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February 14, 2011 • Issue 11:02:01

Securing a place for EMV in the USA

By Patti Murphy

The Takoma Group

Americans take great pride in being leaders. But there is at least one area in which Americans shouldn't be eager to claim leadership: vulnerability to payment card fraud. So, why is the United States so slow to implement chip and PIN technologies to protect against card fraud? It depends on who's asking and who's answering the question.

Bankers tend to blame merchants, whom they see as unwilling to pony up the cost of terminals that are compliant with Europay/MasterCard/Visa (EMV) – the international standard for chip and PIN technologies. Merchants complain about the dearth of card issuers committed to EMV. "Retailers aren't going to spend money on new equipment unless and until issuers start issuing the cards," said OB Rawls IV, Senior Vice President of Sales at TASQ Technology Inc.

Today only one of an estimated 17,000 card-issuing financial institutions in the United States is issuing EMV-compliant payment cards: the United Nations Federal Credit Union. Merrill Halpern, Card Services Manager at the \$3.1 billion credit union, said UNFCU migrated its 90,000 members to chip cards in part because of complaints from individuals whose mag stripe cards were rejected overseas, especially in offline situations such as unattended kiosks and taxis.

The problem is not unique to UNFCU members. Aite Group LLC estimated that in 2008 alone, 9.7 million U.S. cardholders' mag stripe cards were rejected at overseas locations, at an estimated cost to the card industry of \$3.9 billion in transactions and \$447 million in related revenues.

Mercator Advisory Group calculated it would cost U.S. card issuers between \$2.4 billion and \$2.8 billion to replace all mag stripe cards in circulation with chip cards (also called smart cards) and that merchants would pay about \$10 per terminal for EMV functionality. (Other experts interviewed for this story put the cost per terminal at between \$30 and \$50.)

Steve Mott, Chief Executive Officer of the consultancy BetterBuyDesign.com, believes banks that aren't planning to roll out chip cards are shortsighted. Recent legislation slashing lucrative revenue streams (debit card interchange and checking account overdraft fees) makes it imperative that banks create new money-making opportunities. "Why not pony up 2 to 3 billion [dollars] now and help bring the U.S. [card payment system] into the 21st century?" he said.

Oliver Manahan, a Vice President at MasterCard Canada Inc., expects the tide to turn toward EMV in the United States this year. "In 2011, I think there will be U.S. financial institutions issuing chip cards, especially to customers who travel to Europe frequently," he said during a presentation at the Northeast Acquirers Association's Winter Seminar in January. "And we believe the first two or three



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- » Stuart Taylor—Hypercom Corp.
- » Scott Wagner—GO DIRECT Merchant Services Inc.
- » Dan D. Wolfe—Teledraft Inc.

Notable Quote

The biggest game changer for 2011 will be debit card interchange regulation. It will mean increased profits on existing portfolios for many ISOs, and it will create opportunities and pressures in the competition for new accounts.

See story on page 28



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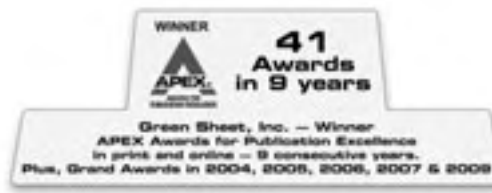
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Forum

An upbeat message

There's been a lot of doom and gloom going on here and around the world, which can easily dampen our zeal as we enter a brand new year. However, we do have a lot to be thankful for, and no one can say it better than Mr. Paul Green, President and CEO of The Green Sheet Inc. He wrote:

"At this time of year, the holiday gatherings are coming to an end, wrapping paper is in the recycle bin, retailers have marked down leftover 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."

Here is the rest of the article:
www.greensheet.com/emagazine.php?story_id=2244.

Thank you, Mr. Green; I really needed that!

SLICK STREETMAN
 GS Online MLS Forum member

Slick,

It is gratifying to know that you were uplifted by "It's a fine life, isn't it," by Paul H. Green, The Green Sheet, Dec. 27, 2010, issue 10:12:02. Thank you for taking the time to write about it.

Editor

The state of leasing

I'm working on a project and would like to know if you have a list of top terminal leasing companies. I'd like to know their ranking and what each company's volume is.

Dina Wray
 Student

Dina,

We don't maintain a ranking of leasing companies, nor do we know what their leasing volumes are. Our Resource Guide and display ads contain contact information for leasing companies that advertise with us. If you get in touch with them, they may be willing to share some information about their businesses to help with your project.

Editor

Debit and credit processing

I'm new to the industry and want to understand the different ways credit and debit cards are processed. Can you point me to some good information about this?

Tom Galleon
 Superior Service Payment Co. Inc.

Tom,

We have a wealth of information about card processing in our archives. You might enjoy "The convergence of traditional and alternative payments," The Green Sheet, Jan. 10, 2011, issue 11:01:01. Our quarterly GSQ might be of use, as well. Begin with The interchange road map, Vol. 9, No. 1, March 2006, and In search of knowledge: The new basics, Vol. 11, No. 3, September 2008.

Also, we are researching an article for the Feb. 28, 2011, issue of The Green Sheet that will address your very question, and more. So stay tuned.

Editor

Call us, write us

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



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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

Securing a place for EMV in the USA

Americans take great pride in being leaders. But there is at least one area in which Americans shouldn't be eager to claim leadership: vulnerability to payment card fraud. So, why is the United States so slow to implement chip and PIN technologies to protect against card fraud? It depends on who's asking and who's answering the question.

Feature

33

A phone card opportunity calls

The majority of merchant level salespeople are focused on selling traditional merchant processing services. Given the competitive marketplace, branching out makes sense, and one sphere with potential is prepaid cards. Perhaps it's time to learn how merchants use prepaid programs, the opportunities for profit and other features of this burgeoning business.

View

24

What does a processor do?

Misunderstanding abounds about what, exactly, processors in the payments industry do. This is true even among professionals who have been in the industry for a while. In an effort to clear up confusion, this article defines the two types of processors, explains what their functions are and discusses what it takes to establish a processing business.

Feature

42

The power of selling at the top

Two recently published books tout the need to target sales efforts to top-level executives in today's challenging economic climate. Top executives have always been a highly productive starting point for sales efforts, given that they usually make the final decision on purchases of big-ticket items. Do you have what it takes to gain their respect?

Feature

28

Game changers for 2011 - Part 1

In the payments industry, one thing is certain: if you don't like the way things are, wait five minutes; everything will change. So we asked our advisory board what the biggest game changers will be in the coming year, how they'll affect the industry and how the feet on the street can keep ahead of the curve. This is the first of a two-part series presenting their answers.

News

44

PCI seeks ISO nominations for advisory board

The PCI Security Standards Council is now accepting nominations for election to its board of advisors, and ISOs are encouraged to participate. The council believes it is critical that the board, which helps shape and direct the Payment Card Industry (PCI) Data Security Standard (DSS) and its complementary standards, reflect the diversity of the global payments system.

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- Shawn Dillon, Director of Sales



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News

44

A new wave of mobility

A recent flurry of mobile payment rollouts signals a potential sea change in how payments are processed, with both traditional merchants and business sectors not previously embraced by the payments industry clearly within the mobile scope. Are you hungry for a piece of the tempting mobile pie?

Education

58

Street SmartsSM: Gaining wisdom from mistakes

Given that we all learn more from our mistakes than from our successes, it's beneficial to reflect on our past business (or personal) failures and, more importantly, what we learned from them. In this article, members of GS Online's MLS Forum share lessons they derived from some painful business blunders.

News

47

Cyber security concerns

POS system integrators – companies that install and maintain POS systems – may be creating vulnerabilities that can be exploited by cyber criminals, according to Trustwave's 2011 Global Security Report. The report is based on 200 case investigations, penetration testing and other security research conducted by Trustwave's SpiderLabs during 2010.

Education

62

Approaching Asia

Sales professionals looking to go global would be hard pressed to find a better starting point than the Asian marketplace. Commonly referred to as APAC, the Asian market encompasses more than 50 countries. What makes this region so attractive? For starters, it is home to more than 2 billion people and, according to recent studies, 700 million of them use the Internet.

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Education

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Leads, leads, leads - Part 1: Lead generation

Sales leads play a crucial role in every payments industry business. Without leads, you can't make sales, and without revenue, your business can't thrive. Sales leads truly are your company's lifeblood. When it comes to marketing for sales leads, there's a lot you should consider – from generating inquiries that result in qualified leads to tracking them through the sales process.

Education

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The risks of riding the gravy train

Is your income heavily dependent on one or two large merchants – the gravy accounts? What would happen if they went out of business or moved their processing to a competitor? Would you have to scramble to stay afloat? Execute a plan to land more meat and potatoes accounts, and you'll enjoy a more stable business and a more profitable portfolio.

Education

66

PCI vendor selection

As PCI compliance becomes a normal part of doing business, security solutions are emerging from obscurity to become business and legal necessities. For payment professionals, this means being exposed to a strange new world of techno-babble and a crowd of security vendors all competing for your attention. Here are several pointers to help with security vendor selection.

Inspiration

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Thriving in a multicultural environment

In our always-on, globally connected world we find ourselves doing business not only with people who have settled in our great land from all over the world, but also, increasingly, with diverse individuals doing business with us from their native lands. This presents great opportunity for those of us willing to explore cultures and religions that differ from our own.

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IndustryUpdate

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NEWS

FBI issues malware threat warning

The Internet Crime Complaint Center (IC3) of the FBI issued a warning against a new malware threat targeting businesses that post job openings online. The cyber criminals reportedly respond to the ads via email. Recently, an unidentified U.S. business lost \$150,000 to theft via unauthorized wire transfer as a result of an email the business had received containing embedded malware. The malware allowed the criminal to obtain online banking credentials for the company and change the account settings to allow wire transfers.

The malware was identified as svrwc.exe and is connected to the ZeuS/Zbot Trojan. The FBI recommends that businesses use separate computer systems to conduct financial transactions. Any business that may have been the target of this type of attack should promptly report it to its financial institution, the FBI and IC3's website at www.ic3.gov. For more information, visit www.ic3.gov/media/2010/corporateaccounttakeover.pdf.

W.net, NACHA welcome new officers

Women Networking in Electronic Transactions (W.net) and **NACHA – The Electronic Payments Association** revealed the results of recent board elections.

W.net elected Kim Fitzsimmons as its 2011 National President. Fitzsimmons is Senior Vice President of Merchant Services at First Data Corp. Marla Knutson, President of TransFirst LLC, was chosen as President-Elect. Other officers include:

- Secretary, Lisa Shipley, Ingenico North America

- Treasurer, Patty Bengtson, TSYS Acquiring Solutions
- Immediate Past President, Joan Mitchell, Moneris Solutions Corp.

W.net directors for the year include:

- Gloria Colgan, Discover Financial Services
- Christine Lee, National Processing Co.
- Linda Rossetti, Bluestone Payments LLC
- Christine Scappa, Sage Payment Solutions
- Stacia Smith, Epson America Inc.
- Nikki Tsairis, MasterCard Worldwide

NACHA's board consists of 19 voting members representing depository financial institutions that use the ACH network. Elected to two-year terms were:

- Chairperson Pat Thelen, J.P. Morgan
- Vice Chairperson Chrystina M. Giorgio, Sandy Spring Bank
- Secretary/Treasurer Russell K. Oatman, First National Bank of Omaha

UMSI institutes free POS program

In January 2011, United Merchant Services Inc. began a free POS program for its ISOs and partners nationwide. The UMSI POS system features an Intel Atom Processor with a built-in touch screen and integrated payment processing through the company's proprietary payment platform.

In a statement about the program, Bryan Daughtery, UMSI Vice President of Sales and Marketing, said the program "is going to elevate our business partners to an entirely new level and assist in increasing the overall size of their merchant portfolio.

BOTTOM
LINES

HEADLINES
FROM THE
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- **IBISWorld Inc.** expects consumers to spend \$18.6 billion, or about \$125 per person, on Valentine's Day in 2011. This is 5.8 percent more than they spent on the holiday in 2010.
- Consumers began returning to high-end and super premium spirits products in 2010. Revenue in the super premium category grew 10.9 percent – from a very "soft" 2009, according to the **Distilled Spirits Council**.
- Sale of digital reading devices is apparently popularizing e-books. On **USA Today's** Best-Selling Books list, for sales ending Jan. 23, 2011, four of the five best sellers were e-books.

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Industry Update

"With our experienced sales and support team, and their many years of experience with POS systems, our partners will not have to go through hours of online webinars and certifications. Instead, they can focus on sales and let the experts here do the heavy lifting related to programming, installation, training and ongoing support."

Federal Court upholds BofA card patent on basis of a keychain hole

The Federal Circuit Court of Appeals reportedly upheld **Bank of America Corp.**'s patent on the design for a credit card in *Vanguard Identification Systems Inc. vs. Bank of America*. The patent, issued in 2002, had previously been rejected by an examiner for "obviousness." The U.S. Patent and Trademark Office's board of appeals then reversed the examiner's decision. On Jan. 24, 2011, the federal appeals court upheld the patent office's decision.

Patent attorney Christopher V. Carani, who specializes in design law, stated in a commentary supplied to *The Green Sheet* that the Circuit Court's decision is good news for those seeking design patents. Vanguard had argued that BofA's design was too similar to prior designs to deserve a patent. The patent appeals board cited BofA's inclusion of a hole for key chains as the

primary distinguishing feature deserving of a patent. The court's decision "can be interpreted as allowing functional features to serve as the basis for patentability," Carani stated.

ANNOUNCEMENTS

Allpoint expands in Mexico

Allpoint Network, an affiliate of Cardtronics Inc., added 2,500 ATMs at leading retail locations across Mexico. The dual-language ATMs provide surcharge-free access for U.S. tourists and business travelers.

DDS becomes Aperia Solutions

Data Delivery Services Inc. changed its name to **Aperia Solutions** "to better signify who we are," stated the company's Chief Executive Officer, Kevin Mokarow.

No change of ownership or management was involved. The new name supports the Aperia's development of additional product types and verticals.

ElectraCard enters American market

ElectraCard Services, a developer of software for electronic payment systems, opened operations in the Americas. The Omaha, Neb., operations are headed by Dale Van Stratten. ECS provides third-party card and automated clearing house (ACH) processing for the payments industry.

FeeFighters scores angel investor money

A website where merchants get competitive bids from card processors has obtained \$1.6 million in financing from venture capital firms. **FeeFighters** will put the money toward expanding its product line and marketing budget.

Ixaris to automate corporate purchasing

Ixaris recently launched the Opn Card Guardian application, which automates the corporate purchasing process through one-time-use virtual Visa Inc.-branded cards. According to Ixaris, developers and businesses can now integrate corporate purchasing into third-party procurement systems without having to partner with a financial institution or integrate with a card processor.

McKeever's implements WorldPay encryption

McKeever's Price Chopper, a Midwestern grocery chain, was the first merchant to implement encryption from **WorldPay US Inc.** (formerly RBS WorldPay).

The retailer plans to roll out end-to-end encryption to all its stores.


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Industry Update

Supermarket chain opts for Hypercom PIN pads

German supermarket chain REWE Group will buy 30,000 Artema Hybrid PIN Pad systems from Hypercom Corp. over the next few years. The systems replace existing PIN pads from another supplier.

The Merchant Store picks Dejavo terminals

The Merchant Store Inc. named POS equipment from Dejavo Systems its "terminal of choice." The terminals deploy a Linux operating system.

Chase Paymentech uses VeriFone encryption

Chase Paymentech Solutions LLC added VeriFone Inc.'s VeriShield Protect encryption service as a component of its newly launched Safetech Fraud and Security Solutions suite of services. VeriShield Protect encrypts cardholder data at the moment of acceptance.

Cynergy Data turns to Voltage email

Cynergy Data LLC chose Voltage Security Inc. to provide secure email services. SecureMail is designed to protect sensitive emails flowing between Cynergy and its customer base of 100,000 merchants.

Credit unions, FIs sign with Fifth Third

Fifth Third Processing Solutions LLC signed six new credit unions for comprehensive processing services. The institutions are the Quincy, North Coast, New Mexico Energy Federal, TrustUS Federal, Cutting Edge Federal and Citco Federal credit unions.

Three Southwestern financial institutions signing with Fifth Third are First New Mexico Bank, Valley Bank of Commerce in Roswell, N.M., and First State Bank of Mesquite, Texas.

PARTNERSHIPS

Sage deploys Beanstream technology

Beanstream Internet Commerce Inc., a subsidiary of LML Payment Systems Inc., provided the electronic payment processing technology behind a direct payment service for Sage Simply Accounting, a service of Sage North America.

Subscribers to Sage can directly debit customers using the Beanstream payment gateway.

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Industry Update

Global Payments signs Caesars, partners with Planet Payment

Global Payments Inc. will provide card-based cash advance services to some resorts in the **Caesars Entertainment Corp.** chain. The service is provided through Global's VIP LightSpeed platform.

In addition, Global Payments partnered with **Planet Payment Inc.** to provide multicurrency processing services to Global's U.S.-based ISOs and merchants.

The Global HomeCurrencyPay service is powered by Planet Payment. The service was already available in Asia.

Higher One joins Secure Vault network

Higher One Payments Inc., which provides payment services to academic institutions, joined the **Secure Vault Payments** network.

The network was developed by NACHA and eWise, a payments and online financial management solutions provider.

Ohio physicians association taps Heartland

The **Ohio State Medical Association** chose **Heartland Payment Systems Inc.** to provide its members with payments services and software created for health care practices. The association represents 20,000 physicians.

PAX implements Voltage encryption

Electronic payment system manufacturer **PAX Technology Inc.** implemented end-to-end-encryption from **Voltage Security** in a POS product. With Voltage SecureData, the system encrypts data at the POS.

Paysouth partners with Alliance

Paysouth Merchant Services LLC and **Alliance Companies** partnered to provide merchant services on behalf of credit unions. Alliance, an advisory firm in the payments industry, will work with Paysouth to deliver the services to credit unions.

Philanthropy site picks mPay

Daily deal site **Philanthroper** named **mPay Inc.** its exclusive payment processor.

The site showcases a different nonprofit organization every day, facilitating \$1 donations from individuals. MPay takes one cent from each \$1 transaction.

Philanthroper does not take a cut, according to the site. A recently featured nonprofit was Give an Hour, which arranges for mental health professionals to volunteer an hour per week to counsel U.S. troops returning from military service.

Gemalto chosen for NFC trial in Japan

Softbank Mobile Corp. picked **Gemalto** to provide a turnkey near field communication system for its mobile contactless payment trial in Japan. Two credit card issuers are participating in the trial, which deploys MasterCard's PayPass technology.

Credit union implements RDC from Bluepoint

SunState Federal Credit Union now uses a remote deposit capture system from **Bluepoint Solutions Inc.** The product suite automates all item processing for the credit union.

UATP taps SITA for payment platform

Payment network **Universal Air Travel Plan** selected **SITA** to provide next-generation authorization and settlement infrastructure for its payment system. The hosted platform incorporates Horizon Payment Services, a component of SITA's passenger management system.

Verifi integrates with Demandware

Verifi Inc., a developer of payment and risk-management software, joined the **Demandware LINK** e-commerce platform. Both companies provide hosted software, which will be integrated for retail clients.

Three credit unions sign with Vertifi for RDC

Vertifi Software LLC signed new credit unions to its **DeposZip** remote deposit capture service. The clients are **GTE Federal Credit Union**, **E & P Federal Credit Union** and **Ent Federal Credit Union**.

APPOINTMENTS

TMG hires Christensen, promotes several

The Members Group appointed **Konrad Christensen** as its Retail Payments Product Manager. He had been a product manager with Nationwide Insurance Co. TMG also promoted two marketing executives. **Tana Krumm** was named Senior Marketing Manager. **Sarah Barthole** was promoted to Marketing Communications Strategist.

Other promotions include **Janet Gottschalk**, Senior Revenue Accountant; **Corbin Rinard**, Senior Settlement Accountant; **Todd Tesar**, Operational Application Analyst IV; **Corey Weeklund**, Technology Infrastructure Network and Systems Lead; **Joey Yaukovitz**, Business Analyst IV; and **Andrea Lones**, Systems Analyst IV.

CSI hires DuPerrieu

Steve DuPerrieu joined payment processing technology provider **Computer Services Inc.** as Director of

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Industry Update

Product Marketing. DuPerrieu was previously Vice President of Sales at Financial Data Technology Corp.

Digital Check hires Jordan

Tom Jordan was hired by Digital Check Corp. for the position of Business Development Manager.

Previously, he was a sales manager at Fidelity National Information Services Inc. where he focused on large financial institutions.

First Data makes executive changes

First Data consolidated its regional operations under two executives. **Ed Labry**, President of First Data Retail and Alliance Services, was named President – North America. Labry has been with the company since 1985. He continues to report to CEO Jon Judge.

Simultaneously, First Data began a search for an executive to lead its business outside North America.

Executive Vice President **John Elkins** serves as interim leader of the Asia Pacific, Europe, Middle East and African regions. **Kevin Schultz** retired as Executive Vice President in the Financial Services division.

Nguyen joins CIC

Payment technology veteran **Nhan T. Nguyen**, PhD, joined Communication Intelligence Corp. as Chief Scientist and Chief Technology Officer. Nguyen is a former CTO at Pay By Touch and Gemstone Global Services.

Perry joins Capital Payments

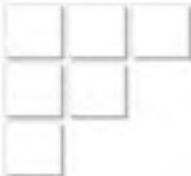
Capital Payments LLC appointed **John M. Perry** its CEO. Perry had previously been CEO of iPay Technologies and President and Chief Operating Officer of NOVA Information Systems Inc., among others.

Aite Group hires Polack

Howard Polack came on board at Aite Group LLC as a Senior Analyst covering the payments industry. Polack had been Product Manager at Springbok Services Inc.

Root joins Clearent


Clearent LLC hired **Kate Root** as Vice President of Business Development. She is charged with expanding the company's ISO partnerships nationwide. Previously, Root created the acquiring division and ISO program at Meridian Bank. She is also a veteran of Pay By Touch. ■



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What does a processor do?

By Brandes Elitch

CrossCheck Inc.

Recently, someone asked me, "What does a processor do?" Misunderstanding about this subject abounds, even among ISOs who have been in the payments industry for a while. I hope this article will clarify the role of processors in our realm.

Some time ago, I was involved in building an acquiring business for a small bank that ultimately became a top 25 acquirer. The chief executive officer had made a decision early on that the bank would be an acquirer, which was an adventurous decision at the time.

(This was before the card companies, which were organized as card associations at the time, decided they did not want small banks as principal members, either on the issuing or acquiring side, and forced them to use a service bureau or consolidator.)



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The lure of processing

In the course of my calling efforts, I visited with someone who later became an ISO for us, creating and then selling two of the most successful ISOs for upward of \$100 million (yes, really). I will never forget his reply when I commented about his business model: "Yes, but I want to be a processor; that's where the real money is."

I also remember the first time I saw the monthly statement from our processor. Coming from a large bank, cash management environment, I was familiar with how an account analysis works, since I had to explain it to large enterprise clients.

However, I was unprepared for our processor's statement. It was probably 50 pages of undecipherable, coded entries. Our CEO's most memorable comment at the time was that the good thing about our processor was that it treated all its "clients, big or small, equally badly."

What is it that is so mysterious about being a processor, and why, in an industry as large as the acquiring industry, are there only a handful of players? What are the implications for ISOs?

Two types of processors

First, there are two types of processors: front-end, and back-end. The front-end processor handles the capture, authorization and settlement with the acquiring banks; has connectivity to all the card companies; and routes transactions to the appropriate network for authorization.

When a merchant submits a batch of payments, it goes to the front-end processor, which routes it to the back-end processor.

A back-end processor accepts the settlement from the front-end processor and then moves the money from the issuing bank to the acquiring bank.

When it gets settlement batches, it groups them by bank identification number range and submits them to the issuing banks within a scheduled time frame.

Some companies are both front-end and back-end processors; some large acquiring banks can be processors too.

The front-end process works as follows:

1. The consumer either swipes a card at the POS or submits it online to a website.
2. The merchant requests authorization by sending a

file with the credit card information and purchase amount to the acquirer.

3. The acquirer sends the request to the issuing bank.
4. The issuing bank checks the status of the card and the amount open to buy; then it issues an approval or a decline.
5. The acquirer sends the authorization code to the merchant, and the consumer signs a receipt (real or virtual).

Settlement is a subsequent process consisting of the following five steps:

1. The merchant sends a request for settlement to the acquirer (also known as the merchant bank processor).
2. The acquirer submits the request to the credit card network for processing, clearing, and settlement, and routes this to the issuing bank.
3. The issuer declines or approves the transaction and passes it back to the credit card network, which gives the results to the acquirer and posts the debit to the consumer's account.
4. The issuing bank sends the funds to the credit card network, which passes the funds to the acquirer (usually minus some fees). Typically, the transaction funds are deposited into the merchant's settlement account within two to four business days.
5. At a predetermined statement date, the issuing bank sends a statement to the consumer.

The role of gateways

A payment gateway may be in the loop, too. This is typically the case for web-based transactions. A processor cannot always connect to every payment application a merchant wants to use.

But a gateway might do that, interfacing to different POS systems, Internet providers, and other types of input besides traditional POS devices such as call centers and MO/TO and mobile devices.

The gateway is the front-end connection to the card companies, but gateways can do more than bridge transactions. For example, they can provide detailed, customized reporting; fraud control; reconciliation tools; customer support; scalability; and compliance.

Authorize.Net (owned by Visa Inc. subsidiary CyberSource Corp.) explained the role of gateways in its marketing materials as follows: "Connecting a website to the payment processing networks is exceptionally difficult and

typically beyond the expertise and technical resources of most online merchants. Instead, merchants can connect to the gateway, which provides the complex infrastructure and security necessary to ensure fast, reliable and secure transmission of transaction data, using the Internet instead of a telephone line."

Obviously, we are transitioning to an environment where consumers will increasingly pay with cell phones or online via the Internet (another card-not-present scenario). This is where processors can differ dramatically from a pricing standpoint. When the card brands increase their fees (historically in April and October), some processors take advantage of this to raise their fees, too.

An array of fees

Processor fees can include security, membership, access and compliance fees. I have a list of 28 fees you might find in a processor statement (contact me if you want to see it). Sometimes a statement will not show these fees until the month after a given transaction occurred.

Robert O. Carr, CEO of Heartland Payment Systems Inc., mentioned several other questionable processor practices:

- Charging inflated rates for lower-cost transactions

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View

- Listing "total card fees" that don't represent the real statement total
- Quoting low, introductory rates that most transactions will not qualify for
- Assessing "bill-backs" and surcharges without any justification
- Randomly charging miscellaneous fees, such as "authorization" and "batch-out" fees
- Charging inappropriately for using the Address Verification Service

Since most merchants never read their statements (a bold proclamation, but I stand behind it), they never see these charges, nor do they understand the true cost of what they are buying. I have asked hundreds of merchants what they are paying for credit card processing, and the answer is invariably a figure like 1.5 percent. It's just like when I buy a used motor from the wrecking yard: I ask how many miles it has, and the answer is always, "Eighty thousand." You can bet on it.

Financial and security barriers

One of the most important things a processor can provide is data security. A lot of data flows through a large enterprise, particularly one with multiple consumer touch points. Everyone talks about end-to-end encryption, but some of what occurs is just point-to-point encryption. True end-to-end encryption starts when the card is swiped and continues through the terminal, the wires and the host processing network until the processor hands it off to the card networks.

Until recently, the card brands didn't want to receive encrypted files, but they are now able to handle them. Encryption also applies when loading applications into terminals. Up to now you could usually add any application you wanted, but inherent weaknesses in the process tend to be in the software and can only be remedied by using the right hardware, such as tamper resistant security modules or hardware security modules. This is something to discuss with your processor.

Fewer than a dozen processors handle almost all of the credit card transactions in the United States. Starting a processor takes years, not months, and the programming and data processing requirements are well beyond the range of most ISOs.

Another consideration: significant capital is required to convince the issuing and acquiring banks and the card companies that you can be responsible not only for delivering files timely and accurately, but also securely. The cost of not doing so can be in the tens of millions of dollars.

The ISO alternative

At this point, the barriers to entering the processing field are formidable. My advice is to focus on building a better ISO instead, and educate yourself on the distinctions among the existing processors.

We are about to see some of the biggest changes to the payments system in recent years. Each processor will respond differently and, as an ISO, you will need to know the details – for the sake of your merchants and for yourself, too. ☑

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



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ADVISORY BOARD

Game changers for 2011 - Part 1

In the payments industry, one thing is certain: if you don't like the way things are, wait five minutes; everything will change. Whether influenced by global economies, legislation or advancing technologies, a sea change always seems to be taking place in our beloved industry.

To gain insight into industry changes most likely to influence the coming year, we asked our advisory board: What do you see as some of the biggest game changers for 2011? How do you see them affecting the industry? How can merchant level salespeople (MLSs) work these factors into their game plans and keep ahead of the curve?

This article contains the first portion of their responses. The remainder will be published in *The Green Sheet*, Feb. 28, 2011, issue 11:02:02. Many thanks to all who contributed to this dialogue.

Clint Baller

Avid Payment Solutions

The biggest game changer for 2011 will be debit card interchange regulation. It will mean increased profits on existing portfolios for many ISOs, and it will create opportunities and pressures in the competition for new accounts.

It will also further level the playing field between signature and PIN debit, and may spell the end to PIN debit entirely as the benefit to merchants of accepting PIN over signature debit diminishes. PIN pads will gather more dust. PIN debit networks will be challenged to keep their payment option viable.

The long trend of increasing share for all kinds of debit may level off, or even drop, as banks naturally pull back, issue fewer cards and find ways to fill the revenue gap created by the government.

Steve Eazell

Secure Payment Systems

I think you are going to see a lot of movement in the area of mobile payments. Numerous companies have released or are getting ready to release a product for smart phones that will give us all an idea of how

consumers will respond to using phones as payment devices.

I don't believe we will see huge changes in that arena, but I do believe we'll get a good idea how this particular market is going to play out. There is huge potential in this arena, but how quickly the consumers respond to the process will dictate how quickly this paradigm shift will take place.

Mobile payments have inherent issues that could stall the overall speed of success or cause it to screech to a grinding halt. I believe, however, the issues will be resolved and mobile will eventually be a very successful business model.

I believe that, as an ISO or MLS, you must be aware of the marketplace and its movements ongoing. You must constantly be thinking of creative ways to generate revenue. Credit card processing has become a commodity. The only ones truly generating any real money are those that are constantly tuned in to the ever changing landscape of this business and tweaking their own business models from time to time.

The more creative and open you are to what is out there, combined with your ear tuned to the merchants' wants and needs, will dictate how successful you will be this year.

Matt Golis

Rentpayment.com

One of the largest game changers in the payments industry is regulated debit card interchange. For the first time, merchants know (from the media coverage) exactly what the "pass-through" cost for debit cards is (taking away the percentage-based cost perception similar to credit-based products). This will really impact the ISOs and processors that use a "cost-plus" pricing model where the merchant will demand pricing very close to the regulated fee.

ISOs that serve large merchants will need to innovate with value-added services (or technology) to remain relevant regarding debit-based products. There will inevitably be consolidation in this industry, as the issuers will try to market credit-based cards over debit cards.

Each MLS should analyze how debit card regulation impacts his or her portfolio (at the merchant level) to best gauge the impact to the residual stream. Introducing new technology (specific to a vertical market or geography) is one of the most important ways to stay relevant and to contain attrition (or at least pricing pressure) due to the debit card legislation.

Curt Hensley

Impact Payments Recruiting

Two big game changers that I see affecting the industry for 2011 are the possible effects of government regula-



tion of our industry and the emergence of mobile payments.

Government regulation swings into full gear this summer with both the Durbin Amendment taking effect in July and the new Consumer Financial Protection Agency (CFPA) being formed to regulate financial products. It will be important for MLSs to work with ISOs and processors that pay close attention to how government mandates will affect their sales processes.

It's important for MLSs to be able to intelligently speak about these government regulations if asked by merchant prospects or current clients. Reading industry publications and weekly email industry updates is a good way of arming yourself with this knowledge.

If you looked at the industry updates in *The Green Sheet* for most of 2010, it seemed like half of the partnerships being formed and half of the new products being unveiled had to do with mobile payments.

The volume of mobile payments in 2011 will still be a small percentage of the overall transactions done, but MLSs can get a leg up on their competition by showing their merchant prospects some of the new cutting-edge products available for mobile payments.

Even if a particular merchant has limited interest in mobile payment technology right now, the merchant will see it as a potential giant in the future of payments and therefore will be more inclined to sign with a merchant services provider who is up to speed with the latest technology.

Jared Isaacman

United Bank Card

United Bank Card has always been recognized for our innovative programs that have consistently taken the industry in new directions. Our free terminal program and free ECR program are prime examples of this.

We started off 2011 with an announcement that eclipses both of those initiatives in terms of the effect it will have on this industry: our free Harbortouch POS system program. This initiative is the definition of a "game changer" and will truly revolutionize the future of the ISO/MLS business model.

POS systems comparable to our free offering sell for tens of thousands of dollars due to the countless time- and money-saving features they offer.

Merchants benefit from streamlined operations, comprehensive reporting, inventory tracking, employee scheduling and much more. This truly unrivaled program gives our sales partners the ultimate advantage in the marketplace: why would a merchant opt for a standard

credit card terminal when he or she can receive a full-featured, touch-screen POS system for free?

We have created a comprehensive training program, Harbortouch University, to make it easier for ISOs and MLSs to take advantage of this game changer and differentiate themselves in the marketplace.

Allen P. Kopelman

Nationwide Payment Systems Inc.

The biggest game changers for 2011 are going to be how the card associations deal with the Durbin Amendment. At this point in time, it is still a big mess and in the long run will not save businesses or consumers money.

It will just pollute the already complex system of interchange categories. It will affect ISOs who are using tiered pricing. At first they will make extra profits, and then the merchants will be bombed with offers of special "debit" rates.

Another big game changer could be more terminal rental options for the MLS, as a few companies are rolling this out.

Yet another game changer is always Payment Card

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Feature



Industry (PCI) security standards compliance: how will PCI 2.0 affect the current systems in use, and how much will it cost a business to get PCI compliant. The last game changers are going to be more mobile applications, virtual POSs and other techie things that are going to start to gain traction.

As MLSs, you need to watch, wait and listen to see how the companies you do business with are going to react to different changes in PCI, Durbin, rates, fees, 1099 reporting fees, etc. Keep an eye on who you are partnering with now and in the future to make sure you are getting your merchants with the best company.

Some MLSs are unhappy right now if their ISOs charged merchants a new 1099 reporting fee, and they are losing clients or might lose clients due to this or other new fees that might be charged.

Alan Kleinman

Meritus Payment Solutions

Some of the biggest changers in 2011 are the Durbin Amendment, industry consolidation, and growth of alternative and mobile payments.

The Durbin Amendment means:

- Potentially, a dramatic decrease in debit fees that can create opportunities for merchants. MLSs can capitalize on merchants that pay bundled pricing for PIN debit. Some processors only price merchants at bundled rates, which creates an opportunity because the cost savings are dramatic.
- The ability for merchants to determine the debit network to use, which will allow educated MLSs to consult with merchants on profit-maximizing opportunities by selecting the best debit network at a given transaction level.
- The ability for merchants to surcharge customers will allow sales people to offer a payment solution to merchants that is cost neutral or potentially a profit source.

Several major buyouts in 2010, and potentially a few more in 2011, will lead to opportunities because of potential service and support issues that occur with consolidations. Many new buyers may impose changes that can impact incumbent MLSs.

Alternative and mobile payments open new markets and discussions with merchants on new technologies. 

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DICTIONARY

in·de·pend·ent

Pronunciation: _in-d_-pen-d_nt\

Function: *adjective*

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

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

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

Antonyms: dependent, subordinate, subservient

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NEWS

USPS to market test gift cards

The U.S. Postal Service intends to conduct a gift card pilot at 2,000 initial branch locations. The pilot will first test the sale of open-loop, network-branded cards, which may be followed with a closed-loop gift card pilot, according to the USPS. The pilot is scheduled to run from May 2011 to May 2013. The cobranded cards may feature stamp art and come in "fixed" denominations of \$25 and \$50, as well as "variable" amounts between \$26 and \$100, the USPS said.

NRF says retailers victorious on gift card tax issue

Craig Shearman, Vice President for Government Affairs at the National Retail Federation, reported in the NRF publication *Washington Retail Insight* that retailers won a victory when the Internal Revenue Service said merchants can defer tax payments on gift card income for up to a year, even if the cards are sold through subsidiaries or franchises.

According to Shearman, retailers and the IRS have been at odds in recent years over when gift card income must be reported to the IRS. The disputes revolve around subsidiaries merchants set up to handle gift card programs, Shearman said.

Gift cards gaining in Canada

Moneris Solutions, Canada's largest processor, reported in mid December 2010 that the market for gift cards in Canada continues to grow as small businesses recognize gift cards add profitability. Moneris calculated a 20 percent increase in 2010 in the number of gift card programs the processor operates for small businesses in Canada. When Canadian consumers redeem gift cards in stores, they typically spend 53 percent more than is on the cards, Moneris said. Additionally, Moneris found that consumer demand for the cards seemingly grew as their availability rose.

ANNOUNCEMENTS

ACE Cash Express donates \$25,000

ACE Cash Express Inc. donated \$25,000 to Junior

Achievement in support of its mission to educate and inspire young people to succeed in the global economy. The donation was made through the ACE Community Fund, ACE's corporate giving program that focuses on children, education and financial literacy.

CFSI supports tax refunds on GPR cards

The Center for Financial Services Innovation said it was pleased the U.S. Department of the Treasury launched a national pilot for tax refunds on general purpose reloadable prepaid cards. "The pilot is an excellent start to bringing low cost transaction and savings products to millions of tax filers," said Melissa Koide, the Policy Director at CFSI.

Green Dot to manage tax refund pilot

Green Dot Corp. was chosen by the Treasury Department as the program manager for a pilot program where federal tax refunds for unbanked individuals are loaded onto the Visa-branded MyAccountCard.

GO!card saved HHS \$1.4 million

J.P. Morgan, the treasury arm of JPMorgan Chase & Co., said the U.S. Department of Health and Human Services saved \$1.4 million in administrative costs since launching its GO!card program in March 2010. The GO!card (a "green option" commuter card managed by J.P. Morgan) is a Visa Inc.-branded prepaid card given to HHS employees for the purchase of mass transit fares.

PARTNERSHIPS

AccountNow, ezTaxReturn team for tax refunds

AccountNow Inc. inked a deal with tax preparation software company ezTaxReturn.com to load tax returns on AccountNow prepaid cards.

China gets new calling card tandem

Hotgate Technology Inc. subsidiary REDtone Telecommunications (Shanghai) Ltd. entered an agreement with China Unicom (Hong Kong) Ltd. to build a reload network in Shanghai for China Mobile Ltd.'s long-distance prepaid calling cards. Hotgate said China Mobile has approximately 579 million users, representing approximately 70 percent of total mobile phone users in China.

InsurCard, Visa to distribute insurance payments

Visa entered an agreement with Service Network Design LLC subsidiary InsurCard to deliver insurance claims on InsurCard Visa prepaid cards.

ACQUISITIONS

Cartera Commerce, Vesdia to merge

Merchant-funded rewards providers **Cartera Commerce** and **Vesdia Corp.** signed a definitive merger agreement. Terms of the transaction were not disclosed.

APPOINTMENTS

Chandnani promoted, Realini assumes new role

Obopay Inc. promoted **Deepak Chandnani** from President to Chief Executive Officer. Former CEO **Carol Realini** will assume the new role of Executive Chairman. Chandnani will be based in Mumbai, India, while Realini will work out of the company's Redwood City, Calif., headquarters.


Hunter appointed new CEO at Ukash

Global electronic money network provider Ukash tapped **David Hunter** as the company's new CEO. Ukash said Hunter has a track record of growing prepaid ventures and championing electronic money initiatives.

Plunkett named eCommLink's SVP of Sales

Las Vegas-based processor eCommLink Inc. added **Jim Plunkett** as Senior Vice President of Sales to focus on accounts in the retail, government and social networking verticals.

MoneyGram expands team

MoneyGram International appointed **Phyllis Skene-Stimac** as Senior Vice President and Chief Compliance Officer and also named **Patricia Sullivan** as Senior Vice President of Communications. 



Features

A phone card opportunity calls

By **Jeffrey Shavitz**

Charge Card Systems Inc.

The overwhelming majority of merchant level salespeople (MLSs) I speak with are focused on selling traditional merchant processing services. Given the competitive marketplace, it might be the right time to branch out.

We have heard of prepaid cards for years, but perhaps we do not fully understand the prepaid sphere's potential: how merchants use prepaid programs, the profitability opportunities and other features surrounding this growing business.

I'm going to focus on one prepaid service Charge Card Systems Inc. is starting to offer more frequently to our merchant base: a "mobile top-up."

Understanding the market

A prepaid ("pay-as-you-go") mobile phone works by adding credit in advance of service use. Users are able to "top-up," or reload, phone time using a variety of payment mechanisms. Are you starting to see an opportunity for MLSs?

Many people in the United States have chosen, due to numerous circumstances, to carry a prepaid cell phone with a set limit of minutes. The demographics for this customer base include teenagers whose parents want to control their children's cell phone use; people who cannot afford to buy a phone with a traditional monthly plan; people with poor credit who couldn't get service from main wireless carriers; and many individuals in ethnic groups who stay in touch with family and friends working and living abroad.

Whatever the reason, the prepaid phone business is here to stay and is growing exponentially. By 2003, the number of prepaid accounts exceeded contract accounts. By 2007, two-thirds of all mobile phone accounts worldwide were prepaid accounts.

Advantages of a prepaid plan may include lower cost for low usage (for example, phones kept on hand in case of emergencies) as well as the ability to control spending. Prepaid phones come with fewer contractual obligations – for example, no termination fees, freedom to change providers and fewer restrictions on contracts.

Depending on local laws and carrier guidelines, prepaid phones are available to those who do not have permanent addresses, landlines or credit cards. And for people worried about Big Brother, users of prepaid phones are anonymous.

Working together

Having spent the past few months learning about this space, I've discovered that MLSs haven't embraced the opportunities in the prepaid market and, conversely, sales reps for prepaid don't understand the opportunities that exist within the larger merchant services industry.

Charge Card Systems recently started working with some of its MLSs to beta test the benefits of offering prepaid top-up services to merchants. The response has been very positive, especially in neighborhoods where businesses already sell other types of prepaid products and services.

Selling Prepaid

Greg Keough, Chairman and Chief Executive Officer at mobile payment provider RegaloCard, stated that a big opportunity exists for salespeople from both industries to work together. "There is a credit card terminal, which is valuable real estate, sitting in the merchant's establishment that can handle numerous functions (credit/debit and prepaid), which ultimately will make that merchant relationship more 'sticky' and more profitable for that salesperson," he said. "Many credit card processors do not offer prepaid services, although they could do so easily and generate greater profit from their existing installed POS units."

If the retailer has an existing POS terminal, we can easily add this top-up feature to it, so that when the user provides his payment card to add \$50 worth of time,

the card is swiped and the balance is automatically added to the phone. The top-up can occur in many ways, with the most popular being payment with a credit or debit card.

The other way users add minutes is by purchasing a top-up or "refill card" at a retail establishment. The cards are stamped with a unique code (usually under a scratch-off panel) which must be entered into the phone to add credit to the existing balance. Minutes can also be added via open-loop prepaid cards featuring mobile refill services.

The benefits to MLSs of offering reload services through the POS and via prepaid top-up cards is that you can add incremental sales for very little additional work.

Like many of you, I am new to the prepaid game. But this market space may be synergistic to your selling efforts. Good luck, and if you have any questions, feel free to call me from your prepaid cell phone. ☺

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

Will gift cards no longer be sold in New Jersey?

Despite the ubiquity and popularity of the closed-loop gift card, a New Jersey law that targets the unclaimed property on stored-value cards has the potential to force New Jersey retailers to stop selling gift

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Selling Prepaid

cards altogether, according to experts on unclaimed property issues.

One mandate of the New Jersey State Assembly Bill NJ A3002 signed into law in June 2010 is that retailers collect names and addresses of gift card purchasers to establish the legal basis for New Jersey to seize more of the funds that lay dormant on gift cards and other stored-value instruments.

A November 2010 webinar hosted by Keane, a firm specializing in unclaimed property, estimated that New Jersey could collect between \$33 million to \$55 million annually in unused funds, given the present language in the law.

But lawsuits filed in New Jersey, one involving American Express Co. subsidiary and gift card issuer American Express Prepaid Card Management Corp., have halted the law's implementation. However, a U.S. district court judge in New Jersey recently denied the request by the AmEx subsidiary, and other entities, to stop the state from imposing new data collection provisions for its updated unclaimed property laws.

In an interview with *Selling Prepaid*, Laura Lane, Vice President at Keane, called the New Jersey law a "money grab." She said New Jersey once exempted stored-value cards from unclaimed property laws, and that the new law strips away that exemption. Additionally, she claimed that forcing New Jersey retailers to collect names and addresses of gift card buyers is an unrealistic burden.

"They're just not going to be able to track the information and obtain it," she said. "Think about every time you buy a gift card and having to stop and give all this information. It's not feasible."

Lane stated that if the law is not overturned, major retailers will stop selling gift cards in New Jersey.

Priorities

By any estimation, unclaimed property law is complicated. As outlined by David Hill, President of Card Compliant LLC, federal unclaimed property laws often conflict with state unclaimed property laws. Added to that are "all the nuances" associated with each type of unclaimed property, such as money left over on closed- and open-loop gift cards, Hill said. These nuances include both federal and state expiration date and fee restrictions, Lane added.

Card Compliant claims that, with all the federal and state rules and regulations taken together, there are potentially 5.7 million rule combinations for any single card.

The rules that govern unclaimed property originate from a U.S. Supreme Court decision that prioritizes the process of assigning ownership to unclaimed property. Lane said the first priority rule is that if the owner of the property cannot

By any estimation, unclaimed property law is complicated. As outlined by David Hill, President of Card Compliant LLC, federal unclaimed property laws often conflict with state unclaimed property laws.

be located, the property falls to the state of the owner's last known address.

The second priority rule is that if an address cannot be established, the property reverts to the state where the card issuer's business is incorporated, Lane said.

If requirements of the first two rules cannot be satisfied, the third and final priority rule comes into play. Hill called the third priority rule a "transaction rule," meaning that if the property is unused funds on a gift card, for example, then the state where the card was purchased becomes the beneficiary of the funds.

Complications

But the very nature of gift cards complicates the priority rule process for card issuers. Hill said 88 to 90 percent of all gift cards are "anonymous," because buyers are not required to provide personal information at the time of purchase, which makes establishing ownership based on the first priority rule difficult.

The second priority rule affects various issuers differently, depending in what state any given issuer is incorporated, since each state establishes what percentage of unclaimed property issuers must turn over, Hill said. It is not uncommon for businesses incorporated in one state to set up card issuing subsidiaries in other states to take advantage of more favorable escheat regulations, he added.

How New Jersey wants to implement the third priority rule is what gives issuers the greatest concern, Hill said. To establish where a particular gift card is purchased, issuers would have to register gift card purchasers at the POS, he explained, something that would be impractical, time consuming and expensive.

If New Jersey has its way, many of the large retailers that Card Compliant consults with will stop selling gift cards in the Garden State, according to Hill. "And that'll be to the detriment of the consumers and the residents of New Jersey," he said. 📍

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Company Profile



USA ePay

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 Phone: 866-872-3729
 Fax: 323-931-2231
 Website: www.usaepay.com

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A go-ahead, game-changing gateway

Since 1998, USA ePay has endeavored to provide a superior gateway to help merchants process electronic transactions with utmost speed and security. Brothers Alex and Ben Goretsky started the privately held GorCorp Inc. enterprise because they felt the gateway industry offered an ideal way to serve the evolving business needs of ISOs and merchant level salespeople (MLSs).

Having worked together previously at a merchant services provider, the two believed they could create a company that offered a comprehensive suite of products and services with price structures to suit the needs of multiple industries and a diversity of merchants – from mom-and-pop shops to the largest retailers.

Headquartered in Los Angeles, USA ePay now offers transaction processing solutions for e-commerce and MO/TO enterprises, traditional retailers that use Intuit Inc.'s QuickBooks computer software, and on-the-go merchants using smart phones to accept payments. The company's auxiliary office in Albany, N.Y., dedicated to development and Payment Card Industry (PCI) Data Security Standard (DSS) compliance, enables USA ePay to have an East Coast presence and backup facility.

Why use USA ePay?

According to USA ePay Chief Executive Officer Ben Goretsky, who was interviewed for this profile, the company's secure gateway has maximum flexibility. "We were one of the first gateways to be PCI certified and have one of the most advanced developer's API [application program interface] and language libraries in the industry," he said. "On a merchant level, one unique aspect about us is the wide range of solutions we have to offer such as the secure payments forms, fraud prevention system, customer database, recurring billing system and so much more.

"For developers we are unique in the sense that we have the largest available developer's library in the industry. Additionally, for resellers, ISOs and MSPs [merchant service providers], we are unique because of our different price structure and flexibility."

USA ePay reported that its gateway supports all major platforms in the bank-card industry and interfaces with leading check platforms. The company also works with many large merchant service banks in the United States and abroad, Goretsky noted.

Goretsky said USA ePay's user-friendly interface comes out of the box with the most robust reporting options and gateway features available. He added that USA ePay is one of the few gateways to offer extensive reporting capabilities with visual aids such as graphs and custom report generation at no extra cost. He emphasized that with his company's wide array of options, including a customer billing database, a complete fraud management system and advanced administrative capabilities, there are not many reasons to look elsewhere for third-party products to fill in any gaps.

Company Profile

Why not build your own?

"USA ePay is our premier gateway of choice," said Jim Bembenek, Product Manager for Newtek Business Services Inc.'s Electronic Payment Processing division.

"A good gateway allows a business to expand sales through both their website and through mobile technology, is secure and provides tools to help reduce fraud, and provides extensive support and documentation for integration. I can say that USA ePay definitely has all of these areas covered. I highly recommend them. For over eight years, USA ePay has been, and continues to be, the ideal gateway solution for a majority of our clients."

Goretsky pointed out that companies are realizing traditional solutions don't offer the services that online capabilities provide, and those companies are trying to build their own gateways. He believes the advantage of using USA ePay is that his company has been creating gateways for a long time, and it is on the cutting edge when it comes to creating gateways for new technologies.

USA ePay can white label solutions for ISOs and MLSs by creating a private-label replica of a USA ePay gateway. "This way they don't have to worry about PCI compliance," Goretsky said. "We constantly take care of the

upgrades and certifications on the back-end, as well as continually upgrading our fraud center and fraud center modules."

What do merchants get?

The Merchant Console Virtual Terminal is the primary tool every USA ePay merchant receives. The console can be thought of as a credit card terminal that runs online. It has all the functions of a terminal with added tools, versatility and customization, Goretsky noted. And by using the company's Secure ePayment forms, merchants can create an unlimited number of forms for their websites; each form is automatically secure and follows PCI DSS compliance requirements, he added.

The USA ePay customer-billing database enables merchants to store their customers' billing data on the USA ePay gateway. "It's safe and secure," Goretsky said. He explained that merchants can edit, delete or set up charges for customers with an easy-to-use interface or through the API. USA ePay also provides its gateway users with access to the Modular Stack Fraud Center. Goretsky said that with the proper settings in place, a merchant can prevent 99.9 percent of fraud.

For merchants who need a full-featured POS system, USA ePay designed ePay Charge to offer all the functionality of a POS system without the cost. It was built to work on any operating system, to be simple to download and easy to use, Goretsky said.

"USA ePay is our number one gateway," said Ken Musante, President of Eureka Payments LLC. "The recurring billing module is easy to use, and merchants love it. Combine that with the gateway's cost effectiveness for larger merchants, and it's an easy sell; we can offer a terrific service at an attractive price."

How do ISOs and MLSs benefit?

Working with diverse software applications, merchant accounts, and wired and wireless networks isn't always easy. That's why USA ePay partnered with Fi-Soft LLC to provide a QuickBooks accounting system that integrates with a merchant's business processes and programs. USA ePay believes ISOs and MLSs can help merchants dramatically improve the professionalism, effectiveness and profitability of their businesses with this tool.

In addition, the USA ePay gateway is one of the few gateways to support "swiped" transactions over an Internet protocol connection, which allows merchants to dispense with dial-up transaction processing.

Another service the company offers is USA eCheck. Goretsky said this delivers benefits ISOs and MLSs can emphasize: a streamlined check acceptance process; elimination of returned checks, returned check fees and trips to the bank; reduced paperwork; and improved cash flow

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USA ePay's gateway also enables merchants to accept payments in a range of currencies. The Goretzkys found that providing customers with a method to pay in their own currencies increases sales for both e-commerce and brick-and-mortar retailers; international customers feel more comfortable paying in their homeland currency, and merchants attract more business when they offer this functionality.

What about wireless?

USA ePay's Wireless ePay allows merchants to use their smart phone and wireless service provider of choice to process transactions, including swiped card payments, on the go. Compatible devices include Apple Inc.'s iPhone and iPod Touch, Research in Motion's BlackBerry and Google Inc.'s Android phones.

With over 25 million iPhone and iPod Touch devices being used in the United States alone, the Goretzky brothers felt it made sense to participate fully in the Apple market.

Thus, USA ePay now offers the new iPhone 4 PaySaber, an all-in-one POS device developed and certified with Apple to provide "the very best in quality for processing through an iPhone or iPod Touch," Goretzky noted.

According to the company, the PaySaber is the only device in the market that has a built-in thermal receipt printer and bar code scanner, allowing the device to perform as a full POS register in retail and wireless environments.

In discussing PaySaber, Ken Musante said, "[T]he proprietary wireless product is cost effective, and we love the unique features, including the all-in-one printer, bar scanning and inventory control."

What's next?

Goretzky emphasized that customer support and data security are USA ePay's top priorities and that the company strives "to be the most feature-rich gateway in the industry." He said the company does that "by listening to our merchants and resellers and building the solutions they want while providing them with the best in customer support."

USA ePay continually works to bolster security while adding new features to its offerings.

To that end, it recently released a new version of ePay Charge that facilitates updates to retail inventory and order control systems. And Goretzky promises more advances soon. So stay tuned (or connected). ☑

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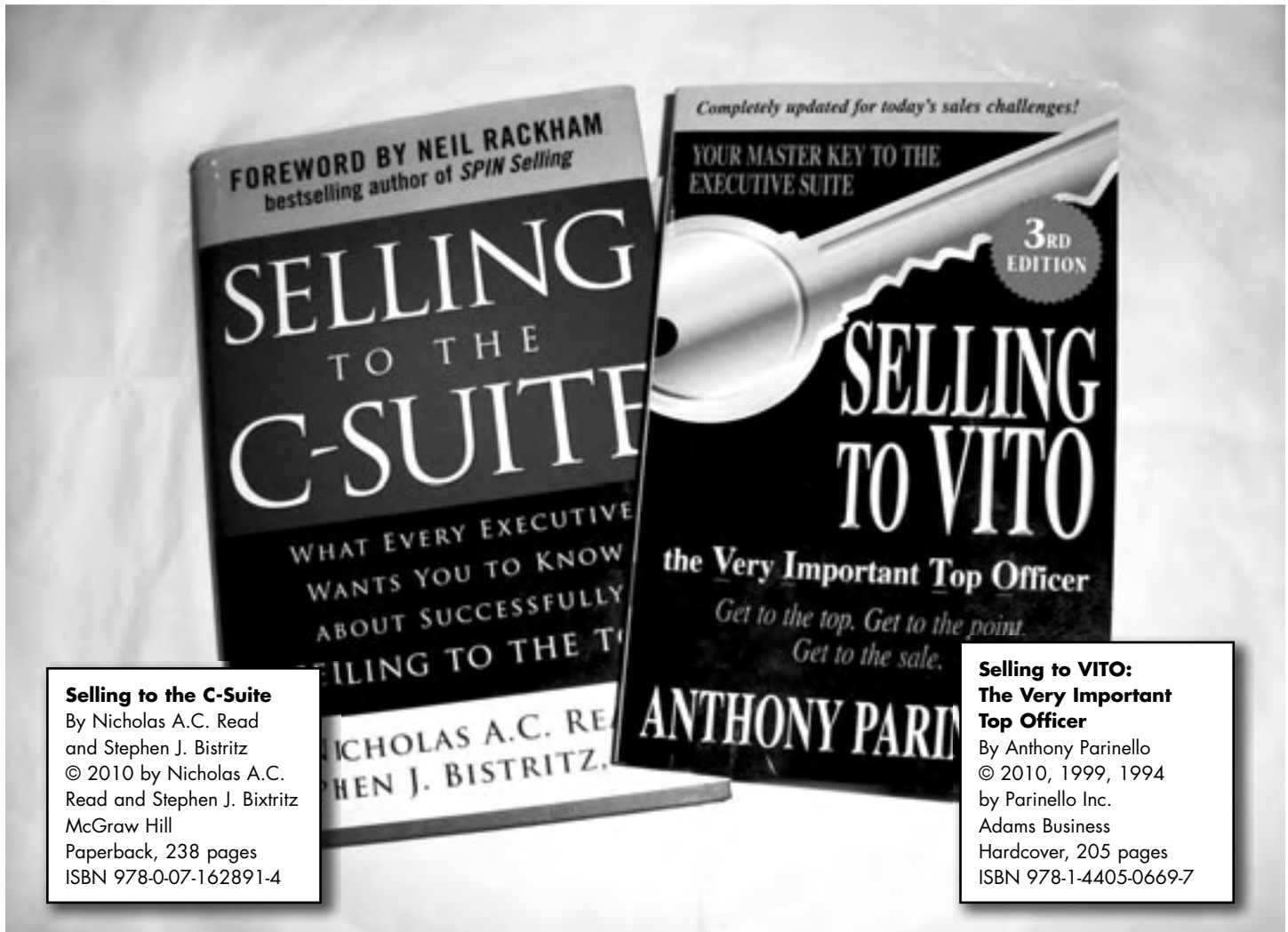


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BookReview

The power of selling at the top



Selling to the C-Suite

By Nicholas A.C. Read
and Stephen J. Bistriz
© 2010 by Nicholas A.C.
Read and Stephen J. Bistriz
McGraw Hill
Paperback, 238 pages
ISBN 978-0-07-162891-4

Selling to VITO: The Very Important Top Officer

By Anthony Parinello
© 2010, 1999, 1994
by Parinello Inc.
Adams Business
Hardcover, 205 pages
ISBN 978-1-4405-0669-7

Two recently published books, *Selling to the C-Suite* by Nicholas A.C. Read and Stephen J. Bistriz, and *Selling to VITO: The Very Important Top Officer* by Anthony Parinello, tout the need to target sales efforts to top-level executives in today's challenging economic climate.

As Neil Rackham (author of *SPIN Selling*) wrote in the foreword for *Selling to the C-Suite*: "The new role of the CEO is to create value at the organization's boundaries, to radically change relationships with suppliers, customers and alliance partners. This creates significant opportunities for the few salespeople who can relate at an enterprise level with their customers."

Both books detail ways in which to establish relationships

with chief executive officers and other top (C-level) executives, as demanding and time-challenged leaders whose companies' futures ride on their judgment and actions.

C-level executives have perhaps always been the most productive starting point for sales efforts, given that it's usually an executive making the final decision on purchase of a big-ticket item.

As Parinello pointed out in *Selling to VITO*, "VITO always has the veto power on whether or not stuff actually gets bought or gets kicked out the door."

Selling to VITO, as the title suggests, advocates selling the CEO of a company on a product or service first so that the CEO becomes an early ally.

Much of Parinello's advice could be applied to approaching any high-ranking executive.

Know your target

Selling to the C-Suite covers selling to the "most relevant executive," who may not be the CEO.

"It can cost you the deal if the guy at the top isn't the relevant executive," the author wrote. "The relevant executive is the one who most feels the pain, most owns the problem you can solve, and will most richly reward you for providing a solution."

The books recommend conducting plenty of research before making the initial sales call. *Selling to the C-Suite* quoted one sales professional as saying, "So when my competitors meet the same executive and ask, 'What are your top three business objectives?' I can be in there saying, 'I understand your top three business objectives are X, Y and Z; which one is most important to you and why?'"

Given CEOs' focus on real-world business issues, the sales pitch should highlight measurable, attention-grabbing outcomes, according to *Selling to VITO*. Parinello boiled down CEOs' top priorities to increasing revenue, increasing efficiencies and effectiveness, cutting or containing costs, and staying in compliance with governmental regulations.

But how do you get your "foot in the door"? Results of a survey among C-level executives conducted for *Selling to the C-Suite* revealed the following as the most effective ways to gain access (in order of importance): a recommendation by someone from within the company; a referral from someone outside the company; a letter or email, followed by a telephone call; a cold call by telephone; and a contact at an off-site event.

Parinello depicts an assertive, detailed process for getting a CEO's attention, down to the level of language to be used in letters, emails and phone calls and the order in which these types of contact should occur. Every form of communication must immediately acknowledge the CEO's primary business objectives, express solutions in clear terminology and respect the CEO's time constraints, according to Parinello.

Advise with confidence

Parinello also describes at length the typical characteristics of a CEO, including a tendency to be direct, driven and dynamic. He suggests that, to sell to a "VITO," a salesperson must possess the same attributes so he or she can demonstrate what he termed equal business stature.

After providing an extensive list of VITO characteristics, Parinello asks readers to evaluate how many of the characteristics they can claim: "If your answer was two or fewer, give this book to someone else. Not only should

you not be selling to VITO, you probably should not be in sales."

Both books recommend a "consultative" style for building and maintaining relationships with executives.

Read and Bistriz, in *Selling to the C-Suite*, assert that what "the executive is looking for is a Trusted Advisor relationship with salespeople who can speak on the executive's terms, discuss the same metrics and add value to the thought process."

Despite the similarity of theme, the tone of each book differs. Read and Bistriz drew upon "a combined 60 years of experience selling on corporate front lines around the world," but also "commissioned groundbreaking research" to support their concepts.

Parinello's strategies for *Selling to VITO* are based on his experiences of selling to CEOs of small, mid-market and "mega F-100 global enterprises," as well as "teaching and mentoring of more than 2.5 million salespeople." His style is anecdotal and conversational.

Taken individually, or collectively, the books offer insights to salespeople confident enough to engage with key decision makers. ☑

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PCI seeks ISO nominations for advisory board

The PCI Security Standards Council (PCI SSC) is now accepting nominations for election to its board of advisors, and ISOs are encouraged to participate. Bob Russo, General Manager of the PCI SSC, said it is critical that the board of advisors, which helps shape and direct the overarching Payment Card Industry (PCI) Data Security Standard (DSS) and its two complementary standards, reflect the diversity of the global payments system.

"We rely really heavily on this board of advisors to give us industry input," Russo said. "The more cross-industry and global involvement in the process, the wider the perspectives are to the input that's reflected in [the standard]."

The board consists of 21 advisors drawn from the council's pool of participating organizations (POs), which stands at over 600 businesses. Fourteen of the board members are elected for two-year terms, with the remaining seven members appointed directly by the council.

The nomination window for the 2011-2013 term began on Jan. 27 and runs to Feb. 25, 2011. The POs will vote from mid-March to early April. The new board will be announced and seated in May.

POs can access a replay of the PCI SSC's open mic webinar on the board of advisors election process by going to <http://register.webcastgroup.com/13/?wid=0650131115535>.

A seat at the table

According to Russo, the board has been instrumental in formulating PCI SSC's agenda and providing feedback on the PCI standards.

He said board members had direct influence on the expansion of the council's internal security assessor training program, the Prioritized Approach (a "road map" for merchants to follow to gain PCI DSS compliance) and the Wireless Guidelines Informational Supplement.

Russo would not go so far as to say that board members have greater power to influence the standard than POs without board memberships, but the board has closer involvement with the council through face-to-face board meetings and conference calls, he said.

Current board members include a range of individuals representing such U.S.-based companies as Chase Paymentech Solutions LLC, First Data Corp., PayPal Inc., Total Systems Services Inc. and VeriFone Inc., as well as representatives from the European Payment Council,

Banrisul S.A., Barclays Bank PLC's prepaid card division Barclaycard and the Royal Bank of Scotland.

Russo stressed that, while the elected board members come from large organizations, any PO can nominate an individual from its organization, including any participating ISO.

"Whether they're a big ISO or a small ISO, they all bring something to the table," he said. "Don't think that the big guys – that we need only their experience. There's a spot for the smaller guy as well." ■

A new wave of mobility

A recent flurry of mobile payment rollouts signals a potential sea change in how payments are processed, with both traditional merchants and business sectors not previously embraced by the payments industry clearly within the mobile scope.

"One of the brighter opportunities to take this upstream into larger and midsize businesses is that there's a tremendous demand to move payments away from the counter," said Marc Gardner, Founder and President of North American Bancard. "And there's a tremendous demand to enable the software that's resident on the smart phone to communicate back to the retail POS solution."

Breaking the cost barrier

NAB recently removed price as a barrier to mobile payment adoption by introducing its new Pay Anywhere mobile application software and card reader accessory free to approved merchants and individuals.

Upon activation, users pay a flat transaction fee and set percentages for swiped and keyed entries. According to NAB, no monthly fees or any other fees will be charged for the use of its mobile payment system.

"We're enabling our sales partners the ability to roll this pricing scheme out not only on a B2B perspective, but on a P2P perspective, which is really growing the amount of prospective leads," Gardner said.

"We're facilitating the merchant or individual with the ability to swipe the card, which is materially less expensive than key-entering a card on the association's interchange rate structure. Think of PayPal, but with the card being present," he added.

Riding the mobile wave

Another major player betting on mobile is VeriFone Inc., which previewed its PAYware Mobile Enterprise during the National Retail Federation Show in January 2011.

PAYware is a secure mobile card acceptance solution that targets large retailers. In an earlier development, VeriFone inked a deal that will expand PayPal mobile payment acceptance using VeriFone's PAYware Mobile card encryption sleeve for the Apple Inc. iPhone to support card-based payments.

"With PAYware Mobile Enterprise, retailers can revolutionize customer service and store operations by utilizing mobile applications and secure payment acceptance integrated with existing POS infrastructures," Erik Vlugt, VeriFone Vice President of Product Marketing explained in a statement about the solution.

"VeriFone's card encryption and tokenization solution for smart devices isolates payment actions to ensure retailers can maintain a secure payment environment."

According to Pete Bartolik of VeriFone Media Relations, there is no published fee structure for the PAYware enterprise solution; pricing will be unique to each situation.

In late 2010, Transaction Wireless launched wCharge, an on-demand mobile POS terminal application targeting small mobile merchants and enterprise-class businesses.

"Recently, we've gone through our reseller partners, and we've been opening up enterprise customers," said Steve King, Marketing Director for Transaction Wireless. "Hence, we've had to evolve our mobile environment." The company charges a monthly fee for its service.

Offering versatility

In addition, Charge Anywhere LLC, a multiplatform smart-phone payment solution provider, has launched a mobile payment app and gateway that will support multiple tender types, including credit card, cash, check and ACH payments.

Also, as of this writing, Sage Payment Solutions is on the verge of releasing Sage Mobile Payments for small and midsize businesses (SMBs).

"We believe that when it comes to mobile payments, a reasonable monthly fee and no additional markup on processing fees is much more cost-effective for the SMB customer," said Greg Hammermaster, President of SPS. The company's mobile solution will connect other POS terminals with the Sage Exchange integrated payment platform.

And these are just a sampling of the companies hungry for a slice of the mobile pie. Hammermaster suggested that payment professionals who are weighing mobile payment options view mobile payments as an additional component of the merchant transaction environment, not a stand-alone product or profit center. This applies especially to larger retail enterprises, he said. ■

Defying the dragons

Top executives of Toronto-based UseMyServices Inc. walked away from a cool \$1 million not once, but twice when they appeared on the Canadian reality show "Dragons' Den." The show features pitches by entrepreneurs to a panel of high-profile investors who may offer to invest in the ventures in return for a piece of the action.

However, failure to reach a deal on the show hasn't impeded his company's growth, according to Brian Crozier, UseMyServices co-founder and Global Business Developer. Crozier appeared on "Dragons' Den" in March 2010 and January 2011 along with company co-founder and Chief Executive Officer Joseph Iuso. Crozier indicated the company, which facilitates real-time debit transactions through online bank accounts, is busy launching new services and expanding its markets using funds raised purely through operational revenue.

Crozier feels that since he and Iuso started the company without venture capital, they know how to make it without outside investment. "So, we're very resilient people in that way," he said. "I can honestly say, from what I've seen, it's actually easier – it takes less time and is less expensive – to make a million dollars from processing payments than it is to go out and do the song and dance required to raise money."

Both times Crozier and Iuso appeared on the show, they sought a \$1 million investment from the "dragons" in return for a 5 percent equity stake in UseMyServices. In the first episode, the dragons, although impressed with the revenue levels of the company, wanted a 40 percent stake in the company in return for the \$1 million. Crozier and Iuso refused to relinquish so large a share of ownership.

Significant buzz

The two co-founders were surprised to be invited back to the show several months after walking away empty handed after their first appearance. "Ours was one of the biggest deals offered on the show," Crozier said. "We're the first people to turn the 'magic million dollars' down. It created a lot of buzz for the show."

Crozier and Iuso appeared before the dragons again, this time with documentation in hand they thought proved the company deserved a higher valuation than it had received previously. They provided the names of high-stature companies with which UseMyServices would soon be doing business and information about the company's recent foray into the prepaid card arena.

"We [wanted them to see] the deals we had in the works,

News

so they could clearly see that when our merchant services are used by these types of clients, the revenue is stratospheric," Crozier said. He noted that after the first appearance on "Dragon's Den," UseMyServices collaborated with Now Prepay, a division of VendTek Systems Inc., to launch a new distribution channel called UseMyCard (<https://usemycard.usemyservices.com/home.asp>) for 3V Visa and Ukash vouchers. Other UseMyServices offerings include UseMyFunds, UseMyBiller and UseMyData.

The company also established connections with additional major banks, extending its global reach into a total of 11 countries. "When a merchant plugs into our network, we're helping make it possible for them to accept payment from literally hundreds of millions of accounts around the world," Crozier pointed out.

In addition, UseMyServices plans to offer products in the United States soon. "We actually were ready to launch [in the United States] in 2006, but many banks pulled away from having real-time fund transfers and that didn't fit our model, so we backed off from the U.S.," Crozier said. "Several of the largest banks [now have] double factor authentication on real-time fund transfers, so we are able to launch in the U.S. with real-time payments and our automated e-check payment system, too."

No regrets

UseMyServices' accomplishments seemed to have been lost on the dragons, who opted in their second televised meeting with Crozier and Iuso to demand a 51 percent stake in the company in return for \$1 million. "I think ... they may not have understood that it was the producers who were inviting us back [to the show]," Crozier said. "They might have thought we were coming back because we needed the money and weren't able to get it."

Crozier and Iuso realized the value of what the dragons offered, not only in terms of the cash, but in regard to their connections and experience. "But at the same time, there was no way, after spending 10 years of our life building the company and going through everything we've gone through, that we were going to sell ourselves short," Crozier said.

Despite the unrealistic offers from the dragons, Crozier feels the company benefited from the brand awareness and visibility the two appearances on the show helped create. "We've had a lot of phenomenal companies contact us and do business with us as a result," Crozier said.

Still, he has to shake his head at the dragons' inability to grasp UseMyServices' true potential. "We gave them that



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list of household names of the largest companies in the world that we are doing business with," he said. "You would have thought they would have cleared it and said, 'You know what? This looks like the next PayPal.'" ■

Cyber security concerns

POS system integrators – companies that install and maintain POS systems – may be creating vulnerabilities that can be exploited by cyber criminals, according to Trustwave's *2011 Global Security Report*. The report is based on 200 case investigations, penetration testing and other security research conducted by Trustwave's advanced security team, SpiderLabs, during 2010.

Seventy-five percent of data thefts researched by SpiderLabs occurred within POS systems, making it the most commonly breached type of system, by far.

"In our experience, many POS integrators are often not skilled in security best practices, leaving their clients open for attack," the report stated. "In 87 percent of the POS breach cases, third party integrators used some form of default credentials with either remote access systems or at the operating systems level."

Nicholas Percoco, Senior Vice President and head of SpiderLabs, said POS integrators often receive minimal training focused on "how to get the system up and running as soon as possible" rather than full training on system security.

Responsibility for security often gets shifted to merchants, who assume they are protected, according to Percoco. "You expect them [the integrators] to do a complete job," he said. "Security needs to be part of that complete job when installing and maintaining a point-of-sale system."

Card data favorite target

In 85 percent of the data thefts investigated by SpiderLabs, payment card data was the target.

A section within the report claimed that in the "vast majority of cases" in which payment card data was breached, the investigators found instances in which the breached systems were out of compliance with Payment Card Industry (PCI) Data Security Standard (DSS) requirements.

For example, in 84 percent of the cases involving loss of payment card data, the businesses lacked a firewall, despite the fact that PCI DSS Requirement 1 mandates the installation and maintenance of a firewall configuration to protect cardholder data, the report said.

SpiderLabs attributed the lack of compliance to the mis-

Generic, widespread malware is slowly becoming more customized, one-off pieces of software – a trend that is challenging the foundation of the anti-virus industry.

– Trustwave's 2011 Global Security Report

conception that purchase of a "PCI compliant system" ensures ongoing compliance.

Cyber criminals one step ahead

The *2011 Global Security Report* also revealed other intriguing trends, including the fact that a single crime syndicate was responsible for more than 30 percent of all 2010 data breaches Trustwave investigated.

Percoco said the profitability of cyber crime has given rise to sophisticated organizations comprising individuals with separate specialties, from developers who can build customized malware to black market experts who know how to monetize extracted data.

The report also pointed to anti-virus software's failure to keep pace with constantly changing forms of malware. "Generic, widespread malware is slowly becoming more customized, one-off pieces of software – a trend that is challenging the foundation of the anti-virus industry," the report stated.

Increasingly, malware is being used to hijack in-transit data rather than stored data, because "fresh data" is more likely to contain valid card numbers.

In addition, cyber criminals are exploiting new platforms and other points of entry made more accessible due to the Internet. "Privacy, once coveted, is decreasing with the advent of social media tools," the report stated. "Intent on accessing private data, the new attack vectors from 2010 are none other than client-side, mobile and social networking."

Security strategies recommended

In the report, SpiderLabs recommends strategies to help counter some of the trends noted in 2010, including developing a mobile security program, using multifactor authentication, educating employees on the risks of attacks via social media, and creating and monitoring standards for client-side software, such as browsers. For a full version of the report, go to www.trustwave.com/gsr. ■



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EMV from page 1

Is it safe?


By most accounts, more than 1 billion EMV-compliant chip cards are in use worldwide. Yet many experts have pointed out that chip and PIN is a 30-year-old technology. So it shouldn't come as a surprise that scientists have discovered a flaw that makes it possible for crooks to steal and use stolen smart cards without knowing the correct PINs.

Fraudsters simply insert a small, card-sized

"wedge" between a stolen card and the terminal it's inserted into, which tricks the terminal into believing the correct PIN was entered and verified, regardless of what numbers are entered. This makes it almost impossible for cardholders to prove fraud.

"We have tested this attack against cards issued by most major U.K. banks. All have been found to be vulnerable," Steven J. Murdoch, one of the Cambridge University

computer sciences students who uncovered the flaw, said in a statement to the press last year.

U.K. banks have publicly denounced the study and asked the university to "deep six" the student thesis detailing the results, but the students and professors involved have thus far refused, insisting on the public's need to know. 

that do will probably see some shift [in accounts] to their portfolios."

George Peabody, Director of Emerging Technologies Advisory Service at Mercator, predicts at least one major U.S. bankcard issuer will begin offering EMV cards as a fee-based service for high-net-worth clients who travel overseas.

Manahan said that in Canada, where better than 90 percent of active MasterCard-branded cards are PayPass enabled, "we were fear motivated" to push chip and PIN. Card fraud was growing, and the evidence from Europe, where chip cards first took off, showed promising results, he said. Today, 50 percent of payment cards in Canada

contain EMV-compatible chips, and 60 percent of POS devices are EMV compliant, he added.

PayPass uses near field communication (NFC) to exchange data between the chip and a POS device. PayPass can be issued as a card with an embedded chip or as a key fob for tap-and-go payments. Mott described PayPass and similar products (stickers and smart phones) as "a dummed-down version" of chip and PIN. Yet Mott believes these will help nudge the United States toward EMV, as happened in Canada.

Rawls agrees. "There's a lot of interest, especially within the card associations," he said.



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EMV standards for chip cards and POS devices cover applications that require card contact with terminals in addition to contactless applications. The name derives from the original group of founding companies: Europay (since acquired by MasterCard Worldwide), MasterCard and Visa Inc.

Jointly owned by American Express Co., JCB International Credit Card Co., MasterCard and Visa, EMVCo LLC oversees the development and implementation of EMV standards. EMVCo estimates that two-thirds of the world's EMV cards and devices are deployed in Europe.

"EMV technology has the lead position in securing the payments perimeter today," Peabody said. "It's a standard that can be deployed in contact, contactless and mobile form factors." He believes cost constraints and reluctance on the part of the card companies to demand adoption are impeding EMV acceptance in the United States.

Mott suggested the Payment Card Industry (PCI) Data Security Standard (DSS) also plays a part in slowing EMV adoption. "Merchants have spent between \$18 billion and \$20 billion since 2004 getting into and staying in compliance with PCI," Mott said. And many, understandably, are not eager to invest in yet another method of fraud deterrence.

Fraudsters and terrorists

EMV chip and PIN technology is considered a powerful weapon against credit and debit card fraud, especially fraud due to stolen account numbers and card cloning. In the United Kingdom, the card fraud loss rate dropped 48 percent – from 18 basis points to 12 basis points – after bankers and merchants moved to EMV, according to EMVCo. What's good for the United Kingdom, however, isn't always good for the rest of the world. That's because payment fraud, like terrorism, seeks and attacks the weakest link.

Although Europe boasts the highest penetration of EMV, most payment cards issued there also contain mag stripes with the same information that's encrypted on the chip. So fraudsters are stealing chip cards for the mag stripe information and then cloning credit and debit cards for sale and use in the United States and other countries not yet committed to EMV. The problem has become so serious that the European Payments Council, a governing body that operates under the Single Euro Payments Area (SEPA), has proposed setting a sunset date after which mag stripe cards will no longer be issued by SEPA banks.

"You can't have mag stripe cards coexisting with chip and PIN. You have to get rid of the PIN," Mott said. Card fraud is not the work of petty criminals. The most notable cases in recent years have been the work of organized cyber gangs. And recent Web activity suggests al-Qaida terrorists are joining the fray, according to Mott. "That's the straw that's going to break the camel's back," he said, adding that it will force U.S. banks to embrace chip cards and merchants to spring for EMV-compatible PIN devices.

EMV weaknesses and workarounds

Industry consultant Paul Martaus believes prodding from state government assistance programs will propel widespread U.S. adoption of EMV. Texas recently disclosed plans to migrate its electronic benefits transfer programs to chip cards. Should other state governments follow, Martaus expects convenience stores and supermarkets will have no choice but to upgrade to EMV-compliant terminals.

Wal-Mart Stores Inc. has already installed EMV-compliant terminals, although it has yet to invest in the necessary operating software, according to several knowledgeable sources. "I'd be willing to bet that if the banks were to start issuing the cards, Wal-Mart would spend whatever it took" to accept EMV chip cards, Martaus said.

Several experts also suggested the Federal Reserve Board could pressure issuers to move to chip cards. The Durbin Amendment to the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act entrusts broad authority in the Fed to amend Regulation E (which pertains to consumer electronic funds transfer rules) to combat debit card fraud. Last year, the Fed also called together a forum of bankers, merchants and others to examine the future



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of EMV. However, Martaus cautions that EMV is no magic bullet. "We're talking about 30-year-old technology here," he said. And during a 2010 webinar, Brian Riley, Senior Research Director for Bank Cards at TowerGroup, noted that in "the computer generation," 30 years is "a lifetime, or several lifetimes." Riley also questioned the viability of using chip and PIN for online payment applications, noting that the combination "doesn't work particularly well in the online environment, and the online environment today is the fastest growing channel."

One workaround to EMV's shortcomings is tap-and-go technology, which uses radio frequency identification (RFID) to authenticate transactions through an exchange with a chip embedded in a card or other form factor. In addition to

MasterCard's PayPass, numerous iterations of tap-and-go payments exist, such as stickers and smart phones, including options supported by Visa and First Data Corp. Best of all, "there are at least 150,000 retail locations where tap-and-go payments are supported today," Martaus said.

Meanwhile, Apple Inc. reportedly is working to integrate NFC technology with its next generation of iPads and iPhones, which are expected to hit the market later in 2011.

Current iPhones features bar codes, and at least 2 million small merchant establishments can read bar codes, according to Martaus. With both NFC and bar code technologies, iPhones and similar smart phone products can double as electronic wallets. "EMV makes a lot of sense with smart phones," Martaus said.

PIN, no PIN

Although EMV is often discussed in the context of chip cards and PINs, physical PIN entry is not required by EMV technology. That's what makes tap-and-go applications a viable migration path to widespread EMV adoption. But contactless applications may not offer a long-term solution.

The limited power and memory capacity of RFID chips reduce the amount of data that can be stored, and thus the level of security provided, Maria Arminio of Avenue B Consulting Inc. explained in a white paper, *Combating Fraud in the Retailer Payment Environment*, published in 2010. "Ultimately, the best solutions will use multifactor authentication and dynamic authentication," Arminio wrote.


In addition, Mott said, "Ideally, you're going to want chip and PIN, as well as dynamic authentication and full encryption." Dynamic authentication provides added protection against card skimming and counterfeiting by requiring different credentials for each transaction authorization. ■

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.

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A 2001 national survey revealed 73 percent of Americans believed identity fraud was an increasing problem; 78 percent viewed it as a serious personal threat; 13 percent reported that either they or a family member had experienced identity fraud.

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Gaining wisdom from mistakes

By Ken Musante

Eureka Payments LLC

I have been in this business a long time, and the most important lessons I've learned have come from times when I've taken my lumps. Sure, I've enjoyed successes, too, but for some reason, the wins stay with me for a short time, whereas I continually re-live my losses.

With that in mind, I posted the following on GS Online's MLS Forum toward the end of 2010: With year-end approaching, we will all be reading about and considering our resolutions for 2011.

Given that we all learn more from our mistakes than from our successes, I thought this would be a good time to reflect on our past business (or personal) failures and, more importantly, what we learned from them.

I'll let you all decide the level of detail to include, but what I'm really seeking is the lesson learned.

Reflecting upon blunders

Sharing failures can be intimidating, so I began the discussion with the following post:

"My biggest business blunder, in terms of dollar impact, was not properly conducting due diligence on a portfolio my bank was purchasing. (I'm omitting details for the sake of those involved.) There were many reasons for not conducting the due diligence, including it was being done elsewhere; however, in retrospect, because I was to manage the business once we acquired it, I should have insisted on being a part of the due diligence process.

"The size of the acquired portfolio was very significant

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relative to our bank. I knew there were aspects of the business that I did not understand, but having never gone through an acquisition before, I let my other duties (which were numerous) cloud my better judgment.

In retrospect, I should have (as I have been known to be) been more forceful in demanding that further due diligence be conducted. If I was not able to do so, I should have at least more fully voiced my concerns.

"Unfortunately, I did neither in an adequate fashion and, as a result, my bank lost a gob of money and we threw our profitable 'baby' out with the bath water. From that... I have taken away enormous experience, including:

"1. Know when to be forceful. In this situation, the stakes were very high and I should have been more forceful with my concerns.

"2. Trust your business instinct. I thought something was not quite right, and had I followed my instincts I would have followed up more thoroughly.

"3. Understand and prioritize items by the magnitude of the impact. This was a big deal for our bank, and I should have put it ahead of my other duties because of its size regardless of what my duties included.

"It was Christmas Eve morning when I got a call from one of my ISO partners. Seems one of his new merchants was perpetrating fraud: he was force-placing transactions on closed credit cards and posting exactly the same amount as a credit to European accounts. Simply put, the batches came in as zero, but there was over \$200,000 in money moved, and the first chargeback was arising."

Forum member **CLEARENT**

"4. Know when you need professional help. Having not gone through an acquisition before, I should have asked for professional assistance."

Standing your ground

A discussion on wisdom would be incomplete without a comment from **CLEARENT** "Wisdom doesn't always have to be gained through a lesson learned on a mistake or error," he wrote. "I gained wisdom once in a unique situation several years ago.

"It was Christmas Eve morning when I got a call from one of my ISO partners. Seems one of his new merchants was perpetrating fraud: he was force-placing transactions on closed credit cards and posting exactly the same amount as a credit to European accounts. Simply put, the batches came in as zero, but there was over \$200,000 in money moved, and the first chargeback was arising.

"He called me wanting me to file a theft report and have the individual arrested. However, (to spare the specifics), [I pointed out that] there were steps we could take to recover the money, and if we had him arrested, we could not do them. This partner was so adamant that [the individual be arrested that] he even threatened to have one of his friends come over and 'straighten me out.'

"But I knew if I was to give in, we both would lose, so I held my ground. The funds were recovered, the ISO was protected (because he had liability) and his friend never showed up.

"Lesson learned: often, when you know for a fact you are right it's better to stay true to that and not give into pressure to do the quick and easy thing. There was a second lesson learned: don't threaten people. We terminated our relationship with that ISO due to his threats.

"We all gain wisdom through our errors (when we admit we made one) and through life experience. Gaining the wisdom and using it are two different animals. If you fail to use it, you are proving Einstein's definition of insanity: doing the same thing over and over and expecting different results."

Learning as we go

CLEARENT's post emphasizes that to benefit from our errors we have to admit we made them. Nobody wants to be wrong. I well recall Arther Fonzarelli's (from the television show *Happy Days*), stutter when trying to say the word "wrong."

JDECKARD provided us the Catch-22 for gaining wisdom. "Good judgment comes from experience; experience comes from bad judgment," he wrote.

A post from **HIPOINT** reminded me that there are no atheists in foxholes and that when we are down, prayer

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consoles. He quoted from the Bible, James 1:5-8. To see the text of the verses he excerpted, follow the discussion thread titled "Re: Street Smarts Article – Gaining Wisdom" on the MLS Forum.

BER provided sage advice. "Don't try to 'sell' every merchant; instead, look for valuable merchants you'd like to have as clients and add to your portfolio," he said. "Remember that you are building your company for an end goal, so act accordingly in the present. Don't fight for nickels and dimes, or fight in merchant locations or fight with other credit card processing guys."

Thinking through uncertainty

I received a private post about actions taken and lessons learned from an individual who wished to remain anonymous. The person discussed the entire 'debit interchange changes' and ensuing industry response. "Simple knowledge told me that many members are trying to create new revenue streams to replace potential lost profits from this," the individual noted.

"It made me think that many really fear the end is near for them in this industry and are beginning to run amok with ideas. Sometimes fear of the unknown can impact any outcome considerably, along with the potential to further tarnish the industry and its reputation."

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Fear of uncertainty breeds bad decisions. Think about the financial markets in early 2009 and how perilously close our economy came to a full depression. Those that bought large-bank stocks like Citigroup Inc., Bank of America Corp. or JPMorgan Chase & Co. profited handsomely at the time by buying at a low point in the market, as large banks' stocks were being hammered because of the uncertainty we were facing.

Chase purchased the Bear Stearns Companies Inc. for a fraction of what it was worth only a few months before. Lehman Brothers filed for bankruptcy. Merrill Lynch & Co. was taken over by Bank of America. And our government had to rescue our automotive industry and take over mortgage securitization as well as American International Group Inc.

These extraordinary measures were taken in 2008 and 2009 because the markets were in uncharted waters, and this was causing radical, never before seen gyrations in the markets. If it were not for the stabilizing force of the government, our economy would be much worse.

During this time of upheaval, wise, decisive leaders made fortunes; others were paralyzed. The moral is if you can make informed, decisive decisions during a period of uncertainty, you can make extraordinary profits.

Creating our own luck


In retrospect, it is easy to see that instances of poor judgment and lack of execution could have been avoided in most cases. Bad decisions are rarely the result of bad luck; similarly, most successes are not the product of good luck.

Certainly luck plays a part, but as some have said, luck is the perspiration of desire. So why can't we see mistakes before we make them? Greed, hubris and inattention to detail are the most common culprits for blunders.

Greed often propels us to try to do too much at once. Hubris leads us to assume prior good decisions will insulate us from poor future decisions without our having to do the same kind of work that led to our initial successes.

Inattention to the small points, which led to some of my past foibles, paved the way for subsequent successes. If only I could have avoided the sting of failure. But wisdom is often gained through seeing what our lapses in judgment have wrought.

Let's think of our business blunders as our education (to which I, for one, have paid a fortune in tuition). Here's to our collective sound judgment in 2011.

And, as always, 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.

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Education (continued)

Approaching Asia

By Donna Sesto Neary

Payvision

Sales professionals looking to go global would be hard pressed to find a better starting point than the Asian marketplace. Commonly referred to as APAC, the Asian market encompasses more than 50 countries, including Japan, China, India, Hong Kong, Singapore, the Philippines, Thailand, Cambodia, South Korea, Vietnam, Taiwan and Malaysia.

What makes this region so attractive? For starters, it is home to more than 2 billion people and, according to recent studies, 700 million of them use the Internet.

In Korea, alone, there is 90 percent Internet penetration. Many governments throughout the Asia-Pacific Rim are pushing e-commerce and, because of that, card-not-present transactions are growing more rapidly in APAC than any other area of the world.

Then there are the methods of payment. While APAC is somewhat fragmented, and different countries may utilize unique, local debit cards or alternative payments, MasterCard Worldwide and Visa Inc. still provide the most popular forms of payment.

Operationally, the Asian and the U.S. markets are similar. They employ the same types of bank identification number sponsorship, processing platforms, gateways, back-office operations, reporting and statements, and, most importantly, settlement processes – if you partner with an entity supporting global acquiring in the area where you choose to do business.

Pick the right partner

You can take advantage of this extraordinary opportunity as long as you do your due diligence. Select an appropriate processing partner who understands the many differentiators throughout the Asian marketplace and the challenges of doing business in a culture-centric market completely driven by relationships.

The United States is reseller-oriented. ISOs and merchant level salespeople (MLSs) are constantly signing, re-signing and moving merchant accounts from one company to another. In Asia, acquiring follows a different path. The banks have direct relationships with merchants, and there isn't a heavy penetration of ISOs.

Therefore, it is paramount to select a global partner that has established relationships with local financial institutions as well as a comprehensive understanding of the languages and currencies found in the countries where transactions are occurring.

You cannot enter a foreign market like APAC with a U.S. perspective. You must understand the relationship-based culture and build on that.

Get help with relationships

Do you have the time and resources to build a relationship with local APAC entities? For most ISOs and MLSs, the answer is a resounding no.

The right global partner does and, in most cases, already has created a physical presence in Asia. Such a partner can help you set up your U.S. merchants in the Asian markets and help you acquire Asian merchants to expand your portfolio.

For example, if it seems too daunting to open an office in Singapore, all you need do is align with an established global partner. Your partner will support local domestic acquiring accounts and help you get incorporated in the region of your choice.

A primary benefit of setting up local domestic acquiring accounts is the potential for a substantial decrease in interchange rates and the absence of cross-border fees. In the United States, for instance, the interchange rate is upward of 3 percent.

With an Asian incorporated merchant account, the rate can drop by as much as 50 percent with no downgrade. That's a big savings in anyone's bankbook.

It's not surprising, then, that ISOs embracing APAC are making great inroads into portfolio expansion. These savvy sales professionals are surveying their existing merchants, examining sales that are being transacted out of the Asian region and taking the leap into Asian incorporation.

Be prepared

APAC is a viable option, but do your research. Set aside appropriate resources. Look at your merchants' statements. Ask the important questions. Are they selling in Asia? Are they shipping goods to this region? Are they willing to incorporate and save money? If the answer to these questions is yes, the obvious next step is to sign with an experienced global partner.

At Payvision, we are seeing more Asian banking entities courting U.S. acquiring relationships; they are more open now to following a global acquiring model than ever before.

Even if you are not yet ready to go global, put this sphere on your radar today. If you don't, your merchants could easily be wooed by someone who does. 📧

Donna Sesto Neary is Director of Business Development at Payvision. She can be reached at d.neary@payvision.com.

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Leads, leads, leads - Part 1: Lead generation

By Peggy Bekavac Olson

Strategic Marketing

Sales leads play a crucial role in every payments industry business. Leads consist of any inquiry, referral or conversation gained through a variety of promotional means that identify potential prospects for your company's products and services. Without leads, you can't make sales, and without revenue, your business can't thrive. Sales leads truly are your company's lifeblood.

When it comes to marketing for sales leads, there's a lot you should consider – from generating interest and inquiries that result in qualified leads to keeping track of them and nurturing them through the sales process so that some become customers.

Accordingly, this is the first of a three-part series of articles I am writing for *The Green Sheet* to help guide your thinking on sales leads. This first article chronicles lead generation.

Successive articles will cover the topics of lead management and lead nurturing, respectively.

Generating leads

Lead generation is the assembling of a list or group of prospective buyers who have interest in your company's offerings. It is the first step in the sales process and is necessary to fuel your sales pipeline.

Lead generation consists of traditional, outbound, interruption-based marketing activities that broadly communicate your message to a wide audience. Its focus is on finding prospective buyers who may be interested in your products and services.

Classic outbound lead generation activities include cold calling or prospecting; telesales; external lead generation services; print or other media advertising; direct mail and email marketing; publicity such as press releases, journal articles and speaking engagements; events like trade-shows and conferences; networking groups or clubs; and referral programs with existing clients, financial institutions, associations and other partners.

Lead generation can also consist of inbound, permission-

based marketing activities that help you get noticed by prospective buyers already learning about and shopping for the types of products and services you offer. Inbound marketing activities typically revolve around the Internet and can be grouped into three key areas: content, search engine optimization (SEO) and social media.

Content is information and insight you provide to attract potential buyers to your business. Content – such as your website, videos, white papers, journal articles, online newsletters, blog posts, case studies and webinars that include contact forms or join-our-mailing-list calls to action – should be the foundation of your inbound marketing efforts.

SEO makes it easy for potential customers to find your content. It encompasses building your website with inbound and outbound links to maximize search engine

rankings. This is important because search engines are where many prospects begin the buying process.

Social media amplify your content's impact. When

distributed and discussed on networks like Facebook, LinkedIn and Twitter, as well as pertinent forums and blogs, your content is validated and becomes more authentic. This helps qualified prospects become engaged and more likely to reach out directly to you.

Selecting tactics

To fill your sales funnel, you must take a proactive approach to generate a steady stream of leads. But with so many inbound and outbound tactics available, how do you know which ones will work best to generate the right type of leads for your business?

You need to know that there's no single recipe for lead generation success. It takes strategic thinking about how to reach prospective customers, combined with marketing art and science. The single common denominator for successful lead generation is to produce a high-volume flow of communication so that prospective buyers know who you are, what you do and why they should buy from you.

Today, companies in the payments industry use a multitude of lead generation tactics that run the gamut, with most focusing more on outbound rather than inbound efforts. Some tactics are wildly successful; some are woe-

Lead generation consists of traditional, outbound, interruption-based marketing activities that broadly communicate your message to a wide audience.

fully ineffective. Know that what works or doesn't work for one company isn't always a predictor of your success or failure with these same techniques.

Some of the more effective lead generation results I've encountered while working with industry clients come from companies that market to specific niches and establish marketing partnerships through financial institutions, associations, chambers of commerce and others.

Payment companies who are successful at lead generation don't just employ one or two methods; they utilize a complete arsenal of lead generation tools in a continuous, long-term approach. Tactics like direct mail postcards, email marketing, appointment setting and telesales, client referral programs, print and online advertising, SEO, and event attendance and sponsorships are often part of their repertoire to produce a bevy of qualified leads.

Some of the more interesting, unusual and expensive lead generating tactics I've come across in the payments space include billboard and newspaper advertising, radio and television commercials, and even celebrity endorsements.

Probably the best approach to deciding which lead generation techniques to employ is to review your business strategy, and then hash through all the available tactics to develop a multifaceted roadmap for lead generation.

Align the plan with your sales goals, marketing capabilities, personnel resources and budget. Identify several campaigns to embark on based on the number of leads you need to fill your sales pipeline or funnel. Make sure your marketing team has the skill-set and bandwidth to properly execute the lead generation campaigns you've chosen, or seek outsourced help.

It takes money to make money, so don't forget to adequately fund your lead generation efforts. And you'll want to take a look at what the competition is doing. But remember, just because they're doing it doesn't mean you should jump on the bandwagon, too. Ultimately, your lead generation plan needs to make sense for your business.

Measuring effectiveness

It's a must to create lead generation metrics and track them so that you can measure performance, understand effectiveness and make adjustments on a regular basis. Some metrics you'll want to use for each tactic include number of leads generated, cost per lead, time to generate leads and quality of leads.

Before measuring effectiveness, give each tactic a try, sticking with it long enough to gauge impact. It's important to execute for a period that's long enough to realize meaningful results. A few short weeks or months of any lead generation program is probably not long enough and will simply be a waste of time and money.

If, after several months, you find that a tactic isn't working, eliminate it and try another. For tactics that prove successful, make sure to do them more.

Remember that most customers are not gained through short-term exposure to your business; the sales process takes time, and prospects buy from you when they are ready.

Driving sales

For most businesses, the most important marketing activities are those designed to generate leads. Done correctly, lead generation drives sales to increase your bottom line and helps your company achieve its goals for growth.

So when it comes to lead generation, how does your company stack up? Are you happy with your results or do you need or want to improve? If your sales pipeline needs filling, what are you waiting for? There's no better time than today to start generating leads. 📧

Peggy Bekavac Olson founded Strategic Marketing, a full-service marketing and communications firm specializing in financial services and electronic payment companies, after serving as Vice President of Marketing and Communications for TSYS. She can be reached at 480-706-0816 or peggyolson@smktg.com. Information about Strategic Marketing can be found at www.smktg.com.

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PCI vendor selection

By Tim Cranny

Panoptic Security Inc.

As compliance with the Payment Card Industry (PCI) Data Security Standard (DSS) becomes a normal part of doing business, security solutions and products are emerging from obscurity to become business and legal necessities.

For an ISO, merchant level salesperson (MLS), bank, processor or other service provider, this means being exposed to a strange new world of techno-babble and a crowd of security vendors all competing for your attention.

But which solutions do you need? What's the right strategy for tying together all these different products? Which vendors should you work with? And where can you find assistance with this sometimes intimidating process?

Fortunately, remembering a few key ideas will help you understand more about this new world, so you can answer these questions and help ensure you are investing time and effort wisely.

QSAs and ASVs

The first step in dealing with PCI is to understand at a high level the types of solutions and services that exist. The oldest and most obvious types of PCI vendor are the Qualified Security Assessors (QSAs) and the Approved Scanning Vendors (ASVs).

QSAs are essentially consulting companies that have been trained and certified to perform detailed on-site audits. Their business model is naturally hard to scale and expensive, which makes them appropriate for large, complicated organizations. However, they are essentially irrelevant if you're trying to deal with a portfolio containing a large number of smaller merchants.

ASVs are companies that have been certified to conduct network scans of merchants' websites and applications. These scans look for software or network problems that might expose cardholder data.

While the quarterly scan requirement is critical, passing such a scan does not mean a merchant has passed PCI; it just means one of many requirements has been met. The ASV business model and execution is naturally more scalable than that of a QSA, but it is inherently less comprehensive.

Because of the constraints of their business models, neither QSAs nor ASVs can solve the needs of the average ISO, MLS or other payment professional whose portfolio

The first step in dealing with PCI is to understand at a high level the types of solutions and services that exist.

contains many small merchants. QSAs and ASVs have their place, but the search for the right vendor partnerships has to extend far beyond them.

Vendors galore

The good news is that the last thing you need to worry about is a lack of vendors and solutions; there are plenty of options to explore. An enormous security industry existed long before PCI was established. It extends far beyond PCI and comprises many hundreds of security vendors. You are in more danger of becoming confused about which one to choose than you are of being stranded without an appropriate choice.

Most of these companies offer what are called point solutions. These products address specific, narrow security requirements such as firewalls, anti-virus solutions, encryption and so on. Many of these vendors use PCI as a way to market their products.

These point solution vendors often try to give the impression that they solve all of the PCI requirements. This might be a good short-term marketing ploy, but it is completely inaccurate. The PCI requirements are so broad and cover so many different issues that they cannot be solved with any one solution, especially a purely technical product.

This is doubly true because PCI covers many soft issues around policies, procedures, training, physical security and similar concerns. This means the answer is not to look for the one, ultimate solution, but instead to build up a bench of preferred solutions, each with its own place and value, but none of which is unduly emphasized over the others.

To build up this bench of solutions requires a lot of security expertise, so each ISO needs either to be a security expert or to partner with one. Having an impartial security partner to help you navigate through the maze of acronyms and technical details makes a lot of sense, since it is dangerous and inefficient to get caught up in premature conversations about end-to-end encryption, 802.1x, IDS/IPS, and so on without the right framework to surround it.

Having a guide will help you learn about the process while receiving assistance in making the right choices.

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Education

Points to remember

Here are several things to keep in mind when assessing security vendors:

- If you have a merchant portfolio with many small merchants, keep in mind that most QSAs will be unsuitable because of high fixed costs and the types of customers they focus on.
- Small merchants, in particular, need low-cost solutions, so look for options that use technology to achieve high scalability and efficiency. For example, solutions using software-as-a-service will always be much lower cost than consulting-based solutions.

- Small merchants need assistance as a key part of any solution. Do not select a vendor who will provide the technology but expect the merchant to implement it without assistance. This can be a danger when dealing with vendors who are used to selling to, and supporting, enterprise customers.
- Be wary of any vendor with a narrow technical solution claiming to offer a silver bullet that will solve all your PCI problems. PCI is too broad for that to be possible, and this sort of marketing is a strong indicator that the vendor is dishonest. Here are good questions to ask:

- What about things like the policy and procedure requirements of PCI?
- How will my merchants even understand the questions they're being asked in the questionnaires?

- Many vendors offer point solutions to specific security problems, but there is a bewildering crowd of competing vendors and solutions out there. First, form a relationship with a trusted security advisor before getting into conversations about technical specifics.

If you have the right expertise or if you find the right security partner to handle the issues discussed herein, the technical details should fall into place fairly easily.

That means you can greatly diminish the burden and expense of PCI for you and your merchants. ■

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





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For more information, contact:

Brian Jones, EVP Sales and Marketing: 800-201-0461 x 136
Jonathan Brandon, National Sales Manager East: 800-201-0461 x 145
Max Sinovoi, National Sales Manager West: 800-201-0461 x 219
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The risks of riding the gravy train

By Jeff Fortney

Clearent LLC

It was going to be a big weekend. Pete's (not his real name) goddaughter was getting married, and it was going to be a lavish affair. He had grown up with her father, Joe (also a pseudonym). They were roommates throughout college and had remained as close as brothers.

After various jobs, Pete started his own ISO. Joe joined his family's business to help revive it at about the same time. From that date forward, Pete provided processing services for Joe's business.

As Pete's ISO grew, so did his friend's business. After 20 years, both still operated thriving enterprises. It had been a healthy friendship and a productive business partnership, with Joe's business accounting for over 30 percent of the ISO's revenue.

An unexpected loss

The wedding was a celebration of the marriage and – as Pete saw it – a celebration of a long-term friendship.

The Monday following the wedding Pete received a call from Joe. They shared small talk about the wedding and their upcoming golf weekend, and then Joe told him he had some bad news.

It seems Joe's new son-in-law was in the payment business. Joe had a choice of upsetting his daughter by maintaining the status quo or giving his new son-in-law his processing business. Joe said, "I love you like a brother, but blood is thicker. I really have no choice."

After trying to come up with alternatives, Pete realized there was nothing either could do. Of course he understood the decision, and their friendship was strong enough to survive, but a 30 percent immediate loss in revenue was going to be tough to absorb.

A difficult lesson

Pete told me this story a year after it happened. His business had survived, but barely and only after a very hard year. He learned a valuable lesson: you have to be a meat-and-potatoes company and not just live off the gravy – no matter how secure your gravy accounts might seem to be.

Pete learned the risks of failing to maintain the foundation on which his business' survival rested: a continuing abundance of small to midsize merchants.

He depended too heavily on one large client (Joe's business) and was forced to rebuild his company when that one client left. With that lesson learned, Pete wasn't going to allow any single merchant – even a friend – to have that great of an effect on his portfolio in the future.

We all give lip service to this lesson, but do we really know if we're at risk? Do we really know if we can survive the loss of a key merchant? Do we really know who our gravy merchants are and what type of impact their departure might have on our revenue levels?

If you can't honestly say yes to all of the questions I just asked, now is the time to act. Answering them will both identify your risk and give you a game plan to help mitigate it. Remember, it pays to be proactive.

The right mix of merchants

Now, I have three more important questions for you:

1. **What percentage of your revenue comes from your most profitable merchant?** One way to measure this is to subtract the income from your most profitable merchant from your total income.

Divide the remaining amount by your total residuals to learn what the effect of losing that particular merchant would be. If this figure exceeds 10 percent of your income, the merchant is likely to be a gravy merchant.

For a larger portfolio, one thing to consider is the weighted percentage of your top merchants. If 1 percent of your total portfolio generates 10 percent of your income, that 1 percent could be considered gravy.

2. **What is your current attrition rate?** This question requires honesty. No one retains 100 percent of his or her merchant base because some merchants close up shop, sell their business or otherwise stop processing.
3. **Could you survive if you lost any of these merchants?** Only you can answer this question, but keep in mind there are many contributing elements. You must factor in your attrition rate when determining your income risk.

New merchant growth can increase your revenue, but it must also offset the merchants you lose organically. The immediate loss of a large-revenue merchant cannot be solely compensated for by normal new and organic merchant growth.

The key to balance

If you find you've been living off the gravy, it's not too late to protect yourself. It takes planning and concentrated

If you have determined you could survive a loss of 10 percent of your income, but find you have one merchant accounting for 20 percent, you must add multiple merchants to reduce that impact to less than 10 percent.

marketing efforts to dilute the impact of losing the gravy merchant, at least to an acceptable level. It's time to start concentrating on the meat-and-potatoes merchant segment.

For example, if you have determined you could survive a loss of 10 percent of your income, but find you have one merchant accounting for 20 percent, you must add multiple merchants to reduce that impact to less than 10 percent.

The key is multiple meat-and-potatoes merchants so that the loss of any one of those merchants doesn't handcuff your efforts.

Examine your new merchant target, and adjust it upward accordingly. Budget a greater part of your time to selling than you had originally planned, and follow that plan to the last detail.


A revenue bump

Don't forget: the goal of your additional sales efforts is to help prevent a dramatic negative impact on your bottom line if you lose one or more of your largest merchants. The best part is the significant upside you'll see.

Until you experience loss of a gravy merchant (which is likely to occur at some point), you'll see a nice bump in revenue – more than you anticipated.

Additionally, by diluting the impact of one or more gravy merchants on your revenue, you can improve the value of your portfolio. Both of these are major benefits.

Don't find yourself scrambling to recover, as my friend did. Execute a plan for your specific merchant base so you can survive on meat and potatoes, and the

gravy will become just that, an added benefit instead of a staple. It will be much more filling and satisfying. 

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



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Calendar of Events

Monday, March 21

- Field Guide for ISO's (free with registration)
- Opening Reception

Tuesday, March 22

- Breakfast with the Exhibitors
- Educational Seminars including "What you need to know about tax code 6050w" and how it will affect acquirers, processors, ISO's and agents
- 10th Anniversary Party at Hard Rock Casino

Wednesday, March 23

- Breakfast...then Back to Business!

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Research Rundown

Has debit use peaked?

Mercator Advisory Group's newly released report, *Debit Cardholders: Calm Before the Storm*, highlights consumers' growing use of debit cards in 2010. The report reflects what may be a period of peak usage prior to the significant impending changes to debit pricing that implementation of the Durbin Amendment to the Dodd-Frank Act will bring.

Based on a national sample of 1,009 consumers completed in May 2010, the report outlines consumer patterns of debit card ownership, usage, preferences for PIN versus signature transactions, awareness of overdraft reform legislation, participation in alternative and decoupled debit programs, and participation in debit card rewards programs.

Report highlights

Findings from the report include the following:

- Cardholders are almost evenly split among the following responses when asked about their favored transaction methods: PIN, signature and "no preference." But when requested by the merchant, a majority of respondents said they comply with a request to enter their PIN.
- Private label (decoupled) debit programs sponsored by retailers have gained just a small foothold among debit cardholders.
- Debit reward program participation is not dominant among cardholders; only a minority of participants have ever redeemed rewards.

"Looking at the positive achievements of consumer debit programs through our newly acquired Durbin Amendment lens, we must highlight the attributes most likely to change (such as rewards programs), procedures potentially causing confusion (such as PIN versus signature transactions), or programs that may experience collateral damage (such as decoupled debit programs)," said Ken Paterson, Vice President for Research Operations at Mercator Advisory Group.



For more information, go to:
www.mercatoradvisorygroup.com

"The increased interest in mobile couponing, and mobile applications in general, show that progressive retailers must invest in these technologies to appeal to their tech-savvy customers."

- John Waldron
 Honeywell Scanning & Mobility
 Source: Honeywell's Mobile POS Survey conducted by Harris Interactive

Getting ready for mobile

Tego Interactive released the first in a series of white papers and business how-to "Cheat-Sheets," providing insights into mobile commerce and payments, as well as strategies to achieve mobile retail readiness.

News from the cyber fraud front

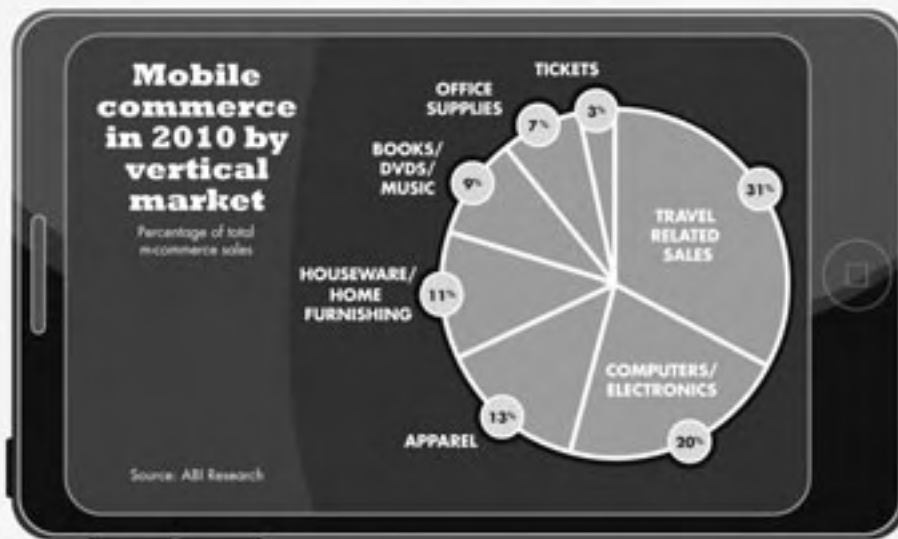
Cybersource Corp.'s *12th Annual Online Fraud Report* indicates that, in 2010, the average percent of online revenues lost to payment fraud ranged from 1.1 percent for small merchants to 0.4 percent for the very largest merchants

Credit sales down in December

Capital Access Network Inc.'s *Q4 2010 Small Business Credit Sales Report* shows that Main Street brick and mortar retailers, service providers and restaurants recorded their 13th consecutive quarter of year-over-year credit and signature debit card sales decline in the fourth quarter of 2010, with card sales off 2.56 percent from the same quarter in 2009.

Opportunities in India

The *Mercator Map of India: An Overview of the Subcontinent's Payments Market* report provides an overview of the Indian banking; credit, debit card and prepaid card; and emerging payment technology markets. "For those who understand it, the Indian payments market presents tremendous opportunity," said Ben Jackson, Senior Analyst of Mercator Advisory Group's Prepaid Advisory Service.



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NewProduct

Receipt paper takes on the rainbow

Product: Colored receipt paper rolls

Company: POS Supply Solutions

A vibrant merchant sales tool is now available through POS Supply Solutions, a long-time provider of credit card terminal and POS system receipt paper rolls that run the gamut from thermal to single-ply and carbonless two-ply options. The company has just rolled out a new line of receipt paper rolls in a colorful spectrum of blue, green, pink and yellow.

"What brought about this development was demand from our customers," said Stephen Enfield, President of POS Supply Solutions. "In this day and age, where everything is so competitive, you want to try to stand out in the crowd. Businesses can make a big impact by choosing to print on colored paper rather than white." Research has shown that color enhances brand recognition and customer recall, he added.

Extra layer of security

One obvious application for colored receipts is holiday or seasonal promotions. To illustrate the point, Enfield said, "In the Boston area, because there are a lot of us Irish folks here, if they want to do a green paper for St. Patrick's Day or pink paper for Valentine's Day, they might want to do some timely promotions" using colored stock.

He said some merchants use colored receipts as a security enhancement when issuing printed tickets or redemptions, printing a different color each day. "That way, they know if it's printed on yellow paper, that's good for redemption today," Enfield said. "But, if [customers try yellow] tomorrow, it's not going to be any good." Merchants can print a custom logo or return policy on the receipt rolls as well.

Another reason cited for color rolls being more secure is the lack of accessibility, compared to generic white rolls. Enfield said it is not uncommon for thieves to fraudulently duplicate generic white receipts, exposing retailers to fraudulent returns. To prevent fraud with certain types of receipts, POS Supply is working to develop advanced security features including thermochromic inks that change color in response to temperature variations, scratch and secure inks designed to change color when scratched and void pantographs containing hidden messages that become visible only when copied.

Features of Colored receipt paper rolls include:

- BPA-free thermal paper, all color rolls
- Unique branding tool for merchants
- Ideal for special promotions, holidays
- Color adds built-in security feature
- Stock item presents an affordable solution



BPA-free colors

Regarding the potential toxicity of bisphenol A (BPA), a chemical reportedly found in 40 percent of thermal paper receipts, Enfield noted that eliminating BPA from such receipts is a priority for him, and the colored receipt paper rolls available through POS Supply are all BPA-free.

"I'm actually on the EPA Advisory Board," he said. "We really take that seriously and are working with the paper mills to get as much BPA-free paper as we can. We stock a pretty broad lineup of BPA-free thermal paper rolls. At some point, hopefully all of our thermal paper will be BPA-free." (For more information on the issue, see "Are thermal paper receipts toxic?" *The Green Sheet*, Sept. 13, 2010, issue 10:09:01.)

Custom options

POS Supply currently offers colored receipt rolls in two standard sizes for the payments industry: the 2 1/4" roll fits standard credit card terminals, and the 3 1/8" roll fits POS system printers. At some point, the company plans to offer a high-yield, micro-size paper roll for handheld wireless payment processing terminals. It will incorporate a thinner paper roll and core to reduce the frequency of replacements.

"I foresee, with additional demand, we'll go ahead and offer perhaps neon colors or other colors," Enfield said. "We do custom colors as well. If someone needs a particular color for a particular application, we can certainly do that." POS Supply also sells preprinted paper rolls, custom size rolls, various paper grades and security paper rolls. Minimum orders start at five cases. ☑

POS Supply Solutions

888-431-5800

www.possupply.com/paper-rolls/colored-paper-rolls

DateBook

Visit www.greensheet.com/datebook.php for more events and a year-at-a-glance event listing.



Institute for International Research

Prepaid Expo USA 2011

Highlights: This expo presents an opportunity to join a premier gathering of network-branded prepaid and stored-value experts. Four days of networking, education, meetings and idea sharing are planned with an eye for providing insights into how to avoid regulatory hurdles, increase customer retention and battle mobile prepaid fraud. Keynote speakers will include Gen. Colin Powell, who will speak about leadership, and Robert Safian, who will present fresh approaches to innovation.

Attendees will be able to participate in interactive polling, on-stage interviews and live focus groups, as well as network with others through Prepaid Connect's automated appointment scheduling system.

When: March 6 – 9, 2011

Where: Orlando World Center Marriott, Orlando, Fla.

Registration: www.iirusa.com/prepaid/welcome-page.xml?registration=xu2448grst



Women Networking in Electronic Transactions

LINC Chicago

Highlights: This is the Chicago region's Local Interest Networking Circle sponsored by members of Women Networking in Electronic Transactions (W.net).

These meetings occur periodically throughout the United States and provide a forum for women in the payments industry to empower and inspire each other through networking opportunities. The featured speaker for LINC Chicago will be Stacey Hanke of 1st Impression Consulting. Her presentation, Speak to be Heard, will focus on executive presence.

Topics she will address include:

- What you say versus how you say it
- The differences between male and female communication styles
- How to be heard in the boardroom
- Communication tips to give you more impact and influence

This event will be from 5:30 to 8 p.m. and is open to W.net members and nonmembers.

When: March 10, 2011

Where: Bottom Lounge, Chicago

Registration: www.w-net.biz/pagedisplay.asp?p1=7963



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



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 Conference Center and Resort, Weston, Fla.

Registration: www.southeastacquirers.com/conference



NACHA – The Electronic Payments Association

Payments 2011

Highlights: Payments 2011 promises to delve into the latest trends in electronic payments and offer a snapshot peak into next-generation payment drivers and solutions. Over 130 ses-



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sions and workshops will be presented in eight tracks that include such topics as the automated clearing house, card solutions, corporate payment solutions, global business, health care opportunities, and mobile banking and payments.

When: April 3 – 6, 2011

Where: Austin Convention Center, Austin, Texas

Registration: www.nacha.org



Payments Source

23rd Annual Card Forum & Expo

Highlights: This comprehensive industry event offers payment professionals cutting-edge strategies, best practices and innovative new products and services. Paul Galant, Chief Executive Officer of Global Enterprise Payments at Citigroup Inc., and other industry leaders will address critical issues affecting card payments.

The expo's five breakout tracks will include: card trends and opportunities, loyalty and the customer experience, emerging payments, regulatory reform and compliance, and security and fraud protection.

When: April 27 – 29, 2011

Where: Fontainebleau Miami Beach, Miami Beach, Fla.

Registration: www.paymentsource.com/conferences/cfe11/index.html



Electronic Transactions Association

ETA 2011 Annual Meeting & Expo

Highlights: A definitive annual event, this gathering is known as the ultimate networking and educational forum for professionals from every segment of the electronic payments industry.

More than 3,000 attendees, 200 exhibitors and 400 companies are expected to participate in this year's meeting. Strategic sessions will cover a range of topics including alternative payments, sales force development, industry regulation and global opportunities.

Slated pre-conference events include ETA Compliance Day, for all things compliance; Prepaid Day, where attendees will learn from leading experts how to leverage in the prepaid market; and the educational ETA University. Other highlights include a president's dinner, golf tournament and entrepreneurial guest speakers.

When: May 10 – 12, 2011

Where: Hilton San Diego Bayfront, San Diego

Registration: www.electran.org/content/category/6/35/118/

Inspiration

WaterCoolerWisdom:

**Culture is the widening of the mind and
of the spirit.**

- Jawaharlal Nehru

Thriving in a multicultural environment

In our always-on, instant-access, globally connected world, payment professionals in the United States find ourselves doing business not only with people who have settled in our great land from all over the world, but also, increasingly, with diverse individuals doing business with us from their native lands.

This presents great opportunity for those of us willing to explore cultures and religions that differ from our own. Some of us are already comfortable interacting with people of diverse backgrounds. But if you're new to this, don't fret. Here are four tips to help you along the multicultural business highway.

Four tips for breaking barriers

1. Learn about other religions

and cultures: A little research goes a long way when it comes to cultural understanding. If you want to do business with an immigrant merchant who has set up shop in your area, read up on the history and current events of the merchant's country of origin.

There may be conditions there that led to his or her move. Understanding such forces can help you establish rapport. And once you've broken the ice, ask sincere questions about the merchant's business and way of life.

2. Don't accept stereotypes:

If you're thinking of establishing partnerships in a new region, but you've heard negative rumors about the people who live there, don't take the stereotypes to heart.

Think of untrue characterizations people outside of your own group have voiced about your culture or religion, and you'll realize how these rigid

statements and beliefs can seriously hamper the development of meaningful business and personal relationships.

3. Always be respectful:

Establishing a working relationship with people from different cultures can take time. Be respectful if prospects keep their distance for longer than you think is reasonable. Don't pressure them.

And never belittle their fears or beliefs. They are likely waiting to open up until you have sufficiently demonstrated that you are someone they can trust. Showing respect is part of gaining that trust.

4. Remember, people are

people: No matter what a person's religion, race or country of origin is, no matter how peculiar or inscrutable someone may seem to you, the truth is that we all, as human beings, have far more in common than we have differences. We have the same basic drives and aspirations. It is not difficult to relate to people of different beliefs and cultures if you keep in mind our common humanity.



Interacting with people from around the world, hearing stories from far off lands, and learning melodic phrases from different languages can all enhance our businesses and enrich our lives. Let yourself enjoy it.

Good Selling!SM

Paul H. Green, President and CEO

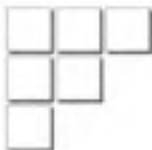
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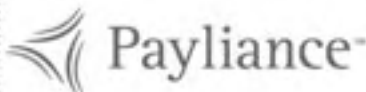
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
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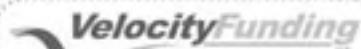
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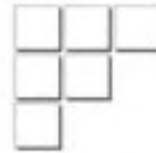
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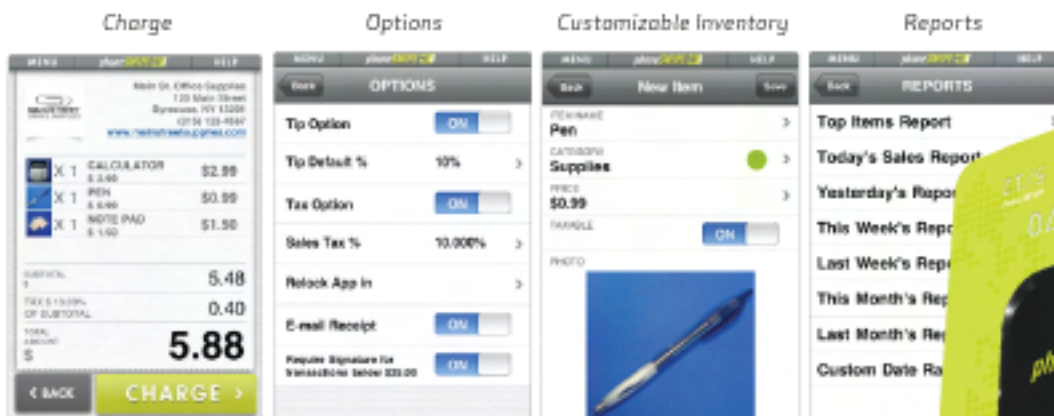
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