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News



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**Continued on pag**

December 28, 2009 • Issue 09:12:02

# The payments sphere 2009: Looking back, looking up

Historians may someday reflect upon 2009 and say it was the beginning of the decline of an ingrained American mindset: buy now, pay later. The extension of credit became widespread in the early 20th century, enabling working-class Americans to finance purchases of Henry Ford's Model T automobiles. But the practice, run amok, smacked into financial reality in 2008, when the economy sputtered almost to a halt.

With credit markets drying up and businesses and homeowners defaulting on loans, U.S. consumers opted to – or were forced to – forgo credit cards when making purchases and paying bills. Instead, they turned to debit cards.

As evidence of this change, Visa Inc. revealed in May 2009 that spending in 2008 with Visa debit cards in the United States had surpassed Visa credit card use for the first time in the card brand's almost 40-year history.

Reinforcing that the flow of credit might be plugged, Pulse network's 2009 Debit Issuer Study showed that overall debit transactions increased in the second half of 2008 by 8 percent, with the largest increase in PIN debit use. The study predicted that both PIN and signature debit would grow 7 percent in 2009.

## Pin the tail on interchange

This sea change in consumer behavior was not the only factor affecting the payments industry in 2009. In May, *The Green Sheet* reported on the ramifications of the passage of H.R. 3221, The American Housing Rescue and Foreclosure Prevention Act of 2008. After decades of hovering on the payments industry's edge, the Internal Revenue Service is now intimately involved in our transactions.

Beginning with the 2010 calendar year, merchant acquirers, processors and ISOs must report to the IRS the transaction volumes of the merchants in their portfolios. Said data must be submitted early in 2011.

**See 2009 in review on page 55**

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## NotableQuote

**I lie awake every night thinking of our next best move; hopefully it will come to us. If not, I hope to improve my golf game in 2010, which is more difficult than selling merchant services.**

**See story on page 31**

## Inside this issue:
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### Company Profiles



WINNER WINNER WINNER WINNER WINNER WINNER WINNER WINNER

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# Forum

## Payments for property management

In speaking with credit card acquirers regarding ISO programs, we noticed that some brought up *The Green Sheet* as an informational resource. We're currently considering all of our options for ISO/MSP to enter the niche market of online processing of rental payments (multifamily property management).

With so many options, alongside the revenue share programs, we're looking for help. Do you have any suggestions of consultants we can speak with to further educate ourselves to make an informed decision?

Sam Levin
Real ID Inc.

*Sam,*

*In considering your request, a member of our Advisory Board came to mind: Matt Golis. As Chief Executive Officer of YapStone Inc. (the parent company of RentPayment), he knows all the ins and outs of the payment processing requirements for the multifamily property management sphere. We asked Matt to provide some insight.*

Following is his response:

*After 10 years focused in the property management industry, I have found that providing a robust technology solution is critical to differentiating yourself as a processor.*

*In contrast to other industries where a physical terminal, Internet gateway or other POS solution is sufficient, the multifamily industry demands technology that is superior to its historic method of accepting most payments (check collection at the leasing office or lockbox).*

*Technology requirements include the following:*

- *Accounting software integration, with the capability of both importing the current balances due in real-time and exporting payments and posting them real-time to the accounting ledger*
- *Online payment interface that can be an extension of the corporate or property-level Web site, supporting both credit cards and automated clearing house payments*
- *Remote deposit capture to make all physical payments (personal checks, money orders and business checks) electronic payments that can be accessed online and posted directly to the ledger through the accounting software integration*
- *Mobile payment support for renters seeking the convenience of making payments by cell phone in addition to online and by traditional phone*

*ISO/MSPs that are considering the rental property market need to be well versed in these various technologies. Due to the complexities around various property management software packages, the sales cycle can be longer, but the barriers to entry for competition are higher once the client is implemented (similar to other bill payment verticals like government and utilities).*

*Most multifamily property management software vendors do not use traditional credit card gateways, as clients have traditionally used third-party processors that could provide a better solution.*

*In summary, a very tech-savvy ISO or merchant level salesperson will see there is opportunity but will also understand the many nuances around the business rules of property management require a significant investment of both time and money.*

*We hope you find this information beneficial, Sam; please let us know if we can be of further assistance. And, Matt, thank you for taking the time to provide this most educational response.*

*Editor*

## Thank you, readers

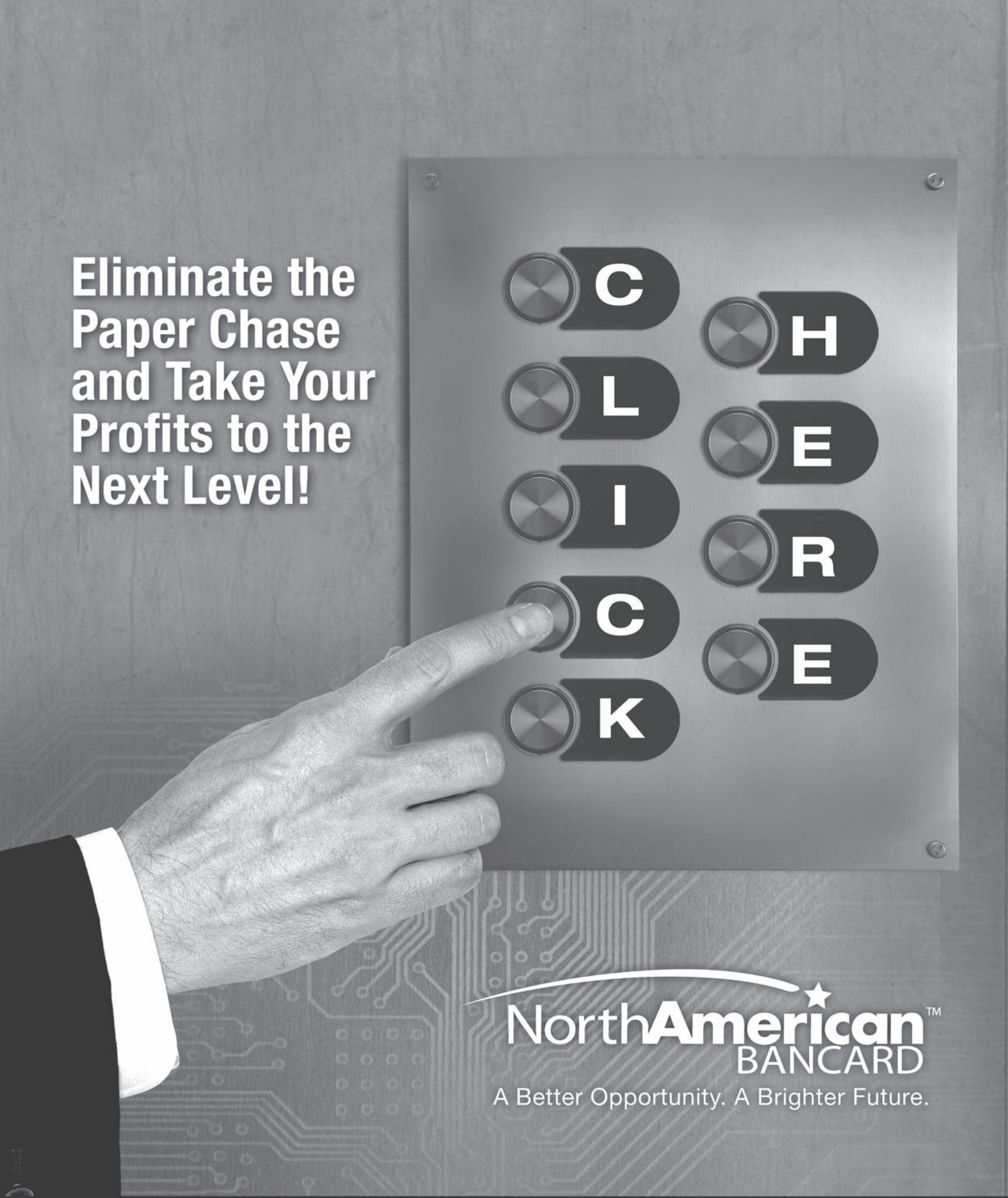
*The Green Sheet* has been blessed with another full year of intriguing questions and commentary to fill our Forum issue after issue. We hope the information provided herein has been helpful not only to those who have contributed to this page, but also to the many readers who haven't had the time to jot down their thoughts.

While we tend to receive more questions than opinions for this page (and we are delighted to provide answers), we will be happy to receive all respectful, thought-provoking commentary that will help improve the industry and assist ISOs and merchant level salespeople in developing their careers.

So, why not resolve to sound off on this page in 2010? Go ahead, e-mail us at *greensheet@greensheet.com* or call 800-757-4441.

And may you have a happy, productive new year!

From all of us at The Green Sheet Inc.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# QSGS

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

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Cover Story

## The payments sphere 2009: Looking back, looking up

Historians may someday reflect upon 2009 and say it was the beginning of the decline of an ingrained American mindset: buy now, pay later. In many ways, the past year was a tumultuous one in payments. Yet, the industry resiliently carries on, as businesses launch new products, partner with or acquire other businesses, and realign for national and international expansion.

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Feature

## The smartest moves of 2009 – Part II

With the close of 2009 approaching, we sought insights from The Green Sheet Advisory Board to share with you, our readers, as you strategize for the coming year. Among other topics, advisory board members discuss recent business risks that paid off.

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View

## Reaching the unbanked

The Federal Deposit Insurance Corp. released a report in November 2009 that put to rest speculation about just how many U.S. consumers live outside the banking system. This article looks at the ramifications of excluding multitudes from the banking world, including lost opportunities with payment cards.

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Feature

## Signs of the future

Like the prepaid card industry, the digital signage industry is still considered in its infancy. There seems to be a symbiosis between the two, with digital signage used as a vehicle for promoting prepaid card programs via in-store and online offers.

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View

## Should you buy stock in a terminal manufacturer?

Since the 1980s, credit card terminals have been routinely unexciting. For most of this time, three players have dominated this industry: VeriFone, Ingenico and Hypercom Corp. But terminal manufacturers, usually in the background of the card processing world, have been in the news a lot recently.

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News

## Radiant, Computer World in the lawsuit soup

Seven Louisiana restaurants filed a joint lawsuit against POS system manufacturer Radiant Systems Inc. and POS system distributor Computer World, alleging their negligence led to data breaches that compromised hundreds of card numbers. The case has renewed questions about liability for security breaches.

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Education

## Fees you can't ignore

During periods of economic turmoil, serving nontraditional merchants can be a way to diversify your residual base. Understanding the associated fees and registration requirements will help you maintain this client base. So, heads up! Effective Jan. 1, 2010, Visa Inc. is modifying the High Risk Telemarketing Merchant registration program fee schedule.

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Education

## Defining global processing

Shakespeare wrote that "a rose by any other name would smell as sweet." When it comes to global processing, different terms don't always mean different processes. This article contains a mini dictionary of terms used in the growing realm of worldwide card-not-present processing.

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Education

## Managing conflict in the workplace

Every business faces conflict in the workplace. Organizations large and small deal with disagreements daily. Unresolved conflict places a huge financial burden on companies by increasing stress, absenteeism and employee turnover. Here is a list of common things that cause conflicts, and some effective ways to resolve them.

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Inspiration

## Be the sale

Intuition can be defined as that feeling in the gut, or that little voice inside your head. It allows you access to the right information just when you need to know it. It somehow gives you clarity of thought, even when you are in complicated or confusing situations. This article delves into why intuition is sometimes indispensable to salespeople.

# IndustryUpdate



## NEWS

### HPS: One action dismissed, one settlement reached

On Dec. 7, 2009, the U.S. District Court for the District of New Jersey granted **Heartland Payment Systems Inc.**'s motion to dismiss with prejudice a consolidated shareholder class action. The lawsuit, "In Re Heartland Payment Systems Inc. Securities Litigation," was filed against HPS, Robert O. Carr, HPS Chairman and Chief Executive Officer, and H.B. Baldwin Jr., HPS President and Chief Financial Officer, in the wake of the data security breach reported by HPS in January 2009.

Also, HPS reached a settlement agreement with American Express Co. related to said breach of the HPS network. Under the agreement, HPS will pay AmEx $3.6 million to resolve all intrusion-related issues between the two companies. This settlement is the first agreement related to the breach that HPS has reached with a card brand.

### Experts tout regulation for Internet gambling

Online security and consumer safety experts testified at a **House Committee on Financial Services** hearing regarding Chairman Barney Frank's Internet Gambling Regulation, Consumer Protection and Enforcement Act of 2009, which proposes a regulatory framework for Internet gambling in the United States. The legislation is in response to the Unlawful Internet Gambling Enforcement Act of 2006, which was to go into effect on Dec. 1, 2009. The U.S. Department of the Treasury and the Federal Reserve Board agreed to delay the implementation of the law until June 1, 2010.

At the hearing, experts spoke in favor of regulating Internet gambling by using existing technology to block minors' access to gambling sites, address compulsive gambling, and protect consumers from money laundering, fraud and identity theft. A Harvard University study, *Can Internet Gambling Be Effectively Regulated? Managing the Risks*, was also released during the hearing.

### PPISC names steering committee

The **Payments Processing Information Sharing Council** elected its steering committee for the 2010 to 2011 term. Robert O. Carr, Chairman and CEO of HPS, will serve as the PPISC's Committee Chair. Rick Van Luvender, Director of InfoSec Incident Response at First Data Corp., was elected as Vice Chair.

The PPISC was instituted, under the auspices of the Financial Services Information Sharing and Analysis Center, to provide a forum for sharing information about fraud, threats, vulnerabilities and risk mitigation practices in the payments industry.

Members at large include Terry Dooley, Senior Vice President and Chief Information Officer at ITS Inc.; Chris Kenyon, Executive Vice President of Systems and Technology and CIO at Elavon Inc.; John Kirkpatrick, Senior Vice President and CIO at Trans First Holdings Inc.; John Latimer, Group Executive and Enterprise Risk Executive at Total System Services Inc.; and Tom Tesmer, Chief Technology Officer at Pipeline Data Inc.

### Canada releases bankcard Code of Conduct

Jim Flaherty, **Department of Finance Canada**'s Minister of Finance, released a proposed code of conduct for the credit and debit card industry in Canada. "This

## BOTTOM LINES

HEADLINES FROM THE RETAIL WORLD

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

- **MyBuys**' *E-commerce Wellness Index* reported that total e-commerce revenue rose 4.4 percent in November 2009, as measured year over year. Total revenue from promoted items in November rose by 120 percent compared to November 2008.

- According to the *Forrester Holiday Online Sales Flash Survey* commissioned by **Shop.org** and conducted Dec. 2 to 4, 2009, nearly three-quarters of the surveyed retailers experienced top-line sales growth for November 2009, compared to the previous November.

- In the **National Retail Federation**'s *2009 Holiday Consumer Intentions and Actions Survey*, **BIGresearch** found that participating consumers planned to spend an average of $682.74 on holiday-related shopping this year, compared to $705.01 in 2008.

proposed code is intended to promote fair business practices and ensure merchants and consumers clearly understand the costs and benefits of credit and debit cards," Minister Flaherty said.

Responding to the issues brought forth by merchant and consumer associations nationwide, the code would:

- Ensure merchants are privy to all costs associated with accepting credit and debit card payments
- Provide merchants with greater pricing flexibility, allowing consumers to choose the least expensive payment option
- Allow merchants to choose without restraint which payment options they will accept

The proposed code is available at *www.fin.gc.ca/n08/data/09-109_1-eng.asp*. Stakeholders may submit comments to the Department of Finance by e-mail at *code-consult@fin.gc.ca*.

# ANNOUNCEMENTS

### GlobalPlatform extends compliance program

**GlobalPlatform**, the international specification body for smart card infrastructure, will distribute test suites to its members that will allow them to test card-manufacturers' compliance with Card Specification v2.2 market configurations. Once members obtain the suites, they can develop testing tools for the industry at large. Global Platform also launched GlobalPlatform Card Networked Framework v1.0. The document is available for download at *www.globalplatform.org/specificationscard.asp*.

### IDC prognosticates for 2010

**IDC**'s IDC Insights' Predictions 2010, a series of complimentary Web conferences, begins Jan. 11, 2009. The series will cover the energy, financial services, government, health, manufacturing and retail sectors. The one-hour webinars will explore dynamic issues and trends in these industries. Find out more at *http://www.idc.com/research/predictions10/predictions10.jsp*.

### MeS offers free tokenization

Redwood City-based **Merchant e-Solutions Inc.** made a tokenization solution available to merchants at no extra cost. Tokenization can ease the burden of Payment Card Industry (PCI) Data Security Standard (DSS) compliance and thereby lower merchants' operational costs.

### 2010 MRC conference speakers

The **Merchant Risk Council** released the names of the keynote speakers for its 2010 Annual e-Commerce Payments and Risk Conference in Las Vegas in March. Wayne Best, Chief Economist from Visa Inc., will present the opening address. Robert O. Carr, CEO of HPS, and Bill Kurtis, investigative reporter and television personality, will deliver the closing speeches.

### Payments industry job board launched

Sunnyvale, Calif.-based **MS Technology Partners LLC** launched Cardgigs, a payments industry online job board, in November 2009. The job board, designed and developed by payments industry veterans, is on the Web at *http://www.cardgigs.com*.

### MSI reports record volume on Black Friday

**MSI Merchant Services Inc.** reported a record processing volume on Black Friday 2009. Its merchants experienced a 36 percent increase in processing volume over "previous years": it enjoyed a 47 percent increase in Visa volume and a 35 percent increase in MasterCard Worldwide volume. MSI also reported a 7 percent increase in PIN-based debit volume.

### Spectra offers ISOs bonus deal

Continental Credit Systems LLC, doing business as **Spectra Payments**, launched an ISO incentive program that will pay a $10,000 bonus to the first 10 ISOs who submit a minimum of 25 new qualifying accounts. To

qualify for the bonus, accounts must be installed and maintain a minimum transaction volume of $15,000 per month within 90 days of the first account submission.

### Obopay, a Technology Pioneer 2010

The nonprofit **World Economic Forum** awarded the Technology Pioneer 2010 award to mobile payment provider **Obopay Inc.** Twenty-six companies from locations around the globe received this award. Further, Obopay is one of 11 companies in the Information Technologies, Telecommunications and New Media category and the only recipient from the financial services industry.

## PARTNERSHIPS

### Tempo powers Arthritis Foundation debit

The **Arthritis Foundation** chose **Tempo Payments Inc.** to power its debit card. When cardholders use the debit card, the foundation receives a portion of the card transaction fees. "Affinity debit cards represent a new fund-raising option for nonprofit organizations," said Tempo CEO Mike Grossman.

### BankOnBoard opts for ORCA

Independent e-book store **BooksOnBoard.com** teamed with OneTXT Inc.'s **ORCA**, a payment solution provider for digital media companies, to add ORCA's payment platform to its online payment options. "ORCA allows us to offer a comprehensive, branded VIP service that greatly simplifies the checkout experience and provides [for] debit card transactions," said Bob LiVolsi, President, Chief Executive and founder of BooksOnBoard.

### Charge Anywhere powers the Storm

**Charge Anywhere LLC** released its mobile payment application for **Research In Motion Ltd.**'s Blackberry Storm2 mobile phones. The mobile card payment solution can be purchased through BlackBerry App World and from Charge Anywhere's Web site at *www.chargeanywheredirect.com*. Adding a Bluetooth printer with integrated card reader enables merchants to process at the lower card-present rate.

### ebpSource teams with ClairMail

**ClairMail Inc.**, a mobile banking and payment solution provider, entered into a distribution partnership with **ebpSource Ltd.** "Exploitation of the mobile payments channel is a strategic imperative for ebpSource clients, and we believe this collaboration with ClairMail will add a significant complementary solution to our existing e-billing and e-invoicing customers," said Steve Wright, Commercial and Marketing Director at ebpSource.

### DTI selects Braintree for payments

**Digital Technology International** selected **Braintree Payment Solutions** for payment processing and its off-site card storage needs. DTI provides Web, print and mobile solutions to publishers. "DTI customers will be able to simplify PCI compliance, increase credit card security and improve how payments are processed," said Bryan Johnson, Braintree's CEO.

### PayPass for BlackBerry in Canada

**MasterCard Canada**, teaming with **BMO Bank of Montreal** and **RIM**, made its MasterCard PayPass Tap & Go technology available for Blackberry smart phones. The four-month Canadian contactless trial has 8,500 participating merchant locations.

### Moneris adds WAY Systems' wireless terminal

Payment processor, **Moneris Solutions Inc.** now includes **WAY Systems Inc.**'s MTT1581 wireless terminal in its merchant product line. "It's perfect for merchants who accept credit or debit cards in a remote environment, such as movers, deliverymen or retail and food-service kiosk operators," said Greg Cohen, President of Moneris.

### Panini QuickBooks-friendly scanners

**Panini North America Inc.**'s check scanners, designed

specifically for remote deposit capture, integrate with **Intuit Inc.**'s QuickBooks 2010 and Intuit Check Solution for QuickBooks.

The scanner can scan multiple paper checks into QuickBooks, simultaneously sending the digital checks for electronic deposit. Intuit Check Solution captures the same data, recording it into the accounts receivable module within QuickBooks' accounting program.

### TNB to process for Resource One

**Resource One Credit Union of Dallas** selected **TNB Card Services** for its payment processing needs. Resource One sold its card portfolio five years ago.

It will transfer its PIN and signature debit card processing to TNB and re-enter the credit card market with TNB.

### Veracity teams with American Savings of Hawaii

Atlanta-based **Veracity Payment Solutions** agreed to purchase **American Savings Bank**'s merchant acquiring portfolio and signed a multiyear marketing agreement to extend its services to the bank's commercial portfolio. ASB comprises 61 branches, all in Hawaii.



### YESpay powers Jersey Post kiosks

**YESpay** powers Fujitsu self-service kiosks at **Jersey Post**, the Channel Isle of Jersey's national postal operator. The Jersey Post had used bank-owned payment terminals for customers who had weighed their own packages. Now customers can weigh, stamp and pay for packages through Fujitsu kiosks.

## ACQUISITIONS

### MOL Global to acquire Friendster

Malaysia-based **MOL Global Pte. Ltd.**, an affiliate of online payment solution provider MOL AccessPortal Berhad, recently agreed to acquire 100 percent of **Friendster Inc.** Friendster is a global online social network popular in Asia.

### Solveras gains portfolio, reveals strategy

**Solveras Payment Solutions** completed its acquisition of the merchant portfolio of an unnamed seller "within three weeks of the initial dialog with the seller," said John Cramp, Chief Executive of Solveras, who also welcomed its new merchants. In addition to more merchant portfolios, the company seeks enterprise and product-line acquisitions to increase cross-selling opportunities and overall growth.

### NCR gains more DVD kiosks

**NCR Corp.** expanded its DVD rental kiosk network with the acquisition of Campbell, Calif.-based **DVDPlay**, which comprises 1,300 kiosks in the United States and Canada and is expected to bring its total number of kiosks to 3,800 by the end of 2009. The company plans to convert the DVDPlay-branded kiosks to its Blockbuster Express brand.

## APPOINTMENTS

### IPC names Carter President

International Payments Corp. named **Ron Carter** as its new President. Carter will be tasked with accelerating IPC's $150 million strategic acquisition plan, which will include ISOs and merchant portfolios. "Mr. Carter brings a very powerful combination of hands-on operations knowledge and acquisition experience to our company," said David McMackin, CEO, Chairman of the Board and former President of IPC.

### Charge Anywhere taps Edwards

Charge Anywhere LLC welcomed **Doug Edwards** to the position of Senior Sales Director, charging him with leading the company's ISO, processor and ISV sales channels in the southeastern United States. Edwards has 20 years' payments experience, most recently with a prepaid card enterprise.

Are You Open to Other

# Opportunities?

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## EPS hires new CFO

Arizona-based processor Element Payment Services hired **Matthew Gauer** as CFO.

At First National Bank of Omaha, Gauer held several executive positions, including CFO of its merchant acquiring division. He will oversee EPS' finance, accounting and human resources departments.

## Herrmann joins TriSource

TriSource Solutions LLC, a U.S. payment provider, welcomed **Larry Herrmann** as Manager of Risk and Underwriting.

A twelve-year fraud investigation veteran in the financial sector, Herrmann is co-founder and Vice President of the Merchant Acquiring Committee and member of the International Association of Financial Crimes Investigators.

## Payvision signs two new execs

Payvision, a card-not-present payment solution provider, hired **Jim Mouzakiotis** as its Director of Sales, Midwest Region, and **Joe Rodriguez** as Director of Sales for the East Coast Region.

"Their extensive experience and knowledge of our industry will surely translate to both qualitative support and increased sales for our resellers and merchants," said Rudolf Booker, CEO of Payvision.

## CrossCheck adds Nern

Check approval and guarantee company CrossCheck Inc. hired **Matt Nern** as Vice President of Sales, Texas. Nern will direct the development and expansion of the Texas TeleSales and Field Sales divisions, hiring and training for the departments.

He will also be involved in landing major accounts. Nern comes to CrossCheck from his post as President and Chief Operations Officer for US Merchant Systems.

## MasterCard taps Stanton

MasterCard Worldwide appointed **Kevin Stanton** as President of MasterCard Advisors, its professional services arm, effective Jan. 1, 2010. Stanton is President of MasterCard's Canada region.

## inContact appoints CSO

On-demand contact center software and agent optimization tool provider inContact Inc. awarded a second title with expanded responsibilities to **Scott Welch**. He will serve as Chief Security Officer in addition to his current role as COO. The company also received PCI DSS certification.

# Reaching the unbanked

**By Patti Murphy**
*The Takoma Group*

The Federal Deposit Insurance Corp. released a report in November 2009 that put to rest speculation about just how many U.S. consumers live outside the banking system. Here's the deal: roughly one in four households, or 60 million adults residing in the United States today, have little or no interaction with federally regulated financial institutions.

Think of all the lost opportunities to convert cash to card payments. Think of all the money check cashing houses, payday lenders, even retailers are making on these folks in the form of money orders and check cashing.

The FDIC report – *FDIC National Survey of Unbanked and Underbanked Households* – draws from responses to questions posed by the U.S. Census Bureau during its January 2009 population survey. Here are the key findings:

- 7.7 percent of U.S. residents are unbanked, which translates to 9 million households representing about 17 million adults. These are households where no one has a checking or savings account, the FDIC said.

- An additional 17.9 percent (21 million households/43 million adults, nationally) are "underbanked." Underbanked households may have checking or savings accounts, but they also use alternative financial services providers, such as check cashing houses, rent-to-own shops, payday lenders and pawn shops at least once or twice a year, according to the FDIC's definition.

- Among households earning less than $30,000 a year, a whopping 71 percent are unbanked.

- Among households earning between $30,000 and $50,000 a year, the unbanked share drops to 4.2 percent, although these folks are "almost as likely to be underbanked," the FDIC said.

The FDIC survey follows a report it released in February 2009, *FDIC Survey on Banks' Efforts to Serve the Unbanked and Underbanked*, which revealed most banks don't know how to reach out to the unbanked and underbanked populations.

A detailed breakdown of the latest FDIC survey, including analysis by region, state and metropolitan statistical area, is at www.economicinclusion.gov.

## Are banks dissing the poor?

The FDIC said it intends to use data from its latest survey to find ways to bridge the chasm between banks and underserved markets. It's a plan that must be taken seriously, or the banking industry could become marginalized by nonbanks in the payments space.

The money spent by underbanked Americans on nonbank payments products is about $15 billion a year, Mercator Advisory Group estimates. And as the economy teeters and more middle- and working-class consumers find themselves on the economic fringes, the ranks of the unbanked are certain to swell, Mercator warned in a recent report.

"While there are well-documented challenges to profitably selling to/retaining underbanked consumers, a deep recession disintermediates solidly banked customers who may never return," noted Elizabeth Rowe, Director of Mercator's Retail Banking Advisory Group. Rowe's comments were included in a press release announcing a new report titled Retail Bankings' *Canary in the Mine: Marketing to the Underbanked Customer*.

Many recently unbanked U.S. consumers say they were driven out of the banking system by high overdraft fees and inconvenient branch hours, Rowe noted. The fees charged by nonbanks are more reasonable and there's less of a stigma to being unbanked and doing business with these nonbank financial services providers today than was the case in the past.

"Today's consumers can easily and rationally choose to stay outside banking and to use the safe, reasonably priced financial services products marketed by major retailers," she said.

Wal-Mart Stores Inc., the retailing giant whose efforts to own a bank were sidelined by regulators, has made significant inroads into this market.

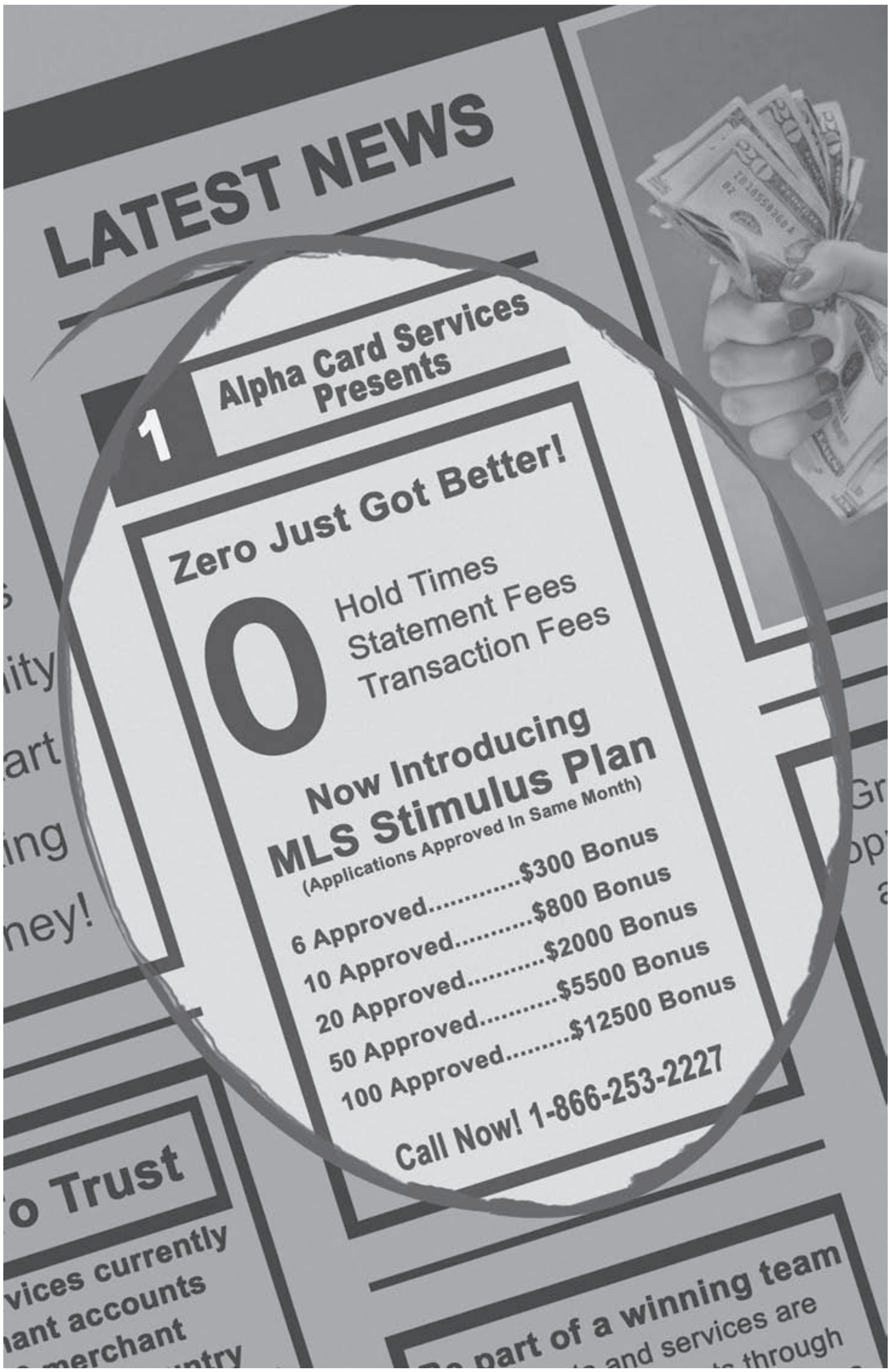
Wal-Mart MoneyCenters have become as good as or better than banks to millions of Wal-Mart shoppers (many apparently former bank customers) who regularly drop by to cash paychecks, pay bills and purchase prepaid Visa Inc. and MasterCard Worldwide cards somewhere between the grocery aisles and the automotive department.

In a surefire boost to its status in this market, and the pool of prepaid cardholders, WalMart revealed in September its decision to compel everyone on its payroll (an estimated 2.1 million individuals) to accept electronic direct deposit of pay.

Those without bank accounts receive payroll cards – prepaid MasterCard debit cards (the MasterCard PayCard) – in lieu of checks. The program was developed for Wal-Mart by MasterCard and First Data Corp., and operates through Money Network, First Data's payroll card processing and reload network.

Debit cards are driving growth today in merchant acquiring and transaction processing. An expanding universe of prepaid card users can only help keep transaction volumes growing.

Among prepaid card vendors surveyed earlier this year by the Center for Financial Services Innovation (a banking industry think tank), 80 percent identified unbanked and underserved individuals as either "important" or "very important" to growing their businesses. Yet, nearly a third of these executives identified "building consumer awareness" as the biggest challenge facing the prepaid card industry.




Aite Group LLC, meanwhile, found fewer than one-third (30 percent) of a large group of check cashing store customers it surveyed last year could be categorized as prepaid card "adopters"; about 4 percent were lapsed users of prepaid debit cards; 43 percent were classified as "rejectors."

"Prepaid debit cards are in the initial stages of their product life cycle. As such, there is ample opportunity to grow usage," said Gwenn Bezard, Research Director at the Boston-based consultancy, said in releasing a new report: *Prepaid Debit Cards: Barriers to Adoption*. That's good news for ISOs, acquirers, processors, banks and the card companies.

MasterCard, for example, has made it clear it has its eyes on this prize. In addition to working with First Data to get payroll cards into the wallets of Wal-Mart workers, the card company has launched a prepaid card campaign with Univision Communications Inc., the nation's leading Spanish-language media company.

According to data compiled earlier this year by the CFSI, more than one-third (35.4 percent) of Hispanic Americans are unbanked.

"We are working closely with Univision, leveraging their unique knowledge and reputation within the Hispanic community, to develop solutions that meet the payment needs of U.S. Hispanic consumers," said Chris McWhilton, President of MasterCard's U.S. Markets division. Univision Debit MasterCard-branded products are slated to debut in early 2010.

For further commentary on this topic, see "Unbanked + underbanked American top 60 million," by Patti Murphy, in the SellingPrepaid section of this issue of *The Green Sheet* (09:12:02).

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

# Should you buy stock in a terminal manufacturer?

**By Brandes Elitch**
*CrossCheck Inc.*

Terminal manufacturers, usually in the background of the card processing world, have been in the news recently. Ingenico purchased an acquirer, VeriFone told Heartland Payment Systems Inc. merchants they would have to bypass their acquirer if they wanted to get their equipment serviced, and a company called Inner Fence LLC advertised it can process credit card transactions without a terminal and without a bank.

Looming in the background is the July 1, 2010, deadline for merchants to meet security standards for transaction processing dictated by the PCI Security Standards Council. The solutions will come from the terminal manufacturers, who are struggling with answers, including end-to-end and point-to-point encryption, chip and PIN technology, and dynamic authentication for contactless cards.

## Making sense of it

Since the 1980s, credit card terminals have been routinely unexciting; they've all had the same basic features. For most of this time, three players have dominated this industry: VeriFone, Ingenico and Hypercom Corp.

Plenty of Zon Juniors and Tranz 330s are still out there, and they are so reliable they could probably run forever. (Once we took a Zon Jr. to the parking lot and drove a car over it, just to see what would happen. It still worked just fine.) There wasn't much need to replace old terminals. Some had more functionality: they could read a check or a driver's license, or download software from verification, guarantee or gift card companies.

Very large enterprises required the ability to network terminals, as well as the telecommunications necessary to provide an open line for online, real-time verification. When you have 1,000 stores and 10 lanes per store, this is pretty intimidating, but there was always a solution.

## Feeling the POP

Until the advent of check conversion, manufacturers adhered to a policy of strict neutrality so as not to favor one processor or ISO over another. That changed when NACHA – The Electronic Payments Association established the point of purchase (POP) standard entry class code in 2000.

POP allowed a merchant to take a check at the POS, run it through an imager, get a signed authorization from the consumer, give the check back and clear it as an automated clearing house debit. At that time, VeriFone was out in front with a solution: its Eclipse terminal, which was the first all-in-one (single footprint) device that handled both card and check transactions.

VeriFone gave an exclusive to Telecheck, and for a fairly long time. It turned out that the POP was a failure in the marketplace (back-office conversion is widely seen as a do-over for POP).

This was NACHA's problem, not VeriFone's. Yes, the Eclipse had some teething problems, but the interesting thing is the exclusive arrangement with Telecheck. Other companies in the guarantee space had to scramble to make their software work with this application, and it was a long and painful process to catch up with VeriFone here.

## Adapting to RDC and security

The next significant development came with the advent of remote deposit capture (RDC). Well before the Check Clearing for the 21st Century Act, NetDeposit LLC was doing RDC in conjunction with Electronic Data Systems. They scanned a high-dollar check, reprinted it at the drawee bank's location and did a direct presentment.

However, this required industrial strength printers not normally found at merchant locations. When RDC started, another big change occurred: the big three terminal manufacturers were "eclipsed" by new players such as Panini, RDM Corp., and Digital Check Corp., which became the early leaders in this space with their standalone check imagers.

It was just a matter of time before the advent of the all-in-one terminal: RDC was seen as the motivating factor in replacing millions of old terminals. That didn't happen, in part because RDC wasn't adopted to the degree originally predicted.

Meanwhile, something else did happen: the Payment Card Industry (PCI) Data Security Standard (DSS) or, more to the point, the threat to acquirers of being defendants in class action lawsuits because their merchants did not secure cardholder data properly.

This is causing processors and ISOs to seek a foolproof solution that will compel, not ask, merchants to handle data properly (for example, a tamper-proof security module). Ultimately, merchants will be required to purchase new terminals, because the card brands will require them to be PCI compliant.

At the end of 2009, the three major equipment manufacturers are still Ingenico, VeriFone and Hypercom. (In 2009, they partnered to form the Secure POS Vendor Alliance, a development best left to another story.)

## Acquiring an acquirer

Ingenico, a French company, sold 3 million terminals worldwide in 2007. It has an installed base of over 15 million terminals and offers an extensive variety of equipment.

In November 2009, it acquired a German payment processor named easycash GmbH. The press release says, "Easycash covers the whole payment value chain in POS terminal services, transaction processing and loyalty solutions." In other words, it is an acquirer.

Until now terminal manufacturers have not acted as acquirers. To do so would have meant competing directly with the ISO sales force selling their products.

Meanwhile, Christopher Justice, President of Ingenico North America, stated that this is the start of a "refresh cycle" for merchants to replace their terminals. He said, "If you're going through a refresh of your terminal estate … the incremental cost is not all that significant." This was news to me.

There are 21 square feet of retail space for every man, woman, and child in the United States; 10 percent of the 1,100 malls in the country are either in bankruptcy or closing; and many other malls look like ghost towns. All this commercial real estate will have to be refinanced in the next year or two, and the traditional lenders in this space have already taken the last train for the coast.

It strains credulity to think a large retailer will commit millions of dollars to replace terminals in this environment, or that it will be a nonevent from a cost standpoint. When I speak to retailers about replacing terminals, they get defensive and explain that this is not a high priority because "everything works just fine now."

## Encroaching with apps

Recently, I saw an article about a "terminal" that doesn't require POS equipment or a bank. It is an iPhone application. You can read about this at *www.innerfence.com*. In the United States it uses Authorize.net; in the U.K. it uses PayPal Inc.; in Canada it uses something called Beanstream (who thinks up these names?).

Merchants establish gateway and merchant accounts at Authorize.net; they pay a $99 set-up fee, a monthly fee of $25 plus 24 cents a transaction, and a discount rate that can vary between 2.09 and 3.79 percent. Merchants buy the program (Credit Card Terminal) on iTunes; it costs $49.95, which is offset by a $50 iTunes gift card.

The program uses the secure sockets layer protocol to securely transmit card numbers directly to Authorize.net; card numbers are not stored anywhere by merchants. The next release, version 3.4, will support signature capture and enable merchants to e-mail PDF receipts. As for using mag stripe card readers for swiped transactions, representatives said, "Not yet, but we're working on it." I'll bet they are.

## Looking at VeriFone

The 2008 VeriFone annual report is on its Web site, *www.verifone.com*, under "About Us," and then "Investor Relations." Here are several things I found interesting:

- Since 1981, VeriFone has provided electronic payment devices that run proprietary operating systems; third-party operating systems; security and encryption software; certified payment software; and third-party, value added applications. In 1984, it provided the first electronic ticket capture solution. The company was publicly traded in 1990, bought by Hewlett-Packard Co. in 1997 and sold to a venture capital investment management firm in 2001. Then it did an initial public offering in 2005.

- Outlining the risks of being in this space, VeriFone identifies factors that characterize its environment: rapid technological change, frequent product introductions and enhancements, and evolving government and industry performance and security standards. On top of these, it is impacted by a weakening economy and declining global demand.

- VeriFone has seen a substantial decline in its stock price, market capitalization and estimated cash flow. This, and other factors, caused it to take a charge against good will of $262 million last year versus the $799 million acquisition of Lippmann.

- The company had incurred $41 million in expenses through October 2008 in responding to a U.S. Securities Exchange Commission investigation and derivative lawsuits related to restating its income and delays in filing financial statements, a result of previously inadequate internal processes and controls in the financial accounting area.

As you can see, VeriFone has a lot to deal with right now. But recently, because of a patent dispute, VeriFone informed Heartland merchants that if they want any support for their terminals, they will have to come to VeriFone directly. This is a big change in the payments landscape.

## Evaluating trends

On the surface, choosing a terminal would appear to be a pretty simple decision, but it is more complicated than just hooking up a piece of hardware. Here are some things set in motion when a terminal is ordered: inventory management, programming and testing, deployment, shipping, rental, PIN pad injection, equipment configuration, asset history management and reporting, supply provisioning and order desk, buy-back of used equipment, leasing, help desk, and tele-training. Phew! The question of "a refresh of your terminal estate" (perhaps the goofiest phrase of the year) is complicated.

Finally, a study released in July by Aite Group LLC points to a couple of trends that do not bode well for terminal manufacturers. The study showed that 28 percent of merchants surveyed steered customers away from cards and to cash and checks, and that another 5 percent said that they are likely to do so.

Eleven percent of merchants said they refuse card transactions below a preset minimum, and 8 percent said they are likely to do so (I know this violates the rules).

Among all merchants, electronic cash registers and other PC-based POS devices claim a whopping 30 percent share of market, with stand-alone card terminals accounting for 70 percent. The Aite analyst stated, "Getting to 30 percent is quite remarkable." The upshot is that in many cases terminals are being replaced by other devices.

## Challenging readers

In researching for this article, I found this quote. The first person who can identify the source will get a decent bottle of Sonoma County, Calif. wine from me.

> "We sell a significant portion of our solutions through third parties, such as independent distributors, ISOs, and value-added resellers and payment processors. We depend on their active marketing and sales efforts. These third parties also provide after-sales support and related services to end-user customers.
>
> "When we introduce new applications and solutions, they provide critical support for developing and porting the custom software applications to run on our various electronic payment systems, and internationally, in obtaining requisite certifications in the markets where they are active.
>
> "Accordingly, the pace at which we are able to introduce new solutions in these markets in which these parties are active depends on the resources they dedicate to these tasks.
>
> "Moreover, our arrangements with these third parties typically do not prevent them from selling products of other companies, including our competitors, and they may elect to market our competitors' products and services in preference to our own. If one or more of our major resellers terminates or otherwise adversely changes its relationship with us, we may be unsuccessful in replacing it.
>
> "The loss of one of our major resellers could impair our ability to resell our solutions, and result in lower revenues and income. It could also be time consuming and expensive to replicate, directly, or through resellers, the certifications and custom applications owned by these three parties."

VeriFone, Ingenico and Hypercom employ many smart people, and they have decades of experience with millions of merchants processing billions of transactions. You can bet they are studying these trends intensively. They will spend millions of dollars in research and development, anywhere from 5 to 10 percent of their revenues, to keep innovating.

The question is, what unexpected, unforeseen innovation will occur in the next few years that they don't know about now?

That kind of thing happens in the technology industry all the time, and when we look back 10 years from now, that is likely what we will find has occurred.

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

# ADVISORY BOARD

## The smartest moves of 2009 – Part II

With the close of 2009 approaching, we sought insights from The Green Sheet Advisory Board to share with you, our readers, as you strategize for the coming year. We asked the following questions of our industry leaders about their business decisions in the past year:

1. What is the absolute smartest thing you've done for your business in the past year?
2. Why was it a good move?
3. Did it require you to take risks? If so, what were they?
4. Is it something other companies could duplicate or something only your organization could do? Why?
5. What do you think your next smart move is going to be?



Following is the second and final segment of their responses. "The smartest moves of 2009 – Part I" was published in *The Green Sheet*, Dec. 14, 2009, issue 09:12:01. Thank you to all advisory board members who participated.

**Douglas Mack**
*Payex*

1. Our focus for this year has been almost purely on internal growth and efficiency. There are so many organizations out there that go very quickly to build sales and then try to figure out the support piece after the fact. I'm not knocking that approach. They're probably very profitable. With our new growth plan, I simply want to make sure we have a solid foundation to rebuild and exceed the sales volume we once achieved.

2. Ask me next year.

3. The risks have been overwhelming. Being that we are relatively small and limited in human capital, I had to make a decision to divert my attention from marketing and growing sales to building our foundation. Our sales have suffered for that, of course. However, I know when we rebuild, our core will be strong and ready for most anything.

4. It's certainly something another company could duplicate; whether it's the right thing to do is yet to be determined. We all know a good foundation is key but, again, declining sales is a huge risk – especially in this market.

5. My next move? Focus on sales like we used to.

**Biff Matthews**
*CardWare International*

Thank you for the opportunity to share my thoughts. It's a great set of questions.

We did two smart moves. We adjusted and realigned staff so we had the right people in the right numbers for each aspect of our business. The second good move was to expand beyond CardWare's long-time core competence in the electronic transaction sector to nontraditional, nonfinancial areas that would benefit from our experience, infrastructure and technology.

It was a good move because the financial industry, which is closely aligned with the retail and service sectors, will take time to rebound. Opportunities outside these sectors are fertile and, in some instances, unplowed ground. For those that are familiar with the concept, it is a Blue Ocean move.

The risks really were learning new industries, new businesses and new lingo in some cases. It was and still is a learning curve.

It's making lemonade from lemons or, as I alluded to earlier, a strategic Blue Ocean move. It is what we've done four or five times in the course of our company, evolving from an imprinter sales and service company to a full service, merchant support company. You evolve or die.

Yes, any company can do what we did if it is willing to let go of the old and embrace the new.

An ISO selling card processing has evolved to offering a wide range of other financial and transaction services. So, it may be time now to look for new opportunities, possibly outside financial services.

Essentially, a company leverages what it has, what it is good at. It's not rocket science, yet the salesperson or business owner must have the courage to let go of that which is easy and comfortable. Then they must also love the challenge. It's a journey.

### Tim McWeeney

*WAY Systems Inc.*

WAY took a hard look at the market, economy and where wireless POS devices were headed in the United States and strategically cut margin on our most advanced model, the way5000. This was a bold move in light of the fact that we were already (largely) the lower-priced mobile product line in the market.

Cutting the price on the way5000, which is a true multi-application wireless device, reset expectations for the entire mobile POS market for what a wireless POS device should cost and how mainstream it ought to be.

Particularly with the surprising rise of the mobile phone application in the United States, wireless POS manufacturers have got to bridge the distance between a cell phone device, which offers essential merchant features and functionality, and a full-featured mobile POS device, such as the 5000.

Of course, it required a resetting of minimum expectations on annual hardware profits and a forecast for greater unit sales because of it. WAY is both a product and service company.

Our service revenue has risen all year. Our product revenue has rebounded nicely, and we are set for a prosperous 2010 in both unit sales and hardware profits.

What it took was a bold vision and the willingness to do a difficult thing: lower profit margins on hardware.

I do not think other POS hardware manufacturers will have an easy time of it because their models do not include one-to-one revenue from a service along with a product. We have a recurring revenue stream. It was a decision we could make, were able to make and did make, and it is paying off for us and our customers.

Smart moves are defined by innovative action and risk-taking that pays off. Dumb moves are defined the same way except for the lack of a payoff (for example, New Coke). Innovative action is defined as vision on where your market is headed and deciding on taking a strategic risk.

At this point, the crystal ball is positioned for a widespread initial acceptance of the new cell phone applications. WAY is going to continue to drive home the difference that these cell phone apps, while attractive and very low cost, do not always offer the needed features, functionality and (in some cases) security of a wireless hardware POS device.

Our next smart move is to make our last smart move even more successful in 2010.

### Svy Nekrasas

*Ingenico*

What is the absolute smartest thing you've done for your business in the past year? Hired a new top management team and restructured the company for success.

Why was it a good move? We took the down time to get our house in order: re-evaluated the current market conditions and our new product pipeline to help an expedited decision-making process and prepared strategically to come out the gate in 2010 with a well thought-out plan.

Did it require you to take risks? Yes, I had to learn quickly to trust my colleagues. As you know, making new teams work involves a considerable investment of time and energy; it also depends on the circumstances. We had to band together into a tight, cohesive team quickly.

Is it something other companies could duplicate or something only your organization could do? Yes, others could do this by hiring great talent who are forward-thinking and leaders in the industry.

What do you think your next smart move is going to be? We'll keep a close eye on the changes in technology and how to best leverage those changes to benefit our clients' businesses. We'll engage the clients in an early dialogue to be able to fine-tune our products to their specific business demands.

### Steve Norell

*U.S. Merchant Systems*

1. Demand a minimum monthly profit from all of your merchants, stop trying to sell every merchant and be prepared to walk away if it does not make a minimum profit. Most of all stop giving things away.

2. It makes the company more profitable, and you don't lose sleep over merchants that priced too low to attain or lost to a price competitor.

3. Yes, it required some risks. Stay the course and believe in the program, even when you feel like you are losing a merchant to the competition.

4. If other companies can't do it, then they need to try doing something else.

5. Stop doing business with companies that do not deliver on their promises with regard to products and services that we resell. Also hold all companies that we have a contract with to the terms of the agreement.

### Jeffrey Shavitz

*Charge Card Systems Inc.*

As a proud partner of an entrepreneurial company, I hope many things we do are smart but four come to mind quickly (and in no order of importance):

Technology: We continue to invest our capital into our systems and technology in order to make our agent and merchant experience the best possible. It's a never ending process, but we feel we are making significant strides with regard to our Agent Portal, the systems behind it and our agent offerings.

New hires: Even in this difficult economy, CCS continues to hire good people to support our sales partners. One significant hire was the addition of Jeff Cohen, our Director of Marketing, whose mission is to provide marketing and advertisement support to our sales agents. Within the past year, his contribution has grown exponentially, and our agents are employing him in a myriad of ways, whether for association marketing, prospecting, and so forth.

Investing with our "active agents": Like every business, there is the 80/20 rule where 80 percent of your business comes from 20 percent of your salespeople. We take great pride in all of our people, but we have begun to make financial investments in the top 20 percent to help these agents develop an infrastructure with their offices, administrative support and working capital.

The payoff has been tremendous. We will continue this program into 2010 as well.

Stay the course: We haven't panicked and continue to open accounts and service our merchants. So many ISOs panicked last year and tried to make a quick fix; we didn't. The economy has cycles, and although 2009 was difficult, our business is based on solid fundamentals. The economy and merchants will rebound, and it's those ISOs and agents that believe in the long-term that will enjoy the success of our business model.

I lie awake every night thinking of our next best move; hopefully it will come to us. If not, I hope to improve my golf game in 2010, which is more difficult than selling merchant services.

### Rick Slifka

*Exec-Links LLC*

1. Established a defined benefits plan.

2. Allowed me to shelter hundreds of thousands of dollars annually tax free.

3. Absolutely. Technically, you need to match your number annually.

4. Anyone can use this.

5. A charitable remainder trust combined with the right type of insurance.

### Anna Solomon

*Fast Transact Inc.*

The smartest thing we did this year was hire an operations manager. We had grown to a point where the daily tasks had become overwhelming. As an owner, sometimes, even when not intended, direction given to an employee can be seen as dictatorial rather than an opportunity for conversation and problem resolution.

Hiring an operations manager created a good buffer between upper management and employees.

The employees felt more comfortable in expressing their point of view and it helped upper management stay more focused on what they needed to accomplish rather than be bogged down with employee concerns.

After one year, in retrospect, it became one of the best decisions we made. The daily tasks of management are running extremely smoothly, issues are being addressed in a timely manner, and the overall atmosphere is positive and enthusiastic. Things are being accomplished and followed through on.

The biggest risk was overcoming the fear of losing control. Allowing yourself to trust that the person you hire has the same dedication and attachment to your business as you do is a big chance you take and requires a leap of faith.

It is something that everyone should consider once they have reached a certain size. When the daily tasks are overwhelming and you are noticing that things are falling through the cracks or forgotten, then it's time to hire someone either as an operations manager or a program manager to track progress on your efforts.

Next move: Expanding our database system by adding new modules to it.

**Scott Wagner**
*GO Direct Merchant Services Inc.*

What is the absolute smartest thing you've done for your business in the past year?

There could be lots of different answers here, but I keep coming back to one main underlying theme: hiring the right people. In addition to finding and hiring the right account executives, our best move this past year has been the hiring of GO Direct District Manager Thomas J. Schuyleman.

Why was it a good move? For us the district manager is the "wearer of many hats" (just ask Tom). And it requires a person with a varied skill set.

Some of the attributes we were looking for was a manager who has been in the trenches as a merchant level salesperson, someone who has bank experience, someone who can interface with account executives as easily as with our merchants, someone who has strong knowledge of pricing, someone who can "think on his or her feet" and be a dedicated worker. Those are just a few of the qualities that Tom has used to create outstanding initial growth for GO Direct.

Did it require you to take risks? For sure. The reality is hiring is not a perfect science. Sometimes you go out on a limb and take some chances but, of course, try to minimize your exposure as best as possible. Our district manager's job is one with high visibility.

If so, what were they? On many days our district manger is the face of the corporation. If he has a bad day – we all do. If a hire of this magnitude does not meet your expectations, or worse, and more harm than good ensues, said new hire may be hard to recover from. You are now back to ground zero for hiring, plus you must deal with the new reality of damage control.

Is it something other companies could duplicate or something only your organization could do? As I previously mentioned, hiring is not a perfect science. Look for your "Tom." Do your best due diligence, and roll the dice.

What do you think your next smart move is going to be? A running joke we have at GO Direct is, how can we clone Tom?

# SellingPrepaid

## Prepaid in brief

## NEWS

### Green Dot keeps employees in the pink

**Green Dot Corp.**'s founder and Chief Executive Officer Steve Streit informed employees at the company's Thanksgiving luncheon that they will be eligible to receive free health insurance benefits beginning in 2010. In addition, Green Dot will provide the same benefits to children of employees at $1 per day.

The free health insurance offer – a Blue Cross health maintenance organization plan – is extended to all of Green Dot's Southern California-based employees, regardless of position or full- or part-time status. The company also reduced the costs for workers who favor other health care plans.

### Rushcard helps with members' RXs

To help ease the health-care burdens of its cardholders, **UniRush LLC** launched a free prescription drug discount program. The company will distribute at least 1 million of the cards to RushCard members, which will give them 10 to 85 percent price reductions on generic and brand name prescription drugs. "[Many] people have to choose between paying their bills or buying their prescription drugs," said UniRush founder Russell Simmons. "Our new prescription card program will give our cardholders the resources to make those choices a little easier. Our members' physical health is just as important to us as their financial health."

## ANNOUNCEMENTS

### ACE Cash Express donates $25K

**ACE Cash Express Inc.** donated $25,000 to Junior Achievement of Dallas. The donation, made through the ACE Community Fund, was presented to JA of Dallas at an Irving, Texas, elementary school where ACE associates were presenting JA's JA in a Day program to third through fifth graders. Twice a year ACE associates participate in the program, teaching local grade school students the fundamentals of finance and economics.

### Blackhawk's Ideal deal

**Blackhawk Network Inc.** eliminated after-purchase fees on its Ideal Gift gift cards purchased through Blackhawk's Card Mall and on GiftCardMall.com. The elimination of post-purchase fees applies to new and previously purchased cards.

### FIS receives double honors

Banking and payment technology provider **Fidelity National Information Services Inc. (FIS)** won the BankNews Media's 2009 *BankNews* Innovative Solutions Award for Best Consulting/Outsourcing/Training Solutions. FIS also won the Prepaid Awards 2009 prize for Best Prepaid Services Provider.

### Green Dot's Streit receives award

**Green Dot**'s founder and CEO Steve Streit received the 2010 Humanitarian Award from the Hollenbeck Police Activities League for his ongoing service to PAL and volunteer efforts with various Los Angeles County organizations that benefit children.

### MoneyGram cuts fees

**MoneyGram International** temporarily reduced its fees on money transferred to El Salvador via its agent locations in Spain.

The action was designed to ease the burden of Salvadorans as they recovered from Hurricane Ida which hit Central America in early November. The fee reduction lasted from Nov. 25 to Dec. 12.

### Travelex wins major awards

**Travelex** was doubly honored by the 2009 Prepaid Awards, taking home Best International Prepaid Program for Cash Passport and Best Corporate Prepaid Program for Travelex's Airline Compensation programs. The awards were distributed at a black tie event in London on Oct. 13.

## PARTNERSHIPS

### Bridgewater launches My Surprise Card

Calgary, Alberta-based **Bridgewater Bank**, a wholly owned subsidiary of the Alberta Motor Association, partnered with Montreal-based **Postatel Inc.** to launch the My Surprise Card, a prepaid card available in denominations of $25, $50 and $100, and accepted at Canadian retail locations.

### Commerce Online signs with pot dispensary

**Commerce Online Inc.**, through its Collective Card Services Division, entered into a partnership with Beverly Hills-based medical marijuana dispensary **Healthy, Wealthy and Wise Inc.** to offer its prepaid solution for marijuana purchases.

The prepaid card can be loaded with any denomination of funds using direct deposit through a local bank, the Internet or at the collective or dispensary's POS.

### EMSystems taps SparkBase

**Electronic Merchant Systems** chose **SparkBase**, a private-label, stored-value card processor, to power its Altus Primier prepaid card. Both companies are headquartered in Cleveland.

### MoneyGram's moving up

**MoneyGram International** expanded its presence in India with two new offices in Nepal, near Mt. Everest. One office has the distinction of being at the highest elevation in the world for a money transfer agent location, according to MoneyGram. The locations were opened in partnership with **Samsara Pvt Ltd.**, Moneygram's super agent partner. Moneygram also added two new partnerships with Indian banks.

### One World Ventures teams with eCommLink

Bethesda, Md.-based prepaid card provider **One World Ventures Inc.** partnered with **eCommLink Inc.**, a prepaid processor, to develop and distribute corporate prepaid solutions and remittance programs. Steve Prior, CEO of One World Ventures, said the "adaptive nature of the eCommLink platform" will support the company's business model now and in the long term.

### TransCard, UPMC, Pitt team for prepaid

**TransCard LLC**, the **University of Pittsburgh** (Pitt) and **The University of Pittsburgh Medical Center** partnered for a prepaid solution to pay medical study participants.

WePay, the payment processing system developed by UPMC and Pitt, was integrated into TransCard's systems to electronically distribute payments.

### UniRush renews with TSYS

Cincinnati-based prepaid solution provider, **UniRush** renewed its long-standing partnership with **Total System Services Inc.** (TSYS) to power its RushCard, a prepaid Visa debit card.

"Our relationship with UniRush is one we are extremely proud of, and we're excited to have the opportunity to continue partnering with a true innovator in the prepaid business," said Rod Boyer, President of TSYS Loyalty and Prepaid.

### Veritec adds mobile banking to kiosks

Prepaid card program distributor and processor **Veritec Financial Systems Inc.** (VTFS), a subsidiary of Veritec Inc., entered into a memorandum of agreement with Hot Springs, Ark.-based **Cities in Touch** to integrate VTFS' mobile banking software platform with CIT's ATM and debit card-issuing kiosk systems.

### Western Union reaching out

**The Western Union Co.** selected **YellowPepper Mobile Financial Solutions**, a mobile commerce provider in Latin America, as a participant in Western Union's Digital Vendor program to introduce cross-border transactions into the YellowPepper system.

Additionally, prepaid card distributor **InComm** agreed to offer Western Union's GoCash service – a money transfer service available at grocery and convenience stores, pharmacies, and mass merchandiser locations.

### Zeevex adds Owlient, Sunleaf

Virtual currency provider **Zeevex Exchange Inc.** signed an agreement to distribute prepaid game cards for **Owlient**'s and **Sunleaf Studios**' online games. The Zeevex Xtreme Game Card is available at 22,000 U.S. retailers.

## ACQUISITIONS

### NCP acquires PPS

**Navigation Capital Partners Inc.** acquired the assets and associated liabilities of **Prepaid Solutions USA** via a newly formed company, **Prepaid Solutions Inc.** (PPS).

## APPOINTMENTS

### NCP makes moves

As part of Navigation Capital Partners' acquisition of Prepaid Solutions USA, NCP appointed **Ken Goins** as CEO of PPS and **Eric Ohlhausen** as Chief Financial Officer of PPS.

### Incentium taps Hasson, Bagley

Incentium, formerly VIPGift, welcomed **Kelli Hasson** and **Michael Bagley** as Sales Directors. The two will jointly oversee Incentium's U.S. manufacturing vertical. Vicki Church, Vice President of U.S. Sales at Incentium, said, "Their combined loyalty and incentive industry expertise will help boost our efforts to aggressively target our 2010 sales goals."

Features

# Mercator of good cheer about gift cards

In a December 2009 research note, Mercator Advisory Group voices optimism about overall gift card growth in the current holiday shopping season. Unlike last year at this time, when both open- and closed-loop gift cards suffered a slowdown in their growth rates, Holiday 2009 looks particularly rosy for the gift-giving staple, according to the Boston-based consultancy.

In the note entitled *2009 Holiday Gift Card Sales Prediction: Things Don't Look So Bad From Here*, Brent Watters, Senior Analyst at Mercator, estimates that the total load volume for closed-loop, private-label gift cards in the fourth quarter of 2009 will increase by 1.9 percent over the same time last year; given the same parameters, money loaded onto open-loop, network-branded gift cards could increase by as much as 50 percent.

### 'Tis the reason

Based on various data sources, including Mercator's own benchmark study, Watters said the open-loop gift card market grew by 54 percent in 2008, with a load volume of $7.8 billion. That number is expected to rise to $11.8 billion by the end of 2009, representing a 50 percent increase over the previous year.

Watters estimates that 60 percent of all money loaded onto gift cards annually happens in the fourth quarter of the year, "with the highest level of loads occurring days before Christmas as inventories run low and consumers make last-minute decisions on holiday gift giving."

With more retailers minimizing inventories, it is likely "there will be more out-of-stock situations earlier this season and reduced category choice, making gift cards well-positioned as a viable alternative to sold-out, targeted merchandise," Watters said.

### Spirited gifting

More cause for optimism occurred on the Monday following Thanksgiving, referred to as "Cyber Monday," when online spending is considered highest.

Mercator quoted ComScore Inc. and other research firms that said online purchasing reached $887 on that day this year, a 5 percent increase from the Cyber Monday of 2008.

"This is good news for prepaid issuers that leverage the online channel, which has been providing gift cards with significant traction," Watters said.

Given that growth in gift card sales is directly related to consumers opting to buy prepaid cards rather than use cash and checks to buy more traditional gifts, the upward trend in gift card purchasing may reflect that holiday shoppers are in a more positive frame of mind this year as opposed to last, Watters said.

# Unbanked + under-banked Americans top 60 million

**By Patti Murphy**
*The Takoma Group*

*Editor's Note: This article, written by Inside Microfinance founder Patti Murphy, was originally published Dec. 5, 2009, by Inside Microfinance (www.insidemicrofinance.com). Reprinted with permission. © Inside Microfinance. All rights reserved.*

The Federal Deposit Insurance Corp. recently released the much awaited results of the first nationwide attempt to get a handle on America's unbanked population, and the news was even more astounding than I had expected.

Conducted as a supplement to the U.S. Census Bureau's January population count, the survey reveals that 25.6 percent of U.S. households remain, for the most part, outside the banking system, and these tend to be low-income and/or minority households.

Imagine, one year after the largest bailout of the banking system (Troubled Asset Relief Program money), upwards of one quarter of taxpayers who paid for the bailout don't even use banks. And who are the most likely of these among Americans? Households headed by single parents and black and Hispanic households. Little surprise there.

One thing I find especially troubling about the survey is the degree to which it illustrates just how difficult it has become for poor and working poor families to better their lives financially. Like it or not, the banking system plays a critical role in economic survival and the creation of wealth, which means it will be even tougher for poor Americans to improve their financial situations.

### Who's being left out?

Among those Americans contacted for the FDIC survey, 7.7 percent were unbanked, which translates to about 9 million households, or 17 million adults. Another 17.9 percent, or 21 million households (43 million adults), were found to be underbanked.

Households were defined as underbanked if they replied no to the question: Do you or does anyone in your household currently have a checking or savings account? Underbanked households were defined as those that have a checking or savings account but also have relied on alternative financial services, such as money orders, check cashing shops, payday loans and pawn shops, at least once in the past five years.

"Access to an account at a federally insured institution provides households with an important first step toward achieving financial security – the opportunity to conduct basic financial transactions, save for emergency and long-term security needs, and access credit on affordable terms," said FDIC Chair Sheila Bair in a statement.

The research, a follow-up to a study released by the FDIC earlier this year on financial institutions' efforts to serve the unbanked, also detailed revealing facts about the unbanked in the United States. For example:

- Certain minorities are more likely to be unbanked: blacks, 21.7 percent of households; Hispanics,19.3 percent; and American Indian/Alaskan, 15.6 percent. Whites (3.3 percent of households) and Asians (3.5 percent) are among the best banked.
- Households with incomes below $30,000 a year account for at least 71 percent of unbanked households. Only 4.2 percent of households with annual income between $30,000 and $50,000 are in that same predicament, along with less than 1 percent of those with $75,000 or more in annual earnings.
- Forty-one percent of unbanked households believe the likelihood of their opening a bank account in the future is "not likely at all."

Detailed data on unbanked and underserved Americans, broken down by state and metropolitan statistical area can be viewed online at a new FDIC Web site: *www.economicinclusion.gov*.

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# Signs of the future

Like the prepaid card industry, the digital signage industry is still considered in its infancy. There seems to be a symbiosis between the two, with digital signage used as a vehicle for promoting prepaid card programs via in-store and online offers.

According to Laura Davis-Taylor, founder and Principal at Retail Media Consulting Inc., there are two types of digital signage: "sneakernet" and networked systems. Sneakernet is a catchphrase for the action of updating systems manually, such as plugging in a jump drive to upload a new version of an offer that flashes across a digital signage screen, Davis-Taylor said.

Sneakernet is seen as limited in comparison to the networked digital signage solution, with which screens can be updated in real time from a back office computer, for example. A networked system also gives administrators more flexibility, speed and control over advertisements and offers displayed on the screens.

## Sign says go

A Digital Signage Association webinar entitled "Digital signage future trends" highlighted the state of the growing industry and future benefits merchants may reap by implementing digital signage solutions in retail environments and elsewhere.

Bill Yackey, Editor of DigitalSignageToday.com and one of the webinar presenters, said the retail world is where digital signage shows the most potential and forward thinking, with consultants and merchandisers trying new ways to reach consumers. One such strategy is to deliver offers via short codes – five-digit numbers that flash across digital signage screens, which when inputted into cell phones offer consumers digital coupons and other discounts.

In the webinar Lyle Bunn, Principal & Strategy Architect at BUNN Co., said digital signage systems already deployed have been underutilized overall; a main reason is that 45 percent of the displays are not networked, according to the DigitalSignageToday.com survey.

## Integral designs

One goal of the industry is to integrate digital signage into POS terminals. While that development promises a wealth of data about customers on which retailers can build more effective and targeted marketing campaigns, Davis-Taylor warns of its risks.

To integrate digital signage into the POS takes an application protocol interface, akin to a "handshake between the data stream at the POS and the play list and analytics on the digital signage," she said. But that interface creates weak points for hackers to penetrate and steal cardholder data.

Digital signage has been a viable technology for 20 years and has been building momentum in the last three to four, Davis-Taylor said. She estimates it will be another five years until digital signage is ubiquitous.

By that time, it may be commonplace to buy your movie ticket with a prepaid card that utilizes restricted authorization network technology to limit the use of that card at select local retailers. As you walk through the lobby to the theater you are met with an offer on a digital signage screen which says, "After the movie, go to Enrico's for $10 off a dinner for two if you use your prepaid card."

And that is the value of digital signage. "Reach the right people with the right message at the right time," Davis-Taylor said.

# CompanyProfile

## Litle & Co.

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**ISO/MLS benefits:**
- Real-time, detailed reporting and analytics platform
- Fraud detection, security and compliance experts
- Proprietary processing platform
- Ability to process all types of card-not-present transactions
- Processing offered in 200 currencies
- Services for U.S. merchants with international operations

# Pioneering online payments

Litle & Co., a payment processor and consultative merchant services provider, was founded in 2001 to focus specifically on card-not-present transactions. According to Tim Litle, founder and Chairman, no other companies at that time were developing solutions for online processing or providing the products and services in what is still considered a high-risk market by many payment professionals.

Litle has been in the payments industry for 35 years and has seen the world change dramatically in its ability to access, receive and process online data. Additionally, the Internet revolution has changed the way consumers shop. New payment innovations enabled Litle to build proprietary software that was, he felt, the most secure and efficient in the card-not-present world.

Litle's experience and industry savvy set the stage for his company's success. In 2006, Litle & Co. was named No. 1 on the Inc. 500 list for fastest growing company in the United States. Litle & Co. serves multichannel and Internet retailers, as well as online service providers. The company also offers multicurrency conversion services to its U.S.-based merchants who have international operations. It can process in 200 currencies and settle in nine different currencies.

## Prioritizing the merchant

Litle & Co.'s tag line is "The card's not present. But we are." Jason Pavona, the company's Executive Vice President, Sales and Marketing, noted that Litle & Co.'s business philosophy revolves around asking the question: What has the company done for the merchant today? And then answering with a hands-on approach to help increase merchant revenue and reduce operational costs.

"We have a very high-touch organization," Pavona said. "It's about us reaching out to our merchants before there is a problem, issue or question. And whether it's about minimizing expenses, increasing call center efficiency, authorization rates or fulfillment processing, we're sitting there helping them to provide the best formula for success. Our agents are paid to get the right answer and proactively go out and help a merchant grow their business."

Litle's professional biography found at *www.litle.com* reveals he has dedicated more than three decades to developing innovations that optimally serve merchants' needs. For example, he created the first third-party fulfillment service bureau for catalogs in the 1970s. In the 1980s, he and his partners built the first payment management platform to address the needs of card-not-present merchants.

He was also instrumental in developing the three-digit, anti-fraud identification numbers on the backs of credit and debit cards. Litle continued to focus his expertise on card-not-present technology, and in the 1990s, he ran two online processing companies. After he sold those in 1995, he observed stagnation rather than further innovation in the field. After five years, Litle returned to the card-not-present space, intent on developing the potential he saw for new, alternative payment offerings.

"The ability to not only grow revenue but increase the operational efficiencies of businesses was really there," Pavona said. "Tim wanted to build a platform that could generate that data, so he spent about two years creating that platform with 10 other outstanding engineers. In 2002 we started putting our first merchants on that platform and really focused 100 percent on the card-not-present market."

Pavona added that the company is entirely "homegrown," meaning it developed proprietary boarding, reporting and accounting systems and a processing platform that connects directly to the card networks.

## Enhancing the analytics

Pavona said the Lowell, Mass.-based company is particularly excited about a new reporting and analytics platform that enables merchants to understand in real-time, and in detail, how their businesses are performing; how, why and where chargebacks are happening; and how to track authorization performance."We have a phenomenal ability to create very customized reports for our individual merchants that provide business intelligence into their organizations and provide them with the tools and methodologies to help them grow their business, not only on the revenue side but in their operational efficiencies as well," Pavona said. He added that the company also helps merchants understand the value chain and where they fit into their respective market segments.

"And so helping them understand chargebacks, authorizations and fraud issues, for us, just goes back to, how can I get more data back to that merchant to help them make better decisions?" Pavona said. "The requirements for merchants around data protection aren't getting easier. It is, unfortunately, getting much harder, and the state-by-state regulatory environment is changing every day. So it's paramount for us to deploy the best protection solutions for all consumer information."



## Processing the gamut

Platforms built by Litle & Co. process the majority of e-commerce and direct marketing payments in the United States, according to Pavona. "A majority of our international business is in pounds and euros, and we also have business partnerships in Asia, South America and Canada," he said. "But we focus almost exclusively on U.S. businesses that have operations abroad. The landscape has changed so much in that our global footprint was an incredibly important part of having a platform that serviced merchants in the mid-sized market worldwide."

Litle & Co. further expanded its operations when it teamed up with alternative payment processor PayPal Inc. in 2007. The company also implemented the products that enable payments through Bill Me Later, which PayPal acquired in 2008. Colleen Martin, Strategic Alliance Manager for PayPal, believes that Litle & Co.'s comprehensive services combined with PayPal's global online footprint have been a win-win for both organizations.

She added that one of the great things about working with Litle & Co. is that it is "almost like a one-stop shop," where merchants can receive a private-label program, an alternative payment platform or a bill payment service – products that enable merchants to tap into a wider variety of consumer populations and generate new and incremental revenue.

"We continue to hear from our clients that Litle is continually strong in the area of merchant services and their ability to provide that personal touch to merchants," Martin said. "They are nimble and quick, so they're able to innovate quickly and also provide detailed analytics to our merchant base. That is critical to them, as they are looking to manage their overall business and deploy their offerings to the marketplace."

## Seeing the big picture

Litle & Co. believes in taking a holistic approach when it comes to protecting its clients, since its merchants conduct business across the country and around the world. Data protection laws, Pavona said, are different between states but even more complex and varied between the United States and other countries.

"It's our view that protection of consumer data, through new encryption technologies like tokenization, triple data encryption algorithm and real-time authorization is incredibly important, but you've got to look at it holistically," Pavona said. "If you only look at PCI DSS [Payment Card Industry Data Security Standard], you're really doing a disservice for your business over the long term."

Litle & Co. sells its products and services through a direct sales team and is always on the lookout for top talent. The company also operates a partner referral program through which it works with logistics and fulfillment houses and order-processing providers that offer payment processing services to merchants. So a consistent, standardized training model is critical for success.

The company implemented an in-house training program called Litle University that is designed to make sure all staff – from the Chief Executive Officer to the newest merchant services representative – are highly educated in the payments space.

"We want our agents to understand all the markets we serve, so this program addresses what the authorizations, settlements and cardinal rules are on certain transactions," Pavona said. "It's about understanding the challenges and complexities of companies that sell goods and services directly to consumers and Internet retailers.

"So Litle University has gone a long way to what I would say makes our team more thought leaders and consultants within the communities they serve. We take our training very seriously."

In the end, Litle & Co.'s success is a testament to Tim Litle, Pavona believes. "The unique platform and sales/consulting team he put together really services these merchants like no other processor or acquirer," he said. "Online transactions continue to grow as people stay at home more and shop online to save money.

"And quite honestly, a healthier business drives down the risk that we're taking every day, and higher revenues for our merchants is obviously our number one objective."

# Radiant, Computer World in the lawsuit soup

Seven Louisiana restaurants filed a joint lawsuit against POS systems manufacturer Radiant Systems Inc. and POS systems distributor Computer World, alleging their negligence led to data breaches that compromised hundreds of consumer card numbers.

The lawsuit, filed in the 15th Judicial District Court of Lafayette, La., asserts that the Aloha POS payment systems – manufactured by Radiant Systems, sold by Computer World and used by all seven plaintiffs when their respective outlets were breached – were inadequately fortified against intrusion and noncompliant with the Payment Card Industry (PCI) Data Security Standard (DSS) when said systems were invaded by hackers.

Court papers were originally filed in March 2009, but only last month did a judge approve plaintiffs' request for a joint lawsuit.



*The suit alleges the breaches happened after Visa Inc. notified Radiant Systems in April 2007 that the operations of Aloha POS software violated certain PCI DSS mandates, including the forbidden storage of certain card information such as card verification numbers and PINs at POS locations.*

## Speaking for the plaintiffs

Ernest Svenson, a lawyer for the plaintiffs, said his clients were apprised of the data breaches by local law enforcement in the spring of 2008, and the breaches all took place within a year of that time.

The suit alleges the breaches happened after Visa Inc. notified Radiant Systems in April 2007 that the operations of Aloha POS software violated certain PCI DSS mandates, including the forbidden storage of certain card information such as card verification numbers and PINs at POS locations.

It states further that the systems were hacked through the use of "keyloggers," a type of remotely operated malware that intercepts passwords and other information by reading keystrokes on a computer.

## Seeking compensation

The plaintiffs are reportedly seeking compensation in the millions of dollars, including for losses stemming from post-breach security audits, fines levied by Visa and reputational damage as a result of the breaches, which generated local media coverage.

A press release issued by the plaintiffs says an investigation by the United States Secret Service (which commonly deals with similar matters relating to fraud and identity theft) found a number of ways in which Computer World violated PCI DSS provisions in its sale and configuration of Aloha POS software.

Allegedly among them is that Computer World misrepresented older model POS systems as new models to clients, used a remote access system that lacked adequate security controls and used the same password for at least 200 different operators of the equipment.

"Ports were left open and access points that should have been locked down weren't," Svenson said. Svenson said other Louisiana-based retailers who suffered breaches with Aloha POS software aren't as yet involved in the lawsuit, though he added that the addition of new plaintiffs was "a real possibility." He said the breaches resulted from multiple intrusions on various Aloha systems and that the hackers were likely from former Soviet Bloc countries.

### Representing Radiant

Radiant Systems Chief Executive Officer John Heyman issued a press release in response to the lawsuit that asserts the breaches occurred outside of the POS software networks alleged to have been faulty.

"Specifically, these customers [the plaintiffs] were victims of criminal acts almost two years ago, involving hackers who installed malicious software, which intercepted credit card data prior to it reaching the POS software," Heyman said in the release.

He added that "Radiant's products were among the first POS technologies to be validated against Visa's initial set of data security requirements in 2005. Since the inception of these requirements, Radiant has continuously maintained payment industry validation … when releasing our software."

### Considering culpability

Observers, however, said the multitude of breached parties bodes poorly for the case's defendants.

"If it's a single breach, well, that's one thing," said Rick Fischer, an attorney who specializes in data theft and PCI compliance issues. "But if in fact there are multiple violations, multiple breaches, as a result of a pattern of practice, then that's something quite different. … If you've got a series of similar breaches then that's not a good sign."

Linda Mahy, CEO of payments industry consulting firm Connective IQ Inc., said the lawsuit's assertions, if true, would constitute a "blatant violation of not having proper standards in place," but she added that post-breach finger-pointing can sometimes obscure the full range of culpability.

"I get really annoyed when somebody can stand back and act like they're not part of the [security] process," Mahy said. "If [the plaintiffs] are going to point their fingers at the supplier, whether the device is or is not PCI compliant or misrepresented or whatever, where was the person working for the retailer to do the due diligence in selecting the supplier?"

Andy Bokor, Chief Operating Officer of data security firm Trustwave, said the lawsuit highlighted an often overlooked, though crucial, area in the world of payment data security.

"PCI focuses on the merchant responsibilities and then you have the POS vendors being obligated to have their applications assessed," he said. "But what is interesting is those applications have to be configured correctly in order for them to be secure.

"With the remote access vulnerabilities that were exposed, the software in and of itself could have been configured securely, but if the default passwords were either blank or something easily guessed … it's possible the system would have gotten breached regardless of whether Radiant was PA [Payment Application]-DSS compliant or not."

# Mobile payments at a crossroads

An October 2009 report from The Nielson Co. found that the number of consumers using mobile devices to shop on the Internet increased 34 percent between July 2008 and July 2009, from 42.5 million to 56.9 million. Additionally, year-over-year growth among the 13 to 17 and 65-and-over age groups accounted for the greatest growth of phone users accessing the Web – 45 percent and 67 percent respectively.

Industry experts predict these numbers will continue to grow as phone carriers debut wireless network upgrades in 2010 that will increase bandwidth and speed. And with such growth, retailers are paying much closer attention to m-commerce and the potential for mobile payment applications.

## Pinnacles and pitfalls

According to Conrad Sheehan, founder and Chief Executive Officer of Chicago-based mobile and alternative payment solutions company mPayy Inc., this growth represents a prime opportunity for ISOs and merchant level salespeople (MLSs) to generate a variety of new revenue streams in the mobile payments space. The potential for using phones as payment terminals, he added, is tremendous, though not without pitfalls.

"The devices that are out there are getting smarter; you can do more and more things; it's pretty extraordinary," Sheehan said.

"Unfortunately, the world of payments right now is dominated stem to stern by the banking industry and the card brands, and phones are dominated particularly in this country by the three or four major carriers. For mobile payments to become a widespread reality, the carriers need a piece of the value chain and a profit motive to build this thing out.

"Browsing the Web or checking a bank balance on a phone is one thing, but making a mobile payment is entirely different – and that's where there has to be a merchant processing platform akin to what you see in the card world. So the multibillion dollar question is, 'Who is going to build all this infrastructure and get phones to make payments in a brick-and-mortar store or over the Internet?' The demand is out there, but who's going to give?"

## Incentives and economics

Sheehan believes that one of the first steps to making mobile NFC (near field communication) or proximity payments commonplace is implementing an alternative payment network that can change the economics and give phone carriers an incentive to participate in the value chain. To make mobile e-commerce as prevalent as traditional e-commerce requires a convenient and secure mobile wallet that simplifies checkout.

Additionally, MLSs must be adequately compensated to make distribution of mobile payment products and services worth their while.

Sheehan said that the technology is available right now for proximity payments, but the business model to make implementation and deployment cost-effective does not currently exist.

"Who has the incentive to drive payments to mobile retailers, and do you build a whole mobile Web site for payment processing and settlement if you're only going to get half a percent of your sales through it?" Sheehan noted. "You've got the world of the card issuer who makes the vast majority of the money. You've got Visa and MasterCard, the merchant acquirers and, in the case of small and mid-sized businesses, you've got agents.

"And so those three pieces collectively consume the entire merchant discount if you will. So if I'm AT&T or Verizon, why do I want to put a chip inside my phone if I'm not going to make any money from it? Or if I'm Motorola, why do I redesign my devices around mobile payments if there's no revenue to be had? The path to mass adoption will become a reality when a payment network infrastructure is created that gives those players incremental revenue."

## Solutions and fortunes

Regardless of the obstacles that lie ahead for widespread acceptance of mobile payment technology, Sheehan is nonetheless excited about the many value-added offerings currently and soon to be available in this sector.

As a mobile payment specialist, Sheehan said mPayy offers recurring billing solutions for utility, cable and phone companies, person-to-person payment solutions,

micropayments, security, compliance and risk management solutions and, by the end of 2010, multicurrency conversion, processing and settlement.

"The ability for change to happen is difficult at best, but what excites me is the sheer fact that Verizon, Sprint and AT&T by themselves touch 200 million people," he said. "They aren't currently doing it because of the way the world is set up, but eventually they'll find a way to enable payments for their customers and take advantage of the payment network.

"And that's where the ISOs and the MLSs come in. I mean, everyone needs those folks – and sales agents don't care if they're selling for Wells Fargo or Verizon. And if I can find an MLS or ISO that is focused on recurring billers and utilities, we could both make a fortune."

# Tweaking interchange down under

The Reserve Bank of Australia is loosening the reins on certain interchange limitations. In a meeting in late November 2009, the RBA changed its regulatory stance so a new, homegrown electronic funds transfer (EFT)/POS network – EFTPOS Payments Australia Limited (EPAL) – can compete with Visa Inc. and MasterCard Worldwide. RBA raised the new network's limit on interchange from between 4 and 5 cents to 12 cents per transaction.

As is the case in the United States, financial institutions in Australia often issue debit cards to holders of demand deposit accounts (checking accounts). The cards, which require PIN authorization, can be used to access funds either at ATMs or at the POS. They are branded by issuing financial institutions and are processed according to various bilateral agreements, with interchange flowing from card issuers to merchant acquirers.

The RBA, Australia's central bank, estimates 85 percent of the nation's POS debit transactions over the past year have been initiated using such ATM/POS cards. The RBA, which closely regulates card interchange in Australia, has set an acceptable range for interchange on these EFT/POS transactions of between 4 and 5 cents, payable to the acquirer.

In addition to homegrown cards, many Australian financial institutions also issue multifunction (credit and debit) Visa- and MasterCard-branded cards; when used as debit cards, these are authorized either by PIN or signature. The RBA limits the interchange on these transactions to 12 cents, which under Visa and MasterCard rules gets paid to issuers.

### Fighting for POS debit share

Visa and MasterCard have been actively promoting POS debit in Australia, and that has resulted in rapid growth in these transactions. During the first nine months of 2009, for example, Visa Debit and Debit MasterCard payments by Australians grew by 37 percent, according to the RBA.

In May, a group of leading Australian financial institutions and two large supermarket chains formed the domestically owned and operated EPAL, which Australians can access using their bank-issued ATM debit cards. The network competes directly with MasterCard and Visa.

EPAL was having difficulty getting off the ground, however, in part because it was being held to the interchange limits for other non-Visa/MasterCard branded EFT/POS transactions – between 4 and 5 cents. The new ruling from the RBA makes it clear that EPAL transactions are to be held to the same parameters as Visa Debit and Debit MasterCard transactions: maximum interchange of 12 cents per transaction, payable to card issuers.

Existing bilateral agreements for EFT/POS transactions were left untouched by the RBA ruling, and acceptable interchange for these transactions remains at between 4 and 5 cents, payable to the acquirer.

# GIVING IT TO YOU STRAIGHT.

***Last year, my 1099 reflected another record year*** of making income!

***The new cost structure is sweeeeeeet!*** I know I'm making the most I can on every deal.

***It's been 5½ years for me with Total Merchant Services.*** There's no stopping me now – I'm looking forward to 20 more prosperous years.

***I feel really secure financially***, especially during these times of economic hardship.

***Last year, I gave my son Tyler a guitar for Christmas.*** He is my driving inspiration.

2009 in review from page 1



Never mind that H.R. 3221's substance has nothing to do with payments; it is designed to finance low-income housing as well as help first-time homebuyers purchase homes. In an era of diminishing tax revenues, the IRS covets the boon it considers to be revenues underreported by merchants.

And the government was not content to stop there. Also in May, President Obama signed into law the Credit Card Accountability Responsibility and Disclosure Act of 2009 (The Credit CARD Act). The law restricts interest rate hikes on existing card balances, limits certain fees, imposes new disclosure requirements and bans card issuance to minors without parental consent.

Card issuers are required to comply with the new law's provisions by February 2010. Acquirers, however, were largely spared in this type of legislation because lawmakers declined invitations to tinker with interchange, despite a push from retailer associations like the Merchants Payments Coalition and the National Retail Federation.

According to merchant organizations, interchange is deceptively applied by the card brands and becoming an increasingly oppressive expense for retailers.

The Electronic Transactions Association spearheaded the charge to educate Congress so lawmakers would not acquiesce to merchants' pleas to regulate what is, after all, the payments industry's lifeblood. The ETA made the case that interchange is being implemented responsibly and should be left alone by the federal government.

While it seems the ETA was successful in its campaign, the fight over interchange is far from over. In June, H.R. 2695, The Credit Card Fair Trade Act, was introduced in the House of Representatives. The proposed law would create a special exemption from anti-trust laws so retailers could negotiate "access" to electronic payment systems en masse.

Then, in September, convenience store franchise 7-Eleven Inc. delivered to Congress a petition signed by 1.66 million 7-Eleven customers that beseeched the federal government to regulate interchange.

MasterCard Worldwide countered with a survey that claimed 75 percent of consumers who initially supported 7-Eleven's position withdrew their support when they realized regulation would result in increased payment card fees for consumers.

In October, two more bills were added to the interchange assault. Like a piñata, interchange makes a sweet target; whether legislators ever get around to actually regulating it remains to be seen.

## Eyes on prepaid

The prepaid card industry, which has become an ever more vital part of the payments industry, received the fixated gaze of Congress in the form of Title IV to The Credit CARD Act. Title IV, also known as the Fair Gift Card Act, was intended to protect U.S. consumers from "unreasonable" fees and expiration dates that drain value from gift cards.

However, critics of the Act, represented by the Network Branded Prepaid Card Association, argued that lumping open-loop, network-branded cards in with the closed-loop, private-label variety would be a mistake.

According to the NBPCA, issuers of closed-loop cards earn revenues on the underlying sales of products and services purchased with the cards, while issuers of open-loop cards are actually providing a service – the ability to use the cards at millions of locations nationwide – which cannot be provided without charging fees for their use.

Luckily for open-loop card providers, the amendment was modified to the satisfaction of its opponents before President Obama signed The Credit CARD Act into law.

But senators and representatives in Congress are not the only ones who have drawn a bead on the prepaid card industry. Issuer and processor RBS WorldPay Inc., the U.S. arm of The Royal Bank of Scotland Group, reported in late December 2008 that its network had been hacked, resulting in the possible compromise of data from approximately 1.5 million prepaid cardholders.

In January 2009, RBS was hit with a class action lawsuit on behalf of victims of the breach. In February, it was reported that 100 prepaid payroll card numbers from that breach were used in a coordinated, global ATM scam that netted fraudsters between $9 and $10 million in only 24-hours.

In March, Visa revoked RBS' compliance status with the Payment Card Industry (PCI) Data Security Standard (DSS). In November, a federal grand jury in Atlanta indicted four Eastern European men, the apparent masterminds of the breach.

## On fraud and infamy

Ah, yes, the breaches. Unfortunately, 2009 had a bumper crop; the nonprofit consumer advocacy Privacy Rights Clearinghouse documented well over 200. And the consequences are great. A May report in *The Green Sheet* detailed how electronic payment card fraud sometimes helps fund violent terrorist schemes, such as the 2004 Madrid train bombings and the 2005 London subway system attack.

One serious breach involved Heartland Payment Systems Inc., among the largest processors in the United States. The breach occurred in 2008 but was made public in January 2009. The size of the compromise is still unknown, but Heartland processes 11 million transactions a day for approximately 250,000 merchants.

However, Heartland said no merchant data or cardholder Social Security numbers, unencrypted PINs, addresses or telephone numbers were stolen. Nevertheless, the breach had significant repercussions for Heartland and the entire industry. In March, Visa delisted Heartland from PCI DSS compliancy, but the processor returned to Visa's good standing in May.

The breach and its aftermath spurred Robert O. Carr, Heartland's Chairman and Chief Executive Officer, to found the Payments Processor Information Sharing Council, under the aegis of the Financial Services Information Sharing Council. The goal of the PPISC is for acquirers and processors to share information about data security breaches to prevent future attacks.

Another community of payment players heralded a new security alliance at the Electronic Transactions Association's Annual Meeting & Expo held in Las Vegas in April. The big three POS terminal manufacturers – Ingenico, Hypercom Corp. and VeriFone – formed the Secure POS Vendor Alliance to generate best practices and bring consistency to security standards.

## It's on

Given the in-fighting that has often plagued the payments space, this spirit of cooperation could not last long, and it didn't. In September, a feud erupted between VeriFone and Heartland, which had recently joined the SPVA. At issue was end-to-end encryption technology – one highly touted security solution.

In a lawsuit, VeriFone alleged Heartland had stolen one of the POS vendor's patents. Heartland countered that VeriFone was attempting to sabotage Heartland's efforts to bring end-to-end encryption to market and undermine Heartland's standing with its own merchants. The very public dispute resulted in VeriFone's decision to sever its POS terminal support relationships with Heartland by year's end.

This acrimony between two of the most respected and successful companies in the industry highlights that 2009 has been an exceedingly difficult year. With the U.S. and world economies in recession, double-digit unemployment affecting just about every job sector, and businesses struggling to survive or going under, companies are under enormous pressure.

This phenomenon is no more evident than in the case of Cynergy Data LLC. The prominent processor filed for Chapter 11 bankruptcy in September, setting off a wave of distress among its sales force and in the larger payments community. Payment attorney Adam Atlas called the bankruptcy the industry's "most difficult moment" since the security breach that rocked processor CardSystems Solutions Inc. in 2005.

The same questions asked about CardSystems back then were now being asked about Cynergy: Would the company be unable to pay residuals? Would it collapse and bring down its network of ISOs?

Cynergy reassured the industry that neither scenario would occur. The October purchase of Cynergy by private investment firm The ComVest Group for $81 million reportedly positioned Cynergy to go forward with a lower cost structure and debt burden, and with an influx of $35 million in capital from ComVest.

In awarding the purchase to ComVest, the bankruptcy court noted that the firm had made a commitment not to break up and sell off Cynergy, but instead to expand the company, including its sales force. Additionally, Com Vest would honor all of Cynergy's merchant and ISO agreements.

As of this writing, Cynergy's reorganization seems to be an example of how the individuals and institutions involved recognized the bigger picture and made decisions that brought order and stability to a process that could have slid into chaos in less capable hands. That realization perhaps makes the Cynergy saga a patch of sunlight in a predominantly overcast financial year.

## On top of the world

Indeed, 2009 is a year many payment professionals would just as soon forget. Revenues were down; a multitude of banks closed; many ISOs and retailers went belly up. But the industry carries on, with businesses launching new products, partnering with or acquiring other businesses, and realigning for national and international expansion.

It is a time of rapid change, much as it was at the beginning of the 20th century. When the Ford Model T revolutionized travel for average Americans, a similar expansion was occurring in the skies. The aviation industry was just spreading its wings. For those who could afford it, the private airplane symbolized a new level of freedom and opportunity. Soon, daredevils were barnstorming the country in bi-planes and crossing the Atlantic.

Fast forward to April 2009: Jared Isaacman, Chief Executive Officer at United Bank Card Inc., broke the record for circumnavigating the globe in his Cessna Citation CJ2. He traveled 22,893 miles in 61 hours, 51 minutes and 15 seconds. The flight (combined with proceeds from a failed attempt to break the record in 2008) raised almost $90,000 for the Make-A-Wish Foundation of New Jersey.

It is fitting that Isaacman accomplished the feat, for the industry's high-fliers always lead the way. They recognize the risks of any endeavor but are determined to reach their goals, despite adversity. 2009 was a challenging year. 2010 may be just as tough, if not tougher. Perhaps that should inspire the motto for the coming year: Keep your nose up; stay the course. And don't dwell on what lies below.

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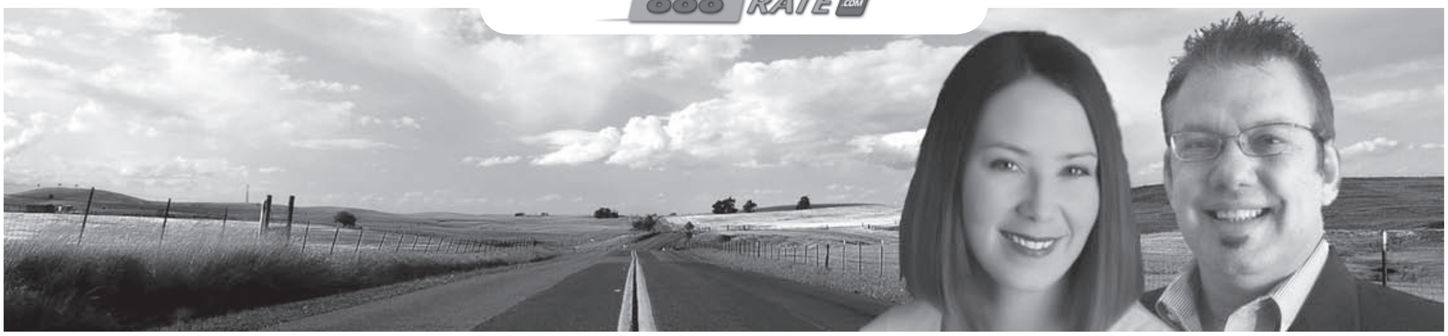

## Time management for 2010

**By Jon Perry and Vanessa Lang**
*888QuikRate.com*

A quarter of a million years ago, early man was focused on the very basics: food, clothing and shelter – in short, survival. It is estimated that mankind's knowledge doubled in the first 10,000 years of our existence. By the time the pyramids of ancient Egypt were built, our knowledge was doubling approximately every 1,000 years.

By the dawn of the industrial revolution in the 18th century, our knowledge was doubling every 50 to 100 years. By the time we approached President Kennedy's term of office and the Space Age in the 1960s, our knowledge doubled every generation.

Gordon Moore, co-founder of Intel Corp., introduced in 1965 the concept that transistors can be inexpensively placed on an integrated circuit board and double in processing capability about every two years. Today's microprocessors do just that – double in speed every two years. Today's $800 laptop computer blows away the performance of $100,000 mainframes of just 20 years ago.

While there are no exact measurements, it is believed our knowledge today doubles every two to five years.

In the 1960s, color television was introduced. There were three major networks, and stations were operational only until 1 or 2 a.m.

By the 1970s, cable television had come along with 24-hour news channels. Today, cable and satellite providers offer over 800 stations to their audiences. In the mid 1990s, the Internet went mainstream. Today, more people get their news from the Internet than they do from reading newspapers. ComScore Inc. reported that YouTube hosts over 6 billion videos a year; with an average video time of 3.9 minutes, it would take 44,500 years to watch them all.

### Education index



### The Forum

We spent some time examining threads on GS Online's MLS Forum. What were people really posting about? What was most important to the ISOs and merchant level salespeople (MLSs) who visit the Forum?

Whether the posts were about security breaches, the U.S. Government Accountability Office Report on Interchange, Payment Card Industry (PCI) Data Security Standard (DSS) compliance or which processing partner to choose, the central ideas revolved around change – change in our industry and how to leverage that change over time.

Every day we are bombarded with options about where to put our attention and how to spend our energy. News, Internet sites, blogs, reports on consumer behavior, changes to compliance standards and so on. We could spend a lifetime exploring and studying them. In a world where so many options compete for our time, it is up to each of us to control our most valuable asset – time.

An inordinate number of books have been written on time management. In reality, time management is a myth. Since there are always 60 minutes in an hour and 24

***Do you eat a meal that you pay for when you attend your weekly meeting? Do you have dues for the group? How much gas are you burning? What is the wear and tear on your car? What is your time worth?***

hours in a day, we cannot manage something that never changes. Rather, we can change our behaviors to conform to the finite nature of time.

## Priorities

Don't worry about where you are wasting time. Rather, focus on productivity. Prioritize, prioritize, prioritize.

> **Priority A:** When we prioritize, we ask two questions. Does whatever is clamoring for our attention add to top-line revenue? Does it support our existing customer base? If what we are working on pertains to one of these two, it needs attention and gets a priority of A. New top-line revenue is signing up a new customer. Taking care of your customer base ensures poachers don't take your clients.
>
> **Priority B:** Priority B relates to networking and marketing. Networking (physical, virtual and social) keeps your name in the forefront of your potential market base. We also include booking new appointments in this category. Marketing is a broad term relating to our ability to create, communicate and deliver value to our target customers.
>
> **Priority C:** Everything else is Priority C. Your priorities may be different, and that's OK. What you're accomplishing is keeping your focus on revenue and not on activities that don't add value. On the whole, your prioritization would focus on the average day, not exceptions that only randomly occur.

## Metrics

What you can't measure, you can't manage. Start anywhere and go everywhere. For example, assume you attend six networking groups per week. Each meeting lasts 90 minutes, which includes general networking time. If it takes you 30 minutes to get to the meeting, then your commute time is 60 minutes round trip. Your total time is 150 minutes, or 2.5 hours.

Do you eat a meal that you pay for when you attend your weekly meeting? Do you have dues for the group? How much gas are you burning? What is the wear and tear on your car? What is your time worth?

When you factor in all of the implicit and explicit costs, it is not unreasonable to determine the cost to attend a networking meeting is, for many people, a minimum of $30 per hour. Once you know your costs, compute your good will and top-line revenue. How many new customers do you get from these networking meetings?

What is the value of a new customer over time? For example, assume you anticipate making $25 per month for every typical customer you board. You also know that your average customer stays with you for four years. Four years is 48 months times $25 per month, which equals $1,200.

If your actual costs work out to be $30 per hour, as shown above, and your average networking time, including travel, is 2.5 hours, the average cost per meeting is $30 times 2.5 or $75. If you attend this specific networking meeting 50 times per year, your annualized cost is $75 times 50 or $3,750.

Given the above example, you would need at least three new customers ($1,200 times 3 or $3,600) to offset your annual costs of $3,750. When you measure, account for everything you can.

## Organization

Time is your most valuable commodity. Don't waste time waiting. If you know you are going to be in traffic, listen to a motivational or self-improvement CD. Have a voice recorder within hand's reach in your vehicle. When a great idea strikes, record it.

Carry with you your marketing plan or the contract you need to review. If you're early for a meeting or waiting in a reception area, use this time wisely. We recently purchased a notebook computer, which is a subcompact laptop. We keep it in the car with an aircard to maximize our time.

Whatever you choose, your systems should work together to help you keep tabs on your time. One cost-effective tool is Google Apps Premier. The cost at the time of this writing is $50 per user per year. It provides shared calendaring, documents and secure e-mail accounts with the strongest spam tools built in.

In the office, if an appointment is scheduled, it updates Google Apps Premier's calendar. And the phone is set to auto sync. At the next synchronization, the phone gets the calendar update. This two-way synchronization is very valuable to ensure your team knows availability.

Desktop syncing is available using a multitude of tools for both Microsoft Corp. Windows and Apple Inc. Mac

***When you factor in all of the implicit and explicit costs, it is not unreasonable to determine the cost to attend a networking meeting is, for many people, a minimum of $30 per hour.***

operating systems. Use a customer relationship management (CRM) tool. On the MLS Forum, there has been much discussion about CRM tools. Common tools used by Forum users are CRMS by Salesforce.com Inc. and SugarCRM Inc.

If you are budget-conscious and have a team of folks, you may find some of these tools can get pricey. If you have technological savvy, check out vtiger's open source vtiger CRM at *www.vtiger.com*. Prioritizing of time, measuring time effectiveness, filling the voids of time, along with a system to manage your time, are basic tools used daily.

## Tools

As knowledge continues to double, how do you keep up with it? Here are some recommendations to help you stay abreast.

- **Use RSS feeds:** Sites with really simple syndication (RSS) feeds allow you to receive updates to those sites' news content without having to visit the Web sites. The update is delivered to your RSS reader. If you use Microsoft's Outlook, there is one reader built-in. Other free readers are available online. We have RSS readers embedded in our cell phones. When there are voids in time, this is a great way to catch up.

- **Use Google Alerts:** Google Alerts allows you to enter a search term (for example, PCI compliance) and have it delivered to your e-mail. This also works well for competitive analysis and managing what people say about your company.

- **Stay engaged through social media:** Read and participate in social media sites. The key word is participate. There are tons of people who "tweet" every day about their products and services. It falls on deaf ears. Social media is not about selling. It is about influencing others. Just like in the real world, people build relationships and trust by how they perceive and interact with us. It's no different with social media.

- **Scheduled planning:** We all get busy. Sometimes it is difficult to keep from getting distracted. To keep you and your team on top of the game, schedule strategic planning throughout the year. Pick a day of the week, such as Thursday. Then, any month where there is a fifth Thursday in the month, that day is set aside for planning. When you look at your 2010 calendar, you'll see that having a fifth day occurs about four times per year.

Technology will continue to evolve. The question is how we can harness its power to make us more productive and keep our customers satisfied. If you are behind the curve when it comes to technology, there are many free and paid courses you can find online, through your community college or through one-on-one consultations with colleagues.

*Jon Perry and Vanessa Lang are the owners of 888QuikRate.com, an ISO based in Ft. Worth, Texas, that was named Small Business of the Year by the local newspaper, The Star Telegram. For more information, tweet them at* http://twitter.com/dfwcard, *comment on their blog at* http://merchantservices.cc *or visit their profile at* http://linkedin.com/in/jonperry *or* http://linkedin.com/in/vanessalang. *Alternatively, you can contact Jon and Vanessa by phone at 817-857-3557 or by e-mail at* jon.perry@888quikrate.com *or* vanessa.lang@888quikrate.com.

# Fighting the payment squeeze: Alternatives retailers may consider

**By Pat Morgan**
*Total System Services Inc.*

It is no secret that it costs retailers billions of dollars to accept card-based payment products every year. Many industry reports claim that payment fees are the second-largest line item of expense, right after the cost of personnel. Retailers are being squeezed, because if they stop accepting payment cards, their customers are likely to walk.

Yet merchants don't have a great deal of clout in influencing the fees charged to them, particularly interchange. It is only natural that financial institutions want to do whatever they can to protect the current fee structure, particularly since this income stream represents 27 percent of total banking revenues, according to consulting firm McKinsey and Co. Indeed, you could make the case that financial institutions' very survival depends on fees they make from card payments.

Given today's new economic environment, is there anything retailers can do to influence or lower their costs?

Inadvertently, consumers may already be making an impact as they tighten their use of more expensive credit cards and transition to less costly debit transacting. Some are even returning to the use of checks and cash. But this shift will probably not help the overall costs in a significant way; it also may not be permanent. Furthermore, processing checks and cash does not come cheaply and carries other risks.

## Payment alternatives

In considering options retailers might turn to it is helpful to look at the overall electronic payments spectrum depicted in the sidebar accompanying this article.

At the beginning of the spectrum is the well-entrenched, low-risk use of debit cards. At the end of the spectrum is the well-entrenched credit card, which carries high risk to issuers and high cost to retailers. The middle area has been largely ignored but has begun to spur product innovation, as well as re-introduction of old products such as the charge card.

Several payment products in this middle space have been the brainchild of groups that have never been in the traditional payments business. PayPal Inc. is the premier example. It started with a single product but has expanded into an array of offerings.

American Express Co. is re-introducing its traditional charge card and advertising it as a way for consumers to better manage their spending. Brokerage houses are taking a greater interest in issuing delayed debit cards, whereby the consumer grants permission to the issuer to pay charges monthly using funds held in a brokerage account.

Finally, decoupled payment products are designed to let issuers of payment products – retailers, intermediaries or financial services companies – debit checking accounts through the automated clearing house (ACH) systems operated by the Federal Reserve System.

## Decoupled options

Decoupled products are of interest to retailers because they have a lower cost structure and represent a way to build customer loyalty. Decoupled products can work two ways: as a private-label, retailer issued product or as a co-branded card issued in partnership with a bank.

The private-label option entails no interchange, and transaction fees are low. Sounds like a great deal. But getting into the private-label business is not for the faint of heart. The payments industry is complex and requires issuers of the programs – banks or retailers – to actively manage

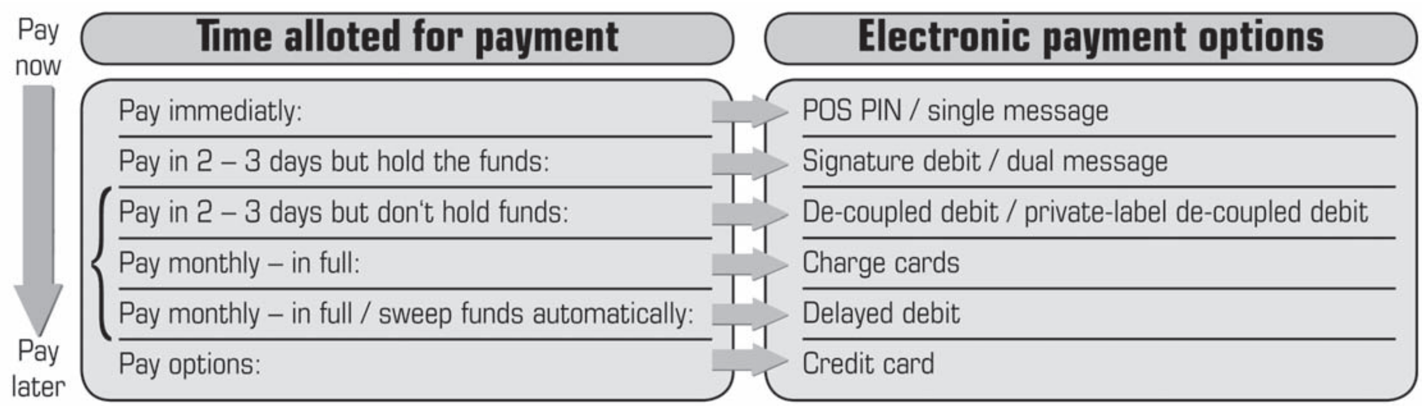


Chart source: McKinsey & Co.

their programs, or hire third parties with the expertise to do so.

In addition, costs are involved in producing cards, marketing and offering cardholder rewards. Rewards used to be differentiators, but those days are gone. Today's customer expects to be rewarded, so forgoing rewards is not an option if success is to be achieved.

Also, retailers have to absorb losses because ACH payments provide no guarantee to merchants. Retailers are responsible for 'not sufficient funds' and closed accounts in the same way they bear responsibility today for returned checks. As you can see, the cost saved from not paying interchange could be consumed by the cost of the program if not carefully managed.

A better option for the unseasoned and smaller retailer looking at payments is more likely to be a decoupled, co-branded product. Co-branded means the cards have a national payment brand and appear no different than any other debit card to merchants. They are accepted anywhere the brand is accepted. This is a partnership between a retailer and the bank issuer, which takes on the cost of managing the program and shares some of the revenue with the retailer partner.

These products are relatively rare today and are issued by financial services companies that specifically target this business. The deals are negotiated but generally have some combination of lower interchange rates when the card is used at the merchant's location and a share of interchange revenue when the card is used at other merchants' stores.

## Mom-and-pop challenges

Can smaller merchants take advantage of these programs? The question is one of mass. How can small retailers gain traction? One way is to create domains of merchants participating as groups. One domain could be geographic – local merchants who collectively issue cards. Rewards points are pooled and used at local merchants.

Another type of domain might be a retailer category, such as bookstores. In this case a decoupled card can be used at any bookstore; reward points are collected and used at any bookstore.

It will not be as easy for smaller merchants to participate as it is for larger merchants, but the effort could be very worthwhile. The good news is that systems are in place to handle these newer products. Several companies are making strategic investments to prepare for the emergence of nontraditional payment products.

To support the new products, not only do systems need to be readied, but innovation also has to flow among all interested parties. The innovation must be able to support the current payment infrastructure, or failure is assured. Take biometrics as one demonstration of technology that promised all kinds of new opportunity, but it also required new investments in equipment at the POS – not good.

As for the bottom line, what will this mean for retailers? Well, it depends. I believe retailers will find ways to reduce their costs or optionally participate in payment revenues to a greater extent than what we have witnessed to date.

Retailers will be more willing to try new payment types to regain some of their influence. This will probably be driven by larger retailers, but it does not necessarily mean smaller retailers should not be looking for solutions that fit their footprint. We are clearly not going to go backward to cash and checks; the momentum will move on, but cost will be a major – if not the major – driver going forward.

*As Director, Payment Solutions for Total System Services Inc., Pat Morgan develops products and product strategies for the company and specializes in debit payments. TSYS is working on several alternative debit payment products that leverage the automated clearing house for clearing and settlement. Pat can be reached at* patmorgan@tsys.com.

# Fees you can't ignore

**By Ken Musante**
*Moneris Solutions*

During periods of economic turmoil, serving nontraditional merchants can be a way to diversify your residual base. Understanding the associated fees and registration requirements will help you maintain this client base.

So, heads up! Effective Jan. 1, 2010, Visa Inc. is modifying the High Risk Telemarketing Merchant (HRTM) registration program fee schedule for both high-risk merchants and sponsored high-risk merchants.

## Doubling Visa's fees

Visa classifies high-risk merchants by the following merchant category codes (MCCs): MCC 5962, Direct Marketing, Travel-related arrangement services; MCC 5966, Direct Marketing, Outbound telemarketing; and MCC 5967, Direct Marketing, Inbound teleservices.

High-risk sponsored merchants fall under the HRTM program, as they may process for activity that would otherwise fall under one of the preceding MCCs.



Traditionally, Visa has charged an initial registration fee of $500, along with an annual registration fee of $250. However, any HRTM program merchant registered on or after Jan. 1, 2010, will have an annual registration fee of $500, an increase of 100 percent.

## Thousands to MasterCard

MasterCard Worldwide, too, has a registration program and associated fee schedule, although the listing of merchants is different than Visa's. MasterCard requires the following merchant types or entities to be registered: telecom merchants, MCCs 4813, 4814, 4816 and 5967; electronic commerce and adult content merchants, MCCs 5967, 7273 and 7841; non-face-to-face gambling merchants, MCC 7995; non-face-to-face prescription drug merchants, MCC 5122 and MCC 5912; and non-face-to-face tobacco product merchants, MCC 5993.

MasterCard's initial fee is $1,000; its annual renewal fee is also $1,000. Additionally, MasterCard requires the following merchant categories and entities to be registered, but there is no fee for doing so: merchants reported under the Excessive Chargeback Program and merchants required to implement the MasterCard Site Data Protection Program. However, MasterCard may assess fines for merchants in these registration programs for noncompliance.

Both Visa and MasterCard have programs and fee schedules for registering third parties like ISOs and processors (such as First Data Corp. and Global Payments Inc.). That type of registration has been addressed in *The Green Sheet* in prior articles.

## Sockin' it to Visa's TPAs

Visa, on the other hand, requires registration of third-party agents (TPAs), which are entities that store, process or transmit account information on behalf of acquirers or merchants. Examples include gateways, shopping carts, integrated POS systems and hosting companies.

TPAs must pay an initial registration fee of $5,000 plus a $2,500 annual renewal fee. Said fees are only required from the first acquirer that registers the TPA. Regardless, this is far in excess of MasterCard's program, which does not require any payment for an equivalent entity.

Both Visa and MasterCard have significant fines and penalties for noncompliance. ISOs and acquirers would do well to respect the registration process. Further, by notifying merchants of these changes sooner rather than later, you will be better positioned to avert the consequences of unwelcome surprises.

*Ken Musante is Executive Vice President and Chief Sales Officer of Moneris Solutions. Contact him by e-mail at* ken.musante@moneris.com *or by phone at 707-269-3200.*


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# Managing conflict in the workplace

**By Vicki M. Daughdrill**
*Small Business Resources LLC*

Every business faces conflict in the workplace. Organizations large and small deal with disagreements daily. Unresolved conflict places a huge financial burden on companies by increasing stress, absenteeism and employee turnover. Any stressor that results in decreased productivity is simply unacceptable, and failure to address conflict is not an option if you want to operate a successful business.

A business owner is responsible for creating a positive work environment where employees thrive while assisting the company in reaching its goals. While it is acceptable to have differences of opinion over ideas and issues, it is never OK to allow personality issues or other conflicts to affect the workplace.

## Define it

What does conflict in the workplace actually mean? Conflict arises when employees feel threatened and their specific, individual needs are not being met. It can arise from seemingly insignificant issues, such as someone parking in the wrong slot, to major issues, such as a worker who errs blaming a colleague for the mistake or someone taking credit for the work of others.

Violations of company policies, or even state or federal laws, are also likely sources of contention.

Just as conflict has a variety of levels, from insignificant to catastrophic, there are also different ways to respond to it. The Thomas-Killman Conflict Mode Instrument (TKI) is a self-assessment test that helps identify an individual's reactions and responses to conflict and helps select the proper response to conflict.

According to the TKI, there are five levels of response: avoidance, accommodation, compromise, competition and collaboration. Many times a business owner, manager or supervisor will choose a combination of responses to deal with a conflict.

## Avoidance

Avoidance is pretending the situation doesn't exist and will go away on its own. When this response is employed, there is no resolution. Without resolution, work is not completed, company goals cannot be met and the situation can only worsen. On occasion, you can use avoidance to table an issue, giving you time to gather additional information before determining how to resolve the conflict.

## Accommodation

Accommodation also does not ultimately resolve the situation. When this response is used, one person's needs are met while another's are not. This method allows the facilitator to accommodate the needs of one party while ignoring the needs of the other party. It is a technique that can also be used as a temporary resolution to the conflict.

## Compromise

Compromise meets some needs of both parties. Finding the middle ground allows each party to have partial resolution. This response can be extremely successful if both parties to the conflict participate in reaching the compromise.

## Competition

Competition is a method that will work in certain situations. In a competition scenario, both parties participate in resolving the conflict. However, one party is viewed as the "winner" while the other party is perceived as the "loser."

## Collaboration

Collaboration is a way to allow all parties to participate in resolving the strife. While both difficult and time consuming, this strategy often provides the best results because it satisfies the needs of both parties as they come together to reach a consensus on resolving the issue. While this method can be extremely rewarding and successful, it is not the appropriate choice for every type of conflict.

## Seven steps

Now that we have defined conflict in the workplace and identified several possible responses to dealing with it, here are specific steps you can take to mediate or resolve the conflict.

1. Acknowledge the conflict immediately. The longer you delay in admitting that discord exists, the more difficult the resolution becomes.

   Conflict will not resolve itself. It may appear that the immediate situation has been resolved, but the underlying issues can continue to exist and may explode at the least likely time.

2. Depending on the particular situation, determine if you prefer to meet with the parties involved individually or together. If you meet with each one separately, focus on the issue, not the personalities involved. Ask for a specific, detailed description of the action that created the conflict as well as the precise action being requested.

3. If you meet with the parties together, ask each party to provide his or her view of the situation, as well

as the actions desired. Do not allow this meeting to deteriorate into a shouting match or other confrontation, and ask both parties to keep their disagreement confidential and not allow it to spread to other employees.

4. Understand that everyone in the office is affected by discord. The stress level can be explosive, and other employees may feel they must walk on eggshells to avoid a destructive blowup.

   A hostile work environment is not conducive to efficiency and productivity and has long-term detrimental effects on the entire company. Such a toxic work environment may cause star performers to leave, seeking a more positive and productive work atmosphere.

5. Let each party know you will not take sides. Emphasize that your decision is objectively based and in the best interests of the company. Also, let them know you expect them to act like adults and conduct themselves in a professional, businesslike manner while you search for the best resolution possible.

   Advise them if they are unwilling to conduct themselves in this manner, that further disciplinary action may take place up to and including termination of both parties.

6. Using your problem-solving skills, decide if you have sufficient information to resolve the issue. If you do, make your decision known, and gain the agreement and commitment of both parties to accept it.

   Get each party to acknowledge when changes happen and to treat each other with dignity and respect. Assure each party that you have confidence in their ability to work together, resolve differences and work for the common good of the company.

   If you do not have adequate information to make a decision, conduct a thorough investigation into the causes and repercussions of the conflict. Ask questions; challenge assumptions; look at things through clear, unfiltered lenses.

   If you need to collect further information, let both parties know what you are doing and provide a timetable projecting when you will meet with them again and come to a decision.

7. At the resolution of the current situation, ask yourself if you played a role in creating an environment where conflict can grow. Remember, your task is to make absolutely, positively sure that all employees succeed and that the business goals are met.

   It is vitally important that you conduct a self assessment to be sure you are doing everything possible to avoid conflict and create a vital, dynamic setting for all employees and business partners.

## Deal with it

Dealing with conflict is always challenging; however, it is the responsibility of business owners, managers and supervisors. To reach a positive resolution, you will need to use your problem solving, information gathering, mediation, communication and evaluation skills. Using the steps provided herein will help you to foster the success of both your business and your employees.

*Vicki M. Daughdrill is the Managing Member of Small Business Resources LLC, a management consulting company. E-mail her at* vickid@netdoor.com *or call her at 601-310-3594.*


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**free equipment program**

## "bonuses, bonuses, and more **bonuses!**"

## Education (continued)

# Defining global processing

**By Carrie Hometh**
*Payvision*

Shakespeare wrote that "a rose by any other name would smell as sweet." And when it comes to global processing, different terms don't always mean different processes. This article contains a mini dictionary of popular terms used in the rapidly growing realm of worldwide card-not-present processing.

### Cross currency payment processing and synonyms

The synonyms in this section indicate the perspectives of the parties that coined them.

- **Cross currency payment processing:** This term reflects the merchant's view of worldwide card-not-present processing. It describes transactions in which consumers shop in their respective currencies and merchants settle transactions in their respective currencies. Merchants keep their books, manage their monies and do their own pricing in their base currencies. For most U.S. merchants, that's U.S. dollars (USD).

  Here's an example: Suppose a customer from France wants to shop with a U.S. merchant in a different currency than USD, say euros. The merchant wants to function in USD but wants the international customer to have a comfortable, positive shopping experience. So the merchant asks to authorize the transaction in euros but settle in USD.

- **Cross border payment transactions:** This is a synonym for cross currency payment processing. It is often used interchangeably with international payment processing.
- **International payment processing:** This term is synonymous with cross currency payment processing.
- **Multiple currency processing:** This is another synonym for cross currency payment processing.
- **Multiple currency authorization:** This term is also synonymous with cross currency payment processing. It emphasizes that a transaction is authorized in one currency and settled in another.

Why the need for different terms to describe the same thing? The industry has struggled to define international processing, and marketing departments of leading processors have coined different phrases. They all mean the same thing: the customer shops in one currency and the merchant receives settlement in his or her own base currency.

### Related terms

- **Global e-pricing:** This term is used in conjunction with cross currency payment processing. When a merchant requests such processing, the merchant's processing partner provides a schedule of global pricing. That schedule sets forth global e-pricing guidelines.
- **International acquiring:** Also referred to as domestic global acquiring, this term defines an acquirer licensed in multiple regions. An acquirer can be licensed with the card brands in six regions throughout the world: the United States; Canada; Europe, Middle East and Africa (EMEA); Latin America and the Caribbean (LAC); Asia Pacific (AP); the region defined by MasterCard as South Asia, Middle East and Africa (SAMEA); and the region defined by Visa Inc. as Central Europe, Middle East and Africa (CEMEA).

  When an acquirer has, or has sponsored, bank identification numbers (BINs) in multiple regions, it becomes a global acquirer. International acquirers can offer merchants domestic or intraregional interchange in those regions.

- **Multiple currency conversion (MCC):** Often merchants can't settle in a given currency but need that currency for certain payments, such as business expenses. Therefore, they will authorize in the currency they need, settle in another and convert back to the original currency. There is no hedging (in this context, a type of risk management used to protect a business from exchange rate uncertainty) but simply conversion at an exchange rate. MCC is provided by acquirers on behalf of merchants.

- **Multiple currency management (MCM):** This is when a merchant hedges a transaction at the time of authorization through the life cycle of the transaction to include settlement, refunds and chargebacks, enabling the merchant to avoid the potential for currency fluctuation.

  For large, public, multinational companies that have Sarbanes-Oxley restrictions (a way of accounting that requires every transaction be transparent and thoroughly auditable), hedging a payment at the time of authorization and using that exchange rate through its life cycle is crucial for transactions that involve multiple currencies. Every exchange rate pair (the two currencies involved) must be defined. MCM is also necessary for smaller companies because they require no fluctuations in currency for their merchant transactions as well.

## Card-present and beyond

Dynamic currency conversion (DCC) refers to a special type of terminal application, written and certified by terminal manufacturers. It pertains to a card-present process that occurs at the POS. (Remember, other terms discussed herein concern the card-not-present arena.) DCC recognizes that the cardholder is presenting a card that has been denominated by an issuer in a country foreign to the merchant. It enables consumers to purchase in their own currencies. And card companies require the exchange rate be printed on the receipt.

No matter what terminology you prefer, it is important that the international processing partner you select fully understands all terms in use. It is also crucial that your acquirer possess a strong working knowledge of processing options to meet your merchants' needs and, more importantly, can speak to merchants, understand their specific international processing requirements – and make the appropriate recommendations to successfully serve them.

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# POS Horoscope 2010

**By Dale S. Laszig**
*DSL Direct LLC*

The POS universe is an expanding constellation of products and services. This horoscope, based on the Zodiac, comprises 11 "signs" that represent the top processing systems and compatible communications methods for 2010. This chart will enhance, but not necessarily replace, traditional manufacturing forecasts for those of us in the hardware trade.

### 1. Dial terminals (Acquire-Us)

2010 will be a good year for the dial terminal, which made its debut more than 20 years ago. Dial modems, once considered antiquated when compared to faster Ethernet, Wi-Fi and cellular communications, are making a comeback.

Smaller merchants with low transaction volumes can save the expense of Ethernet and airtime fees, and the cost of semi-annual scans now required by the Payment Card Industry (PCI) Data Security Standard (DSS) for merchants who process card data over broadband cables or Wi-Fi.

### 2. PIN pads (PIN-Ease)

We'll see continued growth in customer-facing devices in 2010, as ISOs make integrated POS and cash register systems more affordable for smaller merchants. These PIN pads will come in a variety of styles, from signature pads on metal stands to smaller hand-held devices on flexible cables. New generation PIN pads will feature faster response times, instant coupons, and additional payment options like combinations of points and cash.

### 3. Cellular technology (Air-Ease)

The explosive growth of wireless solutions will continue to rock the payments world in 2010. As mobile terminals become more affordable, and virtual terminals on laptops and smart phones gain popularity, traditional merchants will increasingly adopt mobile payment platforms for seasonal and occasional use in their tradeshow, point-of-delivery and special event activities.

There will be fewer barriers to entry for cash-only mobile merchants who can choose from an array of secure and affordable systems to process card payments.

### 4. Thin client (Thin-R-Us)

2010 will usher in a new age of thin POS solutions. Merchants can choose mobile, virtual or host-based systems designed to securely and remotely manage cardholder data. These solutions offer cost-effective alternatives for merchants concerned with PCI security. By outsourcing to a trusted network, merchants will no longer have to invest in larger memory terminals or compliant storage systems.

Cloud-based computing and hosted services are smart alternatives to client-server legacy systems; they provide lightening fast response times and instant updates from the processing host, where transaction data is safely managed.

### 5. Dual comm (Gen-UI)

Redundant, "twin" processing systems, designed to intercept and take over when other systems fail, will be a logical choice in 2010 for high-volume merchants. Why rely on one system when many of today's POS offerings come with two communication methods? Dial and Ethernet Transmission Control Protocol/Internet Protocol (TCP/IP), and countertop wireless with general packet radio service and dial are two examples of this excellent trend.

### 6. Integrated systems (Lead-O)

The ability to do more with less is a prevailing requirement in today's competitive business world. The seamless integration of the POS into larger, enterprise-scale systems streamlines efficiencies and places credit card processing at the core of business intelligence, elevating its importance and increasing its accessibility.

In 2010 more merchants will choose to access credit card processing through proprietary accounting systems, customer relationship management programs and corporate intranets. Find out which of these programs are certified and supported by your ISO and processor.

### 7. Virtual (Virtuo)

Virtual terminals will be more plentiful and affordable in 2010, driven by increased demand and price reductions in Internet technology. Many virtual terminal solutions are both customizable and brandable and work equally well as primary systems or as back-ups to other more traditional processing technology.

### 8. Wi-Fi (Libro)

2010 will see a continuance of large Wi-Fi installations in sports stadiums, shopping malls and other venues that promote Wi-Fi hotspots to encourage the foot traffic of laptop computer users. Merchant level salespeople (MLSs) can encourage smaller merchants to leverage existing TCP/IP infrastructure at their stores through secure Wi-Fi Protected Access-enabled routers that communicate via Wi-Fi with credit card terminals.

This will speed up transaction times, eliminate the need for a secondary phone line and be easily installed without popping any tiles.

### 9. TCP/IP (ScorePro)

Internet access is the driving force behind today's technology convergence. Connecting and sharing messages, images and ideas through social media, e-mail, instant messaging and conferencing technology has made our world smaller and flatter. It's only natural that merchants who have become accustomed to online banking will also want to view their credit card transactions in real time.

Downloadable, exportable online reporting will give merchants the ability to manage their credit card processing and react quickly to fraudulent transactions or suspicious activity. Additionally, we'll see continued acceptance of Ethernet TCP/IP as a primary communications method for card processing across a wide array of platforms: integrated POS, dual-communication countertop terminals and virtual terminals will rely on the ease and speed of broadband.

## 10. Vertical (Segmentarius)

Consultative selling will continue to separate professional MLSs from rate jockeys in 2010. The best approach to building relationships with merchants is to analyze their business requirements and offer solutions that can be customized and adapted to their particular needs. Many ISOs, processors and technology companies offer vertical solutions designed for specific industries.

Targeting an industry with a customized solution can be a rewarding approach for MLSs and will separate you from the many generalists in our mature and competitive market.

## 11. Refurbished (Careworn)

The underappreciated, utilitarian refurbished terminal will be a force to contend with in 2010 and beyond. Many merchants are reluctant to part with these relics of a bygone era, despite end-of-life declarations from manufacturers and dire warnings about PCI PIN Entry Device compliance by processors. It will be our responsibility as MLSs to educate our merchants on the benefits of upgrading and the hazards of using older, noncompliant systems.

## New Year outlook

The payments industry is marked by an abundance of POS technologies. By setting merchants up with POS systems, MLSs provide a valuable service to business owners everywhere. Even in today's challenging economic conditions, our industry remains strong. Let's make the most of it, and have a great and fulfilling New Year.

*Dale S. Laszig is a writer and payments industry executive with a diversified background in sales and marketing. Her company, DSL Direct LLC, helps industry professionals and business owners leverage electronic transaction technology. She can be reached at 973-930-0331 or dale@dsldirectllc.com.*

# NEAA preview

Snowflakes fell profusely at the beginning of last year's Northeast Acquirers Association conference at Mount Snow, Vt. By the second day, everybody was snowed in. "It's a destination resort, and there's no other place to go," said Jacques Breton, Corporate Recruiter for merchant processor CoCard Marketing Group LLC and Treasurer of the NEAA.

"It started snowing Tuesday afternoon or evening, and by Wednesday morning there was a foot of snow on the ground," he added. "Some people couldn't make it up who wanted to go, and other people couldn't leave."

So it goes at the payments industry's first event of each calendar year. The NEAA has all the trappings of wintry fun.

This year's conference, being held Jan. 26 to 28, 2010, at Mount Snow, Vt., will kick off with a cocktail reception followed by a charity poker party. The second day will be more business-oriented. Seminars will be held throughout the day in tandem with an exhibit hall of about 90 table vendors.

"We've had some vendors who have been with us for 20 years," Breton said.

### Seminar topics

Breton noted that seminar topics will include selling techniques, pursuing the unbanked, merchant retention and attrition, optimizing product performance – "not just value-add, but where you go with it" – and Payment Card Industry (PCI) Data Security Standard (DSS) compliance.

"What is the real cost of PCI? Who knows?" Breton said. "Are we talking about paying for the breaches or talking about securing? … We're going to bring attendees up to date on PCI and why it's critical for Level 4 merchants."

Breton stressed that no single topic would dominate the conference's seminars. "We want to be as informative and educational as possible," he said. "Somebody asked me last week, 'What's the theme of the event?' Well, the theme is to educate, and here are some of the hot subjects, but is there any one subject that's hotter than the others? That's not our goal."

The second day will also include a catered lunch, a raffle and a vendor fair with cocktails and hors d'oeuvres. Breton said the evening's activity will be the "infamous night at the Snowbarn," a local sports bar. The night will include food and drinks, pool playing, a disc jockey, and something Breton called "trying to swing the circle on the pin."

On the conference's last day, attendees can opt for skiing, snowmobiling, tubing or, for the snow-averse, spa treatments. Breton said a few of the attendees snowboard as well. "Henry Helgeson is a pretty good snowboarder," he said. (Helgeson is President and Co-Chief Executive Officer of Merchant Warehouse.)

### History

Breton belonged to a group of merchant acquirers who founded the Northeast Bankcard Association in 1985, making it the first regional acquirers organization in the United States. The group, which later became the NEAA, has spawned several other regional organizations around the country, all of which hold annual conferences.

"When we founded it, we wanted to provide a medium for middle management," Breton said. "We knew senior management always got to go to the good shows, and middle management got left behind, and the idea was to build something that they could come to."

The annual event started as a one-day summer conference divided into a half day of meetings and an afternoon of golf. Breton said that was the format until the late 1990s, when ISOs and merchant level salespeople (MLSs) gained prominence in the acquiring business. Such sales organizations accompanied, and eventually supplanted, acquiring banks at the NEAA's annual conference.

In 1997, the NEAA added its winter event to the calendar, and in 2006 the organization dropped the summer event, keeping only the winter one.

"We're not into a lot of glitz and glitter," Breton said. "We try to keep the show at a low profile and have dispensed with attendees having to pay a registration fee. We want to make this event as economical as possible for MLSs, which, if it's an independent sales guy, he doesn't have an expense account. All he pays for is his gas and his room, and everything else is paid for two-and-a-half days. He can ski a whole day; he can eat and be merry without taking a penny out of his pocket."

# ResearchRundown

## Black Friday trimmed in green

A November 2009 study from Capital Access Network Inc.'s Data Services Division found that business owners nationwide reported same-store credit and debit sales rose 0.95 percent on 2009's busiest shopping day. In *Black Friday on Main Street*, a special issue of CAN's Small Business Credit Sales Report, it was also noted that restaurants experienced a 4.06 percent increase over Black Friday 2008.

Other brick-and-mortar retailers that saw sales climb included jewelers, boutiques, gift shops, and toy, clothing, electronic goods and sporting goods stores. The report, which covers shopping trends and information from Nov. 27 to Nov. 29, 2009, also found the following:

- The smallest businesses – those with less than $250,000 in annual revenues – saw the biggest lift, with card sales up 16.98 percent from the previous year.
- Businesses with yearly revenues under $500,000 experienced a 13.44 percent increase.
- Merchants generating under $1 million annually averaged a 3.63 percent increase; those with over $1 million in revenues saw sales climb 4.34 percent.

"Not only were shoppers out buying in greater amounts than they did on Black Friday 2008, but it seems they were also stopping for lunch or dinner more often and spending more in those establishments," said Mark Lorimer, CAN's Chief Marketing Officer. "We are hopeful that the improvement we saw during this shopping period points to a promising holiday season overall for the nation's smaller merchants."

For more information, visit *www.capitalaccessnetwork.com/resources.html.*

## Health care sector diagnosis

The health care industry recognizes the advantages the payments industry can bring to the health care payment process. A December 2009 report from Aite Group LLC, *Health Care Payments: Opportunities for Card Networks*, provides a high-level overview of each market opportunity and is organized by amount of potential dollars gleaned. Additionally, the report examines the various opportunities in the health-care payment space.

Aite estimates revenue opportunities from consumer directed health care, patient-to-provider and payer-to-provider payments will amount to approximately $10.5 billion in 2012. According to Aite, as demand for such programs grows, card networks that aggressively pursue partnering with payment solutions vendors will benefit tremendously from transaction-based revenue opportunities.
For more information, visit *www.aitegroup.com.*

## Compliance still top priority

Research and advisory firm TowerGroup indicated that it is no surprise risk management and compliance will remain top priorities for companies, given the massive risk management failures the global securities and investments business has experienced in recent years.

In a December 2009 report entitled *Forecasting Global Risk Management and Regulatory Compliance IT Spending over 2009 -2012*, TowerGroup projects the growth rate of information technology (IT) spending for compliance and risk management solutions. Additionally, it identifies trends in risk management IT by region and line of business: capital markets, investment management, and brokerage and wealth management.

TowerGroup also reported:

- Of the different categories of IT spending on risk, external spending on software will grow the most, from $2.1 billion in 2009 (33 percent of overall risk expenditures) to nearly $3.3 billion by 2012.
- While aggregate IT spending in the global securities and investments business will grow by only 3 to 4 percent between 2009 and 2012, risk management IT and compliance expenditures will rise at a compound annual growth rate of 13 percent.
- IT spending will be fastest in Asia, comprising 25 percent of global IT expenditure by 2012.
- Risk management and compliance will dominate business priorities at securities firms in 2010 and 2011.

For more information, visit *www.towergroup.com.*

## Looking back at loyalty and rewards

According to Mercator Advisory Group, consumers have spoken, and their electronic payment method of choice is the debit card. Yet that popularity comes with a price in the form of a more competitive, mature market for traditional debit card issuers, Mercator said. A point of differentiation can be achieved through loyalty and rewards programs, the advisory added. Since 2004, Mercator has examined programs from the top 50 U.S. debit card issuers.

A December 2009 study from Mercator, *Top 50 Debit Card Issuers' Loyalty and Rewards Programs 2009 – Year in Review*, not only serves to examine the current market, but also discusses the changing nature of these programs over time, as well as what some of the emerging trends indicate for the future.

Mercator also discusses the results of issuers that have bucked the trend by not offering rewards programs and how they differentiate themselves.

## Migration from credit to debit

The advisory also examined past studies and consumer trends related to the apparent migration of payment volume from credit to debit in *Switching From Credit to Debit: A Long-Term Trend Gets a Boost from the Recession*, published in December 2009.

The report discusses the warning signals projected for credit card issuers and introduces new consumer survey data highlighting the magnitude and drivers of switching payment behavior for dual credit/debit cardholders.

Additional findings include:

- Declining credit card payment volumes and consumer credit card debt statistics show consumers on a new, lower trajectory of credit card use.
- Mercator's survey data from May and June 2009 affirms a widespread and voluntary shift toward debit use among consumers, especially those with the ability to immediately switch from credit to debit.
- Payment behavior appears to be widespread demographically.
- Rewards programs have significant influence in shaping consumers' desire to switch from credit to debit.

## Prepaid predictions

In a November 2009 report entitled *Prepaid Market Forecast 2009 to 2012*, Mercator identifies trends and forecasts the growth of the prepaid card market. It suggests the prepaid industry will continue to attract new players and investments and will remain "extremely dynamic."

Network branded, or open-loop solutions, continue to significantly outpace closed-loop options and have proven critical in maintaining positive growth in the market.

Mercator predicts open-loop volume will exceed that of the closed-loop sector in 2012 by $41.8 billion. The report, which covers all 33 prepaid market segments, also found that:

- New corrections and innovations continue to increase the size of the open-loop market.
- All prepaid markets combined will reach approximately $525.8 billion by 2012.
- In 2008, $8.7 billion was loaded onto general purpose reloadable products. Mercator estimates this market's load in 2010 will be nearly $36 billion and will continue to escalate to 2012.

For more information, visit *www.mercatoradvisorygroup.com.*

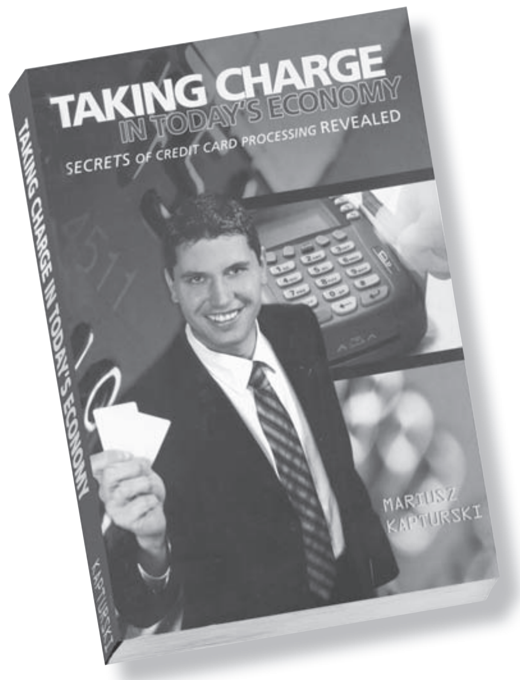
# BookReview

## The payments industry numbers game: Volume over price

Undertaking a career in merchant sales can be quite the gamble. For many, the decision to become a merchant level salesperson (MLS) pays off with a sizable portfolio and healthy residual stream. Some agents earn figures that reach well into the millions of dollars.

But that isn't everyone's outcome, and even for successful MLSs the road to prosperity is usually arduous. As Mariusz Kapturski points out in his new book, *Taking Charge in Today's Economy – Secrets of Credit Card Processing Revealed*, most agents quit the payments industry within the first year of doing business.

"It is important to remember that the first months can be difficult, especially if you do not get upfront bonuses," Kapturski wrote. "It is simply not enough to pay the bills. Plus you get no reimbursement. You are on your own. You make a sale, you make a buck; you do not, you starve."




### Taking Charge in Today's Economy: Secrets of Credit Card Processing Revealed

By: Mariusz Kapturski
Copyright © 2009
Publisher: Kean University Press
Union, New Jersey
ISBN 978-1-61623-366-2

### Nebulous world

Kapturski, who immigrated with his family to the United States from Poland, weaves plenty of autobiographical detail – such as his struggle to learn payments jargon while also learning to speak English – into a book that helps clarify a number of points pertaining to the often nebulous world of electronic payment processing.

The book could use a little polishing (there are a number of grammatical and spelling errors), but it is nonetheless an edifying look into an arena that can be confusing even to those who have been in the business for years.

"Greed is the root of all evil," the author wrote. His text is intercut with moral declarations of a similar kind, including biblical passages, but they all relate to a more concrete point: good salesmanship puts building long-term relationships above finding ways to turn quick profits. It's an approach to which Kapturski says he owes his own flourishing payments industry career.

The book also has some interesting sections that elucidate – using extensive detail, charts and mathematics – some of the more head-scratching processes that take place behind electronic payments.

Those include the reading of merchant statements, how to transition from MLS status to become a full-blown ISO, and the fundamentals of interchange charges imposed by issuers, as well as fees tacked on by processors, ISOs and MLSs.

### Thoughtful sales techniques

Kapturski convincingly hashes out sales methods that he contends will bolster any MLS's portfolio, including the use of "cost plus" enticements that reduce to certain bare essentials the myriad fees typically imposed on merchants. Kapturski argues that by cutting out the merchant discount rate and relying solely on interchange enhancements, MLSs are bound to acquire additional merchant accounts whose total revenue will more than offset the modest residual losses of each one. "I learned that you make money on volume, not a single item," Kapturski said.

He also stresses the importance of honesty and transparency in MLS/merchant agreements: avoiding hidden fees, for example, and helping merchants understand exactly how and why they are being charged. He also advocates doing away with contract termination fees.

Such fees can actually encourage merchants to opt out of agreements because they feel intimidated and bullied, according to the author. He believes good MLSs nurture their clients instead of alienating them with underhanded tactics. Sometimes the best way to profit is to stop trying so hard to profit all the time.

# WordSearch

Ready for a challenge? Find all the words listed below ... we've even started it for you.
Words will be horizontal, vertical, diagonal and even backward. Have fun!

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O A P P L E T S M Y S F R H U A I R M W

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C U T R E P O R T I S W P E T D Q L S C

H I E H G Z X O E G P O U R N B I A O F

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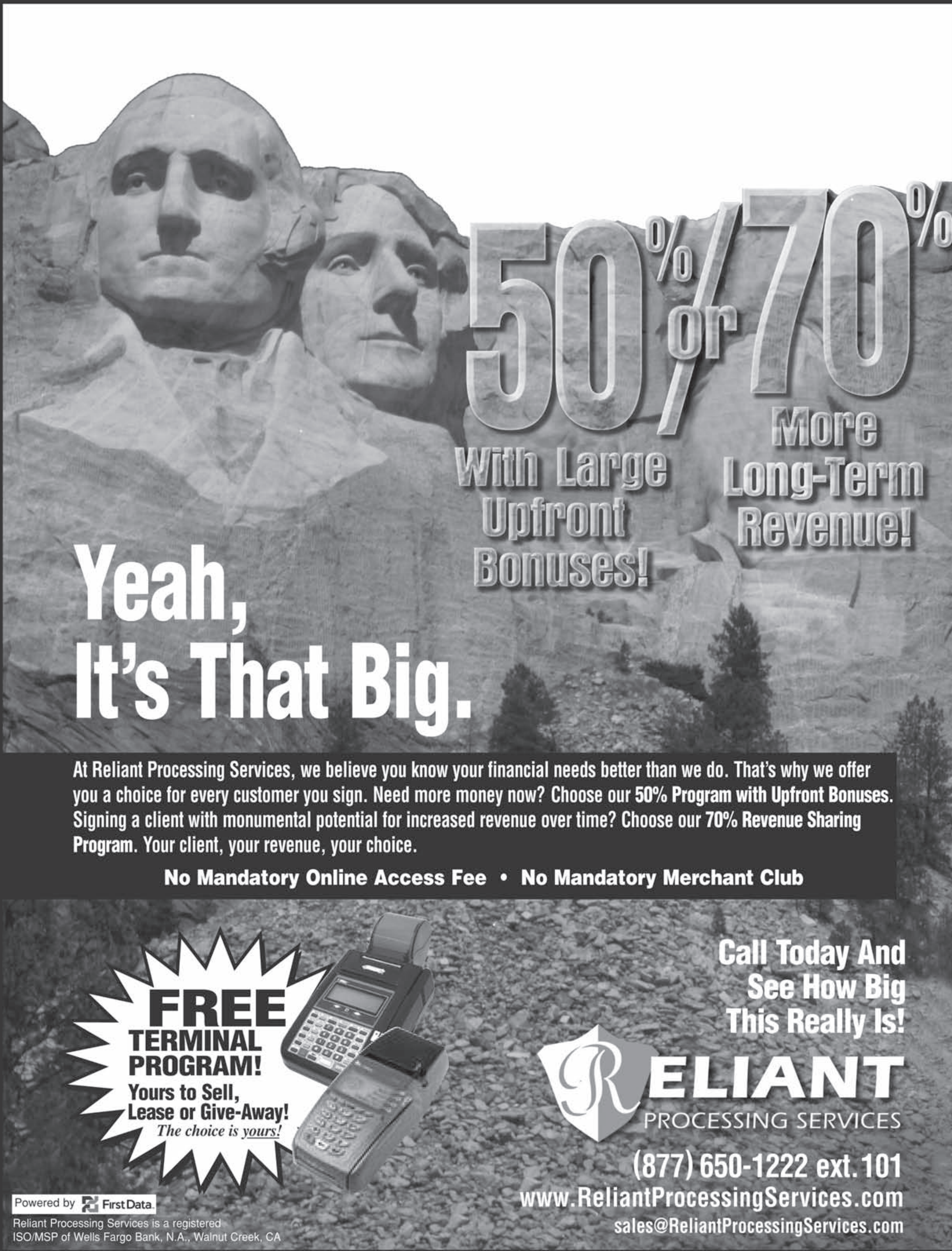
Solution on page 100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# NewProducts

## Slip-on terminal mobility

**Product: PAYware Mobile**

*Company: VeriFone*

A product from POS terminal manufacturer VeriFone is helping to usher in a new era in payment acceptance: the mobile terminal for the ordinary guy.

Granted, not just anyone can up and make a cellular phone a payment acceptance device (without an acquirer, processor, Visa Inc. and MasterCard Worldwide approval, and lots of paperwork), but with the emergence of devices that turn personal cell phones into payment terminals, a lot of paper-only salespeople will be looking at plastic.

Little more than a week after Twitter co-founder Jack Dorsey caused a media row by heralding the new mobile payment acceptance system Square, VeriFone unveiled a similar product called PAYware Mobile for iPhones.

It consists of two main devices: the first is a software program, downloadable from Apple Inc.'s iPhone App Store, that functions as the payment terminal; the second is a card swipe reader that fits neatly onto the phone like a sheath.

"We're really leveraging off the widespread adoption of smart phones and PDA's in general – and specifically the iPhone, which has had a lot of shipments in the last couple years" said Paul Rasori, VeriFone's Senior Vice President of Marketing. "[The iPhone] has a nice consistent form factor, which allowed us to develop a solution that both functionally works but is also very ergonomic and easy to use."

### Unique features

The product differs from most other mobile phone payment acceptance devices in a couple respects, Rasori said. One is the presence of a read-head so cards can be swiped rather than keyed in – a feature that Rasori said is not only convenient but also reassuring to consumers.

"Customers, hopefully, are going to be more trusting when you have this dedicated piece of hardware from a brand like VeriFone instead of just key entering info into someone's iPhone," he said. "You don't know how or where that's being captured."

How it captures card information is PAYware's second distinctive feature. Using VeriFone's payment security network VeriShield Protect, PAYware encrypts customer card information at the point of swipe and then keeps it secure all the way through to its arrival at the PAYware mobile gateway. Therefore, the solution leaves no window for hackers to pick off the data, Rasori said.

Features of **PAYware Mobile** include:

- Converts iPhone into payment acceptance device
- Includes card swipe feature
- Begins encryption of card data at point of swipe
- Adds or removes card swipe device easily; requires no special configuring for operating software
- Captures customer signature with stylist pen and offers e-mail receipts

"We thought it was really important if we launch this product with a hardware peripheral for card reading that we actually put the technology directly into the mag stripe read-head in this device," Rasori noted. "It's a very unique feature where, as you're swiping the card, it's actually getting encrypted inside the reader, so it never reaches your iPhone in enencryped form. … If the data is ever intercepted, whether by malware or some other mechanism, it's useless."

Rasori added that the extra cost of using a magnetic stripe reader would be more than offset by the lower interchange rates for card swipe terminals than key-entry ones. "By turning our device into card present, the claim we're making is you can save enough money to pay for our payment application, our hardware and your iPhone," he said.

### Customer signature capture and receipt

PAYware mobile requires that customers sign the iPhone screen using a stylist pen to complete payment card transactions. Customers may also receive e-mail receipts for purchases. Rasori said the product did not as yet contain a PIN debit feature, but that VeriFone was working to develop new models of PAYware with that capability.

He said the PAYware card reader "uses almost no battery and pulls power from the phone," and thus doesn't need to be recharged separately. It is also "plug and play," meaning merchants who use the device can simply slide it onto their iPhone without having to program the phone or change its mode.

**VeriFone**

**408-232-7800**

***www.verifone.com***

# Front-end tokenization

**Product: SafeDebit**

*Company: NYCE Payments Network LLC*

An online payment product from NYCE Payments Network LLC, a subsidiary of banking and payments technology provider Fidelity National Information Services Inc., uses a process akin to tokenization to protect consumer debit card data during online purchases.

Tokenization is a security method whereby payment card processors substitute code numbers ("tokens") in place of consumer card information for chargebacks and recurring billing in the merchant space. In a similar fashion, NYCE's SafeDebit supplants card information with fill-in numbers, except that SafeDebit does it during, not after, an online transaction.

Consumers who make debit purchases on merchant Web sites that use SafeDebit are given an extra option on the scroll-down menu to choose the type of payment card used. When they select the SafeDebit option, they are asked to provide the name of their online banking institution and then enter the user name and password that pertain to their SafeDebit account.

Features of **SafeDebit** include:

- Enhanced security with card information replacement
- Easier purchasing with auto-fill feature
- Card info pulled up with only username and password
- Consumer data unseen by merchants
- Integration for both merchant checkout page and consumer online banking

## Substitute info automatically entered

Once entered, the payment information fields (card number, expiration date, security code and so forth) are filled with the substitute SafeDebit card information rather than the actual cardholder data.


For authorization, the transaction information travels to the NYCE database, where the pseudo card information is converted into the cardholder's real information and then sent to its processor before being sent back to NYCE.

That pseudo information is then rerouted by NYCE to the purchasing page with an authorization, which indicates that both the user name and password are valid and the consumer's bank account has sufficient funds.

The SafeDebit service was recently adopted by payment authentication firm CardinalCommerce, setting the stage for its widespread deployment.

"We chose to be an early adopter of the SafeDebit solution because we believe the solution fills a market need for our clients and fits competitively within the payment offerings we already provide," said Michael Keresman, Chief Executive Officer of CardinalCommerce.

"Many merchants desire a debit option with rigorous cardholder authentication, which means our clients benefit from fewer chargebacks and the immediate verification of good funds," he added. "

And with its combination of security and convenience – the elements consumers have said they are looking for in online retail payments – the SafeDebit system has the potential to boost merchant sales and bring in new transactions." GS

**NYCE Payments Network LLC**

800-822-6758.
*www.nyce.net*

# Inspiration

WaterCoolerWisdom:

**Intuition is reason in a hurry.**
– Holbrook Jackson


## Be the sale

In telemarketing you are taught to say the same thing on each call and not vary or embellish upon the script. It is a numbers game. If you make 100 calls a day and only one out of 10 callers responds favorably to the pitch, that is seen as a pretty good day.

While the technique is effective, it is limiting. As a seller, you are not able to use your personality or body language to influence the pitch. Equally, you are not able to "read" the prospect's body language or the atmosphere of the business in order to recalibrate or modify the pitch to maximize your chances of making the sale.

In effect, telemarketing minimizes all that you are as a seller – that intuitive side you may not even know you have, or use. But when merchant level salespeople (MLSs) go on sales calls, all their senses are employed in steering prospects toward the close. Even that most mysterious of senses comes into play – the sixth sense.

### I know *that*

Intuition can be defined as that sixth sense, or that feeling in the gut, or that little voice inside your head. It allows you access to the right information just when you need to know it. In fact, looking through an intuitive prism is akin to knowing the question and its answer simultaneously. It somehow gives you clarity of thought, even when you are in complicated or confusing situations.

So intuition is instinctual. But it is more. It is awareness of instinct. When you are aware that intuition is in play when you are involved in a pitch and you trust that intuition will steer you in the correct direction, intuition only enhances your technique and your ability to alter it on the fly to suit your needs.

Intuition helps you:

- Find the right words to say at the right time
- Generate rapport with prospects
- Predict prospects' behavior
- Recognize opportunities
- Convince prospects to say yes

## Practice makes perception

For example, you call on a potential client, expecting to pitch him or her with cheaper pricing than your competitors. But you notice that the prospect seems upset or flustered. When you ask why, the merchant replies that the receipt paper jammed in the terminal, which caused the merchant embarrassment. Your instinct kicks in; you help fix the problem, and you mention that the terminals you sell never jam.

Or you're at the local grocery store to pitch your standard line – superior customer service. Then you see a rack of prepaid cards languishing at the back of the store and something is triggered in your head.

You ask the merchant at checkout – as a customer, not a sales rep – where their prepaid cards are. When the merchant says they're in the back, you say why not put the display nearer the checkout, where shoppers can easily see it?

A month later, the rack is now up at the checkout and the cards are selling. The merchant remembers your suggestion, or maybe you mention the previous conversation. But the merchant is impressed with your advice, at which point you drop your name and the ISO you're affiliated with. Presto, you have just established a new merchant relationship that may pay off immediately or in the future. In both instances, the approach you took was not based on mechanically following your usual procedure, like you would recite a telemarketing pitch to the hundredth contact that day. Instead, you improvised, given your reading of the environment and the merchant.

## Expand on impact

Of course, intuition applies to all facets of life. It may direct you to open a door for an older person with a cane, or return to a pedestrian the wallet you saw him or her drop in the park. In your private life, it may mean presenting your partner with roses for no apparent reason or calling your mother just because she came to mind.

Whatever the case may be, intuition can have a profoundly positive impact on all aspects of your life. Taking action with inspiration and awareness has a way of doing that.

**Good Selling!SM**

**Paul H. Green, President and CEO**

# DateBook

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

## Northeast Acquirers Association

*2010 Winter Seminar*

**Highlights:** The longest-running regional show in the payments industry, this event offers payment veterans the chance to gain new information and insights that will assist them in taking their businesses to the next level.

It also provides those new to the industry resources to help them learn what it takes to succeed in this sphere.

Days will be filled with educational presentations by industry experts. Attendees will also have ample time to network with their peers in the exhibit hall, during opening and closing receptions, over meals and at other events planned.

Vendors will be limited to 80 providers of products and services for acquirers, ISOs and merchant level salespeople. All vendors will have stationary displays; no roaming vendors will be allowed.

**When:** Jan. 26 – 28, 2010
**Where:** Grand Summit Resort Hotel, Mt. Snow, Vt.
**Registration:** *www.northeastacquirers.com/Register.htm*

## Southeast Acquirers Association

*2010 Annual Conference*

**Highlights:** The focus of this event is education and providing information on current issues concerning the feet on the street in the electronic payments industry.

The two-day seminar will include various networking opportunities with all vendors and attendees.

The exhibit hall will feature many of the leading credit card payment processors, equipment manufactures, leasing companies and other third-party vendors in the industry.

Breakout sessions will provide a collegial forum in which to learn and share information; panel discussions, which have been some of the most heavily attended sessions in years past, will be led by industry leaders.

**When:** March 22 – 23, 2010
**Where:** Sheraton Atlanta Hotel, Atlanta
**Registration:** *www.southeastacquirers.com/conference*

## Electronic Transactions Association

*ETA Annual Meeting & Expo*

**Highlights:** The ETA's Annual Meeting & Expo is the premiere event in the payments industry. Every year nearly 3,000 attendees take part in the meeting, which includes educational programs, a giant expo and social events.

This year's event is extra special, as 2010 marks the 20th anniversary of ETA's inception. Educational sessions at the conference will cover a wide range of issues and opportunities, while the expo hall is the place to connect with partners, clients, colleagues and friends.

Over the past several years, the Expo has grown to more than 180 exhibitors and covers thousands of square feet; if it's new and exciting, you'll find it there.

In addition, the ETA's Technology Committee will hold a session that offers a glimpse into the payment industry's technological future.

**When:** April 13 – 15, 2010
**Where:** Mandalay Bay Resort and Casino, Las Vegas
**Registration:** *www.electran.org/content/view/539/118*

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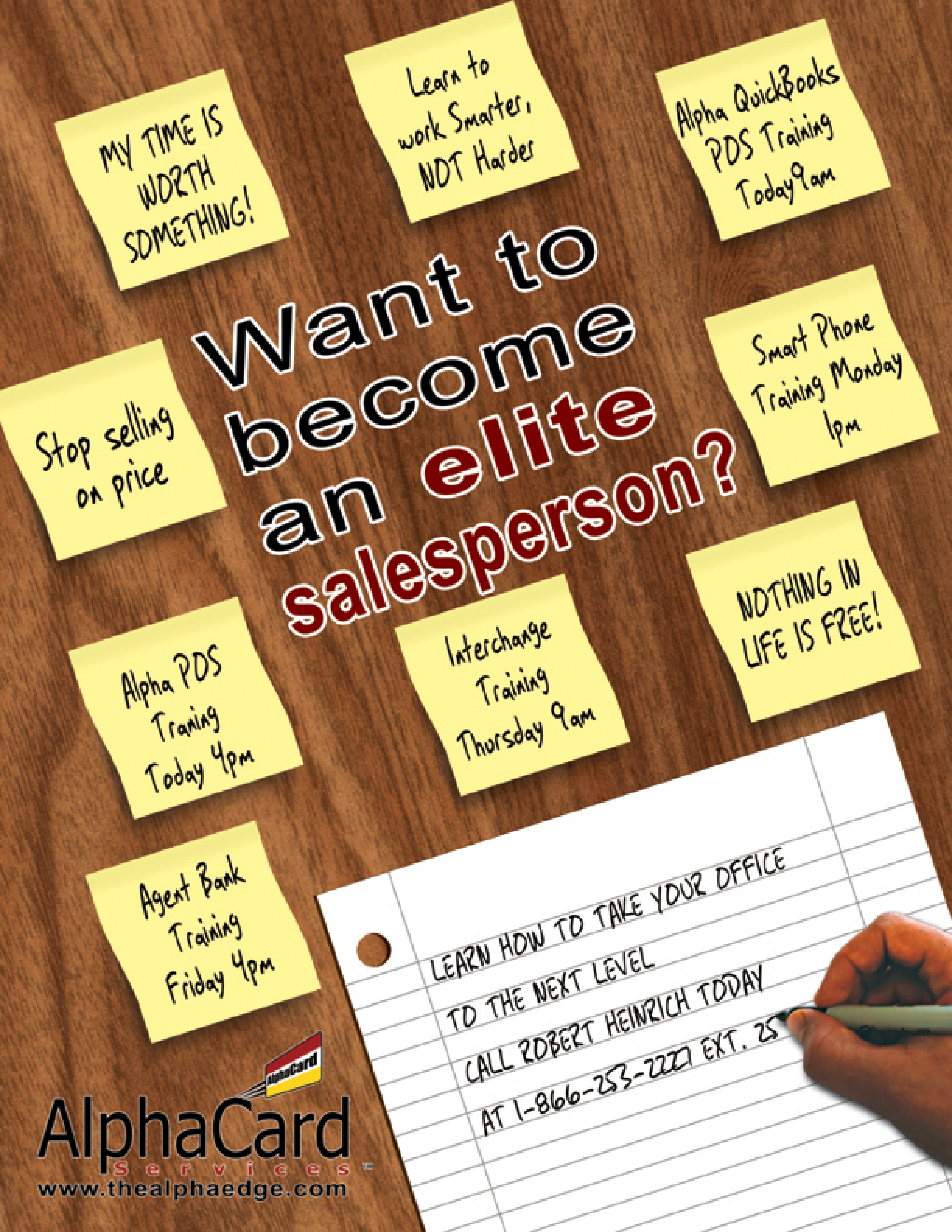
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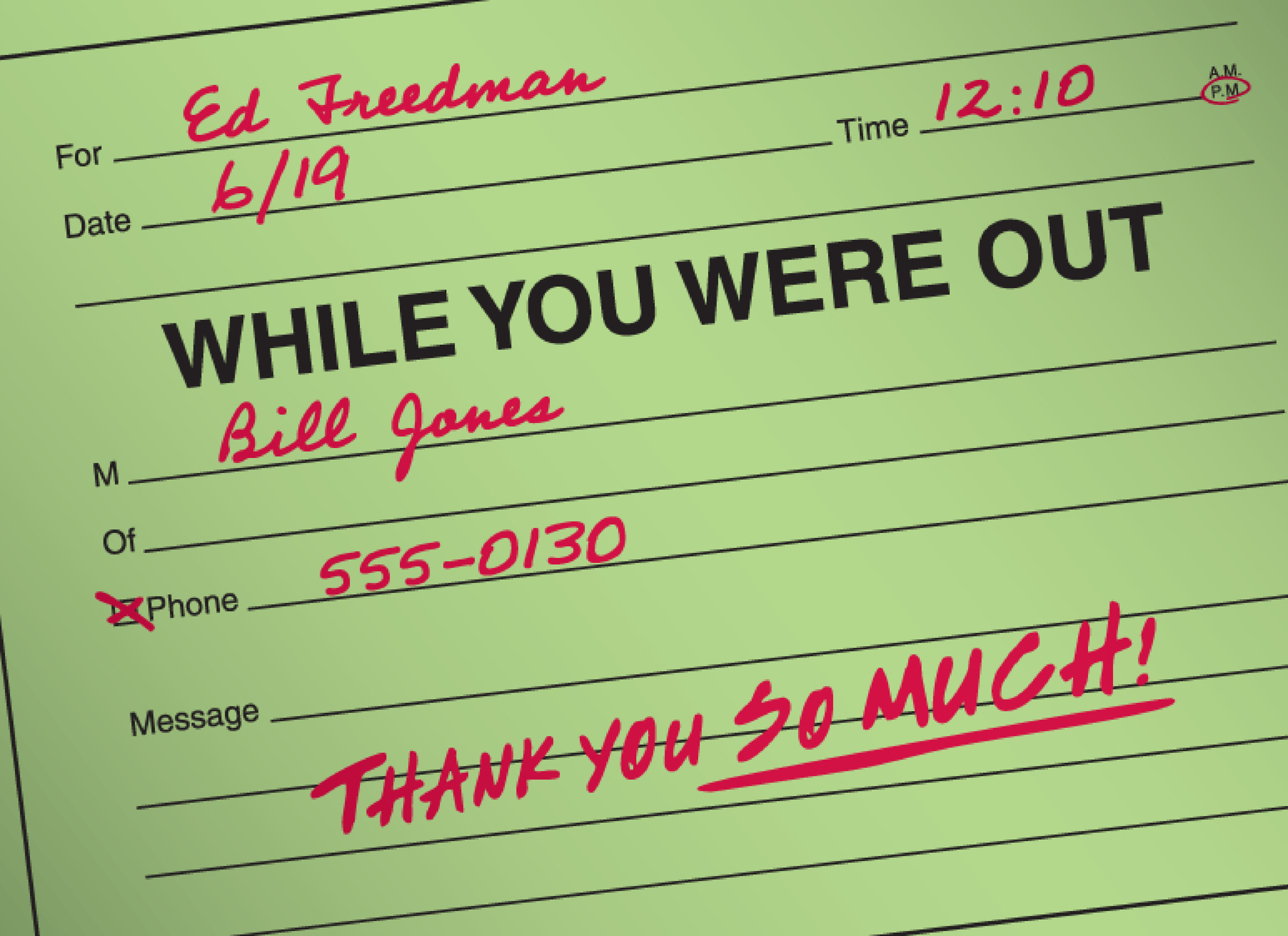
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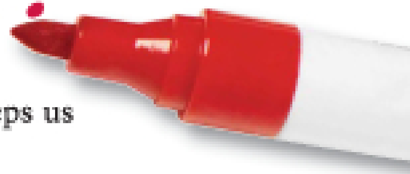

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