



## News

Industry Update .....	14
Black Friday, Cyber Monday post promising sales .....	41
MasterCard, Visa, PayPal thwart DDoS attacks .....	43
Dwolla P2P goes national .....	44
Chip and PIN versus mag stripe debated .....	45
Discover's Zip cards ready for prime time .....	46

## Features

### Selling Prepaid:

Prepaid in brief .....	32
Has gift card industry reached turning point? .....	33
GAO on why prepaid needs regulation .....	35

### Trade Association News

NEAA Winter Seminar heralds new tradeshow year .....	47
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## Views

Checks give way to debit cards <i>By Patti Murphy</i> <i>The Takoma Group</i> .....	26
Keys to driving merchant retention <i>By Jeffrey Shavitz</i> <i>Charge Card Systems Inc.</i> .....	30

## Education

### Street Smarts<sup>SM</sup>:

Are you awake to mobile payments? <i>By Ken Musante</i> <i>Eureka Payments LLC</i> .....	56
Paperless merchant acquiring: A legal perspective <i>By Adam Atlas, Attorney at Law</i> .....	62
Experts weigh in on social media marketing - Part I <i>By Bill Pirtle, MPCT Publishing Co.</i> .....	66
E-commerce fraud: Identifying and reducing risk <i>By Nicholas P. Cucci</i> <i>Network Merchants Inc.</i> .....	70

December 27, 2010 • Issue 10:12:02

# Payments 2010: Fast forward to the future



**D**on't look now, but 2010 is just about over. And it's been a year like no other. Twenty-ten may well go down in history as the year the industry got serious about mobile contactless payments. Seemingly not a week went by at *The Green Sheet* that yet another mobile payment development didn't cross our desks. From partnerships to pilots, enabling the mobile wallet was all the rage.

In one week alone, two announcements seemed to crystallize the outlines of a complicated narrative that has only begun. In the middle of November, the partnership for an entirely new mobile payments network was unveiled. Called ISIS, the new network brings together three mobile telecommunication carriers, an issuing bank and Discover Financial Services.

The other announcement involved a pilot among Visa, two mobile payment technology companies, an issuer and a prepaid card processor that revolves around a portable, near field communication (NFC) technology-enabled microSD card that slips into the memory slot of smart phones and renders them contactless payment devices, regardless of carrier or (most) smart phone models.

Industry insiders say the ISIS initiative is designed to concentrate mobile payments (and its revenue potential) under the control of the telecoms. On the



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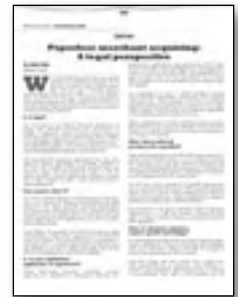
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- » Dan D. Wolfe—Teledraft Inc.

**Notable Quote**

Several ways exist to handle the electronic sign-up process to accommodate the needs of ISOs, agents and merchants. One is to create a login application via which an agent and merchant can access an application together, perhaps on a laptop at the merchant location.

See story on page 62



**Inside this issue:**  
**CONTINUED**

**Company Profile**

**CheckAlt Payment Solutions**

Excelling at check processing.....37

**New Product**

Virtual testing for ATM and POS networks .....74

**Inspiration**

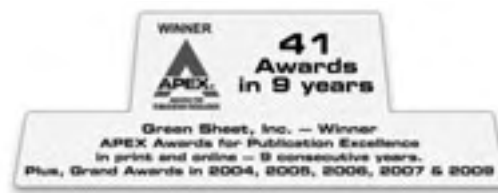
It's a fine life, isn't it? .....79

**Departments**

Forum.....5  
 Datebook.....76  
 Resource Guide.....80  
 Advertiser Index .....94

**Miscellaneous**

QSGS: Quick Summary Green Sheet.....8  
 Bottom Lines.....14  
 Word Search .....77  
 Water Cooler Wisdom .....79



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# Forum

## From GS Online's MLS Forum

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#### What about this?

**FASTTRANSACT** began the "How does this work" thread on GS Online's MLS Forum with the following request: "Spoke to someone last night; they just signed up with one of those companies that say they will lower the merchant's fees and split the difference of the savings with them. Something just doesn't make sense in this model, and so if you folks would be so kind as to explain this to me. ... How can they lower the outrageous fees the merchants pay and then split the savings?"

Following are excerpts from the responses she received:

"[T]here are several of these companies out there doing this type of business. I have talked to a couple and the model is more of a consultant role.

"They will go out and obtain bids on your behalf, then share in the savings. When I questioned them as to how they determine and manage the savings, a couple of them stated that they based it upon the sales for the prior year, average things out and then bill out a monthly amount to the merchant once they change their processing. They indicated that they did not audit the future merchant statements.

"In contrast, another group wanted me to participate in an auction type of model where they would put out the merchant processing volumes, MCC, locations, etc., then present three to four bids to the merchant. In this scenario, they were asking me to pay them a fee for the merchant. They offered no guidance on how my fee related towards saving the merchant money and sharing in the savings.

"In my opinion, the first model is probably more straight-up. The second is merely a referral source for new leads coming to me, but it was odd how they presented the whole thing to the merchant. It almost made me think that they were going to double dip.

"Lastly, saving money is always a relative term with mid-, non-qualified; hundreds of interchange categories; dozens of places to bury the fees.

"I would imagine that many merchants happily sign off, only to find out later that they are sharing savings and at a smaller rate." **AZMIKEY30**

"It's a clever way to protect margin. Say a merchant is paying \$20 (just using simple numbers to illustrate the logic; stay with me here). You go in and determine that you need to go to \$15 to write the deal.

"Now put on your "consultant's" hat: 'Mr. Merchant, my analysis says you are paying \$20; the best price I can find for you is \$15, a net monthly savings of \$5 for you. I can secure the deal at \$15, and you and I will split the savings. I'll bill you \$2.50/mo and you are still saving \$2.50/mo.'

"In the end, you make the same as if you wrote the deal at \$17.50. ... Plus, the merchant is now recommending you to all his friends for the professional, knowledgeable approach you took to his business." **CARDPLAYER**

"The goal is to only go after very large merchants and get the pricing down to ICPT [interchange pass-through] and .05. Then bring in the bidders to sell at that price. Now what you have done is saved them a boatload of money and you get half of what you saved. Each month.

"There are now smaller guys doing this and it has some merit, but the problem as I see it is that if you are dealing with small to medium merchants, you only get your money if you ACH the money each month, and we know how that goes with small guys. They fight it, they reverse it and they go out of biz. So you spend more time chasing money than making it. Brings you right back to where you started.

"Sell merchant accounts and don't be a collection agency. The big guys will not waste their time fighting you since you bring a good value." **STEVE NORELL**

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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

## Payments 2010: Fast forward to the future

Twenty-ten may go down in history as the year the industry got serious about mobile contactless payments. Or it may become known as the year the government reached into our business in unprecedented ways. But no matter how you look at it, 2010 was a year to be remembered, and a reminder that we are fortunate to be working in a most exciting industry.

Feature

35

## GAO on why prepaid needs regulation

The U.S. Government Accountability Office issued a report containing guidance on efforts to close gaps in banking regulations that came to light due to the emergence of prepaid cards as a popular money laundering instrument. The report indicates proceeds smuggled across the United States' southern border via prepaid cards represent a significant threat to national security.

View

26

## Checks give way to debit cards

The 2010 *Federal Reserve Payments Study* revealed that check writing has been eclipsed by debit card payments. U.S. consumers made 108.9 billion noncash payments in 2009 (excluding bank-to-bank wire transfers). Just 24.4 billion of those were checks that cleared through interbank networks. This article details further highlights from the study.

News

41

## Black Friday, Cyber Monday post promising sales

Sales figures from Black Friday weekend and Cyber Monday show signs that consumers may be loosening their purse strings a bit this holiday season, buying more discretionary items and going online in increasing numbers to make purchases. Could this be an indication of renewed optimism as 2010 draws to a close?

View

30

## Keys to driving merchant retention

In our industry, there are four types of people: prospects, customers, loyal customers and former customers. Of course, we all strive for loyal customers, but doing so requires a deliberate, ongoing effort. What steps are you taking to reduce attrition in your portfolio?

News

44

## Dwolla P2P goes national

Dwolla, a person-to-person online and mobile cash system developed by Dwolla Corp., of Des Moines, Iowa, is now available in all 50 states, thanks to a national rollout that started Dec.1, 2010. Dwolla allows cash payments to be transferred digitally between two users for a flat rate of 25 cents per transaction.



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News

45

### Chip and PIN versus mag stripe debated

In a TowerGroup webinar about the Payment Card Industry Data Security Standard, the question of whether chip and PIN technology will ever supplant magnetic stripe technology in the United States was addressed. TowerGroup's Brian Riley concluded the move may be cost prohibitive and ineffective given the changing payments landscape.

Feature

47

### Trade Association News NEAA Winter Seminar heralds new tradeshow year

The Northeast Acquirers Association's Winter Seminar and Outing, scheduled for Jan. 25 through 27, 2011, at the Grand Summit Hotel in Mount Snow, Vt., promises a blend of educational offerings, networking opportunities and recreational activities. Isn't it time you get a taste of payments, NEAA style?

News

46

### Discover's Zip cards ready for prime time

Following an extensive pilot program, Discover Financial Services issued its first Discover Zip contactless credit cards and stickers to select cardholders. Targeted to early adopters of Discover's mobile technology, the product rollout will expand in January 2011 to include additional cardholders of the company's flagship card products.

Education

56

### Street Smarts<sup>SM</sup>: Are you awake to mobile payments?

With the increase in available mobile payment devices, hardware costs have come down significantly, and wireless providers have improved their coverage. Are you pursuing mobile merchants? In this article members of GS Online's MLS Forum share their experiences in this sphere, as well as their assessments of its potential.

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Education

62

### Paperless merchant acquiring: A legal perspective

If you can buy a house on eBay without paper, why can't you get a merchant account without paper? The answer is that we, as an industry, have not worked out the logic of paperless applications and merchant agreements. This article provides certain legal perspectives on making a merchant acquiring business paperless.

Education

70

### E-commerce fraud: Identifying and reducing risk

How quickly are you and your merchants adapting to fraudsters' evolving techniques? LexisNexis' September 2010 *True Cost of Fraud Study* showed that for every \$1 in fraud, merchant expenses will reach \$3.10 out of pocket. This cost doesn't even include lost customers and other "soft expenses" resulting from this fraud.

Education

66

### Experts weigh in on social media marketing - Part I

What happens when you bring together a panel consisting of social media experts and payments industry pros and ask them how social media complement your overall marketing plan and whether you should connect with anyone or only your closest friends? You get informed answers that just might propel you to create your company's Facebook page.

Inspiration

79

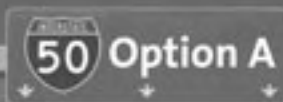
### It's a fine life, isn't it?

At this time of year, the holiday gatherings are coming to an end, wrapping paper is in the recycle bin, retailers have marked down merchandise and many folks are giving thought to the approaching year. But before making plans for the year to come, how about appreciating the year you have just lived?

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# IndustryUpdate

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## NEWS

### RBS WorldPay tweaks name following acquisition

RBS WorldPay changed its name to WorldPay following its acquisition by private equity firms Advent International and Bain Capital. The Royal Bank of Scotland Group PLC, which sold WorldPay, retains a minority stake. Management is investing UK£200 million to help WorldPay meet demand for e-payment technology. In 2009, WorldPay processed transactions totaling £243 billion.

WorldPay Chief Executive Officer Ron Kalifa said, "Independence and private ownership give us the potential to transform the payments industry through long-term investment in our technology, our people and our business." The management board includes two new appointments to the existing team. Floris de Kort, formerly of GlobalCollect, joined WorldPay as Head of E-commerce. Peter Smith, previously with Burger King Corp., became Chief Human Resources Officer. The acquiring equity partner interests are represented by Advent Managing Director James Brocklebank and Bain Managing Director Robin Marshall.

### Isaacman a jet wingman on air show team

United Bank Card Inc. is sponsoring an addition to the North American air show circuit for 2011. The Heavy Metal Jet Team is a five-ship aerobatic, civilian-owned team. UBC's sponsorship enables the team to be a featured act for shows not hosting a military jet team. UBC founder and CEO Jared Isaacman is the team's right-wing pilot. Heavy Metal has one T-33 and four L-39 jets, all painted in Arctic camouflage. Although the team is new to the circuit, veteran air show performers hold key

positions. The lead pilot is Lt. Colonel Jerry "Jive" Kerby, USAF (retired). Featured solo performer in the T-33 is Capt. Dale "Snort" Snodgrass, USN (retired). Isaacman has accumulated 2,500 flying hours over the past four years. For more information, contact Team Manager L.M. "Lunar" Sawyer at [lunar@flyjivefly.com](mailto:lunar@flyjivefly.com).

### TSG report looks at top public payment companies

The top public payment companies had a strong third quarter, despite tough economic conditions, according to the latest analysis from The Strawhecker Group. Titled *Public Payments Companies Analysis*, the report looks at the strategies and tactics driving financial performance at the top 11 publicly traded payments companies. The report covers First Data Corp., TSYS Acquiring Solutions, Global Payments Inc., Heartland Payment Systems Inc., Fidelity National Information Services Inc., Visa Inc., MasterCard Worldwide, American Express Co., Discover Financial Services, VeriFone Inc. and Hypercom Corp. (which is being acquired by VeriFone).

The report contains TSG's Payments Index, which comprises 31 publicly traded companies. The index has gained 22 percent since the third quarter of 2009, compared to a return of 8 percent for the S&P 500 index over the same period.

### Debit surpasses cash in the U.K.

The use of debit cards overtook cash spending in the United Kingdom in August for the first time ever, according to the region's Payments Council. The number of summer purchases on debit cards rose 10 percent over the prior summer. The volume spent rose 11 percent year over year. Credit card spending remained flat during the period. The total balance outstanding on credit cards fell to its lowest level since 2003.

BOTTOM  
LINES

HEADLINES  
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- A holiday shopping survey conducted by the National Retail Federation found the number of people expecting to take advantage of holiday sales to make purchases for their own use was up 8 percent this year (57.1 percent in 2010 versus 52.9 percent in 2009); the average person anticipated spending about \$108 on these "just for me" purchases.
- Nonstore retailers in the United States experienced a 2.1 increase in sales in November 2010 over October, according to U.S. Census Bureau data. Shopping center sales rose by 1 percent during the same period.
- eBags.com, an online retailer of bags and accessories, reported that its revenue increased 69 percent during Thanksgiving weekend (Thurs., Nov. 25, through Sun., Nov. 28, 2010) over the same period in 2009. While the retailer's average order value remained similar to a year ago, the site's traffic rose 26 percent.

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## Industry Update

### Visa Europe agrees to cap debit interchange

The European Commission agreed to drop proceedings on debit interchange fees charged by Visa Europe after the card brand made commitments to cap the fees. Visa Europe's weighted yearly average intra-regional multilateral interchange fees (MIFs) for immediate debit transactions will be capped at 20 basis points, or 0.2 percent, for four years. Visa Europe President and Chief Executive Peter Ayliffe said the commitment is a step toward a Single Euro Payment Area. The agreement establishes a common methodology that can be used by competition authorities across SEPA to calculate debit MIFs in local jurisdictions, according to Visa. The agreement does not affect credit, deferred debit or commercial MIFs.

## ANNOUNCEMENTS

### Amazon's cloud services achieve PCI Level 1

Amazon Web Services LLC obtained Level 1 compliance with the Payment Card Industry (PCI) Data Security Standard (DSS). Amazon's hosted web services allow merchants to run applications on its infrastructure to store, process and transmit card information.

### Cucci certified as fraud examiner

Nicholas P. Cucci of Network Merchants Inc. was awarded credentials as a certified fraud examiner (CFE) by the Association of Certified Fraud Examiners. Cucci is Director of Marketing at NMI in Schaumburg, Ill.

### Southeastern universities adopt Secure Vault

Two additional southeastern universities now accept Secure Vault Payments from eWise Systems USA Inc. Auburn University and Columbus State University joined the University of Georgia in turning to eWise for tuition payments.

### SecureWorks ranked by Gartner

Technology consulting firm Gartner Inc. ranked SecureWorks Inc. within its Leaders Magic Quadrant of Managed Security Service Providers (MSSPs) in North America. SecureWorks is one of four MSSPs included in the quadrant, out of the 22 MSSPs evaluated based on surveys of Gartner's enterprise clients.

### Genesco suffers hack attack on network

A segment of Genesco Inc.'s computer network was hacked, according to the firm. The criminal intrusion affected part of the network that processes payment card transactions for its U.S.-based Journeys, Journeys Kidz, Shi by Journeys, and Johnston & Murphy stores. The company took steps to secure the network and is conducting an investigation to determine the extent of the compromise.

### GlobalCollect obtains operating license in EU

The Dutch Central Bank granted an operating license to GlobalCollect, which provides electronic payment services for card-not-present channels. The Payment Services Directive license harmonizes rules governing payment services providers throughout the European Economic Area.

### Hypercom's SmartPayments Wynid meets PCI

Hypercom's SmartPayments Wynid hosted payment platform achieved certification to the PCI DSS. According to Hypercom, the platform gives merchants a centralized transaction routing system to manage card payments across all their store locations.

### HyperWallet moves into Russian market

HyperWallet Systems Inc. expanded its payment network to Russia, establishing an office in Moscow and beginning to process transactions in rubles. HyperWallet's interlinked automated clearing house capability now operates in 45 countries.

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## IndustryUpdate

### Easycash sets new record

Ingenico's easycash payment network processed its one billionth payment transaction for the year in October 2010 – earlier than any previous year in the network's history. The company expects to process 1.3 billion easycash transactions in total for the year.

### KreditFly begins mobile payments

KreditFly Inc. launched a payment service to allow mobile phone subscribers in the United States to complete online transactions using debit and credit cards or prepaid accounts. KreditFly plans to add additional payment methods in the future.

### Moneris marks 10 years in business

Moneris Solutions celebrated its tenth anniversary as a major debit and credit card processor in Canada. The company reportedly is the eighth largest processor in the world.

### Bryson foundation pays it forward

The Never Forgotten Foundation, a Cypress, Calif.-based nonprofit created by Steven H. Bryson, tripled its 2010 donation of meals to the Long Beach Rescue Mission. Bryson is the founder of **Global Electronic**

**Technology Inc., OrbitalPay LLC** and record label **I55 Productions LLC**. In December, with the assistance of GET employees and local businesses, the foundation donated 60,000 meals and personal items to the mission. In 2009, the foundation gave 20,000 meals, funded solely by the Bryson family.

### ACFE president named influential

*Security* magazine named **James D. Ratley**, CFE, one of the most influential security executives for 2010. Ratley is President of the **Association of Certified Fraud Examiners**. He was profiled in the December issue of the magazine.

### VX Evolution products achieve PCI PTS

The flagship products of VeriFone's VX Evolution product family were validated as compliant with the PCI Payment Transaction Security (PTS) 3.0 security requirements. PCI PTS 3.0 added to the standard open protocols, integration, and secure reading and exchange of data. The VX 680 mobile system, desktop VX 520 and PIN entry VX 820 met the requirements.

### Asia Pacific card spending grows

Visa reported increased card spending throughout the Asia Pacific region for the fiscal year ended in September 2010. Payment volume generated on Visa cards in the region reached \$800 billion, an increase of 12 percent over the prior year. The number of payment transactions increased 11.4 percent, to 10.2 billion transactions. Volume for debit transactions increased 42.9 percent in the region, while credit grew 9.7 percent over the prior year.

## PARTNERSHIPS

### Citgo chooses Heartland's SmartLink

**Citgo Petroleum Corp.** began offering SmartLink network services from **Heartland** to its retailers at 6,500 Citgo-branded gas stations. SmartLink consolidates in-store devices onto one broadband line.

### Elavon and Credicard form joint venture

Citigroup Inc. subsidiary **Credicard** and **Elavon Inc.**, a subsidiary of U.S. Bancorp, formed a joint venture to create a merchant services company in Brazil. The venture will use Elavon's processing platform.

### Singapore partnership begins NFC trial

**DBS Bank Ltd.** began a partnership in Singapore with **StarHub** mobile, **EZ-Link Pte Ltd. Co.**, **Gemalto** and **MasterCard**. In an eight-month trial that began in December 2010, 1,000 bank customers are using a near field communication (NFC) mobile payment application on their conventional cellular handsets. Users can

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## Industry Update

make payments at merchants who accept MasterCard's PayPass or the EZ-Link card.

### FAC processes for Bahamas Telecom

First Atlantic Commerce is providing multicurrency processing for the Bahamas Telecommunications Co. Ltd. The service is part of the launch of commercial wireless services in the Bahamas through a Wi-Fi mesh network enabled by Aptilo Networks Inc.

### HID, Wincor Nixdorf integrate contactless reader into ATM

HID Global and Wincor Nixdorf co-developed an ATM system with an integrated contactless smart card reader. It enables a single piece of equipment to process ATM and fare-collection transactions. The system utilizes HID's cashless payment reader and Wincor Nixdorf's ProCash ATM platform.

### Clearent processes for Lone Star National

Lone Star National Bank signed Clearent LLC to provide merchant account processing to its 25 banking centers in Texas. Clearent's Compass online reporting tool provides merchants with web-based reports that are updated daily.

### Monitise works with ViVOtech

Monitise PLC partnered with NFC software developer ViVOtech Inc. to enable mobile phone payment services to banks in the United States. This allows banks to extend NFC mobile payments service to their customers.

### Newtek becomes Charge Anywhere distributor

Newtek Business Services Inc. joined Charge Anywhere LLC's Certified Distributor Program. The program specializes in secure mobile payments systems for small to mid-sized businesses.

### PPC joins ViVOtech, Bell ID alliance

PPC Card Systems joined a previously announced partnership between ViVOtech and Bell ID to launch an NFC mobile payment capability in Europe. PPC is an established Europay/MasterCard/Visa-certified card personalization bureau.

### SPS teams up with Mitek

Secure Payment Systems collaborated with Mitek Systems Inc. to create MobileXpress21, a mobile remote deposit capture (RDC) and check guarantee system. As part of the arrangement, SPS becomes a direct processor of Mitek's Mobile Deposit RDC application, which enables check deposits via camera-equipped smart phones.

### French tram service deploys Ingenico devices

Veolia Transportation Inc. implemented technology from Ingenico for the Rhonexpress tramway in France. Ingenico partnered with Amesys to create a system for the transportation industry. The system deploys Ingenico mobile payment devices for on-board ticket officers and unattended terminals for self-service kiosks.

### Visa approves first contactless device for smart phones

Visa and Visa Europe approved the In2Pay microSD card from DeviceFidelity Inc. for commercial use with smart phones. The mobile contactless payment device is compatible with the BlackBerry Bold 9650, three iPhone models and the Android-based Samsung Vibrant Galaxy S. Visa plans to add more compatible phone models.

### Voltage Security expands license program

Voltage Security expanded its SecureData Open License Program with POS vendor integrations in a range of channels, including countertop, multilane, PIN pad, integrated POS devices, mobile devices and e-commerce platforms.

Companies now participating in the program include


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## IndustryUpdate

Hypercom, Uniform Industrial Corp., XAC Automation Corp., ExaDigm Inc., ID Tech, Radiant Inc. and ViVOtech.

facing resources that support Recombo merchant card services and banking customers.

### Johansen joins Frontline

Frontline Processing Corp. appointed payments industry veteran **Jay Johansen** as Sales Manager. He oversees product and business development, as well as sales and marketing. The company, which simultaneously opened an office in Billings, Mont., also intends to expand its sales force.

### Nationwide Payment Solutions hires Smith

**Christopher Smith** joined Nationwide Payment Solutions LLC as Vice President of Business Development for the Software Integration Division. Most recently, Smith worked in Ingenico's national sales division. He has also worked at Hypercom and Heartland.

### Trustwave appoints Yeo

Trustwave hired **John Yeo** to become Director of SpiderLabs for Europe, the Middle East and Africa. He heads the advanced security team responsible for incident response and penetration testing. Most recently, Yeo led Verizon Business's threat management practice in the U.K. 🇬🇧

## ACQUISITIONS

### Global Axxess acquires ATM portfolio

Self-service kiosk solution provider **Global Axxess Corp.** revealed that it signed an agreement to purchase a portfolio of ATMs from an undisclosed, privately held nationwide network of automated financial service terminals. Global Axxess will purchase 140 ATMs, as well as existing relationships with a large, global oil and gas company to manage the ATMs at service station locations in three states in the Midwest.

## APPOINTMENTS

### Recombo picks Abruzzio

Contract management software company Recombo Inc. appointed **Tony Abruzzio** as Vice President, Global Electronic Payments and Banking.

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Insider's report on payments**Checks give way to debit cards****By Patti Murphy***The Takoma Group*

**T**o paraphrase a billboard I saw in Southern California a few years back: checks are *so* 20th century. I recall thinking at the time the claim was a bit presumptuous. After all, Americans were writing more than 30 billion checks a year, and checks accounted for 32 percent of all noncash payments, the Federal Reserve said at the time.

Now, the Fed reports that check writing has been eclipsed by debit card payments, and I'm reassessing my attitude about the billboard message, at least as it relates to paper checks.

According to the *2010 Federal Reserve Payments Study*, U.S. consumers made 108.9 billion noncash payments in 2009 (excluding bank-to-bank wire transfers).

Just 24.4 billion of those were checks that cleared through interbank networks, a 7.2 percent decline over 2006 interbank check clearing volumes. The total value of checks cleared through the banking system last year was \$31.6 trillion, according to the Fed's latest survey.

While the Fed's data show 24.4 million checks cleared between banks in 2009, the actual number of checks written was higher. The difference represents the number of checks deposited in accounts at banks they were drawn on, referred to as "on-us items," and those converted to electronic payments and cleared through the automated clearing house (ACH) system. Eleven percent, or 3.1 billion checks written by consumers in 2009, were converted to electronic files and cleared through the ACH, the Fed said.

The decline in paper checks in transit is more telling. Roughly 96 percent of checks cleared between banks (known as interbank checks) involved electronic clearing last year, compared to roughly 43 percent in 2007.

Approximately 13 percent of checks were deposited as image files, the Fed said; in other words, the entire clearing and settlement process was paperless.

"Not only does this study show the continued move from checks to electronic means of making payments, but we also see the extraordinary progress the industry has made in electrifying the clearing process for the 27.5 billion checks still being written," said Richard Oliver, Executive Vice President at the Federal Reserve Bank of Atlanta, which sponsored the study.

**Who's writing checks and where?**

The Fed's research shows U.S. consumers still like checks, however, especially for everyday items like bill payments, POS transactions and payments between individuals. Taken together, bill payment and POS checks accounted for 44 percent of all checks written in 2009, even though both types of transactions were less popular than in 2006. The Fed puts the decline at 10.6 percent on an annualized basis.

Fewer business-to-business (B2B) and business-to-consumer (B2C) checks were counted last year, but the pace of change was slower than it was for consumer-to-business (C2B) checks. In 2006, the Fed counted 8.3 billion B2B checks; by 2009 that total had fallen to 7.8 billion. B2C checks, meanwhile, fell from 5.6 billion to 5.1 billion during the same period.

Bucking the overall trend, checks written by individuals actually increased by 200 million between 2006 and 2009, when the Fed counted 2.4 billion C2B checks.

Oliver, the Fed system's point man on retail payment systems, concedes the economy may have influenced the data but believes the overall trend away from labor- and cost-intensive paper checks is positive.

"The results of the study clearly underscore the nation's efforts to move toward a more efficient electronic clearing system for all types of retail payments," Oliver noted. "It is also likely that the results reflect changing consumer behavior during difficult economic times."

The economy is the likely reason for a 0.2 percent drop in credit card payments between 2006 and 2009 as well. Americans made 21.6 billion payments valued at \$1.9 trillion using credit cards in 2009, compared with \$2.1 trillion in 2006.

**Debit rules**

The Fed's survey data clearly illustrate the growing popularity of all types of debit cards, including prepaid debit cards. Expanding at a compound annual rate of 21.5 percent between 2006 and 2009, payments using prepaid debit cards charted the most remarkable growth, although in terms of raw numbers, it looks like small potatoes.

There were 6 billion payments made using prepaid debit cards last year, including electronic benefit transfer, payroll and private label gift cards; in 2006, the Fed counted 3.3 billion prepaid card payments. Before that, prepaid card payment totals were too insignificant to be counted.

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## View

Americans made 14.5 billion payments using PIN debit last year and another 23.4 billion payments using signature debit cards.

In 2006, those totals were 9.4 billion and 15.7 billion, respectively. Together, these two types of debit cards grew at a compound annualized rate of 14.8 percent since the Fed's last payments survey.

But even debit cards were not immune to the perils of an uncertain economy; the average signature debit card payment fell from \$40 in 2006 to \$37 last year, according to the Fed's survey. The average PIN-based debit card payment, meanwhile, increased from \$37 in 2006 to \$39 in 2009.

### Data rundown

The *2010 Federal Reserve Payments Study* is the third in a series of triennial reports on U.S. consumer payment habits. It included three separate research efforts: a study in which depository institutions were asked to provide data on checks and debit card payments; a survey of the largest credit card issuers, processors and payment networks; and a check study that examined a random sample of checks archived with Viewpointe Archive Services LLC.

Following is a quick overview of major findings reported.

In 2009, there were:

- 24.4 billion checks valued at \$31.6 trillion paid by banks
- 84.5 billion electronic payments valued at \$40.7 trillion (this includes ACH, credit, debit and prepaid cards)
- 19.1 billion ACH items worth \$37.2 trillion cleared between banks
- 21.6 billion credit card payments totaling \$1.9 trillion
- 37.9 billion debit card payments valued at \$1.5 trillion
- 6 billion prepaid debit card payments totaling \$100 billion made by Americans
- 6 billion ATM withdrawals worth \$600 million

A detailed analysis of the Fed's latest payments survey data (including insights on processing methods and emerging payments) should be ready early next year, Oliver said.

The *2010 Federal Reserve Payments Study* is available at [www.frbervices.org](http://www.frbervices.org). 

*Patti Murphy is Senior Editor of The Green Sheet and President of The Takoma Group. She is also the founder of InsideMicrofinance.com. Email her at [patti@greensheet.com](mailto:patti@greensheet.com).*

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\*Merchant must qualify for merchant processing in order to be approved under the guaranteed lease program.

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View

# Keys to driving merchant retention

By Jeffrey Shavitz

Charge Card Systems Inc.

**I**n our industry, there are four types of people: prospects, customers, loyal customers and former customers. Of course, we all strive for loyal customers, but doing so requires a deliberate, ongoing effort. We all know it's less expensive to keep an existing customer than it is to acquire a new one. What steps are you taking to reduce attrition in your portfolio?

As the world becomes more complex and time is at a premium, the challenge for merchant level salespeople (MLSs) is to connect with busy prospects in a meaningful way.

In their hurried state, many merchants would just as soon hang up the phone than listen to another sales pitch. And with permission-based marketing, the fact that you have someone's email address doesn't necessarily mean you can legally sell to them.

Satisfied customers expect to receive quality services and products. Given the level of difficulty in reaching these customers, we need to provide them with quality touches.

Because so many marketers have overwhelmed people with an excess of everything, many people are less likely to refer or recommend their products and services. Don't be one of those marketers.

## Work smarter

Imagine you have 100 contented merchants, and each one gives you a few referrals, and each of those new merchants gives you additional referrals. Wouldn't you then have a very profitable business?

How many referrals do you receive in any given week or month? Why are some MLSs writing only a few deals per month while others, who don't appear to work harder, are writing 15 to 20? It's not luck. They are "working smart."

One smart technique successful agents apply is devoting a few hours or an entire day each week to connecting with their existing merchant base.

Do this, and you will be amazed at the results. Even if a merchant offers criticism, it's better to address it head-on rather than learn you lost that account when your next residual payment arrives.

We've all been there; it's painful to review your statement and see \$0 next to one of your merchants.

## Innovate

Another powerful tool is innovation. A quote I once read sums it up beautifully.

I apologize for not remembering the author's name to provide credit, but it goes like this: "It's hard to follow the leader. Why? Because the leader did something remarkable. And that remarkable thing is now taken – it's no longer remarkable when you do it."

So stay connected to your merchant customers. Reinvent yourself periodically.

Figure out ways to help merchants achieve greater efficiency and profitability. In so doing, you will gain their long-term respect. They will gladly refer new business to you, and your merchant portfolio will grow accordingly. 📧

*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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# SellingPrepaid



## Prepaid in brief

### NEWS

#### Payment Data, MetaBank team to be dismantled

Payment Data Systems Inc., the parent company of prepaid card processor FiCentive Inc., said in a Securities and Exchange Commission filing that it is in the process of ending its bank sponsor partnership with Meta Financial Group Inc. subsidiary MetaBank.

The Nov. 17, 2010, filing stated that MetaBank's payment division, Meta Payment Systems, informed Payment Data Systems it was terminating its participation in FiCentive's prepaid card programs effective May 11, 2011.

In October 2010, *SellingPrepaid* reported on the troubles of MetaBank in connection with the iAdvance loan program it was offering through NetSpend Holdings Inc.'s prepaid cards (see "MetaBank's troubles affect NetSpend," *SellingPrepaid*, Oct. 15, 2010).

#### Fed governor puts prepaid in perspective

In an address at the Federal Reserve Bank of Philadelphia Payment Cards Center, Elizabeth A. Duke, Governor of the Federal Reserve, highlighted prepaid cards as an increasingly preferred payment option, given current economic conditions and new federal mandates.

U.S. economic troubles have caused consumers to turn away from credit cards "not only as a source of credit but also as a method of payment," Duke said. She added that passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act has caused banks to reconsider offering free or low-cost checking accounts and look to reloadable prepaid cards as checking account alternatives.

#### MoneyGram successfully appeals patent

MoneyGram International reportedly won an appeal that negates a \$16.5 million patent infringement verdict initially awarded to The Western Union Co. According to MoneyGram, the ruling overturned a 2009 judgment won by Western Union that ruled certain MoneyGram

processes relating to how mobile phone-based transactions were sent without the use of "written send forms" infringed on Western Union's patents.

The ruling made by an appellate court at the U.S. Court of Appeals for the Federal Circuit found that on the "grounds of obviousness" that Western Union's claims in its patent infringement lawsuit were invalid, MoneyGram said.

### ANNOUNCEMENTS

#### Blackhawk in the news

Safeway Inc.'s prepaid card subsidiary, Blackhawk Network, expanded its digital content program, reaching 15,000 of the company's gift card mall locations nationally. Blackhawk will now offer cards for Microsoft Corp.'s Xbox 360 and Sony Corp.'s Playstation Network gaming systems, as well as Apple Inc. iTunes and online role-playing games published by Nexon Corp., according to Blackhawk.

Additionally, Blackhawk expanded its digital content category footprint into several new countries, including Canada, the United Kingdom, Ireland, Mexico, Australia and Sweden. Further, Blackhawk's gift card mall was awarded PTPA Media Inc.'s Winner's Seal of Approval.

#### CashEdge launches gift options for P2P

CashEdge Inc. added gifting functionality to its Popmoney person-to-person payment service. CashEdge said the new option to Popmoney allows users to send cash or gift cards to recipients via email, mobile phone number or mailing address.

#### Chase launches mobile gift card app

JPMorgan Chase & Co.'s Chase Card Services unveiled the pilot for the Chase GiftShelf, a mobile gift card application available in the Apple iTunes App Store. Chase Card Services said Chase GiftShelf is a free application that facilitates mobile gift card purchases from an array of merchants and allows Chase credit cardholders to send gift cards via text messages or emails.

#### J.P. Morgan to drive growth of HSAs

J.P. Morgan Treasury Services is launching a health savings account (HSA) broker program. J.P. Morgan, which claims to be one of the largest administrators of HSAs via prepaid cards in the United States, will reportedly



provide brokers and third-party administrators with a dedicated service and support unit.

### MoneyGram donates to disaster relief

MoneyGram gave \$200,000 to the American Red Cross to assist in flood relief efforts in Pakistan. The donation is a result of a campaign from Aug. 20 to Sept. 20, 2010, in which MoneyGram pledged a portion of its Pakistan transaction send fees to support relief efforts.

Also, MoneyGram reported its services are now available at over 8,000 State Savings Bank of the Russian Federation locations in Russia. MoneyGram said the launch occurred in one day – "a significant technological and business undertaking and is a first for an agent of this magnitude."

### SSI celebrates 15 years of gift card manufacturing

SSI Technologies Inc. commemorated its 15th year of manufacturing gift cards and claimed to have invented the first card in 1995. Ron Goade, President of SSI Technologies, stated, "The seemingly simple gift card was produced for Blockbuster in 1995. We produced a small sampling for the stores in Salt Lake City. They flew off the shelves, and the market was born."

## PARTNERSHIPS

### Blackhawk to launch mall in Emerald Isle

Blackhawk Network inked a deal with retail chain Superquinn to roll out what is reportedly the first gift card mall in Ireland. Blackhawk said gift card malls will appear in 23 stores throughout the country and will be stocked with cards redeemable at local and international businesses.

### Coinstar enters Italian remittance market

Coinstar Inc.'s Coinstar Money Transfer division inked a deal with Land Bank of the Philippines to develop a remittance footprint in Italy. CMT said the Filipino community is the third largest foreign community in Italy.

### TchoTcho Mobile unveiled in Haiti

Mobile telecommunications company Digicel Group Ltd. made a pact with Scotiabank to launch a mobile money product for unbanked individuals in Haiti. Digicel reported mobile phone penetration in Haiti grew from 5 percent in 2006 to over 35 percent today. The venture is called TchoTcho Mobile and is designed to allow Haitians to make cash deposits and withdrawals and transfer money without requiring bank accounts.

### InComm extends mobile capabilities

Mobile messaging firm Impact Mobile Inc. entered

into a partnership with InComm to expand the prepaid card distributor's mobile footprint. The agreement will help InComm drive shopper engagement and mobile customer relationship management, the distributor said.

### nFinanSe, c-store team for \$3 reloadables

Convenience store chain Kwik Trip Inc. partnered with nFinanSe Inc. to launch Visa Inc.- and Discover Financial Services-branded reloadable prepaid cards at Kwik Trip Convenience Stores throughout the Midwest. The cards are activated for \$3, nFinanSe said.


## ACQUISITIONS

### MasterCard purchases Travelex prepaid division

MasterCard Worldwide acquired the prepaid card program management operations of Travelex for \$458 million in cash, with an additional \$55 million potentially owed if certain performance targets are met. MasterCard becomes the exclusive brand for Travelex's prepaid offerings, the Purchase, N.Y.-headquartered card brand said.

## APPOINTMENTS

### SparkBase makes Mignona VP of Sales

Stored-value processor SparkBase hired Matt Mignona to fill the position of Vice President of Sales. Mignona brings 10 years of financial services sales and sales management experience to his post and will guide the strategic direction and execution of the SparkBase sales team, the company said. 



## Features

## Has gift card industry reached turning point?

For the holiday season, First Data Corp. analyzed its closed-loop prepaid card segment and reported in its Nov. 2010 *SpendTrend* report that consumers are adding value to reloadable, merchant-branded gift cards more often, but are not adding more money per card. It may be one indication that it is time for gift card providers and merchants to rethink how they market gift card programs.

## Selling Prepaid

The *SpendTrend* report on gift cards – part of First Data's overall monthly report on the payments industry – compared September 2009 data concerning consumer use of gift cards (including incentive and promotional cards) to the numbers in the following month, as well as a year-over-year comparison of October 2010 to the previous October.

The results were that the dollar volume growth in card activations was up 2.7 percent in October 2010 from the previous October, but more than 6 percent lower than in the previous month.

Additionally, First Data found that consumers are reloading gift cards more frequently. In October, overall reload growth stood at 25.2 percent, up from 20.7 the previous month.

However, average ticket sizes were down across the board. In the three combined vertical markets covered in the report – specialty retail, casual dining and quick service restaurant – the average ticket in the area of card activations went down 8 percent year-over-year. During that same time frame, the average ticket when cards were redeemed was down 9.2 percent.

And while the average ticket when cards were reloaded was up half a percent in October 2010 compared to the previous month, it was still down 6.9 percent year-over-year. Michael Hursta, Vice President of First Data Prepaid Services, summed up the data as showing that transaction volumes are up but dollar volumes are down.

### Maturity breeds change

Hursta said the data suggests the gift card market has reached an "inflection point." After 15 years in existence, the closed-loop gift card space has matured, with product familiarity high, he said. As growth of the market slows, card providers and merchants will need to change strategies to reignite consumer demand.

"It's time now for this space to get shaken up a little bit," Hursta said. "It requires some new creativity. And so as a merchant, if you've got a program, what you need to do is you need to find new ways to make that program interesting to consumers."

Hursta recommends refreshing how cards are merchandised, changing designs and focusing on the cards' seasonal aspects. Also, if merchants aren't selling gift cards online, they should, Hursta advised.

"There's a lot of great technologies for personalizing cards

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and making it easy to send either physical cards or virtual cards to loved ones," he said. "And so if they're not playing in that space, they need to be."

### Call to arms

Hursta believes gift cards should be sold not only via merchants' e-commerce sites but also through social networking sites. As consumers become increasingly "wired," they spend more and more time online at places like Facebook and MySpace. He mentioned how First Data is now integrated into Facebook with its eGift Social application, which allows Facebook users to give virtual gift cards to friends. The cards are redeemable online or in brick-and-mortar stores.

"Consumers still love gift cards," Hursta said. "It is the number one gift that is out there as a category. But what I would say is that it is a wake-up call. The days of high growth aren't coming back unless the merchant community and even processors like ourselves at First Data actively work to make gift card programs better. Then consumers will be re-excited by them.

"And so I say it's a kind of call to arms to say we all enjoyed great growth of gift cards for several years. If we want to regain that, we need to become more aggressive, more creative and do some new things." 

## GAO on why prepaid needs regulation

**I**n October 2010, the U.S. Government Accountability Office issued a report that provides guidance on efforts by the Financial Crimes Enforcement Network (FinCEN) to close gaps in banking regulations created by the emergence of prepaid cards as a popular money laundering instrument.

The GAO report, entitled *Moving Illegal Proceeds: Challenges Exist in the Federal Government's Effort to Stem Cross-Border Currency Smuggling*, concluded that illegal proceeds smuggled across the United States' southern border via prepaid cards represents a significant threat to national security since that money funds illegal drug activity and potential terrorism.

Among its recommendations, the GAO advises FinCEN to develop an efficient management plan for instituting anti-money laundering (AML) policies and procedures on prepaid card providers; such a plan would help expedite the complicated rulemaking process that FinCEN is currently undergoing.

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## Selling Prepaid

### Examples of prepaid fraud

The GAO said an estimated \$18 billion to \$39 billion is annually smuggled from the United States into Mexico. According to the GAO, it is unknown how much of that money is tied to prepaid cards, but evidence suggests the cards are being employed.

For example, the GAO reported that U.S. Immigration and Enforcement officers uncovered at a border crossing one passenger who possessed over 1,000 stolen credit card numbers.

It was subsequently discovered that the passenger was part of a credit card fraud ring and was paid for his services with gift cards, which he used to purchase phone cards that he smuggled into Mexico and sold at profit.

Another example involved Connecticut Drug Enforcement Administration agents who, upon investigating a narcotics and money laundering organization, determined that illicit proceeds were loaded onto prepaid cards and shipped to Colombia, where co-conspirators withdrew the money from ATMs.

It was established that over a five-month period, \$7 million was withdrawn from prepaid cards at one Medellin, Colombia, ATM location, the GAO said.



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### Questions remain

FinCen is mandated by The Credit Card Accountability, Responsibility and Disclosure Act of 2009 to update the Bank Secrecy Act regulations to include stored-value (prepaid) cards in its reporting requirements.

The GAO outlined that FinCEN proposes to have money services businesses (MSBs) register with FinCEN, develop customer identification programs, and submit suspicious activity reports (SARs) to FinCEN.

As for how to address the problem of regulating the cross-border transportation of prepaid cards, FinCEN is undecided, the GAO said.

The nature of the cards presents challenges to law enforcement. For example, smugglers can load cards with large amounts and yet easily conceal them, unlike bulk cash.

Additionally, if travelers are asked how much cash they are carrying, they may not know how much is loaded on any prepaid card in their possession, as that amount can only be determined by swiping it through a card reader or accessing a cardholder's account information.

Further, the seizure of funds is problematic. Law enforcement would need to identify at which financial institution prepaid card funds are being held, freeze those funds, then obtain a warrant to seize the funds.

The GAO pointed out that by the time law enforcement obtained a warrant, those funds could have been transferred off that prepaid card and into another account.

Other challenges include monitoring AML reporting compliance, overcoming software limitations in tracking reports on an SAR database, and developing a complete MSB database, the GAO said. The agency added it is unclear when FinCEN will issue final regulations.

### A significant reminder

But to illustrate why MSB reporting is important, the GAO quoted a U.S. Department of the Treasury statement concerning the 9/11 hijackers.

The evidence the hijackers left behind (U.S. bank account and wire transfer records, not to mention face-to-face interactions with bank employees), helped identify them and trace them back to terror cells and fellow terrorists abroad.

"Had the 9/11 terrorists used prepaid [stored-value] cards to cover their expenses, none of these financial footprints would have been available," the Treasury Department said.

To read the full report, go to [www.gao.gov/new.items/d1173.pdf](http://www.gao.gov/new.items/d1173.pdf).

# Company Profile



## CheckAlt Payment Solutions

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Michael C. Smith  
 Senior Vice President of Business Development  
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### Company address:

CheckALT Payment Solutions  
 5670 Wilshire Boulevard, Suite 1530  
 Los Angeles, CA 90036  
 Phone: 866-971-2700  
 Fax: 310-300-0712  
 Website: [www.checkalt.com](http://www.checkalt.com)

### ISO/MLS benefits:

- Provides transaction accuracy, with minimal manual corrections
- Reads and exports payment coupon data along with checks
- Integrates into merchants' accounting software
- Allows merchants to retain existing bank relationships, switch banks, or use multiple banks and multiple bank accounts simultaneously— all through one RDC system
- Significantly reduces instances of NSF via a top-rated check verification system, integrated with Intuit's NCN

## Excelling at check processing

**C**heckAlt Payment Solutions (CheckAlt) is said to be among the country's leading providers of automated and electronic check transaction processing. This may be due in part to the company's ongoing emphasis on exploring new concepts to develop products that help businesses streamline their payment processes in cost effective, yet secure ways.

M. Jeffrey Korbin, Executive Vice President and Chief Operating Officer of the company, co-founded Skyline DirectFed in 2004. The company's objective was to leverage The Check Clearing for the 21st Century Act (dubbed "Check 21") by offering remote deposit capture (RDC), an electronic check service by which paper checks are converted into digital images for electronic clearing and settlement, through either electronic check or automated clearing house (ACH) systems.

In 2009, financial industry veterans George Karfunkel and Shai Stern, long-time supporters of Skyline, joined the fold as co-chairs, adding their industry knowledge and expertise to the management team. It wasn't long before they formed CheckAlt LLC to add e-commerce check processing to the venture's offerings.

In 2010, the Skyline DirectFed name was dropped, and the company became CheckAlt Payment Solutions. Its fully patented services, including CheckALT RDC and CheckAlt E-check, reportedly enable merchants to accept electronic check or ACH payments from practically anywhere in the nation; CheckAlt RDC can electronically scan checks and deposit funds from almost any place, any time.

### Reducing processing fees and time

"It's swift, simple and safe," Korbin said. "CheckAlt is the smartest way to do business."

CheckAlt strives to reduce float time, decrease bank processing fees and provide back-office savings to merchants by using the latest technology to their advantage. Another positive impact is that it helps make payments more eco-friendly by reducing the amount of paper traveling through the banking system.

CheckAlt's offerings can be customized to serve large companies, small enterprises and all types of financial institutions. "There really is no limit to the types of merchants we are able to help with CheckAlt Payment Solutions," Stern said.

Current clients include community banks and credit unions, money service businesses, online merchants, nonprofits, grocery stores, retailers, municipalities and public agencies, collection agencies, educational organizations, political campaigns and property management companies.

### The advantages of scanning

CheckAlt RDC enables merchants to scan paper checks and transfer payments

## Company Profile

directly from one account to another. Thus businesses can handle corporate transactions on their own premises, eliminating trips to the bank or to headquarters.

By reducing float time, bank fees and back-office expenses, CheckAlt RDC increases efficiency and profit for any business, Korbin noted. He added that this allows companies to run on lean working capital much like the "just-in-time" approach to inventory management. And CheckAlt's "bank agnostic" processing allows merchants to keep their existing bank relationships.

"The Atlanta Fed told us that we have the best through-rate in the industry, with the least amount of adjustments, the cleanest images and the lowest [number of] corrections," Korbin said.

### Desktop management

Michael Smith, CheckAlt's Senior Vice President of Business Development, said the company's RDC's patented software and scanning system includes easy-to-use desktop software that ensures check images are complete and 100 percent accurate before they are generated for upload to the Internet, and this reduces the number of check data corrections. Use of a software application, rather than web-based hosting, allows for faster deposits without the burden of bandwidth issues, he pointed out.

Businesses aren't hindered by slow Internet connections because CheckAlt RDC is a PC-based thick client application, CheckAlt reported. It's compatible with more than 70 scanners, allowing businesses to scan up to 250 checks at a time and process up to 180 checks per minute, even from front-to-back, something other programs can't always do.

Utilizing magnetic ink character recognition in combination with optical character recognition, CheckAlt software pulls the routing and account number, check number and check amount, then consolidates the deposit file and transmits it to the Federal Reserve Banks or to a given business's deposit bank via the Internet for clearing. Within as few as 12 hours, the funds are deposited to the business's account, CheckAlt said.

Extensive reporting and archiving are available locally via a client workstation if the workstation is operating in a stand-alone environment. If the workstation is operating in a network environment, reporting and archiving can be made available either locally or enterprise-wide.

### Security measures

CheckAlt's RDC software can read both checks and remittance stubs when they are scanned together. It can also process up to six items as a unit, storing them in a digital "envelope" so a business can refer to specific envelopes later in the desktop lockbox. Clients have the option of adding check verification with Intuit's National Check Deposit Network (NCN), a check payment service offering a comprehensive database of check information. This service allows clients to gain real-time authorization at the POS.

Smith said generating returns is easy with CheckAlt RDC. A business can process images in clearing checks, return files from the Federal Reserve Banks and generate output directly from its core item processor, right from a desktop lockbox. With one click, a merchant can generate an image return cash letter and send it to the Federal Reserve.

CheckAlt's secure servers consolidate and encrypt deposit files to X.9 format and send them to their clients' deposit banks or the Federal Reserve Banks using a secure connection (secure sockets layer processing). CheckAlt also has a firewall in place and monitors any unauthorized access attempts. The CheckAlt team does not touch any of its clients' funds at any point in the transaction chain.

A recently launched update of CheckAlt RDC further improves reporting and invoicing, allowing for one-time payments and providing even faster processing, the company said.

### An alternative to paper checks

It's estimated that more than 40 million households use electronic payments today. CheckAlt E-check provides merchants with an inexpensive alternative to traditional

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## Company Profile

paper checks, credit cards, wire transfers and other online payment options.

With CheckAlt E-check, merchants receive funding within 24 to 48 hours from payment and pay a low, per-transaction fee, as compared to the percentage-based fees they traditionally pay for credit card transactions. The CheckAlt E-check also allows them to extend their customer base to include people who prefer not to pay by credit card.

Merchants can email customer invoices directly through CheckAlt E-check and can attach PDF invoices from their own accounting systems. They can also accept "just-in-time" payments over the phone through a virtual terminal

or provide a website link to their own branded payment portal.

Merchants receive notification via email as soon as an invoice is paid. Using the reporting module, they can check the status of any invoice and export reports for bookkeeping purposes. The company pointed out that by using one of the check writer databases, and employing 90 internal risk parameters to verify an account's good standing before a payment is accepted, CheckAlt E-check can help prevent merchant losses.

If a check is declined, merchants don't pay a deposit fee. In addition, with CheckAlt, chargeback exposure time is only 60 days, compared with the six-month chargeback exposure for credit card transactions. A paper check can take up to 10 days to clear, but with CheckAlt's E-check, ACH transactions are posted in only 48 hours.

### E-check easy to set up

Korbin said CheckAlt E-check allows merchants to avoid paying credit card or wire transfer fees. He added that the system's streamlined avenue for businesses to send and receive invoices reduces accounting errors.

According to Korbin, the CheckAlt E-check application is available on the CheckAlt website and is easy to set up and use; merchants simply apply for an account online and can easily begin sending and receiving invoices and payments with a few clicks of the mouse.


Once an account is in place, merchants can send automated, detailed emails to their customers, providing them with the option to pay through this method. The merchant is then immediately notified when payment is received and posted. Using CheckAlt E-check, merchants also no longer have to manually balance invoices.

Why should the feet on the street be interested in offering RDC and e-check services? Merchants won't have to waste time going to the bank or waiting for checks in the mail. Sounds like a value-added service, and that could mean merchant stickiness. ■

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## Black Friday, Cyber Monday post promising sales

**S**ales figures from Black Friday weekend and Cyber Monday indicate that consumers may be loosening their purse strings a bit this holiday season, buying more discretionary items and going online in increasing numbers to make purchases.

According to a survey sponsored by the National Retail Federation and conducted by BIGresearch, consumers expected to spend a total of \$45 billion over Black Friday weekend (Thanksgiving Day, Nov. 25, through Sun., Nov. 28, 2010), up from the \$41.2 billion reported in the NRF's 2009 survey.

The NRF's 2010 survey, which was conducted Nov. 25 to 27 and polled 4,306 consumers, estimates that 212 million shoppers planned to visit stores and websites Black Friday weekend, spending an average of \$365.34 per person. This year's average order value per consumer reflected an increase of 6 percent over 2009's figure of \$343.31.

Other noteworthy trends reported by the survey include:

- According to the NRF, 22.3 million shoppers were out hunting for bargains on Thanksgiving Day, compared to 18.1 million in 2009. "Clearly there is an appetite for consumers to do shopping on Thanksgiving," said Scott Krugman, Vice President, Industry Public Relations, for the NRF, during a recent press briefing on the survey results.
- Men spent an average of \$417, compared to the average of \$316 that women spent. Ellen Davis, Vice President of the NRF, also speaking during the press briefing, attributed men's willingness to spend more to their apparent greater confidence in signs of economic recovery and their tendency to buy bigger-ticket items.
- Consumers are showing renewed interest in discretionary or luxury-type items, rather than just bargain hunting for necessities. This was particularly evidenced by a year-over-year increase of 22 percent in the number of people who planned to purchase jewelry, Davis noted.
- The percentage of consumers shopping at discount stores dropped 7.2 percent from the previous year. "This year, price and sales are still important," Davis said. "But there are a lot of factors being evaluated by consumers. People are looking at quality, convenience of purchasing, service and selection."

- According to NRF data, 33.6 percent of Black Friday weekend shoppers shopped online, representing a 15 percent increase over the prior year.

### Small businesses see increased sales

Small businesses apparently fared particularly well on Black Friday if the results experienced by the 15,000 small business clients for which Newtek Business Services Inc. provides transaction processing are any indication. Newtek offers services ranging from payment processing to website development for small businesses.

Barry Sloane, Chief Executive Officer and Chairman of Newtek, said, "When we looked at our merchant portfolio, and we looked at Black Friday of this year versus last year, we came in with a real-time increase in processing (sales dollar) volume of about 21 percent. We're pretty confident that our portfolio is representative of the small-business market and economy."

Overall, sales for businesses within Newtek's processing portfolio for the period of Black Friday through the following Monday were up approximately 6 percent over the previous year.

### Cyber shopping has banner year

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consumer spending and shopping behavior online, reported that online sales on Cyber Monday were up 19.4 percent over 2009. In line with a trend noted by the NRF, Coremetrics' data indicated sales of luxury goods were up 24.3 percent over 2009.

Souheil Badran, Senior Vice President of eCommerce Solutions at First Data Corp., reported that the leading payment processor's clients experienced a 14 percent year-over-year increase in online spending on Cyber Monday.

Badran said the largest portion of payments for online transactions is "still coming through credit, but the actual number of debit transactions continues to increase."

Alternative payments also gained a greater share of the online shopping market during Cyber Monday. For example, PayPal reported a 21 percent increase in payment volume on Cyber Monday 2010 over the same day in 2009.

Consumers are turning to mobile technology more frequently to assist them in their holiday shopping, according to a survey conducted for Shop.org by BIGresearch. The number of people intending to shop on Cyber Monday with a mobile device increased from 4 million in 2009 to 7 million in 2010. ■

## MasterCard, Visa, PayPal thwart DDoS attacks

**R**ecent cyber attacks on the major payment network websites reportedly caused a disruption Dec. 8, 2010, of MasterCard Worldwide's SecureCode service for secure online transactions.

The attacks by a band of hackers calling itself "Anonymous" were reportedly in retaliation for Visa Inc., MasterCard and PayPal Inc. dropping WikiLeaks from their client rosters after the controversial website refused to stop publishing hundreds of thousands of pages of confidential cables between U.S. embassies and Washington.

The distributed denial-of-service (DDoS) attacks by the "hacktivists" involved the use of software Anonymous offered to supply free to supporters.

Downloading the software connects the user to a network of hacker machines known as a botnet, which is used to flood websites with requests until the sites are unable to cope with the traffic.

The primary result of the attacks was to make the websites of PayPal, MasterCard and Visa temporarily unavail-

able due to the magnitude of the web traffic generated.

### SecureCode service out briefly

Also unavailable was MasterCard's SecureCode service, apparently because verification relies on loading pages from the company's web server, which was one of the targets of the DDoS attacks. MasterCard SecureCode allows cardholders to create a private code for use in shopping online as added protection against fraud.

Mike Monsivais, a Security Analyst for SecurityMetrics Inc., a company that provides Payment Card Industry (PCI) Data Security Standard (DSS) compliance consulting and tools, pointed out that disruption of the SecureCode system didn't mean users couldn't make purchases online.

Monsivais said, "It means the system defaulted, or 'failed over' to asking them for the normal credentials needed to use your credit card online: credit card number, security code and expiration date."

MasterCard posted a statement on its website stating, "Our core processing capabilities have not been compromised, and cardholder account data has not been placed at risk. While we have seen limited interruption in some web-based services, cardholders can continue to use their cards for secure transactions globally."

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## News

**DDoS attacks a fact of life**

Security analysts suggest that the DDoS attacks vary in intent, method and impact from those launched by "financially" motivated hackers.

When a financially motivated hacker launches an attack, "he's attacking weaknesses in the protocols and applications on the vulnerable server to try and access it," said Chad Horton, PenetrationTesting Manager at SecurityMetrics. "In a DDoS case, they're flooding the pipelines that feed into websites with legitimate traffic so that other legitimate traffic can't get through."

Security experts admit DDoS attacks cannot be prevented; they advise the best way to protect against intrusions from financially motivated hackers is to be vigilant and adhere to security best practices.

"Part of security is an appreciation that these sorts of things can and will happen," said Tim Cranny, President and Chief Executive Officer of Panoptic Security Inc., a technology security company specializing in PCI compliance.

"You do everything you can to prevent it, but then you also do everything you can to mitigate the effects and consequences of it." ■

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**Dwolla P2P goes national**

**D**wolla, a person-to-person (P2P) online and mobile cash system developed by Dwolla Corp., of Des Moines, Iowa, is now available in all 50 states, thanks to a national rollout that started Dec.1, 2010. Dwolla allows cash payments to be transferred digitally between two users for a flat rate of 25 cents per transaction.

Initially available in just Iowa and California, Dwolla is going nationwide. This is because of a strategic alliance with, and a \$1 million investment from, The Members Group, a payment processor serving credit unions and community banks, and the Veridian Group, a wholly owned subsidiary of Veridian Credit Union. Both companies are also based in Iowa.

According to a statement by Dwolla, these partnerships, coupled with the verification processes inherent in the platform, help provide a level of security for transactions that "exceeds typical online banking best practices."

Through The Members Group, Dwolla also gains a distribution channel that directly encompasses TMG's own 200 client financial institutions and could potentially extend to thousands of credit unions and community banks across the country.

"Right now we're focused on acquiring our first 25,000 users," said Ben Milne, co-founder and Chief Executive Officer of Dwolla. "We have expectations on how long that might take, that may shift largely with integration of FI [financial institution] clients we've been talking to through TMG. We've also noticed some uptick [in registrations] with the social media integration, which we really think is going to assist us in getting there."

**In sync with multiple markets**

Dwolla's been integrated into Facebook and Twitter and offers apps for the Apple Inc. iPhone and Google Inc. Android operating systems. "We have two mobile applications currently that are live in commerce: the Android applications that can be downloaded from the Android marketplace and the Apple client-side application that can be downloaded from the Apple marketplace," said Milne. "We're also currently rolling out the iPod Touch/iPhone merchant application, which we believe will also work well on the iPad."

Jeff Russell, Executive Vice President for TMG, said TMG was particularly attracted to Dwolla's product because it can apply to P2P, small business, web store and social network transactions. "Dwolla was really the only solution we found that could address all four markets and had integration with all four prior to our partnership."

Nick Evens, President of the Veridian Group, said Dwolla's system fit his company's desire to be in on "the next generation of movement of money." Evens believes the Dwolla payment system will be particularly attractive to younger consumers. "The adaptation seems to be rapid in the 18 to 34 demographic, and that's a demographic all credit unions strive to appeal to," he said.

Russell said other early adopters may include businesses currently accepting only cash and checks, nonprofits and small web merchants. "I think what you'll see is that there will be some midsize web merchants who see the value of this right away," he said.

Adoption by brick-and-mortar merchants could move more slowly. "We'll roll out the physical merchants' applications relatively slowly," Russell said. "Obviously, that's always the big issue with the payments platform – the infrastructure component. We'll continue to test that, too."

Russell feels that Dwolla could have a place in ISOs' array of product offerings. "I think it really could be a complementary aspect to what they provide today to merchants, particularly if they are able to offer, over time, a single POS device that takes all types of payment mechanisms," he said. ■

## Chip and PIN versus mag stripe debated

**I**n a TowerGroup webinar that dealt with the state of the Payment Card Industry Data Security Standard, the question of whether chip and PIN technology will ever supplant magnetic stripe technology in the United States was addressed. Brian Riley, Senior Research Director, Bank Cards, at TowerGroup, concluded the move may be cost prohibitive and ineffective given the changing payments landscape.

In *Putting the "You" into PCI: 2010 Card Industry Update*, Riley said chip and PIN, which underpins the Europay/MasterCard/Visa (EMV) security standard, is often mentioned as a possible replacement for the mag stripe technology that prevails in the United States. Riley acknowledged that, in comparison to the mag stripe, chip and PIN delivers stronger security to payment cards, which makes the technology a greater deterrent to fraud.

"Another strength is that it's got an ISO standard, an international standard ... and that's certainly a deterrent for many fraud types," Riley said. "However, it does have its weaknesses. At the end of the day, EMV chips are a 25 year-old standard. And in the computer generation, that's a lifetime, or several lifetimes."

## EMV drawbacks

Riley also noted that the EMV solution is more costly to produce than mag stripe cards. Additionally, if fraud costs the United States an estimated \$6 billion annually and the replacement of the mag stripe with chip and PIN costs close to \$5 billion, the conversion would not make sense financially, he said. Furthermore, the POS terminal infrastructure in the United States would have to undergo an expensive upgrade to accept chip and PIN cards, Riley pointed out. Also at issue is the compatibility of chip and PIN with the U.S. contactless card initiative.

"When you start looking at contactless cards, you start having very complicated plastic in the customer's hand," Riley said. "These will require multiple chips. ... One issue that we looked at when we looked at EMV cards versus mag stripe is the fact that the interoperability between EMV countries and non-EMV countries will be a challenge."

Another factor to consider is how EMV cards fit into a marketplace evolving toward online and mobile payments. Riley said chip and PIN "doesn't work particularly well in the online environment. And the online environment today is the fastest growing channel." The virtual ecosystem for contactless mobile payments, which reduces the need for plastic cards, also seems to weigh against

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## News

the adoption of EMV card technology in the United States. Riley said a digital payment environment calls for digital security solutions, such as dynamic account numbers and one-time pass codes. ☐

## Discover's Zip cards ready for prime time

**F**ollowing an extensive pilot program, Discover Financial Services issued its first Discover Zip contactless credit cards and stickers to select cardholders on Nov. 15, 2010. Targeted to early adopters of Discover's mobile technology, the product rollout will expand in January 2011 to include additional cardholders of the company's flagship card products.

To operate the system, consumers touch the payment device, which is a plastic card or a sticker that can be applied to a mobile phone or any personal item, to a Zip-enabled contactless reader, to make a payment. The Zip payment application integrates Inside Contactless' MicroPass 4002 chip technology with a uniquely tuned radio frequency antenna shielded to protect core units



and eliminate interference from other devices. This dovetails with Discover's recently revealed plans to work with AT&T Inc., Verizon Wireless and T-Mobile USA on creating a mobile-payments network called ISIS, which will enable consumers to make payments using mobile phones equipped with near field communication technology.

### Solid strategy

"I think they're taking a very strategic view," said global payments expert Todd Ablowitz, President of Double Diamond Group LLC. "They cut a deal with carriers with the ISIS product, and it's rational that they would want to get as many of their Discover cardholders starting to use contactless and mobile technology as soon as possible. They're going to have to terminalize lots of locations with Zip for the ISIS product.

"If you're going to terminalize, you might as well get people out there using it, because the longer those terminals sit out there until ISIS cardholders are in circulation, the more chance that you have of a stale terminal, which we've seen many times over the last five years."

### More options

Discover is not new to the contactless space. Its Discover Network has worked with merchants to certify contactless readers for many years, according to company sources, and it was the first to test credit-based contactless stickers. Issuers, merchants and acquirers who lack mobile-payment technology may benefit from Discover Zip's ability to mimic mobile payments through the tap-and-pay technology the system provides.

Over 100,000 U.S. merchant locations are set up to offer certified contactless readers that accept Discover Zip transactions.

These include retailers, quick service restaurants, convenience stores, gas stations and public transit agencies. In addition, the nearly 100 bank card acquirers that sign merchants for Discover will also enable Discover Zip processing when signing merchants with competing services, such as Visa payWave and MasterCard PayPass. ☐

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# TradeAssociationNews

## NEAA Winter Seminar heralds new tradeshow year

**T**he Northeast Acquirers Association's Winter Seminar and Outing, scheduled for Jan. 25 through 27, 2011, at the Grand Summit Hotel in Mount Snow, Vt., promises a blend of educational offerings, networking opportunities and recreational activities.

Approximately 400 are expected to attend the conference, according to Jacques Breton, Treasurer for the NEAA, if past attendance is any indication.

"I did some serious networking and had plenty of time to visit vendors," said an attendee about the NEAA's 2010 winter seminar. "I would rate the Seminar a 10 overall. As a first timer who's been in the business for quite a few years, this was an excellent way to get my batteries recharged."

The 2011 conference will get under way Tues., Jan. 25 with an afternoon workshop on the new Internal Revenue Service tax compliance requirements led by Paula D. Porpilia of TIN Compliance Consultants. The workshop will cover new reporting and withholding rules for the acquiring community under the new tax code section 6050W.

Tuesday will also feature an opening cocktail reception at 5 p.m. and a poker party later in the evening sponsored by United Bank Card, with the proceeds going to charity.

### Colleagues, experts, vendors and more

Wed., Jan. 26, will offer seminars with industry experts from 9:30 a.m. to 5:30 p.m. Topics will include the changing legal climate for payment processing, dispelling myths about alternative payments, opportunities in health care and other vertical markets, what to look for in an MLS contract, among others.


Attendees can view exhibitor tables showcasing the latest products and services during lunch and again during a vendor fair from 5:30 to 8 p.m. The day will be capped by food, drinks, games, karaoke and dancing at a sports bar called the Snow Barn starting at 9 p.m., a gathering sponsored by Electronic Merchant Systems.

On the final day, Thurs., Jan. 27, a variety of recreational activities will be available, including skiing (with a free one-day lift ticket provided) or snowmobiling (for \$75), or other activities "on your own," such as tubing, shopping, and spa treatments (for those who prefer to relax in a warmer environment).

Registrations received by Jan. 14 for the conference are free to financial institutions, ISOs or individuals that "primarily sell acquiring-related services directly to the retail industry."

After that date, attendees fitting this description pay \$150. Anyone else wanting to attend (who doesn't meet this NEAA definition) pays a registration fee of \$200.

Breton pointed out that a merchant level salesperson or small ISO "that comes to our show can participate and pretty much not take any money out of their pocket. The intent is to provide an economical forum ... on hot subjects and topics, while at the same time making sure that everyone has an opportunity to network."

To register for the event, visit the NEAA website at [www.northeastacquirers.com](http://www.northeastacquirers.com). 

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## 2010 in review from page 1

other hand, the NFC pilot – with the portability and device agnostic capabilities of the microSD chip a chief hallmark – attempts to skirt the telecoms and device manufacturers in favor of the global Visa brand and its entrenched, robust, all pervasive network.

Which business model will prevail in the end? No one can say. Device manufacturers like Apple Inc. and operating system designers like Google Inc. will reportedly make their plays for dominance in the mobile payment sweepstakes. Perhaps the model that wins out will be an as yet unforeseen combination of various elements and players.

But it is a story that ISOs and merchant level salespeople (MLSs) should pay close attention to. Mobile marketing and upgrading merchants to NFC-enabled terminals may be opportunities to explore if the long-touted mobile wallet revolution actually hits.

### Congress takes action

While payment businesses of all stripes have demonstrated the foresight and grit to survive and even thrive in the ongoing lackluster economy, the industry overall has faced unprecedented federal regulation, the consequences of which may not be known for years.

Passage of what came to be called The Dodd-Frank Wall Street Reform and Consumer Protection Act was one of the biggest stories of 2010. It gained momentum in Congress because of the financial upheaval of the past three years on Wall Street and a host of other factors that led to economic turmoil.

The payments industry was hit with the inclusion in the bill of debit card interchange regulation introduced through an amendment sponsored by Sen. Richard J. Durbin, D-Ill. Merchants had been complaining for years about the high cost of interchange. Bills designed to regulate it had failed previously, but now, despite the lobbying efforts of the Electronic Transactions Association, among others, the Durbin Amendment made the final cut, which passed into law on July 21.

The amendment gives the Federal Reserve the power to cap interchange rates on debit card purchases at a level the Fed deems proportionate to the costs of processing those transactions. But many wonder how the Fed can make that calculation when, as the ETA pointed out, it doesn't understand how the industry works. Regardless, the regulations are scheduled to take effect July 2011.

### Oversights galore

The prepaid card sector also got dinged by the Durbin Amendment, with the ever popular closed-loop, retailer-specific gift card the main target. The new regulations constrain gift card providers on what fees they can charge and what expiration dates they can impose.

But the open-loop, reloadable prepaid card product was spared from the amendment, as it was successfully argued by the Network Branded Prepaid Card Association, and others, that regulation of this rapidly growing and evolving segment would harm the very consumers the bill was attempting to protect – the so-called unbanked and underbanked.

Another aspect of the new law that does not enthrone payment professionals is the formation of the Consumer Financial Protection Agency. The CFPA, which also has a July 2011 launch date, will apparently regulate financial products offered to consumers. The ETA noted that the Federal Trade Commission already does that. What is more, the case can be made that the industry has yet another powerful regulating body in the combined rules and regulations of Visa Inc. and MasterCard Worldwide.

With the Federal Reserve, the CFPA, the FTC and the card brands themselves all having authority over the industry, one may wonder, How many regulators will it now take to install a card reader?

### Fine-tuning data security

Of course, it's news whenever the PCI Security Standards Council (PCI SSC) makes changes to the standards that govern how electronic transactions are secured. Experts



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agree the Payment Card Industry (PCI) Data Security Standard (DSS) is now a well established, maturing set of protocols and best practices. Therefore, the changes made to it in 2010 were viewed as significant.

In June, the council issued version 3.0 of the PIN Transaction Security requirements, covering POS terminal and card reader hardware. Then in October it released versions 2.0 of the overarching PCI DSS and of the standard that deals specifically with terminal software requirements – the Payment Application DSS.

The PCI SSC also endeavored to streamline the entire compliance process so that the various deadlines built into the evaluation and implementation of the three standards fall on the same timeline. Furthermore, that timeline was extended from a two-year to a three-year lifecycle to give merchants more time to digest this compliance smorgasbord.

ISOs and MLSs might find the process akin to getting children to eat Brussels sprouts, but a card brand levied fine is a dish no one wants to be served. Besides, PCI and other data security measures appear to be making a difference: in 2010 no major processors or merchants experienced headline-grabbing breaches (as of this writing).

However, as any security expert will tell you, no organization can afford complacency. And it is important to note where fraudsters focused their efforts in 2010.

It was the year that "fraud-as-a-service" entered the payment lexicon, as the

online black market for stolen account numbers adopted cloud-based, software-as-a-service tools to expand their illicit world into a virtual bazaar of fraud techniques and services.

*The Green Sheet* also reported that the rocky economy may have forced a rise in "inside jobs," involving employees and contractors impelled by financial distress to use their insider access to exploit vulnerabilities in payment systems and commit fraud.

All the standard skimming, phishing, SMSishing, whaling and SQL injecting strategies were alive and well. And it seemed that card-not-present, web-based fraud was on the rise globally as the presence of chip and PIN technology foiled brick-and-mortar fraud efforts. Alas, chip and PIN is not widely used in the United States, where an increase in card-present fraud has been predicted.

It became evident in 2010 that the largest retailers are succeeding in securing their systems. Security experts believe the weakest link in the payment chain is now the small and midsize merchant group – where the fraud fight must now be stepped up.

### Outside influences

The effect of outside forces on the industry was another thread running through 2010. Added to the overall economic conditions, the long arm of the Fed and the threat of fraud, singular events such as the April explosion at BP's Deepwater Horizon oil rig that caused countless barrels of black crude to gusher forth from the broken well on the sea floor of the Gulf of Mexico made it clear that this year would be a roller coaster ride.

The Gulf incident had a profound impact on the economy of the area. Tourists who typically flocked to coast beaches shied away until the oil was contained, causing significant losses for merchants involved in the region's hospitality industry. Some ISOs that service the area suffered as well, but they did their utmost to accommodate their clients' changing needs, including temporarily lowering fees for struggling



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merchants or waiving penalties for businesses forced to close processing accounts abruptly due to the crisis.

An entirely different kind of event occurred in early December. Supporters of the whistleblower website WikiLeaks launched distributed denial of service attacks against payment companies that had cut off service to WikiLeaks. The cyber attacks caused the websites of Visa, MasterCard and PayPal Inc. to go down. But the outages were brief.

### Making moves

The waning year also had its share of strategic acquisitions. Topping the list was Visa's \$2 billion purchase of e-commerce processor and fraud management firm CyberSource Corp. in May. Reportedly, CyberSource processes about 25 percent of all e-commerce dollars in the United States and is the owner of payment gateway Authorize.Net.

Industry pundits viewed the move as a signal by Visa of the growing importance of the online channel as a revenue driver. In CyberSource's merchant portfolio are two giants of the online realm: Google Inc. and Facebook Inc.

Then, in September, news broke that POS terminal manufacturer VeriFone Inc. sought to purchase one of its two rivals, Hypercom Corp. The offer was initially spurned by Hypercom's shareholders; \$283 million was reportedly too low. But an agreement was struck in November for the purchase to go forward, at a price of approximately \$485 million. The move will likely strengthen VeriFone's position, as its primary international competitor in payment terminal manufacturing and distribution will now be Ingenico.

VeriFone also expanded its mobile payment footprint by acquiring mobile POS terminal maker Way Systems Inc. for \$6 million upfront and up to \$3 million more in earnouts. As *The Green Sheet* reported, the purchase added 25,000 mobile merchants to VeriFone's portfolio and opened up opportunities for ISOs to board on-the-go merchants historically resistant to dedicated (and stationary) POS terminals.

December, meanwhile, saw MasterCard wade deeper into the prepaid sphere with its purchase of Travelex's prepaid card program management operations for \$458 million, with an additional \$55 million in potential earnouts. Travelex's award-winning flagship program is the Cash Passport card, which allows travelers to lock-in exchange rates when the cards are loaded. The acquisition is yet another sign that prepaid cards are becoming as important to the card brands as credit and debit cards.

### Moving forward

Also in December, the Federal Reserve released its latest study on U.S. consumer payment habits, which indicated electronic payments accounted for more than three-quar-

ters of all noncash payments in 2009.

According to the Fed, U.S. consumers made 84.5 billion electronic payments in 2009 and wrote about 24.4 billion checks; the electronic share of noncash payments grew 9.3 percent between 2006 and 2009, while the number of checks paid by banks fell 7.2 percent. So, we can close 2010 knowing that the electronic share of the payment pie is likely to continue its growth.

Another positive takeaway from 2010 is the fact that so many in the industry worked together to defend the payment turf. There has been a deepening realization that competition must be tempered with cooperation up and down the value chain to ensure the industry remains stable and strong moving forward.

From card brands and banks, to acquirers, processors, and software and equipment manufacturers, to ISOs and MLSs, everyone has a stake in shaping the industry, and thereby defining it. The alternative is to allow circumstances, man-made or otherwise, to gain control. And any self-respecting payment pro knows there's no value proposition in that.

No matter how you look at it, 2010 was a year to be remembered, and a reminder that we are fortunate to be working in a most exciting industry. ☑

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# Education

# StreetSmarts<sup>SM</sup>

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## Are you awake to mobile payments?

By Ken Musante

Eureka Payments LLC

**P**ursuing specific market niches enables ISOs to excel. My ISO, Eureka Payments LLC, pursues wireless or mobile merchants. It's a huge market that is not as heavily solicited as other types of merchants.

Additionally, consultative sales can help many mobile merchants save money and increase sales by accepting card transactions.

Research conducted by payment consultancy Aite Group LLC gives credence to the opportunities. In *U.S. Mobile Payments: The Time Has Come*, Aite predicts U.S. mobile bill payments will reach \$214 billion in gross dollar volume in 2015, up from \$16 billion in 2010 – that's a cumulative annual growth rate of 247 percent.

As for the United States, Aite Research Director and author of the report Gwenn Bézard said, "Long seen as a laggard in mobile payments, the United States is far more ahead of the curve than perceived. Over the past 12 to 18 months, the United States has begun to move closer to a tipping point that will lead to the popularization of mobile payments."

According to Bézard, factors influencing the growth of mobile payments include rapid consumer adoption of smart phones, carriers' and handset manufacturers' adoption of near field communication (NFC) chips, consumers' continued embrace of mobile commerce and an increase in mobile banking adoption nationally.

But he claims many in the industry remain unaware of this rapid transformation taking place. "Those that have any desire to play a role in this market must wake up now," he wrote.

### Education index

Adam Atlas .....	62
Nicholas Cucci .....	66
Jeffrey Shavitz .....	70

### Mobile push

Granted, much of the growth predicted by Aite will occur through nontraditional mobile payments and innovations that will bypass the card rails. But this activity will increase awareness of and demand for the types of terminals and solutions that we can sell and support.

With the increase in available mobile payment devices, the hardware costs have come down significantly, and wireless providers have improved their coverage so transactions are more reliable, similar to the increased reliability with cell phone coverage. With that in mind, I posted the following on GS Online's MLS Forum:

"One of the areas I have been focusing on is mobile merchants. Though, in many respects, they are similar to storefront merchants, the types of devices and solutions for them are much greater.

They can be served via gateways, stand-alone devices, peripherals that attach to a cell phone or an application on a smart phone itself. Many of these merchants process a lesser amount, yet others process a year's worth of volume in a month's time.

"What has been your experience with mobile merchants? What solution do you most prefer for mobile merchants and why? Do you have a unique niche within this space that you market to? Has this been a profitable niche for you? And what has your experience been with the



**"The banks are displaying increasing concern that they could be pushed out of the mobile wallet market. There are going to be some massive changes coming in the next two years, and everyone will have to adapt."**

GS Forum Member **CREDITCARDMN**

hardware and software in this space?" **CREDITCARDMN** responded first. "Mobile payments and mobile wallets are not as far off as many think," he wrote. "Some recent signs I have seen: "Apple eyeing ViVOtech for purchase and using iTunes accounts to circumnavigate the banks for payment processing."

Here, **CREDITCARDMN** referenced a blog by Dan Balaban on *NFC Times* that discusses ViVOtech's assets, including its contactless readers, over-the-air platforms and servers, to deliver and manage coupons and loyalty rewards programs that may be attractive to Apple Inc.

**CREDITCARDMN** went on to cite a Gizmodo article that discusses an agreement between T-Mobile USA, Verizon Wireless and AT&T to create ISIS – that allows phones to be used for credit or debit card purchases.

The three ISIS founders, working with Discover Financial Services and Barclays Bank subsidiary Barclaycard US, claim that, once activated, the phone will be more than just a debit card replacement; with the assistance of NFC technology, the phone will also facilitate contactless rewards, coupons and third-party programs (such as public transit cards).

The carriers expect to roll out ISIS to their combined 200 million customers in targeted geographic markets over the next 18 months. Certainly this is a huge user base, but to succeed they still need to sign up large depositor banks and merchants.

To attract those constituents, ISIS will need to determine the fees to the merchants and the inducement to the banks which, regardless of what you call it, will look a lot like interchange.

Finally, **CREDITCARDMN** cited a Nov. 16, 2010, Pymnts.com article that reports on the partnership between U.S. Bank, Visa Inc., DeviceFidelity and Monitise PLC to facilitate payments via mobile phones waved in front of Visa PayWave contactless terminals.

The significance of this pilot is that U.S. Bank is one of the first card issuers to employ this technology in the United States. Obviously, U.S. Bank believes consumers are now interested in paying with their phones. As **CREDITCARDMN** stated, "The banks are displaying increasing concern that they could be pushed out of the mobile wallet market. There are going to be some

massive changes coming in the next two years, and everyone will have to adapt."

### Other initiatives

**BILLPIRTLE** joined in with a comment about a specific solution. "There is a new device that I am looking into," he wrote. "It is called a PaySaber, from USAePay. You can place an iPhone into the PaySaber and have the ability to swipe cards and print detailed receipts, but it gets better. You can add an optional bar code scanner and have the PaySaber act as a mobile POS system with inventory and QuickBooks functionality through the USAePay gateway.

If this works like I think it will, it will open many doors for me. For more information: <http://www.paysaber.com>."

I completely agree with **BILLPIRTLE**. I have personal experience with and think very highly of the PaySaber. It is

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very easy for merchants to use. In addition to working with the iPhone, PaySaber works with the iPod Touch as long as you have Wi-Fi access. VeriFone Inc.'s PayWare sleeve is equally easy to use and, although it does not have the bar scanner and immediate cardholder receipt, it costs less.

Again, your iPhone slides into the device and your merchant is instantly enabled. Both devices work in conjunction with a gateway, so even if you do not have an iPhone, you can use your smart phone for keyed transactions, as well as for ease of reconciliation and to allow for emailed receipts.

Another innovative solution is eProcessing Network's BT-90 Bluetooth rechargeable MagTek mag stripe reader. It recharges from a standard USB port and is a great low-cost solution that can encrypt and store transactions when cell phone coverage is not available.

**DVST8** referenced a Nov. 18, 2010, Kevin Woodward article in PaymentsSource.com. The article discussed PayPal Inc.'s investment in face-to-face transactions enabled by VeriFone's aforementioned PayWare.

The article quoted Laura Chambers, PayPal's Senior Director of Mobile, regarding PayPal's reseller program:

she indicated PayPal will work "proactively" with ISOs to promote their mobile strategy.

The article goes on to state, "The agreement also calls for VeriFone to use its PayWare Mobile card encryption sleeve to expand PayPal payment acceptance via mobile phones and to integrate PayPal with online and point of sale environments.

In addition, the terminal maker would promote PayPal and the bump funds transfer function to its reseller channel, and PayPal would market PayWare Mobile to its user base."

Though I am cautious regarding how merchant level salespeople (MLSs) can make money with PayPal, I am pleased the venture between VeriFone and PayPal allows for reseller participation.

### Worthy topic

Typically, if I do not get sufficient responses from a Forum post, I'll pull it and replace it with a new one that gets more comments; it's easier to write an article that way. I left this post up despite the limited number of responses because I feel strongly about this specific niche and believe the mobile market is now sufficiently strong to support the marketing needed to attract mobile merchants.

The benefit of the Forum, however, is it supplies diverse viewpoints. As **STEVE NORELL** reminded us, "I believe that mobile will eventually have its place in our industry but nowhere near what some of the pundits think, and here is why. Every time a new product or service comes along I tend to measure its potential of success as follows:

- The consumer wants it = high percentage of success
- The merchant wants it = moderate amount of success
- The industry wants it = low amount of success

"Just look at the contactless solution with Tap and Go. It tapped and went ... nowhere. I sat at the ETA mid-year meeting two years ago, and that is all the experts could talk about. Well, they are no longer talking about it now."

The difference with mobile payments is there is something in it for everyone; more convenience and access for consumers, additional customers and transactions, along with lower costs for merchants. The industry benefits from increased business and transactions. Mobile is now.

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@eurekaypayments.com. For more information, visit [www.eurekaypayments.com](http://www.eurekaypayments.com).

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Legal ease

## Paperless merchant acquiring: A legal perspective

By Adam Atlas

Attorney at Law

**W**e've been talking about it for years: going paperless in merchant acquiring. If you can buy a house on eBay without paper, why can't you get a merchant account without paper? The answer is that we, as an industry, have not worked out the logic of paperless applications and merchant agreements. The purpose of this article is to provide certain legal perspectives on making a merchant acquiring business paperless.

### Is it legal?

Yes. Pursuant to the Federal Electronic Signatures in Global and National Commerce Act, also known as E-Sign, a "signature, contract or other record relating to such transaction may not be denied legal effect, validity or enforceability solely because it is in electronic form." This federal law applies, with certain exceptions, and may have been embellished upon by certain state laws.

The principle that electronic agreements have the same effect as written agreements is generally accepted in U.S. law. The existence of this legal principle does not, however, imply that all banks are ready to roll out online merchant account applications. Instead, it means that if they wanted to, there would not be much of a legal impediment.

### Has anyone done it?

Yes. I have had the pleasure of advising some of the leaders in our industry in drafting and providing the legal framework for online electronic merchant applications and agreements. The banks that have ventured into this territory tend to be skittish about it. I think this is because online applications and agreements are a bit of a paradigm shift for banks.

Some banks, for example, will shift the burden of legal enforceability of their online agreements to the ISOs that wish to use them. That means ISOs have to guarantee to the banks that if merchant agreements fail because they are electronic and not on paper, the banks can sue the ISOs for the agreements' lack of enforceability.

### Is it a pre-application, application or agreement?

When discussing electronic merchant account sign-ups, it's important to distinguish between pre-

applications, applications and agreements. These terms are not necessarily industry-defined, but with some explanation, you will see how they differ. A pre-application is a type of inquiry form that you are likely to see on many ISO web pages. It serves, essentially, to pick up leads from the Internet.

An application is a form in which merchants provide more detailed information concerning their business operations and where pricing is set out. A merchant agreement details everything one would find in an application together with the terms and conditions applicable to the acquiring bank's merchant services.

When establishing an online merchant sign-up process, ISOs should be very clear with themselves and with merchants as to exactly what they are trying to accomplish at each stage of the process.

### What about tailoring pricing to the merchant?

Most online agreements will allow ISO representatives to tweak certain variable fields so as to continue to permit the customary give and take between merchants and acquirers that is integral to the sales process. Training will be required of ISOs and agents to understand what prices can be changed and how to change them.

Several ways exist to handle the electronic sign-up process to accommodate the needs of ISOs, agents and merchants. One is to create a login application via which an agent and merchant can access an application together, perhaps on a laptop at the merchant location.

The merchant or the agent could then make subsequent adjustments to it, with the merchant having the final right to accept it, thereby creating a permanent record of their agreement.

### Does an electronic signature require specific technology?

No. Something as simple as the merchant expressly agreeing to a defined set of terms and pricing, and indicating such on a dedicated website, will often be enough to secure legal agreement on the document.

Note that E-Sign and other similar laws contain specific requirements for an agreement to be effective, so review of your paperless sign-up process by an attorney is recommended. That said, it will probably cost the



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**When creating a paperless sign-up process, ISOs and processors must reflect on how documents will be accessed years into the future.**

average ISO less to use paperless sign-ups than the current cost of printing many copies of lengthy agreements and applications.

### What form does the 'signed' agreement take?

As a matter of law, an agreement signed in electronic format must be recorded as such so the parties can retrieve it at a later date. The "recording" of the signature becomes an "electronic record" of the agreement, and that is the form the agreement takes in the archives of the parties concerned. We have all signed up for various online services, such as LinkedIn or Facebook. That kind of sign-up process, together with disclosure that is required for our industry, is the essence of a paperless merchant sign-up.

### Are paper copies still required?

No. So long as an electronic record of the agreement is accessible by all parties thereto and contains all the terms

and conditions of the agreement, there is no specific legal requirement, under federal law, to create or retain a paper copy. There may be business or marketing reasons to create a paper copy and deliver it to the merchant; there may also be bank requirements or card company rules that require it, but the law alone does not.

When creating a paperless sign-up process, ISOs and processors must reflect on how documents will be accessed years into the future. Could you open a document from 1998? That's the kind of question you have to ask yourself when you make a document in 2010 that will need to be accessible in 2020 or later.

### What do the banks get?

Whatever they want. Banks already employ a wide variety of practices for keeping records of merchant agreements. Some will allow ISOs to board merchants by entering data into the bank system and permit ISOs to retain paper copies of agreements. Some banks will accept scans of original documents; others want the originals.

Paperless agreements are much easier to manipulate than paper agreements, so they will simplify the process of record keeping. That said, data storage is an issue, and banks may not want to store all the data concerning every agreement on their own systems. The issue of what banks get in a paperless application process is one to be settled by an arrangement with the bank.

Ultimately, banks must be able to access electronic records of merchant agreements regardless of where the records are kept. When merchants cause losses, as they often do, banks need to sue, and they need to have something to show the court that hears the claim.

### Is paperless the way to go?

In theory, going paperless in the payments industry is easy. In practice, there are several moving parts, including the merchant agreement; the lease; and automated clearing house, check, gift-card and other ancillary agreements that all need to be rolled into a paperless application. This takes flexibility on the part of suppliers and coordination of each party's legal requirements. We'll all be there sooner or later, I hope. 📧

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## Experts weigh in on social media marketing - Part I

By Bill Pirtle

MPCT Publishing Co.

*Editor's note: This is the first in a two-part series. The second part will appear in the Jan. 24, 2011, issue of The Green Sheet (issue 11:01:02).*

I asked Bob Burg, co-author of *The Go-Giver* and author of *Endless Referrals*, what he thought of social media. He replied, "Social media is not an end in and of itself but simply another vehicle to establish and cultivate relationships. However, through social media and its various platforms, you have a very effective way to connect with people you might otherwise never have the opportunity to meet and with whom you can cultivate deep, meaningful, mutually beneficial and, often, profitable relationships."

So, how is it that a newly published author and sales agent like me gets to know Bob Burg well enough to get a quote? I don't know him well. I connected with him on LinkedIn through a common contact. I approached him, and he was gracious enough to reply. That is the power of social media.

### Asking the social media pros

The following is based on questions I presented to a panel of professionals comprising six social media experts and two credit card industry professionals:

- Terry Bean, [www.yourcno.com](http://www.yourcno.com)  
Author, speaker, networking expert
- Corey Perlman, <http://thebootcamp.com>  
Author of *eBoot Camp* and national speaker
- Tom Daly, [www.bestfitsolutions.com](http://www.bestfitsolutions.com)  
Marketing expert
- Al Crawford  
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Communications expert, author, national speaker
- Timothy A. Dunn, [www.youtube.com/timothyadunn](http://www.youtube.com/timothyadunn)  
Vice President, Agent Bank Business Development for Fifth Third Processing Solutions LLC; credit card processing speaker
- Jada Brazell, <http://fapsmarketing.blogspot.com>  
Manager, Corporate Social Media Strategies, First American Payment Systems LP

I requested that, for the purpose of this article, the top five forms of social media be websites, blogs, Facebook, LinkedIn and Twitter. Further, I tailored the questions to uncover best practices and tips to give salespeople confidence in using these tools.

### What is the purpose of social media?

The panel consensus was that social media allow people to connect with friends, prospects and customers. Terry Bean pointed out, "The cool thing about social media is how many different ways it enables that and how many people with whom you can be connected."

### How should social media complement your overall marketing plan?

"Social media is the biggest communication revolution since the invention of email," Michael Caruso said. "The biggest challenge is how to sell through what are primarily social networks. People still don't like being sold to, even if you're a friend ... [but] if you're a little crafty and the slightest bit subtle, you can pitch your offering as a trusted information source."

Bean added that, as a subset of the overall marketing plan, social media "is not a silver bullet. The best things you can use social media for are as a listening post, a conversation platform and as an engagement strategy."

However, Timothy Dunn believes "social media should be your overall marketing plan."

### How do you measure the results of a social media campaign?

"You measure it by influence," Bean said. "Did your posts get commented on, re-tweeted or shared by others? Did additional traffic get driven to the intended site? Did the phone ring? Were there questions asked? Did it attract, enroll and engage others?"

According to Dunn, people should organize from the start, which very few actually do. "Manually, you can ask a prospect or customer where he heard about you but, more important, you should already know," he said. "By using Quantcast, analytics and various tracking methods, you will not only understand where the customer came from, but also know who your optimal customer is."

Corey Perlman added, "We keep it simple. If we can drive more traffic back to your website, you're going to

sell more stuff. So we monitor web traffic, time on site, conversions and where people came from. This can all be done by installing Google Analytics on your website. I highly recommend it. I look at my analytics every day like others look at their stock portfolios. And just like their stocks, when my numbers go up, so does my bank account."

**Do you recommend accepting connections from anyone or only your closest friends?**

Al Crawford sees Facebook as the White Pages, with fan pages there and LinkedIn being the Yellow Pages. He wants connections with everyone so he can decide the best person to contact.

Dunn recommended three things:

1. Always collect as many connections as possible.
2. Never utilize those connections as 'jumper cables' and just sell to them when you need revenue.
3. Always provide a value-to-sales metric of five-to-one.

"If Facebook is a party with close friends and family, Twitter is more like a crowded subway with tons of strangers," Perlman commented. Caruso said, "The strangest quirk about LinkedIn and Facebook is that they seem to only want us to network with people we already know. Say what?"

I tend to agree with Caruso. That is why I typically accept a connection request from anyone on Facebook or LinkedIn. I am a LinkedIn Open Networker (LION), which means I will not refuse a request to connect. Remember, it is not just the person you are connecting to, it is his or her entire network.

If I get spammed, it is easy enough to sever connections. Social media has been compared to a networking mixer; accepting connections

is merely shaking hands. It is what happens once connected that determines what develops.

**What different approaches can be used for peer versus customer relationships and new versus established clients?**

"You may create two accounts on Twitter and Facebook to keep corporate and personal relationships separate," Jada Brazell replied. "To maintain existing relationships, it is valuable to recognize and praise those individuals and businesses on your – and their – forums. This not only nurtures relationships with them, it also attracts attention from their networks."

"Live a holistic life," Bean advised. "Your social media activity really



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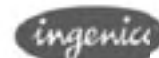
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shouldn't differ much based on these groupings. That's harder to do than say, because of the inherent nature of 'college buddies' and their ability to post on your wall."

Dunn finds that "genuine transparency" is best. "As long as you are always providing value and not selling in a traditional manner, you can use the same format for all contacts, whether personal or business," he said. "As much as information is key, the hunger to know the vendor is just as great. If you can be genuine in all of your communications, it lends true credibility to your goal of sales and product distribution."


"Social media is the world's stage on view to everyone," Tom Daly cautioned. "Casual, witty comments that might be appropriate to a peer, are likely [to be] offensive to a prospective new client." In other words, a single approach is all right. Just be sure to separate your lists on Facebook. Keep one for college friends and one for business contacts.

### Which social media platform do you most recommend and why?

"Other than having a website, which is the most

vital aspect of corporate social networking, I recommend LinkedIn for individuals who are looking to network on a professional level," Brazell said.

Dunn likes them all for different reasons. "LinkedIn is where business gets done," he said. "Facebook is by far the most fun and the easiest to market on. Tweets are crawled by Google, so I like Twitter for keyword-rich posts." For Bean, it "totally depends on your audience. I use Facebook most often because of its size. It also offers the most diversity in users and how people interact." Dunn believes social media success is not attained by using one platform. "You have to be involved in all five," he said. "They all intermingle and are all necessary. Get involved with at least those five basics. Then evolve from there."

Next month, panel members will share thoughts on how to set up a social media plan, privacy and more. 

*Bill Pirtle is the President of MPCT Publishing Co. and author of Navigating Through the Risks of Credit Card Processing. He is also a merchant level salesperson for Clearent LLC, Electronic Payments Inc. and Electronic Merchant Systems Inc. Bill's website is [www.creditcardprocessingbook.com](http://www.creditcardprocessingbook.com); his email address is [billpirtle@yahoo.com](mailto:billpirtle@yahoo.com). He welcomes all connections on Facebook and LinkedIn.*

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# E-commerce fraud: Identifying and reducing risk

By **Nicholas P. Cucci**

*Network Merchants Inc.*

**H**ow quickly are you and your merchant customers adapting to fraudsters' evolving techniques? LexisNexis' September 2010 *True Cost of Fraud Study* showed that for every \$1 in fraud, merchant expenses will reach \$3.10 out of pocket. This cost does not even include lost customers and other "soft expenses" resulting from this fraud.

Javelin Strategy & Research surveyed over 1,000 merchants in September 2010 regarding consumer fraud. Javelin discovered that fraud losses are one of the largest and most significant challenges facing merchants. With 2011 right around the corner, what could you be doing to help your merchants fight fraud?

In 2009, e-commerce sales grew almost 6 percent, according to Javelin; sales in 2011 are expected to climb even higher, from 12 to 14 percent. With an increase in e-commerce sales comes another daunting trend: increasing levels of fraud.

This steady growth attracts criminals who continuously seek to develop new schemes to defraud merchants and consumers. Smaller merchants must respond to the threat by strict manual review of online purchase attempts.

## Finding red flags

One important aspect of fraud management is "risk scoring." Here's how it works: your online merchants can use hundreds of factors to generate a score. Some examples of these factors are the payment method used, shipping address, billing address, frequency of orders and even the geo-location of the transaction.

First Data Corp. identified more triggers that might contribute to a negative risk assessment, as follows:

- A single IP address has been used with multiple payment cards in the last  $x$  days.
- The shopper's billing address is more than  $y$  miles from the shipping address.
- The email address has been flagged in a negative database of known fraud activity by other merchants participating in the same fraud detection strategy.
- Email addresses from Google Inc., Yahoo Inc., or other free email services have been used.

- The bank identification number (BIN) is from a high-risk country.

Risk assessment reports aid in analyzing the effectiveness of manual reviews and will help payment professionals spot opportunities to eliminate unnecessary analysis. Each risk management tool has its own algorithm to calculate a numerical score based on its weighted point for each rule.

For ISOs with merchants who are involved in international commerce, certain factors, such as address verification, are unreliable by themselves. Email database and IP address checks must be done to help verify transactions. Fraud management or "fraud scrubbing" is more than just a score, flag or review; it requires analyzing other components of the transaction, too.

Fraudsters never stand still and will keep attempting charges both large and small until an approval goes through. With this constant onslaught, security measures should also never stop growing and evolving.

Payment processors and other service providers can help new and growing merchants keep up with the changing future. Usually the feet on the street observe fraud trends closely and are able to protect and update merchants on emerging fraud methods and techniques that can be used to fight back.

"The credit card processing industry is based on risk, and it's our duty and obligation to mitigate the risk for our merchants," said Roy Derby, Director of Risk Management for America's Bankcard Alliance. "One of the most overlooked and basic ways to help your merchants is prevention through education."

Remaining proactive is essential to reducing one's risk, and that readiness requires ongoing training.

Below are additional details pertaining to red flags that often point to incidences of fraud:

- **Multiple orders with different "bill to" and "ship to" addresses:** check the IP geo-location and compare it with the billing address to help verify the validity of the charge.

Once you have found a fraudulent charge, start keeping a database of prior fraud attempts, with information such as the customer name, shipping and billing addresses, phone numbers, IP addresses, and email addresses. Make sure to leave a section for comments.

- **Suspicious patterns:** multiple orders shipping to the same address but using different credit cards should raise concern. Fraudsters may have the

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
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credit card number but submit it multiple times with different expiration dates because that's what they are missing.

- **Free email accounts:** many businesses today refuse to accept orders from any free email accounts or any non-ISP email domains. Depending on the value of the purchase, you can call or request more information before processing the order further.

### Some useful tools

In addition, here are tools and actions your merchants can use to help prevent fraud:

- **Payer authentication programs:** Programs such as Verified by Visa Inc. and MasterCard's WorldWide's SecureCode use personal passwords to confirm the identity of the card user. When merchants use such a program, card issuers may incur some of the losses for online fraud that otherwise would have been entirely the responsibility of the merchants.
- **BIN check:** The first six digits of the credit card can be used to determine if the issuing bank and the credit card holder are in the same country. However, this method should be corroborated before canceling the transaction since some legitimate transactions occur with a credit card from another country.
- **Address Verification System (AVS):** The AVS is available only in the United States and in four European countries. It checks to determine whether the cardholder's address and ZIP code match the information at the issuing bank. This, too, should be checked, as the AVS can fail to verify because of legitimate issues, such as an address change.
- **Customer relations:** Even with today's high transaction volume, phoning customers every so often will benefit merchants in many ways. This practice gives merchants an opportunity to welcome their customers and develop relationships for future ordering. And if an order turns out to be fraudulent, a merchant can simply cancel it and let the customer know to call his or her credit card company so a new card can be issued. ☑

*Nicholas Cucci is the Director of Marketing for Network Merchants Inc. He is a graduate of Benedictine University and a licensed Certified Fraud Examiner. Prior to joining NMI, he worked in the payment processing division for a Fortune 500 company and has advised several large retailers on credit card fraud protection, screening and risk assessment. Nicholas can be reached at [ncucci@nmi.com](mailto:ncucci@nmi.com) or 800-617-4850.*





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# NewProducts

## Virtual testing for ATM and POS networks

### Product: QuickStart System

Company: Lexcel Solutions Inc.

**S**oftware developer Lexcel Solutions Inc. released its QuickStart System to expedite verification and certification of ATM and POS networks undergoing routine maintenance, technology updates and various compliance upgrades.

The solution enables host processors to create and integrate ATM and POS testing environments that connect to hosts for issuing and acquiring devices within 90 minutes, according to Lexcel.

The company developed the bundled, end-to-end solution for processors, ISOs moving into processing, financial institutions and payments industry network providers. The system comes equipped with preformatted test scripts to eliminate the need for manual error identification.

It also sports a regression testing capability through such features as automatic-transaction generation, audit capture and reporting. Its 24/7 scheduling permits users to run tests outside of normal business hours, Lexcel noted.

"QuickStart is really a first step in building a bigger system, where they get an origination simulator and a network simulator," said Lewis Kubitz, who heads Business Development at Lexcel. "It basically interacts just like the network. It sits on a PC, so it's a software program. Lexcel makes the transactions in any format, any flavor, so they can test a virtual ATM/POS system instead of a physical system." He estimates that Lexcel has worked with 150 of the most popular POS formats.

### Virtual versus manual

One advantage QuickStart reportedly has over standard testing systems is its patented core technology, which simulates networks.

"None of our competition today does that," Kubitz said. "Lexcel patented the process of replicating a network, so it acts just like a network. They send a response; it automatically connects.

They send a message in; it automatically responds, based on the network requirement, and sends back another message. I think we are 80 percent faster in the certification process by using the Lexcel simulator, replicating those

### Features of QuickStart System include:

- Simulates payment network
- Captures audit reports for management review
- Performs transaction testing from origination through interchange validation
- Identifies and resolves problems before costly online certification
- Performs regression testing to ensure expected testing outcomes

networks, getting them to play back to their customers today, and getting them up and running."

He added that QuickStart speeds up the process by allowing users to plug in virtual cards, perform test transactions and key into hubs; manual testing requires users to test systems by standing in front of physical ATMs or POS devices, swiping cards and entering numbers.


"It's got a lot of intuitive things that compare and contrast, so once they make changes, they want to run a test," Kubitz said. "They send electronic transactions through, and it will generate a report. It will highlight different things, where it will say this transaction didn't set up [a] proper authorization response for this transaction coming in.

It has screens, like a side-by-side view of what should have happened, what did happen and highlights what things did go wrong." He added that this ultimately reduces costly production outages.

### Facilitates PCI compliance

Kubitz reported that some clients, before working with Lexcel, had devised homegrown testing tools that exposed data to security breaches because information was generated through live hosts. "We help people become more PCI compliant as a result of integrating with us, because there's now all test scripts," he said. "There is no live data being done.

It's all done in a contained environment where there's really not a possibility of a breach of security."

He pointed out that Lexcel essentially delivers a "mini system," and because the system is scalable, it can expand from a single simulator to a large, enterprisewide testing environment. QuickStart comes prepackaged with updated regulations and mandates built in. 

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## Northeast Acquirers Association

2011 Winter Seminar and Outing

**Highlights:** The longest-running regional show in the payments industry, this event offers payment veterans the chance to gain new information and insights that will assist them in taking their businesses to the next level. It also provides those new to the industry resources to help them learn what it takes to succeed in this sphere.

Days will be filled with educational presentations by industry experts. Attendees will also have ample time to network with their peers in the exhibit hall, during opening and closing receptions, over meals and at other events, including a night at the Snow Barn sponsored by Electronic Merchant Systems.

All vendors will have stationary displays; no roaming vendors will be allowed.

**When:** Jan. 25 – 27, 2011

**Where:** Grand Summit Resort, Mt. Snow, Vt.

**Registration:** [www.northeastacquirers.com/event.htm](http://www.northeastacquirers.com/event.htm)



## ATM Industry Association

ATMIA 12th Annual Conference & Expo

**Highlights:** This three-day gathering is billed as the only dedicated ATM industry conference slated for the United States in 2011. In addition to boasting the largest ATM-focused exhibit hall in the United States, this 12th annual conference promises to center on networking, industry issues and regulatory updates, as well as knowledge and insights shared by industry experts and peers.

Offerings will include a keynote address by Jimmy Sawyers, author of the book *Top Trends Impacting Bank Technology for 2010*; international payments workshop; panel discussion on U.S. legislative and regulatory issues; presentations on prepaid opportunities and data security; the 2010 Global ATM Industry Awards; and several breakout sessions on specific ATM business tactics and conditions affecting the industry.

**When:** Feb. 22 – 24, 2011

**Where:** Doral Golf Resort & Spa, Miami

**Registration:** [www.atmiaconferences.com/Events/ATMIAUSAConference/Registration/Index.cfm](http://www.atmiaconferences.com/Events/ATMIAUSAConference/Registration/Index.cfm)



## SourceMedia

National Collections & Credit Risk Conference

**Highlights:** Through workshops, case studies, interactive panel discussions and presentations, attendees of this conference will hear the most relevant information relating to regulatory changes affecting the collections and credit risk industry. They will also be apprised of best practices capable of propelling collections processes into future growth and profitability.

The conference will be of interest to those making critical decisions concerning credit and collections from all facets of financial services including cards; mortgages; demand deposit accounts/overdrafts; home equity, auto, commercial, small-business, personal and student loans; and alternative lending.

**When:** March 13 – 15, 2011

**Where:** Fontainebleau Miami Beach, Miami Beach, Fla.

**Registration:** [www.collectionscreditrisk.com/conferences/nccr11](http://www.collectionscreditrisk.com/conferences/nccr11)



## Southeast Acquirers Association

2011 SEAA Annual Conference

**Highlights:** The Southeast Acquirers Association's Annual Conference provides information on current issues of concern to merchant level salespeople (MLSs) and ISOs in the electronic payments industry.

Each year, the meeting brings industry leaders to the Southeast region of the United States for the purpose of helping the feet on the street become more successful.

This year's event will include a variety of networking opportunities with vendors and attendees. The exhibit hall will feature many of the leading payment processors, equipment manufacturers, leasing companies and other third-party vendors in the industry.

Breakout sessions will provide a small forum in which attendees can learn and share information. Panel discussions, which have been some of the most heavily attended sessions in previous years, will be led by industry leaders.

**When:** March 21 – 23, 2011

**Where:** Hyatt Regency Bonaventure Hyatt Conference Center and Resort, Weston, Fla.

**Registration:** [www.southeastacquirers.com/conference](http://www.southeastacquirers.com/conference)

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# Inspiration

## WaterCoolerWisdom:

**There has been much tragedy in my life; at least half of it actually happened.**

- Mark Twain

## It's a fine life, isn't it?

**A**t this time of year, the holiday gatherings are coming to an end, wrapping paper is in the recycle bin, retailers have marked down left-over merchandise, and many folks are giving thought to the approaching year. But before making plans for the year to come, how about appreciating the year you have just lived?

If you are reading The Green Sheet, it is likely you are working in the payments industry – a major blessing in these tough times. While nothing is perfect, in life or in the workplace, the fact that you have been able to provide financially for yourself and your family should give you a sublime feeling of accomplishment and peace of mind.

As an ISO or merchant level salesperson (MLS), you helped merchants stay in business and thrive in 2010. By doing that, you provided an invaluable service to the economy, to employers and to their employees. It is therefore acceptable – in fact necessary – that you take a measure of joy in that achievement.

Now sit down at your desk, put your feet up and reflect on the year that is nearly complete. Don't dwell on the merchants that you lost or that week in June when it seems all you did was put out one merchant fire after another.

## Bask in the goodness

Instead, think about all the great things that happened. Maybe it was that day a co-worker picked up the slack when you had to rush off for a family emergency or when you called in a favor and a terminal supplier rushed a terminal to one of your merchants whose device had gone down.

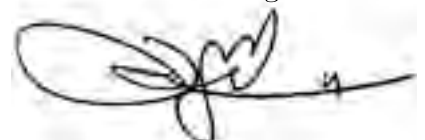
Appreciate even the slightest bit of good news. Remember when you were running late one morning and you got a green light at every intersection, so you reached your first appointment right on time? Or how about the afternoon you found that guy's business card at the bottom of your briefcase and he turned out to be a solid lead?

Think about all the new people you met in 2010 and all the positive conversations you had with merchants.

Reflect on the laughter you shared with colleagues and the cards you received on your birthday. Don't forget the money your office collected for charity or the new puppy your colleague brought into the office one day. It brought you a smile, didn't it?

Sure, you've got your share of troubles. But don't let negativity reign. This is the ideal time to remind yourself of all that has gone right for you in the past year. It's time to remember that life is good. Because it is.

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Paul H. Green, President and CEO



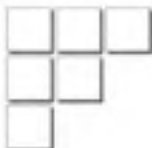
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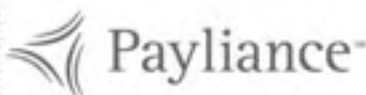
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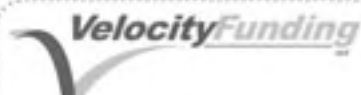
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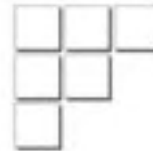
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 Solution From Page 77

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# Advertiser Index

Advance Restaurant Finance (ARF).....	16	MLS Direct Network Inc.....	89
Alpha Card Services Inc.....	40	Moneris Solutions.....	34
American Bancard.....	29	National Transaction.....	57
ATT Services.....	51	Nationwide Payment Solutions.....	22
Authorize.Net.....	81	Network Merchants Inc. (NMI).....	48, 49
Card Payment Solutions.....	11	Newtek Business Services Inc.....	42
CardReady.....	83	North American Bancard.....	2, 6, 7
Central Payment Corp.....	59	Northeast Acquirers Association (NEAA).....	35
Century Payments/Reliable Payment Solutions.....	85	POS Portal Inc.....	28
CHARGE Anywhere.....	71	Reliant Processing Services.....	91
CoCard Marketing Group.....	15	Secure Net Payment Systems.....	24, 25
Credomatic.....	12	Secure Payment Systems.....	31
CrossCheck Inc.....	65	Security Card Services.....	47
Cynergy Data.....	69	Spectra Payments.....	87
Electronic Merchant Systems.....	75	Stream Cash LLC.....	38
Electronic Payments.....	95	Super G Funding LLC.....	20
Empower Processing.....	10	The Phoenix Group.....	41, 43, 45
eProcessing Network LLC.....	58	TransFirst.....	19
Equity Commerce L.P.....	44	TriSource Solutions LLC.....	68
EVO Merchant Services.....	27	United Bank Card.....	39, 54, 55
First American Payment Systems.....	9	UP Solution.....	17
GBR Funding LLC.....	64	USA ePay.....	72
General Credit Forms.....	63	Velocity Funding LLC.....	52
Graphite Payments.....	50		
Hypercom Corp.....	96		
iMax Bancard.....	60, 61		
iPayment Inc.....	23		
JR's POS Depot.....	67		
Ladco Global Leasing Solutions.....	18		
MaxAdvance.....	46		
Merchant Cash and Capital.....	73		
Merchant Services Inc.....	93		
Merchant Warehouse.....	13		
Merchants Capital Access.....	30		
Meritus Payment Solutions.....	21		

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- Residuals on time by the 20th of every month
- Zero hold times for support
- Aggressive splits up to 80%
- Weekly training webinars
- Zero transaction fees



**GET ON THE ROAD TO SUCCESS WITH ALPHA CARD SERVICES.**

Call 1.866.253.2227 ext. 252 or visit [www.alphacardservices.com](http://www.alphacardservices.com) Today!

# CHARGE CARD SYSTEMS WILL HELP BUILD YOUR NEST EGG

**CCS Gives You The Tools & Resources to Grow Your Residual Income  
Start Building Your Future Today**



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

*See Reverse Side for Complete CCS Program Benefits*

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

## Top 5 Questions to Ask Your ISO

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

## Charge Card Systems Offers All Of The Above And More

### CHARGE CARD SYSTEMS' COMPLETE PROGRAM BENEFITS:

- **Up to 70% Residual**
- **Activation & Conversion Bonus** up to \$750
- **Low Transaction Fee** on all Retail, MOTO & Internet Processing; Dial-up & IP
- **12-Hour Funding** on All Card Types
- **Canadian Merchant** Processing
- **Retirement Program**
- **Access to Multiple Platforms** including First Data Omaha, Nashville, North, Buypass; PNS, Vital & Global
- **High Risk Merchant** Processing Options
- **Online Applications** (Coming Soon)
- **Mobile Processing** & QuickBooks Integration
- **Niche Marketing** Divisions
- **Residual Purchase Program**

## THIS IS YOUR GOLDEN OPPORTUNITY FOR FINANCIAL SUCCESS!



For more information on how to partner with CCS, contact Adam Moss at **888.505.2273 ext. 207**, Jeffrey Shavitz at **888.505.2273 ext. 205** or visit [chargecardsystems.com/gsadvisoryboard](http://chargecardsystems.com/gsadvisoryboard)

[www.chargecardsystems.com](http://www.chargecardsystems.com)

# CHANGE FOR THE BETTER.



We've changed our cost structure to give you **8x Upfront Bonuses** and **3.5¢ (dial-up)** and **2.5¢ (IP)** pricing.

Get the most profit from every deal — **3.5¢ (dial-up)**  
and **2.5¢ (IP)** pricing **AND** the power to choose:

**8x** Upfront Bonuses  
**50-65%** Residuals  
**Free** Terminal Placement

OR

**70%** Split for the  
Highest Commissions

#### DO IT ALL, WITH TOTAL MERCHANT SERVICES.

Need a free terminal to close a deal? You've got one with 8x upfront bonuses, up to \$750 per merchant.

If you simply want the highest commissions possible, choose our 70% revenue sharing program.

Both options have the **best cost structure** in the marketplace — only **3.5¢ (dial-up)** and **2.5¢ (IP)**.

#### NOW IS THE TIME.

Start processing all your accounts with us today!

Call **1-888-84-TOTAL, ext 9727**

Or get the full program details at [www.upfrontandresiduals.com](http://www.upfrontandresiduals.com)

