The Green Sheet

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MLS certification: Boon or bane?

The topic has been debated for years: Is agent certification or licensing a silver bullet? Will it rid the payment processing industry of unethical practices and errors caused by lack of proper training? Or is it a potential bureaucratic tar baby?

The advocates

Proponents of certification make several points when stating their case:

- The payments industry is an anomaly in the financial services world. It doesn't certify merchant level salespeople (MLSs), yet its members have access to large amounts of very sensitive information.
- A few bad apples have stained the reputation of the industry. Certification could polish the industry's image.
- A certification program would make it more difficult for the dishonest to prosper or go unnoticed.
- Being certified could score marketing points for both MLSs and their ISOs.
- If the industry doesn't self-regulate, the government may step in and regulate for us – with less understanding of the industry and how it works.

The opposition

Opponents say the industry needs less regulation, not more. Following is their rationale:

- Certification programs that are not regulated by the government have no teeth, and thus could be meaningless.
- The very idea of certification is, by nature, anti-capitalistic.
- New MLSs already go months without income. Requiring a longer training period – and quite possibly an expensive training program – before they can make deals will keep talented salespeople from entering the field.
- No organization, other than the government, has enough clout in this industry to pull off such a program.

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Notable**Quote**

"There is great convenience in being able to respond to customers immediately and not have to make the kind of small talk phone conversations require."

See story on page 90.

Inside this issue:
CONTINUED

PENNY FOR YOUR THOUGHTS

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In memoriam

It is with great sadness that we report the loss of Cary D. Moore, Director of Financial Systems, Ingenico USA and a 28-year veteran of the payments industry. Cary lost his battle with cancer in March.

"In the short time in which he knew he had cancer, Cary continued to embrace life and everyone around him with love, enthusiasm and grace," said Grant Drummond of Ingenico.

"Cary's positive attitude, knowledge, friendship, generosity and will to enjoy life every moment will continue to live on in everyone he became close to."

Cary is survived by his wife, Kim, and two children, Christopher and Jonathan.

All of us at The Green Sheet Inc. extend our heartfelt condolences to Cary's family and friends during this difficult time.

Tip auth troubles patrons

Several of my merchant customers have asked me what to do in a scenario similar to the following:

> A customer who used his debit card in a restaurant the night before checks his account balance online the next day. The amount being debited from his account is more than what he authorized when he signed the receipt.

> The customer had left a 15% tip, but the total deducted from his account includes a 20% tip. He believes he is being over-charged and calls the restaurant to complain.

What should I tell my merchants?

Jim

Jim,

The article "When restaurants exceed the tipping point" (The Green Sheet, June 26, 2006, issue 06:06:02) addresses this exact topic. You will find it at http://local.greensheet.com/gs_archive. php?issue_number=060602&story=3.

A card authorization that includes an estimated tip is against Visa U.S.A.'s rules and regulations.

You can help your merchants by making sure their POS systems and terminals are not programmed to include an estimated tip in the authorization request. That programming increases the authorization amount of the bill and makes many customers very unhappy.

More information is available on Visa's Web site:

- http://usa.visa.com/merchants/marketing_center /merchant_resources/tips_tools_gratuities.html

- http://usa.visa.com/download/merchants /rest_own_mgr.pdf

- http://usa.visa.com/download/merchants/ rest_staff.pdf.

Editor

MLS Forum access

I am trying to view the MLS Forum, but I keep receiving a message that says it is private. Can you help me?

Thank you,
Frank

Frank,

To access the MLS Forum on GS Online, you will need to sub-scribe to The Green Sheet, *which includes selecting a username and password for GS Online. Subscriptions and registration are free and always will be. You may subscribe and register online at* www.greensheet.com/forum/bb_register.php?mode=agreement.

Editor
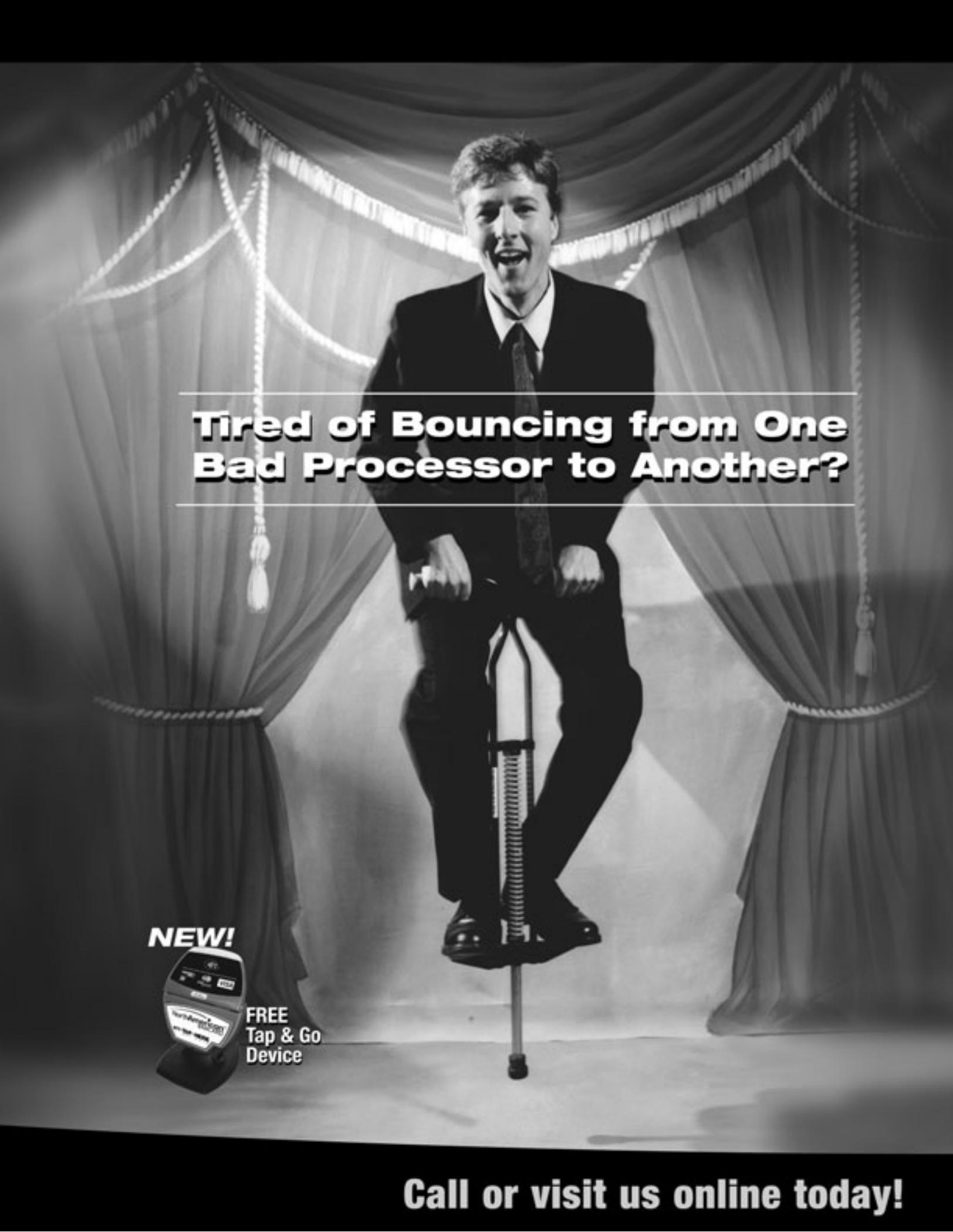
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QSGS

YOUR NEWS IN A HURRY ||||||||||||||||||||||||||||||||||||||||||||

Short on time? This section of *The Green Sheet* provides a quick summary of nearly all the articles in this issue to help keep you up to date on the latest news and hot topics in the payments industry.

News

KKR can't resist First Data 'cash-flow machine'

Cash flow can be irresistible, particularly to takeover artists like private equity firm Kohlberg Kravis Roberts & Co. That company, which is credited with perfecting the leveraged buyout, has agreed to pay $29 billion for First Data Corp., or $34 per share.

Education

The concern du jour? PCI

This article offers answers to the following basic questions about PCI: What is PCI? Whom does it affect? What are PCI's requirements?

Education

Street Smarts℠: Proficient prospecting

Our market used to be like a green pasture. Grazing was easy. But times have changed, and the market has become crowded. Today, networking is the name of the game. To make a decent living, one must maximize time and invest in relationships that reap referrals.

Education

The ABCs of portfolio sales

Everyone in the payments industry talks about it, but many have yet to sell a portfolio. Are you planning to sell yours someday? This article provides a checklist of the typical stages in a portfolio buyout.

QSGS

"Finally.

I have something to talk about other than just price. "

-Michael Mucciacciaro, Baltimore

In the competitive world of credit card processing, lower prices are only part of the story. Which is why agents around the country are talking about Innovative Merchant Solutions.

With IMS, you're offering a broad range of payment processing services that integrate seamlessly with QuickBooks, the #1-rated small business financial software, to deliver real business value through time and cost savings. So you can attract—and retain—more clients.

IMS and QuickBooks: It's got people talking.

"IMS offers the only solution that really seamlessly integrates with QuickBooks. My clients often talk to me about how easy it is to use and how much time they save. It's great talking about IMS and QuickBooks and not focusing just on price."

— Scott Hausmann, Minneapolis
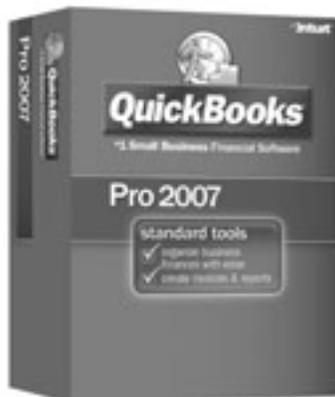
"It's often difficult to get prospects to listen to my sales pitch when you're like everyone else. The QuickBooks and Intuit brands give me immediate credibility when dealing with merchants and larger referral partners like banks, accountants and associations. It has really made a difference in my entire business approach."

— Todd Eichner, Los Angeles

"They have the best programs for small businesses, which really helps me close more deals, and makes me feel like I'm helping them with their finances."

— Keith Pollins, San Diego

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NEWS

Global Payments readies Discover acceptance

Global Payments Inc. will activate processing for **Discover Financial Services LLC** card transactions in the coming months, the company reported during its third-quarter earnings call March 30.

"We now expect to complete this [process] and begin offering integrated Discover card acceptance to our own sales force, our ISOs and our financial institution partners during the summer of 2007," said Global Payments Chairman, President and Chief Executive Officer Paul R. Garcia.

Third quarter revenue grew 16% over the same period the prior year, to $260.4 million.

The company also said the strength of its ISO business softens some of its key metrics. Its merchant services operating margin decreased 100 basis points, to 27.1% for the quarter, largely due to the growth of the ISO segment within its overall business.

"We estimate the growth of these ISOs will unfavorably impact our merchant services operating margin by approximately 250 basis points during fiscal 2007, compared to fiscal 2006," said Global Payments Executive Vice President and Chief Financial Officer Joseph Hyde.

Its money transfer business also saw a decline in operating margin.

"We are very pleased with our ISO program, and we continue to have success in retaining our customers and signing new ones … including three new ISOs signed this past quarter," Garcia said. Yet, its maturing U.S. merchant portfolio underwent further price compression.

ISOs continued to drive growth in the company's domestic direct channel: Card transactions grew 23% for the quarter, bringing revenue growth of 12%. "Our average ticket for the quarter declined …, primarily due to the strong growth of our ISOs, which generally add smaller merchants with lower average tickets," Garcia said.

The processor announced it will consolidate a Missouri-based technical support center into an operations center in Maryland. "This consolidation will improve our customer service by allowing us to provide our domestic merchants with a single point of contact," Hyde said.

A check facility in Colorado will also be consolidated into a center in Illinois.

Marshall & Ilsley to spin off Metavante

Marshall & Ilsley Corp. will spin off banking and payment technology subsidiary **Metavante Corp.** in late 2007. Private equity investor **Warburg Pincus** will acquire a 25% equity stake in Metavante. The deal

BOTTOM LINES

HEADLINES FROM THE RETAIL WORLD

THANK YOU. PLEASE READ AGAIN!
TRANS ID:468465 EMP:120400

- Debit card POS overdraft loans are more expensive than those from any other source, including overdrafts by check, according to a report from the **Center for Responsible Lending**. Debit card POS overdrafts cost people $2.17 in fees for every dollar borrowed; overdrafts, cost $.86 per dollar borrowed. Approximately 46% of all overdrafts are triggered by debit card POS transactions or ATM withdrawals.

- **Mercator Advisory Group** forecasts mobile payments volume will exceed $6.9 billion in 2011. In its report U.S. Mobile Banking and Payments, the group projects mobile banking fee revenues to be shared among banks, mobile operators, vendors and networks will exceed $1 billion in 2011.

- Cardholders now prefer airline points over cash rewards, according to a survey by **Auriemma Consulting Group**. The cash-rebate card fell from 53% in 2005 to 39% in 2006 as the card of choice. At the same time, airline cards grew in popularity from 41% to 48%.

Do you have what it takes to be

1
of the
100?

values that company at $4.25 billion, including $1.75 billion of debt.

"When this transaction is completed, we will have access to financial resources to continue to build new products, acquire additional companies [and] invest in new technologies," stated Frank Martire, Metavante's President and CEO. The unit has acquired 17 companies since 2004. Metavante handles processing for the NYCE ATM network.

Metavante also announced a joint venture with **Monitise** to operate a mobile payment system in the United States. The venture will enable consumers to check account balances, transfer funds and pay bills from mobile phones.

Commercial spending grows 8%

Visa's Commercial Consumption Expenditure (CCE) measurement for 2006 shows steady growth in business and government spending worldwide. **Visa Commercial** calculates global CCE in 2006 to be US $66.7 trillion, an increase of 8% over 2005.

The index includes all commercial spending, except payroll and other select expenditures. The overall 2006 measurement for electronic and paper-based business and government spending within the United States was US $17.3 trillion in 2006, compared with $16.2 trillion in 2005.

ANNOUNCEMENTS

AMI to open center in Rome

AdvanceMe Inc., a provider of merchant cash advances, will open a customer care center in Rome, Ga. The company has a center in Kennesaw, Ga. The Rome center will employ up to 25 people, including indirect sales and management staff.

BankCard Services makes LA ranking

The *Los Angeles Business Journal* ranked **BankCard Services** No. 27 among the county's minority-owned businesses. BankCard Services recorded $41 million in revenue for 2006, a 33.5% increase over 2005.

Program recovers school lunch checks

EPayments Corp. devised a program guaranteeing collection of the full value of bad checks written to cover school lunches, at no cost to the school districts. The program handles processing, collection and phone calls from parents whose checks haven't cleared.

IndustryUpdate

EPayments earns nonsufficient fund fees on checks it recovers. The program is powered by the iSmart check processing system.

ISO cited as a top place to work

Fast Transact Inc. was selected as a finalist for the *Business Examiner*'s award as one of the top places to work in Washington's South Puget Sound. The nominees were evaluated on benefits, diversity, training, retention and feedback from employees.

FAC launches multicurrency solution

First Atlantic Commerce Ltd. launched its pan-Asian credit card payment solution for e-commerce acquiring. It provides clients extended currency capabilities and a foothold for region-specific expansion through direct merchant accounts in Mauritius.

The pan-Asian solution offers merchants the ability to settle in U.S., Canadian, Australian, Hong Kong and Singapore dollars, British pounds, euros, the yen, and the rand.

SecurePOS certified for Windows Mobile

MasterCard Worldwide has certified **Apriva**'s SecurePOS for the Windows Mobile SmartPhone

platform. The software-based solution reportedly is the first in the industry to be certified under MasterCard's Payment Terminal Security Program.

Apriva's wireless gateway service allows merchants to process mobile credit card transactions on the SmartPhone with secure software and nationwide wireless network access, extending card-present credit card payments to more mobile merchants.

NPS is PCI certified

Nationwide Payment Solutions LLC has been approved as a Visa U.S.A.-certified Cardholder Information Security Program/Payment Card Industry (PCI) Data Security Standard compliant service provider. Also, NPS modified its registration with Visa to include third-party service status.

Payment Data's 2006 financials improve

Payment Data Systems Inc.'s revenue increased 114% to $2.5 million in 2006. Operating loss improved to $1.25 million for 2006 from $1.64 million the year before. A decline in the net loss for the year was primarily attributable to the sale of the company's Bills. com domain name and trademark.

PARTNERSHIPS

First American certifies Orion reader

First American Payment Systems LP certified the Orion check reader, imager and card solution from **4Access Communications Co.** The partnership provides merchants utilizing First American's Secur-Chex a complete solution for credit, debit and check processing through one terminal.

First Data licenses DAC technology

First Data Corp. licensed technology from **PrivaSys Inc.** enabling the processor to develop contactless products and migrate to emerging payments. PrivaSys technology generates transaction-specific dynamic authentication codes to foil card skimming.

Sweda integrates Givex programs

Givex gift card programs have been integrated into **Sweda Corp.** POS systems. In addition, Givex provides 24/7 live support services to Sweda POS users.

School program increases lunch revenue

M2SYS Technology completed a case study with POS solution partner **LCR Ltd.** in which M2SYS' fingerprint software, Bio-Plugin, was integrated into QuickDine school lunchroom management software. Comparison data showed wait times decreased, while revenues increased an average of 20%.

IndustryUpdate

MasterCard launches Nearby

MasterCard unveiled MasterCard Nearby, a trial service that allows cardholders to use mobile phones to access information, including ATM and merchant locations, driving directions, rewards, and special offers.

All MasterCard cardholders in the United States are eligible. The service was developed in partnership with **go2**, operator of the go2 Mobile Content Network.

Pharmacy picks MoneyPass

Snyders Drug Stores chose **MoneyPass** ATM network to provide surcharge-free ATM access to its stores in Minnesota. MoneyPass has nearly 10,000 ATMs nationwide.

NCR installs Postilion software

NCR Corp. chose **Postilion Inc.**'s payment processing software for its Toronto, Ontario, data center. The software reportedly meets evolving EMV (Europay, MasterCard and Visa) standards. Postilion is a subsidiary of S1 Corp.

Sage launches PCI program

Sage Payment Solutions launched a data security

compliance program supporting its entire merchant portfolio, in partnership with **AmbironTrustWave**. The program will help merchants validate compliance with PCI.

STS certifies Precidia router, announces shopping cart partner

Smart Transaction Systems Class B certified **Precidia Technologies Inc.**'s POSLynx220 payment router. Certification offers merchants a range of routing options for gift, loyalty, stored value and multi-application cards.

In other news, **osCommerce** has integrated **STS**' gift card and loyalty programs into its software for online merchants. OsCommerce is an open source shopping cart.

ACQUISITIONS

First Data buys ATM network and East European processor

First Data bought Instant Cash Services, which includes the Instant Cash Network, from **Wells Fargo Bank & Co.** First Data will operate the network under the Instant Cash brand.

The service provides debit card and ATM payment processing for 500 community banks, credit unions, thrifts and nonfinancial institutions in 20 states. This acquisition will not affect Wells Fargo's ATM banking network.

APPOINTMENTS

Corum joins i2c

Justin Corum has joined **i2c inc.** as Account Advocate, managing global accounts. Previously, he was Account Manager in Processor Relations at Coinstar.

Cramp appointed President of Solveras

Solveras Payment Systems appointed **John S. Cramp** President. He joins from Telkonet Inc. Formerly, Cramp was President and CEO of CardSystems Solutions Inc.

Assurz hires Gumbinger

Assurz Inc. named **Gregg Gumbinger** Vice President of Business Development. He will establish relationships with online merchants, acquirers and ISOs. Most recently, he was Vice President of Business Development for Authorize.Net's Channel Sales Group.

Mardis joins Sonoma

Sonoma Technical Support Services, a provider of

IndustryUpdate

help desk services, named **Bill Mardis** Vice President of Sales. Previously, he held executive positions with VeriFone, Hypercom Corp. and PointPay USA.

Metzler comes to RBS Lynk

RBS Lynk appointed **Kurt Metzler** Executive Vice President and General Manager of the small business unit. He manages the direct sales force and Citizens Financial Group's merchant acquiring sales force and relationship. Directly prior, Metzler was Executive Vice President and General Manager of Chase Merchant Services LLC.

First Data appoints Money, Thomas

First Data appointed **David R. Money** Executive Vice President, General Counsel and Secretary. Money has been acting General Counsel since June 2006, when General Counsel **Michael T. Whealy** took disability leave following an automobile accident. Whealy reportedly will retire.

Also, the company hired **Kyle Thomas** as Senior Vice President, Processing and Product Sales, for First Data Resources. Thomas was most recently CEO of Global Chili/Chilly Co., which he founded in 2004.

O'Connor heads M&A for Priority

Ryan O'Connor has joined **Priority Payment Systems** as Senior Vice President of Mergers and Acquisitions for the joint venture Priority Finance. O'Connor most recently served as President of Business Development for TransFirst. Initial investors in the venture include Institutional Credit Partners and CarVal Investors.

PCI Council names GM

The **PCI Security Standards Council** appointed **Robert M. Russo, Sr.** General Manager. Russo reports directly to the Executive Committee and is responsible for management of vendor approval programs and execution of the organization's programs. He will also coordinate research and analysis of the PCI DSS.

Before joining the Council, Russo was Vice President of Commercial Sales for Secure Info. He also founded Network-1 Software & Technology and ATC Security, a compliance company later acquired by Ambiron LLC.

TNB hires Schroeder

TNB Card Services named **Kurt Schroeder** Vice President, Account Executive in charge of Western and Midwestern credit union clients. Most recently, Schroeder worked for Experian, cultivating new client relationships.
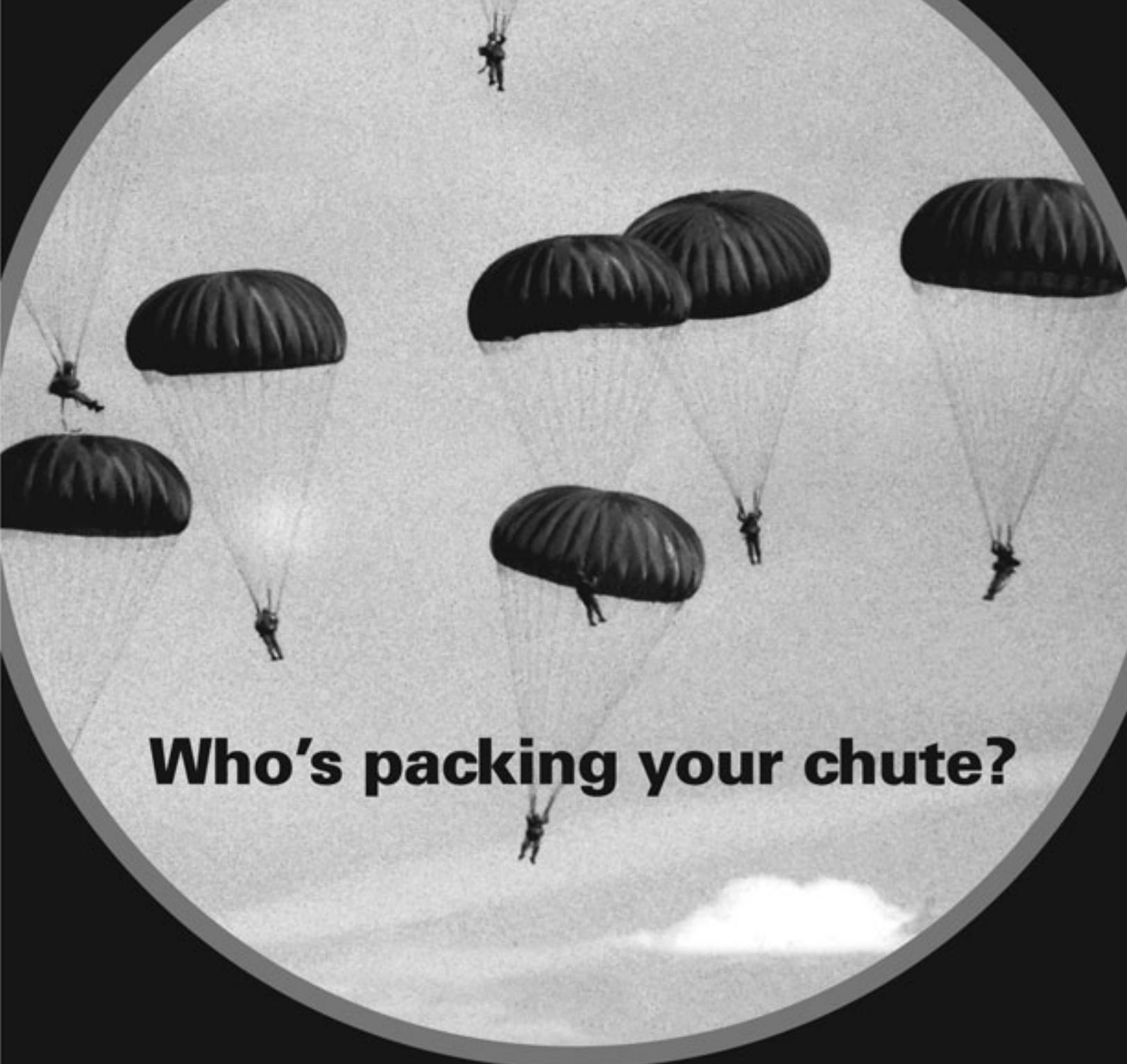
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TJX turbulence: Time to board the PCI ship

By Patti Murphy

The Takoma Group

Payment fraud is big business. But even more troubling is the notion that unless and until everyone in the transaction chain accepts this fact and takes action to remediate the problem, it only can worsen. And that's certain to erode confidence, especially consumer confidence, in retail payment systems.

Details of a data breach involving The TJX Companies Inc. drive home this point. The retailer – which operates about 2,500 stores, including T.J. Maxx and Marshalls – revealed a data breach disclosed in January resulted in hackers stealing information on 45.7 million credit and debit cards.

Worse, the company noted in press interviews that it knows very little else about the breach.

What is known is this: Scores of stolen numbers were used to purchase at least $1 million in gift cards and make other purchases at stores in Florida.

Now, I don't know about you, but I'm happy to say I don't shop at these stores. Because, regardless of the liability protections accorded under federal consumer protection laws for unauthorized transactions, I don't like the notion of fraudsters having easy access to my personal financial information.

If this were the first such breach of data that isn't even supposed to be stored on merchant systems, it might be excusable. But it isn't.

This is just the latest outcome from a seeming lack of regard for required financial data security among merchants.

According to Visa U.S.A., only about one-third of the largest merchants in the United States were in compliance with uniform standards for safeguarding card data set forth in the Payment Card Industry (PCI) Data Security Standard.

PCI is common-sense data security. The most salient requirement: Don't store sensitive transaction information at merchant or processor sites. Yet, most of the breaches to date have resulted from improper storage of card and transaction data.

"More than ever before, consumers are demanding that the businesses with which they transact will deliver on their expectations of iron-clad security," said Visa President and Chief Executive Officer John Philip Coghlan in remarks at a March 8 security summit. "Every time the criminals succeed, the most valuable asset they steal isn't money – it is trust."

Inducing compliance through interchange

Coghlan used the summit, which was co-sponsored by Visa and Harvard Business School Publishing, to push payment security as a strategic corporate priority.

"Data security must move out of the back office and into the boardroom," the Visa chief insisted. "Corporate officers must apply the same rigor to data security as they do to their financial controls."

Visa also has a carrot it hopes will further encourage compliance: the best available interchange rates through acquirers to merchants who demonstrate PCI compliance by Sept. 30, 2007.

Coghlan estimated the financial impact of this for individual merchants would vary from $250,000 to more than $20 million, depending on each merchant's qualifying transaction volume.

If that's not enticement enough for merchants to get on board with PCI compliance, maybe this is: Consumers are weary of companies they perceive to be lax with credit and debit card numbers.

Data reported in February by Javelin Strategy and Research, a firm commissioned by Visa, found that consumers believe retailers share equal responsibility with banks and other parties to payment transactions for protecting data related to those transactions.

Consumers also believe retailers are dragging their feet on the payment fraud front. Sixty-three percent said retailers are not as good as banks at protecting consumer card data; 16% pointed to processing companies as the least prepared; 5% blamed Visa and MasterCard Worldwide.

Only 20% of consumers polled by Javelin said they would continue shopping at a store if they learned the store had a data breach that may have compromised their card account information; 78% said they'd be unlikely to shop there.

Eighty-five percent of consumers said they'd likely shop more at a store that was known to devote resources and technology to protect customer card data. And 95% of cardholders surveyed said it was important that their

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banks tell them which retailers are responsible for known customer data breaches.

"Clearly, companies with poor data security practices are placing their reputations with their customers at risk," said James Van Dyke, President of Javelin." Consumers hold businesses accountable for securing credit and debit information in their care and will take their business elsewhere if they perceive that responsibility is not being upheld."

Skimming and outright data thefts

The TJX data breach is but the latest in a string of high-profile breaches of computers containing payment card data. And a lot of folks are taking notice.

In a filing with the Securities Exchange Commission in March, TJX revealed that computer security breaches over the course of the last two years resulted in the theft of information from 45.7 million customer credit and debit cards.

The company said its computers were first compromised in July 2005 by hackers who were able to snag information from customer transactions dating back to 2003. But TJX said it did not discover the breach until a few months ago.

During an investor call earlier this month, Sherry Lang, TJX Senior Vice President for Public and Investor Relations, said the company did not yet have "enough information to reasonably estimate losses we may incur arising from the intrusion."

But indications are that losses could be steep. In an April 12 report in the *Boston Globe*, technology analysts said the tab ultimately could exceed $1 billion.

The Associated Press newswire service reported in late March that police in Florida had apprehended six people who had used card numbers stolen from TJX to buy about $1 million in gift cards. The cards were then used to purchase electronic equipment and jewelry at area Wal-Mart and Sam's Club stores.

Security experts explain that thieves often purchase gift cards with stolen card data in order to extend the duration of their frauds.

Common gift card scams include swapping cards at the POS, skimming, and using stolen or counterfeit credit cards to purchase stored value cards.

The University of Florida, which tracks retail fraud, estimated that 13% of gift card fraud in 2005 was tied to stolen credit or debit card numbers. Another 13% is from counterfeit or skimmed cards, while 62% is tied to dishonest employees.

The University, through its National Retail Security Survey, found that gift card losses in 2005 (the most recent survey year) were higher among the 60% of surveyed retailers offering reloadable cards ($99,238.66 versus $25,245.81).

Debit data in Canada

In another equally troubling case of data theft, three of the largest banks in Canada were forced to freeze thousands of checking accounts. This was after police arrested a group suspected of skimming data from debit cards and using that information on fraudulent shopping sprees.

When the six were apprehended they possessed more than $100,000 in cash and over 100 fraudulent credit and debit cards.

Cards are skimmed using rogue surveillance or card-swiping technologies. Fraudsters use captured account, cardholder and PIN information to create bogus cards or to place card not present purchases (e.g., telephone and Internet purchases).

So, better sail with PCI. 🖼

Patti Murphy is Senior Editor of The Green Sheet *and President of* The Takoma Group. E-mail her at patti@greensheet.com.

Feature

In the words of John Shepherd-Barron, the ATM's creator

By John Shepherd-Barron

This story was originally published on ATMmarketplace.com, March 13, 2007; reprinted with permission. © 2007 NetWorld Alliance LLC. All rights reserved.

Editor's note: John Shepherd-Barron addressed the ATM Industry Association on Feb. 22 during its Conference East in Orlando, Fla. Following is a portion of his speech.

I am going to tell you the story of an acorn that grew into a mighty oak. It all began in a casual, lighthearted yet serious way in early spring 1965. Caroline and I lived in the country, but my bank was in London.

Therefore, I had [made] check-cashing arrangements with the local branch – open 9:30 a.m. to 12:30 p.m. on Saturdays. I turned up one day at 12:31 p.m. to get money for the weekend. Instead, I had to ask my local garage to cash my check.

That night, lying in my bath, I thought there must be some way in which I could get at my own money out of hours. As the water cooled, I thought of the chocolate-bar vending machine once common on railway-station platforms.

You would put a penny in the slot, pull the handle, and one chocolate bar would be delivered at the bottom of the machine in a drawer.

Following this thought through, I mentally put together a stack of, say, 10 currency notes, each contained in a wrapper and loaded vertically in the vault casing.

The pack of money would be dispensed from the same drawer once the check had been machine-read.

The input should logically be a check because it could carry security ingredients and a method of automatically identifying the check owner, plus the necessary audit trail. Each customer would have his own memory number – PIN – and as I could remember my six-figure Army number, I reckoned on a six-figure PIN.

I tried this on Caroline the next morning, but she said she doubted whether she would be able to remember more than four numbers: That is how four became the world standard. All rocket science.

I knew about check printing, one of De La Rue's (my employer's) businesses. And I also had experience using "security ingredients" in tokens or, indeed, checks.

This material was Carbon 14, a soft beta radioactive emitter – quite safe unless swallowed in huge quantities.

That was enough thinking for the weekend.

On Monday morning I called together our small team in De La Rue Instruments, as it was then called. I was the CEO. I posed the problem of round-the-clock cash delivery through the bank wall, off-line, threw in my ideas, and said, "Let's meet again on Wednesday."

Sketches on backs of envelopes made it look as if we could make a fairly simple device, if only we could control machine-readable codes and security ingredients.

On Friday, I was wearing my other hat as Chairman of Europe's first armored truck company, Security Express – 100% owned by De La Rue. I was at one of our regular lunch parties for the Chief General Managers of the London Clearing Banks.

This Friday it was at Barclays Bank, for whom we carried all their money around 2,000 branches. At the time, they were the world's fourth-largest bank.

Over a second dry martini, I buttonholed my guest, Harold Darvill, and asked him to give me 90 seconds while I explained my embryonic idea.

Our group Financial Controller was standing by and said later that it took 85 seconds before Harold turned on me and said that if I could do that, he would buy it.

On Monday afternoon, the deputy CEO of the bank telephoned and said he wanted to come and see me in 20 minutes. He arrived in the bank's Rolls Royce.

I remember we had trouble finding a parking space for it outside our small office.

He said he would not leave until we signed a letter of intent to develop and supply six [ATM] prototypes, followed by 250 cash dispensers in batches of 50. The specification price was to be agreed with the bank's O&M [operations and maintenance] department.

Can you imagine – from an idea on Saturday night to an opening contract with one of the biggest banks in the world nine days later?

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1 of 2
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Log on to http://www.porsche.com/usa/models/boxster/ to learn more about the Porsche Boxster.

Contest Rules:

This Contest is administered by United Bank Card, Inc.., (the "Contest Sponsor"). All decisions of the Contest Sponsor are final and binding in all matters as they relate to this Contest.

The first contest round opens on April 15, 2007 and closes on September 30, 2007 at midnight EST (the "Contest One Period"). Only eligible entries received during the Contest One Period will be entered in the contest. Must be present to win and ISO/MLS must be an active office with United Bank Card, Inc.

The second contest round opens on October 1, 2007 and closes on March 31, 2008 at midnight EST (the "Contest Two Period"). Only eligible entries received during the Contest Two Period will be entered in the contest. ISO/MLS must be an active office with United Bank Card, Inc.

Participants in the contest are only eligible to win once. The winner of the first round will not be eligible to win a second time.

Prizes must be accepted as awarded, are non-refundable, non-transferable and not convertible to cash. The Contest Sponsor reserves the right to substitute a prize of equal or greater value if any prize cannot be awarded as described for any reason.

For further 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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Feature

> ▶ *I remember we installed our first machine on the Ginza [Mitsui Bank], and opened Japan's first ATM in the early evening to a crowd of 10,000, bringing the Ginza to a halt.*

The first ATM

As the project grew, we brought in more people and finally delivered the world's first operational ATM to the Enfield branch in North London of Barclays Bank.

On June 27, 1967, I remember trying to coach the Deputy Chairman of the bank how to press his four-figure PIN. He had obviously never pressed any button of anything in his life.

We finally bogused it from behind. In the event, everything worked just fine for the BBC evening news cameras. I remember having a drink with the well-known commentator Michael Sullivan afterwards.

Being a British inauguration, it was low-key compared with Tokyo, where I remember we installed our first machine on the Ginza [Mitsui Bank], and opened Japan's first ATM in the early evening to a crowd of 10,000, bringing the Ginza to a halt.

The 15-story-high neon signs read, "Get Your Cash Here Now." The Japanese public had convinced themselves that it was free money for the first 100 punters.

Coming to America

The U.S. part of the acorn story started here in Florida in February 1969, when I was the first foreigner to be asked to address the American Bankers' Association automation conference in Miami.

I gave a 15-minute presentation on the Barclays De La Rue cash system, to polite applause – no questions, and only 12 brochures taken away from the 2,000 provided (one for each of the 2,000 attendees).

The general view in the bar was, "Who needs money out of hours?"

Back in London six weeks later, an unknown voice telephoned from the airport, said he was Head of Operations at First Pennsylvania Bank in Philadelphia, and he wanted to see me urgently, as his new Chairman, John Bunting, a marketing man new to banking, told him to buy six of "whatever those things are that the Englishman talked about in Miami."

Not a very flattering story, but it got us off the ground in the United States. After we installed them, and Bunting got his marketing benefit – a good name and more customers – the heavens fell in.

Banks and their suppliers, such as NCR, IBM, Burroughs [Adding Machine Co.], Docutel and Fujitsu, all scrambled to get going. At this stage, De La Rue sensibly concentrated on the OEM route as suppliers of mechanical note-handling systems to the trade. The pioneering days were over.

We were greatly helped by the desire of Citibank, led by John Reed, to set the correct ATM specification for them to use internally and also promote to their corresponding banks across the U.S. To this end, they set up TTI [Transaction Technology Inc.] in San Francisco, where we introduced them to Diebold Inc. [Earl Wearstler].

The three of us, working together, came up with the most popular ATM design, assembled and installed by Diebold. From De La Rue's point of view, by 1982, over 70% of all the ATMs in America used our currency-handling devices made in Portsmouth, England.

It is interesting to note that when Citibank [Citigroup Inc.] decides to take a hand in shaping a technology-driven marketplace, it can have a real impact.

Just watch the impact that Citibank's arrangement with Vodaphone to electronically transmit funds via mobile telephones will have in the unbanked area of Africa, later on in the developing world.

I don't think we yet appreciate the impact mobile telephones are likely to have on the technical world of banking.

[But] enough of the heavy stuff.

Quite apart from Florida being the first place in the U.S. even to hear about ATMs, Caroline and I lived in Manhattan and had a home in Long Island for some eight years while I was working for De La Rue: first bringing British ideas to America and taking American-business ideas back to Europe, such as armored trucking and FedEx-type overnight-parcel services, based on the U.K. network.

We both had a marvelous time. She obtained a degree at New York University and worked as a volunteer at Sloan

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- Option #3 – Hypercom T4100 (Multi-App, Dual Comm, IP-enabled) plus ViVOtech 4000 Contactless Reader Kit – with Upfront Bonus

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Feature

> *De La Rue is now nearly 200 years old and was the first printer of postage stamps in the world: penny blacks, Cape of Good Hope triangulars – all familiar to any collectors among you.*

Kettering cancer hospital, finally becoming Chairman of its charity shop.

I played tennis at the Wall Street Racquet Club every week. We were subscribers to the New York symphony and spent as many holidays as possible exploring your wonderful country, as well as making many special and lifelong American friends.

One of our closest [friends], who taught us both how to fish for striped bass in Long Island Sound, is here tonight and effected my introduction to Dan Maggin, Chairman of Diebold.

Final thoughts

I would like to leave you with two small vignettes of my

American experience. De La Rue is now nearly 200 years old and was the first printer of postage stamps in the world: penny blacks, Cape of Good Hope triangulars – all familiar to any collectors among you.

In 1862, we backed the wrong side in your Civil War and printed all the stamps for the Confederates. We delivered them, along with a bill for £16,000, which was never paid. They were the only [U.S.] postage stamps ever printed outside America.

One hundred years later, our archivist came across the bill and the original die and printing plate buried in the company vault.

As America could not possibly afford to pay a 100-year-old bill at 10% compound interest, we made a gesture of

John Shepherd-Barron and the ATM

John Shepherd-Barron started out working as a Currency Sales Manager for central banks and banknote issuing authorities in countries that do not have their own banknote printing factories.

He negotiated with The Bank of Japan to set up two modern banknote printing factories in Tokyo.

He set up the De La Rue Banknote Corp. in the United States to supply stock certificates and bonds to the New York Stock Exchange.

The move marked De La Rue's first established commercial venture in North America.

1960: He establishes Europe's first armored car company, Security Express, a joint venture between American Express (Wells Fargo & Co.), 49%; and De La Rue, 51%.

1963 to 1964: He is named Chief Executive of De La Rue Instruments, then a company with 11 employees and two products: a vacuum-pick banknote-counting machine sold primarily to banks in Japan and a machine called the Sheetmaster, which counted sheets of banknote paper in printing factories.

1965 to 1966: He conceives the idea of the ATM

and creates an engineering team to convert his idea into a product.

1967: He oversees the installation of the world's first working ATM at Barclays Bank in Enfield, North London.

1968: He delivers the first ATM to Swiss National Bank, the first installation in continental Europe. He sells the concept to banks in Japan and licenses his ideas to Fujitsu, Omron Corp. and Hitachi Ltd.

1969: The United States' first ATMs are shipped to First Pennsylvania Bank. Shepherd-Barron starts collaboration with Diebold Inc., a relationship that lasts until the early 1990s.

1985: Shepherd-Barron retires from De La Rue after 35 years of service.

1992: He attends the 25th birthday event for the ATM at Barclays Bank in London, where he unveils a plaque at the site of the first ATM.

2005: He receives the OBE (Officer of the British Empire) during the New Year's Honors list from Her Majesty Queen Elizabeth II for services to banking as the "inventor of the automatic cash dispenser."

Feature

it and presented everything as a present to America – an emotional moment I assure you. It is still in the Smithsonian Institution today.

My final vignette is how I dealt with a problem and U.S. customs at Kennedy Airport.

When we shipped in the bonds we printed for the New York Stock Exchange, U.S. customs, as was their right, would take their time before examining the steel-lined cases containing $5 million bearer bonds in each.

Richard Nixon had just lost the governorship race in California and came

to New York in order to make some money as a lawyer to back his run for the presidency.

He joined a firm called Mudge, Rose and added on his name. I hired him as our international legal adviser in return for his agreement to fix New York customs through his contacts in Washington.

Everything worked fine. Later on that year, he came to London, and we had him for lunch at De La Rue's entertaining house in Grosvenor Square.

He could spare us three hours to discuss our problem and America's, in general.

Before lunch, he asked our butler not to have any calls put through until 3:15 p.m. Precisely at 3:15 p.m., the butler, Diemer by name, came in with glasses of brandy for the four of us.

Nixon asked if there were any calls. Diemer replied he wouldn't put one gentleman through who had rung three times, getting increasingly annoyed.

"Who was that?" asked Nixon.

"A gentleman called Eisenhower," Diemer said.

Nixon fell off his chair laughing, went to an anteroom, talked to Eisenhower, came back and said they both agreed only a British butler could stop the President of the United States from talking to whom he wanted when he wanted.

I have now taken you from the acorn delicately planted in Miami in 1968 to the healthy flourishing oak tree represented by all of you at this massive ATMIA meeting, where together you are doing $14 billion a year of business.

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MAC: The friendly fraud-busters

The bankcard industry is issuer-driven. At times it seems acquirers don't have much of a voice, particularly with the card Associations. However, the Merchant Acquirers Committee (MAC) has made great strides in changing that.

MAC comprises professionals in risk management for card processing's acquiring side. The organization's mission is to provide risk management solutions through ongoing communication and cooperation among members.

By bringing people together in a noncompetitive environment, the group helps fight fraud and mitigate risk by addressing the needs of acquirers, processors, ISOs and others that accept transaction risks.

Many times acquirers learn about payment card scams by chance. MAC members share ideas and experiences and help the industry as a whole reduce losses. Deana Rich, MAC's President, summed up the group's mission as keeping "the bad guys from jumping from ISO to ISO or acquirer to acquirer."

The card Associations belong to MAC and have actively supported the organization since its inception in May 1997. Representatives from American Express Co., Discover Financial Services LLC, MasterCard Worldwide and Visa U.S.A have participated as board advisors since that time.

MAC's 2007 officers include Deana Rich, Rich Consulting, President; Laurie LeBoeuf, Take Charge Business Consulting LLC, Vice President; Jeffry A. Beene, Pipeline Data Processing Inc., Treasurer; and Toni Pennell, Discover, Secretary.

Board members include representatives from EVO Merchant Services, Group ISO Inc., Innovative Merchant Solutions, National Processing Co., NOVA Information Systems, Pay By Touch and Terminal Velocity Processing Inc. There are also advisers from MasterCard, Discover and Visa.

MAC board members have an average tenure in the industry of 21 years; Larry Herrmann of NPC has logged more than 36 years in the payments space.

Growing with the times

MAC 's first meeting 10 years ago was attended by 23 people. It was such a success that the following year the group created a national steering committee and regional chairpersons. Today more than 200 organizations belong to MAC. Schedule permitting, the next annual meeting will be October 11 to 12 in Las Vegas.

MAC is a grassroots organization that has evolved and grown along with the industry it serves. Due to increased industry needs and burgeoning membership, MAC filed for nonprofit status this year.

Co-founding member Beene said, "We feel that this move will allow for a more formalized training agenda for risk personnel, as well as more data collection and sharing of information to help stop the bad guys."

MAC has always been independent, but its members are happy to provide guidance and education to their peers. They have offered educational presentations at many Electronic Transactions Association (ETA) and International Association of Financial Crime Investigators (IAFCI) conferences.

MAC members also serve on industry-wide committees that assist efforts to reduce counterfeiting and fraud. "We are available to any of those committees if they have a session on risk," Rich said.

Members also help with educational programs for the Federal Trade Commission, law enforcement agencies and the legal community.

Most recently MAC has worked with the Department of Homeland Security and the Secret Service. "We are a great 'go to' for risk because we have so many people who are very experienced in the industry," Rich added.

According to MAC, ISOs should be concerned about data security. The group's presentations include information about how ISOs can protect themselves and avoid fraud. For example, Rich noted the importance of education and site surveys. "From a risk perspective, we could solve a lot of problems with better site surveys," she said.

Membership benefits

MAC membership saves people time, money and aggravation. Through their communication efforts, including e-mail alerts, MAC members can identify industry fraud trends as they occur. Hence, members are informed of the latest scams and protect themselves accordingly.

MAC alerts members about instances of known fraud and identity theft, helping them prevent potential losses. "If it is an investigative fact, we will tell others," Rich said.

In instances of potential fraud, MAC will request information from any member who may have experience with the situation or the merchant in question. "We don't put speculation out there," Rich said.

The group does not keep a list of e-mail addresses or merchant names. But it does provide a network and a sense of camaraderie. Risk managers who are experiencing fraud can ask for advice from members who have experienced similar situations.

MAC's Web site at *www.macmember.org* is being revamped. When it is fully functional, members will have access to information and membership lists there.

Many risk and underwriting professionals simply don't have the time or budget to frequently travel to meetings around the nation.

The nature of their work dictates that they stay near their businesses and keep their fingers on the pulse of potential risks and fraud.

Therefore, MAC is divided into three geographic regions to make attendance at events convenient. Richard Parrott of Pay By Touch runs the Eastern Region. Larry Herrmann of NPC heads up the Midwest Region and Geoff Gray of Terminal Velocity is in charge of the Western Region.

Rich noted regions host meetings at least twice a year. MAC usually works with the IAFCI to coordinate the locations and times of its annual meetings, so that attendees can get the most from their travel budgets.

Responsibilities

MAC membership has privileges and responsibilities. The group's strength lies in knowledge and cooperation. As such, members are asked to share information about new risks as they encounter them.

Members are also asked to participate and respond to queries involving merchants with whom they are familiar. Additionally they share articles of interest with the group.

MAC's goals for this year include completing its status as a nonprofit corporation, updating its Web site to provide more resources to members and creating a member contact database.

The organization also intends to remain a premier resource for risk analysts and underwriters in their daily efforts to stop fraud.

"We want to continue having a voice with the Associations that grows over time," Rich said. "We do represent the majority of acquirers from the risk side so, generally, when we present an issue, we aren't simply complaining. We include changes that benefit the industry as a whole and protect brand names."

Reducing fraud together

You've probably benefited from MAC's efforts. The group is responsible for implementation of the "ACQ" designation on credit reports. In the credit reporting industry, entities authorized to pull credit reports are called subscribers.

If you obtain a credit report, and a subscriber that is

also an acquirer has previously pulled the report, the subscriber's name will appear on the document, followed by ACQ.

This is helpful when analyzing a merchant's risk factors because you can contact the other acquirer and share information before you make a decision about the merchant in question.

MAC also worked with MasterCard to allow AmEx to post information about terminated merchant accounts to the Member Alert to Control High-Risk (MATCH) database, which was established by MasterCard.

MATCH is used by acquiring banks to identify terminated merchants. This is one way MAC has been instrumental in combining resources for the benefit of acquirers.

James Steel, Regional Vice President, Security and Risk Management for MasterCard, noted that "the greatest accomplishment [of MAC] involves the large number of independent acquirers and others involved in merchant acquiring – all agreeing to work together through MAC to share information and resources in combined efforts to reduce fraud."

Buddy Tinnell, Director, Risk Consulting and Strategic Integration for Visa, agreed that the group's greatest accomplishments include "facilitating communications and open dialog between natural competitors."

Rich added that MAC's diversity and longevity have enabled the group to "unite people who wouldn't otherwise have a voice."

No doubt MAC's board members are motivated by what they've been able to accomplish as a group: a community working together for the benefit of all.

Bob Aguirre, Risk Manager of Group ISO, said, "We have united the members of the acquiring industry into a single-minded group outside of the competitive arena, with the mission of managing risk, reducing losses and combating fraud."

Membership levels

MAC membership is open to just about anyone involved in risk management. This includes merchant acquirers, ISOs, merchant service providers (MSPs), processors, card Associations, acquiring banks and credit unions, payment gateway providers, Internet service providers, and law enforcement agencies.

"To increase our ability to control risk and share information we have expanded our membership categories to include regular members, partners and vendors," Rich said. "This is a great stride for MAC."

Historically, the group has not charged membership fees,

Feature

but that has changed. Rich said membership fees and sponsorship opportunities are necessary "to be able to bring the group to the next level of information sharing and provide events and meetings."

The regulars

Regular membership is open to risk analysts and underwriters who underwrite and review transactions for banks, savings and loans, credit unions, third-party processors, ISPs, ISOs, or law enforcement agencies. These professionals are on the front lines and see the scams first. Their managers are also eligible for regular membership.

To qualify for regular membership a company must also assume risk for transactions. The annual fee for a single regular member is $65, with an annual renewal fee of $40. The fee for a corporation with up to four members is $150, with an annual renewal fee of $125. There are no fees for law enforcement agency memberships.

Regular members receive all educational and informational communications MAC provides, including e-mail alerts about fraud schemes. Regular members also have the ability to send inquiries and alerts to other MAC members.

The partners

ISOs and MSPs that do not take financial risk and are not involved in underwriting do not qualify for regular membership. However, they can still benefit from MAC's offerings. As partners, they are invited to query MAC about

risk or fraud prevention issues and will receive relevant articles and other information.

Partner memberships are open to any ancillary service providers including companies that provide loans and those that offer risk monitoring for ISOs but do not assume risk.

Partner members do not receive inquiries and alerts, but they do receive informational and educational data. Partners may also send inquiries to MAC members. The cost for a partner is $200 per year.

The vendors

Vendor membership is open to companies that provide risk or underwriting services to MAC members, such as providers of fraud fighting and compliance software. Although they do not receive inquiries or alerts, they have access to relevant articles and information. They are also able to send inquiries.

The cost for this membership is $300 per year.

The right stuff

Rich said MAC's board members derive satisfaction from doing the right thing. They are also motivated by giving people a voice.

"You can't just call up the Associations and talk about risk," Rich said. "But, if we are MAC and we are all talking and presenting a cohesive argument, we can. I really believe in MAC. It's fun to know you can make a difference and be more than just a cog in a wheel."

And this influential voice was secured in a mere 10 years by a group of very dedicated volunteers.

Merchant Acquirers Committee

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Paying the payments dues

By Ken Musante
Humboldt Merchant Services

Every industry has barriers to entry. In banking, for example, a new financial institution's board of directors and charter must be approved by governmental agencies. There are also ongoing compliance requirements, including the level of capital necessary to remain in business.

Consequently, even a company as powerful as Wal-Mart Stores Inc. can be effectively shut out of the banking industry. (It recently backed out of an attempt to enter U.S. banking.)

Another substantial entry bar is certification or accreditation. No one can simply decide to become a doctor and set up a medical office on the spot. The profession requires advanced and specialized education along with certification.

Other businesses have far fewer initial hoops to navigate. For example, multilevel marketing companies that sell such wares as jewelry, food containers, make-up and nutritional supplements have among the lowest barriers to entry.

There is little or no capital investment. No college degrees or long-term advance planning are required (although the jobs themselves entail substantial planning). One can literally become a distributor within a couple of hours.

Escalating entry requirements

Until recently, it was much the same for people entering the payments industry. Over the past several years, however, the barriers to entry in the merchant processing space have grown rapidly and become more numerous.

We have always had regulatory hurdles. And Visa U.S.A. and MasterCard Worldwide sponsorship will continue to be an obstacle for many.

Sales professionals need to understand and comply with card Association rules and adapt to them as they are updated. More recently, this reality has been reinforced and expanded.

The danger caused by card breaches has led to enhanced scrutiny. There is now a greater chance that merchants, ISOs, agents and processors that are not compliant with all card Association rules and regulations will be fined.

Additionally, banks are performing ever more diligence and requiring greater revenue for sponsorship. Certainly, regulatory muscle has been widened and strengthened. Also, the capital needed to enter our industry has been

transformed from a Louisiana levy to the Hoover Dam. In the past, merchant level salespeople (MLSs) could start out with no money.

Today, leases (and the working cash they provide) are far less prevalent. New sales professionals must have a capital reserve sufficient to carry them financially until their residuals accrue to a level where they provide a livable income.

The third barrier is knowledge. This hurdle has expanded faster than the first two. Just a few years ago a sales professional needed only to understand dial-up terminals and a couple of interchange tiers.

Today sales professionals must be advanced technicians. They must:

- Know and understand integrated POS terminals and software
- Understand and be capable of navigating the various telecommunications options
- Install and support cellular, Wi-Fi, lease line, high-speed Internet and radio frequency communications.

Moreover, each communications method has an ever expanding array of hardware and software to master. Interchange has always been complex. Today it could baffle two-thirds of Mensa International's members.

Unique interchange programs have been installed for our largest retailers, small-ticket retailers, municipalities, utilities, Internet merchants, supermarkets, warehouse merchants, cash advance merchants, petroleum resellers, and travel and entertainment merchants.

This is in addition to the myriad rates based on card types: Unique programs exist for debit, rewards/premium, corporate, business and prepaid cards. These are in addition to all the other expanding payment forms.

Challenge = opportunity

These stiffer regulatory, capital and knowledge requirements mean becoming an MLS today is more challenging than when most of us started in the payments industry. Recognize, too, that profit margins are thinner, and competition is tougher.

But before you get depressed, remember that nearly every problem is also an opportunity. Much of what I've discussed in this article may actually be good news. Stay tuned; I will explain why – in my next article.

Ken Musante is President of Humboldt Merchant Services. Contact him by e-mail at kmusante@hbms.com *or by phone at 707-269-3200.*

View

Apple is a small potato here

By Ben Goretsky

USA ePay

The battle has raged since the first personal computers hit the market: Microsoft Corp. versus Apple Inc., the Windows operating system versus Mac OS. And these giants continue to vie for dominance in computer, software and related sales. But how has this intense competition affected the bankcard industry?

Microsoft at work

With the release of Windows Vista and the ever-growing popularity of Mac OS X, the line between Microsoft's and Apple's loyal home users is almost split down the middle.

But in the payments space, up to 80% of office computers are likely using a version of Windows. Most of our merchants use Windows, too. And I have found that almost 95% of industry professionals who travel to tradeshows and other industry events use laptops loaded with Windows.

Thus, it is almost impossible to find bankcard processing software written for Apple computers. Most popular software packages in our market (VeriFone's PCCharge and Tellan Software Inc.'s PC Authorize, for example) are made for Windows.

This leaves merchants who favor Macs out of luck, unless they are willing to invest in custom solutions. This is usually something only larger retail establishments can afford.

Next up – mobile

The next frontier in the ongoing war between Microsoft and Apple is the mobile payment market. Windows Mobile has already taken a solid stand, and Apple is trying to speed up with the recently announced iPhone.

Merchants are already using applications and peripherals for credit card processing via the Windows Mobile environment. As yet, no payment processing software has been written for the iPhone.

Also, while Apple will have only one device, the iPhone, on the market, the Windows Mobile environment can already accommodate the Palm Pilot, Samsung BlackJack, HP iPAQ and more.

Since these all come loaded with Windows Mobile software, they can all support existing bankcard processing software.

In addition, price is a factor. Right now you can find a Windows Mobile-equipped smart phone for under $100; the new iPhone's least expensive model is slated to sell for $499.

The force is with Microsoft

Even as a Windows user, I love Apple's witty advertising. But entertainment aside, the Microsoft environment, at least right now, is the way to go when dealing with bankcard payments.

Apple computers are fun, easy to use and have interesting features no Windows machine can touch. But Apple has no juice in the payment processing arena; it's been squeezed out.

Ben Goretsky is the Chief Executive Officer and head of IT Development at USA ePay. He has been working with his brother Alex since they started the company in 1998. E-mail him at ben@usaepay.com *or call him at 866-872-3729, ext. 350.*

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Company**Profile**

National Bankcard Systems

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Phone: 800-690-7004
Fax: 512-628-3122
Web site: *www.enbs.com*

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• Additional income through innovative value-
   added programs
• Choice of five different banks

A focus on quality

When you were a teen, your parents probably warned you about hanging out with the wrong crowd. They had a point: You are likely to be judged by the company you keep. Fortunately, the company you keep as an ISO or merchant level salesperson (MLS) can affect you in a positive way.

If you have high standards, it makes sense to work with like-minded people. Working with individuals who maintain ethical practices reinforces your own reputation.

National Bankcard Systems says it is staffed with the right crowd. A focus on customer service and flexibility has enabled the company to create long-term relationships with agents and merchants alike. NBS is interested in attracting MLSs who are committed to their merchants – and this industry – for the long run.

Kara Ireland, NBS Director of Business/Sales Development, said, "NBS strives to ensure customer satisfaction and service that is far above any other company in the industry. These ideals attribute to NBS' very low attrition rate and excellent overall customer satisfaction."

Growth through excellence

NBS provides merchant services to businesses of all sizes worldwide. Offerings include credit and debit card acceptance, check services, automated clearing house and bank drafting, gift cards, business credit cards, merchant funding, processing equipment, software and supplies.

The company was established in 1997 in San Antonio, Texas, by Penny Baker. She is now NBS' Chief Executive Officer. Within a year of its founding, Baker moved the company an hour north to Austin, Texas, where its 30 full-time employees currently work.

NBS also operates offices in several cities, including Denver; Crested Butte, Colo.; Houston; Little Rock, Ark.; Salt Lake City; San Diego; and Spokane, Wash.

NBS' achievements have been recognized by its peers and community. For three consecutive years (2001 to 2004) it was included on *Inc.* magazine's list of 500 fastest-growing businesses. In 2002, NBS ranked fourth in growth among private corporations in Austin's burgeoning entrepreneurial business community.

Since 2000, NBS has recruited more than 600 outside sales agents. Ireland said the company is "absolutely" still recruiting agents. "Our agent program has grown by 25% in the past year, and we now have sales agents in every state in the U.S.," she said.

> ⏵ *"Our customers make business possible for us and for our sales agents."*
>
> – Kara Ireland, NBS Director of Business/Sales Development

Going the distance

NBS' growth is dynamic. But the company is not looking for agents who will sign a couple of deals and then never contact those merchants again.

The most important things to NBS are its customers and agents. "Our customers make business possible for us and for our sales agents," Ireland said. "My main thing is making sure we attract the right agent. We would rather have someone who writes a few accounts, but good accounts, ... than someone looking for a quick buck."

NBS aims for longevity in all of its relationships and realizes some merchants and MLSs have been burned. Ireland said it is "sad" that her company must advertise customer service as much as it does.

"We strive to ensure that our prices are fair and that every customer is given the same support that we would want if we were in their position," she said. She has heard far too many horror stories from customers who were mistreated by other companies and avoids causing them any further dissatisfaction "at all costs."

NBS keeps in close contact with merchants and agents. "Our outside agents are part of our extended family," Ireland said, noting that she is the first to let agents know if they are doing something wrong or if something doesn't seem right. "We really don't have agents who try to cheat the system," she added.

Most NBS agents have been with the company for more than five years. Ireland said even when MLSs do leave, they often return. "I think it's because we just treat our agents like they were in our office face to face with us," she said. "They have just as much vested in our company as we do."

Flexibility for tailored results

NBS operates on the principle that every business has unique requirements. For that reason, it is registered with four different sponsoring banks, and the company also has its own bank. These relationships enable NBS to meet the needs of virtually all merchants. "We have different banks to accommodate different kinds of business," Ireland said.

According to Ireland, any company can offer 24/7/365 support. NBS goes a step further by providing merchants with personal contacts. "We found this creates a much friendlier environment for our customer, and the entire support process becomes much more efficient," she said.

Additionally, in-house account managers provide merchants with their direct office phone numbers and e-mail addresses.

Every agent also has a direct contact at NBS. "We are here not just to accept applications, but we train, support and work directly with our agents to make sure that their job is as easy as possible," Ireland said. "It is hard enough to sell merchant accounts; the last thing a sales agent should have to worry about is their processor."

NBS reps will talk with merchants on the phone and help perform rate analyses while MLSs in the field are preparing to close sales. "Agents fax us the rate analysis and we can close the deal right there," Ireland said. "I think that personal service is what makes us different."

Free to choose

The company provides MLSs one-on-one training, personal appointment setters, monthly newsletters and monthly sales contests. Bi-weekly, it hosts a live Web conference

▷ *"Every time an account is submitted, the agent has a choice on how they would like to be paid. No strings or red tape."*

– Kara Ireland

that includes a brief interactive training on an industry topic. The conference is recorded, so agents can view it at their convenience.

"Outside agents are the hardest-working people in payment processing, and ours have the tools and the continuous support they need to succeed," Ireland said.

NBS uses buy rates. Since it has relationships with five banks, MLSs choose which rate to use. "Every agent has complete control over the rates that they offer their customers, and the amount of money that they make on each account is determined by the price that they set," Ireland said.

Additionally, MLSs who sign accounts have two compensation options. They can either opt for cash upfront, or a 50/50 residual split. Agents choosing the upfront option receive compensation based on the merchants' expected processing.

Those selecting the residual split receive at least 50/50 over interchange processing costs. "We encourage our agents to take advantage of both programs," Ireland said. "The residual split is great for building a long-term income, while the pay-me-now program can create a cash flow from day one."

MLSs are free to make this choice account by account. "Every time an account is submitted, the agent has a choice on how they would like to be paid. No strings or red tape," Ireland said.

The company does not report residuals on its Web site because it works with multiple banks, and each institution has unique compliance issues and procedures. However, NBS does provide an itemized list of accounting with each payment check.

Partnering to add value

NBS has partnered with several companies to provide supplemental private-label services. MLSs can sell these services to earn additional income.

Services include a private-label MasterCard-branded business card in collaboration with General Electric Finance Corp. "That says a lot about us," Ireland said. "GE is the eighth-largest company in the world. They are not going to partner with just anyone."

NBS receives $100 for every approved GE card application. And it passes the full amount on to the agent.

The company has also partnered with WAY Systems Inc. to offer wireless transaction processing. Ireland sees this as another "great alternative" for MLSs in the field.

In 2003, NBS launched a wholesale equipment Web site. Ireland said ethics is central to this program. "You don't buy a piece of equipment at cost for $200 and make $3,000 to $4,000 on it," she added.

MLSs can also earn income through NBS' bonus opportunities and sales contests. Ireland reported that some agents make $10,000 a month and more. "It's not that hard," she said. "You just have to be willing to invest time and energy."

NBS welcomes ethical, committed agents of all experience levels – newbies to seasoned pros. "We are truly here to help every agent in any way possible," Ireland said. "At end of day, we are trying to help agents make a true and honest living."

Prepaid cards make for big stored value – Part II

Editor's note: In Part I (see The Green Sheet *cover story, March 26, 2007, 07:03:02), we explored the promise prepaid cards hold for ISOs, merchant level salespeople (MLSs) and retailers, especially when merchants are sold on ways to extend the product life cycle.*

The value proposition behind prepaid cards is easy to make: ISOs wanting to differentiate themselves offer the breadth of stored value products retailers are seeking, according to William Biwer, President of Smart Card Solutions LLC.

"They want to be able to provide gift and loyalty applications to provide a full suite of products for the merchant," he said.

The demand for prepaid cards has turned ISO-friendly names like Valutec Card Solutions into hot properties. Metavante Corp. acquired the closed-loop prepaid card provider in January. In this story, we take a look at a few other gift and loyalty card programs available to ISOs.

ISOs also want loyalty from their merchants. "Once you have cardholders out there supported on a program, it's a lot more difficult to switch platforms," Biwer said.

"With open-loop cards, if you switch from one processor to another, those cards are all accepted. In the case of closed-loop, you've got to support [existing cards]. The closed-loop gift and loyalty helps stickiness of merchants for the ISO," he said.

When asked to switch a merchant's closed-loop pre-existing gift card program to Secure Payment Systems' platform, 50% of the time the cardholder database is not transferable, and the previous processor is unwilling to share balance information, said Steve Eazell, SPS Vice President, Sales and Marketing.

Open-loop cards have an inherent advantage for consumers: their ability to be used at virtually any store. But that is the very reason merchants prefer to sell closed-loop cards, he said. The same cards also bring MLSs a higher share of revenue than open-loop.

Jumping the counter

Industry-wide, gift cards account for only 2% to 4% of retail transactions, Robert Skiba, Executive Vice President for Comdata's Stored Value Solutions, said at the Prepaid Card Expo in February.

Effective marketing, implementing business-to-business

channels as loyalty programs, and promoting secondary holiday cards – such as birthdays and Mother's Day – boost that number. Marketing across the counter is a factor in Starbucks Coffee Co. gift card success, Skiba said.

In January, the coffee chain reported a 30% increase in activations of its gift and loyalty cards during the first quarter, over the prior year, to 20 million.

The volume on those cards rose 30% to $287 million, or 12% of Starbucks' revenue. During the same period, the company also took in 3 million reloads, averaging $27 each. With numbers like these, the industry hopes to clone the merchant's model.

Skiba cited Starbucks as one of about 20% to 25% of retailers that "have been able to jump the counter at the point of sale and market directly.

"How did they get a 30% increase this year, with over 20%-plus penetration at the point of sale for [gift cards identified as the] tender type, when the industry is 2% to 4%?"

Following are a number of prepaid card providers that work with ISOs, and information about their respective programs:

News

Blackstone

The company has traditionally specialized in wireless recharge and calling cards, selling $100 million a year for AT&T Wireless. Its primary nontelecom product is a MasterCard-branded gift card.

Blackstone also processes closed-loop cards for merchants. The company provides back-end processing for gift cards and promotes its retailers' brands in gift card malls. Approximately 10,000 merchants sell its prepaid products electronically.

ISOs may sell, lease or rent Blackstone's Touch-n-Buy terminal, while also selling its card products. ISOs and MLSs earn from one to 10 basis points on processed volume.

"It ends up being very substantial," said Blackstone's Chief Executive Officer Luis Arias. "We process ourselves, or the ISO can process it, if they are qualified." Registration with Visa U.S.A. or MasterCard Worldwide and having security procedures in place are the primary qualifications for ISO-hosted programs.

Blackstone does not require exclusivity of its resellers. Arias said some of Blackstone's products are reloadable, but features are relatively basic.

Card Express Inc.

The company provides open-loop branded cards from Visa and MasterCard. CardEx performs real-time fraud monitoring, according to Barrett Chamberlain, CardEx Vice President of ISO Sales. "Our fraud capability, as far as scrubbing the transaction, is pretty high," he said.

Key advantages are the company's flexibility and the dependability of its resources, platform and people. "We call people back within 24 hours," he said.

Some reloadable cards can be registered by consumers to enable them to load more than $500.

ISOs adopting CardEx's programs get dedicated account managers. The company performs all processing through Fiserv. Chamberlain said CardEx will have a direct processing connection in the third quarter.

ISOs are charged a residency fee ranging from $500 to $2,500, depending on their size and number of active cards. Standard network pass-through and sponsor bank fees apply. Those fees can be bundled or itemized to enable ISOs to negotiate sponsor bank fees.

ISOs upcharge monthly fees to cardholders to offset residency fees. Cardholder fees include a $3.50 activation fee and a monthly charge ranging from $4.95 to $9.95. ISO upcharges are rebated to them monthly.

CardEx requires an exclusivity contract of at least three years, in which the ISO agrees to market only CardEx's prepaid cards. Chamberlain said penalties for breaking a contract early are negotiable. ISOs retain full rights to their merchants.

The company offers customized cards for businesses wanting to create a brand.

Secure Payment Systems

The company offers both gift and loyalty programs on one card. SPS provides all processing, which is closed loop. The company's Web site enables merchants to look at their transaction data in real time. ISOs may brand the Web site with their own identity.

Merchants pay for the cards and either a per-transaction or a flat monthly fee for the service. ISOs get a wholesale buy rate that can be marked up. Eazell said ISOs are not charged fees and "we don't compete with them for credit card processing." For chains or franchises, SPS offers daily automated clearing house transfers between stores.

The cards are certified on most vendors' terminals, and the programs are certified on a host of restaurant POS programs, Eazell said.

SPS also offers ATM and payroll cards. The company plans to offer a MasterCard prepaid card, which has "the unbanked facet to it," he added.

ISOs earn revenue based on transaction fees and the price of the cards. Free cards are available to ISOs in sample quantities.

Smart Card Solutions LLC

The company's primary prepaid product is the SmartTrack closed-loop card, which supports both gift and loyalty programs. Consumers can continue to use the SmartTrack gift card as a loyalty device on which they earn points with purchases, if encouraged by the merchant to do so.

The SmartTrack application coexists on an Internet virtual terminal, alongside debit and credit applications.

"We typically will host the back-end system and provide a Web site for pulling the reports and reviewing the data," Biwer said. "We license the software to ISOs if they are interested in hosting [and processing] it themselves."

For SCS-hosted applications, the Web site and product can be branded for the ISO. At minimum volumes of 1,000 cards, the company will customize cards with the name and logo of the merchant.

SmartTrack merchants are charged either on a monthly subscription basis or on a per-transaction model ranging from $0.05 to $0.20. Biwer said pricing is very volume sensitive.

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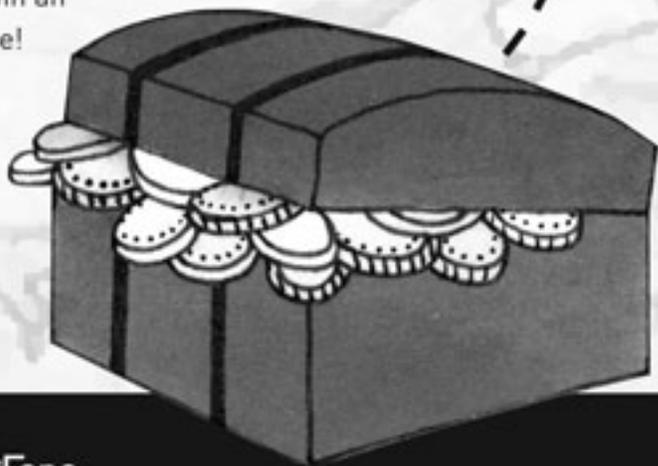
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News

Loyalty transactions tend toward lower pricing than gift applications. Both pricing structures pay ISOs, which "earn revenue based on the activity on the program, as long as the merchant is running cards and transactions," he added.

Internet protocol-based transactions tend to be less expensive for merchants than dial-up.

The program's processing agreement has an initial two-year term, with annual renewal options. "We don't typically have an exclusive at the end of the term," Biwer said. "I'd rather earn their wanting to be on the program."

KKR can't resist First Data 'cash-flow machine'

Cash flow can be irresistible, particularly to takeover artists like private equity firm Kohlberg Kravis Roberts & Co. That company, which is credited with perfecting the leveraged buyout, has agreed to pay $29 billion for First Data Corp., or $34 per share.

The leveraged buyout champion

Last year, KKR's buyout of HCA Inc. for $33 billion became the largest deal on record. Yet, adjusted for inflation, KKR's takeover of RJR Nabisco, valued in 1988 at $31.4 billion, was still larger. And KKR recently bid $45 billion for Texas utility TXU Corp.

The acquisition makes perfect sense, stated Jefferies & Co. analyst Craig Peckham in a note to investors.

"FDC is a free cash-flow machine with maturing growth prospects … and senior management is in the midst of transition, with CEO Ric Duques expected to 're-retire' this year."

The deal includes a 50-day "go-shop" provision allowing First Data's board to solicit other bids. "We believe the KKR deal likely is the best possible offer for the company," Peckham stated.

"For First Data, it's a huge plus," because consolidating its many platforms will be easier as a private company, said Michael L. Bratton, an ISO recruiter, training specialist and contract negotiator. And going private will enable the company to reinvest quarterly shareholder dividends.

Bratton doesn't believe KKR will get rid of First Data. He said the buyout firm, following acquisitions, tends to reduce the leveraged debt incurred, while driving profitability by trimming expenses.

Owning First Data will enable KKR's diverse holdings to perform cost-efficient on-us payment processing. "All these companies that KKR owns are going to get the benefit," Bratton said.

KKR businesses likely to benefit include retailer Toys R Us, media companies, hotels and resorts, and health care facilities.

"I'm assuming KKR will sell off underperforming business products or channels," Bratton said. He speculated that KKR will retain First Data's tier one merchants but sell its ISO channel, a saturated market in which merchant service providers are "signing the same merchant base year in, year out."

First Data has reported giving up some margin when large ISO contracts have come up for renewal in recent months.

Potential suitors

As First Data seeks other bidders, TowerGroup Inc.

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News

analyst Theodore Iacobuzio believes two other sectors will be very interested in owning their own integrated payment processor: issuing banks and giants in online search and auction businesses.

A year ago, Bank of America Corp. Chairman Kenneth D. Lewis expressed interest in buying a processor to enable the bank to settle its own credit card transactions.

"Citi would love to clear and settle on itself," Iacobuzio said, and Chase, HSBC or any big issuing bank "with lots of money and liquidity" could also make an offer. Iacobuzio is Managing Director and Practice Leader in TowerGroup's payments practice.

Software companies, some of which already own alternative payment systems, may also see advantages to owning their own credit card processor. Microsoft Corp., eBay, Google and Yahoo! could be contenders for First Data, Iacobuzio said.

Several investment banks have committed to providing debt financing to KKR for the buyout.

Business as usual?

Whether First Data proceeds with its announced consolidations of platforms and data centers this year and next (see "First Data plans U.S. platform consolidation," *The Green Sheet*, Feb. 26, 2007, issue 07:02:02) depends on KKR. "Once those doors close, KKR is going to do what they think is best," Iacobuzio said.

On a conference call with employees April 2, Duques said, "We do not expect that our private or public company status will affect the day-to-day service to our customers."

The company's platform and data-center consolidations will proceed, possibly at a faster pace, he added. "It is the intention of KKR and First Data to ensure continuity of operations and continued excellent service to our clients."

Iacobuzio speculated that KKR, a private company, would resell the processing giant quickly because regulators likely will demand access to scrutinize First Data's operations. "There may be pressure on KKR to flip this, either piecemeal or as a whole," he said.

First Data could have launched a brand to rival Visa U.S.A. and MasterCard Worldwide had it linked all its disparate parts, Iacobuzio said.

Using its VisionPlus card processing system would have been a key factor. "This is a very popular piece of software for processing all kinds of plastic," he added.

First Data reported recently that it moved several new

and existing issuing clients onto VisionPlus platforms at five international locations, which in the United States includes Omaha, Neb.

Both ValueLink (now branded as First Data Gift Card) and the STAR Network could have been put to use in a broader strategy, Iacobuzio said, "but they've made no concerted effort to do so."

Since the deal was announced, First Data executives have tried to reassure clients that KKR will not drain the company of cash and then sell off its assets.

"While some cynics might scoff at this notion, KKR are very smart people with deep experience in analyzing diverse businesses," wrote David P. Bailis, President of Financial Institution Services at First Data, on his blog April 2.

"This is a business that is so strong and so attractive that a group such as KKR is willing to place a large bet on its future."

Duques said going private makes sense for First Data. "KKR has a great reputation with companies they buy," he added. "And on average, their holding period is about seven years, which is an extraordinarily long holding period for private equity firms."

With the exception of Duques, First Data's management team will remain in place.

Bratton predicted Pamela Patsley, Chief Financial Officer and Executive Vice President of First Data International, or Ed Labry, President of Commercial Services, would replace Duques as CEO.

Feeling First Data's pain

Despite the rosy view of KKR's intentions, other institutions began to mirror an alternate view of KKR's strategy. Within hours of the announcement, Standard & Poor's lowered First Data's corporate credit rating by several notches.

"The lowering of the corporate credit rating to BB+ reflects our view that First Data no longer possesses an investment-grade financial policy, in light of the announced debt-financed transaction," stated S&P analyst Philip Schrank.

The purchase price was a 26% premium over First Data's share price when the deal was announced. As more details of the acquisition emerge, First Data's rating could drop further, Schrank added.

Upper management may have needed little incentive to welcome the acquisition: All employee stock options will vest and be cashed out at $34 per share when the deal closes, Duques told employees.

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So, the controversy goes on. The vision of a comprehensive system for sharing best practices and mitigating problems still shines. But no organizing body has officially stepped forward to tackle this sticky behemoth.

NAOPP steps up

However, the National Association of Payment Professionals has begun researching the development of a certification program.

Under the direction of NAOPP Vice President Craig Lesser, the organization has discussed specific details to include in the program, investigated alternatives available to assist with administration and researched some of the legal issues involved.

"In 2003, when NAOPP was formed, the original members wanted to create an organization to serve the needs of the MLS and to serve the industry as a whole," said Vicki M. Daughdrill, NAOPP's Executive Director.

"They felt there was a need for a source for education to advance the quality and professionalism of individuals engaged in the payment processing industry," she added. "Certification is the logical outcome of an established education and testing program."

Knotty issues

Creating a program that can train MLSs in the best practices of all facets of a business as complicated as ours is a gargantuan challenge. Ironing out administrative details is a daunting task.

So is addressing potential legal ramifications such a program could have on the certifying organization.

A program of this scope could also prove to be expensive. If costs were recouped through the applicants, certification fees could be perceived as too burdensome for novice MLSs and too large and unnecessary for established, successful ISOs and MLSs (assuming licensing was not required).

"Without there being any way to regulate certification and, after certification, issues, it is a worthless piece of paper for someone to have," said Allen Kopelman, Chief Executive Officer of Nationwide Payment Systems.

"If it was recognized by the National Restaurant Association or the National Retail [Federation] or other business associations, then it would mean something," he added.

"The MLS would want to have it because the members of these associations would advertise that you should only get merchant accounts from certified salespeople."

Although no one, as yet, has completed a cost analysis, some theorize that no organization in this industry has pockets deep enough to take on the costs and liabilities of a certification program.

Bum raps

A compelling argument for certification is that all ISOs and MLSs suffer because some merchants perceive the payments industry to be lacking in integrity. Although the vast majority of MLSs are honest, many feel they have been contaminated by the actions of the few who are not.

A good reputation can be damaged with remarkable speed; a sullied reputation can take years to overcome.

Other businesses have also been tainted by the actions of an unscrupulous few: Used car salespeople and lawyers come to mind. But corrupt ISOs and MLSs can have a lasting effect on their victims' livelihoods.

If a merchant catches one rep in a lie – or even suspects a lie or exaggeration – this can taint the merchant's relationships with all MLSs for years. So, negative perceptions in the merchant community can be deep-seated and even irrational.

Like choosing a cell phone provider, selecting a payment processor can be very difficult: Apples to apples comparisons can rarely be done because payment options, fees and even interchange rates may vary considerably.

Add the various features and requirements of payment processing technology, and it is easy to see why busy merchants often sense they don't fully understand what they are purchasing.

When merchants hire lawyers, they may eye their bills carefully. But they assume their lawyers are working on their behalf. Also, most merchants need to consult attorneys only occasionally.

Merchants assume their dealings with MLSs are inherently risky. Purchasing mistakes pertaining to payment processing are often hard to detect and can thus affect retailers' businesses indefinitely.

Also, merchants do not view MLSs as working for them. They sometimes suspect MLSs are not being truthful. And for retail and hospitality merchants in particular, going without processing is not a viable option.

CoverStory

So merchants feel trapped into purchasing something they don't fully understand from people they don't totally trust.

Getting codified

Fast Transact Inc. President Anna Solomon said, "With the recent security breaches of a major ISO, with T.J. Maxx stores and others that may not have made it to the news, merchants are losing confidence in the industry as a whole.

"Chargebacks are on the rise; identity theft is increasing; and bankruptcy is rampant. The issuing banks have driven debt financing to the max, and the government is now looking into regulating the issuing side. It won't take long to find the acquiring side in the same boat if we don't take the necessary steps to self-regulate."

To combat this problem, the Electronic Transactions Association approved in January 2006 the ETA Code of Conduct.

The code promotes ethical conduct as follows: "ETA members shall not place their needs and desires above those of the merchant in the performance and work for that merchant" and "will treat colleagues and competitors with respect, regardless of race, religion, disability, age or national origin."

The Code further states that all ETA members will "take affirmative steps to comply with all industry [security] standards … and immediately notify the proper authorities and the proper industry personnel should they suspect a compromise or breach in security protocols."

But some critics have said that the code is too general to be enforced. This would be true, they say, even if the ETA had an enforcement arm in place and a more effective deterrent to dishonest behavior than simply canceling the offending party's ETA membership.

Helping the ISO

Solomon believes MLS certification would aid agent recruitment and help ISOs prevent hiring disasters: "We run background checks on all of our employees," she said.

"Considering the confidential personal information they have to handle, we want to make sure that it is protected the minute it leaves a merchant's hand.

"A few months back we had a rep apply to us. We ran a background check: outstanding warrant for arrest, wire

> **Certified MLSs might be better recognized as having a body of specialized knowledge that could be tapped – much like accountants, real estate agents or lawyers.**

fraud, collections and liens up the ying yang, changed location every six months.

"This is a nightmare waiting to happen. What amazed me was he was already an agent for someone else and was looking for a new home and probably found it."

Solomon also favors ISO certification. "That would include a review of their internal systems on how they store the information received from a merchant," she said. "All employees would have background checks so that internal fraud would be at a minimum risk.

"It would include a check that only licensed MLSs are representing them."

In the long run, she added, both ISO and MLS certification would be beneficial to ISOs.

She noted that certification would reduce the number of unqualified MLSs harassing merchants, create more trust

and less competition, and raise margins because competing on price alone would no longer be necessary.

Certification would also lessen the chance of fraud, and it would reduce the likelihood of government intervention.

Elevating the MLS

Like ISOs, MLSs could benefit from certification: The number of unqualified and dishonest reps spreading false information would be reduced.

"Every day it seems we run into a merchant who has been misled or outright lied to," Solomon said. "Is it poor training or just outright taking advantage of a merchant?

"For example, last week we were competing with another provider for an account, and the other MLS told the merchant that Visa was shutting us down in 90 days because we were not compliant.

"And then we wonder what is wrong with this industry!

"There are MLSs out there telling merchants that their current processor is ripping them off, taking advantage of them because they are a minority. It is unbelievable what some MLSs will say to get the account."

Certified MLSs would have a competitive edge over their noncertified counterparts in dealings with ISOs as well as merchants.

And certification could transform interactions between MLSs and their merchant clients from adversarial to consultative. Agent certification could help merchants see MLSs as more than salespeople.

Certified MLSs might be better recognized as having a body of specialized knowledge that could be tapped – much like accountants, real estate agents or lawyers.

"While many would like to remain in denial and feel that regulation would be anti-capitalistic, we are spiraling downward because of some bad-apple ISO practices," Solomon said.

"I truly believe that if we work together to create the standards and uphold each other in maintaining them, we can continue to flourish," she added. "If we don't, it will be done for us. The writing is on the wall."

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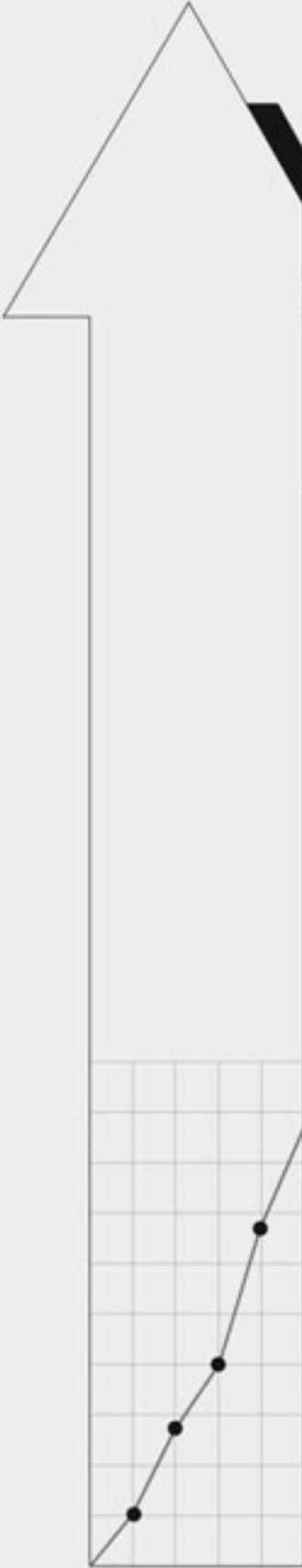
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Education

StreetSmarts^{SM}

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By Dee Karawadra
Impact PaySystem

First, I would like to say thank you to the GS Online MLS Forum members who replied to my posts regarding this column. Street Smarts is committed to bringing the voice of merchant level salespeople (MLSs) to print; the MLS Forum is a great place to start a dialogue about anything related to the payments industry.

If you haven't logged on to the Forum yet, go to *www.greensheet.com/forum*, sign in and start to explore. I learn something new every time I log on.

I asked what you would like to read about. Here are some topics you suggested:

- Moneypusher suggested "door-opening approaches."

- AnythingMan recommended writing about "managing your time with regards to prospecting, selling, closing and maintaining." He added, "That was the main thing that I struggled with, when I started."

- Bankcardrep1 suggested "recruiting."

All of your ideas were spot on; it was hard to choose one. But when Jason Felts of Advanced Merchant Services wrote that he "always thought about hitting areas that could directly improve/increase" the number of merchant applications submitted, I thought that encompassed many of the suggested topics.

Network wisely

It has become more challenging each year to round up new business. The market used to be like a green pasture. Grazing was easy. But times have changed, and the market has become crowded.

Today, networking is the name of the game. To make a

decent living, one must maximize time and invest in relationships that reap referrals. Whether you join your local business chamber or join a local retail association group, networking is your key to the merchant world.

Time management is essential. You may need to attend numerous activities and do extensive recruiting – recruiting of referral partners, that is. Remember, doors open with ease when you are referred by someone a prospect knows and respects.

Let's take a look at some good referral sources that could be in your backyard.

Get friendly with franchisers

How many franchise groups are in your area? Many do not have mandated credit card processors, leaving franchisees to use whomever they choose.

Franchise groups are usually divided into geographic regions. They hold monthly or quarterly meetings, and they welcome vendors that can present to the group as a whole. Wouldn't it make sense to contact these groups and offer them a plan that will provide both financial savings and great customer support?

Educate yourself on the type of POS system the franchise uses. Are credit card payments processed through an integrated system or do franchisees use stand-alone terminals? You'll need to know this.

Anna Solomon (aka FastTransact on the MLS Forum) wrote the following about her experience with the franchise sector: "We developed some niche programs and integrated different software that supports the programs.

> **Don't be afraid to approach POS equipment and software providers. Just like you, they are always looking for ways to increase their sales.**

"They refer their customers to us. We go to all their tradeshows, give presentations and advertise in their publications. We are at the point where they are contacting us for integration."

Find out if your ISO partner has the ability to process on the POS software your franchise prospects use. If not, search for alternatives, or find a new ISO partner. Go into sales calls prepared, and offer multiple ways to process credit cards.

These groups like to have choices, and each franchisee's shop may run a little differently than the next.

Rope in the resellers

Other good referral sources are cash register and software resellers. These folks sell POS equipment all day long. Why not incorporate credit card processing into their POS system deals? Offer resellers a referral fee and agree to provide personal service to their clients. Building strong

relationships with a reseller's customer base will improve your business.

"If the merchant is treated poorly or is unhappy with the service or quality of product, it impacts them," Solomon wrote. "They are putting their stamp of approval on your ability to provide what they hope is quality to their referrals. They would rather lose the spiff or residual than their reputation."

Offer to recommend the provider you have chosen to your merchants whenever one of them is in the market for cash registers or POS software. In return, the reseller may be willing to carry your preferred hardware and refer new purchasers of that equipment to you for processing.

Don't be afraid to approach POS equipment and software providers. Just like you, they are always looking for ways to increase their sales.

Woo the Web developers

Get in on the new technology era by partnering with Web developers. They create Web sites for merchants who are opening up Internet-based virtual storefronts. Through these sites, merchants can sell products without the high costs associated with a physical location.

Know what your ISO requires to get a Web-based merchant set up for processing, and create a plan to approach Web developers with the prospect of partnering.

Three important factors are necessary for developers to get merchants prepared to accept credit cards via the Internet. The first is a payment gateway.

Gateways enable merchants to electronically submit payment transactions to payment processing networks via the Internet.

Authorize.Net Corp., VeriSign and EFSnet are among the companies that provide gateways. The gateway sits between the merchant and the payment processing entity. The gateway's relationship with a processor allows it to pass transaction information on behalf of the merchant via the Internet over a proprietary and secure connection.

The next requirement is a shopping cart, which is software that facilitates an online store's catalog viewing and ordering process. Typically, a shopping cart is defined as the interface between a company's Web site and its deeper infrastructure.

The shopping cart allows consumers to choose merchandise, review their selections, make necessary modifications or additions, and purchase the merchandise. ITransact Inc. and Cart Manager are two companies that provide shopping carts.

The third element necessary for a merchant to accept online credit card payments is a relationship with a credit card processor.

The processor must be certified on the company's gateway and shopping cart. Then it can take information from both the gateway and the shopping cart and complete the sale.

Web developers usually have no preference when it comes to payment processors; they are looking for the easiest way to get the job done.

Make it worth their while to recommend your processor by partnering with an ISO that has the capability to process for multiple gateways and shopping carts.

The more options you can provide, the greater your ability will be to accommodate your Web developer's customers. Arm yourself with knowledge and flexibility. The relationships you build will be increasingly beneficial for both parties as referrals multiply.

Break the ice

Next time you're out shopping and you run across a franchisee, ask for the name of the company's regional representative, get in contact with that person, and begin your research. Then, when you meet with the franchise group you will be prepared to make a killer presentation.

Ask your current Web merchants who designed their Web sites, compile a list of developers and begin contacting them. Check your local Yellow Pages for cash register dealers and start networking.

The sooner you reach out to these prospective referral sources, the sooner you will bring in new merchant accounts. Until next issue, happy prospecting. And let's keep in touch on the MLS Forum.

Dee Karawadra is the founder, Chief Executive Officer and President of Impact PaySystem, based in Memphis, Tenn. He and his team have a wealth of knowledge on the merchant services industry, with a niche in the petroleum market. Dee's experience on the street as an agent has guided him in laying a foundation for an agent program that is both straightforward and lucrative for his agents. Contact him at 877-251-0778 or dee@impactpaysystem.com.

Education (continued)

The concern du jour? PCI

By Ross Federgreen
CSRSI

I recently attended the Southeast Acquirers' Association meeting in Jacksonville, Fla. While there, I spoke with a number of registered and nonregistered ISO owners and merchant level salespeople (MLSs). I wanted to ascertain their most pressing educational needs. To my surprise, they indicated their area of greatest confusion and concern is PCI.

So, here are answers to the top three questions they asked:

What is PCI?

PCI is short for the Payment Card Industry Data Security Standard. It is also abbreviated PCI DSS. The current version of PCI is 1.1. It was promulgated in September 2006. The PCI Security Standards Council is the central reference source for rules and regulations relating to PCI.

PCI is the result of a combined effort of the card brands – including Visa U.S.A., MasterCard Worldwide, American Express Co., Discover Financial Services LLC and JCB International Co. Ltd. – to provide uniform data security standards and requirements.

Previous security programs such as the Visa Cardholder Information Security Program and MasterCard Site Data Protection program have been folded into PCI.

Whom does PCI affect?

The short answer is everyone. It is critical to understand that merchants in both card present and card not present environments must meet PCI requirements. And *all* merchants who receive, transmit, store, manipulate or essentially touch cardholder data in any manner are affected.

Specific PCI requirements are driven by merchant categories, which were updated last year. Four distinct merchant designations range from level 1 (those who have the greatest security requirements) to level 4 (those who have the least regimented requirements).

Remember, both card present and card not present merchants must comply with PCI: No merchant is excluded.

Merchants are primarily pegged by their annual volume of e-commerce and traditional transactions. However,

any merchant – at the sole discretion of any card brand – can be categorized a level 1 merchant. And merchants of any size or type who experience data breaches can also be declared level 1 merchants.

What are the PCI requirements?

PCI contains a series of requirements that can be divided into two areas: annual self-assessment questionnaires (SAQs) and quarterly penetration scans. But this is only the beginning.

First, a merchant's level must be determined. The number and type of transactions merchants handle drive their category designations.

The next step is to find out if the mandated compliance date for the merchant's category has already passed. The best way to approach this is to act as though it has. In fact, all merchants at levels 1, 2 and 3 must be in full compliance now.

And, although there are some acquirer-specific exceptions for level 4, the safe answer is to assume all level 4 merchants should also be compliant right now.

Quarterly penetration scans need to be performed by an approved scanning vendor (ASV). The authority to approve an ASV rests with the PCI Security Standards Council. The list of the approximately 125 approved ASVs is at *www.pcisecuritystandards.org/pdfs/ pci_asv_list.pdf.*

A number of ASVs tell merchants they need to have scans done more often than once per quarter. This is not true. They also say that in order for ASVs to do their work, merchants must provide completed SAQs to them. This is also not true.

Recommend to your merchants a company that is on the published ASV list. And tell your clients the ASV does not need access to their SAQs in order to do its job.

Don't sack the SAQ

Every merchant must complete a SAQ annually. No exceptions. It consists of approximately 75 questions, which are designed to probe into merchants' actual working conditions.

Many merchants believe this is a meaningless exercise and think it does not matter whether they answer the questions accurately.

This could not be further from the truth. These documents and filings should be viewed in the same light as an

Education

> ▶ *It is critical to understand that merchants in both card present and card not present environments must meet PCI requirements.*

IRS 1040, except you cannot modify your SAQ results after the document is filed. Never allow merchants to fabricate or answer inappropriately.

Many merchants do not understand that they must file their SAQs with their service providers. They also do not realize that a single no answer in the questionnaire will put them out of compliance.

If a merchant does the annual self-assessment and answers no to one or more questions, the risk (or risks) causing the problem must be resolved. Then the merchant must retake the self-assessment to demonstrate compliance before submitting the SAQ.

The current version of the SAQ consists of 12 requirements in 64 major sections. In addition, many of the 64 sections contain subsections. To complete the SAQ, merchants must have a thorough working knowledge of PCI version 1.1, including its multiple nuances.

A common error merchants make is to give information technology (IT) departments or consultants responsibility for answering the SAQ or interpreting PCI.

The PCI and SAQ are not IT documents; they are business documents. This cannot be over-emphasized. Proper SAQ completion requires the expertise and perspective of senior management. Period.

A full understanding of PCI and a deep appreciation for the dynamic state of the issues involved will make you, as ISOs and MLSs, more valued partners to your customers.

As always, remember that knowledge is power.

Ross Federgreen is founder of CSRSI, The Payment Advisors, a leading electronic payment consultancy specifically focused on the merchant. He can be reached at 866-462-7774, ext. 23, or rfedergreen@csrsi.com.

Education (continued)

Legal ease

The ABCs of portfolio sales

By Adam Atlas

Attorney at Law

Everyone in the payments industry talks about it, but many have yet to sell a portfolio. Are you planning to sell yours someday? The purpose of this article is to give you a checklist of typical stages in a portfolio buyout. Let's assume the following about the parties involved:

- The ISO is nonregistered and works with the processor.
- The ISO has 20 agents promoting the bank's merchant services.
- The buyer wants to buy the ISO's 200-merchant portfolio.
- You own the ISO and want to sell the portfolio.

Every purchase is unique. The steps described herein will not apply to all buyouts, but they are likely to apply to many.

1. Buffing

It's one thing to have a portfolio of merchants who generate strong residuals; it's another thing to have a portfolio in condition for sale.

Before making an offer, a savvy buyer will want to see all documentation evidencing the portfolio's existence and performance. This includes residual reports from the processor, merchant agreements for each merchant and ISO bank account statements.

Also, any responsible buyer will want you to provide all paperwork necessary to service the portfolio after the sale closes.

2. Shopping

Unless a potential buyer offers you 100 times the monthly residual your portfolio generates, it's not wise to sell to the first person who makes an offer. The industry has a number of brokers, consultants and lawyers who can help shop a deal. Some of them will ask for a commission ranging from 3% to 8%.

When shopping a portfolio to potential buyers, be careful not to breach the confidentiality provisions of your processing agreement. It is possible to interest potential buyers without revealing confidential information concerning your ISO's identity, pricing and merchants.

All pricing is usually confidential. Initially, you will be more interested in ascertaining price ranges of various buyers than in getting specific offers on the portfolio.

3. The NDA

Before beginning formal discussions, enter into a non-disclosure agreement (NDA) with a potential buyer. While enforcing NDAs can be difficult, you owe it to yourself, the processor and the bank to safeguard all information concerning your portfolio.

In some cases, the fact that a portfolio is for sale can be confidential. Agents of your ISO might be upset to hear that the business is for sale.

4. Written offer

When a buyer is willing to pay the price you believe is best for your portfolio, have the buyer give you a written offer to purchase. An offer is not usually a binding promise to buy the portfolio.

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> ## *When it is clear the processor does not want to buy the portfolio, the buyer will wish to carry out a due diligence on the portfolio.*

Instead, it is an expression of the buyer's intent to do the deal within a specific period of time (such as 30 days), subject to certain standard conditions. These include due diligence, consent of processor and possibly bank, and the signing of a definitive agreement.

5. Right of first refusal

Regardless of whether the buyer is obtaining your rights to residuals only or buying the actual merchant agreements, chances are your processor has a right of first refusal to match an offer given by any third-party buyer.

As such, it falls upon you to present the offer to the processor to find out whether the processor will exercise its right of first refusal. This right is usually open for 30 days from the time the processor is given a copy of the third-party offer.

Always ask for a written confirmation from the processor stating whether it is accepting or rejecting its right to buy the portfolio.

6. Due diligence

When it is clear the processor does not want to buy the portfolio, the buyer will wish to carry out a due diligence on the portfolio. At this point, it is prudent to involve the processor; the buyer will be entering into a relationship with the processor after the deal closes.

The buyer will also depend on the processor to confirm key information concerning the portfolio, such as the number of merchants, transaction volume and the monthly residuals paid to the ISO. Due diligence often involves an on-site visit by the buyer and a thorough inspection of all agreements relating to the portfolio.

7. Integration

Both buyer and ISO are equally interested to know that the buyer is actually able to board the merchants into an

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existing or new agreement with the processor. There are a number of technical aspects to the integration process that the processor and buyer will need to sort out long before the portfolio sale closes. Poor integration will lead to attrition and losses for all parties.

8. Agreement of purchase and sale

You and the buyer will negotiate and enter into a formal agreement of purchase and sale. Such agreements vary in length, but they are all similar in essence.

The buyer pays in either a lump sum or on a payment schedule. The ISO makes representations and warranties as to the portfolio. The ISO may also make promises about the portfolio's post-closing performance and possibly agree to service the merchants following closing.

Purchase and sale agreements cannot be fully covered in this short column. I will dedicate another column exclusively to them.

9. Processor consent

Among the various consents that may be required, the processor's consent is cardinally important. The ISO should be trying to obtain this as soon as it receives the processor's rejection of the right of first refusal.

10. Closing

Closing is an exchange of signatures and payment of all or some of the purchase price.

11. Post-closing issues

Post-closing concerns are too numerous to list here. Some important issues pertain to agent rights on a portfolio sale, post-closing merchant support and attrition obligations under the purchase and sale agreement.

Each portfolio sale follows its own path. Yours may vary from the steps given here.

Many ISO buyouts are closed without the help of lawyers. But an ISO or buyer should retain an attorney to ensure the documents involved in the transaction actually reflect the deal the parties wish to make. When doing a buyout, try to avoid surprises.

In publishing The Green Sheet, *neither the author nor the publisher is engaged in rendering legal, accounting or other professional services. If you require legal advice or other expert assistance, seek the services of a competent professional. For further information on this article, e-mail Adam Atlas, Attorney at Law, at* atlas@adamatlas.com *or call him at 514-842-0886.*

Education (continued)

Anyone up for a chat?

By Joel and Rachael Rydbeck
Nubrek Inc.

Customers expect to reach you anytime, anyplace. That seems to be the world cell phones and e-mail enabled smart phones have brought us. While this is a mixed bag, you now have the opportunity to reach your clients much faster and with less hassle than ever before.

If you haven't already used live chat, try it out. There is great convenience in being able to respond to customers immediately and not have to make the kind of small talk phone conversations require.

In this article, we will discuss two online applications that can give your customers faster access to your company: instant messaging and live chat.

Live chat

Last week we were altering our automatic billing with Authorize.Net Corp., and we had a few questions. At the top of a Web page accessible to Authorize.Net customers was a link to a live chat with a customer service rep. After we clicked on the LiveChat button, we were put into a queue and kept apprised as we progressed in line.

When a representative came on screen, we quickly stated our issue and received assistance promptly. At the end of the chat, we were given the option of printing out our conversation for reference.

Directly after the session, a survey popped up. It asked our opinion of Authorize.Net's customer service. All in all, we were very impressed.

This type of live chat service is increasingly popular. Before placing a phone call, we will often check a company's Web site to see if it offers live chat support.

Chat applications provide customers with a convenient interface with your company. Many people appreciate the real-time communication and anonymity live chat offers. They don't have to pick up a phone and engage in conversation.

Providing a live chat option enables sales agents and customer service reps to handle more than one conversation simultaneously. It is also surprisingly inexpensive, ranging from $8.99 a month all the way up to $149 a month, depending on the number of licenses and extra features required.

Some companies have developed sophisticated tools that provide metrics and chat routing. LivePerson Inc. offers just such functionality. At Nubrek Inc., we use Rackspace Ltd. for all of our Web hosting. Much of our communication with Rackspace has been via the company's LivePerson chats.

Two years ago, a sales representative for j2 Global Communication Inc.'s eFax service (which facilitates e-mail faxing) convinced us of the value of a one-year contract and closed the deal via live chat.

If you're interested in leveraging this tool, here are several questions to ask when you are evaluating live chat products:

- How customizable is the product?
- What alerts users to a customer's question?
- How many users are included in the license?
- Can each user host multiple sessions simultaneously? (i.e., can one customer service rep work with three customers at once?)
- Are e-mail transcriptions of chats available?
- Can users and their customers print chats?
- Does the application come with safety features?
- Does the product monitor traffic?
- What kind of support is offered?
- Is installation of hardware or software required?

While we aren't reviewers, we can point you to some of the dozens of available products to help jump start your search. If you are interested in setting up a live chat feature for your current or potential customers, check out the following:

- CoffeeCup Live Chat (*www.coffeecup.com/live-chat*) is a very affordable live chat option that you can host on your own servers. The application costs $34 upfront and provides basic services.

- Live2Support (*www.live2support.com*) is a hosted service with packages ranging from $8.99 to $39.99 per month, depending on your needs. This tool provides log analysis and reporting so you can gauge application and Web site usage and encourage visitors to view helpful Web pages.

We like the real-time Web site visitor monitoring and the ability this product provides to initiate a chat.

- LivePerson (*www.liveperson.com*) is an established leader in this space. From a Rackspace customer perspective, we were very impressed with this product, although the pricing estimates were more than twice those of any other packages we researched.

Education

• From a customer experience perspective, we were also impressed with InstantService (*www.instantservice.com*).

Instant messaging

Instant messaging (IM for short) is a real-time communication tool that is offered by several companies whose applications are installed on users' computers. Unlike live chat applications, you need to know a person's unique user identification to initiate a chat with that person.

IM also requires that you and the person with whom you are exchanging messages have the same software installed. Most applications are available at no cost.

Some have fancy, optional upgrades for a fee. IM sessions reduce the need for e-mail and phone calls. A simple question-and-reply exchange can be transmitted within seconds.

Aside from providing the ability to exchange messages with friends, co-workers and family, many IM applications have some cool built-in features. Most offer spell check and a wide selection of appealing graphics.

Many allow users to receive and send files containing pictures, sound bites and documents. One of our favorite features is the chat room where you and several other people can share a chat box instead of copying each other on a long string of e-mails. Everyone gets together in one chat and irons out the details.

The more popular IM tools are Google Talk, AOL IM (AIM), MSN Instant Messenger, Yahoo! Messenger, ICQ and Skype SMS. Trillian by Cerulean Studios (*www.trillian.cc*) is a great tool for combining all your instant messaging tools into one interface.

Security

Make sure that your IM software keeps logs you can monitor for inappropriate behavior, if necessary. Companies can also choose different security measures regarding data saved and allowed on the chats.

IM viruses and worms spread in much the same way e-mail viruses spread. Because you can send and receive files via IM, it is possible to download infected files. Keeping your anti-virus software updated is a great way to prevent this and thereby protect your computer.

Most tools allow you to disable file-sending. We strongly recommend that you not accept unsolicited files.

Additionally, most IM tools do *not* use encryption: Information you exchange can be easily intercepted and

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> *Being instantly available to your customers and co-workers means they expect you to be very accessible. When you take a break from online interaction, you run the risk of ruffling feathers.*

read. Many live chat tools use the secure hypertext transfer protocol (https), which is readily accepted in most security circles.

The downside

Being instantly available to your customers and co-workers means they expect you to be very accessible. When you take a break from online interaction, you run the risk of ruffling feathers.

Also, people who might have hesitated to give you a call over a question will have fewer qualms about shooting you a quick instant message.

Additionally, employees who have access to IM in the office may use work time to chat with friends rather than tend to customer needs. Unlike e-mail, IM conversations can extend for half an hour rather than a few short minutes.

It is difficult to convey tone in an IM format. Many people abbreviate words and cut out grammar. The end result can look very curt. A phone call is often the most personal touch (but not always practical).

Our recommendation: Use live chat and IM as part of a larger solution. They can play a complementary role to e-mail and phone transactions. Have fun trying out solutions as you find the right fit for your business.

Joel Rydbeck, Chief Technology Officer of Nubrek Inc., brings his strong background in e-commerce and business process automation to the merchant services industry. Rachael Rydbeck, President of the company, has a background in product management and technical writing. Nubrek offers eISO, a Web application for ISOs that tracks leads and provides automated residual and commission reports. For more information on eISO or to view a free demo, visit www.nubrek.com/eiso.html. E-mail Joel at joel@nubrek.com *or Rachael at* rachael@nubrek.com.

Education (continued)

A blue route to green pastures

By Biff Matthews
CardWare International

I recently attended a webinar based on *Blue Ocean Strategy*, a business book so popular that it is now published in 37 languages. The rallying cry for the Blue Ocean approach is, Don't compete with rivals; make them irrelevant.

The book was written by W. Chan Kim and Renée Mauborgne for people in the intensely competitive manufacturing and service industries.

The book's premise is that head-to-head competition in existing markets (called red oceans by the authors) is ultimately a losing game with diminishing profitability.

Those who will become, most successful in today's environment, say the authors, will do so by creating new markets (blue oceans). How?

They will find new unique or niche customers, fresh ways to add value to their services and more effective ways to reach the best prospects – away from the din of competition.

The authors are spot on. And as ISOs and merchant level salespeople (MLSs), you can follow their example into friendly new waters.

Do your homework

The most obvious requirement is education. Publications such as this one are excellent sources of industry news and information, as well as developments that will likely affect us in the future.

Industry-specific magazines such as *Stores*, for the broad retail industry, *Convenience Store News* or *National Petroleum News* focus on the issues impacting their respective industries.

A useful distinction: "Vertical" magazines such as *Pizza Today* are written for the full range of job titles (store owners to distributors to cheese-makers) throughout one slice (sorry, couldn't resist) of an industry.

"Horizontal" publications such as *Financial Executive* cut across many sectors, focusing on readers working in diverse industries who share a specific job description.

You can't read all the magazines available, but you can selectively scan a few that are relevant to your best customers and prospects. By doing so, you will gain an understanding of their world that few in your profession ever will.

Go the trade route

Tradeshows let you combine knowledge and networking. If you're a regular reader of this magazine, you're aware of shows sponsored by the American Bankers Association, ATM Industry Association, Electronic Transactions Association, NACHA – The Electronic Payments Association, various acquirers' associations and others.

In our industry, the shows these organizations offer are the only venues at which all equipment makers, card Associations and everyone else involved in the food chain get together.

Tradeshows have become controversial: Companies love them – or hate them. It's a common perception that attendance is down, overall.

That may be true. There are increasingly more shows, and they're cannibalizing each other. So, you have to be more selective about where you spend your time.

I can't afford to put five salespeople on the road. But I can meet as many qualified prospects in only three to four days as those five people could in six months.

The ETA cites an interesting statistic: The number of attendees versus the number of exhibitors at its shows used to be 55% exhibitors, 45% attendees. That number has now flipped. They see this trend as positive.

Nationwide, leads generated at tradeshows account for about one-fifth of sales for business services firms. I think that number is fair for our industry, and I'm certainly not willing to forego those leads to save the cost of exhibiting.

Expand your horizons

It's also important to know what happens at important tradeshows serving the retail, hospitality and petroleum sectors: the National Retail Federation in January, National Restaurant Association in May, National Association of Convenience Stores in November and NACStech in May.

Industry-specific national shows present excellent opportunities to learn about distinct sectors. They help you understand what your customers are encountering and what's on the horizon.

Closer to home, regional shows are less crowded, more intimate venues. Often they are not on your competitors' radar. I just returned from the Southeast Petroleum Expo. I had feared it might be too small to be useful. But there

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Webster's NewWorld Dictionary
Second College Edition

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Education

were two key vendors in attendance that, by the time you read this, will be my clients.

One attendee will also become my customer as a result of our meeting at that show; it's a company of substantial size.

By doing selective post-show follow-up using the exhibitor list, I may be able to do even better. Some shows also provide attendee lists, which are excellent prospecting tools for enterprising MLSs.

I've noted increased participation at small, regional shows by a few seemingly unlikely groups. Two business brokers attended a recent show for retailers.

This may seem like an odd venue for them. But it makes sense for brokers to participate in shows attended by owners of food marts for the same reason it's wise for you to attend these types of shows: There are lots of prospects and not many rivals around to spoil the fun.

Doing well in these venues means being fully aware of and open to opportunities, particularly those that are not readily evident. Show participants and exhibitors are potential business-to-business ventures. Both are also potential lead sources and selling partners.

Put on the Ritz, or not

While attending shows is important, taking the next step and exhibiting allows clients to come to you, versus your pursuing them. A show is the only forum at which you have the chance to talk with hundreds of potential customers in a short time.

Occasionally you'll find that show rules have tightened. There were, for example, no vendors walking the floor at the Southeast Petroleum Expo last month. In deference to people who had paid to participate in the event, no vendors were allowed unless they were exhibitors.

An amiable show manager may make an exception – once

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– particularly if you're new to the field. But after that, the benefits go to those who have invested in the show, even when it seems like the worst happens.

Here's an example: My company attended an ETA show in Hawaii. Unfortunately, our booth was AWOL. Nothing arrived. But I had a table, so I had a sign made. It was certainly different, and it garnered lots of attention.

Everyone asked about it – all day, every day. My colleagues and I knew 40% of those who visited our booth; 60% were new prospects.

By staying upbeat and approachable, we made the show productive, booth or no booth. (This is now my favorite case study for making lemonade when life gives you lemons.)

Expect the best

If you decide to move in this direction, here is some serious advice: Treat every visitor to your exhibit with equal regard.

Warren Buffet drives an old truck, often wears a flannel shirt and jeans, and is apt to have mud on his boots. A scraggy-looking person may own a business with hundreds of locations. By looking unkempt this executive may be testing your mettle.

Make sure your assessment of a person and your professionalism are not diminished by something as superficial as a prospect's clothing. Working a tradeshow for greatest benefit requires specific skills and an assertive, but tactful approach.

Exhibit companies offer seminars on how to maximize the return on your investment. Tradeshow publications and industry magazines also publish articles on getting the most benefit from shows.

Google some phrases pertaining to tradeshow exhibiting and you'll find plenty of useful information.

So sail your ocean blue. But remember, good things come to those who motivate, educate and participate. Become involved in the industries that make your livelihood possible. Join an association, chair or actively work on a committee, or deliver a presentation.

You'll learn how to help your customers thrive. And that is the only sure way to long-term success.

Biff Matthews is President of Thirteen Inc., the parent company of CardWare International, based in Heath, Ohio. He is one of 12 founding members of the Electronic Transactions Association, serving on its board, advisory board and committees. Call him at 740-522-2150 or e-mail him at biff@13-inc.com.

Tired of waiting for residuals to build up so you can sell them?

Tired of free equipment with no lease money?

Tired of "bonus only" money?

There has to be a better way.

NewProducts

Hypercom ATMConnect

ET: Phone home via ATMConnect

Product: ATMConnect

Company: Hypercom Corp.

In the ATM market, a shift from leased lines to dial communications came at the price of speed and customer service. With the growing market for Internet protocol (IP)-enabled ATMs comes the opportunity to accelerate transaction times. Yet many dial-up ATMs remain in the field.

ATMConnect provides a simplified migration to IP. Plug in Hypercom's device and it converts dial ATMs to IP, generally without any change to the processing host or ATM software, according to the company.

Its automated setup and "phone-home" capability make it easy to install. The ATMConnect service provides end-to-end management and monitoring of all devices in the field.

The ATMConnect can take in connections through an RJ-11 dial port from an ATM, converting the dial protocol to TCP/IP. It secures the transaction with secure sockets layer encryption and connects into either a broadband or wireless modem.

Transactions are answered via the Internet and then passed over secure connections to Hypercom equipment at the processor's data center. For high availability, Hypercom can route transactions to a primary or secondary host either for load balancing or disaster backup.

Once it is connected to electric power and the router or modem, ATMConnect is registered on the Hypercom Secure Transaction Network and immediately phones home to draw down a configuration. From that point, Hypercom's Technical Assistance Center (TAC) manages and monitors the ATMConnect 24/7.

The unit alerts the monitoring service if communication with the ATM is lost. ATMConnect also monitors the ATM's status and the status of the broadband connection.

An array of alerts allows the TAC to notify customers when outages occur. Providing two-way communication, the ATM driver can communicate down to the ATM, providing periodic software updates.

By switching to IP connectivity, ATM networks can leverage in-store DSL or cable, lowering operating costs. The unit supports virtual private networks and Triple DES encryption.

The device employs Visa I/II spoofed, asynchronous, transparent communications protocols. Physical connections are via 10Base-T Ethernet or RJ-45.

For wireless connections, the interface works with an external modem/antenna for mounting outside cabinets or ATMs for better reception.

The unit measures 6 by 8 by 1.5 inches.

Hypercom Corp.

602-504-5000
www.hypercom.com

ISOs' secret interchange weapon

Product: Acquire360

Company: Planet Financial Services

....

What is the ISO's secret weapon for getting the best processing rates? It just might be acquiring software. The Acquire360 suite from Planet Financial Services provides improved interchange qualified rates, according to Liz Novak, Planet Financial's Vice President of Operations.

"We've set it up so that our clients are receiving better interchange rates than they've ever received before with their current processors," she said. The improvement is "due to our interpretation of the regulations and our ability to apply it to the merchant data."

By running their own back-end settlement systems with the software, ISOs get outsized advantages, said Jay Christiansen, who works in technical sales at the company. The reduction to ISOs' interchange "can be a very large number that they can save or pass on to the merchant," he added.

Acquire360, a payment transaction processing solution, meets the range of needs of ISOs and merchant acquirers, according to the company. Planet Financial Services, a division of Planet Group Inc., offers third-party processors

a scalable merchant accounting and settlement system.

The software suite's pricing "scales based on size of the ISO," said Mike Dooley, the company's Director of Sales. ISOs currently using the suite serve from 5,000 to 100,000 merchants, he added.

The software gives ISOs the ability to process card transactions; compute discounts and fees; and produce reports, special forms and statements.

The suite is parameter-driven via a graphical user interface. Additionally, it provides online tools to support clerical and managerial functions.

ISOs may host the system internally or use Planet Financial's back-end settlement system, with billing based on a hosted application-service-provider model.

"ISOs typically tend to focus on the sales development side and outsource the back-end," Dooley said. ISOs that outsource to Planet "get the benefits of their own in-house solution with a service-bureau model."

Key advantages of the software are its flexibility, control and cost reduction, Dooley said. When ISOs switch from a transaction-based variable fee to Planet's fixed cost software, they drive per-transaction costs down as they process more transactions, he added.

The software supports processing of 180 currencies and settles in 20 different currencies, allowing financial institutions to offer customers choices.

Built-in options accommodate fees triggered by external applications, enabling ISOs to bill and issue merchant statements on any user-defined schedule.

The software supports merchant-specific model groups to link processing

parameters for specific merchant types, such as restaurants. This makes it easier to set up merchants falling within a given category code, Novak said. Or, setup for an individual merchant can be customized.

Other key features of the software include:

- Multi-institution processing, supporting institution-level reporting and access security

- The ability to specify multiple transaction and settlement currencies per merchant and to support multicurrency merchant structures

- Central and cross-border acquiring, supporting settlement for country-specific clearing

- Settlement options that allow for any required frequency for the settlement of different transaction groups, with net and gross settlement options

- Linked merchant structures, supporting the management and reporting levels for merchants in a hierarchy, such as the merchants of a particular sub-ISO

- Full support for the production of settlement advices and merchant statements

- Flexible definition of transaction-based fees, including flat rate and percentage fees, and the ability to vary fees by transactions type, card type, method of capture and cardholder payment method

- Tiered rebate facility, allowing transaction fee rebates to be calculated based on the level of merchant activity

- A number of service fees, defined for a range of merchant services, including ad hoc maintenance actions, as well as regular charges for items such as POS terminals and hot-list provision exception handling.

The software's flexibility enables ISOs to work within their own software environments, Christiansen said. Acquire360 works with a variety of operating systems. ■

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Inspiration

Sales stars are people stars

People are pivotal to any sales venture. An enterprise can have the most advanced technology; a Web site complete with videos, music and animation; and a marble-tiled office in an upscale district. Nevertheless, success hinges on its employees.

Therefore, it is important that a company's structure and processes support sales professionals so they can reach their true potential and close the most deals.

Following are six things you can do to create the optimal sales environment:

1. Start at the top

Businesses need to foster sales success from the top down. This means your upper management team should ensure that sales team goals and high-level visions and strategies are aligned.

If bureaucracy interferes with the signing of sales agreements, there is a problem. For example, if you decide to increase sales by 2% but then slash in-house administrative staff (who process applications and ship equipment), agents may have difficulty even maintaining let alone increasing their current level of sales.

2. Recruit the best

Skilled salespeople who are personally invested in the welfare of their clients make money for themselves and the companies they represent. The best ways to attract such people are to 1) establish high ethical standards through your own personal behavior and your company's business practices and 2) bring out the best in the staff you already have by training them well and keeping their skills up to date.

Training can take many forms:

- boot camp style basic training
- apprenticeships with skilled agents
- ongoing mentoring

- seminars on important industry topics
- webinars and other forms of online training
- printed training materials and relevant publications
- assistance in attending industry events.

3. Motivate your team

Even the best agents benefit from outside encouragement so they can continue to thrive. Get to know your team members. Find out what sorts of activities and materials help them.

For some companies, performance-based bonuses and free training may get the juices flowing. For others it might be team-building exercises or sales contests. It's your job to find out what works best and implement effective programs.

4. Hold 'em close

Once you have a team of well-trained, motivated sales stars, the last thing you want is to lose any of them. It's disruptive to your business. Plus, it is much less expensive to retain a good sales professional than to hire and train a new one. Tell your agents how important they are to you.

Keep communication lines open, and encourage feedback even from the newest employees or contractors. In addition, offer creative compensation packages such as incentives, additional vacation time or other recognition.

5. Retain customers

Agent retention is tied directly to customer retention. And similar to sales reps, it is much less expensive to retain customers than to secure new ones. This doesn't mean you should cease prospecting. It just means you must recognize the value of your existing client roster. This is where good client-agent relationships are invaluable.

Merchants are less likely to be lured away from their current service providers if they feel personally invested and committed to their current business relationships. Agents must always keep in mind just how important relationship building is. Help them hone their skills, and your business will improve accordingly.

6. Change with the times

Nothing remains the same. Customers' needs change. Perspectives, businesses and technology are always evolving. Therefore, sales strategies must be able to shift as needed.

Your procedures need to be fluid and dynamic, so they can remain effective as the business climate takes surprising turns. Anticipate new developments, and be ready to help your sales team adapt.

Our industry is flooded with free terminals and products that have grown increasingly commoditized. As a merchant services provider, some of your most valuable "products" are your sales agents.

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Paul H. Green, President and CEO

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From true innovation comes the XD2100SP, the industry's most advanced mobile point-of-sale terminal incorporating the highest levels of validated security, including **PCI PED** approval, **Visa CISP PABP** validation and 256-bit **SSL encryption** at the time of card swipe.

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Building on the innovation behind the XD2100SP, comes the RFID Combo Modem Series featuring the industry's first **fully integrated certified RFID reader**. Available with **CDMA**, **GSM** or **WiFi** connectivity, this latest series of interchangeable modems for the XD2100SP eliminates the need to attach a bulky external RFID reader giving merchants the freedom to accept proximity payment cards virtually anywhere without sacrificing mobility. The benefits of **ONE!** are clear…

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DateBook

Trade Associations
National Association of Convenience Stores
NACStech

Highlights: Providing access to the latest technology for convenience and petroleum retailers on the expo floor, NACStech 2007 will present innovative ways to tackle technology challenges. Sir Timothy Berners-Lee, inventor of the World Wide Web, will keynote the opening session, Monday, April 30.

Educational session topics include:

- Compliance with the Payment Card Industry Data Security Standard
- Use of mobile devices to make payments securely and send text messages notifying customers of discounts and products
- Payment acceptance architecture, including alternative payment methods and new technologies.

Frank Abagnale, author of *Catch Me If You Can* (also a Steven Spielberg movie), will give the closing keynote. Now an authority on secure documents, he formerly cashed millions of dollars in fraudulent checks in 26 countries.

Apprehended at age 21, he served time in prison. Since, he has lectured extensively at the FBI Academy.

When: April 30 – May 2, 2007
Where: Gaylord Opryland Resort & Convention Center, Nashville, Tenn.
Registration: Visit *www.nacsonline.com/nacstech/home.htm*, e-mail *nacsregistration@epicreg.com* or call 800-521-7621.

Trade Associations
Food Marketing Institute
2007 FMI Show plus Marketechnics

Highlights: The FMI Show will enable attendees to align all aspects of their business operations, bring strategic teams together and integrate the full range of functions in food retailing.

Educational sessions of interest to the payments industry include:

- "Emerging trends in debit card programs," with speaker Judith McGuire of the Pulse EFT Association LP
- "Gift cards: The good, the bad and the ugly," with Robert Skiba of Comdata's Stored Value Solutions
- "Is your data secure?" led by Orson Swindle of the Center for Information Policy Leadership
- "Interchange fees: What you don't know can hurt you."

Tech Lane will give attendees a one-stop interactive space where they can explore products first-hand on the show floor.

When: May 6 – 8, 2007
Where: McCormick Place, Chicago
Registration: Visit *www.fmishow.org* or call 866-486-0736.

Trade Associations
National Restaurant Association
Restaurant, Hotel-Motel Show

Highlights: The 2007 Restaurant, Hotel-Motel Show will feature several specialty pavilions – one-stop shops related to the latest industry trends. Pavilions include technology, franchise, kitchen innovation, green restaurant products, organic and natural, and international cuisine.

An educational session on automation will focus on self-service options such as ordering kiosks, Web ordering and pay-at-the-counter devices.

When: May 19 – 22, 2007
Where: McCormick Place, Chicago
Registration: Visit *www.restaurant.org*, e-mail *nraregistration@dineout.org* or call 312-580-5410.

Trade Associations
NACHA – The Electronic Payments Association
The Payments Institute West

Highlights: The Payments Institute West offers an intensive five-day curriculum providing an overview of the entire payments space, including automated clearing house (ACH), card-based systems, electronic check, international payments, risk management and fraud, and emerging issues.

Other topics include:

- back-office conversion
- wire transfers
- checks and paper instruments
- remote deposit capture
- check imaging
- security, fraud prevention and awareness
- authorization and authentication
- audit and compliance
- settlement and finality
- electronic invoicing
- accredited ACH professional program
- legal and regulatory developments
- implementation issues and experiences
- strategic issues
- treasury and cash management.

The Institute focuses on key applications, implementation, best practices, and case studies in the payments arena.

When: June 3 – 9, 2007
Where: Scottsdale Resort and Conference Center, Scottsdale, Ariz.
Registration: Visit *www.nacha.org* or call 703-561-1100.

Industry Events

Vertical Web Media LLC
Internet Retailer 2007 Conference and Exhibition

Highlights: The theme of this year's conference is "The Web: Powering the Reinvention of Retailing." It will address critical issues facing e-retailers. Keynote speakers include Reed Hastings, founder and Chief Executive Officer of Netflix Inc., and Jim McCann, founder and CEO of 1-800-Flowers.com.

Conference topics to be covered include:

- The inevitability of mobile commerce and how to prepare for it
- How retail chains are using the Web to enhance the store experience
- The Web's role in manufacturers' efforts to sell direct to the consumer

- How to make technology buying decisions.

The conference is preceded by one-day workshops on managing payments and security, and marketing. A one-day workshop on Web site design follows the conference.

When: June 4 – 9, 2007
Where: San Jose Convention Center, San Jose, Calif.
Registration: Visit *www.internetretailer.com* or call 914-923-0912.

Regional Associations

Northeast Acquirers' Association
Golf Outing and Summer Seminar

Highlights: This gathering will offer networking and educational opportunities for ISOs, merchant level salespeople (MLSs), vendors and other payment professionals. Industry seminar topics include PCI compliance, emerging markets, currency conversion and Marketing 101.

The event will wrap up with the golf outing Thursday, June 14. Registration is free for MLSs and nonvendor ISOs.

When: June 12 – 14, 2007
Where: Westin Hotel, Providence, R.I.
Registration: Visit *www.northeastacquirers.com* or call 603-692-2408.

2007 calendar of events

Dates, locations and contact information verified at press time. Consult event Web site for registration information.

2007 event	Date	Location	Web site
NACStech	April 30 - May 2	Nashville, Tenn.	www.nacsonline.com
Glenbrook Payments Boot Camp	May 2 - 3	San Francisco	www.glenbrook.com
The FMI Show and Marketechnics	May 6 - 8	Chicago	www.fmi.org
CardTech SecurTech	May 15 - 17	San Francisco	www.sourcemediaconferences.com/CTST07
Western Payments Alliance: AAP Preparation Workshop	May 17, 23, June 13	Varies	www.wespay.org
National Restaurant Association Restaurant, Hotel-Motel Show	May 19 - 22	Chicago	www.restaurant.org
Western Payments Alliance: Remote Deposit Workshop	May 22	Ontario, Calif.	www.wespay.org
NACHA The Payments Institute West	June 3 - 7	Scottsdale, Ariz.	www.nacha.org
Retail Systems ERI eXchange Conference & Expo	June 4 - 7	Boston	www.retailsystems.com
Internet Retailer Conference & Exhibition	June 4 - 7	San Jose, Calif.	www.internetretailer.com
Northeast Acquirers' Association Summer Seminar	June 12 - 14	Providence, R.I.	www.northeastacquirers.com
Western Payments Alliance: Checks; Paper & Electronic Workshop	June 27 - 28	Varies	www.wespay.org
NACHA The Payments Institute East	July 22 - 26	Atlanta	www.nacha.org
Midwest Acquirers' Association 5th Annual Conference	July 24 - 27	Cleveland	www.midwestacquirers.com
Field Guide for ISOs	TBA	TBA	www.fieldguideforisos.com
ACA International 68th Annual Convention & Expo	July 25 - 28	Chicago	www.acainternational.org
Western Payments Alliance: Basics of ACH Receiving Workshop	Sept. 6, 12, 19, 20	Varies	www.wespay.org
Western Payments Alliance: Payments Symposium	Sept. 9 - 11	Las Vegas	www.wespay.org
ATM Industry Association ATM Security in the Americas	Sept. 11 - 13	Las Vegas	www.atmia.com
Shop.org Annual Summit	Sept. 17 - 19	Las Vegas	www.shop.org
Women Networking in Electronic Transactions (W.net) Fall Meeting	TBA	Palm Beach, Fla.	www.w-net.biz
Electronic Transactions Association Strategic Leadership & Networking Forum	Sept. 18 - 20	Palm Beach, Fla.	www.electran.org
85th Annual Financial Women International Conference	Sept. 29 - Oct. 1	San Juan, Puerto Rico	www.fwi.org
Electronic Retailing Association 17th Annual Convention & Exposition	Sept. 30 - Oct. 2	Las Vegas	www.retailing.org
Western Payments Alliance: ACH Audit	Oct. 3, 4, 10, 11	Varies	www.wespay.org
Smart Card Alliance Annual Conference	Oct. 8 - 11	Boston	www.smartcardalliance.org
KioskCom Self-Service Expo - New York	Oct. 10 - 11	New York	www.kioskcom.com
Glenbrook Payments Boot Camp	Oct. 10 - 11	San Francisco	www.glenbrook.com
AAP Examination	Oct. 16	Varies	www.wespay.org
Western States Acquirers' Association 4th Annual Meeting	Oct. 17 - 18	Anaheim, Calif.	www.westernstatesacquirers.com
Field Guide for ISOs	TBA	Anaheim, Calif.	www.fieldguideforisos.com
NACHA e-Check Conference	TBA	TBA	www.nacha.org
Mid-America Payment Exchange Conference	Nov. 1 - 3	Kansas City, Mo.	www.mpx.org
Western Payments Alliance: Hot Topic Workshop	Nov. 6 - 7	Varies	www.wespay.org
NACS Show	Nov. 6 - 9	Atlanta	www.nacsonline.com
BAI Retail Delivery Conference & Expo	Nov. 13 - 15	Las Vegas	www.bai.org
Glenbrook Payments Boot Camp	Nov. 14 - 15	Denver	www.glenbrook.com
NACHA Institute of International Payments	Nov. 27 - 29	Atlanta	www.nacha.org

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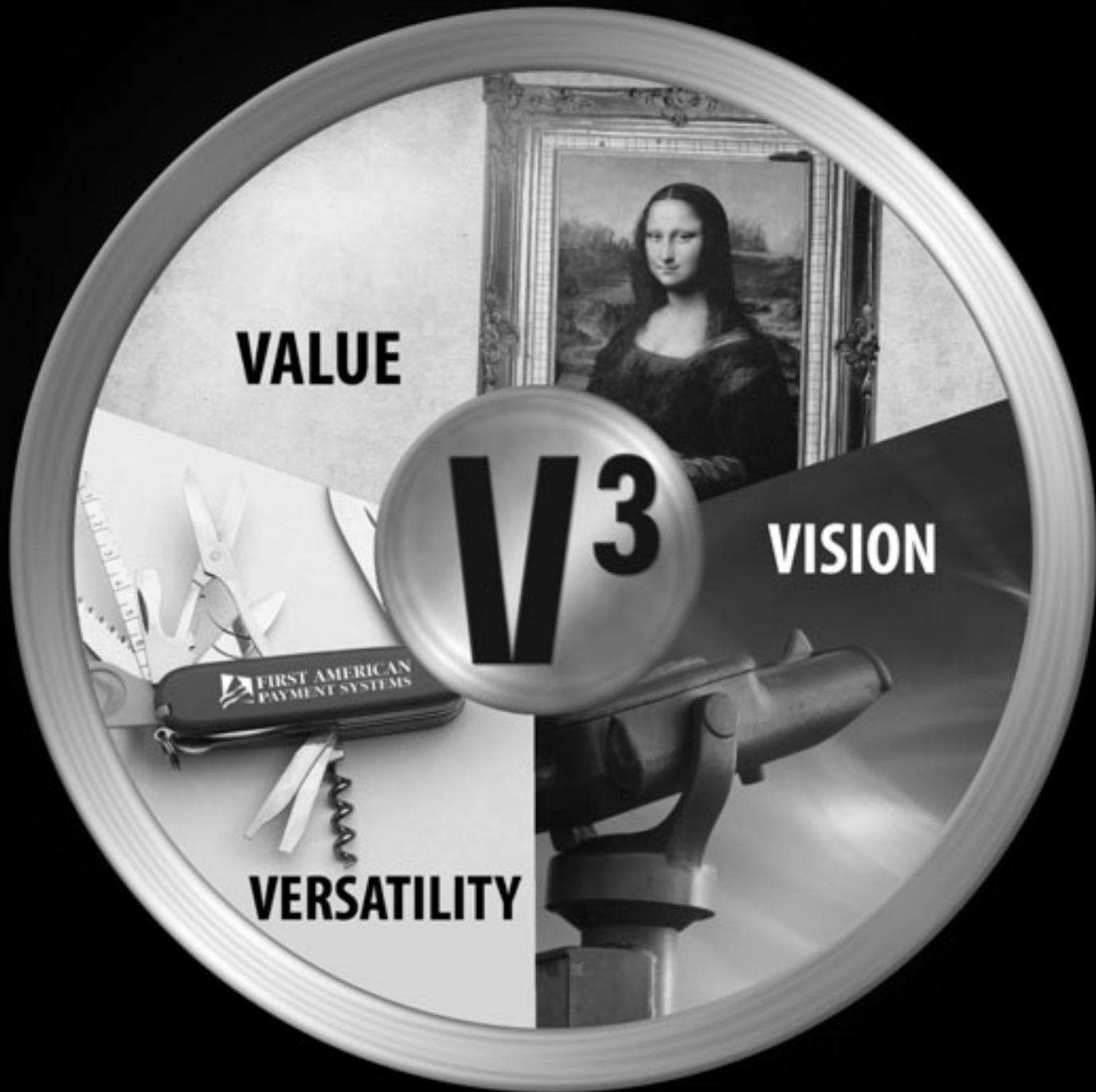
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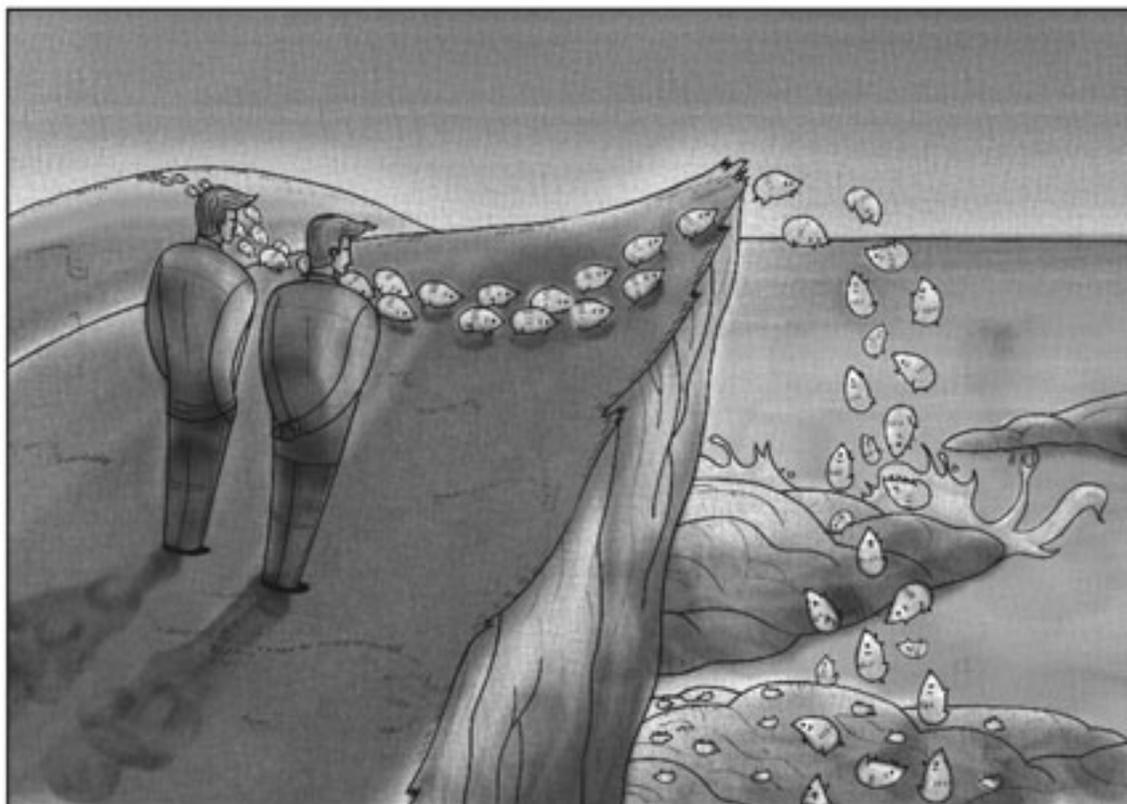
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