate.

Armed with this data, as we look to the 2011 holidays, there are some clear lessons that merchants should take away from the 2010 season.

Lesson one: Holiday shopping starts early

In early November, it was apparent that 2010 was going to have a different shopping season than the past two years. Early season transaction counts were trending much higher than in 2009, and year-over-year sales growth was consistently above 20 percent.

At peak season, the Pulse Index data clearly indicated that online shopping no longer begins on Black Friday. Thanks to the 24/7 reality of e-commerce, consumers began their shopping early, going online to take advantage of Black Friday deals before the physical stores had opened. More than ever, multichannel merchants took advantage of their online capabilities to extend shopping hours, and consumers clearly responded.

Lesson two: Cyber Monday matters, but don't ignore the rest of the week

The spending did not stop as shoppers returned to work. This season, Cyber Monday was the busiest single e-commerce day of the year, and by extension, in history. And the shopping fervor continued through the week, with data indicating record transaction and sales volumes for a single week.

Lesson three: Cyber Week is big, but the following weeks are bigger

The next week, beginning on December 5th, instead of showing the sharp spike of another Cyber Monday, the Pulse Index revealed that e-commerce shoppers logged on and made purchases all week long. And as we have seen in previous years, the following week, beginning on the 12th, fared even better, as buyers began to face shipping deadlines.

Also, with Christmas falling on a Saturday this year, the week of the 19th had an additional day or two for procrastinators to squeeze in a last-minute purchase without having to opt for overnight delivery. The end result was a record season for Pulse e-commerce merchants, with strong growth in transactions and sales volume.

Lesson four: Average ticket declines are not necessarily a bad thing

Average ticket size fell for a third straight year. Unlike previous years, however, the reasons for the decline were clear. First, lower prices for big-ticket electronics such as televisions and the expanded availability of lower cost computers such as tablets and netbooks pushed transaction values down.

Second, the rise of digital media, particularly music downloads and e-books, meant large numbers of relatively low value transactions. Mass market/variety retailers, many of which also do substantial business in electronics and media, saw impressively large gains in transactions and sales volume despite lower average tickets.

Lesson five: Vertical markets matter

Looking deeper into the Pulse data, we can see that there were some sharp differences among vertical markets. Apparel and shoe merchants had a good season, with strong average ticket growth. Toy sellers also challenged the lower average ticket trend, with overall sales growth of more than 25 percent.

Only the gift and jewelry sector indicated a decline in transactions but still managed a small increase in sales.

Taking the lessons into 2011

It's clear that many of the Pulse Index insights can be leveraged throughout the year. The weekly cycle of e-commerce has been true for years, and merchants can leverage peak weekday traffic and make efforts to drive sales on otherwise slow weekends.

The success of multichannel strategies may be replicated during other promotional periods, whether it's a holiday or back-to-school time. And the growth of digital media could have ripple effects across the retail landscape.

In the meantime, Chase Paymentech will continue to help merchants keep a finger on the pulse of e-commerce.

With more than two decades of payments industry experience, Michael Duffy leads Chase Paymentech Solutions LLC as President and Chief Executive Officer. He can be reached through John T. Murray, j.t.murray@jpmchase.com.

NewProducts

TIN matching simplified

Product: TIN Matching Service

Company: SecurityMetrics Inc.

The Jan. 1, 2012, deadline looms for businesses to report taxpayer identification numbers (TINs) and legal business names to acquiring banks or payment settlement entities.

Under IRS section 6050W, a requirement contained in The Housing and Economic Recovery Act of 2008, payment processors must have valid TINs and business names for all merchants serviced in tax year 2011, and then file 1099-K forms reporting gross payment card transactions.

In July 2011, merchant data security solutions provider SecurityMetrics Inc. introduced a TIN Matching Service to accommodate ISO compliance with the new federal requirements. The service has reportedly helped scores of payment processors recover and match millions of merchant TINs and legal business names not yet validated with IRS records.

Along with the burden of reporting merchant income shifting to acquirers, section 6050W also requires that all business records match IRS records. If business information is not verified properly, up to 28 percent of future payment card transactions can be withheld by the acquiring entity until the information is corrected.

(The IRS recently granted a one-year reprieve for withholding funds and for levying penalties because of erroneous information submitted on 1099-K forms, but reporting must go on as originally mandated.)

Designed for processors and ISOs that do not have the resources to effectively and completely validate each merchant in their portfolios, SecurityMetrics can simplify the process.

"We've worked with acquirers whose merchant TIN validations are 15 to 90 percent complete," SecurityMetrics Chief Executive Officer Brad Caldwell said. "The law requires 100 percent. Most merchant businesses can't financially handle the federally mandated 28 percent withholding of all card revenues.

"The SecurityMetrics TIN Matching Service is designed to alleviate the pressure of reaching out to an entire portfolio and makes the IRS TIN validation process easy for any acquirer to implement."

SecurityMetrics' TIN Matching Service offers:

- **Real-time status reporting:** Merchant acquirers can view TIN data validation progress for either a single merchant or the entire portfolio via SecurityMetrics' online Merchant Compliance Console.
- **Flexible communication:** The SecurityMetrics Communications Platform sends customized email and fax messages to merchants, with call center follow-up notifications to prompt merchants to respond.
- **Instant merchant validation:** Merchants have the option of validating or inputting TIN information online or through the call center.
- **Extensive data collection:** Beyond the required TIN data, SecurityMetrics also collects email, fax and address information to ensure merchant databases are accurate.

Having a reliable ally in generating correct and timely TIN reporting could be the perfect New Year's resolution for ISOs seeking to reduce merchant attrition and meet federal annual reporting mandates in 2012 and beyond.

SecurityMetrics Inc.

801-995-6340
www.securitymetrics.com

Authenticate and process with one touch

Product: OneTouch Mobile Payment

Company: Admeris Payment Systems Inc.

Mobile application downloads are projected to reach 50 billion in 2012, according to Chetan Sharma Consulting. Harnessing mobile payments into a platform that not only delivers high-level security but also offers ease of operation is no small feat. A Toronto-based company is convinced it has the answer and is willing to bet its patent-pending technology on it.

Canadian payment processor Admeris Payment Systems Inc. launched OneTouch Mobile Payment, a mobile payment technology that authenticates users and devices.

After initiating the first transaction, it can process all subsequent card payments with a single click, the company noted. The platform supports all primary smart phone models and older feature phones as well as mobile web or native applications. It also allows merchants to process both e-commerce and mobile commerce payments.

The tech savvy company was founded in 2007 by computer engineer Simon Law, Admeris President and Chief Technology Officer, with the support of an experienced team of managers and advisors in technology, mathematics, payments and business development.

When Admeris released OneTouch, its stated goal was to enhance the payment experience by improving the speed and security of authentication and by simplifying the payment process to eliminate consumer cart abandonment at checkout.

The turnkey platform reportedly resolves both issues using patented and patent-pending encryption and transaction verification processes.

To initialize OneTouch, an embedded mobile browser is launched during the user's first transaction. Once credit card information is entered, the data is linked with the mobile device to permit future payments that require customers to enter only a CVV or PIN to initiate transactions. No account setup, login and management are required by the consumer or the merchant, said Alexander Bosika, a consultant in Admeris' Corporate Communications department.

Mobile signature capture is also available with the technology and OneTouch reports sales details to merchants for accounting and inventory tracking.

According to Admeris, the system applies advanced fraud scoring and authentication based on dual-layer technology that encrypts nonpersonal smart phone identification with customer credit card information.

OneTouch's payment sessions are Payment Card Industry Data Security Standard compliant, and end-to-end encryption occurs within the application programming interface, the company said. Additionally, Admeris offers a multilayer ISO and agent split settlement tool with the program.

Admeris Payment Systems Inc.

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To compete with big-box stores for holiday shoppers, small retailers must leverage their unique attributes, one of which is that they are embedded in their communities. Customers who frequent locally owned and operated establishments tend to develop relationships with, and loyalty to, their neighborhood merchants. Such relationships often span decades. And those involved appreciate that buying local keeps dollars circulating in the local economy.

Self interest and social responsibility motivate people to spend money at local retailers: they want to help their neighbors financially, which in turn makes the community a richer, more desirable place to live.

You can 'go local' too

As an ISO or merchant level salesperson, becoming involved on a local level can be good for your business. You can raise awareness of your brand by developing strategies that help local communities of merchants.

One idea is to partner with local retailers and nonprofit organizations to contribute a share of bankcard processing profits to a charity. Merchants participating in such a program are likely to attract more consumers to their businesses, especially during the holiday season, which represents the spirit of giving.

The choice of nonprofit organization depends on particular vertical markets. For a hair salon that serves a largely female clientele, partnering with a local breast cancer awareness group makes sense. But for a bookstore or toddlers' clothing store, a charity that supports children's literacy seems more appropriate.

You will be rewarded

By fostering this type of generosity, you not only help merchants connect with their communities but also draw your customers closer to you. You demonstrate a deeper commitment to them and to causes that transcend the everyday utility of dollars and sense.

Once your program is underway, don't be shy about publicity. Use marketing materials, email newsletters and social media to promote your charitable efforts. The more businesses you reach with your vision, the more people will be influenced and inspired, and some of them just may send business your way. Helping others has its own rewards, but it can be profitable as well.

DateBook

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

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=ejlff1fe1fbkfc4fekei5

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*

Glenbrook Partners LLC

Glenbrook Payments Boot Camp

Highlights: Glenbrook Partners LLC conducts several Payments Boot Camps each year in the San Francisco Bay Area and New York City. The camps provide an opportunity to join other payments industry professionals in an intensive two-day program, which delves into various U.S. payments systems, addresses key issues and trends shaping the industry, and explores how emerging players will impact industry incumbents.

Glenbrook's Scott Loftesness and Carol Coye Benson will lead the interactive sessions, providing a cross-payments perspective on the industry as a whole; card payments and fraud; core systems and value chains in automated clearing house and wire transfer; emerging online, mobile, POS, chip and contactless payment technologies; and what forces are expected to drive adoption of new payment methods.

When: Dec. 7 – 8, 2011
Where: Network Meeting Center at Techmart, Santa Clara, Calif.
Registration: *http://paymentsessentials.com*

Inspiration

WaterCoolerWisdom:

There is a calmness to a life lived in gratitude, a quiet joy
– Ralph H. Blum

Choose to be grateful

As the Thanksgiving holiday approaches in the United States, the nation turns toward gratitude, at least for a little while. People prepare scrumptious turkey dinners for family and friends and enjoy each other's company. Some folks go around the table before the meal and ask each person to mention something he or she is grateful for; others give thanks privately in their own way.

The ways to mark the holiday are as varied as the people of this great land. It's good to remember, though, that giving thanks need not be limited to one day per year.

In fact, it's a good idea to focus on gratitude throughout the year. Why? Because research has shown that, compared to people who fail to be thankful for what they have, people who actively cultivate grateful thoughts tend to:

- Report fewer symptoms of illness
- Fall asleep faster and awaken more refreshed
- Feel better about their lives as a whole
- Recover more quickly from negative events
- Be more optimistic about the future
- Be more generous with their time and resources
- Feel more connected to their family, friends and community

Cultivating gratitude

Those attributes sound good, don't they? You may already be enjoying the benefits of a life focused on gratitude and have a thing or two to teach others about the subject. If so, I hope you send an email containing your tips to *editor@greensheet.com*. We just might publish it in a future Forum section of *The Green Sheet*.

And if you'd like a little boost in this area, here are some ideas to help you more fully appreciate what you have:

- **Keep a gratitude journal.** Write at least five things you're grateful for every day. Some people like to do this just before bed; they list things that just occurred during the day. Others like to do it upon waking; they say it helps them get off to the right start. Whatever time that works for you is fine; just commit to doing it daily.
- **Appreciate one person every day.** This can be someone you know or someone you've never met, someone who has done something significant for you or someone who's done something small in another corner of the globe, someone alive now or someone from history whose efforts are still benefitting you in some way (the Founding Fathers of the United States come to mind).
- **Find a buddy.** Enlist someone who will also commit to focusing on gratitude, and check in regularly with that person so you can help each other to stay on track. A daily phone call works for many; others meet in person weekly; for some, regular email does the trick.
- **Donate time to a worthy organization.** Choose a group with a mission that is dear to your heart. Even one hour a month will make a difference to the cause you select. This type of service will elevate your mood, too.

Strengthening ties

I can't say that doing these things will immediately increase your residuals as an ISO or merchant level salesperson, but these actions can improve the quality of your life. And if you genuinely and actively appreciate your merchant customers, their positive regard for you will increase, your interactions will be more enjoyable and your relationships with them will be fortified. That is bound to benefit your business.

So appreciate what you have personally and professionally today and always, and revel in the bounty the world brings to your door.

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Paul H. Green, President and CEO

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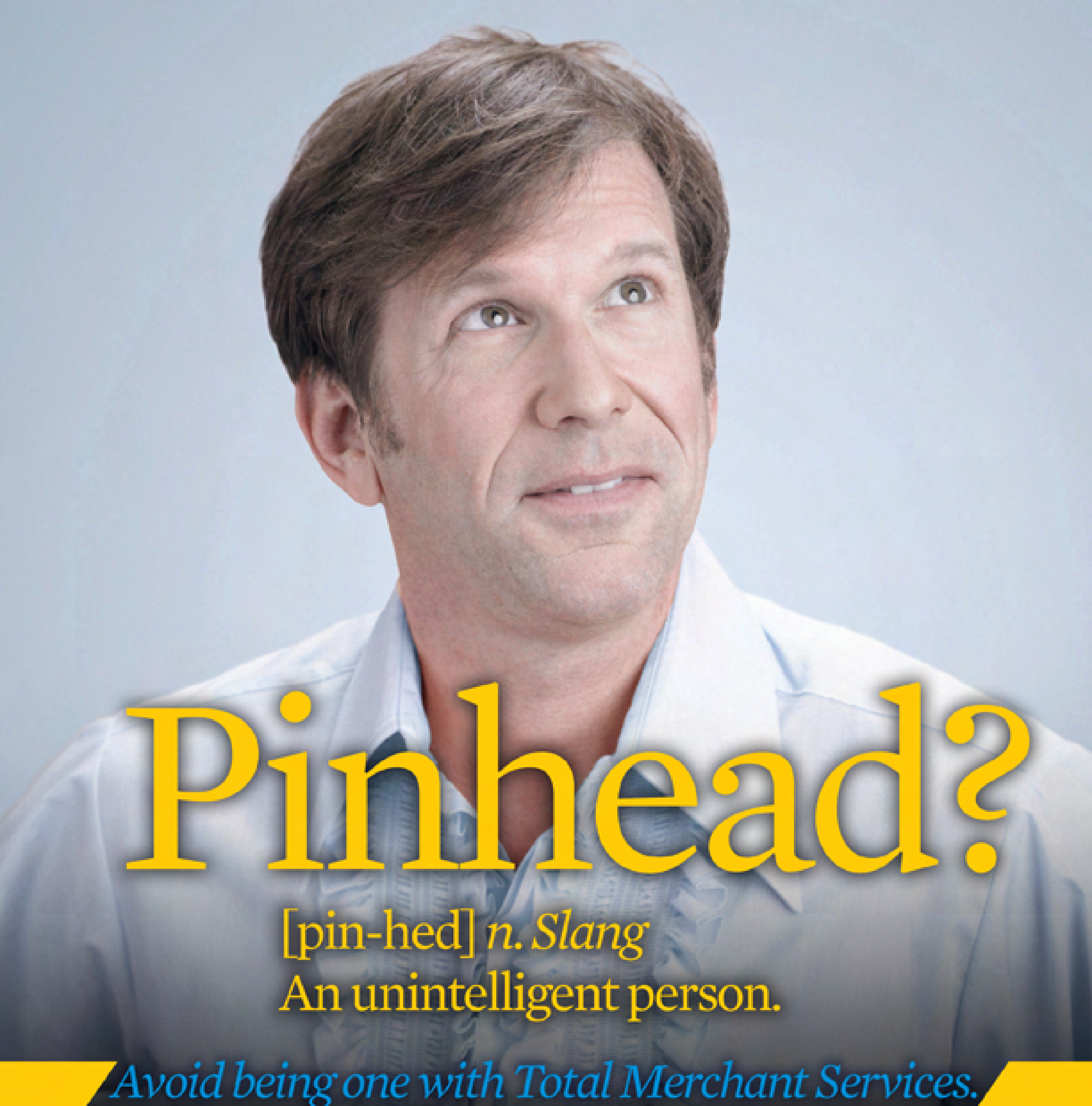

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Who wants to get slapped with an undisclosed $79 - $99 Compliance Fee?	***Not your merchants!***
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Total Transparency

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

Easy To Sell

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

Honesty is our Everyday Policy

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

Still not sure? Want to be convinced?

If you'd like help comparing our program, including the true impact of the Compliance Program fees, please give us a call. We'll show you that chasing a deal that looks better is NOT going to make up for a Compliance Fee Program that destroys your reputation, and your business.

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— *Alex V.*
Seattle, WA

Offer this full-featured POS system to your merchants for FREE!*

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

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- 24/7 customer service and technical support including remote support
- With the "Lighthouse", merchants can run reports or update their menu from any computer with an Internet connection

FEATURE	CREDIT CARD TERMINAL	HARBORTOUCH POS
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Print Receipts	●	●
Detailed Reporting		●
Inventory Tracking		●
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Built-in Time Clock		●

Make an average of $900.00 commission per POS deal!

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

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

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

Learn more at www.isoprogram.com

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

For more information, contact:
Brian Jones, EVP Sales and Marketing: 800-201-0461 x 136
Jonathan Brandon, National Sales Manager East: 800-201-0461 x 145
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