The Green Sheet

DEDICATED TO THE EDUCATION AND SUCCESS OF THE ISO AND MLS

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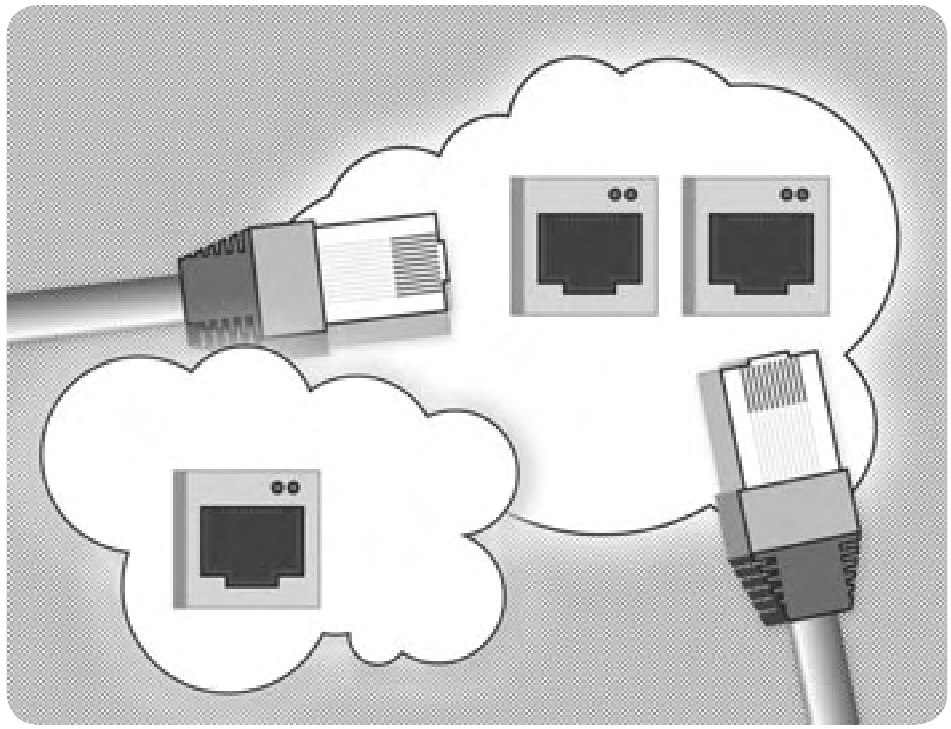
October 11, 2010 • Issue 10:10:01

Going to that process in the sky



Catchphrases often distort or give false impressions of what they are trying to describe. This seems to be the case with "cloud computing." The idea of a great big abstract cloud where wonderful technological things occur is a marketing triumph. It provides allure to a down-to-earth concept: third-party services hosted over the Internet.

In the payments industry, cloud-based processing is a little over a decade old. Processors operating payment gateways, or portals, that use the Internet as the connection hub between merchants and service providers, such as ISOs and merchant level salespeople (MLSs), are purveyors of cloud-based services.

While the concept might not be lofty, hosted payment services are becoming increasingly popular with merchants. A January 2010 survey of over 400 U.S. small to medium-sized business (SMBs) conducted by the Computing Technology Industry Association (CompTIA) said that almost 30 percent of respondents planned to implement cloud-based solutions in 2010, up 22 percent from to 2009.

And why not? By using hosted gateways that are Payment Card Industry (PCI) Data Security Standard (DSS)-compliant, merchants are unburdened from the costs and headaches of maintaining data security. The speed of the Internet for real-time updating of payments and information and the ease of use of virtual POS systems are other prominent enticements.

See page Cloud computing on page 51

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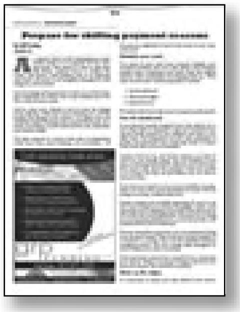
Affiliations: ETA WPA

Produced and printed in the U.S.

NotableQuote

If you haven't recently analyzed your sales efforts, do so now. More effort is required to sign new merchants during the fourth quarter of the calendar year than at any other time.

See story on page 62



Inside this issue:
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New Product

Inspiration

Departments

Miscellaneous

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The Green Sheet (ISSN 1549-9421) is published semi-monthly by The Green Sheet Inc., 6145 State Farm Dr., Rohnert Park CA 94928. Subscription is FREE to participants in the payment processing industry, an annual subscription includes 24 issues of The Green Sheet and 4 issues of GSQ. To subscribe, visit www.greensheet.com. POSTMASTER: send address changes to The Green Sheet Inc., 6145 State Farm Dr., Rohnert Park CA 94928. Any questions regarding information contained in The Green Sheet should be directed to the Editor in Chief at greensheet@greensheet.com. Editorial opinions and recommendations are solely those of the Editor in Chief.

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Forum

You can't ignore $50 million

I noticed our recent press release, which was picked up by the business wire and several other newspapers and publications, was not covered by *The Green Sheet* and thought you may be interested in this deal, since there are so few sizeable transactions like this in the ISO space.

Jeffrey Shanahan
Financial Transaction Services

Jeffrey,

Thank you for informing us of your $50 million growth equity commitment from FTV Capital. The quickest way to get payments industry news posted under "News from the Wire" on our home page is to send a press release to press@greensheet.com. *We post releases we receive at that email address throughout each business day. We posted your announcement on Sept. 17, 2010.*

Editor

Members helping members

GS Online MLS Forum member **SLICK STREETMAN** made the following post about 10 months ago.

He said he did so because, "I was totally frustrated in my attempts to help my merchant, so I threw it on the [message] board for advice."

> Subject: $50,000 fine by Visa for duplicate batches
>
> Due to a computer glitch, a merchant had some duplicate batches. It was discovered early on and the processor reversed the duplicate charges.
>
> Then out of the blue, the merchant gets fined $50,000 about a month after the accident.
>
> So far, we have not been able to find anyone to talk to at Visa. I called their headquarters in San Francisco, and after a week of "passing the buck" they can't seem to lead us to the "powers that be."
>
> The merchant is tired of all the stonewalling and wants to get an attorney.
>
> What would you do?

On Sept. 29, 2010, **SLICK STREETMAN** posted an inspiring update:

> Mr. Steven Peisner saw the post and called me. We discussed all of the details involved, talked with the merchant, the ISO and the POS vendor. Then, Steven said, "Out of my love for our industry, SLICK, I will do what I can to get this fine reversed, and I feel confident that I know the key people at Visa that can make it happen."
>
> In the interim, different obstacles occurred, such as the ISO changing settlement banks, but Steven persevered.
>
> I am happy to announce to my forum family that the merchant called this morning and said, "SLICK, it is time for a celebration!"
>
> I said, "Well, you know ol' SLICK. I'm always ready to party, but what is the occasion?"
>
> He said, "The Visa fine monies were deposited back to my account this morning."
>
> I still have a smile on my face that I can't wipe off.
>
> Thank you, Paul Green, for inventing this forum, and thank you, Kate, Wolf and staff for all you do. And one big, humongous thank you to Sir Steven Peisner!

SLICK,

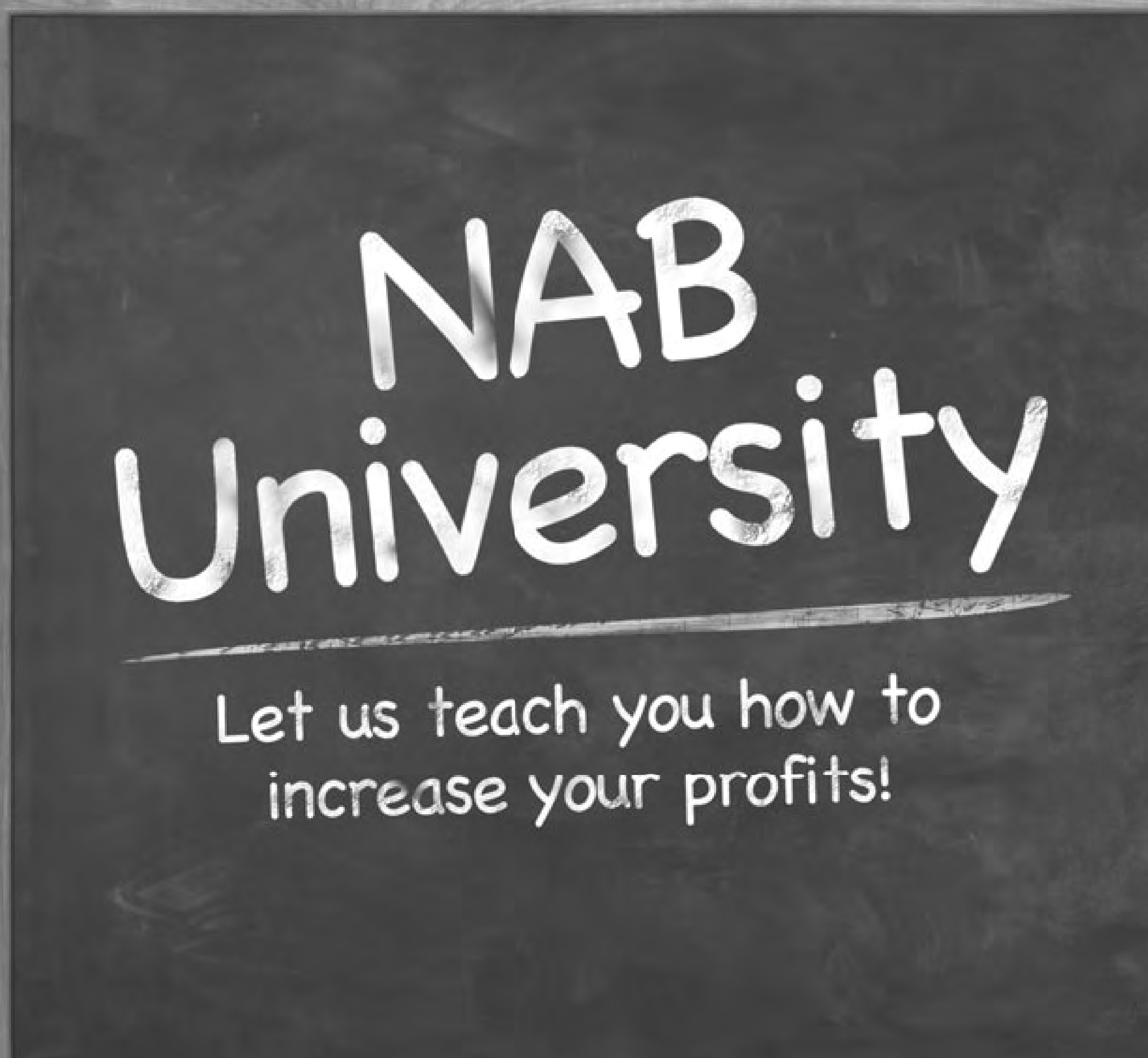
Thank you for reaching out to enlist the aid of your fellow GS Online MLS Forum members, for acknowledging the generosity demonstrated by Steven Peisner and for sharing the stunning results that ensued. And thank you for appreciating our efforts, too.

Those who want to read the responses of other forum members to this news can visit the MLS Forum and click on the "Some GOOD news to share with the Forum" thread.

Editor

Call us, write us

Would you like us to cover a particular topic? Is there someone you consider an industry leader? Did you like or dislike a recent article in *The Green Sheet*? What do you think of our latest *GSQ*? E-mail your comments and feedback to *greensheet@greensheet.com* or call us at 800-757-4441.



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QSGS

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

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Cover Story

Going to that process in the sky

In the payments industry, cloud-based processing is becoming increasingly popular with merchants. And why not? By using hosted gateways that are Payment Card Industry (PCI) Data Security Standard (DSS)-compliant, merchants are able to unload data security headaches, while enjoying real-time data access through systems that are easy to use.

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View

Electronic wallets coming to a phone near you

For years, industry pundits have talked about the day when the ubiquitous mobile phone would function as an electronic wallet for any payment cards consumers and business travelers might favor. But competing interests and inertia have held things back. Now, a number of potential game-changers are surfacing that could provide sufficient impetus for market acceptance.

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View

Proximity payments, a BIG issue

We face many pressing issues these days, and one of them has to do with how to conduct payments in mobile and card-not-present environments. Currently, there is no clear winning solution for proximity payments. But the "beep-card" trio may change that.

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Feature

A snapshot of prepaid in the U.K. and Ireland

A Polymath Consulting Ltd. analysis of the prepaid card market in the U.K. and Ireland reveals an expansion of card offerings and insights into fees issuers charge. Since 2007, the number of cards available in those markets grew from 50 to 214. But that rise has not been steady, as contraction in the number of cards offered has been followed by new launches.

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View

Are you really a salesperson?

It takes just a few weeks working as one of the feet on the street to comprehend what it means to be a salesperson: it's hard work and it's a skill; it's not luck. Great salespeople deserve to make lots and lots of money. And they do. But the job isn't for everyone. Do you have the strengths a true sales professional must possess?

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News

Processor argues against video game regulation

The Supreme Court of the United States is set to determine the fate of a California statute restricting minors' ability to purchase violent video games. Vindicia filed a brief arguing against the statute. As a provider of on-demand strategic billing and subscription management for online merchants, Vindicia has a vested interest in the outcome of the case. Do you?

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Let's bust some credit barriers, shall we?

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TouchSuite POS is the only all-in-one POS solution the merchant can install in a matter of minutes. Everything on the system is ready to go with pre-loaded software. Hmm. Could that be the reason our return rate on the system is less than 1% and other POS systems average 30-40%?

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[1]Merchant must qualify for merchant processing in order to be approved under the guaranteed lease program.

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NEWS

WesPay creates certificate program, recognizes leadership

The **Western Payments Alliance** (WesPay) launched the WesPay Certificate Program, an online training curriculum teaching the fundamentals of payment systems across functional areas within financial institutions (FIs). The organization also presented awards for contributions in the western financial services market to the advancement and best use of electronic payments.

The WesPay curriculum allows trainees to use its video training library at their own pace. Participants are tested for proficiency and receive a certificate upon successful completion. Programs now include Automated Clearing House (ACH) for Customer or Member Services and ACH for Operations Staff. Additional certificate programs will be added in 2011.

The 2010 leadership awards include the:

- Russell L. Fenwick Award for Payments System Leadership to **T. Richard Shier**, Executive Vice President and Director of City National Bank
- George E. Lowther Award for Outstanding Service to the Payments Industry to **Mike Gilchrist**, Vice President, Client Services WesPay
- A.R. Zipf Award for Payments Systems Innovation to **Laru Corp.**

Shier has served on several WesPay committees since 2004. Gilchrist's 25 years in the ACH industry include representing WesPay on several NACHA – The Electronic Payments Association panels.

The Zipf award recognizes Laru Corp.'s development of a risk-reporting and management system that provides near real-time monitoring of ACH transaction traffic.

Dynamics takes DEMO awards

Dynamics Inc. received the DEMOgod award and the People's Choice Award at the DEMO Fall 2010 conference for its new computing card form factor. The Dynamics Card 2.0, a paper-thin, flexible computing platform in a payment card form factor, includes a card-programmable magnetic stripe that can be read by any POS mag stripe reader.

The computing system on the card can change the information on the mag stripe at any time. The card reportedly can last three years on a single battery charge. As part of the People's Choice Award, Dynamics receives $1 million in advertising from IDG magazines, a co-sponsor of the conference.

The card has been in use in the United States in "stealth trials," according to Dynamics Chief Executive Officer Jeff Mullen. Payment card executives can change the core functions of the payment cards. Mag stripe readers cannot differentiate between traditional cards and the Dynamics Card 2.0, Mullen told conference attendees.

Mullen demonstrated a multi-account version of the card, which allows consumers to choose which account to use for a specific transaction by pushing a button on the card. To watch a video of Mullen's six-minute demonstration, visit *www.demo.com* and click on Dynamics Inc.

City commuters catch the train with payWave

Some commuters in New York and Los Angeles now use **Visa Inc.**'s payWave to pay bus, subway and train fares. In New York, riders use payWave-enabled cards and mobile phones. In Los Angeles, passengers use a special

- According to the **National Retail Federation**'s *2010 Halloween Consumer Intentions and Actions Survey* conducted by **BIGresearch**, 148 million Americans are expected to spend $5.8 billion on the holiday, averaging $66.28 on costumes, candy and decorations, up from $56.31 spent in 2009.

- A **Research and Markets** *Home Furnishings Stores* report found that of the 20,000 U.S. home furnishings stores with total combined annual revenues of about $25 billion, 50 of the largest companies accounted for nearly 70 percent of industry revenue.

- The **American Pet Products Association Inc.** projected total pet spending in 2010 could reach $47.7 billion, up from $45.5 billion in 2009. An estimated $18.28 billion will be spent on pet food, $12.79 billion for veterinary care, $11.01 billion for supplies and over the counter medicine, $3.45 billion on grooming and boarding, and $2.21 billion for pet purchases.

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Visa prepaid TAP ReadyCARD, which is available to all riders of the metro system.

In the New York pilot program, the cards and smart phones communicate with contactless readers at fare gates and on buses. Riders use payWave-enabled credit, debit, prepaid and commuter benefits cards. The smart phone technology was developed by DeviceFidelity Inc. Visa's payWave has also been used in Kuala Lumpur, Singapore, Paris and London.

ANNOUNCEMENTS

Residuals acquirer Calpian goes public

Calpian Inc. became a publicly traded company in the business of acquiring retail credit card processing residuals from ISOs and merchant service providers. Since 2002, the management team has acquired residuals under the Calpian brand through previous partnerships. Calpian's new public company status, under the ticker CLPI:OB, enables it to compensate ISOs for their sales production, according to CEO Harold Montgomery.

ComplyGuard meets new PCI guidelines

The ComplyShield v3.5 from **ComplyGuard Networks Inc.** reportedly meets new Payment Card Industry (PCI) Data Security Standard (DSS) guidelines for Qualified Security Assessors (QSAs). ComplyGuard is a PCI QSA and Approved Scan Vendor. ComplyShield is a hosted software service that enables merchants to scan their Internet-facing payment networks for PCI compliance.

First Data debuts on innovation list

First Data Corp. was included for the first time on the *InformationWeek* 500 listing of the most innovative users of business technology. *InformationWeek* ranks U.S. companies by tracking their technology, strategies, investments and practices.

Global Payments begins acquiring in China

Global Payments Asia-Pacific Ltd. said it is the first foreign payment card processor to provide **China UnionPay** card acquiring services in China. The service is offered to merchants in partnership with Global Payments' bank partner, **HSBC**. Global Payments Asia-Pacific is a joint venture with The Hongkong and Shanghai Banking Corp.

Heartland among top tech innovators

Heartland Payment Systems Inc. was ranked among the top 200 technology innovators by *InformationWeek*. Heartland was reportedly honored for its E3 (end-to-end encryption) technology.

Hypercom models achieve PCI compliance

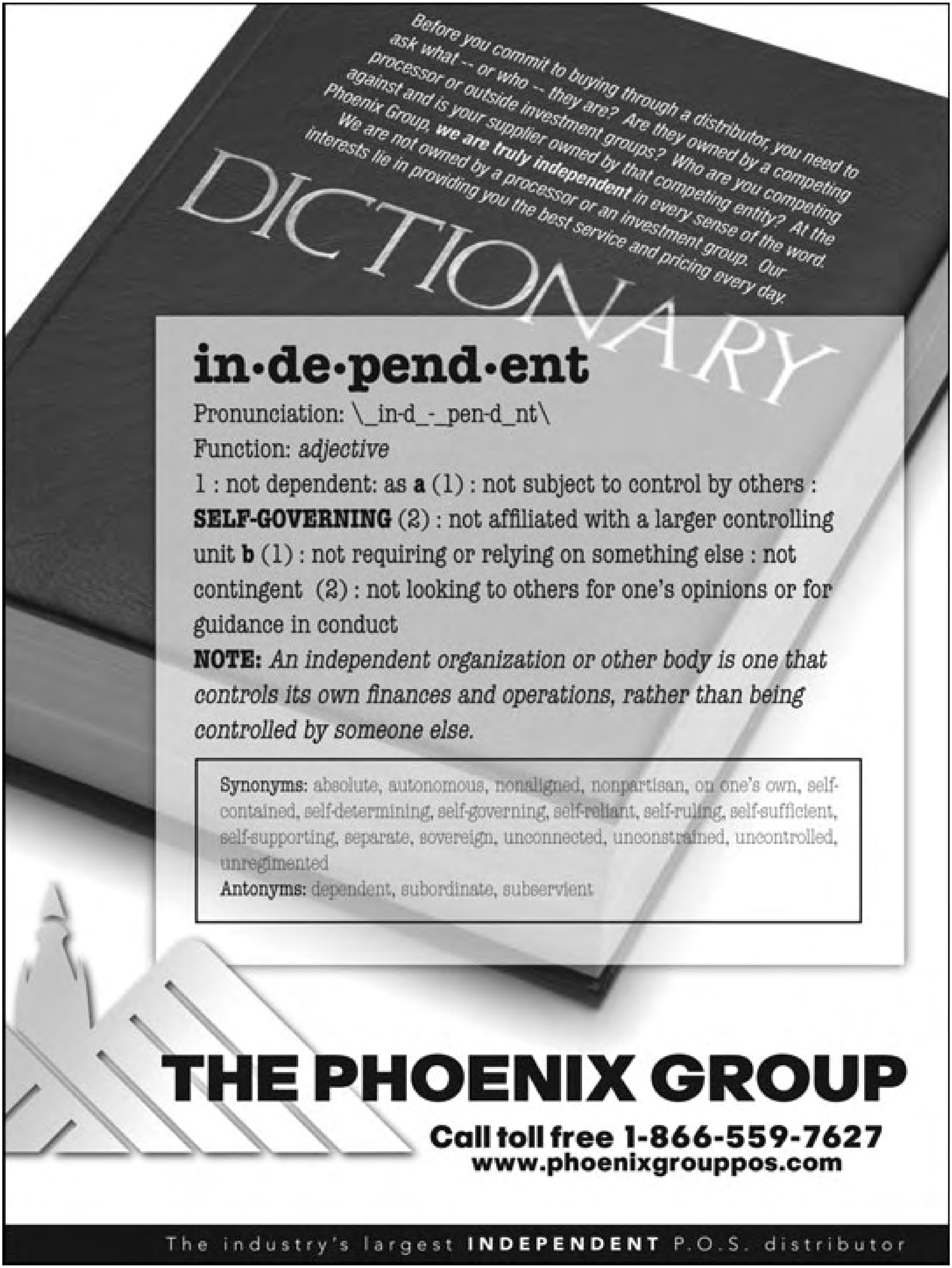
Hypercom Corp. said its L5300 and L5400 multilane payment terminals have achieved PCI approval. The models reportedly meet PCI PIN Transaction Security 2.x security compliance.

Secure Vault ready for prime time

NACHA stated that it transitioned Secure Vault Payments to full commercialization. SVP enables consumers to make private, secure payments for purchases and bill payments through their FIs' online banking platforms using the ACH network and eWise's Online Banking ePayments platform. Several FIs, merchants, billers, payment gateways and processors reportedly have agreed to offer SVP. NACHA continues as the governing body for SVP.

PAX Technology joins SPVA

Hong Kong-based POS manufacturer **PAX Technology Inc.** joined the nonprofit **Secure POS Vendor Alliance**. The alliance was created by Hypercom Corp., Ingenico S.A. and VeriFone Inc. to foster compliance with existing data security standards to protect cardholder data. Membership now includes 18 payment and security companies. Thomas Xu, PAX Vice President of Marketing and Sales, will serve on the board of the SPVA for the remainder of 2010.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More merchants pick Precidia's TransNet

Precidia Technologies Inc. signed restaurant and pet-store chain clients for its TransNet payment engine application. Chicago restaurant **The Signature Room at the 95th** chose TransNet to integrate card processing with the Focus POS system. TransNet was recommended by Alpha POS Services Inc., a Focus POS dealer. TransNet reportedly can route transactions to any payment processor.

Also, **Global Pet Foods** deployed the TransNet engine with the L-POS system from Logivision in pet food stores across Canada. The system was recommended by Globe POS Systems Inc.

ProPay's Security Road Show kicks off

ProPay Inc. is launching the Payment Card Security Road Show, a series of one-day payment card security seminars. The agenda includes an update on data breach trends, a PCI DSS overview, advice on achieving compliance, and end-to-end encryption and tokenization. The first session will be held Oct. 20, 2010 in Dallas. To register, visit *www.propaysummit.com.*

USA Technologies hits a new high

In August 2010, **USA Technologies Inc.**'s wireless noncash transactions grew to an annualized run rate of approximately $100 million, an increase of 72 percent over August 2009. The transactions are processed through the company's ePort cashless payment systems for vending machines and kiosks.

CUs sign up for RDC via smart phones

Three credit unions picked DeposZip Mobile service from **Vertifi Software LLC**, a subsidiary of Eastern Corporate Federal Credit Union.

DeposZip provides mobile RDC services to credit union members through downloadable software applications for smart phones. The software uses a phone's built-in camera to capture images. Checks are processed through Vertifi, and deposits are posted to members' accounts in real time.

PARTNERSHIPS

Dutch JV to enable mobile payments

Among the spate of recent partnerships advancing mobile payments, **ABN AMRO Bank N.V., ING Groep N.V., KPN N.V., Rabobank Group, T-Mobile Netherlands B.V.** and **Vodafone Europe B.V.** agreed to create a joint venture to enable mobile phone payments in

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the Netherlands using near field communication technology.

Aptys licenses patented image capture technology

Payment network provider **Aptys Solutions** licensed patented image-capture technology from **DataTreasury Corp.** Aptys provides FIs a common infrastructure to support payments processing, including image exchange, ACH, wire processing and mobile payments.

BAMpay bypasses payment cards

Two Dallas-area restaurants deployed phone-based payment technology from **BAMpay** that bypasses the use of payment cards. **Shuck N'Jive** and **Highlands Café** are using the technology to accept payments directly from customers' Apple Inc. iPhones.

Costa Rican bank opts into SafetyPay

The **Banco Nacional de Costa Rica** contracted to deploy **SafetyPay Inc.**'s e-payment system.

The network links banking customers to their accounts, giving them a way to pay directly for online purchases. The agreement adds 1 million banking customers to the SafetyPay network.

ACH Federal teams with CheckAlt

CheckAlt Payment Solutions, an electronic check processor specializing in remote deposit capture (RDC), partnered with **ACH Federal**, a provider of ACH services to banks and businesses. The alliance supplies merchants with tools to streamline payment processing. The two firms now refer clients to each other.

Holy Cross picks Heartland's card system

College of the Holy Cross chose Campus Solutions from **Heartland Payment Systems Inc.** to implement a card program. The ID card may be used both on and off campus as a payment card.

ePN software supports Infinite Peripherals reader

Payment gateway **eProcessing Network LLC**'s ePN Mobile software for the iPod touch supports the Linea-pro mag-stripe reader and scanner from **Infinite Peripherals Inc.**

When matched with ePNMobile, the Linea-pro, which can encase an iPod touch, allows store personnel to process customers waiting in line from the handheld device by scanning barcodes and processing credit cards.

FTV Capital invests in FTS

Financial Transaction Services LLC, a transaction processor for merchants, secured a $50 million equity commitment from **FTV Capital**, a private equity firm investing in high-growth companies. FTS experienced transaction processing volume growth of 40 percent in 2009.

GETI certifies 1stTransaction application

Check processor **Global eTelecom Inc.** certified TransactionX payment software from **1stTransaction Corp.** The Windows-based application unifies the merchant's transaction processing for checks, payment cards and benefits into a single application.

IRN picks Ingenico software

IRN Payment Systems selected ROAM mobile payment software from **Ingenico Inc.** to offer to merchants seeking mobile payment capability using smart phones.

The integration includes the ROAMpay swipe card reader from **ROAM Data Inc.**, which operates off the merchant's phone audio jack.

Merchant Data adopts ROAMpay swiper

ISO **Merchant Data Systems Inc.** adopted the use of **ROAM Data**'s ROAMpay swiper for mobile phones. The device enables merchants using smart phones to process credit cards for real-time authorizations.

Cities adopt Bling Nation

The cities of **Palo Alto**, **Calif.**, and **Lamar**, **Colo.**, added **Bling Nation** as a payment option for residents paying for city services. Residents who obtain Bling Nation tags may use the tap-and-pay method to pay for utilities and long-term parking, as well as other fees.

USA ePay adopts Payliance for ACH

USA ePay integrated **Payliance** for ACH processing. Payliance also provides a collection service to recover items that are returned.

ACQUISITIONS

NPC to become part of Fifth Third

Fifth Third Processing Solutions LLC recently agreed to acquire **National Processing Company**, significantly expanding the scope of what is already a major U.S. merchant acquiring business. NPC's focus on small to midsize merchants is expected to contribute to Fifth Third's expertise in that arena. The transaction is slated to close in November 2010.

Ingenico buys stake in Southeast Asian acquirer

Ingenico Inc. made a strategic investment in a Singapore-


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based payment service provider. Ingenico obtained a 49 percent stake in **Korvac Holdings Pte. Ltd.** for $30 million.

Founded in 1999, Korvac is a merchant acquirer providing payment infrastructure and transaction processing in various markets in Southeast Asia.

Johannesburg firm acquires Korean processor

South African electronic payments system **Net 1 UEPS Technologies Inc.** agreed to buy 98.7 percent of Korean payment processor **Ksnet Inc.** for approximately US $233 million.

The acquisition is expected to close in the second quarter of 2011.

APPOINTMENTS

Ethoca hires Fergerson

Julie Fergerson joined e-commerce anti-fraud specialist Ethoca Ltd. as Vice President of Emerging Technologies. Fergerson is a former Vice President at Debix Inc. and ClearCommerce.

Judge takes reins at First Data

First Data named **Jonathan J. Judge** CEO, succeeding interim Chief Executive **Joe Forehand**, who is Chairman of First Data's board of directors and a senior advisor at Kohlberg Kravis Roberts & Co.

Judge served as President and CEO at Paychex Inc. for six years. Previously, he was CEO of Crystal Decisions, overseeing its buyout and merger with a rival software company in 2003.

Identity Theft 911 recruits McGinley

Brian McGinley joined Identity Theft 911 as Senior Vice President of Data Risk Management.

He is a former Senior Vice President at Wachovia Corp. McGinley served as Chairman of the Financial Services Roundtable/BITS Identity Theft Assistance Center Board.

Porth joins CardReady

CardReady LLC appointed **Art Porth** Executive Vice President. Previously, he was a Director at Chase Merchant Services LLC.


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Proximity payments, a BIG issue

By Brandes Elitch
CrossCheck Inc.

We face many pressing issues these days, and one of them has to do with how to conduct payments in mobile and card-not-present environments. Currently, there is no clear winning solution for proximity payments.

Everyone seems to think the future of money is mobile, and buyers will want to pay from any connected device. In August 2010, Intuit Inc. revealed an all-in-one product that enables small businesses to easily process credit card payments via the Apple Inc. iPhone. It integrates Intuit's GoPayment credit card processing app and quick-to-activate merchant account with a credit card reader designed by California-based mophie.

Merchants can buy this solution at Apple retail stores or on Apple.com. Intuit said it can have a merchant up and running in 15 minutes, and (wouldn't you just know it), it's compatible with QuickBooks for Mac. The mophie device is a clip-on card reader, and the data is encrypted immediately by Intuit. Buyers authorize payments by signing their name on the iPhone touch screen, and merchants can send them email or text receipts.

What do you think Intuit is charging the merchant for this? How about $179? The GoPayment fee, including the merchant account, costs $13 a month, plus a discount rate ranging from 1.7 to 3.7 percent and a transaction fee of 30 to 34 cents. Interestingly, there are no long-term contracts, cancellation, gateway or setup fees.

$1 billion-plus in m-payments to secure

There has been a lot of posturing in this space. For instance, PayPal Inc. has been investing in mobile payments for five years and has seen traction only in the last year. But this year the company expects to reach 5 million active users and do over $500 million in volume.

PayPal's parent company, eBay Inc., predicts $1.5 billion in mobile payments for 2010 (check this out at *www.ebay.com/mobile*). eBay expects half of all Internet access will come from mobile devices in three years. PayPal recently partnered with Bling Nation, a company that uses stickers with contactless chips, to enable mobile payments. But PayPal is exploring other alternatives as well.

Today, to use online banking and make purchases over the web, buyers use passwords coupled with user IDs. This information resides in the browser of the bank's home banking portal or the merchant's processor. This is insanity.

Researchers at Georgia Tech Research Institute are now using off-the-shelf graphics-processing cards to crack passwords. They can break a seven-character password (what the Payment Card Industry [PCI] Data Security Standard [DSS] requires for retailers to protect stored payment card information) in less than a minute. Richard Boyd, one of the people on this team, calls passwords "hopelessly inadequate."

Card issuers in the United States have not yet embraced chip and PIN, or even mag stripe and PIN, technology. What kind of event will it take before it becomes obvious, not to the bean counters but to the internal and external auditors, that this is not a commercially reasonable business practice? After all, even the large breaches like those at TJX Companies Inc. and Heartland Payment Systems Inc. were not big enough to create a tipping point. What will it take?

Ironically, the cost of complying with the card brands' new PCI rules may prove to be the tipping point. This is because the card companies have added a "gotcha" to the requirements for merchants to be PCI certified. If a merchant "causes" a breach, that merchant has to indemnify the affected card issuers.

The potential liability here is almost incalculable, and it is not something merchants might insure against either. Why would a merchant agree to do this – basically guarantee issuers against a liability of the issuers' own making due to their steadfast refusal to replace an antiquated and unsecure product, the mag stripe card?

A strong case for hardware solutions

Up to now, there have been two viable solutions to this problem. My preference is the triple DES encrypted plug-in hardware device, with end-to-end encryption done at the mag head, as deployed by HomeATM. This is cheap, easy to deploy and effective. To quote Kaspersky, the fourth largest global anti-virus vendor and employer of 1,700, "They need to have these hardware IDs for everyone."

Kaspersky calls for mass adoption of peripheral card readers for all Internet banking users and believes banks could be big drivers for this kind of hardware. Perhaps it will take a massive infiltration, coupled with huge losses, for banks to adopt this.

The idea behind these devices is that physical countermeasures are much more difficult to infiltrate than software solutions. If banks eliminated typing passwords, it wouldn't matter if their customers fell for phishing attacks.

A phisher might ask an account holder to type his or her username and password. However, the individual would be immune from attack because, instead of typing anything, the customer would be using a card reader for genuine, two-factor, authenticated login. This is obvious, except perhaps to the banks with the largest home banking constituencies.

The appeal of software solutions

Issuers have been reluctant to deploy hardware, and some have focused on software solutions. The most successful vendor with a software-only solution is Acculynk. Fiserv Inc. has adopted Acculynk's software for its PIN debit platform. This is reminiscent of the Beta versus VHS situation: it isn't so much whether you have the best product; it's which of the other players adopts your solution and implements it.

In this respect, Fiserv is the 800-pound gorilla. It is the largest core processor for the banking system in the United States (with $4 billion in revenues, 16,000 clients, and 20,000 employees worldwide). Fiserv has its own ATM network, called ACCEL/Exchange, and last year, Fiserv chose Acculynk to offer PIN debit payments online for 2,500 of its bank clients.

Fiserv said the interface is easy to use and similar to PIN entry at the POS. It doesn't require registration or redirection to another website (which can lengthen the amount of time and increase the complexity of transactions). Consumers get an extra level of security for their transactions, using a PIN that they already know.

This is not as secure as a hardware device, but it is significantly cheaper to deploy. And when you want to provide a solution for client banks that serve millions of home banking customers, that's a consideration, at least in the short term.

A competing ATM network, STAR, recently launched a similar product called STAR CertiFlash. This is a PIN debit application that uses one-time card number technology. The technology is programmed onto a contactless chip that is embedded within a payment device. For each transaction, the chip encrypts and transmits a card number that is good for only a single use. What you might not notice from a cursory look at this is that all transactions must flow through First Data Corp., the manager of the unique number generator and the central intelligence in control of this end-to-end approach.

Now, what about the 25 percent of people who are unbanked? What about the people who just don't want to use a credit or debit card online because of security, privacy or budgeting concerns? Well, it turns out a company called Kwedit (yes, really) has a solution, called PayNearMe.

Kwedit has signed up 7-Eleven Inc., so any PayNearMe user has 5,800 locations to use for conducting transactions. Let's say you want to buy a train ticket. You call or go online and make a reservation, print out the purchase confirmation and take it to 7-Eleven. You give the 7-Eleven clerk cash for the purchase, and as soon as the cash drawer closes, you are issued your ticket. The transaction is teed up but doesn't happen until you are at 7-Eleven. When you have a nationwide distribution channel like 7-Eleven, you have gone a long ways toward "proof of concept."

Enter the 'beepcard' trio

Now for the ultimate solution from a firm called Dialware Ltd. Co. The solution has three components: a "beepcard," a soft reader and an authentication server. The beepcard looks like a regular credit card and serves as an authentication device.

The reader has software running on a user device. It receives an audio authentication message, decodes and analyzes it, and transmits it back to the authentication server. The encryption code changes, and no personal information is ever sent over a public network. Authentication tampering is virtually impossible.

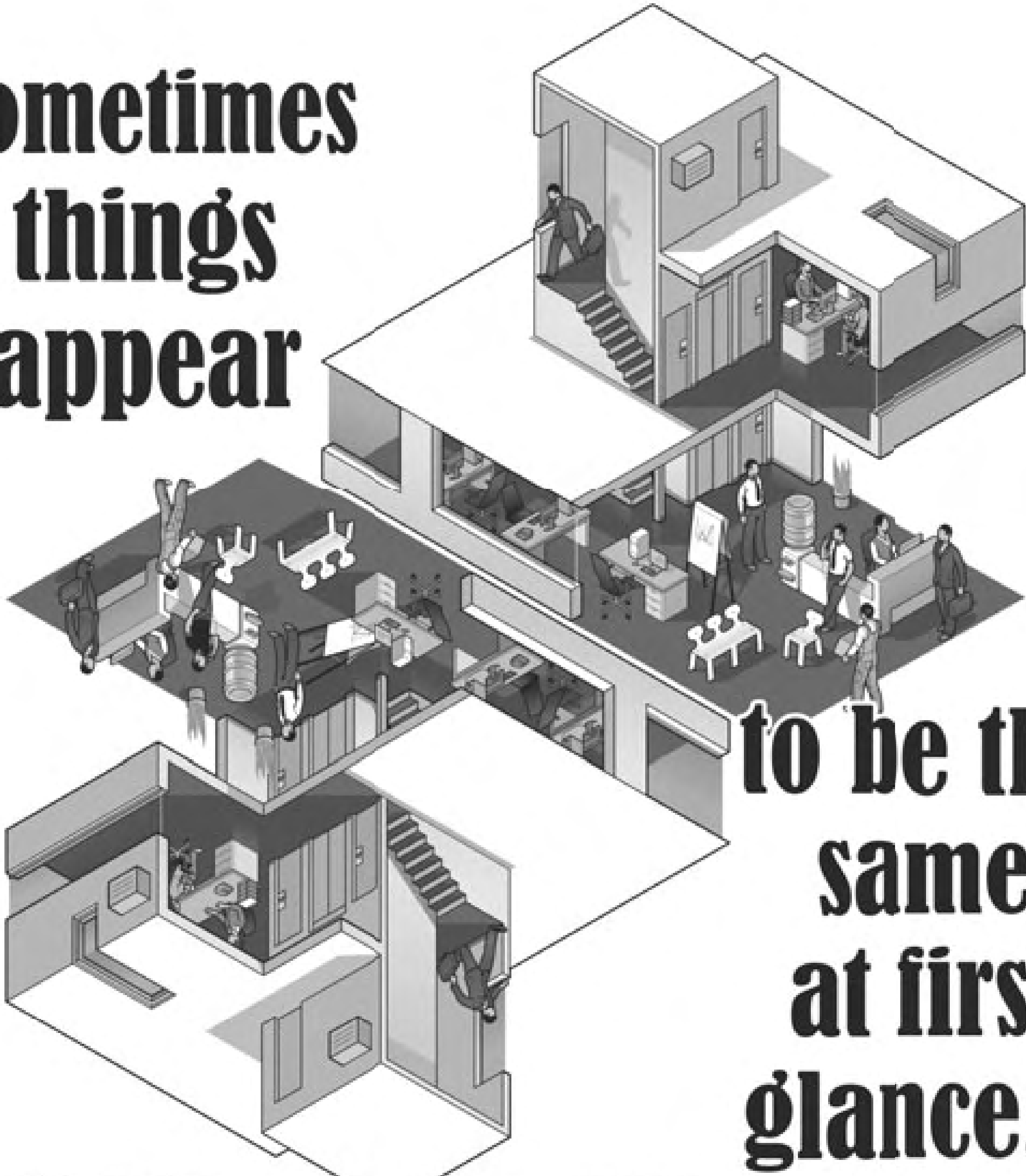
This opens up another opportunity, because not only does it serve as a single sign-on for secure access, but it can also provide secure online "alternative" (not based on interchange) payments. This solution can address a wide range of issues, not just secure payments.

I see this as the real solution, particularly for large issuers. The added advantage is that merchants need only purchase a $100 contact device to interface with the phone to process transactions – no expensive terminals and printers. And salespeople can be out on the floor processing transactions for shoppers rather than herding them to cash registers at the front of the store. Watch this space for more news on this product.

Fortunately, in the world of payments, new and exciting opportunities continually present themselves, and it is a good time to be in this space. Fundamental changes are coming, but right now we don't know how it will all turn out. Stay tuned for further developments.

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.

Sometimes things appear



to be the same at first glance...

1. No shadow on the wall by the stairs.
2. Bench is missing the middle leg.
3. Extra plant added
4. Graph is laying on the ground.
5. Extra AC unit added
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Are you really a salesperson?

By Jeffrey Shavitz

Charge Card Systems Inc.

I have met scores of experienced and prospective salespeople who tell me they want to sell merchant services, but then two weeks after I sign them on, they call (embarrassed), asking if I have an administrative position open. It takes just a few weeks working as one of the feet on the street to comprehend what it means to be a salesperson: it's hard work and it's a skill; it's not luck. Great salespeople deserve to make lots and lots of money. And they do.

Whenever I'm approached by office personnel who wish to earn what top merchant level salespeople (MLSs) earn, I say, respectfully, that we are a sales organization supporting our sales partners. If they want to try sales, I encourage them to "go for it." I also offer them a trial period so they can return to their former duties if they do not like selling for a living. In 100 percent of the cases, the employees have returned to their office jobs.

Optimize your strengths

And this is good for all of us. We all have different strengths and perform different functions. Salespeople love getting the deal but need the technical and administrative personnel to support them.

The sooner entrepreneurial MLSs get help with downloads, paperwork and other activities unrelated to sales, the sooner they can achieve their sales goals. When entrepreneurs have others perform technical functions, they become true sales professionals.

Numerous ways exist to secure this kind of help. Examples include hiring a telemarketer to set appointments or using a direct mail firm to help with mailings on a regular basis (we have all tried to do this ourselves; typically the first mailing goes out on schedule, and subsequent mailings never happen).

Use your time wisely

When I started in this industry, I was fortunate to work with Adam Moss (who is now, many years later, Charge Card Systems Inc.'s National Sales Manager). I opened up many strategic partnerships and national merchants; Adam (with his sales and technology background) closed deals and got merchants up and running. This teamwork benefited both of us.

Find what works for you, but to use the cliché of 1+1 = 3, find additional resources to exponentially grow your business. We all have the same eight to 12 work hours in a day, but it's amazing how some people get a lot more done in that time frame. Why? Maybe it's work ethic, but I believe it's the division of labor and strategic planning of key personnel that helps achieve success.

My suggestion: take a day off from selling and have a strategic planning session. I would be shocked if your productivity didn't increase rapidly thereafter.

Jeffrey Shavitz is one of the founders of Charge Card Systems Inc. He is also an active member of The Green Sheet Advisory Board and the First Data ISO Advisory Board. He can be reached at jshavitz@chargecardsystems.com *or 800-878-4100. For additional information on CCS, please visit* www.chargecardsystems.com/gsadvisoryboard *or the company's corporate website at* www.chargecardsystems.com.

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Electronic wallets coming to a phone near you

By Scott Henry
VeriFone Inc.

For years, industry pundits have talked about the day when the ubiquitous mobile phone would function as an electronic wallet for any payment cards consumers or business travelers would want to use. But competing interests and industry inertia have held things back.

Now, a number of potential game-changers are surfacing that could finally provide sufficient impetus for market acceptance.

New partnerships

Recent reports that AT&T Inc., Verizon Wireless and T-Mobile USA may work with Discover Financial Services and Barclays PLC to test a smart-phone, contactless payment scheme is one enticing development (for more information, see "Have NFC payments reached tipping point," *The Green Sheet*, Aug. 23, 2010, issue 10:08:02).

Another intriguing possibility is the persistent rumor that Apple Inc. may introduce near field communications (NFC) into its next-generation iPhone.

The parallel development of compatible industry standards for contactless cards and NFC has many anticipating that the United States can break out of its mag stripe-only mentality. But we seem to have been stuck in an interminable cycle of "pilots" that never exit the testing phase, even though the technology has proven to be sound.

Complex issues

A certain amount of hesitation is understandable. After all, merchants, issuers and terminal manufacturers all were burned to some extent by the stalled effort to convert the U.S. payment system to smart cards.

Those few merchants who supported the effort were left high and dry, while the majority saw no incentive to invest in new payment technology that seemed to render issuers and acquirers schizophrenic, at best.

When it comes to mobile wallets, things get even more complicated. Not only is there the tug and pull among issuers, acquirers and merchants, but you also have to reconcile the wants and needs of wireless service providers and phone suppliers.

Everybody wants a piece of the pie, there are myriad revenue-splitting and card-branding issues to resolve and nobody seems in a hurry to concede anything.

But those hurdles don't make the prospects any less tantalizing.

Eye-opening data

Recently, the daily newspaper, *amNewYork*, reported that usage of contactless "tap and go" cards throughout the city's taxi system has doubled in the past year.

And this occurred without any promotion by the city's taxi authority. Reporting on data from VeriFone Transportation Systems, which serves about 60 percent of all taxis in the city, "More than 853,000 cab rides were paid for with smart cards last month, or about 20 percent of all trips covered with a credit card," the report said.

In a report released in January 2010, the Federal Reserve Bank of Boston estimated that 25.7 percent of consumers possess a contactless credit card and that 21.7 percent possess a contactless debit card.

When you consider that a contactless card may represent one of the three to five cards the average consumer tucks in his or her wallet, the New York taxi data is even more impressive. Not only do consumers realize they possess a contactless card, but they also know how to use it with little, if any, guidance.

If the AT&T, Verizon and T-Mobile venture proves true, MasterCard Worldwide and Visa Inc. may finally have the incentive needed to move forward on mobile payments and figure out a way to learn to live in a revenue-sharing world with service providers and handset suppliers.

If that's not incentive enough, there's also the prospect that PayPal Inc., the alternative payment leader, may move ahead of them. PayPal has already teamed with an interesting company named Bling Nation, which provides consumers with contactless stickers for their mobile phones that they can use to complete PayPal transactions in-store at participating merchants.

The merchant equation

But even if we get card brands, issuers, and cell phone suppliers and services on board, that still leaves the question unanswered about when merchants will be willing to make the move to employ the card acceptance technology needed to make mobile payments a reality.

Scott Henry is Director, North America Product Marketing, for VeriFone Inc. He can be contacted at scott_henry@verifone.com.

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Prepaid in brief

NEWS

CFSI publishes nonprofit guide to prepaid

The **Center for Financial Services Innovation**, in collaboration with the **Network Branded Prepaid Card Association**, **NetSpend Corp.** and the **Annie E. Casey Foundation**, issued *The Nonprofit's Guide to Prepaid Cards*. The 42-page guide is designed to educate nonprofit organizations about the benefits of prepaid cards and provide them the resources to incorporate prepaid programs into their initiatives, the CFSI said.

Because of requests the CFSI received from nonprofits for information about the prepaid card industry, the CFSI and its partners developed the basic primer on prepaid cards. The document outlines ways nonprofits can choose the right kind of programs and provides tips for program success.

RSR Research lists top digital gifting companies

A report conducted by **RSR Research** ranked the top 100 online retailer gift cards. The card for The Home Depot U.S.A. Inc. headed the list, followed by CVS Caremark, Amazon.com, American Eagle Outfitters and Sears Holding Corp.

"Gift cards are such an important retail staple, yet many retailers' offerings have not evolved to keep up with the changing needs of today's consumer," said Nikki Baird, RSR Research Analyst and co-author of the report titled *The Digital Divide: Digital Gifting Among Top Internet Retailers*.

"This is an enormous missed opportunity for retailers, especially as we enter the most critical gifting season of the year," Baird added. The study was sponsored by digital gifting and incentives company CashStar Inc.

Prepaid 'promising' in India

In *Indian Payment Card Market Forecast 2010*, a report issued by India-based research firm **RNCOS**, the prepaid card market in India is touted as among the most promising payment areas in the South Asian country. "Industry players have been actively participating in prepaid card segment development to ensure their early presence," RNCOS said. "ICICI Bank, for example, has emerged as one of the largest players in the Indian payment card segment focusing on domestic payroll cards, international travel cards, as well as prepaid fleet cards."

ANNOUNCEMENTS

EB to deliver HSA cards in Canada

The Winnipeg, Canada-headquartered Great-West Life Assurance Co. selected health care benefit card provider **Evolution Benefits Inc.** to implement a benefit card program in Canada. The Visa-branded cards will enable health care spending accounts by allowing group insurance plan members direct access to funds through the card, EB said.

Holy Cross gets Heartland's OneCard

College of the Holy Cross, a liberal arts college in Worcester, Mass., selected **Heartland Payment Systems Inc.** to implement the OneCard campus card program. The Crusader OneCard, an ID card as well as payment card, will provide students, faculty and staff access to on- and off-campus services, such as copy and vending machines, laundry and dining services on-campus.

iGlobal Card for Latino laborers' pay

To give Latino workers an alternative to check cashers and other alternative financial service providers, **iGlobal Card** introduced the iGlobal Prepaid Visa Card, the company said. The instant-issue cards are offered free of charge to workers and are registered and activated in real-time by employers or customer service representatives.

Green Dot CFO honored by Los Angeles Business Journal

Green Dot Corp.'s Chief Financial Officer **John Keatley** was named "CFO of the Year" by the *Los Angeles Business Journal* in the Small Public Company category. Keatley has served as CFO at Green Dot since October 2006; he guided the prepaid card company through its initial public offering in July 2010.

New corporate HQ for MoneyGram in Dallas

MoneyGram International moved its corporate headquarters from Minneapolis to Dallas. MoneyGram said the move is part of its global initiative to reduce costs, streamline global operations and position the company for long-term success. The headquarters relocation will be effective Nov. 1, 2010.

New $3 reloadable cards at chain stores

Tampa, Fla.-based processor **nFinanSe Inc.** rolled out $3 Visa Inc.-branded and $3 Discover Financial Services reloadable prepaid debit cards at Cumberland Farms convenience store locations in New England, the mid-Atlantic and Florida. The cards come with $2.95 top-up fees, real-time text message alerts, online bill pay, 99-cent ATM withdrawal fees and direct deposit, nFinanSe said.

Additionally, nFinanSe rolled out the same Discover product in Fred's Hometown Discount Stores in the Southeast and Midwest.

paysafecard expands into Mexico

Online prepaid voucher provider **paysafecard group** opened a new office in Mexico. The European prepaid company said its move into Mexico is part of its plans to expand its online voucher service throughout Latin America. The company already has an office in Argentina.

PlaySpan achieves compliance, certification

PlaySpan Inc., operators of the monetization-as-a-service payments product UltimatePay and the Ultimate Game Card, said it achieved Payment Card Industry Data Security Standard compliance and Statement on Auditing Standards No. 70 certification.

uMonitor deploys P2P payment service

Person-to-person (P2P) money transfer service provider **uMonitor**, a division of Parsam Technologies, stated that its uTransfer Release 5.0 is now fully deployed among all of its existing financial institution clients. The service allows for P2P money transfers via email and mobile phones.

Vesdia celebrates 10-year anniversary

Vesdia Corp., a provider of multichannel merchant networks and shopping incentive services, celebrated its 10th anniversary. Since its inception in 2000, Vesdia has experienced a compound annual growth rate of 116 percent and has helped consumers earn more than $100 million worth of rewards, the company said.

Western Union unveils service, reaches milestone

Money transfer specialist **The Western Union Co.** unveiled an enhanced walk-in payment service at its U.S. flagship location at 1440 Broadway in New York City. The service offers consumers the ability to pay mortgages, auto loans and credit card balances, as well as utility, insurance and phone bills, the company said.

In other news, Western Union said its agent network in Africa now exceeds 20,000.

Wolfe.com issues its first GPR card

Wolfe.com LLC, owner and operator of websites for prepaid card services, entered the general purpose reloadable prepaid card market with the MasterCard OmniCard. It allows cardholders to make purchases and access funds wherever debit MasterCard cards are accepted, Wolfe.com said.

PARTNERSHIPS

Givex integrates with ISD

Gift card processor **Givex Corp.** reported it integrated its gift card program into the ISD Payment Switch of payment management software provider **ISD Corp.** The integration enables merchants using the ISD Payment Switch to take advantage of Givex's gift card program to drive customer acquisition and sales, Givex said.

MoneyGram, BillingTree team for 'PaynCash'

Under an agreement between **MoneyGram** and on-demand bill pay processor **BillingTree**, the money transfer company will provide same-day, cash payment services at approximately 35,000 MoneyGram agent locations nationwide under the brand name BillingTree PaynCash.

Mobile shopping rolled out for unbanked

Mobile payment firm **mopay Inc.** integrated its mobile platform with the e-commerce gateway of GTS Online Solutions Ltd., **Gate2Shop**, to target unbanked consumers with digital and virtual offerings.

MasterCard product relaunched

Payment Card Technologies teamed with **Cheque Point** to relaunch the Cheque Point Prepaid MasterCard. PCT and Cheque Point combined to offer enhanced product functionality to both new and existing cardholders. PCT believes the partnership with Cheque Point will help PCT expand internationally.

New team for micro money transfers

Prepaid mobile payment company **RegaloCard** entered into a distribution partnership with online payment gateway **iPayStation** for a micro money transfer initiative. The partnership allows RegaloCard to place its products in the stores that utilize iPayStation's gateway to facilitate bill payments, money transfers and mobile top-ups.

SmartCard Marketing inks educational deal

SmartCard Marketing Systems Inc. signed an agreement with three companies, including **The GoodNetwork**

System Co. Ltd., creator of the L.E.A.P. Learning System, to provide at least 100,000 prepaid cards per year in a five-year project to introduce financial education materials in tandem with the cards to over 20 million school children in the GoodNetwork's group of affiliated schools.

Western Union makes partnerships

Western Union made a pact with shipping company **DHL Worldwide Express** to introduce international business payment services to DHL customers throughout Europe. Additionally, Western Union teamed with **EnStream LP**, creators of the Zoompass Mobile Wallet, to allow Zoompass users to send cross-border and domestic money transfers directly from mobile phones.

ACQUISITIONS

Fifth Third buys Springbok's prepaid platform

Fifth Third Processing Solutions LLC, the third largest U.S. acquirer, purchased certain assets of prepaid processor **Springbok Services Inc.**, which filed for bankruptcy in July 2010. Among the assets acquired was Springbok's reloadable prepaid card processing platform.

Wright Express completes ReD acquisition

Wright Express Corp. reported that it had completed its acquisition of the Australian assets of **Retail Decisions Inc.** (ReD). The assets consist of ReD's fleet and prepaid card businesses. Wright Express said the purchase will advance its long-term vision of providing both payment processing and card issuance services internationally.

Feature

A snapshot of prepaid in the U.K. and Ireland

By David Parker

Polymath Consulting Ltd.

An analysis conducted by Polymath Consulting Ltd. into the prepaid card market in the United Kingdom and Ireland reveals an expansion of the number of cards and insights into the fees issuers charge.

Since 2007, the number of cards available in those markets grew from 50 to 214. But that rise has not been a steady upward progression, as contraction in the number of cards offered has been followed by new launches.

Additionally, the growth reflects our definition that if a card is a stand-alone product available for purchase in the U.K. or Ireland, it should be included in our research as a separate entity.

A stand-alone product could have multiple configurations, one charging a transaction fee but no monthly fee and another levying a monthly fee but with a lower transaction fee. There is a general trend toward pricing package variations like this among card programs.

GPR tops the list

General purpose reloadable (GPR) cards form the most diverse group and are still the most popular. However, gift cards continue to grow rapidly in the amount of money consumers load onto them.

There has been an increase in the number of GPR cards, from 23 in 2007 to 94 today, representing 44 percent of the total number of cards. Closed-loop retailer gift cards accounted for 43 percent of the total, while travel cards amounted to 9 percent and cards used primarily for money transfers stood at 4 percent.

Based on the current exchange rate, the average purchase fee for GPR cards is 10.05 British pounds ($15.93), with gift cards coming in at 1.38 pounds ($2.19), travel cards 3.80 pounds ($6.02) and money transfer cards 7.76 pounds ($12.30). Keep in mind that issuers rolling out new cards often seek to undercut the established players in terms of the fees they charge.

Monthly service fees on cards can be as high as 12.50 pounds ($19.81). However, the fees may not always be charged by the issuer and are dependent on whether there are other fees associated with the card. Some of the higher fees reflect additional consumer benefits that apply to those cards.

For example, take the MasterCard Worldwide-branded Activeplus and Flexiplus cards, both of which are managed by London-headquartered card provider Cashplus. The Activeplus card comes with a monthly fee of 4.95 pounds ($7.84) but no transaction fee. On the other hand, the Flexiplus card has no monthly fee but a transaction fee of 0.99 pounds ($1.59). Generally speaking, issuers of gift cards that come with monthly fee charges only start charging that fee six months or more after card activation.

Many issuers charge a fee for reloading cards. The fee is often dependent on where the card is reloaded.

For example, there is no charge to reload a MasterCard-branded Tuxedo card at a Barclays Bank PLC branch, but

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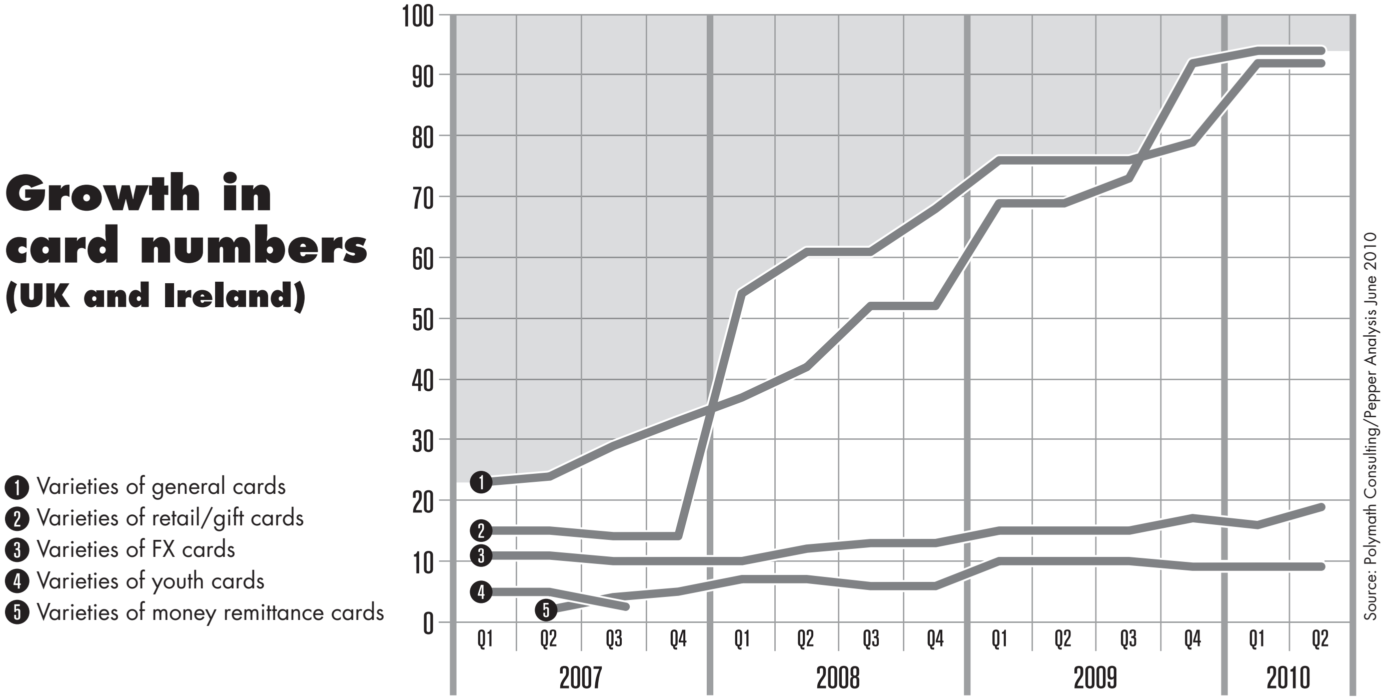
Growth in card numbers
(UK and Ireland)



the charge is 0.99 pounds at the post office and 3 percent of the reload amount at PayPoint PLC retail locations.

Other fees

Cancellation fees are charged once the customer decides to deactivate the card and receive any funds left on the card. Most gift cards are valid for 12 months. But when cards expire, sometimes the balance is lost.

There has been an increase in the introduction of cancellation fees, with 91 percent (195) of the cards now having such fees. Ninety percent of the cards come with a replacement fee, with 49 percent of them charging over 5 pounds for the service.

Most cards have maximum load limits and balance requirements, which are related to know your customer (KYC) rules. Increasingly, twin levels are specified – one where KYC activity has been satisfied and one where it has not – and even some incidences of three levels being utilized.

A new development is the increased use of maximum load amounts over time. For example, of the two types of PrePay Technologies Ltd.'s MasterCard-branded Optimum cards available, one has a maximum load limit of 5,000 pounds ($7,923) but only 1,600 pounds ($2,536) per year. The most popular load limits are between 500 ($792) and 1,000 ($1,585) pounds.

Even more fees

Of the cards reviewed, 74 percent (159 cards) have no renewal fees. Some cards, such as the Bread card, managed by the Payment Card Solutions (UK) Ltd., and the Visa Inc.-branded Speedcard, charge a fee every two years.

For travel cards, a foreign exchange fee is sometimes applied – usually between 2 and 3 percent of the cash withdrawal amount. Transaction fees are often charged at the POS, usually a flat fee ranging from 0.20 (32 cents) to 0.99 pounds, although there is an increasing incidence of fees over 1 pound, and some are 2 pounds per transaction.

Some cards charge an additional fee when used for purchases abroad; typically it is 2.75 percent of the purchase amount, but Travelex charges the highest rate, 5.75 percent.

Only 32 cards reviewed have a PIN issue/reissue fee, largely influenced by the large volume of gift cards in the analysis, none of which come with PIN numbers.

Of those that do provide a PIN reissue feature, charges have been rising and now range from 0.50 to 10 pounds (79 cents to $15.85, respectively).

Customer service fees, such as balance inquiry fees conducted via telephone, Internet or short message service (SMS) text messages, are normally free. There has been an increase in the use of SMS, with consumer facilities like blocking and unblocking cards becoming available, as well as transaction notifications by SMS.

David Parker is the Chief Executive Officer at U.K.-based consulting and research firm Polymath Consulting Ltd. He has been nominated as a finalist in the "Industry Contributor of the Year" category at the 2010 Prepaid Card Awards. He can be reached at davidparker@polymathconsulting.com.

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ResearchRundown

Over 10 billion payment cards by 2014

A Retail Banking Research study, *Global Payment Cards Data and Forecasts 2009-2014,* projects the number of payment cards globally will reach 10.1 billion by 2014, up from 7.4 billion in 2009. According to the study, 62 percent of cards are currently debit cards, driven by conversion of ATM-only cards to include POS functionality, particularly among Asia-Pacific nations.

Of the $9.2 trillion in 2009 card payments, three world regions accounted for 94 percent of total spending: North America comprised 39 percent of card payments; Western Europe, 28 percent; Asia-Pacific, 26 percent.

The value of card payments is expected to reach $12.3 trillion in 2014, while the number of electronic funds transfer POS terminals worldwide is projected to grow to 44.5 million. For further details, visit *www.rbrlondon.com.*

Web hackers target small businesses

Information security and compliance solutions provider, Trustwave, released its *Web Hacking Incident Database Semiannual Report*, compiled by the Trustwave SpiderLabs security team. The report focuses on publicly reported incidents associated with web application vulnerabilities that have an identifiable outcome.

During the first half of 2010, 158 hacker incidents were added to the database. A noted trend among the incidents reported was a sharp increase in cyber attacks targeting the online banking accounts of small to midsize businesses.

The leading driver of web hacking incidents in the report was leakage of information, with defacement of websites ranking second. To download the report, visit *www.trustwave.com/WHID2010.*

Alternative payments in e-commerce

The Mercator Advisory Group's *Spending Cash Online: Alternative Payment Channels for e-Commerce 2010* explores cash-based alternative online payment services that permit consumers to shop online while paying offline with cash in international markets where consumers rely on cash to pay for goods and services.

The report suggests that service providers who offer cross-border payment options or operate in multiple countries will benefit most in the long term.

Other factors that will impact the future of alternative payments include localized applications, broad distribution networks, targeting of key merchants and reasonable consumer costs. For more information, visit *www.mercatoradvisorygroup.com.*

Mobile payment forecast

MarketResearch.com added *Mobile Payment - Advanced Technologies (NFC), Strategies and Future of Remote & Proximity Pays in U.S.* to its E-Financial Services market reports.

The report found that mobile payments account for 1.7 percent of all U.S. payments, valued at $5.2 billion in 2009 or 6 percent of the global share of value. By 2015, mobile payments in the United States are projected at $56.7 billion, roughly 10.6 percent of the estimated global value.

The report indicated that over 94 percent of the U.S. population owns a mobile phone and 60 percent of those devices are equipped with a card slot.

The study predicted mobile payments will permit banks to tap micro transactions currently made by cash, which account for 20 percent of U.S. transactions. For more information, visit *www.marketresearch.com.*

Retail sector Q2 spending patterns

American Express Business Insights released four *Q2 2010 Business Insights Spend Trends* reports analyzing changing patterns in U.S. consumer and business spending to identify key year-over-year economic bellwethers in travel, dining and entertainment, luxury retail and regional spending.

Leading indicators revealed a 24 percent surge in quick-service restaurant spending compared to 12 percent for fine dining, a 9 percent increase in spending across all luxury categories and a 63 percent increase in business-class airfare.

San Francisco fared best among major U.S. cities, with a spending increase of 36 percent across all categories.

To order the reports, visit *www.americanexpress.com/businessinsights.*

Card market in China sees growth

In *Payment Card Market in China 2010*, Mercator revealed that despite the economic downturn, the "payment card market in China continued to grow fast thanks to the rapidly increasing consumer spending and the adoption of electronic payment cards among mass consumers." As of June 2010, there were 207 million credit and 2.06 billion debit cards in use in China.

According to Mercator, China's market is almost twice the size of the U.S. market, but its card spending is about one third that of the United States. For more details, visit *www.mercatoradvisorygroup.com.*

CompanyProfile

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Website: *http://thoughtfocus.com/focuspay.html*

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- Easy integration for Internet merchants

Technology spinoff offers payment mobility and more

TF Payments Inc. was launched in early 2010 to bring greater mobility and flexibility to merchant payments. To that end, the company designed an integrated payment framework to work across most devices and platforms and deliver mobility, device consolidation, 24/7 connectivity and secure processing.

Backed by ThoughtFocus Technologies LLC, its parent company, TF Payments specializes in enterprise management and software-as-a-service technology solutions for global customers in construction, education, manufacturing, finance and private equity, and the payments industry. The privately held company employs over 350 people worldwide, with U.S. offices in California, Maryland, New Jersey, Texas and Wisconsin.

A migration into payments

In 2006, ThoughtFocus entered the payments sphere, forming an alliance with Hypercom Corp. to develop merchant-centric software applications. By 2008, its payment card services team was rendering end-to-end solutions ranging from POS terminal applications to transaction management and Payment Card Industry (PCI) Data Security Standard (DSS) compliance.

It targeted acquirers, issuers, loyalty program vendors, fleet card management companies and national retailers. ThoughtFocus soon embarked on creating the TF Payment Solutions (TFPS) Framework, a platform with multiple vertical market applications. A new strategic direction evolved, combining mobile applications with payment solutions, which led to the formation of TF Payments, company sources said.

A flagship product launch

During the April 2010 Electronic Transactions Association's annual meeting and expo, TF Payments released a beta version of its flagship product, FocusPay, a sleeve-card-swipe device that attaches to smart phones. The device will initially enable swipe card transactions using Research in Motion Ltd.'s BlackBerry and Google Inc.'s Android operating system, as well as Apple Inc.'s iPod and specific iPhone models. The company plans to expand swipe capabilities to include the iPhone 4, iPad and other devices.

Given these device-agnostic capabilities, FocusPay merchants will be able to use as POS devices smart phones, mobile Internet devices, and laptop and notebook computers interfaced with portable card readers. Mobile devices can also be coupled with a Bluetooth printer and card reader peripheral to generate printed receipts. The company said its payment solutions framework was designed to bring traditional card present processing to nontraditional devices.

Since the beta release, FocusPay has undergone extensive peer review. The company is working with compliance auditors to test the product for PCI and Payment Application DSS certification. "We are in the final stage of evaluating the product," said Naganand Jagadeesh, Chief Technology Officer at TF Payments. FocusPay's software applications incorporate triple DES encryption security at the front end with secure sockets layer protection at the back end, so that no sensitive data is stored on the mobile device itself should a theft or loss occur, sources said. TF Payments is also working on adding new features to FocusPay. "We are designing electronic signature capture on screen for iPhones and some smart phones," Jagadeesh said. "We have added a few capabilities in post production, such as a tip adjustment feature for restaurants that will allow customers to add tips at the table.

"With the launch of FocusPay, our mobile payments solution, utilizing the TFPS Framework, we have begun our roadmap of product evolution. In the coming months, we will be enhancing the capabilities of our framework to include multicurrency, ACH processing, driver's license authentication, loyalty programs and other custom transaction processing requirements." He added that TF Payments will continue to grow its presence as "enablers" to processors.

A framework to connect everything

The true workhorse behind FocusPay is FocusConnect, a proprietary transaction management engine that offers essential abstraction tools and connectivity with other components in the TFPS Framework. The framework is composed of the gateway- and processor-agnostic mobile payment applications and a merchant management portal with reseller management, merchant administration, reporting, device and transaction management functions.

"The framework, with its plug-and-play components, will allow us to construct a completely custom payment solution targeted at a particular industry vertical," Jagadeesh said. "With our framework, what we are offering the technology solution providers for the industry verticals is the power to add payment processing capability to their solutions without having to unravel the mysteries of the payment industry."

Jagadeesh noted that the company is creating vertical-specific applications for payment solution vendors. "To give you an example, with nightclubs there might be several payment applications," he said. "They also use FocusPay as a back-end payment solutions product. They can integrate apps on the FocusPay platform, because we enable them to bring the payment component onto the specific application itself without having to install another type of application. It's seamless. FocusPay does it for them."

Leo Daboub, President of Spartan Payment Solutions LLC, a merchant bankcard consulting firm and ThoughtFocus client, said, "I believe there are only a few reasons why any merchant today will make a switch, perhaps pricing,

service and technology. With today's shrinking margins, most merchant acquirers prefer to sell on technology and service. "Products like FocusPay provide the edge that a sales rep or sales office needs to not just sell on rate, but a value-added product that a merchant will actually find useful and need." He added that over the years ThoughtFocus has been consistent in developing next-generation products and services.

A prime time for ISOs

"With ISOs, our intention is to go in a couple of directions." Jagadeesh said. "One path, the Tier 3 and Tier 4 ISOs, they can go on our reseller programs. They will become our resellers and basically have another revenue stream they can add to their portfolio." For this group, TF Payments plans to offer buy rate programs.

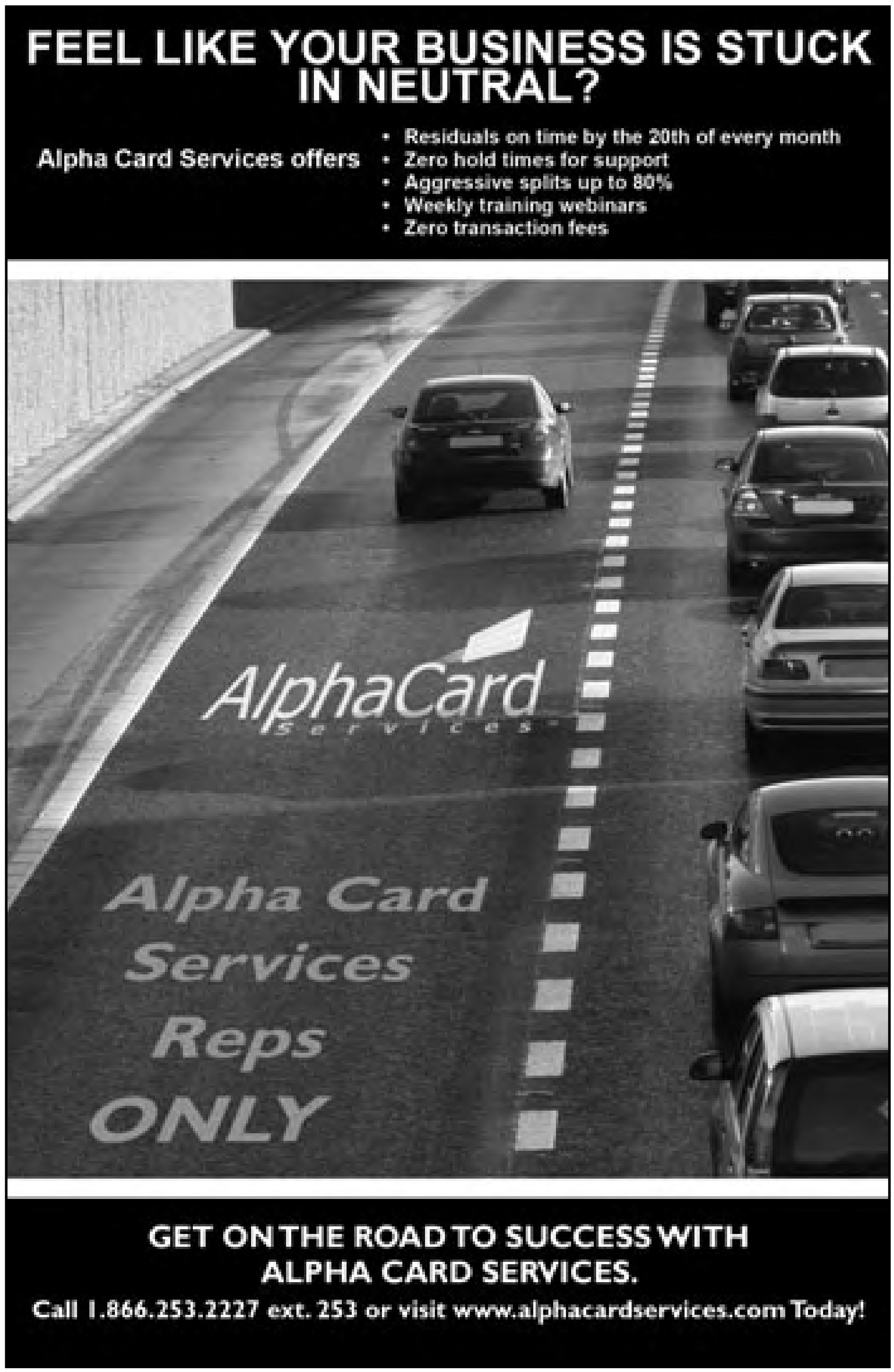
"The other aspect of going after ISOs, especially with larger ISOs, is that we are going to offer to white-label their packages." he said. "That will enable an ISO and any of their payment processors, in fact, to bring out their own brand of mobile payment solutions products." He added that mobile applications developers want to process payments using their own framework to send transactions, which is why the ability to integrate services is especially critical to the process.

"In the mobile applications, when we release new applications our product will be free to use the upgrade," Jagadeesh said. "The only costs that involve an additional fee are what we add for the gateway. The ISO can provide the gateway to their particular payment solution. But for the merchants, we are going to keep it as simple as possible. The applications are downloaded free. ISOs will have a Web landing page, which merchants can use to access the system.

"Typically with the iPhone or BlackBerry, they already have the licensing options. Our sleeve device for the iPhone typically retails for around $50 to $70.

"If you opt for a Bluetooth-card enabled device, depending on which one you choose, that ranges between $200 and $300. We really want to make it affordable to merchants."

TF Payments is actively seeking ISOs to make FocusPay available to U.S. merchants. In addition to traditional markets, niche segments include mobile businesses involved with moving, home services (plumbing, health care and inspections, for example), transportation, restaurant delivery and so on. The company also plans to forge strategic alliances in such vertical markets as hospitality, event management and transportation. As part of the package, TF Payments will offer user guides and training videos, along with a customer and client support team that will be available 24/7 to support all TF Payments' products and services.

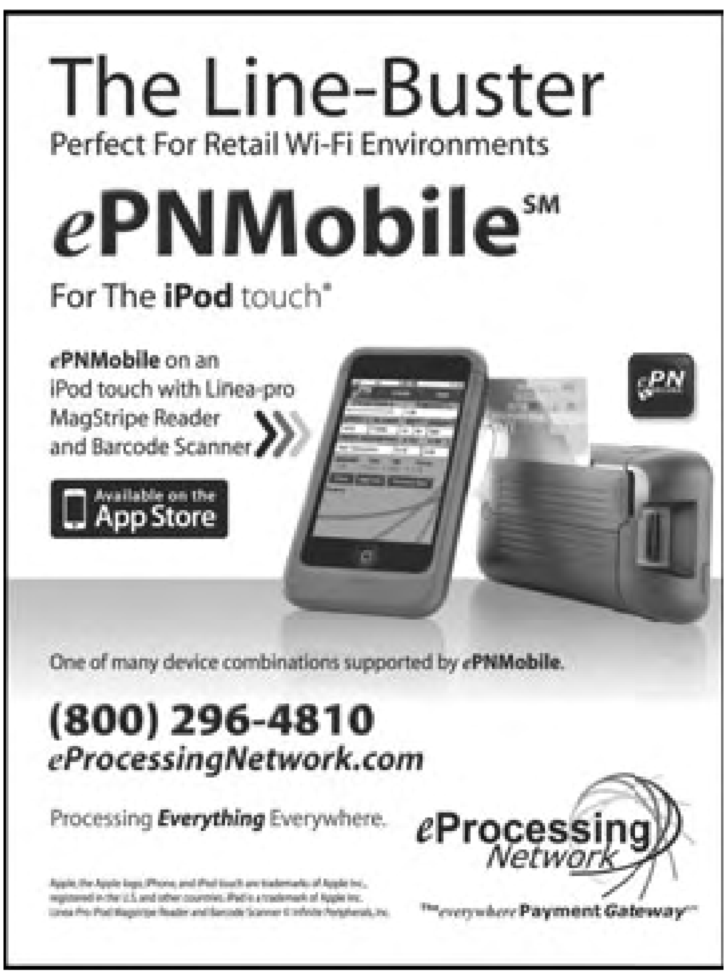


Two new ventures add to spate of NFC activity

News of high-profile ventures involving mobile payments at the POS has been breaking with regularity, and recent near field communication (NFC) projects launched by two prominent payment corporations have added to the buzz.

On Sept. 21, 2010, VeriFone Inc. stated it was partnering with NFC technology provider Bling Nation Inc. to introduce a "tap and pay" initiative that combines Bling's NFC-enabling chips with VeriFone terminals. The program involves placing BlingTags – computer chips embedded in stickers that can be attached to phones and terminals to enable NFC – on VeriFone terminals, as well as on the phones of consumers who shop at locations using the service

On Sept. 15, 2010, First Data Corp., revealed it is partnering with SK C&C, a technology provider in South Korea, to provide what it calls a trusted services manager (TSM) that encompasses an electronic wallet and over-the-air (OTA) provisioning. Those two components, combined with NFC acceptance functionality at the POS, are the necessary pieces to get NFC payments up and running, according to First Data.



First Data takes to the air

"For First Data, it's a very natural extension of our existing card issuing business," said Christopher Cox, Vice President of Mobile Commerce Solutions for First Data. "We offer to financial institutions and merchants card issuing today … we encode mag stripes and emboss plastic cards and mail them out. TSM is changing the end of that process. Rather than mailing out the cards, we're sending them over the air to a handset."

Cox said the OTA technology that allows handsets to communicate with POS terminals is being provided by SK C&C, and the mobile wallets will be managed and branded by First Data. He added that SK C&C has provided NFC technology to South Korean businesses for years.

Cox noted that the service, which is scheduled for rollout in the first quarter of 2011, would depend on the implementation of NFC acceptance functionality at merchant locations by different providers. But he added that such implementation would happen in time and that, when it does happen, First Data may function as a bridge between the issuing and acquiring sectors that helps marry NFC payments with NFC acceptance.

"I think First Data is uniquely positioned to help drive some of that rollout at scale, just because we have such a large merchant acquiring business and relationships with large financial institutions," Cox said. "So we really view part of our role as taking some of the friction out of that whole ecosystem."

VeriFone wears Bling

Meanwhile, the partnership between VeriFone and Bling Nation will produce a standalone NFC product. According to Paul Rasori, Senior Vice President of Marketing for VeriFone, the service is being tested at stores across Palo Alto, Calif., using two different VeriFone terminals: the VX 810 Duet for countertops and the wireless VX 680 device. But Rasori said Bling's technology could eventually be integrated with all VeriFone terminals.

"During this initial phase of testing, we're utilizing two of our newer terminals," he said. "But over time, once this becomes more mainstream … there's no reason why we wouldn't make it available across all of our products, mobile as well as desktop."

The pilot allows participating merchants' customers to link their NFC-enabled phones with their bank accounts or PayPal Inc. accounts through an online registration process, Rasori said.

He said the PayPal option includes a stored-value feature, whereby consumers draw money from a limited fund set up in advance.

Rasori added that the service contains a loyalty component, allowing consumers to accrue points whenever they tap their phones at participating merchant locations – even if they pay with something other than the phone. Consumers are provided with loyalty updates through short message service (SMS) messages, he said.

"Any communication to the consumer post-transaction is done via SMS message," he said. "So you tap your Bling tag onto the VeriFone device, choose your method of payment, and then the consumer receives one or more text messages depending on what you've done. Either they give you insight into what loyalty benefit you've accumulated, or they can act as a receipt for that transaction and tell you that your payment was processed via this method and you have *x* dollars left on your tag."

NFC builds momentum

These VeriFone and First Data projects come on the heels of other news related to NFC. In August 2010, reports surfaced about two major NFC-related consortiums popping up. One was a Bloomberg report of a partnership between AT&T, T-Mobile USA, Verizon Wireless and Discover Financial Services to pilot NFC in a handful of U.S. cities; the other was a report from Reuters of an NFC partnership involving Visa Inc. and Bank of America Corp. to pilot contactless payments in the New York area.

"NFC-based mobile payments are coming," Cox said. "It's not a matter of if; it's a matter of when. I won't and can't predict exactly when we see the growth start to hockey stick, but we're certainly seeing a lot of momentum from a lot of different angles. The partnership with [SK C&C] is for us really about making sure we're positioned to offer those types of services to our clients when they demand it."

Processor argues against video game regulation

Payment processors are keeping an eye on the Supreme Court of the United States as it determines the fate of a California statute restricting minors' ability to purchase violent video games. The Entertainment Software Association and the Video Software Dealers Association challenged the Golden State statute, and on-demand strategic billing solutions provider Vindicia Inc. recently filed a brief arguing against the restriction.

As a provider of on-demand strategic billing for marketing and sales that manages subscriptions and on-time payments for online merchants, Vindicia has a vested interest in the outcome of the case.

California law under scrutiny

"The state of California lost at both the trial court and appellate levels in regard to the law, so for now enforcement of the law is on hold," said Paul Rianda, a California-based attorney specializing in the bankcard industry. "The Supreme Court has agreed to hear the case. Opponents to the statute will argue the right to free speech and those advocating it will look at the greater good of the young adults and trying to keep them safe and developing in a proper manner."

California Civil Code Sections 1746-1746.5 make it a crime to sell or rent video games that the code defines as violent to anyone under age 18 and subjects retailers to fines of up to $1,000 per game sold. The code defines "video game" as "any electronic amusement device that utilizes a computer, microprocessor, or similar electronic circuitry and its own monitor, or designed to be used with a television set or a computer monitor, that interacts with the user of the device."

Control of minors' access at issue

The definition for "violent" is more extensive and covers

video games in which the range of options available to a player includes killing, maiming, dismembering or sexually assaulting an image of a human being, among other criteria.

"The statute puts the impetus on the payment processor to look carefully at what the merchants are doing," Rianda said. "If a payment processor was not doing all it could to monitor the merchant's behavior, it might also be liable for that conduct."

Vindicia filed an amicus curiae brief in support of the two associations challenging the statute, and company Chief Executive Officer Gene Hoffman will attend the Nov. 2, 2010, oral argument pertaining to the case. Vindicia's brief asserts that the vagueness of the statute raises questions about its application to online gaming models and possible impacts on First Amendment rights and business interests.

In addition to arguing that video game content is a form of speech protected by the First Amendment, the brief argues that the statute's restrictions on sales unduly burden adult speech and that video games are primarily used by adults. Vindicia advocates the use of parental controls as a more effective means to control youth access to unsuitable content.

ReD predicts major jump in U.S. fraud

A new study from payment security firm Retail Decisions Inc. (ReD) indicates card-not-present (CNP) fraud levels are rising in the United States but declining in the United Kingdom – trends that might be correlated.

Based on fraud data gathered from the first six months of 2010, ReD projects CNP fraud (which includes Internet and MO/TO purchases) will reach $2.83 billion in the United States by the end of 2010. That would be a 32 percent increase over the $2.14 billion such fraud totaled in 2009, according to the firm's report. Conversely, the report projects a 9 percent drop in CNP fraud in the U.K.

A number of possible explanations exist for rising fraud levels in the United States, according to ReD Chief Executive Officer Carl Clump. One is the use of sophisticated malware that's evolving ahead of the defenses employed against it.

"They are using automated attacks which clamp malware into people's laptops and are activated at some point," Clump said. "[Victims] receive an innocuous looking email [with the virus attached] that's sent out sometimes to hundreds of computers. … The virus is executed and turns these infected machines into web robots under the control of the fraudster. It's very, very clever."

Clump said high unemployment is another driver of fraud, noting that fraud tends to go up during periods of economic distress. Yet whether unemployment is affecting fraud levels – and to what degree – remains a point of contention.

"I think there's probably some correlation, but I'm not sure it's really that strong, and I also think it's very hard to read those signals," said Tim Cranny, President and CEO of Panoptic Security Inc.

What is certain is that a thriving online black market for stolen card numbers has made it easier for the average person to enter the fraud game.

Clump noted that most fraudsters are not hackers; relatively few numbers of computer whizzes, online scam artists and skimmers do the dirty work of extracting card numbers for use among a much larger pool of buyers.

The EMV effect

One more possible reason for rising fraud rates in the United States is the adoption of Europay MasterCard and Visa (EMV) chip and PIN technology outside of the United States. "It is a bit more difficult to perpetrate credit card fraud in the U.K. because of EMV, but you might as well

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try it in the U.S.," Clump said. "Also, Canada has stated it is going to EMV as well, so, again, fraud will migrate south of the border. … Fraud gravitates toward those countries that don't have quite the same level of control."

However, the ReD report focuses on CNP transactions And under EMV, only in-person transactions make use of the chip and PIN; CNP transactions do not. Thus, experts are debating whether the use of EMV has a significant impact on CNP fraud.

To the extent that it does, the reason may be that different kinds of fraud, such as in-store, online and MO/TO, tend to migrate together, according to Clump.

Because the mag stripe system makes it easier, through card cloning, to perpetrate in-store fraud, markets for stolen card numbers in countries that use the mag stripe are more likely to flourish. And the more buyers there are for stolen numbers, the likelier it is that fraud rates of all kinds will be high, Clump said.

Signs of a broader trend

Cranny feels that, while the morphing and migration of fraud causes fluctuations in the fraud rate from one country to the next, the overarching global trend is that fraud is increasing. "You might get wiggles in the curve, but if you step back even a foot, you see a pretty strong upwards trend," Cranny said.

ReD noted that, in addition to developing more sophisticated attack methods, fraudsters have grown smarter about what they buy. According to the company's fraud report, the average transaction value for attempted fraud was 34 percent higher ($149, up from $111) in the first six months of 2010 than during the same period in 2009. Clump said fraudsters' favorite items to purchase are gift cards, which are the closest thing to cash on retail shelves.

Cranny believes the tendency for fraud to migrate between countries is mirrored by myriad smaller migrations from one type of target to the next, be it a different player on the electronic payment chain or a different category of merchant or vertical. The most significant trend right now is toward targeting smaller merchants, he said.

Cranny noted that real progress has been made in getting "the processors, the high-volume visible players – to clean house." But he added that if one part of the ecosystem tightens up, the focus shifts elsewhere, and "we're already seeing increased emphasis on attacking and trying to exploit the lack of expertise" of small and midsize merchants.

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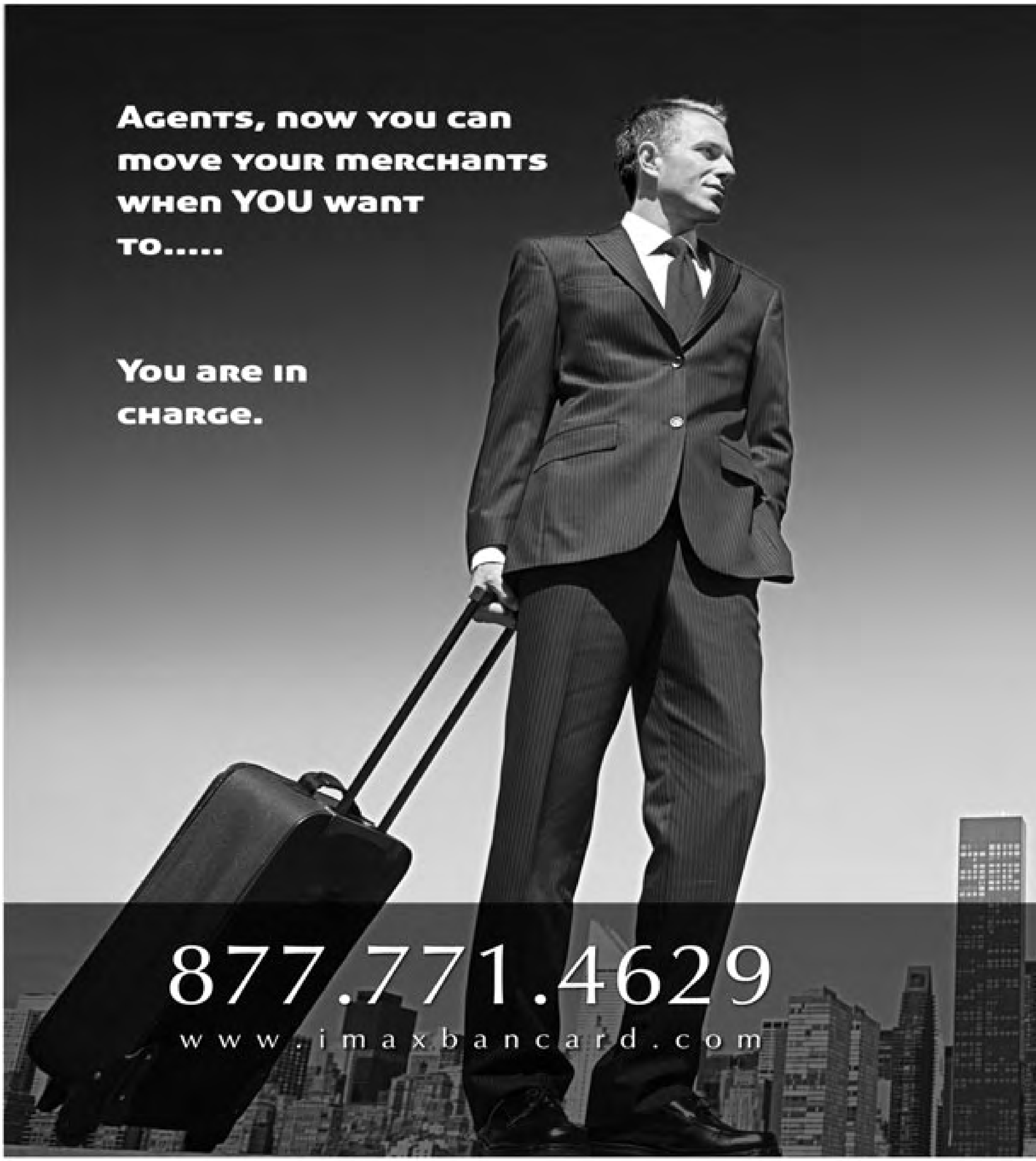

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Looking up

Bill Pittman, Chief Executive Officer at SoundPOS LLC, believes virtualization of the POS is a big opportunity for ISOs. He stated that, as merchants move toward integrated POS systems and away from stand-alone terminals, ISOs need a new solution to help them compete.

"ISOs are really getting themselves into an uncomfortable situation where the VAR [value-added reseller] dealers are playing one against the other," he said. "'Well, so and so will give me so much percentage of revenue share; you either match that or I'll go with them.' And so the ISOs are really losing control of the merchants with that model."

To regain control, ISOs can offer virtual terminals that mirror their literal POS counterparts in terms of features and functionality. But by being virtual, the process offers merchants tangible benefits over traditional POS systems, according to Pittman.

"You don't have to buy all the software," he said. "You don't have to buy as much hardware. You can use the lower cost hardware. You don't have to get the database installed. All the things that have to happen with the traditional premise-based solution from a point of sale perspective you don't have to do if you move it out to the cloud."

SoundPOS licenses its PC-based virtual terminal product to merchants solely through the ISO channel. In a Mercator Advisory Group report, *Cloud Computing and Innovation at the Point-of-Sale: Toward the Cloud-Based vECR,* author and Mercator Principal Analyst David Fish said that, by rolling out its virtual electronic cash register (vECR) via ISOs, SoundPOS may spark the reseller channel to evolve into a "conduit for value-added payment and merchant services technology."

According to Fish, ISOs are leaving "money on the table while offering 'free' terminals to merchants." By offering vECRs, ISOs can mitigate account control issues, channel conflicts and shrinking margins.

Grading the upgrade

The CompTIA survey said 42 percent of SMBs that took part in the study did not have formal information technology (IT) departments; instead, they relied on existing staff to manage IT issues on a part-time basis. The conclusion is that SMBs without IT departments are prime candidates for cloud-based services to bridge that daunting IT gap.

In the cloud, all IT issues are handled by the gateway, according to Baruch Goldwasser, E-commerce Subject Matter Expert at hosted business management firm NetSuite Inc. "They are handling all of the software," he said. "They're maintaining it. They're upgrading it as opposed to the old credit card terminals where you have software built onto the machines inside the merchant's location."

When a security patch needs to be installed in traditional swipe devices, someone must physically upgrade it, which could take days, Goldwasser said; in contrast, the gateway makes the updates itself, and in significantly shorter timeframes. Goldwasser gave NetSuite as an example: since it runs its services around the clock, when a fix is made to the system, it is pushed out immediately across its entire merchant network in real time.

"In the cloud you don't have something uploaded on my computer, and then at the end of the day you pass the information from my computer to the server, and then the server passes it to the marketing department and so on and so on," Goldwasser said. "Everything happens in real time. And so everybody can work with the most up-to-date information and act upon it."

Virtualizing the box

Another oft-touted benefit of cloud computing is scalability. For merchants who maintain their own servers, expanding their businesses means scaling up the capacity of their systems to handle more data, which often entails the costly addition of new hardware and software. The cloud, on the other hand, offers instant scalability – a storage capability that theoretically is just short of infinite because of its virtual nature.

This is where cloud computing enters the realm of science fiction for the technologically challenged. For Rudy Romeiro, Chief Technology Officer at payment gateway provider Redfin Network Inc., scalability goes hand in hand with the concept of virtualization.

When a customer makes a purchase via one of Redfin's e-commerce merchants, Redfin's gateway "talks" to a card processor's servers to process the payment. But that payment may be processed over a virtual server, not a physical one.

"And that's the beauty of virtualization," Romeiro said. "You can virtualize even physical boxes, as we do to a certain degree. You can have the availability of your server to multiply your servers."

Romeiro likens virtualization to time sharing. An owner of a time share in a mountain cabin does not own the physical cabin, the furnishings inside it or the land surrounding it. Instead, the "owner" rents a block of time to spend at the cabin.

"You're sharing a physical resource," Romeiro said. "You're sharing the physical asset. You are enjoying the more abstract part of the asset without all the costs of maintaining that asset.

"So a virtual server is pretty much the same thing. On a server at a data center I am sharing that server, the physical box that it is, with other people. I can have as many virtual servers as that box can handle."

Romeiro recognizes that at the base of this abstract file cabinet of virtual servers are physical servers, but that reality might undergo a paradigm shift. "You need to have a hard disk," he said. "You need to store data. But that part maybe one day will be virtualized."

Securing abstractions

Data security is, of course, the prevailing concern in the payments industry. It is no less a worry for cloud-based service providers. In the Mercator report, the question is posed: Is having more and more sensitive cardholder data processed in the cloud simply creating a "much larger honey pot" for fraudsters?

Fish answered that the ultimate responsibility for data security lies with merchants and that all of their security risks can never be fully outsourced. However, he said cloud-based payment processing alleviates some merchants' headaches by reducing their obligations for complying with the PCI DSS.

Romeiro said the problem of data security is neither exacerbated nor significantly lessened in the cloud. However, one possible advantage is the nature of the online process.

IT specialists and others must think about security because the process occurs over the Internet – the fraudster's playground. It is therefore vital that all data and communications be encrypted. "So that's one of the benefits of the virtualization of cloud computing," Romeiro said. "It forces you to be more concerned about security."

But Gary Glover, Director of Security Assessment at SecurityMetrics Inc., is skeptical about cloud security.

He advises merchants against adopting cloud-based processes that handle card data. "The technology is being pushed by cloud suppliers a bit too fast into the payment card space," he said.

Glover explained that cloud-based processing has not yet been addressed by the PCI Security Standards Council, so no defined security requirements exist for its proper implementation. Among the concerns that need to be addressed:

- Who is responsible for validating the physical security of the main cloud systems?
- Can you mix virtual systems that deal with card data with those that don't on the same cloud segment?
- Where would stored data be kept in the cloud?
- Who manages the virtual firewalls – the cloud provider or the merchant?

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- Are web-based tools used by the cloud provider to manage various cloud servers secure?
- Is two-factor authentication used to manage the servers?

Scattering security seeds

One novel way to secure data in the cloud is a patent-pending process created by gateway provider PaySentinel. As described by Greg Chapman, Chairman at PaySentinel, the process involves breaking up the transaction (after it has been processed) into as many as 38 different pieces, with each piece stored in as many servers. As each piece is stored, a separate encryption key is generated.

If a fraudster should crack one key, that hacker gets access to only one piece of the transaction; without the other pieces, the information is useless.

This method of breaking up transactions into puzzle pieces and scattering the pieces across many servers is superior to end-to-end (E2E) encryption, according to Chapman. If a hacker cracks an E2E encrypted transaction, the complete card number is stolen, he said.

Chapman believes PaySentinel's process is also a hedge against the future. He estimates that in five year's time, quantum computing will hit the market.

"A quantum computer can process information much, much faster than any computer you can buy in the store today," he said. "And when that happens, we're going to have a huge issue with encryption. Current encryption is not going to be effective against a quantum computer attack."

With quantum computers, hackers will be able to break encryption ciphers instantly, he said. That's because in the quantum world, a bit of information, which normally takes the form of either a "1" or a "0", can be *both* a "1" and a "0." That means current encryption methods will not stand up to such a machine because a "master key" can be generated instantly, according to Chapman.

To protect against quantum computer hacks, probability calculations will need to be incorporated, he said.

"We're going to have to start doing more creative things to data like cloud-computing-style splitting up of data and incorporate probability in the mix," he added.

Becoming cloud centric

Of course, cloud computing is intimately connected with mobile payments, for merchants and consumers alike.

"The idea of being tethered to your office and not being able to leave there and not being able to do anything outside of your physical location is becoming more and more outdated," Goldwasser said. "Where the shoppers are transacting with you in multiple locations, where the merchants themselves are on the road and working from home or during their commute, they want to have the same level of access to all that information."

Other advantages are also becoming apparent. Pittman pointed out that franchise owners can run multiple locations from one database centralized in the cloud, without having to configure each store individually.

Furthermore, the cloud allows businesses to tie e-commerce storefronts to end-user mobile commerce customers, as well as backroom inventory control, all in real time, he added. Although SoundPOS launched its vECR only a few months ago, Pittman said the company already has over a dozen ISOs selling it.

"For the most part, our product has been very well received by most ISOs," Pittman said. "Many realize they need to evolve from selling commodity terminals to more advanced solutions like ours if they are going to remain in the game."

To stay competitive in a rapidly changing marketplace, ISOs and MLSs may have to think more abstractly and creatively about the solutions they sell. Perhaps turning their heads toward the cloud will provide inspiration, and more.

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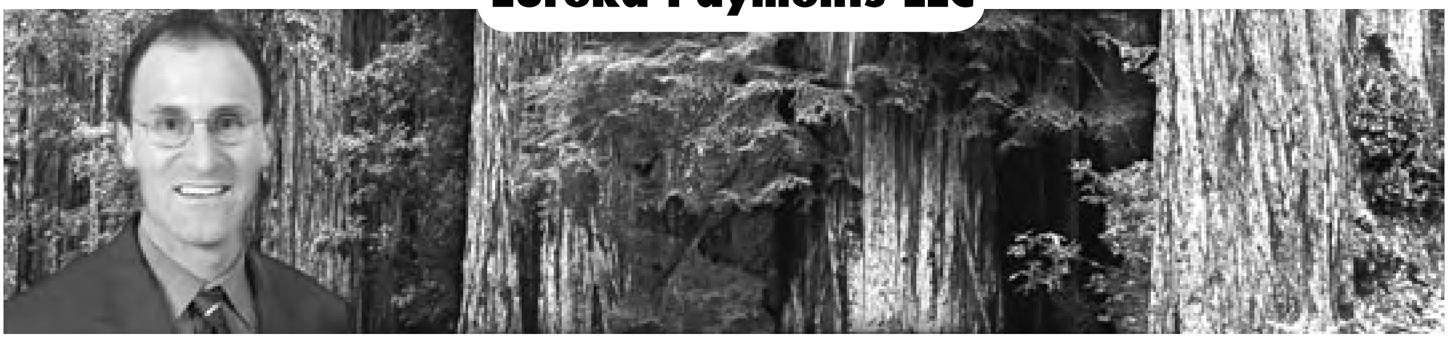

Are mobile payments a threat to ISOs? – Part 2

By Ken Musante
Eureka Payments LLC

In "Are mobile payments a threat to ISOs? – Part 1," *The Green Sheet*, Sept. 27, 2010, issue 10:09:02, we discussed a reported collaboration between Verizon Wireless, AT&T Inc. and T-Mobile USA for a smart-phone program that enables near field communication payments over the Discover Financial Services network. I asked on the GS Online Forum if this new alliance will be successful in ushering mobile payments into the economic mainstream.

In Part 2, we take up where we left off and ask whether consumers are ready for it. As stated in Part 1, there are many reasons why consumers may not be prepared for charges to be assessed through cell phone carriers.

Are consumers ready?

First, additional costs will be levied on consumers. Second, consumers often do not own their own phones or pay their own cell phone bills. Third, some devices are company phones or phones owned by family members and given to users because it is inexpensive to add phones to existing plans but relatively expensive to buy separate phone plans.

If a party who is given a phone, but is not responsible for the bill, makes purchases with that phone, it may violate the trust of the person or entity responsible for the bill.

With that said, however, **THECREDITCARDMAN** believes these issues pale compared to the benefits. Purchases billed to cell phone accounts "is where I thought this was going," he wrote. "No interchange, no bank, BIN, bull fees to split up 10 ways. I wonder how much the average credit card is used in dollar amounts every month.

Education index

"Perhaps extending $1,000 to $2,000 per cell charge credit line would limit liability. If, and a *very* big if, cell charge could incorporate the cost of the new terminals in an equation that included, say, 1 percent merchant fees, it could be shown as a net benefit to the merchant.

"Sure your rental/lease is $49/mo, but with a volume of $10,000 a month @ 1 percent, you are still saving $201/mo over the effective rate you are currently paying of 2.5 percent."

CARDPLAYER responded directly to the above: "Creditcardman, you are correct; the business model could work. However, when you talk about 'limiting' users to $1,000 of purchasing ability, realize that AT&T has 67.4 million subscribers, Verizon has 63.7 million and Sprint has 53.9 million.

"So this article is talking about an AT&T/Verizon joint venture. That means a combined subscriber base of over 130 million users. Even if half were credit-worthy of a $1,000 line, that would mean that the company would need a credit line of $65 *billion* required to be able to fund merchants for purchases made. That's a limiting factor, IMO.

"If this launched like we are talking, I see a $100 line more realistic to start, that's a more reasonable $6.5 billion capital requirement, and it also caps losses until they get it figured out. For convenience purchases, $100 is a reasonable starting place."

CARDPLAYER offered another scenario, of cardholders's credit and debit accounts being debited $25 via automated clearing house or "make it a prepaid balance that you can spend with your phone, like EZ Pass, or debit, a DDA after the fact, like decoupled debit."

Risk or reward?

WWW.PAYMENTLOGISTICS.COM discussed the likelihood of the wireless carriers managing risk and the inherent operational issues. "At the end of the day, the wireless carriers are not going to be able to manage the risk," he wrote. "We're talking about more than just credit risk. Don't forget about fraud risk, which is the real kicker for acquirers.

"And if they use their own network and not a mainstream payment network like Discover, then they have the same chicken and egg issue that anyone else [has in] trying to compete with the major card brands. Their existing subscribers will not want to adopt the payment method until merchants will accept it. Merchants won't want to accept it until there is real demand from subscribers.

"And then merchants have to form separate agreements with the wireless carriers and their vendors to fund their transactions. Separate billing statements. Separate equipment. No chance.

"The only way this works is if it goes over the existing payment network like Discover's. And that only means opportunities for acquirers like us. And if it does take hold, Visa and MasterCard will be right there in the thick of it."

STEVE NORELL introduced some recent history. He said, "A short while back ETA had their mid-year show in Palm Beach, and all of the speakers could not stop gushing about the fact that contactless was the next coming and how big it was going to be, and get on board or be left behind. *Not*. I can't wait until we go to Palm Beach again in October and hear what the next big thing that will never do a damn thing will be. Smart cards here we go."

CCGUY piled on to **STEVE NORELL**'s comments. "You can buy things now by texting on a cell phone," he wrote. "The chargeback ratio is so high it would make your head spin. People call the cell company and say I did not want this or that, etc.

"I know one company who told me the SMS [short message service] payment through cell phones works like this: they get less than 50 percent of the money – the cell phone company gets a high percentage; over 10 percent, then chargebacks are 40 percent plus. "Can you see the cell phone company letting people pay, then, at the end of the month, try to collect? … LOL."

Will they or won't they?

MARYDEES weighed in with an entirely new set of reasons why consumers might not select this solution. "Most consumers have multiple brand cards in their wallet from multiple issuers," she stated. "There are a myriad of reasons why.

"One, they can't get the credit line they are looking for from one issuer, so they have cards from two or three. Two, a certain issuer has some affinity program they want: airline miles, their alma mater, hotel points, etc.

"Three, if the consumer is a transactor and not a revolver, they know the cutoff dates for each of their cards, and their monthly use pattern is based on having the most float before they have to pay their bill.

"Four, if they are a revolver, they shop rates and take advantage of low-rate balance transfer offers.

"Five, they use cards for budgeting purposes based on what they are buying, e.g., they put business expenses on one card for tax segmentation, they put luxury purchases on one card with lower interest terms to pay over

> ***"Putting an account in a cell phone doesn't take away a consumer's other needs, it just gives them another option with which to meet their needs."***
>
> Forum Member **MARYDEES**

time, they put daily purchases on another card that may have a high rate but low fees, etc. A consumer doesn't put their business expenses or their everyday purchases on a card that revolves because it subjects those transactions to interest as well. Six, they use plastic to access different accounts, i.e. their checking account, their brokerage account, their home equity line, etc.

"For years issuers have tried to figure out how to get a consumer to use their card and only their card, and it hasn't happened because, based on how consumers use these accounts, one card could not possibly accommodate their needs. Putting an account in a cell phone doesn't take away a consumer's other needs, it just gives them another option with which to meet their needs. It's a technology looking for a market, not the other way around."

Which came first?

MARYDEES has obviously thought much more closely about which card to use than I have. In an effort to get a wider perspective, I spoke with my former boss and President of Moneris Solutions Inc., Greg Cohen.

Greg believes that, over the course of the next few years, smart phones will become payment vehicles or wallets. However, smart phones are only a fraction of the total mobile phone population today.

Greg believes this may present one of many opportunities for Discover to expand its network and that the tremendous reach of both AT&T and Verizon may make this offering different from any that have come before.

Much of the success of any initiative will be based on the telecommunication networks' efforts to drive acceptance to existing and prospective customers. Further, even if this does not lead to the groundswell of usage, it may be just the first of many initiatives for networks like Discover.

Greg believes the success of any mobile network will be in developing an open architecture through which consumers will be able to initiate payments. The net-

Over the course of the next few years, smart phones will become payment vehicles or wallets. However, smart phones are only a fraction of the total mobile phone population today.

work wins – regardless of what vehicle, solution or brand is chosen – provided the network enables that solution.

Greg acknowledged that the joint venture presents a "chicken and egg" dilemma for the industry. However, he feels that over time this will work itself out, and companies like Discover that enable others to access their networks will win, similarly to other companies that have enabled, and even encouraged, others to develop applications for their products. An example is Apple Inc.'s decision to allow outside developers to develop applications for its iPhone.

Finally, Greg believes an expanded mobile payment segment will be good for the industry. Such activity will radically increase the number of small-dollar transactions, which have higher margins and increase the acceptance channels.

For my part, this is likely not the solution that will supplant Visa Inc. or MasterCard Worldwide for the reasons I cited above and in Part 1.

What about Durbin?

As an aside, do you ever think that Visa and MasterCard were privately cheering for the Durbin Amendment so that the total cost of debit processing would go down?

The Durbin Amendment disgorged issuing bank profits on check cards yet left the card brands untouched. This then makes any encroachment by an upstart all the more difficult because the total costs in each debit transaction are artificially low. Perhaps this is one unintended consequence.

Remember, when in doubt, sell something.

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

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Prepare for shifting payment seasons

By Jeff Fortney
Clearent LLC

As summer turns to fall, landscaping in many locales needs to be prepared for the coming winter. This means it's time to trim trees and shrubs, prepare lawns to weather the winter, rake leaves, weed gardens and so on. Ignoring such tasks will result in an unsightly, damaged or even dangerous environment.

Seasons change in the payments world, too, but this often goes unnoticed. It's all too easy to get wrapped up in the day-to-day business needs.

And in some cases, climate is not an issue; the change in the calendar, rather than frosty morning air, is all that heralds the change in the seasons. You plug away and suddenly realize Thanksgiving is around the corner. As a result, your efforts, current merchant base and, ultimately, your income suffer.

The time required to recover from lack of preparation could have been spent building, not recovering – all because you neglected to tend to the needs of your "payment yard."

Maintain your yard

Two areas in your yard need seasonal tending: your merchant portfolio and your sales efforts. Each requires specific types of planning and action. Both also require honesty when evaluating and cleaning them up. Three steps toward solid "winter preparation" include:

1. Trim the deadwood.
2. Clean up the edges.
3. Prepare the lawn.

I'll explain what those steps mean to payment professionals.

Trim the deadwood

If you haven't recently analyzed your sales efforts, do so now. More effort is required to sign new merchants during the fourth quarter of the calendar year than at any other time. The competition for the same merchants is greater, and merchants who would sign easily in August won't even talk to you in December.

Analyze what you do, and closely compare your plan to what you are actually doing. Are you sticking to your plan or allowing bad habits to drift into your work day? Such lapses may seem less intrusive when the market is at its peak, but they are deal killers now. It's time to eliminate them.

If you have not stayed on top of your portfolio's management, you may have many merchants on board who are losing you money. Address them first.

Closely analyze your residual reporting. It's easy to say that every month you should thoroughly review your reporting, but it's tempting to just look at the total and say it's in line with your expectations. However, by so doing you are missing potential errors, or even losses that, with minimal effort, can be addressed.

Start by asking these questions: Are any merchants losing your business money? (Size of the loss doesn't matter.) If a merchant is causing a loss, has the merchant business changed practices? Has the average ticket changed? Or does a billing error need correcting?

If the merchant's actions have caused the loss, determine your options. There is no reason to keep a merchant who loses you money. This should be a priority.

Clean up the edges

It is necessary to shape your sales efforts to the season.

Recognize the limited sales time available, and laser-focus your actions. You can't just say, "I will make 10 calls today." You must schedule your calls by industry type and schedule through the end of the year.

For example, retailers are still listening to merchant level salespeople in October and the first two weeks of November. But as you get closer to the peak sales season, they are less likely to listen.

Instead, they are inclined to put you off until January at the earliest. Therefore, be very specific regarding your calling plan through the end of the year, and design a call plan that targets merchants who are not affected by the holidays.

You must also closely examine your portfolio to identify and analyze merchants who are at risk. If you have access to ongoing volume reports, see if there are merchants experiencing drop offs in volume.

For those who are experiencing declines, reach out and determine if they are leaving your portfolio, having problems or just experiencing slower sales.

Make sure you reach out to your profitable merchants as well. Make outbound calls to all your merchants to check in or ask about the information you have culled from your analysis of their transaction activity.

Ask them how they feel about their market sectors, listen attentively and make notes regarding what they say. That information will help you in the future.

Make these calls now – before Black Friday.

Prepare the lawn

Next, regroup for the coming year. We spend so much time selling that we neglect to answer essential, building-block questions, including:

- What will your business objectives be for 2011?
- What will your marketing efforts look like in the coming year?
- What can you do that will be unique? What will set you apart?
- What lack of knowledge or skill is holding you back from the next level of success?

Failure to address such questions could result in an ineffective sales program throughout the year, which could have long-lasting repercussions.

The answer to some questions may require that you research the market, schedule training or take other steps needed to make 2011 a better year for your business than 2010.

Also, review your merchant portfolio and ask these questions:

- Who has furnished you referrals this year? Have the individuals sent more than one? What have you done in return?
- Who pledged to refer merchants but hasn't? What have you done about that? Did you give anyone lower rates because of this promise? (Hopefully, that isn't the case.)

Reward those who have furnished you business, and seek new opportunities from the rest. If you are ignoring the benefits inherent in having satisfied customers, you are neglecting a powerful marketing opportunity.

Even though, for some of you, it's still balmy enough to wear shorts outside, if you don't act now, you will miss out on great opportunities in 2011 – opportunities you may never know you had.

Now is the time for winter preparation.

Jeff Fortney is Director of Business Development with Clearent LLC. He has more than 12 years' experience in the payments industry. Contact him at jeff@clearent.com *or 972-618-7340.*

International designs at the DRF

By Carrie Hometh
Payvision

There's not an aspect of the electronic payment processing industry that is immune to the expanding globalization of the marketplace. One area that has seen tremendous impact is the card-not-present (CNP) arena. At an August 2010 conference sponsored by the Direct Response Forum, international issues were front and center.

Highlights of the conference

The DRF (*www.directresponse.org*) is committed to helping merchant service providers that process CNP transactions. It serves CNP professionals by providing information about best practices, networking opportunities, advocacy for merchants, and access to the industry leaders shaping CNP processes and regulations.

The DRF provides an exclusive venue for peers to meet and share practical solutions that address the unique challenges facing the payments industry.

DRF conferences do not allow exhibitors and request that normal sales activities be curtailed to allow for a greater opportunity to exchange information and contacts. Its goal of improving the international payment processing industry as a whole is reflected in its mission statement: "Protect and positively influence change within the rapidly evolving card-not-present payments industry."

This year's conference was held in Memphis, Tenn. It is one of my favorite conferences because there are more honest discussions among competitors at the DRF than at any other industry event. This is because of the no selling, no media and no pitching requirements set by the DRF. It is all about open dialog that focuses on the concerns of our industry, with the intent to improve our experiences and those of our merchants.

Alternative payments

One of the most compelling dialogs conducted dealt with alternative payments – an area of globalization that involves more consumers than you would think. According to Forrester Research Inc., three-quarters of U.S. online buyers have an alternative payment account.

These transactions represented 11 percent of total online payments in 2009 and are expected to reach 12 percent by 2011. Because alternative payment solutions cost 15 to 20 percent less for merchants, there is continued interest in this offering, especially for international merchant accounts.

Forrester determined that 20 percent of consumers think about what payment type they will use during their shopping experience. If your merchant offers an alternative payment that is cheaper and preferable from an operational standpoint, the merchant can put an icon on his website to promote it and, as a result, garner increased international and domestic traffic.

International alternative payment methods include different types of debit cards and bank transfers, depending on the country and region, so you should be aware of the needs of your international merchant's customer base.

For example, European local bank transfers (a push mechanism with no-reversal risk, seven-day settlement) require consumer mandates at the bank. Refunds are not available in every country, and some banks demand a manual process for each country with different required fields.

This payment type may slowly decrease in favor of real-time bank transfers. Real-time bank transfers (now officially called "online banking enabled ePayments") are quickly growing, enable immediate shipment and are recognizable to consumers, with guaranteed funds everywhere but Germany.

Another popular alternative payment that has a substantial international presence is direct debit. Direct debit methods are commonly used to pay mortgages and utility bills throughout Europe and are geared toward recurring payments with varying amounts.

It is important to stress that acquirers, ISOs and merchant level salespeople should help their merchants establish best practices and teach them to explain the transaction process to consumers.

If you are talking to a merchant and he or she doesn't know all the different forms of payment, present the choices that are appropriate for that merchant's customers. It was stated repeatedly throughout the DRF conference to never offer more than three to five payment types per country. The main reason: to avoid consumer confusion.

When children are very little, you select clothes for them to wear. You'd never put them in front of their entire wardrobe and tell them to pick something. They would be overwhelmed. The same holds true for CNP consumers; they can get overwhelmed looking at dozens of payment types, some of which aren't even appropriate for their country.

Country-specific debit cards

Country-specific debit cards are expected to consolidate over the next couple of years, and International Maestro is emerging as the major player. Owned by MasterCard


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Worldwide and used globally outside of the United States, Maestro is most popular in Europe. According to recent figures, 310,000,000 cards have been issued. That's a lot of global sales. Do your international merchants offer Maestro on their websites?

Visa Inc. is focusing its e-commerce activities on online authentication as well as a new web-based service called RightCliq (*www.rightcliq.visa.com*). This new offering is an enrollment service that provides a social network for consumers to share information on their purchases and transactional experiences – sort of a blog for CNP transactions worldwide.

It is geared toward younger, hipper, tech-savvy consumers who are comfortable texting, tweeting and sharing information electronically.

Visa also has frozen dynamic currency conversion for online transactions. For more details on this, Visa recommends reviewing its April 2010 international operating regulations (*http://usa.visa.com/download/merchants/visa-international-operating-regulations-main.pdf*).

Registration in Europe

Another topic that promoted lively dialog at this year's DRF conference was the issue of getting merchants registered in local European regions. Many ISOs ask, "What difference does it make and why should I go through the trouble of getting registered in Europe to offer local currencies? Why not just offer multiple currency conversion (MCC) and settle in USD?"

Is there benefit to securing European registration? Absolutely. The primary reason is that it is significantly cheaper. U.S. merchants experience an approximate 2.8 percent reduction in interchange, an improved cardholder experience and elimination of international transaction fees.

MCC requires nonqualified fees, cross-border fees and assessment fees. That's a whole bunch of fees that don't exist with European registration. The important issue is to select an experienced, reputable global processing partner that is knowledgeable about European registration.

As with any other aspect of conducting business, do your due diligence.

Carrie Hometh is a respected industry professional in the international marketplace with more than two decades of global experience and expertise. She currently serves as Senior Vice President of Sales and Marketing for Payvision, a leading international payment solutions provider that offers a comprehensive suite of products and services that include global acquiring, multicurrency processing and alternative payment solutions. She can be contacted at c.hometh@payvision.com.

The coming changes to PCI

By Tim Cranny
Panoptic Security Inc.

The PCI Security Standards Council is preparing to release updated versions of the Payment Card Industry (PCI) Data Security Standard (DSS) and the Payment Application DSS. Since these standards are the foundation for everything else in PCI, all players in the industry need to know what is happening and what the short-term and long-term implications are.

This is particularly true for those in the chain of liability, such as acquirers, ISOs and merchant level salespeople.

One bit of good news is that the changes do not represent any sort of upheaval that will generate a lot of emergency-response work. However, there are things that should concern payment professionals, in terms of both what is and what is not being changed. This article will look at the proposed changes, what they say about PCI and what should be done.

Most of the proposed changes are described as clarifications or additional guidance and shouldn't cause anyone angst. For example, the first is "Clarify that PCI DSS Requirements 3.3 and 3.4 apply only to PAN [primary account number]. Align language with PTS [PIN Transaction Security] Secure Reading and Exchange of Data (SRED) module."

These sorts of clarifications reduce confusion and ambiguity. Of the 12 proposed changes, nine are essentially similar.

Key changes to PCI

The other three proposed changes are not so simple. Some are classified as evolving requirements and appear to be the first small steps toward genuine change at the heart of PCI.

The three proposed changes (in my own preferred order) accomplish the following:

1. Expand the definition of system components to include virtual components
2. Clarify that all locations and flows of cardholder data should be identified and documented to ensure accurate scoping of the cardholder data environment
3. Update requirements to allow vulnerabilities to be ranked and prioritized according to risk

None of these initially seem substantial, but they raise key points about what PCI is and isn't, and they hint at how PCI will evolve over time.

Let's start with the first of the three points: virtualization. More than almost any other comparable security standard, PCI is specific and prescriptive about details. Rather than taking an approach of "you have to identify problems and fix them," it lists hundreds of specific issues that have to be dealt with.

This approach has some real value (particularly when the intended user base doesn't know much about security and is hungry for detailed guidance), but it does lock everyone, including the standard creators, into an ugly race to keep up on how those details change.

If the details are the totality of PCI, the council has to ask itself: What details do we have to include now that virtualization is becoming common? What about tokenization? End-to-end encryption? Cloud computing? Mobile computing?

Keeping pace with new technology

Technology, industry changes and the arms-race nature of security guarantee there will always be something else coming down the pike.

The council can't do a new version of the standards every six months, nor can it just ignore the new details and only talk about the old details (otherwise you would end up with a slogan along the lines of "PCI: protecting you from last year's threats, today").

This tension, between slow-enough-to-be-manageable and fast-enough-to-be-useful, is a real problem, and there aren't many real answers:

- **Core and explore:** This is a dubious idea and not my preferred option, but it is possible to reduce this tension by having a core standard that doesn't change quickly, but that is complemented by a more rapidly changing details list or supplement that can be updated every six or 12 months in the face of changing threats and technologies.

- **Escape from the details trap:** The key problem is that details change, so if you talk about them too much, you're not allowed to stop talking about them. One approach is to step back from details and move to a more complete, but less detail-oriented, approach.

In "Rough seas for PCI," *The Green Sheet*, March 9, 2009, issue 09:03:01, I wrote, "The standard should keep all its specific requirements, but increase the emphasis on general risk management, particularly for service providers and larger merchants (it is mentioned in PCI, but in a low-key, incomplete way).

"The two approaches are complementary: the explicit requirements can lock in specific desirable achievements and give smaller merchants invaluable guidance, while a general risk management requirement could stop larger organizations from hiding behind a 'we did everything you asked' justification."

What is interesting is that the second and third of the evolving requirements show some real signs of PCI moving in precisely that direction.

A risk management approach

A risk management approach requires users to follow a process similar to the following:

1. Identify all assets that need to be protected. (This includes more than money and physical assets; it includes sensitive data, company reputation, legal standing and other assets.)
2. Identify which threats apply to those assets. (Threats can include everything from hackers to embezzlement to accidental loss to earthquakes.)
3. Decide what constitutes an acceptable level of risk for these threat-asset combinations. (Assigning a value of zero is unrealistic; you need to think in terms of managing risk down to a reasonable level, not extinguishing it completely.) By estimating the likelihood and the consequences of a particular threat, you can calculate a risk rating of that particular threat scenario.
4. Address threats that have a risk rating above the level you have determined to be acceptable. This means applying additional security measures to reduce the likelihood or consequences, or both, of the underlying threat, until the risk is acceptable.

This sort of approach, if done correctly, is largely immune to the details trap, but it puts a greater burden on those doing the risk assessment to identify and manage the details. The greatest danger (after laziness and the belief that "it won't happen to us") is failure to anticipate a given risk scenario until it's too late.

For that reason, many standards don't abandon the details; they use an approach like, "Do your own risk management, but at the very least, remember to consider the following details."

This captures the better of the two approaches and is, I believe, the most likely path that PCI will take on the way to maturity.

The upshot of this path for PCI is that it is going to become more complicated and less open to the "check the box" approach that some people use today. ISOs and others who want to handle PCI properly should start thinking now about the dangers of a short-term, quick-and-dirty approach, and consider either developing a sophisticated approach in-house or partnering with a specialist security company that can guide them to that next level of maturity when the time is right.

Taking this smarter approach to PCI is already a good idea (in terms of security and proper portfolio management) and is starting to become a necessity.

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

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Brand messaging and corporate identity

By Peggy Bekavac Olson
Strategic Marketing

During this past week, two very different payments industry companies approached me about what I believe to be the most important marketing initiative they could undertake to improve their businesses and fuel growth. Executives from each of these companies are contemplating significant marketing spend and are considering enhancing their websites, sales brochures and presentations; engaging in advertising, public relations or direct marketing; and even jumping head first into social media.

My response to these companies was simply this: Get your brand messaging and corporate identity solidly in place. Then create guidelines for your marketing team, employees, freelancers and agencies so they can deliver a consistent image and message across all marketing channels and tactics.

Why brand identity is important

While the big, bank acquirers and card brands typically have brand and corporate identity down pat, many players in our industry don't understand the power that a consistent brand message and corporate identity can have on their businesses. How well and consistently you deliver on your message and identity determines the value of your brand and, ultimately, the level of your business success.

Before any company embarks on executing a slew of marketing programs and tactics, it should have a solid strategy with a brand promise, positioning and messaging in place that articulates who the company is, what it does, what it stands for, the value it delivers and how it is different from the competition. It also should have a strong corporate visual identity developed that properly reflects the brand promise, positioning and messaging. This requirement sounds simple, but you'd be surprised how many companies don't complete this essential, primary step.

Often, various people throughout the organization, external resources, and sometimes even friends and family, create a mishmash of disparate marketing communications materials such as logos, brochures, presentations, websites and advertising, with no clear message or common visual look and feel. The result is confusing and ineffective communication to critical audiences such as employees, stakeholders, merchants and the payment marketplace. It also limits the ability to build significant brand equity.

Taking stock of your brand

So what can you do if you find your company in this situation? Revitalizing your brand is a reasonable approach to build on what you already have in place.

Do-it-yourselfers should take a look at some of my previous articles in *The Green Sheet*. "Clarify Your Brand and Use It," Feb. 8, 2010, issue 10:02:01, and "Developing a Relevant, Compelling Value Proposition," March 8, 2010, issue 10:03:01, which contain tips to jumpstart the process of developing a sound brand promise as well as compelling and succinct messaging and positioning.

Then take a look at your company's visual identity. Are your logo mark, color scheme and corporate style professional? Are they suitable for the payments industry, and do they reflect the true nature of your business and offerings?

Know that you can enlist professional help to shore up the visual, verbal and written manifestations of your brand. Often, outsiders with strong brand expertise have a clearer, independent view of your company and can quickly help you identify and fix any issues.

Once you have these elements in place, a set of brand guidelines that specify how your brand should be used can be created. This gives everyone in your organization, and even outsourced resources, relevant instructions on how to properly apply your brand across marketing communication materials and tactics for a consistent brand experience.

Components of brand identity

A brand guidelines document typically refers to these resources and concepts:

- **Brand promise:** A succinct articulation of your company's promise of value
- **Brand attributes:** Key words that identify how you are different from the competition
- **Brand positioning:** A statement of the problem you're trying to solve and for whom, what business you are in, what you stand for and how you differentiate yourself from the competition
- **Brand messaging:** Messages created specifically for each of your company's audiences (typically employees, stakeholders, merchants and the payment marketplace) that expand upon the brand promise, attributes and positioning
- **Tone of voice:** The conversational style that indicates your brand's personality

- **Logo specifications:** The acceptable size limits and adjustments for your logo and recommendations on how to use clear space
- **Logo applications:** Specifications on when to use the color, black, white and tagline versions of your logo and how they should be applied on various backgrounds, from photographs to corporate apparel, gifts and tchotchkes
- **Color palette:** Primary and secondary Pantone, CMYK, RGB and web colors
- **Typography:** Acceptable primary and secondary fonts available; font size and style for titles, headings, body copy; bold and italicized options; and capitalization rules
- **Trademarks:** Definitions of when and how to use trademarks if any are specified
- **Imagery:** Standard, approved photography and art available for general use, plus guidelines on selecting alternative imagery for specific marketing applications
- **Iconography, patterns and design elements:** Icons, patterns or design elements that allow your brand to convey a simple message at a glance
- **Email:** Examples of email headers and electronic signatures
- **Templates:** Templates available for use, such as electronic letterhead, fax cover sheet, memorandum, internal communication form, report, proposal and PowerPoint presentation
- **Stationery:** A list of stationery items available for use such as letterhead, envelopes, mailing labels, pocket folders and notepads
- **Implementations:** Examples that demonstrate the correct application of the brand guidelines across a wide range of communication materials

Reaping the rewards of a strong brand

A brand's power and success largely depends on how consistently you present your corporate visual identity and articulate a common voice across all audience touch points. Brand guidelines are designed to help you do just that.

Whatever you may think, people do judge books by their covers. Having a professional, appropriate and up-to-date brand and corporate visual identity indicates a professional company. This is something that should not be underestimated, because good brands depend on a compelling corporate identity that builds positive messages wherever the brand interfaces with its employees, prospects, customers, stakeholders and the marketplace in general.

The strongest brands leave no doubt as to what they stand for. Use your brand and corporate visual identity to deliver a consistent image and message to the marketplace about what they can expect. Use brand and corporate identity to differentiate your company from the competition, add value to your products and services, engage better with prospects, create a preference and build customer loyalty.

My recommendation still holds firm for all payments industry companies. The single most important thing you can do to improve your business and fuel growth from a marketing perspective is to have your corporate messaging and identity solidly in place with brand guidelines that guide your brand's application and execution across all marketing activities and initiatives.

Put brand to work for your organization and experience its power through greater recognition, enhanced reputation, increased sales and a sustainable competitive advantage.

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

Legal ease

Partnering in an ISO business

By Adam Atlas

Attorney at Law

It typically takes more that one person to build a successful ISO. Bringing in a second person raises the issue of how to legally structure a business that has more than one owner. This article highlights common methods of building multi-owner ISO businesses and addresses key issues related to such ventures.

Imagine two partners: Mr. Cash, who brings money to the table, and Mr. Sales, who brings industry experience and the ability to sell. Let's say Cash wants to invest $100,000, and Sales intends to work full time on the project. Also, they each plan to own 50 percent of the business.

Companies with multiple stockholders

One traditional form of organization for a business with more than one owner is an incorporated company in which each owner holds some of the company's shares. For the Cash and Sales venture, Cash and Sales would each own 50 percent of the company's stock.

Cash would acquire his shares in consideration of his financial investment; Sales would acquire his shares in consideration of work he promises to do for the business.

The company is a separate legal entity from each of its stockholders. With a number of important exceptions, such as fraud, stockholders are not liable for the acts of a company they own.

In terms of liabilities specifically related to the merchant acquiring business, some ISO agreements may require the stockholders to guarantee the obligations of the ISO business; others will not.

Stockholders/operating agreements

Cash and Sales should take time to plan for various events that may bring their different, and likely conflicting, needs and opinions to light, for example:

- **Sale of stock:** Should the owner selling his stock sell to a third party, or should he first offer his shares to the other stockholder?
- **Need for additional financing:** What are the rights and obligations of the stockholders if the company needs more money? Can one partner be forced to invest more?
- **Anti-dilution:** If new investment comes into the company, how will that impact the 50 percent holdings of each shareholder?
- **Death or disability of a stockholder:** How will the business function if one stockholder can no longer be involved? Who will inherit and control the inactive stockholder's 50 percent?

There is a long list of other issues that can arise between stockholders. Most corporate lawyers will be able to propose a general form of an operating agreement and then tailor the form to meet specific business needs.

Partnerships

The term "partnership" is used to describe many forms of relationships, and not all of them are partnerships in the legal sense of the word. A partnership, put simply, is an agreement by which two or more partners agree to share in the profits and losses of a business.

Law firms are often organized as partnerships in the personal names of lawyers, so that all the partners become personally liable for the wrongdoing of their partners. In an ISO project, Cash and Sales could decide to be partners and share equally in the profits and losses of the business.

A partnership is usually evidenced in writing between the parties and need not involve the issuing of stock. Unlike a company, a partnership involves the personal liability of both Cash and Sales, unless they use companies to hold their respective partnership interests.

In forming a partnership, Cash and Sales will want to consider the various scenarios contemplated in a typical stockholder agreement and decide which clauses should be worked into their partnership agreement.

I am not a fan of partnership agreements for ISO businesses unless the parties are sophisticated and understand they may each become fully liable for the liabilities of the partnership, including those caused by the other partner if said partner does not assume responsibility for them.

Loan and referral alternatives

If Cash is involved only to supply money, it may be simpler for Sales to get a loan from Cash rather than complicate the matter by issuing stock to Cash.

Naturally, Sales should expect Cash will want to take a lien on the ISO business that is borrowing funds under the arrangement. Cash may also wish to be party to the ISO agreement as another way of securing some of his rights to be repaid on his investment.

Rather than complicate matters with equity, Sales may simply want to refer merchants to Cash for Cash to board on his own ISO agreement. This kind of relationship is a traditional agent or referral relationship, but it is upgraded to include financing of Sales' business either by

Partners should retain a qualified accountant to help in the structuring and administration of the business. Depending on the new entity's form, the tax implications for the partners and for the entity itself could be different.

established payments from Cash to Sales or by advances from Cash on future residuals.

Other issues to address

Partners should retain a qualified accountant to help in the structuring and administration of the business. Depending on the new entity's form, the tax implications for the partners and for the entity itself could be different. Input at the early stages is critical, as changing the structure at a later stage could trigger unintended tax liabilities, such as tax on capital gains for the transfer of shares.

Whatever form of association Cash and Sales choose, it is imperative that they establish rules protecting their merchant portfolio from one another's wrongdoing. For example, if Cash poured a significant amount of money into the ISO, and Sales used it well to build a large portfolio of merchants, Cash would want Sales to be prevented from moving those merchants to another processor because it would deprive Cash of a share in the residuals from those merchants.

The issues a partnership between Cash and Sales bring up are too numerous to list or analyze in one article. There are also a number of structures for relationships between partners that I have not had space to explore here.

It's important for partners to devote time to discussing their visions for any proposed venture and put on paper some rules of engagement to help both parties draw the most from their respective investments.

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

NewProducts

Bundled terminal and data plan

Product: Wireless Value Bundle

Company: ExaDigm Inc.

Through the decoupling of a payment terminal and the wireless data plan on which it runs, POS solutions provider ExaDigm Inc. is offering what it believes is an unusually cost-effective payment acceptance plan.

ExaDigm's Wireless Value Bundle is a mobile, purpose-built payment terminal combined with a national wireless data plan that clients rent for one monthly fee. According to ExaDigm, no other fees are involved – no upfront conversion cost, no cost for the terminal and no per transaction fees for using it.

"We own the manufacturing and the hardware, and we have our own wireless service program, which, unlike a gateway, there's no transaction fee you pay per day," said Scott Holt, Senior Vice President of Business Development for ExaDigm. "Because we're not involved with any third party, it really drives that cost down."

The company noted that the terminal is Payment Application Data Security Standard compliant and includes a PIN option for PIN-based debit, a swipe piece for swipe payments and a receipt printer. The terminal is mobile, but is also big and sturdy enough to be used as a countertop terminal at brick-and-mortar locations, said Maribel Davis, Director of Sales for ExaDigm.

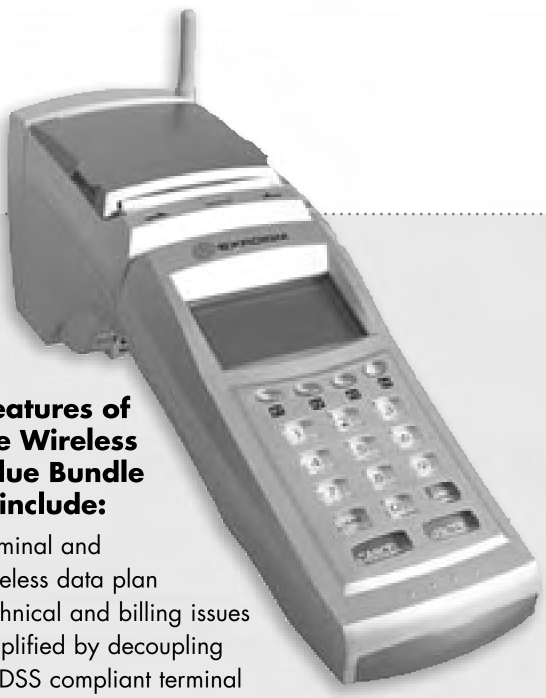
Billing and technical matters simplified

The terminal runs on a Linux operating system that allows software and application changes either over its wireless connection or through a plug-in to the terminal's USB port. The service includes a 24/7 technical support line, and Holt said both technical and billing issues are made easier by virtue of it all being under the jurisdiction of one company.

"One value add is that, because we're a single billing entity, the ISO is not having to deal with multiple different providers," he said.

"So the small guy that doesn't have that infrastructure, we provide that for them. It's a very simple solution, it's straight out the door, they don't have to worry about any infrastructure, and it's a very easy way to build a portfolio."

ISOs that subscribe to the Wireless Value Bundle pay the monthly fee and can then either sell it to merchants for the same amount or mark up the price – although Holt said ISOs are encouraged to keep the price low so as not to defeat the purpose of the value bundle.



Features of the Wireless Value Bundle include:

- Terminal and wireless data plan
- Technical and billing issues simplified by decoupling
- PA-DSS compliant terminal
- No cancellation fees for terminal reassignment
- 24/7 phone support

Reassignment option to escape fees

Davis said ISOs that rent the Wireless Value Bundle are beholden to a 12-month contract, but they are not necessarily subject to cancellation fees if a merchant drops the plan before that 12-month period elapses.

"In the event that a merchant decides to cancel, the ISO needs to get the unit back from them, and then he can reassign it to another merchant without incurring any cancellation fees from ExaDigm," she said.

Davis added that the product is an "easy and cheap" way for merchants to make PCI upgrades without major outlays or technical work.

"Rather than having to buy a whole new system, you can get this for $25 a month and it's instantaneous PCI compliance," she said. "They don't need to worry which application do I need to download, or will the current manufacturer even support an upgrade to the top level? Some just can't be upgraded."

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- United Bank Card CEO Jared Isaacman has personally written a rate and service guarantee stating that rates and fees will not be raised in order to fund this contest and that UBC's high level of service will not be compromised due to this influx of merchant accounts.
- An outside law firm, The Lustigman Firm, has been enlisted to help ensure that the promotion has been structured in a legally compliant manner.
- The contest drawing will be observed by Weiser LLP, an independent accounting firm.

No Purchase Necessary. UBC Million Dollar Giveaway starts on September 1, 2009 and ends on the date in which there are 27,000 entries or August 31, 2010 at 11:59PM ET, whichever is sooner. Promotion is open only to Sales Associates (as defined in the Official Rules) of United Bank Card, Inc. that are located in the fifty (50) U.S. states (and D.C.) 18 years of age or older. For official rules write to United Bank Card, Inc., PO Box 4006, Clinton, NJ 08809. Void where prohibited. Sponsor: United Bank Card, Inc., PO Box 4006, Clinton, NJ 08809.

For more information, contact:
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Jonathan Brandon, National Sales Manager East: 800-201-0461 x 145
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Inspiration

WaterCoolerWisdom:

When we get too caught up in the busyness of the world, we lose connection with one another – and ourselves.
– Jack Kornfield

Connect by disconnecting

When businesspeople go on vacation, sometimes they have the wisdom to leave their smart phones and laptops behind. Ideally, vacation entails time spent away from today's prevalent "always connected" mentality. It's hard to decompress and relax when the cell phone vibrates with another incoming text message or your laptop beckons to check email.

Leaving the hardware behind while on vacation gives you the chance to navigate your new environment with all senses engaged. You interact with people face to face instead of over the phone. You explore back roads instead of experiencing them virtually on Wikipedia. You talk with companions about subjects that cannot be contained in an email. In short, you allow yourself a break from all those things that define your daily grind.

And what happens when you return to the office? Most professionals are glad for having had those experiences – experiences characterized by how different they were from events in their everyday lives.

Unwire yourself

But what keeps ISOs and merchant level salespeople from employing that same mentality as a business strategy? By unplugging once a week, or once a month, and conducting business as you would an adventure-filled day in some exotic locale, the results may be rewarding, both personally and financially.

Imagine this: Instead of checking email, as you do every morning, you pop in on a few local merchants and ask how things are going. Maybe on your excursion, you notice a new business just opening shop – the perfect opportunity to introduce yourself and the services you offer. Instead of communicating with a colleague via Facebook, you stop by his or her office and connect one-on-one. During the conversation, your colleague reveals a personal problem. Maybe it's not the right time to offer advice, but by being there to listen, you have just deepened that relationship; when an opportunity arises for that person to return the favor, it can be nothing but helpful for you.

Instead of talking on that cell phone at lunchtime, you eat your meal on a bench in the park. If it's a busy place, maybe you see a selling opportunity with a hot dog vendor who has a sign saying, "Cash Only." If it's a quiet place, maybe you remind yourself to bring a book to read next time.

Make the connection

Of course, staying connected via technology is vital to doing business. But nothing can replace face-to-face, in-person conversations and direct interactions with the real world. The best conversations are those that go off in unexpected directions. And the best experiences happen when you step out from behind your computers. By disconnecting from devices that keep us removed from actual people and actual experiences, if even for a short while, we open ourselves up to new possibilities, both in business and in life.

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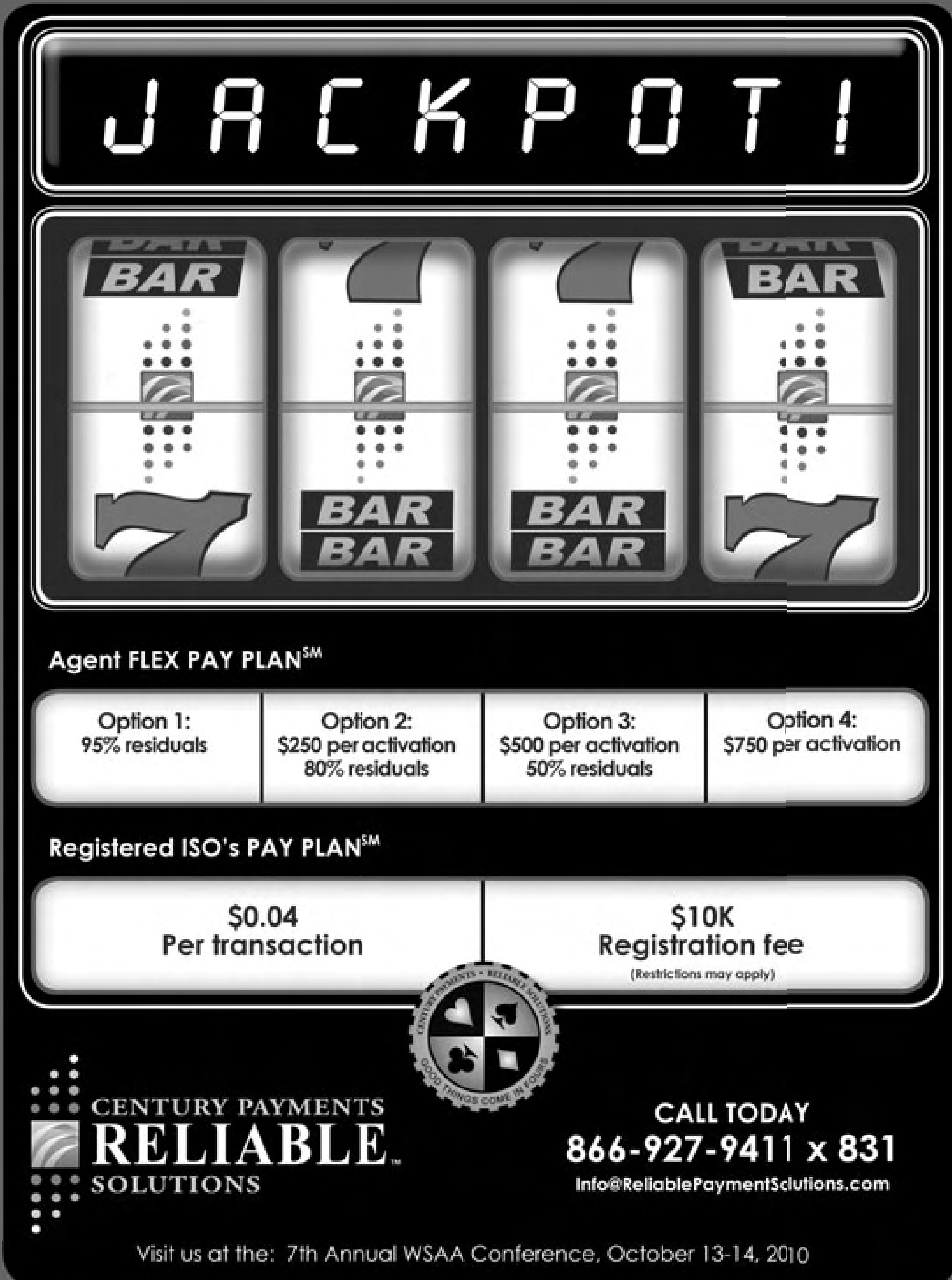

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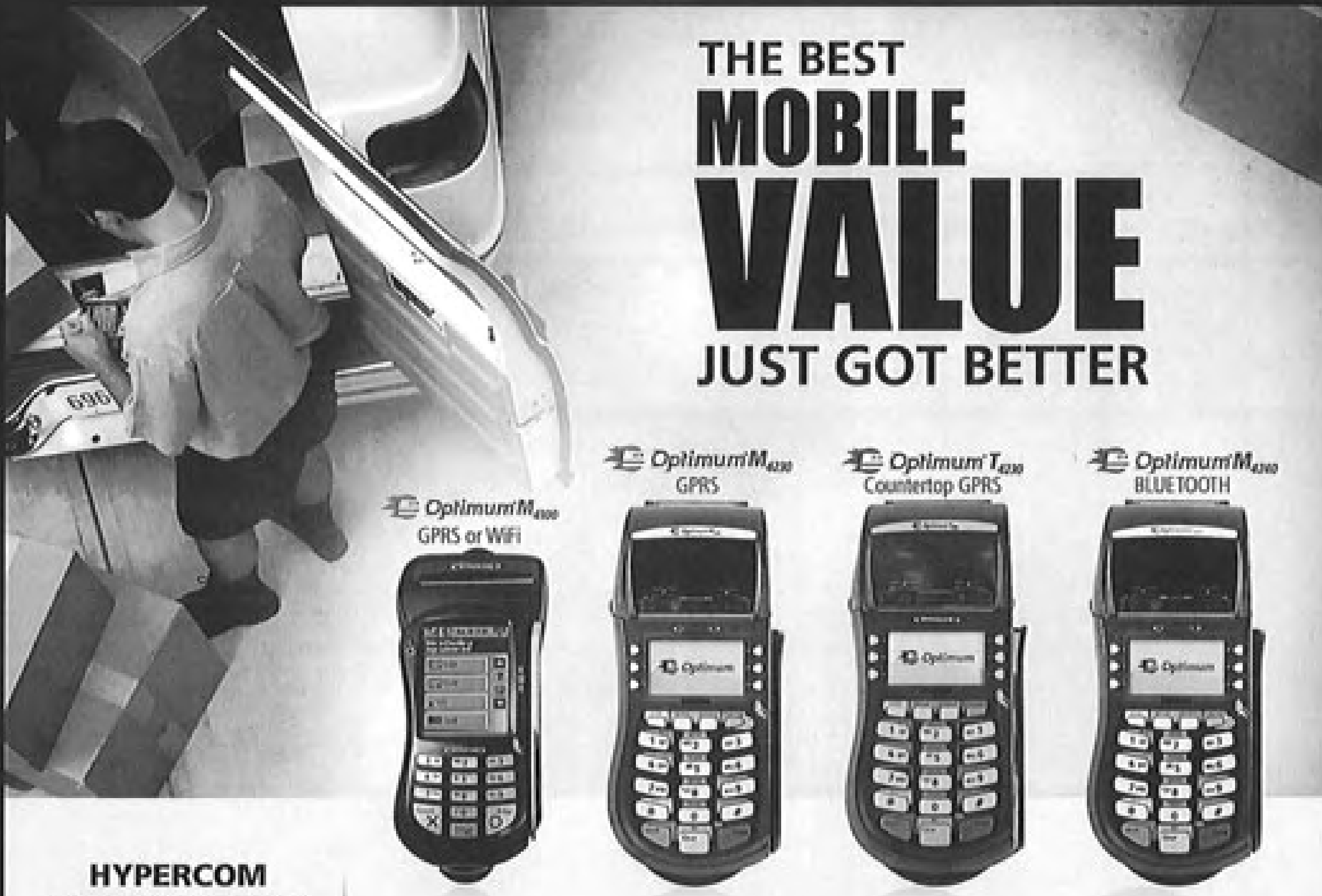

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CHARGE CARD SYSTEMS, INC.

For more information on how to increase your revenue potential with CCS, contact Adam Moss at 888.505.2273 ext. 207 or Jeffrey Shavitz at 888.505.2273 ext. 205

See Reverse Side for Complete CCS Program Benefits

Does Your ISO Offer The Best Opportunity To Maximize Your Income?

Top 5 Questions to Ask Your ISO

1. Do you offer 12-Hour Funding, including on American Express?
2. Can I get access to my own Line of Credit up to $100K to build my business?
3. Do you offer access to 9 payment platforms?
4. Can you place unconventional and high risk merchant accounts, and merchants with poor credit?
5. Do you have mobile processing solutions – including the iPhone, BlackBerry, wireless and more?

Charge Card Systems Offers All Of The Above And More

CHARGE CARD SYSTEMS' COMPLETE PROGRAM BENEFITS:

- **Up to 70% Residual**
- **Activation & Conversion Bonus** up to $750
- **Low Transaction Fee** on all Retail, MOTO & Internet Processing; Dial-up & IP
- **12-Hour** Funding on All Card Types
- **Canadian Merchant** Processing
- **Retirement Program**
- **Access to Multiple Platforms** including First Data Omaha, Nashville, North, Buypass; PNS, Vital & Global
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- **Online Applications** (Coming Soon)
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We've changed our cost structure to give you **8x Upfront Bonuses** and **3.5¢ (dial-up)** and **2.5¢ (IP)** pricing.

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OR

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