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November 8, 2010 • Issue 10:11:01

# Making hay of new IRS reporting requirements

By Adam Atlas

Attorney at Law

**A**s of Jan. 1, 2011, certain ISOs, acquiring banks, processors and third-party payment providers will be obliged to keep track of merchants' gross credit card, debit card and third-party payment (such as those made through PayPal Inc.) receipts.

These are not the printed receipts from purchases at the POS but those from deposits made by an acquirer or other service provider to a merchant account for settlement of electronic transactions. Given that the bulk of income for most merchants is derived from credit and debit cards, this reporting makes sense from a public policy perspective.

The reporting applies to merchants who sell more than \$20,000 worth of goods and conduct more than 200 electronic transactions annually.

## The 1099-K

Service providers that make direct payments to merchants for their credit and debit card and alternative payment transactions – dubbed "payment settlement entities" and "third party payers" by the Internal Revenue Service – must report this data to merchants and the IRS yearly via a 1099-K form for each merchant, beginning in early 2012 for the 2011 calendar year. And merchants must report this income on their business tax returns.

The "payment settlement entity" to which the form refers is whatever party deposits credit and debit payment settlement money into the merchant's account – be it an ISO, acquiring bank or processor. "Third party payers" are alternative payment companies like PayPal that do not use conventional payment settlement channels and would thus fill out their own 1099-K form in place of, or in addition to, the one turned in by the company settling traditional credit and debit purchases.

Pursuant to IRS Regulation 139255-08, developed in accordance with the Housing and Economic Recovery Act of 2008 and finalized in August 2010, the reporting will reflect a merchant's gross amount of credit and debit card receipts, before the deduction of chargebacks, returns and refunds. Thus, the IRS will be able to assess the reliability of merchants' accounting through the lens of their most important source of income: acquiring entities.

## The impact on ISOs and MLSs

The implications for ISOs and merchant level salespeople (MLSs) are different than those for merchants, of course. And as recently as October 2010, ISO agreements from major processors were being amended in anticipation of the



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**Notable Quote**

**I have many friends who are just now choosing to enter our space; they wouldn't be doing so if they didn't believe opportunities existed. And, if you truly are negative about our business and its future, find a new career.**

See story on page 69



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# Forum

## A request from academia

I'm working on a thesis dealing with the electronic payment industry and have three questions I've been unable to answer through other research channels. I was hoping you could help me. The questions are:

1. What is the basis of competition between ISOs?
2. Are gift card/rewards program services potentially a large competitive differentiation?
3. What other sorts of competitive differentiation are there?

Jon Schneider  
University of Dayton

Jon,

I referred your questions to Theodore Svoronos. He is a member of our advisory board, as well as co-founder of Merchant University, which provides educational information on the payments industry at [www.merchantuniversity.org](http://www.merchantuniversity.org). He graciously provided the following:

1. The fundamental areas shaping competition among ISOs are:

- **Price:** Price used to be the differentiator a long time ago. This has changed since most ISOs can offer similar, competitive pricing. So it evolved from price only to price and equipment (discounted, leased or free) and now to price, equipment, contract length, additional fees and customer service as a basis of discussion. Though price is still a leg in the foundation of differentiation, these other factors are coming in strong and are carrying their own weight when comparing ISOs.

- **Additional fees:** An ISO could have the lowest price but could charge the following: cancellation fee, gateway fee, yearly fee, monthly fee, statement fee, support fee and other miscellaneous fees. Other ISOs may charge some, all or none of these fees to get the business.

- **Contract length:** Some contracts are 36 months; others can be month to month, yearly, etc., with no early cancellation fees or penalties. Some ISOs have the flexibility to change the contract length, which is also a factor.

- **Equipment:** Equipment is integral to ISOs' offerings and is determined by what they can support, based on their bank(s) and platform(s). Obviously, the more termi-

nals and equipment you can offer and support, the more variety you offer and the more appealing you become. Also, offering different pricing programs and options for equipment, such as buying it outright, leasing, paying for it monthly, or getting it free (based on parameters), is also helpful.

2. Yes, an ISO that offers gift and rewards programs can potentially capture more market share. These products are important to many merchants and drive customer retention, customer loyalty, marketing and cross-marketing efforts, and more frequent and larger transactions.

3. Other sorts of competitive differentiation include:

- **Additional services:** These go from the basics to the next step and include check services, risk mitigation services (to fight chargebacks), chargeback insurance, consulting services or any service offered to strengthen relationships and add more value. Also, offering products that pertain to the merchant service industry such as connectivity, accounting software, web hosting and development, etc. The key is to offer a well-rounded menu of products and services without using a shotgun approach. Become the organization that can be considered a one-stop shop, a true resource for merchants.

- **Customer service and support:** Merchant services is customer service. Good customer service can keep an ISO's current relationships and foster new ones. Or it can be a big factor contributing to an ISO's attrition rate. In any facet of business, once a relationship has been established an organization must properly maintain the relationship with swift customer service, knowledgeable individuals, professionalism and an eager, helpful attitude. Communication is central to customer service and, if used correctly, can establish, strengthen and save relationships.

- **Credibility:** Another difference between ISOs can be their credibility or perceived credibility, market exposure and reviews. When comparing ISOs (which should be on the to-do list of everyone considering working with one), looking at their reviews, knowing or having heard of certain companies, and asking what kind of experience others have had with them can play a big part in the decision-making process. The industry is evolving, and more merchants, salespeople and partners are becoming educated and doing their due diligence.

I hope these answers provide all the information you need.

Editor

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# QSGS

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

Cover Story

1

## **Making hay of new IRS reporting requirements**

Service providers that make direct payments to merchants to settle electronic transactions will soon be required to report this data to merchants and the IRS. This article examines how the new rules will affect everything from culpability for tax evasion to merchant portfolio valuations, as well as how the requirements present new opportunities to ISOs.

Feature

34

## **Open-loop prepaid part of CTA's new fare system**

The Chicago Transit Authority, which oversees a monthly mass transit ridership of over 40 million, said it is moving forward on a new "open" electronic-fare ticketing system that will use contactless credit, debit and prepaid cards. Is this a step toward a much broader, interconnected card-based payment network for mass transit?

View

24

## **Challenges to Dodd-Frank, Durbin heat up**

With the Federal Reserve mandate from Congress to establish debit interchange rates by second quarter 2011, two challenges to federal regulation of the payments industry have recently been filed. Who is most likely to gain something from these fights, and who stands to take a loss?

News

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## **TCF Bank lawsuit challenges Durbin Amendment**

TCF National Bank, a subsidiary of TCF Financial Corp., filed a lawsuit challenging the constitutionality of the Durbin Amendment. The suit claims Congress neglected to hold hearings on the amendment before including it in the Wall Street Reform and Consumer Financial Protection Act of 2010.

View

30

## **It's the economy, again**

In today's economy, people have fallen out of love with buying stuff. For ISOs and merchant level salespeople (MLSs), this is particularly important because you get paid on the clicks that happen when somebody buys something from one of your merchants. The truth is we're in a difficult cycle, where troubles in one area of the economy tend to weigh on another.

News

43

## **Reaching out to medical marijuana dispensaries**

Despite discrepancies between federal and state laws that are complicating the sale of medical marijuana, a handful of payment processors are approaching dispensaries with offers involving payment acceptance equipment and loyalty programs.

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


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News

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### **Mercator explains growth in micropayments, virtual purchasing**

A recent webinar hosted by Mercator Advisory Group discussed the spread and standardization of new types of online micropayments happening in line with a burgeoning market for virtual game-based digital content. According to Mercator, many game vendors are involved in or considering revenue-sharing arrangements with social networking sites.

Education

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### **Street Smarts<sup>SM</sup>: What the feet on the street need from acquirers**

Street-level ISOs are much closer to merchants than acquirers. However, acquirers obtain information directly from the card networks and processors that street-level ISOs and MLSs rely on acquirers to announce and explain. In this article, industry observers consider ways that ISOs and MLSs can work with acquirers to optimize customer service.

News

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### **Trade Association News: WSAA 2010 a smashing success**

If you haven't attended one of the regional acquirer trade-shows recently, you may want to add it to your to-do list for next year. The Western States Acquirers Association held its annual show Oct. 13 to 14 in La Jolla, Calif., and it was one to remember.

Education

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### **Content marketing delivers by engaging prospects**

Traditional marketing is based on interruption methods using marketing materials and tactics to interrupt buyers' activities to gain their attention and their business. Examples of interruption marketing are promotional brochures, emails, advertising and sales calls. Content marketing is based on the art of communicating without selling. What, exactly, does that entail?

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Education

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### Going beyond PCI

The Payment Card Industry (PCI) Data Security Standard (DSS) is expanding and maturing. That means ISOs, banks, MLSs and merchants must familiarize themselves with an increasing number of resources, documents, processes and procedures associated with PCI. That's good in almost every way, but it introduces one very real danger.

Education

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### What PCI DSS 2.0 means for financial institutions

Version 2.0 updates to the PCI DSS and the Payment Application DSS bring no major changes in requirements, a sure sign these security standards are maturing. The updates do devote significant new text to clarifying the standards, but there's still room for improvement.

Education

70

### Become a payment superhero

As ISOs and MLSs, your external identity is crucial to your customers and prospects. Fortunately, this identity is something you can shape. The key to projecting the right level of self-confidence is respect. Treat all merchants you come into contact with as true equals.

Inspiration

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### The pursuit of happiness

When Thomas Jefferson penned the forward-thinking words contained in the Declaration of Independence, he officially declared the "pursuit of happiness" as an "inalienable right" for Americans, in the same league as life and liberty. But happiness is not guaranteed and is often fleeting. So how do we pursue happiness, especially in the workplace?

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## NEWS

### Smart Card Alliance offers CSCIP training

The **Smart Card Alliance** will hold its first international Certified Smart Card Industry Professional preparation course and exam at the CARTES & IDentification event in Paris. The course will take place on Dec. 6, 2010, followed by the exam on Dec. 9. CSCIP denotes professionals with advanced levels of industry knowledge and experience who have passed the multipart exam.

"CSCIP is a strong credential for any individuals or organizations to have to set themselves apart as industry experts," stated Randy Vanderhoof, Executive Director of the Smart Card Alliance.

Course content has been updated on international standards and global implementations. The training includes nine topics, including the following usage models: identity and security; payments and financial transactions; and mobile, near field communication (NFC) and pay TV. For more information, visit [www.smartcardalliance.org/pages/activities-leap](http://www.smartcardalliance.org/pages/activities-leap).

### Coalition to boost electronic payroll adoption

NACHA – The Electronic Payments Association, the Association for Financial Professionals, and the American Payroll Association formed the **Electronic Payroll Coalition** to promote the adoption of electronic payroll technology. The coalition will trumpet the benefits of using both direct deposit and payroll cards.

NACHA President and Chief Executive Officer Janet O. Estep stated, "Quite simply, electronic payroll is the safe, smart and green way to be paid, providing efficiencies for both the employer and the employee."

### September card spending shows growth over 2009

Payment card spending grew 7.6 percent in dollar volume, year over year, for September 2010, according to **First Data Corp.**'s SpendTrend analysis. September transaction growth was 9.2 percent above the level for September 2009. Merchants lowered prices to generate sales, SpendTrend noted. The data includes credit, debit and electronic benefits transfer card use at U.S. retailers.

### VisaNet now open to independent developers

Visa Inc. recently opened its payment network, VisaNet, to independent developers via its Authorize.Net Developer Center.

"An enhanced Authorize.Net Developer Center provides a complete platform, tools and community for independent developers and is built on the existing solution platform from Authorize.net, which Visa acquired as part of the purchase of CyberSource earlier this year," Visa revealed in a written statement. "The combination of developer ideas and Developer Center tools will result in the rapid development of innovations that will improve the payment experience for cardholders and deliver more efficiency and profitability for developers, merchants and financial institutions." Located at <http://developer.authorize.net>, the center is free to all developers.

## ANNOUNCEMENTS

### ACI Worldwide celebrates milestone and merges JV

Payment systems provider **ACI Worldwide Inc.** marked its 35th anniversary. The company has 750 customers in nearly 100 countries. Additionally, the

- **Richard K. Miller & Associates'** *The 2010 Leisure Market Research Handbook*, available through **MarketResearch.com**, estimates annual spending in the U.S. leisure market is \$2.4 trillion. By 2015, analysts expect over half the U.S. gross national product will be generated by 65 discretionary income spending segments in entertainment and leisure.
- A **ChannelAdvisor Corp.** white paper titled *Holiday Crunch Time: Last-Minute Quick Tips for Amazon, eBay and Buy.com*, correlates smart phone mobile-optimized website and barcode searches to recent growth in mobile shopping, with Amazon.com reporting \$1.5 billion in product sales via mobile devices since January and eBay Inc. projecting \$1.5 billion for 2010.
- The **National Retail Federation's** *Holiday Consumer Intentions and Actions Survey*, conducted by BIGresearch, predicts the average U.S. consumer will spend \$688.87 this holiday season, up 1 percent from \$681.83 last year. Of those surveyed, 81.5 percent plan to spend less this year; 40.6 percent expect to use coupons; 30.9 percent indicated they would comparison shop online.

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## Industry Update

company merged **ACI Soluciones**, its joint venture with processor 4B, into ACI's Spanish operations.

### CardinalCommerce granted patent

**CardinalCommerce Corp.** received a patent from the U.S. Patent and Trademark Office for its Centralized Identity Authentication for Electronic Communications Networks. It is CardinalCommerce's seventh patent and reportedly protects the company's methods and technologies related to secure informational and transactional exchange using authentication. The company submitted the application in 2000.

### Italian banking association certifies Hypercom terminal

The Italian card association **Consorzio Bancomat** certified the Optimum T4200 payment terminal from **Hypercom Corp.** Hypercom complied with the association's new EMV CB 2 standard. The association represents Italy's banks.

### Trustwave takes home Frost & Sullivan award

Technology consultancy **Frost & Sullivan** awarded the 2010 Growth Leadership of the Year Award for managed security services providers to **Trustwave**. The award

recognizes success in sustaining growth within its market by increasing sales and profitability.

### Protegrity joins PCI Council

**Protegrity Corp.**, a data security software developer, joined the PCI Security Standards Council. Protegrity's software performs end-to-end encryption, tokenization and monitoring.

### ISO executive Reis wins UBC drawing

Nathan Reis, owner and CEO of **ISO The Program LLC**, which does business as Entrust Bankcard, won a contest held by **United Bank Card Inc.** Sales partners of UBC were eligible to win the \$1 million prize by submitting eligible deals. The winner was randomly selected by an independent auditing firm.

## PARTNERSHIPS

### Allpoint expands into Australia

**Allpoint Network**, an affiliate of Cardtronics Inc., partnered with **Customers Ltd.** to expand the Allpoint ATM network by 5,000 locations in Australia. With the agreement, Allpoint provides access to 40,000 ATMs across the United States, the United Kingdom and Australia.

### Cambridge Trust turns to SVP

**Cambridge Trust Co.** adopted an online payment network from **Secure Vault Payments**. Developed by NACHA, SVP provides merchants with real-time authorization of automated clearing house transactions.

### Shazam looks to Cardinal for e-commerce

**CardinalCommerce** is supplying e-commerce PIN debit services to issuer clients of the **Shazam** debit network. Internet-based PIN debit transactions take place through the Cardinal Centinel Universal Merchant Platform.

### Apple-friendly app works with MagTek readers

Payment gateway **eProcessing Network LLC** developed an Apple Inc.-friendly software application that works with the iDynamo card reader from **MagTek**.

The EPNMobile app operates on iPhone, iPod and iPad devices in conjunction with the card reader to secure card-present transactions for mobile merchants.

### Failsafe turns to SecurityMetrics

**ISO Failsafe Payments N.A.** adopted Payment Card Industry (PCI) Data Security Standard (DSS) compliance services from **SecurityMetrics Inc.** The data security provider assists Failsafe merchants with self-assessment questionnaires and other requirements.


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### Fairwinds expands relationship with STAR

Fairwinds Credit Union of Orlando, Fla., named First Data Corp.'s STAR network its preferred provider of PIN debit POS and ATM access, with First Data providing the card processing.

### Retailers re-up with Fifth Third

Three major retailers renewed multiyear processing contracts with Fifth Third Processing Solutions LLC. The retailers include Wendy's/Arby's Group Inc., Beall's Inc. and Luby's Inc.

### Greenwise deploys ID TECH devices

ISO Greenwise Bankcard LLC implemented POS signature capture devices from ID TECH for Greenwise's Green Receipt and DonateWiseNow programs. The devices are expected to lower the program-entry barriers for small to midsize merchants.

### Little Caesars restaurants pick Heartland

The Independent Organization of Little Caesars Franchisees endorsed Heartland Payment Systems Inc. as its provider of card processing and payroll services. The organization comprises 900 restaurant locations in the United States.

### BHI SecureConnect assists Lighthouse Software

Lighthouse Software Development Inc. now utilizes SecureConnect vulnerability scanning services from BHI Advanced Internet Inc. The scanning services for PCI vulnerabilities are available to clients of Lighthouse, which provides software services to the payments industry.

### PPI partners for mobile payments

Payment Processing Inc. integrated its PayMover hosted payments platform with the Mobile X POS system from New West Technologies Inc. for payment processing on handheld devices. The Mobile X received validation to the Payment Application (PA) DSS.

### Prime Dine selects Precidia's TransNet

The TransNet payment engine from Precidia Technologies Inc. was integrated with the Crystal Point restaurant POS system from Prime Dine Systems. The TransNet software provides PA DSS-validated payment processing.

### Sage and Ingenico address SMB market

Sage Payment Solutions teamed with Ingenico S.A. to market an integrated payment product for small and midsize businesses. Sage customers may use



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## Industry Update

Ingenico's card terminals with Sage Exchange – a PA DSS-compliant payment platform.

### Illinois picks Trustwave security

Two institutions became clients of **Trustwave**. **Illinois State University** is using Trustwave to secure its information technology (IT) labs, giving IT faculty and students access to production-level technology. Also, **Euroline**, the card acquiring unit of SEB Kort AB, partnered with the security service provider to help its Level 3 and 4 merchants comply with the PCI DSS.

### Food distributor opts for 3Delta tokenization

**U.S. Foodservice Inc.** chose an integrated payment system and CardVault tokenization service from **3Delta Systems Inc.** to safeguard credit card data. The company distributes food to 250,000 customers.

### VeriFone cozy with Atlanta cabs, PayPal

**Atlanta Checker Cab Co. Inc.** began installing passenger-activated MX 870 payment terminals from **VeriFone Inc.** The 200-vehicle fleet reportedly is the first to employ an integrated payment and information system that enables passengers to watch streaming media as

well as swipe bankcards to pay for cab rides.

**VeriFone** also plans to integrate **PayPal Inc.** payment acceptance with VeriFone's PAYware Mobile card encryption sleeve for the iPhone. The move expands PayPal acceptance in mobile applications. After integration, VeriFone will promote PayPal and its Bump technology to the VeriFone reseller channel. And PayPal will market VeriFone's PAYware Mobile to its users. Bump enables iPhone users to touch phones together to transfer money between them.

### ViVOTech works with Bell ID, Teletech

**ViVOTech** partnered with **Bell ID** to provide trusted service manager (TSM) mobile applications for NFC handsets. Bell ID markets card-lifecycle and key management systems. The partnership enables third-party processors and financial institutions to implement NFC TSM systems. In other ViVOTech news, United Arab Emirates-based **Teletech Middle East** will deploy a TSM and over-the-air provisioning platform from **ViVOTech Inc.** together with ViVOTech's NFC mobile payment wallet software. The technology enables Teletech to provide an NFC add-on mobile payment service for the Middle East that allows cardholders to download credit, debit and prepaid cards over the air to smart phones.

## ACQUISITIONS

### Equifax buys Anakam

Credit data supplier **Equifax Inc.** acquired **Anakam Inc.**, a developer of multifactor authentication software. The merger enables Equifax to provide an integrated, cloud-based platform for two-factor identification.

Anakam was founded in 2004 and was recently recognized by *Inc.* magazine as one of the fastest-growing private companies in the United States.

### FIS acquires Capco consultancy

**Fidelity National Information Services Inc.** (FIS) agreed to buy global technology consulting firm **Capco**, the trade name of The Capital Markets Co. NV.

Capco is focused solely on the financial services industry. FIS will pay \$290 million in cash. The deal is expected to close by the end of 2010.

## APPOINTMENTS

### Credit Cash hires Boutte

Credit Cash LLC appointed **Stephen J. Boutte** Senior Credit Manager. Boutte previously held managerial roles at EVO Merchant Services Inc., Cynergy Data LLC, Swipe Payment Solutions LLC and First Data.

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## Industry Update

### MCC appoints four to VP positions

Merchant Cash & Capital LLC appointed four managers to positions of Vice President. Receiving promotions were **Zachary Chasin**, Underwriting; **Rory Crawford**, Risk; **Nick Gregory**, Operations; and **Seth Broman**, Business Development.

### Foley joins JR's POS Depot

JR's POS Depot named **Tom Foley** Director of National Sales. Foley previously worked at Thales, Hypercom and Way Systems Inc.

### JHA's Foss elected to head AFT

**David Foss**, President of the ProfitStars division of Jack Henry & Associates Inc., was elected President of the Association for Financial Technology at the organization's annual meeting in September 2010. Foss has been a member of the AFT board for three years.

### Fleet One adds two execs

Fleet One LLC added two executives to its management team. **Matt Lattin** was named Vice President of Product Management. Previously, he had been Vice President at Voyager Fleet Systems Inc. **Laila Sotoodeh** joined the company as Corporate Recruiter. She had been

Senior Recruiter with Kingery & Associates.

### iPayment names Monaco CFO

**Mark C. Monaco** joined iPayment Inc. as Chief Financial Officer. Most recently, Monaco was Head of Principal Investments at Brooklyn NY Holdings LLC.

### Ingenico moves Schulz up the ladder

Ingenico appointed **Matthias Schulz** Chief Technology Officer and member of the Management Board.

Schulz had been Chief Information Officer at Ingenico's easycash unit.

### Swenson to lead IT at NxGen

Merchant service provider UK NxGen Payment Services promoted **Joseph Swenson** to CIO. He joined the company in 2004 and was promoted in 2007 to Vice President of IT.

### EPX hires banker Towns

Electronic Payment Exchange hired **Karl A. Towns** as Executive Vice President. A former bank president and CEO, Towns will direct EPX's banking alliance strategy. ☐

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## View

# Challenges to Dodd-Frank, Durbin heat up

By Mark Brady and Ross Federgreen

CSRSI, The Payment Advisors

**W**ith the Federal Reserve mandate from Congress to establish debit interchange rates by second quarter 2011, two challenges to the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act and the Durbin Amendment have recently been filed.

First, American Express Co. is contesting the U.S. Department of Justice (DOJ) lawsuit that would require AmEx to cease prohibiting merchants from providing discounts to customers using other card brands or some other payment forms. Second, TCF Financial Corp. filed a lawsuit challenging the constitutionality of the Durbin Amendment.

The Durbin Amendment orders the Federal Reserve Board to enact regulations that strictly limit the amount of interchange fees banks can charge retailers on debit card

transactions. The amendment directs the Federal Reserve to measure the processing costs of authorizing, clearing and settling debit card transactions and then to adopt regulations setting debit card interchange rates based on those costs alone.

On Sept. 13, 2010, the Federal Reserve sent a survey to issuers, processors and acquirers of debit transactions to gather this cost information. The survey was due to be completed and returned to the Fed by Oct. 12.

The Durbin Amendment also addresses other noncompetitive aspects of card issuance and acceptance rules.

Following is a discussion of these challenges to Dodd-Frank/Durbin.

## The AmEx challenge

As stated, AmEx is fighting the DOJ lawsuit that requires MasterCard Worldwide, Visa Inc. and AmEx to cease prohibiting merchant discounts to customers using other card brands.

The DOJ recently reached a settlement with Visa and MasterCard regarding the companies' allegedly anti-competitive practices. The lawsuit against AmEx is ongoing, and the issue involves MasterCard, Visa and AmEx rules requiring that merchants must agree not to provide discounts to customers using other card brands. The government argues this strategy by the networks is bad for competition.

The Durbin Amendment already forbade some of these practices by stopping credit card networks from blocking discounts for other forms of payment like cash or debit. The DOJ goes further in allowing discounts for competing brands like Visa, MasterCard or PIN debit. So while the Dodd-Frank/Durbin bill already provides vendors the option of offering a cash discount, they can also now offer a discount to persuade the cardholder to use any other card brand.

AmEx Chairman and Chief Executive Officer Kenneth I. Chenault wrote in an Oct. 8 *Washington Post* op-ed that the DOJ's civil antitrust case does nothing for consumers and will eventually lead to less competition.

Mr. Chenault's contention is the government's remedy would allow merchants who sign AmEx contracts and post AmEx signage to ignore the AmEx contract's ban on discrimination by pressuring shoppers to use a different card when they pay. AmEx cardholders might be offered a small discount for paying with MasterCard or Visa, but this will not lead to lower prices overall for consumers, according to Mr. Chenault.

"Merchant associations won't commit to lower prices," he stated. "Nothing in the government's lawsuit requires them to do so. As it is, merchants are already allowed to



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***AmEx executives are likely hoping the company's smaller market share will bolster its argument to the DOJ that its policies aren't anti-competitive.***

offer a discount or incentive to customers who pay by cash, checks or debit cards. Very few do."

Chenault also said AmEx is the smallest card brand in terms of merchant acceptance, but it is "a network of choice" in that merchants are under no obligation to do business with AmEx. "Those that do, appreciate our overall service and value, including more business from higher-spending customers who carry our cards," he wrote. "In return, we require that they not discriminate against our card."

According to Chenault, almost all AmEx customers carry another card in their wallet, but most consumers carrying cards branded by Visa or MasterCard do not carry AmEx cards.

Thus, it is "possible to pressure our customers toward one of the backup products they carry deeper in their wallet," he wrote. "If the government is allowed to do away with the protections we build into our merchant contracts, the net result would be more business for the two dominant networks," which, he added, control 70 percent of the market.

He feels that if Visa and MasterCard gain an even greater market share, negotiating "freely or fairly" with them would be impossible, which would result in "higher costs for merchants and less value for consumers."

We can see how AmEx is concerned about the DOJ lawsuit. It might not be unusual, for example, to see a restaurant offer half-price desserts if you pay with your Visa card, or that free hammer at your local hardware store for every purchase over \$100 paid with your MasterCard.

Most likely to gain from this fight are Discover Financial Services, because it is not named in the suit, and merchants. Retailers will probably provide incentives for people to use payment options with lower MasterCard and Visa interchange fees that may result from Dodd-Frank/Durbin. A half-price dessert will cost a restaurant less than the merchant discount difference between MasterCard and Visa and AmEx, especially if a few extra espressos are ordered.

AmEx executives are likely hoping the company's smaller market share will bolster its argument to the DOJ that its policies aren't anti-competitive. AmEx also is probably pulling for pro-business Republicans to gain in Congress in the mid-term elections (which, as of this writing, have not yet occurred).

### **The TFC challenge**

The TCF National Bank (a subsidiary of TCF Financial Corp.) lawsuit filed Oct. 12 against the Federal Reserve challenges the constitutionality of the Durbin Amendment.

TCF Financial Corp. is a Wayzata, Minnesota-based bank holding company with \$18 billion in total assets. The company has 441 banking offices located primarily in the Midwest. TCF hosted a teleconference on Oct. 12 to elaborate on the reasons it chose to file this suit and to further explain the legal basis for the complaint.

Following are some of the issues addressed on the call by William Cooper, TCF Financial Chairman and CEO:

- Cooper argued that processing costs for "debit" transactions are only a fraction of the total costs required to manage the debit card system and deliver the product. The Durbin Amendment



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***Cooper believes the Durbin Amendment confiscates TCF's assets by denying the bank an opportunity to earn a fair rate of return on its assets.***

mandates that the Federal Reserve ignore other costs incurred by banks associated with debit card processing. Those costs include creation and administration of their system for establishment of customer checking accounts, including the costly physical bank branch system.

- The Durbin Amendment applies only to banks like TCF with \$10 billion or more in assets which, according to Cooper, constitutes a small percentage of banks in the country and exempts all others. The thousands of exempted banks will be free to continue to charge retailers the current debit card interchange rate and recover all their cost plus a profit. This will result in a competitive disadvantage for banks like TCF that are subject to the new regulations.
- Cooper compared debit card services to selling

hamburgers. To stay in business, the restaurateur has to sell burgers at prices that cover more than the cost of meat and buns; it also has to cover the cost of paying employees who make and serve hamburgers, the cost of the building leasing and maintenance, as well as the costs of advertising and product promotion.

Under the Durbin Amendment, TCF only gets to recover the cost of the meat and bun. Cooper believes the Durbin Amendment confiscates TCF's assets by denying the bank an opportunity to earn a fair rate of return on its assets.

- Congress has never enacted, without hearings, any regulatory statute like the Durbin Amendment before, which requires an administrative agency to order sellers of a product or service to cut their rates below their actual cost of delivering the product or service.
- The amendment exempts a high percentage of sellers from the new interchange rate (about 7,000 banks, according to Cooper) and applies it to only about 90 banks.
- The Durbin Amendment was a last-minute addition to the Dodd-Frank Act's comprehensive overhaul of the financial services industry. Neither the Senate nor the House held any hearings on the provision, which would have allowed for public analysis of its most questionable provisions. According to Cooper, the \$10 billion floor for banks was an unfair, politically based threshold. Congressional opposition decreased as the exclusionary amount increased.
- TCF's position is that political control in Congress may shift after the upcoming congressional elections, and Dodd-Frank may be readdressed. November mid-term election forecasts are that at least the House will likely return to GOP control. It appears TCF feels the suit will fare better in Republican hands. Its lobbyists are very likely to work as we speak.
- Cooper stated that TCF discussed the suit with other banks, and these banks may file an "amicus brief" with the court. This type of brief is filed by a party (but not a party to a case) that volunteers to offer information to assist a court in deciding a matter before it.

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## View

Sen. Richard Durbin issued the following statement in response to the TCF lawsuit:

"TCF's complaint not only fundamentally misunderstands the law regarding interchange fees, but it also ignores the facts. The law in no way addresses the fees TCF, or any other bank, can charge and it does not set interchange rates. Our language simply ensures that debit interchange fees charged to retailers by the card networks – not the banks – are 'reasonable and proportional' to the cost of processing transactions and provides competition in an area of the market where there's none. Congress approved this language by a wide bipartisan margin in reaction to the frustrations of millions of merchants and consumers


who were getting nickel and dimed by the anti-competitive interchange system set up by big banks and credit card companies – including TCF. I look forward to this provision's day in court and am confident that our language will be found to be fair and constitutional."

### The legislation's path forward

Upon receipt of the surveys, the Federal Reserve must consider a number of factors, including the similarities between debit and checking account costs, and distinguish between incremental costs incurred by issuers, such as the cost of authorization, settlement, clearance, fraud and data security. To prescribe standards for assessing whether debit interchange fees are "reasonable and proportional" the Fed must go through several steps.

First, the agency has to gather and analyze the information necessary to determine the cost frameworks. Then it must publish and distribute a draft regulation that is recorded in the Federal Register.

Then, according to the Administrative Procedure Act, the Fed must afford reasonable notice and opportunity for the public to comment. Given the short nine-month time frame for final legislation, this will probably be a 30- to 90-day comment period.

We can assume there are going to be many comments, some highly detailed and contentious. Assuming issuers believe the Fed will set rates too low, issuers are likely to introduce detailed economic analyses of the Fed data to support that contention. The Fed will then likely have much work to do in the few remaining months before it issues the final regulation. 

*Mark Brady is a Team Member at CSRSI, The Payment Advisors, a leading electronic payment consultancy specifically focused on the merchant. You can reach him by email at [mbrady@csrsi.com](mailto:mbrady@csrsi.com) or by phone at 866-462-7774, ext. 5.*

*Ross Federgreen is founder of CSRSI, The Payment Advisors. He can be reached at 866-462-7774, ext. 1, or [rfedergreen@csrsi.com](mailto:rfedergreen@csrsi.com).*



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## It's the economy, again

By Brandes Elitch

CrossCheck Inc.

Last night I dreamed it was still the 1990s. Life was good. The economy was booming. I was thinner. My colleague in the next cubicle quit her job to work in the stock market and do day-trading, whatever that was.

The biggest question in Washington was how to spend the federal budget surplus. I was about to call "WaMu" or "Indy Mac" for one of those liar-loan, no-doc, home equity refis so I could do just one more cash-out and buy another car.

But then I woke up, and I could tell I was living in the present. All that stuff from the 1990s was gone – the unbridled optimism, the budget surplus, my 401k, the equity in the house, my line of credit – well, you get the picture. And I had put on a few pounds.

Today, the biggest question in Washington is, when is the economy going to come back? The tech bubble morphed into the real estate bubble, and now potential

bubbles exist in fixed income, commodities and emerging markets.

### The long road to recovery

As the analyst Bob Prechter said, "We've had a whole decade of investment insanity, and in the last decade people fell in love with buying." For ISOs, this is a particularly important issue, because you get paid on the clicks that happen when somebody buys something from one of your merchants. If consumers aren't buying, you don't get paid. But you knew that already.

So, if you are an ISO or merchant level salesperson, what are the implications for your future revenues? Some people, like investment manager Ken Fisher, are optimistic.

He said, "The next 10 years are going to be just as good as the 1990s. The problems in this environment we think are so different and so new and so unique ... it's the same, stupid, old normal we've always had. We've got a great future."

Fisher feels that skepticism and pessimism are normal sentiments for investors 18 months after the bottom of a bear market. In the 1990s, the Standard & Poor's 500 Index climbed for eight of the 10 years, including five consecutive annual gains of at least 19.5 percent.

Unfortunately, the reality is that we're in a cycle. Here is a succinct explanation from writer William Galston: "As the value of assets used as collateral collapses, so does borrowing. This depresses consumption, and the real economy dips, making it harder for businesses and households to service the debts incurred during boom times.

"Consumption remains sluggish until debt is reduced to a level that can comfortably be serviced out of current income, a process that cannot proceed without an increase in the household savings rate. The larger the debt overhang, the longer it will take to work off the excess."

Some economists estimate this could take 10 years. Democrats believe the economy needs more stimulus; Republicans feel it needs lower taxes and less regulation. Meanwhile, consumers are not buying.

They are so spooked by the current unpleasantness that they have curtailed credit card usage, substituting debit for credit and paying down credit card debt with a vengeance.

This will take a big bite out of the card issuer's profits. Moreover, the economy needs 100,000 new jobs a month just to absorb entrants to the labor force. With more than 15 million people out of work, even a strong recovery will leave a large number of people on the sidelines for years.



And no one can predict what job growth will be over the short term.

### International pressures

Traditionally, three sectors create economic expansion: automotive, construction and financial. As a car collector, I follow what goes on in Detroit. And what has happened in the auto industry is especially pernicious.

I am reading a book called *The End of the Free Market: Who Wins the War Between States and Corporations?* The author, Ian Bremmer, documents the rise of state capitalism and its threats to the global economy. Nowhere is this more in evidence than in Japan's approach to the American automobile market.

Guided by the official policy of full employment for all Japanese workers, the Japanese government manipulated the value of the yen and encouraged manufacturers to dump cars in the United States for most of the 1960s and 1970s at prices cheaper than they sold for at home – until they could build a dealer network and get market share here.

Recently, states lacking strong unions threw in billions of dollars worth of concessions (free land, utilities, tax abatements, etc.) so Japanese companies could build local plants in the United States and avoid tariffs. However, manufacturing comprises less than 20 percent of the price of a car; meanwhile, the profits are all repatriated to Japan.

Of course, this example is mild compared to today's state-owned companies (in China, Russia and the Arab monarchies, for example) that control the markets for oil, aviation, shipping, power generation, arms production, telecoms and more.

These governments own enormous investment funds, which are now important sources of capital and threaten American economic stability. This does not bode well for the auto industry and for U.S. industry in general.

### The plugged money supply

Home building will not recover until the inventory of short sales and foreclosures is worked off – probably at least three years away. And many borrowers, including small business owners and investors, who should be able to refinance or buy homes can't do so.

Either they cannot meet new, onerous underwriting rules or they are impeded by rate penalties for non-FHA or VA loans. Conventional lenders are dependent on Fannie Mae and Freddie Mac to sell their mortgages. As a result there are now just three main lenders: Wells Fargo & Co., Bank of America Corp. and JPMorgan Chase & Co.

Banks have the money to lend; they have sharply curtailed the supply of money to new ventures and small

businesses. Corporate cash in the bank is at an all-time high of around \$2 trillion, but businesses are loading up on cash and not spending it. This is not a virtuous cycle.

For the economy to grow, productivity needs to grow. That is what boosts economic growth and living standards. The big increase in productivity began in the mid-1990s, when productivity growth (the growth in goods and services for a given level of input) rose at 2.8 percent a year – double the rate during the preceding 22 years.

While economists disagree on why this happened, a consensus is that it was due to the increased use of information technology (IT) capital, and the rate of improvement in the efficiency with which our economy produces IT capital. I have a hunch that some of the current innovations we see in the IT sector will boost productivity again.

I see new products in the payments space that, I believe, will bring big changes in payments soon, and they will benefit both merchants and consumers.

### New perspectives

Sonoma County writer Michael E. Duffy said that in the midst of all our technical innovations in the payment system, "it's easy to forget that there's no economy without people. The trading of goods and services has a purpose that sometimes seems overlooked as we envision our brave new world.

"Quite simply, we need to feed, house and clothe ourselves, and to do that, we perform work in exchange for money. ... What worries me most about the future is that work is disappearing. There are only so many jobs for people without advanced training and stellar talent."

By now, you might be asking when economists became sociologists. For perspective, keep in mind that in 1979, right at the beginning of the 18-year run of bull markets, *Business Week* ran a cover story called "The Death of Equities," predicting a long-term bear market. It's hard to take *Business Week* seriously after that.

Things are not always what they seem. There are silver linings, even in a recession. For instance, here in Wine Country, we say, "With money tight, and French oak at \$1,100 a barrel, we're gonna get a lot less oaky wine – and that's a good thing." So it's not all bad. Stay tuned. ☒

*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.*



# Selling Prepaid



## Prepaid in brief

### NEWS

#### Fed posts final gift card rule deadline

The **Federal Reserve Board** issued the official deadline of Jan. 31, 2011, for when prepaid card providers must comply with rules implementing the Credit Card Accountability Responsibility and Disclosure Act of 2009. The initial deadline of Aug. 22, 2010, was considered too soon for businesses to meet without disruption. An interim deadline of January 2011 was imposed while the Fed considered public comments on the deadline. The Fed received two comments, neither from a prepaid card business. "Both commenters generally supported the interim final rule," the Fed said in its notice and so went ahead with issuing the final deadline.

#### NetSpend's IPO rakes it in

Despite the recent troubles of its main issuing bank, **NetSpend Holdings Inc.** priced its initial public offering (IPO) at \$11 per share on Oct. 17, 2010. It began publicly trading its stock on the Nasdaq stock exchange the following day. Reports had the stock rising 18 percent on its Tuesday debut, climbing to \$13.49 before closing at \$13. NetSpend's IPO comes on the heels of action taken by the Office of Thrift Supervision, a federal bank regulation agency, against MetaBank, NetSpend's primary issuing bank. The OTS told MetaBank to discontinue its iAdvance loan program. The program is offered to consumers through NetSpend's prepaid cards.

#### The U.S. Navy goes prepaid

The **U.S. Department of the Treasury Financial Management Service (FMS)** and the **U.S. Navy** reported the completion of the Navy Cash Stored-Value Card rollout across the entire active Navy Surface Fleet. The last implementation occurred on the USS Frank Cable, FMS said.

"FMS is excited to assist the Navy with this innovative electronic cash management service that virtually eliminates the need for currency and coins aboard ship," said David A. Lebryk, FMS Commissioner.

"With Navy Cash, the Navy has an efficient cash management process, and sailors have more secure and convenient access to their funds."

### ANNOUNCEMENTS

#### Alliance Data call centers achieve certification

Loyalty and marketing solutions provider **Alliance Data Systems Corp.** reported its four retail call centers were recognized with the Center of Excellence certification from BenchmarkPortal in conjunction with the non-profit foundation Center for Customer-Driven Quality at Purdue Research Park.

#### CardSmith rolls out card for Florida state college

Campus card provider **CardSmith** implemented the Essential Card program for Florida State College at Jacksonville. Students, faculty and staff can use the ID card on each of the college's 12 campus locations in Jacksonville.

#### Meez Coinz Cards available at national grocers

San Francisco-based social networking site developer **Meez** said its Meez Coinz Cards are now available in Safeway Inc. and The Kroger Co. grocery stores nationwide.

#### Monitise reveals global platform

**Monitise PLC** unveiled Monitise Globe – what the company called the first global mobile money technology platform. The platform incorporates mobile banking and payment services to deliver financial management via mobile phone globally, Monitise said.

#### mPay adds prepaid and payroll services

Mobile debit payment network provider **mPay Inc.** reported that its clients – both consumers and businesses – can now load funds to, and fund payments from, their prepaid debit cards via the mPay network.

#### Honors bestowed at Prepaid Awards 2010

At the Prepaid Awards 2010 held in London, **Oberthur Technologies** won the Best Prepaid Manufacturer category, and **InComm** won both the Best Prepaid Product Distributor and, in partnership with PrePay Solutions, Best Prepaid Gift Program.

#### paysafecard expands into U.S.

Vienna, Austria-based online payment provider **paysafecard** indicated its prepaid voucher service is now available in the United States. The service provides



consumers a prepaid solution for purchases in online gaming environments.

### Brookline gets local currency card

PXT Payments implemented a contactless prepaid debit card program for Brookline, Mass. The program is designed to offer residents a convenient payment option and to boost consumer spending in the city. Residents load prepaid cards to pay for street parking and for use at local retailers, such as coffee shops and hardware stores.

### SparkBase launches ApproveYourCard.com

Private-label stored-value processor SparkBase unveiled ApproveYourCard.com, an online portal that allows SparkBase ISOs to submit and manage custom card orders in lieu of communicating via fax and email.

### Vindicia named to fastest-growing list

Online bill pay and one-time payments provider Vindicia Inc. achieved the *Silicon Valley/San Jose Business Journal's* Fast 60 list of the fastest-growing private companies in Silicon Valley. Vindicia said it was the third year in a row that it made the list.

### Western Union donates \$500,000 to Haiti businesses

Through its corporate program Our World, Our Family and The Western Union Foundation, The Western Union Co. distributed \$500,000 to Mercy Corps to provide training and funding for up to 1,000 small businesses in Haiti.

## PARTNERSHIPS

### Causes.com joins Blackhawk's Gift Card Mall

Safeway Inc. subsidiary Blackhawk Network added the Causes.com gift card to its gift card mall selection. Through Causes.com, gift card recipients can donate funds to charities of choice, such as Easter Seals, the Red Cross, UNICEF, the World Wildlife Fund and CARE.

### IGH, Giftango team for card initiatives

IGH Solutions Inc., a card fulfillment house and Taylor Corp. division, entered a strategic relationship with digital e-gifting company Giftango Corp. to offer virtual and plastic gift card solutions to consumers.

### InteliSpend, Discover team for product enhancements

InteliSpend Prepaid Solutions and Discover Financial Services inked a deal to provide both entities a variety of new services to their respective clients. Discover

will get access to InteliSpend's incentive customers and InteliSpend will leverage its distribution channels to expand its services to Discover card customers, the companies said.

### MoneyGram signs deals

MoneyGram International signed a deal with Vijaya Bank to offer MoneyGram's money transfer services in 1,173 of its branch locations across India. MoneyGram also made a global pact with Ceridian Stored Value Solutions in which Ceridian will provide processing for MoneyGram's "in-lane" prepaid money transfers.

Additionally, MoneyGram partnered with CashEdge Inc. to integrate their respective money transfer and payment services platforms for expanded services. Furthermore, MoneyGram signed an agreement with Online Resources Corp. to offer same-day cash payment services from any MoneyGram U.S. agent location to Online Resources billers.

### Three team for Cash Passport in China

Foreign exchange specialist Travelex launched the Cash Passport MasterCard in collaboration with the Bank of China and MasterCard Worldwide. It is the first MasterCard-branded travel card launched by the three parties in mainland China, Travelex said.

### White Eagle signs with Transact Network

White Eagle (Europe) PLC teamed with Transact Network Ltd. for end-to-end mobile banking, e-payment, e-wallet and prepaid card solutions.

## APPOINTMENTS

### EB appoints, promotes

As part of its corporate reorganization, Evolution Benefits Inc. appointed Chris Byrd as President and Chief Operating Officer and promoted Patrick Murphy to Executive Vice President, and Matt Dallahan to Senior Vice President for Strategy and Product Development.

### FSV taps Fussell for President

FSV Payment Systems Inc. named Steve Fussell to the newly created role of President.

### Leonard appointed Coinstar's CPO

Coinstar Inc. hired Mary A. Leonard as its Chief Performance Officer and member of Coinstar's executive management team.

### Mota named SVP at eCommLink

Las Vegas-based processor eCommLink Inc. appointed Oscar Mota to Senior Vice President of Operations

## Selling Prepaid

to oversee such eCommLink programs as the Market Ready program, a turnkey prepaid debit solution.

### TSYS promotes Pettis to EVP

Total Systems Services Inc. promoted **Allen Pettis** to EVP for Major Account Relationship Management, to include TSYS Loyalty and Prepaid, value-added products and debit.



## Features

# Open-loop prepaid part of CTA's new fare system

**T**he Chicago Transit Authority, which oversees a monthly mass transit ridership of over 40 million, said it is moving forward on a new "open" electronic fare ticketing system that will utilize contactless credit, debit and prepaid cards.

Step one of the procurement process involved obtaining proposals from 12 providers of contactless fare collection systems. With that step completed, the CTA opened the process to more bids, with a Nov. 19, 2010, closing date.

With a new fare system, the CTA is looking to reduce overhead costs, provide greater convenience for mass transit riders, streamline fare payment and reload options, and expand its fare-card service to include promotions via retailers. The CTA said its current system was installed in 1997 and has reached the end of its lifecycle. The system involves electronic fare cards marketed as the Chicago Card and Chicago Card Plus, as well as mag stripe-enabled transit tickets and passes.

The fare cards are closed-loop, contactless, prepaid cards that are tapped on touch pads at rail station turnstiles and bus fareboxes to initiate payments. The cards are purchased online, by mail, over the phone and in-person at CTA locations. The cards are reloaded at rail stations and Touch-n-Go touch pads, which are available at over 50 locations across Chicago, according to the CTA.

### The prepaid piece

By instituting an open-loop, network-branded contactless smart card system, the CTA will allow mass transit users to use traditional, network-branded credit and debit cards to purchase fares. But the CTA specified it also wants riders to have the ability to use cards not tied to bank accounts. "The prepaid piece is really a supplement to this open fare payment system," said Randy Vanderhoof, Executive Director of the Smart Card Alliance. "It really addresses the unbanked or underbanked person."

A Smart Card Alliance Transportation Council white paper entitled *A Guide to Prepaid Cards for Transit Agencies* recommended transit agencies work with prepaid card program managers to provide transit cards for unbanked riders through retail and transit locations. The paper said prepaid cards may allow for the fastest implementation of a fare collection system if the transportation agency's chief demographic are riders who don't have access to contactless credit and debit cards.

Vanderhoof said, "In major cities where mass transit is a major part of the community, then those merchants that are currently serving those customers will find some business value in being able to load up prepaid cards by getting those customers into the store... So there's a strong value for the merchants who serve the customers who use the transit systems to participate in these types of prepaid programs."

### More ties to prepaid

The SCA also suggested that government benefits and student ID cards be integrated into open fare collection systems because it is likely mass transit is important for government benefits recipients and students.

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# DICTIONARY

## **in·de·pend·ent**

Pronunciation: \\_in-d\_-pen-d\_nt\

Function: *adjective*

1 : not dependent: as **a** (1) : not subject to control by others : **SELF-GOVERNING** (2) : not affiliated with a larger controlling unit **b** (1) : not requiring or relying on something else : not contingent (2) : not looking to others for one's opinions or for guidance in conduct

**NOTE:** *An independent organization or other body is one that controls its own finances and operations, rather than being controlled by someone else.*

**Synonyms:** absolute, autonomous, nonaligned, nonpartisan, on one's own, self-contained, self-determining, self-governing, self-reliant, self-ruling, self-sufficient, self-supporting, separate, sovereign, unconnected, unconstrained, uncontrolled, unregimented

**Antonyms:** dependent, subordinate, subservient

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"That gives the opportunity – for the government programs or the school programs – to fund their entitlement programs through the traditional bank networks, or at least put it onto a prepaid card that would be accepted easily for transit rides," Vanderhoof said.

He added that Washington, D.C., and Toronto are at similar stages to Chicago in laying the groundwork for open fare payment systems, with pilot programs into such systems ongoing in New York and Los Angeles. Vanderhoof agrees that one day a traveler will be able to pay for mass transit rides in Toronto and New York with the same bankcard or open-loop prepaid card.

## Prepaid's emergence in India

**A** report by Financial News Publishing Ltd's research arm, VRL, characterized the Indian prepaid card market as "almost embarrassingly small." That description rises out of Prepaid International Forum data that calculates only 4 million active prepaid cards in India in comparison to the 185 million debit cards in circulation, according to VRL.

With upward of 600 million potential prepaid cardholders in the South Asian country, VRL concludes that India has an "untapped target audience with huge potential for profit."

VRL said payroll cards dominate the prepaid card market with a 34 percent share, with travel cards and general-purpose reloadable cards holding 24 and 22 percent market shares, respectively. Cards used for money transfers account for 14 percent, VRL estimated.

VRL cited ICICI Bank analysis that the Indian prepaid market is expected to grow 75 percent in 2010, from a \$2.9 billion market in 2009 to a \$5 billion market this year. A significant part of that growth will come from the Indian middle class, which is somewhere between 200 and 300 million people.

"With sufficient disposable income to spend on goods and services, the middle class is an attractive target for prepaid cards," VRL said.

### Financial inclusion

Mobile money transfer specialist Obopay Inc. is going after another target, the country's unbanked population, which VRL put at approximately 400 million. In partnership with mobile device supplier Nokia and India's YES Bank, Obopay is piloting a mobile money service with two main components: bill pay/retail payments and money transfers.

David Schwartz, Vice President of Product and Corporate Marketing at Obopay, said the service will leverage Nokia's 200,000 retail locations across India, where customers purchase phones and sign up for services.

As alternative financial service centers, the Nokia stores will become places where Nokia customers can reload stored-value accounts and pick up funds sent by other Nokia phone users, Schwartz added. "For those that don't have bank accounts, it can become their first financial services account," he said.

The Obopay/Nokia initiative is part of a nationwide mandate called financial inclusion. The Reserve Bank of India is granting operating licenses to alternative financial service providers, such as Itz Cash Card Ltd., Bharti Airtel and The Western Union Co., to provide the unbanked access to financial services.

### The payments bridge

In India's urban centers, ATM providers are expanding their networks, with 40,000 ATMs and 450,000 POS terminals now across the country, according to VRL. But the report said a telecommunications network is another important infrastructure requirement for the development of banking services and prepaid card businesses.

India is the world's fastest growing market for mobile phones, with almost 95 percent of all phones in India being mobile, and approximately 57 percent of the population carrying them, VRL said; that statistic is particularly important for the rural areas of India, where 236 million mobile phones have been distributed but only 187 million adults have access to bank accounts.

VRL expects this gap to only increase, as millions of mobile phones are added monthly. "This is an attractive backdrop for starting mobile banking services in rural India," VRL said. "Mobile wallets' would bring low-cost banking and remittance services to millions for whom banking services are not readily available or easily accessible."

With a well-developed mobile telecommunication infrastructure in place, an opportunity exists to open "new markets and business opportunities for service providers, banks, mobile operators and merchants," VRL added.

Schwartz said the discrepancy between mobile phone users and bank account holders in India mirrors the global equation.

ABI Research reported that, by the end of 2010, there will be 5 billion mobile subscriptions worldwide. Meanwhile, the Consultative Group to Assist the Poor said nearly 3 billion people globally lack access to basic financial services.

"And so there's a big opportunity to bridge that gap," Schwartz said. ■



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Fax: 949-380-0248  
Website: [www.gettrx.com](http://www.gettrx.com),  
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- 24-hour approvals

## Good as it GETs

**T**here is no doubt the economic landscape is shifting rapidly. Merchants need to revamp their business plans to stay in business. ISOs and merchant level salespeople (MLSSs) need to do the same. According to Steven H. Bryson, founder and Chief Executive Officer at Global Electronic Technology Inc., only two types of ISOs will survive in the next five to 10 years: the well-established and the innovative.

GET seems to fit the bill on both counts. The Cypress, Calif.-based ISO celebrated its 10th anniversary, but it is not content to rest on its laurels. With "We grow by helping you grow" as its corporate motto, GET enters its second decade of service with a continuing quest to offer superior customer service and assist its clients in growing their operations.

"ISOs have always focused on strategies that help themselves grow," Bryson said. "But if they want to survive, they will need to change their focus to helping their merchants grow."

### Good karma

GET provides end-to-end payment processing solutions, including a virtual terminal, multiple payment gateways, an online shopping cart, automated clearing house functionality, and loyalty and gift card programs. It serves a range of industries worldwide, both brick-and-mortar retail and Internet-based. The company caters to a variety of merchant types, so services are designed to bring value to a multitude of industries, including retail, fulfillment, insurance, online entertainment, restaurants, hospitality, car rentals and professional services in addition to government agencies and municipalities.

While GET's primary focus is the secure processing of POS and web-based transactions, it is also a value-added reseller of custom physical and virtual terminal solutions designed for specific markets. Additionally, GET maintains two payment gateways in order to offer specialized payment solutions to both e-commerce and retail merchants. GET is in the process of rolling out its Karma program, through which a percentage of GET's net revenue goes to the nonprofit charitable organization Never Forgotten Foundation. In addition, the company is building its own payment gateway with customizable shopping cart features and 24/7 customer service.

GET also keeps its eye on emerging trends and plans to launch new programs in the next year. "Green and locally owned business will continue to grow as they have in the past few years," Bryson said. "I also predict that markets that cater to baby boomers, the health conscious, and multilingual consumers will see large growth going forward."

### Growth through customer care

Customer service takes top priority at GET. Support specialists are recruited from respected technical schools and participate in ongoing training, and the company indicated the turnover rate in its merchant support division is very low, ensuring that a qualified specialist answers each call.

Merchant support is provided 24/7 every day of the year, and support services are set up to ensure cardholders receive immediate answers to transaction

## Company Profile

inquiries. GET offers help desk and technical support for terminals, including virtual and e-commerce payment gateways. It also fields inquiries regarding analysis of transactions and statements.

GET noted that it provides comprehensive fraud prevention and risk management, including proactive chargeback management support. Risk managers continuously monitor transactions and chargebacks, alerting merchants to suspicious activity and assisting with fighting chargebacks. Risk management and chargeback management services include cardholder support for merchants in ecommerce and subscription-oriented businesses.

GET stated it is on Visa Inc.'s list of approved Payment Card Industry (PCI) Data Security Standard (DSS)-validated service providers and maintains a secure card data environment, complying with all 12 requirements of the PCI DSS. It also completes an annual assessment by a professional, PCI-certified company that submits findings to Visa Inc.

The company is developing several webinars, one of which helps merchants understand the PCI compliance process. The webinar will encompass what it means to be compliant, as well as ways to stay alert and protected from intrusions. The program will be available to everyone via GET's website.

### It's all good

GET welcomed the challenges of the past 10 years. "As an ISO that prides itself in offering its agents and merchants the newest technology the industry has to offer, we have been having a great time at GET developing new products and evolving our services," Bryson said. "Our custom gateway with an easy-to-use API has been uniquely productive for our e-commerce clients."

GET is in the process of developing smart phone applications that integrate with its gateway for merchants interested in mobile options. "As most business owners would tell you, oftentimes the most productive products and services tend to also be the most challenging," Bryson said. "PCI DSS standards are the perfect example of a program with fruitful benefits like mitigating risk that can, at times, be challenging when a merchant doesn't comply."

The company has seen the industry undergo significant changes since its inception and expects continued evolution going forward.

"The biggest change in the past 10 years has been the globalization of our industry through the use of technology," Bryson said. "Technology has expanded our reach, allowed us to become more innovative and has made business owners more savvy, forcing some of the outlaws in the processing industry to reform their tactics."

GET has also noticed an increase in the use of debit cards

as a result of the credit crunch. Bryson believes debit usage will continue to increase until consumer confidence in the credit markets is restored.

### From the ground up

Bryson began his payment processing career as the Southern California District Manager for a wholly owned subsidiary of Deluxe Data Corp. He then went on to build a distribution channel for Lynk Systems Inc., opening up multiple offices in the western United States.

Bryson also built operations for RBS Lynk (now RBS WorldPay Inc.) and TransFirst before forming GET in June 2000. He established the company to provide robust distribution channels, advanced payment systems, superior customer service and technical support for all merchant types.

"Because of how knowledgeable and accessible our operations and support teams are, we have a high merchant retention rate of around 98 percent," Bryson said.


The company currently counts a staff of about 50, including customer service and account executives, and is always endeavoring to add proven account executives to the team.

### Growing sales channels

In addition to providing what it believes are innovative partner programs that benefit both the company and its partners, GET offers ISOs and MLSs the ability to place high-risk merchants through an extensive network of global relationships.

Through its ISO portal, GET's partners have access to the company's training and marketing materials, and the company prides itself on a history of paying residuals 100 percent on time. Compensation is individualized and structured to the needs of the agent, with all partners compensated in the form of commissions, residuals, and/or bonuses, GET pointed out.

"Our partner program is packed with fun, tiered incentives such as terminal giveaways, daily approval bonuses, as well as additional signing bonuses for reaching benchmarks," Bryson said. "Additionally, our ISO portal allows our partners to have synched, communal access to all of our resources and marketing materials, as well as real-time tracking of their residuals and the underwriting process. We believe in providing our people with the very best. Hungry ISOs can contact us for more information."

In today's economic climate, that hunger is almost palpable. "It's important to me that, no matter what the economic climate may be, we are always giving back the blessings we have received as a result of our hard work," Bryson said. "It's my unwavering belief that people should be better in GET's hands." 

## TCF Bank lawsuit challenges Durbin Amendment

**T**CF National Bank, a subsidiary of TCF Financial Corp., filed a lawsuit challenging the constitutionality of the Durbin Amendment. The suit claims Congress included the amendment without hearings in the Wall Street Reform and Consumer Financial Protection Act of 2010, also referred to as the Dodd-Frank Act.

Under the Durbin Amendment, the Federal Reserve Board has the authority to cap interchange rates on debit card purchases at a "reasonable and proportional" level commensurate with the processing costs incurred by issuing banks. The cap only applies to banks with more than \$10 billion in assets. With over \$18 billion in total assets, TCF qualifies for the interchange fee cap to be imposed by July 2011, when the regulations are scheduled to take effect.

Wayzata, Minn.-based TCF is the 47th largest commercial bank in the United States and the 12th largest issuer of Visa Inc. debit cards. In 2009, TCF reported over 200 million debit card swipes by 800,000 of the bank's debit card users, representing just over \$100 million in debit card interchange revenue.

In the 54-page complaint, filed Oct. 12, 2010, under the U.S. District Court of South Dakota, TCF is seeking a preliminary injunction against the enforcement of the amendment because it "irrationally, prejudicially and illegally interferes with TCF's activities in a market that has been competitive and open by imposing unconstitutional limitations on the ability of TCF and similarly situated banks to recover their costs for providing a service crucial to bank depository customers."

### **Banks want ability to recover costs**

TCF alleges in its complaint that the Durbin Amendment "drastically limits the types and amount of costs that a bank may recover from retailers for debit transactions" and that "a debit card issuing bank will only be able to recover 'incremental' electronic processing costs related to a particular transaction," while all other costs of operating a debit card program, which are the bulk of the actual cost, may not be recovered.

"We believe we will be successful in this lawsuit, in which case we can go back to square one and deal with this thing on an even basis in connection with our competitors," William Cooper, TCF Chairman and Chief Executive Officer, stated in a conference call.

"It is unprecedented for Congress, or any regulatory agen-

cy, to mandate a fee charged in the free market that not only denies a reasonable rate of return on investment, but actually requires the rate to be lower than the incremental cost of providing the service."

Payment attorney Paul Rianda agrees. "I think from the bank's perspective it's a smart thing to do to try and minimize the impact of this," Rianda said.

"The way the law is written it almost says look at exactly what it costs to do this transaction, and then that's what you're going to be able to charge, versus looking at all the infrastructure that's in place and the years' worth of development of the infrastructure. It's telling the people who are going to be determining this fee to ignore all of that."

About next steps in the case, TCF Lead Counsel, Timothy Kelly, of Kelly and Berens P.A., said, "The government has a 60-day answer period. We would expect that within the near future that we would file a motion for a preliminary injunction, and we can't tell you when that would be heard. We don't know just yet who the judge is going to be, but my guess is it would be heard sometime in November, and then the court would rule on it in the normal course, probably on an expedited basis." ■

## Reaching out to medical marijuana dispensaries

**W**ith 14 states and the District of Columbia on record with laws that permit the sale of medical marijuana, and another eight states awaiting the outcome of proposed legislation or ballot measures that would legalize medical marijuana, the movement toward decriminalization of medical marijuana appears to be gaining momentum.

However, under federal jurisdiction, marijuana use in any context remains against the law. While the federal government cannot force states to enact laws identical to federal laws, or require states to enforce federal laws, the U.S. Department of Justice has the authority to prosecute individuals and organizations that violate federal laws.

### **A need for processing services**

Despite discrepancies between federal and state laws, a handful of payment processors are approaching medical marijuana dispensaries. Total Merchant Services Inc offers free equipment upon signing of medical marijuana dispensary accounts in states where it is legal.

Direct Bancard Inc. recently introduced a POS system for medical marijuana dispensaries that tracks patients,

## News

for medical marijuana dispensaries that tracks patients, inventory and sales. Until now it was "a straight cash business," said Martin Khemmoro, Executive Vice President of Direct Bancard. "We've installed many POS systems in the last few months in Colorado, California and Michigan. This thing is so new that nobody has come out with a good POS solution that makes it a turnkey operation. I think we've done that."

Merchant payments solutions provider, Commerce Online Inc., offers branded, prepaid loyalty and ID cards to dispensaries through its Collect Card Services division. The cards can be loaded to any denomination with direct deposits made to banks via the Internet or dispensary POS systems.

### A need for banking services

Under the Controlled Substances Act of 1970, cannabis is classified as a Schedule I drug, which by definition is a drug with "no accepted medical value in treatment," and it falls under the classification of "new drug," which requires an Investigational New Drug Application and subsequent authorization from the Food and Drug Administration before it can be administered to humans.

In May 2010, following several attempts to pass legislation that would remove federal penalties for medical

marijuana, 15 members of Congress, led by Rep. Barney Frank, D-Mass., issued a letter written by Rep. Jared Polis, D-Colo., to Treasury Secretary Timothy Geithner stating, "Legitimate state-legal businesses are being denied access to banking services, which does not serve the public interest."

The letter also requested "formal written guidance" to assure banks would not be federally targeted for conducting business with medical marijuana dispensaries.

"They were trying to insure that medical marijuana dispensaries could have banking services provided to them, because there is so much capital involved," said Mike Meno, Director of Communications for the Marijuana Policy Project.

"A lot of banks that have to comply with federal law are hesitant to take medical marijuana business. I haven't heard any updates about where it stands, but the states with medical marijuana constituencies have an obvious interest in this."

While, as of this writing, expansion of medical marijuana dispensaries into more states hinges upon ballot approval in the November elections, existing state-legal dispensaries are opening channels with processors and banks



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willing to set up merchant accounts. According to the Marijuana Policy Project, an estimated 586,208 patients qualify for medical marijuana in the 15 states where it's currently legal. ■

## Mercator explains growth in micropayments, virtual purchasing

**A** recent webinar hosted by Mercator Advisory Group discussed the spread and standardization of new types of online micropayments happening in line with a burgeoning market for virtual game-based digital content.

In "Social Networks and Consumer Payments: Disruptions Ahead!", Patricia McGinnis, Director of Banking Advisory Service at Mercator, described the race between different online payment providers to reach a "critical mass" of adoption in the online gaming space that will allow them to also reach into mainstream payments.

"There is a growing global core of nonbank alternative payment providers who are specialized in the micropayment needs of online social gamers," McGinnis said. "Those playing in the micropayments space for game payments are not satisfied with that particular segment. They are extending their reach into trying to provide a channel for other kinds of payments."

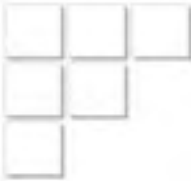
### From many, one

Those competing for leverage with micropayments include online game providers, alternative payment providers and social networking companies, McGinnis said. Collaborations between these different entities are helping to spearhead the evolution of micropayments, she added.

For example, when Facebook-based games like Farmville first cropped up, the different games offered separate virtual currencies to users to make in-game purchases.

"Similarly, every game vendor had to build all the interfaces to attract the largest number of payment mechanisms so consumers wouldn't turn away and not buy the accessories," McGinnis said.

Facebook recognized the problem and developed a single, standardized virtual currency that can be used to buy



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accessories in a range of games from different game providers, according to McGinnis.

"It means that all the game vendors just write a single interface ... the way that the consumer buys a [widget] is by paying for it with Facebook credits," she said. "From the consumer's point of view, they buy credits, they have only one virtual currency account and they can use it in all the games that are embedded in Facebook."

The standardized currency can be bought with a wider range of payment types than some of the individual game currencies that preceded it, she added.

### 70-30 split

Under Facebook's system, online game providers get 70 percent of every purchase made within their game offering, while Facebook receives the remaining 30 percent, McGinnis said. Game vendors are amenable to such a revenue sharing arrangement because the money from virtual product sales represents 100 percent profit – virtual goods cost nothing to produce.

Within an online game, "another one of those little pink fuzzy sweaters for your white fuzzy poodle – the real cost to produce this content is nil," she said. "That's not true as you move into the physical world of e-commerce."

Also spurring the growth of micropayments is the involvement of alternative payment providers that, as Facebook has striven to do, are making it easier for large numbers of people to make such payments.

For example, a company called BOKU Inc. allows consumers to make micropayments by billing payments to mobile phone accounts, with payments confirmed when users reply to text messages. This is helping extend the micropayment market – and, particularly, the online gaming virtual content market – to young people who are less likely to carry credit cards, McGinnis said. ■

## New MasterCard credit card generates passwords

**M**asterCard Worldwide recently introduced a chip-embedded card in Taiwan that functions as both a regular credit card and an authenticator for online banking money transfers.

The SinoPac Display Card functions the same way a normal credit card does, except a chip embedded in the upper

right hand corner generates one-time-use authentication passwords. The card contains a button to push to generate the six-digit display.

Online banking customers who use the card will enter their account credentials to execute transfers, but once that information is validated, consumers will be prompted to also enter their one-time passcode. Then, consumers will push the display card button to generate a new, six-digit number and subsequently enter that to finalize the transaction.

The bank's back-end network is able to validate a consumer's entry because it knows what number a specific card will generate within a given period, according to Randy Vanderhoof, Executive Director of the Smart Card Alliance.

"This is addressing the risk of people having their accounts taken over and funds being moved out without their approval," Vanderhoof said.

"It's a much higher level of security because the password's only good for a limited amount of time, and the user has to have possession of the card along with other credentials at the same time."

Bank of America Corp. unveiled a product last year, called SafePass, which also uses a card-embedded, chip-generated password to authenticate online banking activity. But SafePass is a standalone product, while SinoPac Display Card functions as both an online banking authenticator and a credit card.

Additionally, MasterCard said its card display service is faster than authentication services that send text messages to users' mobile phones to verify money transfers and other transactions.

### Other uses for display cards?

Vanderhoof said some companies are considering the use of digital chips on prepaid cards as a way to show a user's real-time balance by generating a new number with each purchase or add-on.

He also said the technology might eventually be used with a PIN code that consumers would enter to unlock a card for purchasing, although that would require that a small keypad be embedded in the card along with the digital reader.

"This is just another way of using chip technology to build additional security functionality in the payment card," Vanderhoof said. "This along with EMV along with contactless are all steps in, how do you make that payment vehicle and that identity card more secure? All of it is helping move the industry off the dumb, mag stripe, flat form to something that's more secure, more intelligent and offers more services," he said. ■

# Trade Association News

## WSAA 2010 a smashing success

If you haven't attended one of the regional acquirers trade shows recently, you may want to add it to your to-do list for next year. These ever increasingly popular shows are offered annually in various parts of the country. The Western States Acquirers Association held its annual show Oct. 13 to 14 in La Jolla, Calif., and it was one to remember.

Perhaps it was the beautiful locale, an industry recovering from tough economic times or a bit of both. But this year's show attracted nearly 600 participants. Add to this the pleasant surprise of an almost 2:1 attendee to vendor ratio and you have the formula for a successful event.

### Field Guide sets the tone

Wednesday began with the popular Field Guide for ISOs seminar. This information-packed four hours was included with registration to the WSAA show.

Mark Dunn, founder of Field Guide Enterprises LLC, opened the session and also led the Sales Training Success session. Other topics were presented by industry notables and included:

- International Acquiring – Carrie Hometh, PayVision USA
- Mobile Marketing – Pal Flagg, Street Savings
- Getting the Most from Your Portfolio Investment – Harold Montgomery, Calpian Inc.
- Recruiting and Hiring Your Sales Team – Matt Clyne, Direct Connect
- Putting Social Networking to Work – Mary Winingham, Wasau Financial Systems Inc.

The day then shifted gears with the opening reception, sponsored by Moneris Solutions and Planet Payment, and an after party sponsored by iPayment Inc.

### Breakout sessions stand out

Not to be outdone, Thursday was packed with education and information. Between exciting sessions, attendees mingled with the exhibitors. Breakout sessions were held after the morning's general session offered by a panel that provided the audience an overview on interchange and pending legislation.

Breakout sessions were also presented as panel discussions and included:

- Risk Products to Mitigate Your Exposure/Protecting Your Brand and Your Pocketbook

- Does the Future of Payments Include You?/Remaining Relevant in the Revolution of Change
- Starting an ISO? Laying the Foundation for Your Business
- Mobile Payments – The Future is Now!

After the standing-room only breakout sessions, attendees were treated with a keynote address by Jeffrey Hayzlett, the former Chief Marketing Officer of Eastman Kodak Co. and author of *The Mirror Test*.

Hayzlett amused and mesmerized the audience with his tales of highly creative marketing campaigns and advice on how to adapt these techniques to the payments industry.

Finally, payments industry icon Paul Martaus ended the day with his take on the industry and where he sees it heading. As always, he presented his insights with a wry sense of humor.


### Attendees, vendors energized

Attendees and vendors alike were abuzz at the closing reception. Most agreed that this was one of the most informative and exciting shows they had attended.

When asked what he believes attributed to the phenomenal success of this year's show, Steve Eazell, President of WSAA replied, "I think that it was a combination of things. In so many ways, it was a perfect storm.

"I believe that the economy has shown signs of recovery, and people were looking for a solid outlet to network and get together. We held it in a great venue – in La Jolla in October – with great hotel rates. A good location is crucial to the success of these regional shows, and we have always recognized that.

"We were coming off of a pretty good buzz that was generated from last year's successful show. Plus, we had great marketing this year, we had a fantastic agenda including awesome speakers, (did I mention that we were in La Jolla, can't stress that enough) and our amazing board created an incredible show."

The next regional show on the calendar is the Northeast Acquirers Association's annual winter show scheduled for Jan. 25 to 27, 2011. The event is held each year in Mt. Snow, Vt. Exhibitor space and rooms both fill up quickly, so be sure to sign up early. More information can be found at [www.northeastacquirers.com](http://www.northeastacquirers.com). 

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**IRS reporting from page 1**

**Merchants are already supplying financial statements and often personal income tax returns for principals; adding copies of these new reports would not materially alter the burden on new merchants or ISOs recruiting them.**

new law. The purpose of this article is to highlight certain aspects of the requirements and their potential impact.

No one can predict the future, but it is prudent to study the potential pros and cons of this new law and make plans accordingly. The areas affected by the new IRS reporting requirements likely to be of most interest to payment professionals include:

1. Underwriting for new merchant accounts
2. Agent use of 1099-K data to check residual payments
3. Merchant use of 1099-K data for comparison shopping
4. Portfolio valuation for buyers and sellers
5. Bookkeeping integration for merchants
6. Culpability for merchant tax evasion
7. Validation of card companies' reported earnings

**IRS forms as underwriting tools**

It would be highly surprising if acquiring banks did not begin requiring copies of 1099-K filings as part of the underwriting process for new merchant accounts. Indeed, the single form provides more aggregated information than the three months of residual statements that new acquirers customarily request.

Merchants are already supplying financial statements and often personal income tax returns for principals; adding copies of these new reports would not materially alter the burden on new merchants or ISOs recruiting them. There is the hope, of course, that these IRS forms will provide a more reliable picture of the merchant's activity than copies of processor reporting statements.

**Agent enlightenment**

Some ISOs and processors will be apprehensive about their MLSs gaining access to these new forms because, for MLSs (who do not see all the raw processing information for merchants), the forms will serve as a reality-check showing the actual split they are earning as a function of the gross processing of their merchants.

For example, an agent may believe that he or she is earning, when all is said and done, four basis points on the

overall volume of a given merchant. The MLS may not question that amount because the processor reporting consistently confirms it. The agent will now, however, have a means of verifying earnings as a percentage of merchant volume that is independent of the processor's reports.

Hopefully, MLSs armed with this additional information will not learn uncomfortable truths about this processor reporting. An agent would, no doubt, be disappointed if the true split was materially less than it had been reported to be.

**Merchant price comparisons**

The merchant services industry as a whole has to wonder whether the new IRS forms will be used by merchants as a tool for evaluating bids from acquirers competing for their business.

Much like enlightened agents, merchants may decide to vastly simplify their shopping for merchant services by asking the simple question: for  $x$  dollars received on credit and debit cards during the preceding years, the cost was  $y$  dollars; can another processor make  $x/y$  greater or not?

This kind of brutally simple price comparison would not be good for our industry because it does not take into

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account the important process of pricing individual line-items of merchant services for the merchant in question. For example, Processor A may be, on an aggregated annual basis, more expensive than Processor B; however, Processor B may settle funds faster, have a lower reserve requirement, provide equipment at a lesser cost or simply provide better service.

We hope the new IRS forms will not be used simplistically by merchants to shop on the basis of the aggregated cost of funds alone. Given that the reporting does not include chargebacks, returns or refunds, it would also be impossible to ascertain a merchant's true nature without looking at much more than the IRS forms.

### Quick, independent portfolio valuation

A Holy Grail of our industry is the evaluation of portfolios. We expect that some merchant services industry investors may draw on the new IRS forms as a way of obtaining raw data on a portfolio.

The IRS forms, together with a sense of how the merchants in a portfolio are spread across standard industrial classification codes, could be a powerful set of multiples that help the decision-making of investors or buyers of merchant services portfolios.

### Bookkeeping integration as a value-added service

Change is always best seen as opportunity. With this new reporting requirement, opportunity exists for acquiring organizations to make sure their merchant customers are fully aware of the new reporting requirements and are keeping precise records of their income for the purpose of completing their tax

returns in accordance with existing law.

In addition, ISOs and MLSs can help merchants ensure their bookkeeping or tax software is up to date and can fully utilize all transaction data, particularly when it comes to merchants' charge-back, return and refund reporting to provide additional information to the IRS to offset gross receipts that will be reported by acquirers under the new regime.

### Tax evasion not so easy anymore

I once read about a POS software company that would provide a large restaurant with two sets of books: one for the tax authorities, and one that was honest. These kinds of shenanigans with numbers will not be so easy under the new IRS reporting regime.

Here are a few examples of how dishonest merchants may try to continue evading taxes under the new regime:

- Accept fewer credit cards and accept more cash
- Urge clients to write checks that are converted into ACH transactions and thereby bypass the credit card/debit card 'bucket'
- Split credit card receivables of profitable businesses into accounts of businesses that are less profitable, thus scooting under the IRS reporting minimums of \$20,000 and 200 electronic transactions conducted annually, or at least lowering the gross receipt total for the primary business.

This last route is one that sales organizations should be looking out for. For example, a restaurant asks for two merchant accounts instead of one. The second merchant account is for a business unrelated to the restaurant but the merchant, nonetheless, wants a terminal for that second business in the restaurant. This is obviously suspicious.

Incidentally, to the extent that the second account would be used to process restaurant receivables, it would be doing so in breach of the Visa Inc. and MasterCard Worldwide rules that pro-



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hibit one merchant from processing transactions for another.

To the extent that an ISO is complicit in designing a scheme by which a merchant can dishonestly divert credit and debit card receivables across various accounts that are unrelated to the actual business, the IRS may find that ISO to be partly responsible for fraud.

Note that with the advent of the cash advance business, ISOs are already opening up new merchant accounts for purposes that are not strictly merchant-services related. ISOs should therefore be careful not to go one step further and assist merchants in committing tax fraud.


## Check on Visa and MasterCard earnings statements

Assuming the U.S. Department of the Treasury uses the aggregated results of all these new IRS forms to give an annual statement of spending levels at merchants via credit card, debit card and third party-based electronic payment, that information will serve as a powerful comparison tool when investors analyze the earnings statements of Visa, MasterCard and other publicly traded payment businesses.

In short, one could perhaps break up the aggregated data from the Department of the Treasury and that of the major processing companies to get a vague sense of market share, pricing and trends. People who enjoy crunching numbers will have a new set of inputs to work with. The new IRS reporting requirement should not come as a surprise to anyone. With the enormous volume of credit and debit card receivables, it is only natural that merchants should have to report on them.

## Some good news

There is no way to avoid the IRS reporting requirements bearing down upon us. But there are ways for you, as ISOs and MLSs, to put this new development into your merchant services tool arsenal.


While being aware of possible threats to your competitive position in the merchant services marketplace, you can use this as an opportunity to educate merchants about how they can use the reporting to enhance their business practices and to help ensure they do not run afoul of the IRS. Doing so will, at the very least, make you look good, which could mean happier customers and a stickier portfolio. 

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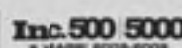
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# Education

# StreetSmarts<sup>SM</sup>

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## What the feet on the street need from acquirers

**By Ken Musante**

*Eureka Payments LLC*

**I**n March 2010, I left my long-time employment with an acquirer to join a street level ISO. I have since learned much about acquirers. For example, as a merchant level salesperson (MLS) and customer of acquirers, I find that acquirers openly share their contracts and processes with me. Acquirers are understandably reluctant to share compensation strategies or service details with other acquirers.

Further, street-level ISOs do not communicate certain things with acquirers. And street-level ISOs are much closer to merchants. They get a better read on the merchants' pulse and perspective than acquirers.

However, acquirers obtain information directly from the card networks and processors. Street-level ISOs and MLSs rely on acquirers to announce and explain changes but typically do not get information directly from the card brands. We are dependent on *The Green Sheet* and the Forum to confirm industry changes and validate details.

My lengthy experience as an acquirer and my tenure as a street-level ISO position me uniquely to understand how acquirers could best serve my current brethren in a way that is efficient and profitable for all.

### Ideal acquirer attributes

To find out what other MLSs believe are critical service strategies, I posted the following on GS Online's MLS Forum:

"Since joining a small street-level ISO earlier this year, I have gotten a good perspective of what makes a good acquirer. My business strategy is focused on processing

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merchants, so I'm concerned about the service provided my merchants and longevity rather than the speed for approval. However, if you could list your three top priorities for an ISO, what would they be, and why?

"Acquirers tout their pricing and automation in their advertisements, but I'm more concerned about their ability to accept a wide variety of POS systems and VARs. I need to accept every type of merchant, and I need many different wireless options. Though speed for approval is important, I'm more concerned about the predictability of the response time so I can manage customer expectations.

"My three, and in this order, are: 1. Do what you say when you say it. 2. Respond to all my merchant inquiries within 24 hours or less. 3. Don't change the fees to my merchants without my consultation."

### Effective communication

**CCGUY** chimed in first by posting, "1. Acquirers need to understand that MLSs focus on sales and retention. 2. Answers need to be provided on any application submitted within 24 hours or less. 3. Any issues with merchants, fees, fee changes, risk issues and closing accounts (need to be communicated to the MLS), etc.

**"MLSs need to educate themselves on risk and underwriting criteria for the ISOs they submit business to. They need to be the first line of defense in making sure the criteria are met. They should always ask themselves this question first, would I personally take risk on this account?"**

"4. Good communication with an 'account rep' and/or 'decision makers.' 5. Making sure that the acquirer, from the beginning, understands your business and you understand their business model.

"You cannot fit a round peg in a small square hole, and if they change they need to communicate with you. Having good communication is of the utmost importance."

### Responsible actions

**FASTTRANSACT** agreed that communication is key and that turnaround time is important. "On the other hand, with the increase of fraudulent merchants and unprofitable accounts being submitted, which is better?" she asked. "Approve the account within 24 hours, do due diligence and then shut merchant off two weeks later, or take the time to properly underwrite an account – say turnaround is 72 hours?"

"MLSs need to educate themselves on risk and underwriting criteria for the ISOs they submit business to. They need to be the first line of defense in making sure the criteria are met. They should always ask themselves this question first, would I personally take risk on this account? If the answer is no, then walk away.

"MLSs focus too much on what is in it for them rather than what is in it for us (us meaning the MLS/ISO relationship).

"So my wish list would be: 1. Better educated MLS. 2. Better communication between the ISO and the MLS in a two-way street environment. 3. Honoring the contract – merchant and agent – again in a two-way street.

"Then, of course, there are the ISOs who don't give a flying hoot about their merchants and/or MLS and are in it just to line their own pockets.

"This whole industry needs to be reevaluated and have some general operating procedures and protocols put in place by an enforcing body. There are too many blind people at the top in all channels, and too many are too busy advancing their own careers without any forethought on the impact their actions will have on the downhill slide."

### Honest dealings

**DEE MALIK** listed the following: "1. Do what you say that you are going to do. 2. Have an ISA/MLS agreement that

respects me as a professional. That would include a contract that is clear on what happens to my residuals if you sell your company, and one in which minimums are small or nonexistent among other things.

"3. Don't leave important changes out in the way that you do business that, if I would have known of the change before I signed, then I likely would not have signed on as an ISA/MLS with your company. 4. This is the technology business, technology changes, how are you making sure that we are on top of important changes.

"5. Have a system such that you don't accept (board) 'unprofitable' deals, and if you are finding that the people that you have welcomed as partners continue to send you those type of deals, retrain them, let them go or at least have a 'come to Jesus meeting' with them.

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## StreetSmarts

"Once I lose trust in the partner that I have signed on with, it cannot be regained." **DEE MALIK** further pointed out that MLSs should also behave in accordance with his list and this type of behavior should be the norm, not the exception.

### Wise partnerships

**CLEARENT** provided important points to consider. "Make sure you are signing with a processor/acquirer," he advised. "If you are not doing so, make sure you know everything about the relationship between your chosen ISO and their acquirer/processor."

"Too many times I have seen people get everything they wanted with their ISO, only to discover (sadly) that their ISO's relationship with their acquirer/processor allowed for changes or treatment that prevented the ISO from honoring their commitments, and often it wasn't because of anything the ISO said or did."

"So ... ask questions, and add that one simple question: 'Define your direct relationship.' ... Then ask, what happens if interchange goes up or down; if your acquirer raises their fees; if you don't make your minimum production; if [there is] any instance where you can have your residuals held, and what that would be; if you have liability, what happens to a loss and its effect on me."

And, last but not least, if you sell your portfolio, what happens to my residuals?"

I agree with **CLEARENT**. Signing with a sub-ISO or any entity not directly contracting with the bank is more apt to lead to problems than if you were to sign directly with a bank or an ISO directly connected to a bank.

To add to this article, I spoke with my long-time friend, Xavier Ayala, Vice President and Director of National Sales and Marketing at Moneris Solutions.

He observed that many MLSs don't properly plan before contacting acquirers; consequently, it is often a bad fit because the MLSs have not first defined what is important to them to eliminate processors that don't meet their basic requirements.

Before interviewing acquirers, MLSs should create a list of services they are seeking and a separate list of attributes they wish to avoid, as well as develop a clear business plan so they are in a position to best compare acquirers.

Ayala added that you should not put all your eggs in one basket because, even if you have found the perfect acquiring relationship, things could change, and you must be able to adapt.


Finally, he stressed that the more an acquirer focuses on relationships, the better a partner the acquirer is likely to be. Representatives at your acquirer should focus on helping to get things done when you need them.

While it's hard to define a "relationship driven acquirer" by using a punch list, it is clear that relationship building that includes advocating for MLSs and their merchants is a critical attribute.

### Disturbing realizations

I was surprised to learn how patently one-sided some acquirer contracts are. Some required exclusivity; others required the MLS to represent actions the merchant would take; others required a noncompete clause. When I mentioned this to a long-time MLS, he revealed that all he ever looked at was the pricing exhibit.

This may explain why acquirers advertise their pricing instead of their service or contractual terms. Acquirers don't get credit for having transparent contracts with high service standards; these attributes are not sufficiently appealing to generate inquiries from agents.

Please share your thoughts and ideas for the next article. Until then, 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](http://www.eurekapayments.com).

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# Content marketing delivers by engaging prospects

By Peggy Bekavac Olson

*Strategic Marketing*

**M**y company creates marketing materials for clients who are payments industry players just like you. We generate advertisements, brochures, presentations, press releases, promotional emails, white papers, quick reference guides, webinars, blogs and other materials for our clients. We've found it's far too easy for companies to spew content created off-the-cuff, but to be effective, marketing must address customers' wants, needs and pain points head-on, while keeping content fresh across a multitude of delivery channels.

## Traditional versus content marketing

Traditional marketing is based on interruption methods that utilize marketing materials and tactics to interrupt buyers' activities to gain their attention and their business. Examples of interruption marketing are promotional brochures, emails, advertising and sales calls. Content marketing is based on the art of communicating without selling. It's a non-interruptive method that allows prospects to choose to view your information. Instead of pitching your company and its offerings, you deliver relevant content that makes potential buyers more informed.

The intent is to engage a distinct target audience to drive business and create brand loyalty. Examples of non-interruption marketing include white papers, journal articles, case studies, webinars, blog posts, RSS feeds.

Content marketing is the creation and sharing of valuable information, insight and advice on the issues your customers and prospects care about – for the purpose of promoting your business. Content should not be specifically about your business or its offerings, but materials frequently include a mix of pertinent problem-related information, industry best practices and thought leadership.

Content marketing should do more than inform and educate; it should make buyers stop, read, think and then behave differently. Good content marketing inspires and then provokes action.

## Why is content marketing important?

Content marketing improves your company's brand recognition, image and reputation, which leads to increased sales and a larger market share. A 2009 Roper Public Affairs Report prepared for the Custom Content Council revealed that business decision-makers:

- Prefer to get company information through a series of

articles and information versus an advertisement (80 percent)

- Find that content marketing makes them feel closer to the authoring company (70 percent)
- Say company content helps them make better product decisions (60 percent)

This means prospects and customers can look forward to receiving content marketing and actually spend time reading it to increase their knowledge to make better buying decisions.

Buyers are looking for information that solves their problems, not an immediate sales pitch. The credibility and authority that content marketing creates eliminates buyer resistance, while introducing your company and the benefits of a specific product or service.

In a nutshell, content marketing builds trust and rapport with prospects and customers, while making it easier for them to justify purchasing from you. So you can create marketing that is welcome and anticipated, while also making a strong connection with prospective buyers.

## Six rules of content marketing

Marketo Inc., a leading marketing automation company, developed six rules that can be followed to get the most out of your content marketing efforts. I've modified these rules slightly and believe content marketing should be:

**Non-promotional:** Promotional materials neither excite nor inspire, both critical elements of content marketing.

**Relevant:** Make sure content is pertinent and useful to potential buyers; this trumps conveying your company's mission or message.

**Insightful:** Content marketing should address and answer a business question or problem; providing information about a meaningless topic doesn't accomplish anything.

**Well written:** Poorly written materials yield poor results and may also hurt your company's reputation, so ensure content is presented thoughtfully and error free.

**Supportive:** If content does not support your business objectives, it's a waste of time, money and resources to produce.

**Substantiated:** Some content appears biased when it supports your business goals, so make sure you validate your claims through quotes, testimonials, metrics and statistics.




## Content promotion

Good content is not enough. You must distribute it through multiple channels and capture information about potential customers who consume your content. Promotion is vital: if no one reads what you create, your content marketing efforts will be wasted. Tips for maximum exposure and effective lead generation include:

- Use at least three social media platforms to spread information about your content; cross-pollination is the key.
- Use blog posts to share key lessons and takeaways so readers quickly understand the value of your content and request to access the entire material.
- Create a content landing page with a contact registration form (name, company and email address) and link it to the rest of your website.
- Develop a banner ad about your content and use it on your website's home page.
- Let industry bloggers, press, analysts and consultants know about your content so they can share it.
- Utilize email database campaigns to deliver content to prospects, customers and key industry players.
- Create and distribute a press release about your content.

- Mention content in other press releases about your business.
- Hold a virtual webinar or live, in-person event about the content.
- Consider paid promotions like Google AdWords or subscriber advertising in the form of banner ads and emails using pertinent industry journals and newsletters.

The results of content marketing can be tremendous when you deliver information people actually want. You begin developing relationships with people who care about your marketplace and industry and who may benefit from your company's products and services. Content marketing creates sales leads, drives web traffic, promotes your brand, and educates customers and prospects about the reasons to buy. Here's the bottom line: better content marketing equals better results for your business. 

*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](http://www.smktg.com).*

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## Education (continued)

# Going beyond PCI

By Tim Cranny

*Panoptic Security Inc.*

**T**he Payment Card Industry (PCI) Data Security Standard (DSS) is expanding and maturing. That means ISOs, banks, merchant level salespeople and merchants must familiarize themselves with an increasing number of resources, documents, processes and procedures associated with PCI.

That's good in almost every way, but it introduces a very real danger, one that is already affecting people today: the possibility of becoming "captured" by PCI and its priorities and processes and forgetting that it is, and will always be, just a response to the underlying threats and real dangers out there.

As compliance becomes a more familiar process, organizations run the risk of forgetting about the differences between safety and risk, and getting hypnotized into thinking only in terms of PCI and its issues and formal measurements.

(This problem didn't emerge with PCI, of course; it is a common cause of failure for any long-term program with hard-to-define or shifting objectives. For example, there has been a problem for years in the U.S. education system, whereby the ultimate goals of producing educated, informed graduates is giving way to the more tangible metrics of raising exam scores and graduation rates. This is how we end up with dangerous and completely backward approaches such as "teach to the test.")

The formal PCI system does not, and cannot, track perfectly or even consistently the underlying dangers from hackers and thieves. In fact, there are strong reasons (which I'll address in a separate article) why PCI is particularly bad as a tracking mechanism.

The result is that we will see increasing numbers of cases in which people follow PCI guidelines judiciously but are still hacked or damaged.

If you're an ISO, bank, processor or merchant, do not smile when you hear the phrase, "The operation was a success, but the patient died"; you could be the patient we're talking about.

For that reason, I'm going to ignore PCI for the rest of this article and talk about the real threats and dangers you should keep in mind. This has to be a regular process, too, because these threats and dangers are changing so rapidly that the right approach today is likely going to be woefully inadequate in a year's time.

## Facts about cybercrime

The recently released CA Technologies report, *State of the Internet 2010*, (available at [www.ca.com/files/SecurityAdvisorNews/h12010threatreport\\_244199.pdf](http://www.ca.com/files/SecurityAdvisorNews/h12010threatreport_244199.pdf) or by searching online) offers an update on "what's happening out there" in the world of cybercrime and is a good place to start.

The bottom line is that cybercrime continues to grow more common and serious while cybercriminals are becoming more professional. Not that long ago the archetypal hacker was a teenager looking for adventure and recognition among peers, not necessarily a monetary payoff.

Now a hacker is much more likely to be a member of an organized criminal group using specialized training and tools for financial gain.

Some of the details in the CA report are surprising and show how the web and cybercrime are evolving. For example:

- Far more than viruses, Trojans are the most prevalent category of threat, accounting for 73 percent of the total threat infections reported to CA around the world. A Trojan is a program that claims to do something useful with offers like, "Try this free accounting software," but it actually attacks users.

Many of the latest Trojans are specifically designed to steal data, and the single biggest focus of these attacks is online banking, accounting for 29 percent of the new "infostealer" Trojans.

- Because security is all about the "arms race" between the good guys and the bad guys, it is always true that anything that the good guys do will be circumvented, distorted or even actively exploited by the bad guys.

For example, users are becoming more security conscious, so attackers are exploiting that by packaging their Trojans as fake security software (fake anti-viruses that actually attack your computer and issue fake security warnings to make you hand over personal data).

- Ninety-six percent of Trojans are components of a larger underground market-based mechanism that CA calls "Crimeware-as-a-Service." This emphasizes that cybercrime is an organized industry, not a loose collection of individuals.

(On a side note, it's more than a little bizarre to see this sort of crime become almost boring nine-to-five work: The people doing this aren't living a life filled with speedboats, machine guns and exotic drugs. They're now occupied worrying about



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## Education (continued)

### Microsoft technologies remain a huge and consistent source of security problems.

quality control, search engine rankings, affiliate programs, multiple language support and other mundane concerns.)

- The favorite target of attacks is gradually moving away from Microsoft Corp. Windows systems to Internet-based solutions. For example, there is steady growth in attacks aimed at sites such as Facebook and foundational technologies such as Adobe PDF and Flash.

Having said that, various Microsoft technologies remain a huge and consistent source of security problems. An enormous number of attacks focus on ActiveX, Internet Explorer and Microsoft Office.

- Not too surprisingly, the Internet is not just the target of attacks; it is the highway that these attacks use to get to you, corresponding to 86 percent of the attacks, up 8 percent year over year.

### Recommendations

So what should we do about all this? Here are some general ideas that should influence both how you think about security, and what specific actions you take.

- Do not use the PCI DSS as your only guide. Security threats are evolving and shifting much faster than the PCI Security Standards Council can respond. If you use the PCI as your sole guide, you'll just be getting ready for yesterday's threats by the time tomorrow ends.

Instead, be PCI compliant, but keep looking for guidelines like the CA report and alerts from governments and software vendors.

- Use the PCI as a good place to start your thinking about security, particularly if you haven't done much about this to date. Think of it more as a first draft of what your minimum set of standards should be, not as the sole definition, and certainly don't think of it as the maximum you should be doing.
- Recognize that the threats are constantly ramping up, so you have to ramp up, too. If you don't, the price you pay will be far higher than the cost of diligence. One comment that security professionals hear all the time from companies that have been hacked is, if only we had (fill in the blank).
- Implement and maintain a comprehensive security program; don't just rely on a single product or solution. Security is too complicated and broad an issue for you to be able to "make it go away" with one purchase, even an expensive one. Also, be aware that the cost of doing business in the modern world has to be paid with time and attention, as well as money.

Thinking about security in this way means you will be safer. It also means PCI compliance will easily follow. That's how it's supposed to work: PCI is essentially a health check, and the best way to pass a health check is to stop thinking about the test so much and concentrate on getting healthy. ☑

*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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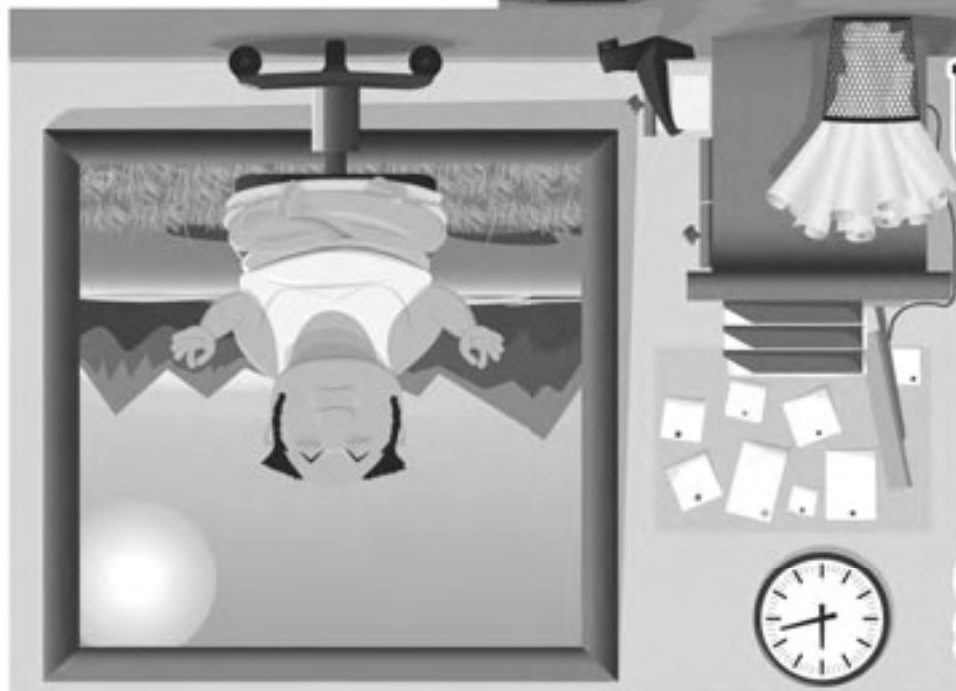
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2. Frame is missing from oak desk?
3. Floated up paper missing from behind monitor.
4. Clock missing on lower drawer.
5. Shoe is placed on the floor instead of in drawer.
6. Flowers missing from trash.
7. Snow missing from mountains.
8. Handcuffs is missing from man.
9. Name plate missing on the picture frame.
10. Sun added to background.

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I just wanted to write this letter of thanks to everyone at Bankcard Depot. The first two to three years I spent in this industry I worked with numerous processors with whom I was nothing but a number (anyone who has spent any time in the industry probably knows what I am talking about). The proof was in the fact that every time I called in to any of them the receptionist would ask for my agent number not my name. I felt like I was out on an island by myself trying to figure out how to build a business in an industry I knew very little about. Every processor made numerous promises and delivered very little.

Approximately six years ago I decided I was going to find a new company to work with. I truly believe that when I found Bankcard Depot I found a partner in this industry not a company to work for. They actually delivered on the promises that they made. Over the years they have helped me to set up an office, hire and train telemarketers and sales people (Stephanie Gerke actually flew to Iowa to help with this), and build an excellent book of business. They have a staff that is willing to assist in every way to insure that together we succeed.

You guys are the best! Thanks for making me the success I am today.

Shawn A. - Iowa

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## Where is our industry heading?

By Jeffrey Shavitz

*Charge Card Systems Inc.*

**P**lease note that I do not have a Magic 8-Ball (actually all of my three children have one and it always says, "Ask again later," no matter how many times you shake it) to consult regarding our industry, but I do frequently get asked about the future of our business from salespeople already in the payments industry and others considering entering it.

Here's my simple answer, and then I'll elaborate on it in greater detail: I don't know. How's that for honesty? As an owner and manager of a company, I often receive this question at our staff meetings, and my employees are looking for a sound, smart response to this simple, yet incredibly difficult-to-answer question.

But I can offer tips that could help those wanting to enter or remain in our industry.



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### Differentiate yourself

Our business is not going away. Bankcard usage (both debit and credit) continues to grow, and merchants, although they do not like the accompanying interchange fees, must continue to accept all forms of plastic payment.

As in any competitive business, the payments industry is experiencing decreasing profitability. To make the same or even more money, we all need to open more and more merchant accounts. This is a pretty obvious tactic, but it's not an easy task to accomplish.

In my opinion, it's all about scale and leverage, and a merchant level salesperson (MLS) can still exponentially grow his or her business. Fortunately, this strategy has worked for my company, as many of our sales partners continue to develop prosperous careers.

Become an expert in the nuances of our business. Traditional credit card processing has become so competitive that you really need to differentiate yourself, through ways beyond just flashing a great personality. Learn something so valuable about our business that merchants want very much to buy from you.

There's an adage that customers would rather pay "a fair price to an incredible salesperson" than pay "the lowest price to an average salesperson." Think about your own experiences and reflect on the truth of this statement.

Of course, you must charge a competitive price, but I can and have charged more basis points than my competitors and still won the business because of exemplary service.

### Target small to mid-size merchants

Pick your sales channel. When we started our company, we only solicited Fortune 250 companies and very large private companies processing in excess of \$5 million per month. While we have successfully closed many large merchants, I believe the future of the MLS is in small to midsize merchant processing at less than \$100,000 per month.

Why? I'm not suggesting you should give up on these larger opportunities, but the margin compression is tight, and banks have chosen to "give away" interchange to win the banking relationship.

On the other hand, profitability still exists in the small to midsize merchant arena, where there is opportunity for us to act as payment consultants while developing a profitable partnership.

### Stay current

I would be naïve not to mention the power of technology in this article. Stay current on trends so that you can sell appropriate services and terminals to your merchants,



whether it is wireless or mobile processing on a smart phone (iPhone, BlackBerry or others).

MLSs say to me that the industry was so much easier 10 years ago when interchange-plus was not common and we could earn significant money on leases. Get over it. As Darwin said, it's "survival of the fittest."

Five years from now, people entering the payment space will say how easy it was in 2010 to make a living. Just go out there and sell, provide a good service, be fair to your merchants, and you can build a great business.

I have many friends who are just now choosing to enter our space; they wouldn't be doing so if they didn't believe opportunities existed. And, if you truly are negative about our business and its future, find a new career. Think creatively. To continue being successful in our space, think out of the box. I know that is a trite expression, but it is true.

### Embrace your inner entrepreneur

In life and in business, success exists largely in the unknown – especially for the entrepreneurial salesperson. Embrace the excitement of the unknown.

The unknown is why you chose to become an entrepre-

**Think creatively. To continue being successful in our space, think out of the box. I know that is a trite expression, but it is true.**

neur in our profession. If you want to have a structured day, stop selling merchant services and get a job.

There is a big difference between a job where you earn a salary and a sales opportunity (that we are all so fortunate to have) where you can create your own future.

I hope I have answered the question about our future. Nobody really knows what the future holds, but I'm excited to be part of the payments industry journey. 📧

*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](mailto:jshavitz@chargecardsystems.com) or 800-878-4100. For additional information on CCS, please visit [www.chargecardsystems.com/gsadvisoryboard](http://www.chargecardsystems.com/gsadvisoryboard) or the company's corporate website at [www.chargecardsystems.com](http://www.chargecardsystems.com).*

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## Education (continued)

## Become a payment superhero

By Jeff Fortney

Clarent LLC

I was introduced to comic books when I was eight years old, and those popular culture mainstays created a bond between my friends and me throughout our elementary school days. We would avidly discuss recent editions – and even share them so we wouldn't each have to buy every issue that came out.

(The 50 cent price tag was more than a typical weekly allowance at the time, so this was an early lesson in the value of sharing.)

We were into Superman, Batman, Captain America (my favorite) and the like. We would pretend to be our favorite characters, and as such, would save the world. For pre-teens, that seemed like a reachable goal.

One constant in all superhero comic books was that each hero had a closely protected secret identity, which was in constant jeopardy. They each also had something that

could weaken them or destroy them, like Superman's kryptonite.

As I grew older, the lure of comic book superheroes faded, but I retained insights about identity found in the comics of yore. Like superheroes, people are classified by the roles they play, not their true or "secret" identities. And while external identity is largely a matter of how one is perceived by others, it can be what a person chooses it to be.

### Beef up your sales identity

As ISOs and merchant level salespeople, your external identity is crucial to your customers and prospects, and to succeed, you must be their superhero. Fortunately, this identity is something you can shape.

To do this, realize that your external identity is a role like any other you play in your day-to-day life. Don't let your successes or failures at work affect your secret identity. Protect your true self (your Clark Kent) while playing your superhero sales role.

You won't, of course, see through walls, but you can project strength, knowledge and other abilities that exceed those of your competition.

Projecting strength does not mean you can bend iron bars. In the sales world, strength is projected when someone demonstrates self-confidence. You must be confident in what you say and do.

Confidence is demonstrated by how you present yourself. The key to projecting the right level of self-confidence is respect. Treat all merchants you come into contact with as true equals. Be attentive and friendly.

(If you feel the only value you derive from merchant relationships is the signing of their accounts, your prospects will sense this. It could also cause you to project a desperate air.)



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So respect your prospects first, and you'll receive respect in return. Knowledge is not conveyed by spewing facts and figures. Nor is it demonstrated by showing you know more than a merchant knows.

Knowledge is demonstrated in two ways:

1. Confidently knowing and providing the answer to questions asked
2. Confidently admitting when you don't know the answer

You must also address underlying questions merchants care deeply about but do not ask. To do that, listen closely so you can recognize the real issues.

Ability is not projected by words, but by deeds. It is demonstrated when you accept a merchant's application and explain the next steps to completion. It is demonstrated by being in constant contact with the merchant throughout the boarding process, as well as after the merchant has begun processing.

Ability is also shown by how you handle stumbling blocks that arise over the course of a relationship. The speed of your responses defines ability in this instance – often more so than the actual results.

### Know your weak spots

You must also be able to recognize your kryptonite, meaning characteristics that can cause you to fail. All superheroes face some form of kryptonite. In the payments world, kryptonite comes in three flavors: arrogance, ignorance and indifference.

**Arrogance:** There is a fine line between confidence and arrogance. Arrogant actions make one person feel inferior to another, either directly or indirectly. Showing even the slightest degree of arrogance can guarantee you won't sign a merchant – no matter what you say or do. The safest way to avoid exhibiting arrogance is to admit when you don't know the answer to a question, and then tell the merchant the steps you'll take to help him or her find the answer.

**Ignorance:** Ignorance is not a lack of knowledge. Ignorance is acting as if you know everything. Nobody truly knows everything, so don't pretend you do. To thrive you must have a basic knowledge

of the industry. If you aren't taking time to learn something new regularly, now is the time to start.

Your processing partner should help you gain the knowledge you need, as well as help you learn more about any topics you're not as familiar with. If your partner isn't helping you learn and grow, find one who is.

**Indifference:** Indifference is often simply avoidance, and this projects a lack of skill. Simply put, returning calls in a timely manner, doing what you say you'll do, giving realistic expectations, moving quickly and showing merchants how important they are to you are what you must do.

Payment superheroes do exist. And they earn a very good living. They weren't born superheroes, though. They became the stuff of legend by taking the right steps professionally, protecting their inner selves and by avoiding their kryptonite.

You can do it, too. 🦸

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](mailto:jeff@clearent.com) or 972-618-7340.

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## What PCI DSS 2.0 means for financial institutions

By Gary Palgon

nuBridges Inc.

I participated in the PCI Security Standards Council's (PCI SSC's) 2010 Community Meetings in North America and Europe, where the 2.0 updates to the Payment Card Industry (PCI) Data Security Standard (DSS) and the Payment Application (PA) DSS were presented. This article provides my perspective on how the updates will benefit financial institutions.

Version 2.0 updates to the PCI DSS and the PA DSS bring no major changes in requirements, a sure sign these security standards are maturing. The 2.0 updates devote significant new text to clarifying the standards, which should help resolve many compliance questions, though there's still room for improvement, as the PCI SSC itself admits.

### Progress being made

Still, these clarifications are a step in the right direction and will ultimately help financial institutions reduce their risk and achieve greater data security for cardholder information throughout the credit card supply chain.

As a growing number of high-profile, headline-grabbing incidents demonstrate, sensitive customer data in loan applications, credit histories, payroll files and customer databases are prime targets for hackers. Cyber crimes and other types of data breaches – stolen laptops, lost flash drives and accidental leakage of confidential records – subject financial services organizations to a growing list of civil and criminal penalties.

### More nuances clarified

Further down the supply chain, even retailers like Hannaford Brothers Co. that were deemed PCI DSS-compliant have experienced credit card breaches, putting financial institutions at risk of having to cover unauthorized purchases and the expense of issuing new credit cards.

The fact that companies that were deemed PCI DSS-compliant have been breached proves that being compliant doesn't equate to being secure. Clarification of the PCI standards is meant to help companies better understand the nuances of the requirements and provide better guidance on successful data security strategies.

### Risk mitigation

In addition to better clarification, PCI 2.0 continues to address evolving risks and threats and improve alignment with industry best practices. It also gives merchants

more flexibility for achieving compliance by allowing the use of emerging technologies to meet data security regulations.

The cost of achieving and maintaining PCI compliance can be high, and the merchant community will welcome anything that brings down the cost. This, in turn, helps to lower the risk upstream to the financial institutions. New technologies like data tokenization, point-to-point encryption (P2PE), Europay MasterCard and Visa (EMV) and virtualization all play a part in reducing compliance costs.

For example, data tokenization and P2PE reduce the cost of compliance by taking entire systems, applications and databases out of scope for compliance and ongoing annual audits. These technologies limit areas where cardholder data exists thereby lowering the risk of a data breach and simplifying and speeding up the auditing process.

### Commitment to data security

The PCI SSC is so dedicated to paving the way to the adoption of new data security technologies that it has committed to publishing a series of supplemental guidance papers. The first two of these papers, *PCI DSS Applicability in an EMV Environment* and *Initial Roadmap: Point-to-Point Encryption Technology and PCI DSS Compliance*, were published Oct. 5, 2010, and cover P2PE and EMV technologies in a payment card data environment.

They were written to help the merchant community understand how P2PE and EMV help define or reshape the cardholder data environment, evaluate the impact of these technologies on PCI DSS compliance efforts and identify future potential for the technologies.

### Easier implementation

Since there is not a "standard" way to implement these technologies, these and future guidance papers will be very useful to merchants who want to incorporate them into their data security programs to reduce fraud in card present transactions (with EMV) and reduce scope (with P2PE) in compliance with the PCI DSS.

In a nutshell, the easier it is for merchants to understand how to leverage new technology to improve data security and the less costly it is to maintain compliance, the more secure the supply chain becomes.

The less risk there is of a credit card breach at the merchant level, the less risk that financial institutions will be put in the position of bearing the brunt of the fallout of stolen cardholder data. Clearly, this

clarification and flexibility will be welcomed by the merchant community and will ultimately benefit the financial services community.

### The future of the PCI SSC

During the September PCI SSC North American Community Meeting, there was evidence of a great deal more collaboration among the PCI SSC and the participating organizations, Qualified Security Assessors (QSAs) and the American Society for Quality (ASQ).

One personal example is the work I have been doing leading the Tokenization Working Group as part of the PCI SSC Scoping Special Interest Group (SIG). Prior to June of this year, the PCI SSC's Technical Working Group worked independently from us, resulting in duplicative efforts as we both elaborated on the use of emerging technologies for compliance.

Since then, we've been working together, which will result in the expedited development and dissemination of information about emerging technologies.

### Effective cooperation

In addition, better communication between the council and the participating organizations rang out loud

and clear, and I have no doubt the noise was heard by all. Companies and solution providers alike want more clarity about the Self-Assessment Questionnaires (SAQs). They want to learn more and learn it faster by participating in the SIGs. They also want to know how to do more around risk-based approaches to address vulnerabilities. And they're looking for more training opportunities.

There were concerns about getting the PCI SSC to make more definitive decisions about emerging technology conflicts and how to deal with franchisees, since the latter don't often recognize the importance of security.

Both are valid issues and in time they, too, will be addressed. With the support of the participating organizations, QSAs and the ASQ, we can help them move faster by providing input and guidance. ■

*Gary Palgon, a Certified Information Systems Security Professional, is Vice President of Product Management for data protection software vendor nuBridges Inc. He leads the Payment Card Industry's Tokenization Working Group, one of four working groups in the PCI Security Standards Council's Scoping Special Interest Group. Palgon is a frequent contributor to industry publications and a speaker at conferences on electronic business security issues and solutions. He can be reached at gpalgon@nubridges.com.*



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# NewProducts

## Encrypting, entertaining self- service terminal

**Product: KST9000**

*Company: Key Innovations Ltd.*

**A** self-service payment terminal from Key Innovations Ltd. provides point of entry, letter-by-letter encryption of all inputted data, along with a sophisticated multimedia player merchants can customize to display everything from store discounts to local weather reports.

The KST9000 is an unattended terminal intended for such installations as gas stations, ATM kiosks and automated ticket taking. It turns autonomy into value, according to its makers. The terminal comes with Secure Content Builder, a software program that can be used to build a virtually limitless array of digital image and video content.

### Multipurpose machine

This feature, combined with the terminal's customer facing 5.7-inch display screen, 30 frames per second digital video capability and a carousel of navigation screens linked to eight buttons, have the potential to make the KST9000 a payment acceptance machine, marketing vehicle and entertainment source rolled up into one product.

The PC-based software is "a video editor that allows you to create the content, which is more or less a PowerPoint, the way you build individual scenes and link them to the user with the eight addressable buttons on the display," said Ryan Coggins, National Sales Manager for Key Innovations. "You can instruct users how to use the terminal, the field pump or the ATM by presenting them with a video. ... You can have a Coke ad playing while the pump is idle; you can tell the customer to press here for coupons, here for weather and here for local traffic."

Coggins said users of Secure Content Builder can upload their own digital content onto the program or select from a library of images and videos already on file to fill their terminals' different navigation channels.

The channels can be limited to one or two options for the consumer or expanded to provide things like promotions, couponing, news and entertainment pieces like movie trailers. The content is transferred from a computer to the terminal through a USB module.

The terminal also offers what Coggins called "user-defined illumination," meaning the freedom to decide if or when



### Features of KST9000 include:

- Sophisticated digital content displayed with eight buttons for navigation
- Digital content created on accompanying software program
- Point of entry encryption used with all entered data
- Modular hardware allows peripheral add-ons

certain buttons are highlighted (through backlighting) as prompts to the consumer, such as for payment.

### Encrypts all entered data

The KST9000 encrypts entered data at both the point of swipe and point of entry for data entered on the PIN pad – including encryption of nonpayment data, according to Coggins. He said many terminals encrypt payment data but not less sensitive data like ZIP codes, which are often required for payment at gas station pumps.

But he believes anything less than an all-encompassing encryption scheme can be dangerous because a criminal may trick customers by prompting them – with a planted or hijacked monitor, or even a handwritten note – to key in payment data when they're supposed to enter ZIP code information. And when a consumer obliges, sensitive payment data can be exposed. Data entered in this "clear text" mode presents an opportunity for criminals to spoof customers, tricking them into entering PIN codes, Coggins noted.

It is easy to add ancillary pieces to the KST9000 because it reportedly lacks the constraints of a metal encasement or other impermeable hardware. "It's modular – you can build your own host panel, put it at the angle you prefer, and put in each piece individually," Coggins said. With four USB expansion ports, the system allows for the incorporation of peripherals, such as a scanner, a card reader, a secondary printer and a video camera, he added. ■

### Key Innovations Ltd.

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# Research Rundown

## Smart cards, smart choice

By 2012, global shipment of smart cards is expected to grow from 5.5 to 8.5 billion units at a compound annual growth rate of approximately 11 percent, according to RNCO's *Smart Card Market Forecast to 2012*. The report indicated the shift in liability associated with Europay, MasterCard and Visa chip and PIN technology would be a key driver in bank issuance of smart cards in the future.

The telecom industry leads in smart card issuance in the form of mobile phone SIM cards; however, forecasters see increased usage of smart card technology in transportation, the public sector and financial services. For more information, visit [www.marketresearch.com](http://www.marketresearch.com).

## Over \$44 billion lost in transactions

A recent Harris Interactive Inc. *Online Transactions* survey commissioned by online customer experience management software company Tealeaf Technology Inc. revealed that online retailers may have lost more than \$44 billion this past year due to retail website transaction problems. More than a quarter of online shoppers surveyed said they would turn to online or offline competitors if they encountered an issue with an online transaction.

Online shoppers surveyed stated they would react to online transaction issues as follows:

- 66 percent would contact customer service, 53 percent of whom would do so by phone
- 36 percent would email or log a web complaint with customer service
- 32 percent would abandon the transaction entirely; of those 27 percent would turn to a competitor

For more information about the survey, contact Lara Sasken at [lsasken@tealeaf.com](mailto:lsasken@tealeaf.com).

## Future looks terminal

Mercator Advisory Group's *The 'World Terminal' - Preparing the POS for the Multi-Form Factor Future* explores global terminal vendor acceptance of multiple payment forms ranging from chip, contactless, near field communication and magnetic stripe payment processing.

Highlighted issues include:

- Global movement toward devices that accommodate multiple form factors in any geography
- The rise of chip-based payments among nations and multinational merchants
- Potential impacts of emerging form factors, such as two-dimensional barcode and biometrics

- New developments in multifactor-capable devices with integrated support

"Payment terminal OEMs should be thinking about their next generation products in such a way that their planning accommodates a more application-centric paradigm, where value-added services can provide true differentiation between offerings," stated David Fish, Senior Analyst, Mercator Advisory Group and report author. For information, visit [www.mercatoradvisorygroup.com](http://www.mercatoradvisorygroup.com).

## Cloud shift forecast for 2013

As more companies shift to web-based applications to manage customer relationships, the global market for cloud computing is projected to exceed \$25 billion by the end of 2013, according to a recently published report by Renub Research, *Cloud Computing - SaaS, PaaS, IaaS Market, Mobile Cloud Computing, M&A, Investments, and Future Forecast, Worldwide*.

The report projected the fastest growth segments in software-as-a-service will be communications and collaboration, customer relationship management, enterprise resource planning and supply chain management. For a copy of the report, visit [www.renub.com](http://www.renub.com).

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# 10 years ago in The Green Sheet

## Prepaid gets thumbs up

Los Angeles-based PayPoint Electronic Payment Systems reported that in the last year the PayPoint prepaid gift card had become a key product in the firm's array of offerings. PayPoint's Sales and Marketing Vice President Fred Coblenz said it gives merchants "another revenue source that's cheaper to process than paper gift certificates and credit cards."

## Play ball at the POS

U.S. Wireless Data powered the wireless POS terminals at Yankee Stadium during the 2000 World Series.

## Open in the air

VeriFone Inc. endorsed an "open" environment that allows for multiple application program interfaces on POS terminals because it helps move toward establishing industry-wide application standards, thereby removing the development, certification and support barriers associated with "closed" proprietary environments.



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## Smart Card Alliance

2010 Smarts Cards in Government Conference and Exhibition

**Highlights:** The Smart Cards in Government Conference continues to grow, reflecting the rapid expansion of government identity and security initiatives. These initiatives have led to the growing interest in the strategies and technologies that help speed the adoption of homeland security identification and access and other key government initiatives.

This year's conference features expanded coverage of government efforts to improve and implement secure electronic medical records and smart card applications with the potential to improve the security and privacy of patient information, provide the secure carrier for portable medical records, reduce health-care fraud and support new processes for portable medical records.

**When:** Nov. 16 – 19, 2010

**Where:** Walter E. Washington Convention Center, Washington

**Registration:** [www.smartcardalliance.org/pages/news-events](http://www.smartcardalliance.org/pages/news-events)



## American Conference Institute

ACI Emerging Payment Systems

**Highlights:** Financial institutions are finding new and more efficient means of using technology to speed up the payment process, and emerging payment products like mobile payments, virtual and digital currencies and merchant payments are anticipating tremendous growth in the weeks, months and years ahead. While these products afford great opportunity for revenue, uncertainties persist related to regulatory, compliance and security issues.

This conference offers a unique opportunity for financial product, payment, and retail professionals and attorneys to gain a crucial understanding of the mobile and emerging payment ecosystem and how the key new payment systems fit into the regulatory framework.

**When:** Nov. 18 – 19, 2010

**Where:** The Westin Washington, D.C., City Center, Washington

**Registration:** [www.americanconference.com/EPS.htm](http://www.americanconference.com/EPS.htm)

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# Inspiration

WaterCoolerWisdom:

**But what is happiness except the simple harmony between a man and the life he leads?**

- Albert Camus

## The pursuit of happiness

**W**hen Thomas Jefferson penned the forward-thinking words contained in the Declaration of Independence, he officially declared the "pursuit of happiness" as an "inalienable right" for Americans, in the same league as life and liberty.

An inalienable right cannot be annulled, canceled, overturned or revoked by any authority, as long as the legal activity does not infringe upon the rights of others.

Jefferson sent a powerful message to Americans: our birthright is to pursue our own happiness. But happiness is not guaranteed and is often fleeting. What is happiness anyway? Merriam-Webster Inc. offers this definition: "a state of well-being and contentment."

Perhaps that's the genius of Jefferson's assertion. We must endeavor to determine what makes us happy. As individuals, we have unlimited potential to achieve happiness if we commit ourselves to discovering what brings us true happiness.



### The happiness game plan

So how do we pursue happiness, especially in the workplace?

1. **Decide to spread happiness:** Before you begin each day, think about the purpose of your work and how it benefits merchants. What can you accomplish today that will bring the greatest rewards to the merchants you serve? The answers will help guide you toward increased productivity and merchant satisfaction, which will lead to greater happiness for you.
2. **Keep it in perspective:** This may seem obvious, but you are more than your work. Focus on the tasks at hand, but keep in mind that you can only apply your best effort in each situation. Set the bar high, realizing that you will prevail in some but not all cases, which is perfectly normal. Appreciate your efforts, and end the day with a smile.
3. **Associate and delegate:** Get to know associates and merchants by taking a personal interest in their work and lives. Relationship-building is essential to sales, of course. But it also leads to greater satisfaction at work, which leads to – you guessed it – happiness. So learn to delegate so you can dedicate your time building merchant relationships.
4. **Get away from it all:** Take regular breaks throughout the day. A brisk 10-minute walk can reenergize and offer the lift needed to close the next sale. Beyond daily breaks, schedule recreation and vacation breaks to maintain the delicate life-work (and happiness) balance.

If we make a conscious decision to be happy in career and life, we may just prove that Jefferson's postulation was correct: happiness pursued can be achieved, and once achieved it can't be stripped from us by another.

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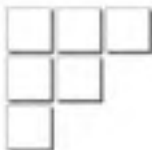
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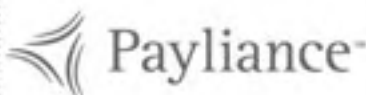
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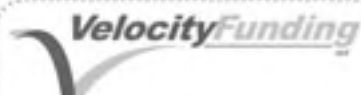
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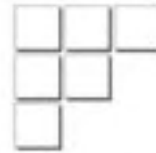
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Charge Card Systems  
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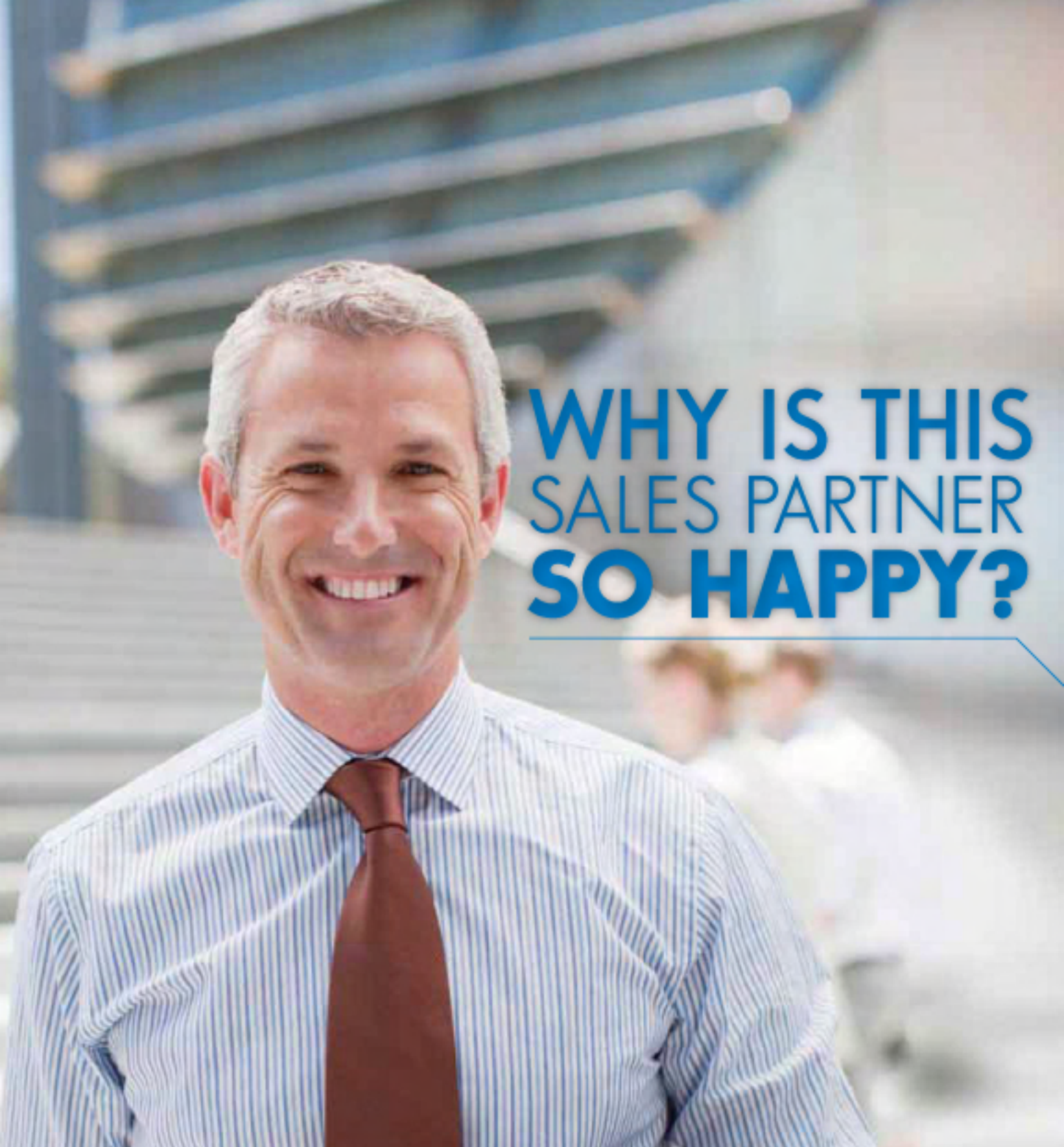
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