



## News

Industry Update.....	14
<b>Trade Association News:</b>	
ETA to launch certification program.....	42
Dodd to address the ETA .....	42
London steers toward open payments by 2012 Olympics .....	44
Merchant coalition backs interchange overhaul.....	46
Girl Scout cookie sales go mobile.....	47

## Features

<b>Selling Prepaid:</b>	
Prepaid in brief .....	32
Has the prepaid tax refund moment arrived?.....	33
Compliance partnership made for two.....	36
<b>ISOMetrics:</b>	
The rise of the debit card .....	38
Research Rundown .....	74
<b>Book Review:</b>	
<b>SOUP: A Recipe to Nourish Your Team and Culture</b>	
Ingredients essential to thriving enterprises.....	76
Boost Your Biz.....	78

## Views

Thoughts on the economy (in hindsight)	
By Brandes Elicht, CrossCheck Inc. ....	24
Cell phones as marketing tools	
By Steve Schwimmer	
Renaissance Merchant Services .....	28

## Education

<b>Street Smarts<sup>SM</sup>:</b>	
Earning and keeping merchants' trust	
By Ken Musante, Eureka Payments LLC .....	58
It pays to keep your customers happy	
By Jeffrey Shavitz,	
Charge Card Systems Inc. ....	62
Security in a mobile world	
By Tim Cranny, Panoptic Security Inc. ....	64
Stockholm Syndrome and the payment pro	
By Jeff Fortney, Clearent LLC.....	66
Helping Level 4 merchants comply with PCI DSS 2.0	
By Joan Herbig, ControlScan .....	68
Leads, leads, leads - Part 2: Lead management	
Peggy Bekavac Olson,	
Strategic Marketing.....	70

March 14, 2011 • Issue 11:03:01

# Congress, Fed pressured to reconsider interchange caps

By Patti Murphy  
The Takoma Group

**A**s the clock ticks down to the start of interchange regulation, pressure is mounting on Congress and the Federal Reserve Board staff to put the brakes on a plan to cap debit card interchange. It's not just bankers who are squawking, either.

Fed Chairman Ben Bernanke and Federal Deposit Insurance Corp. Chairman Sheila Bair both expressed concerns about the proposed regulations during a Feb. 17, 2011, hearing before the Senate Banking Committee. "The full policy ramifications – who's paying for what, who's going to pay more and who's going to pay less under this – is something that maybe wasn't dealt with as thoroughly as it might have been," Bair said.

The Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 is named for the senator who proposed the interchange provisions, Richard Durbin, D-Ill. Included during last minute negotiations over House and Senate versions of the reform bill, the Durbin Amendment instructs the Fed to issue rules to ensure that the interchange fees charged to merchants for accepting debit cards and paid to card issuers are assessed at rates that are "reasonable and proportional" to costs incurred by issuers.

It also deep-sixes card company restrictions on merchant acceptance, such as rules regarding network exclusivity, merchant routing, and discounts for preferred payment methods (for example, debit cards or cash). Community banks – those with assets below \$10 billion – are exempt from the legislation. So are prepaid debit cards.

Under orders to have final rules in place by July 21, 2011, the Fed released a set of proposed rules for public comment in December; comments were due by Feb. 22. The Fed's proposal (which is almost 100 pages long) offers two options for capping debit card interchange; either way, the most an issuer covered by the rules would be allowed to collect would be 12 cents a transaction, which works out to be a 70 percent reduction in average debit card interchange assessment in 2010 (44 cents), according to the Fed's calculations.

Opponents contend the Fed's proposal goes too far. "Based on our personal experience, and those of peers, this cap is neither reasonable nor proportional," said Michelle Mattson, Manager of Genisys Credit Union in Auburn Hills, Mich.



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**Notable Quote**

**While change is not always well-received, the reality is that moving from PCI DSS 1.2 to 2.0 has addressed a number of merchant-initiated questions and challenges.**

See story on page 68



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

**Company Profile**

**FrontStream Payments Inc**

A company created with vision and smarts .....39

**New Product**

A global e-commerce payment solution.....75

**Inspiration**

The mind's the limit – so expand it .....79

**Departments**

Forum.....5  
 Datebook.....77  
 Resource Guide.....80  
 Advertiser Index .....94

**Miscellaneous**

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



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# Forum

## Is it OK to charge IRS reporting fees?

I commented in GS Online's MLS Forum on the IRS reporting issue ... I raised this issue because it appears to me, and some of my MLS associates, that some processors will be using the requirement to report information to the IRS as a means of adding fees and enhancing their revenue.

I would love to see *The Green Sheet* get ahead of this with an article exploring what, if any, the cost is for a processor to report the IRS required information. The idea that a processor must charge a fee to a merchant to verify their TIN makes little sense. The processor should have validated such information when the original application was submitted and entered into their system. Therefore the need to validate is their responsibility, and the cost for doing so should be by them.

Tom Gregory  
N4NW LLC - Complete Merchant Services

Tom,

Comments in an MLS Forum discussion thread titled "IRS can take 28 percent of merchant gross V/MC starting Jan 2012?" appear to indicate complying with this requirement can be quite time consuming, at least initially. Whether it is aboveboard or makes long-term business sense to charge merchants for this is an excellent question. We'd love to hear from other people about this and will ask one of our contributing writers to delve into this topic.

We have touched on the IRS reporting issue previously but haven't discussed whether collecting this information is something processors can charge merchants for. Most recently, advisory board member Justin Milmeister, President of Elite Merchant Solutions, stated the following in "Game changers for 2011 – Part 2," *The Green Sheet*, Feb. 28, 2011, issue 11:02:02:

"Another game-changer is the IRS reporting requirement stemming from the Housing and Economic Recovery Act of 2008, which begins for transactions on Jan 1, 2011, and will require merchant acquirers to report the gross processing volumes from their respective merchants. Now, if the tax identification number (TIN) and business legal name does not match what the IRS has, or if it is nonexistent, the merchant will be subject to IRS withholdings. The kicker here is that even when you do cure this problem, it can take a fair amount of time to get your funds released."

Adam Atlas wrote in detail about the new reporting requirements in "Making hay of new IRS reporting requirements," *The Green Sheet*, Nov. 8, 2011, issue 10:11:01. He did not suggest processors charge merchants for their efforts related to the requirement, but he did mention there could be an upside to the reporting.

He wrote that "you can use this as an opportunity to educate merchants about how they can use the reporting to enhance their business practices and to help ensure they do not run afoul of the IRS. Doing so will, at the very least, make you look good, which could mean happier customers and a stickier portfolio."

Thank you for bringing this issue to our attention. We hope this is the beginning of a spirited, enlightening discussion.

Editor

## Correction

### You can follow up with Tim R. Green

In "Referrals: Do you play the numbers game?" by Bill Pirtle, *The Green Sheet*, Feb. 28, 2011, issue 11:02:02, we provided an erroneous name in the title and first bullet point of the sidebar, which is on page 73 of the print issue. The correct name should be Tim R. Green, not Bill Green. In the article, Bill Pirtle focused on Tim R. Green's knowledge of how to increase the number and quality of your business referrals. *The Green Sheet* regrets the error.

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# QSGS

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

Cover Story

1

## **Congress, Fed pressured to reconsider interchange caps**

As the clock ticks down to the start of interchange regulation, pressure is mounting on Congress and the Federal Reserve Board staff to put the brakes on a plan to cap debit card interchange. It's not just bankers who are squawking, either. Fed Chairman Ben Bernanke and other officials are balking, too.

Feature

33

## **Has the prepaid tax refund moment arrived?**

As tax season revs up, the U.S. Department of the Treasury is embarking on a national pilot program to load tax refunds on general-purpose, reloadable prepaid cards. A total of eight offers with different combinations of messaging, pricing and features will be tested to determine the ultimate winner.

View

24

## **Thoughts on the economy (in hindsight)**

The expression "hindsight is always 20/20" may hold true, but interpretation depends on the view of the beholder. This article presents perspectives of several informed individuals grappling with the root causes of the recent financial meltdown. One claims the crisis was 30 years in the making; another blames it on Alan Greenspan. The question is, where do we go from here?

Feature

42

## **Trade Association News: ETA to launch certification program**

The Electronic Transactions Association is raising the bar for payment professionals everywhere with the planned launch of the industry's first certification program in 2011. Why is the new Certified Payment Professional designation relevant to you? How might it help your business?

View

28

## **Cell phones as marketing tools**

Since nearly 86 percent of the U.S. population owns a cell phone, it makes sound business sense to seize the opportunity to reach customers through this indispensable and powerful device. And it offers one of the few channels to connect with the elusive preteen and teen markets.

News

44

## **London steers toward open payments by 2012 Olympics**

By the time the 2012 London Olympic and Paralympic Games commence in late July, the city's transportation authority expects to have upgraded its citywide bus system to enable an "open" payment platform that accepts contactless, network-branded credit and debit cards for fare payment. That means an upgrade to its Oyster card system.



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The acquisition of the merchant solutions company — a top 10 acquirer in the U.S. — brings TSYS squarely in the middle of where buyers and sellers connect, as a full-service merchant acquirer. Everything that has made FNMS a leader in the acquiring industry — its sage leadership and Omaha-based headquarters — will remain unchanged, but new opportunities abound as we take our business to the next level.

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News

46

### Merchant coalition backs interchange overhaul

An estimated 2.7 million stores have joined the Merchants Payments Coalition in its continued advocacy for implementation of debit card interchange regulation. Why is this piece of legislation so important to retailers, and what do they hope to gain from it?

Education

58

### Street Smarts<sup>SM</sup>: Earning and keeping merchants' trust

Competition is fierce among ISOs, so earning a merchant's trust can differentiate one payment professional from the next. But trust is elusive. How do you know if you are earning it or are even perceived as trustworthy? In this article, tangible ways to deliver this intangible asset are revealed.

News

47

### Girl Scout cookie sales go mobile

For the San Diego and North East Ohio Girl Scout councils, ordering Thin Mints just got a whole lot easier. During this year's cookie drive, Scouts can accept orders through smart phones equipped with card readers. Trials have been promising, so this trendsetting approach just might catch on, one box at a time.

Education

64

### Security in a mobile world

A shift is occurring from processing payments on fixed, stationary devices to mobile devices. And all the signs indicate this trend will ultimately become a permanent part of the technology landscape. This presents an entirely new set of security issues, but there are steps an ISO can take to overcome risks and achieve security compliance in the new age of mobile payments.

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Education

66

### Stockholm Syndrome and the payment pro

Sympathizing with one's captors during a bank robbery or other hostage situation is referred to by Swedish psychiatrists as the "Stockholm Syndrome." It can be said that a similar condition exists when merchants overlook flawed contracts to avoid jeopardizing relationships with their ISOs. Fortunately, there is a treatment plan.

Education

68

### Helping Level 4 merchants comply with PCI DSS 2.0

Armed with proper knowledge and an effective game plan, PCI DSS 2.0 compliance for Level 4 merchants can be achieved. This article provides tips for ISOs and merchant level salespeople on who can offer assistance and what resources are available to help guide merchants through the process.

Education

70

### Leads, leads, leads - Part 2: Lead management

Although companies can pour significant funds into lead generation efforts, few leads convert to actual sales unless the leads are managed effectively. This second in a three-part series on sales leads covers the essential tools for developing a lead management program that yields results.

Inspiration

79

### The mind's the limit - so expand it

As creatures of habit, we often fail to reach our full potential. Being busy, we tend to learn enough to solve the problem at hand and then move on to the next issue demanding attention. Sometimes, too, we heed self-imposed limits that are so long-standing they seem like inviolate truths. But we can dissolve learning boundaries and gain mastery over our lives.

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# IndustryUpdate

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## NEWS

### Hypercom shareholders give thumbs up to VeriFone

**Hypercom Corp.** shareholders approved the merger with **VeriFone Systems Inc.** The deal is expected to close in the second half of 2011, pending regulatory approval. The proposed merger, disclosed in November 2010, was approved by more than 99 percent of the shares voted, which accounted for approximately 80 percent of shares outstanding. VeriFone is buying its competitor in the POS equipment market in a stock transaction valued at \$485 million. The merger positions VeriFone to dominate international markets for POS terminals and systems. In a Jan. 12, 2011, filing, VeriFone stated the company's intention to sell off Hypercom's U.S. business, perhaps to avoid federal objections on an anti-trust basis. The company said Hypercom could enable VeriFone to expand its business in Europe, where VeriFone has had less success than elsewhere.

### Heartland turns it around, Elefant honored

Revenue at **Heartland Payment Systems Inc.** rose 5.1 percent year over year to \$110.5 million during the quarter ended Dec. 31, 2010. The company reversed its loss in the prior year's quarter of \$9.4 million, or 26 cents a share, when Heartland was still paying sizable settlements related to fraud from a 2008 data breach. Even after \$632,000 in expenses related to the breach in the most recent quarter, Heartland posted a profit of \$6.85 million, or 17 cents a share. For the full year, profit totaled \$34.9 million, versus a loss of \$50.7 million a year ago.

Small and midsize merchant transaction processing volume of \$15.7 million was up 6.8 percent from a year ago.

Same-store sales grew at the fastest rate in over three years, according to the company.

In other company news, Steve Elefant, Chief Information Officer at Heartland, was named a 2011 Premier 100 Information Technology Leader by *IDG Computerworld*. The Premier 100 spotlights leaders for their innovative ideas and effectively managed information technology strategies. Elefant joined Heartland in 2008. He was instrumental in the management and development of the company's E3 encryption technology. Heartland launched E3 in May 2010. Since then, it has been adopted by 11,000 retailers and business owners. Heartland Chairman and Chief Executive Officer Robert O. Carr stated, "We congratulate him for these accomplishments and this well-deserved recognition."

## ANNOUNCEMENTS

### CardinalCommerce scores another patent

**CardinalCommerce** was awarded a patent for its method of extending a payment system's architecture to mobile applications via text messaging. It is the company's eighth patent issued by the U.S. Patent and Trademark Office.

### ChargeSmart moves to larger offices

Alternative payment provider **ChargeSmart Inc.** relocated to larger headquarters in San Francisco. The company reported that within the last year, it increased transaction volume over 400 percent and now serves 300,000 clients in the United States.

### Clearent's ISO business grows

Missouri-based **Clearent LLC** indicated its merchant account processing business experienced triple-digit

BOTTOM  
LINES

HEADLINES  
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- According to the **National Retail Federation's 2011 Tax Returns Consumer Intentions and Actions Survey**, conducted by **BIGresearch**, 13.2 percent of Americans will spend their refunds on big-ticket items this year, up from 12.5 percent in 2010.
- **Nissan North America Inc.** reported record February 2011 U.S. sales of 92,370 units versus 70,189 units a year earlier, an increase of 31.6 percent. Nissan Division sales were up 31.8 percent for the month and also set a new February record. Sales of Infiniti vehicles rose 29.9 percent over the prior year.
- **General Mills** expects its global cereal sales to grow by \$1 billion to \$4.8 billion through 2015, according to a company statement. Through **Cereal Partners Worldwide**, a joint venture with Nestlé, the company operates in 130 countries beyond the United States and Canada.

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## Industry Update

growth in 2010. In the fourth quarter, seven new ISOs and six financial institutions (FIs) signed with Clearent for account processing.

### Fiserv debit network sees record growth

**Fiserv Inc.** said its Accel/Exchange debit payment network experienced record-setting growth in total transactions in 2010. POS transactions grew nearly 30 percent, to more than 1.15 billion, while ATM transactions increased by 22 percent, to 82 million. More than 300 FIs joined the network in 2010, bringing total FI membership to about 2,800.

### Itautec enters U.S. ATM market

**Itautec**, a Brazilian electronics manufacturer specializing in ATMs, entered the U.S. market. The company began selling its Adattis ATMs, cash dispensers and kiosks to credit unions and banks. Itautec (pronounced ē-tau-tek) has 6,000 employees worldwide and opened its U.S. headquarters in Doral, Fla.

### Mutual of Omaha adopts FTNI platform

**Mutual of Omaha Insurance Co.** implemented the ETran ePayment system from **Financial Transmission Network Inc.** The managed-service platform incorporates Payment Card Industry (PCI) Data Security

Standard (DSS) compliant card processing, check scanning and automated clearing house processing.

### UBC signs 1,000 trainees

**United Bank Card Inc.** registered its 1,000th trainee to its Harbortouch training course, which prepares ISOs for its free POS system program. ISO partners can offer merchants a free Harbortouch system with integrated payments.

### Utiba expands mobile clearinghouse services

Singapore-based **Utiba Pte.** – whose platform enables mobile network operators, banks and payment service providers to provide mobile payment services to customers – launched an initiative to create a large-scale, international mobile-to-mobile remittance clearing house. Its services include corridor routing, transaction settlement and foreign currency exchange. Utiba's U:Hub platform currently handles over \$100 million in transactions per month.

### VeriFone takes PAYware Mobile global

**VeriFone** launched a second generation of its PAYware Mobile Service and expanded it to new markets. The gateway service begins this quarter in the U.K. and Canada. Countries in Europe, Latin America and Asia will be added throughout 2011. PAYware Mobile allows small businesses to accept smart cards and contactless payments, as well as mag-stripe cards.

## PARTNERSHIPS

### Provider and developer team up to benefit FIs in fraud

Payment systems provider **ACI Worldwide Inc.** and monitoring-system developer **Integrated Research Ltd.** launched Prognosis for ACI Proactive Risk Manager. The system assists FIs in monitoring their fraud systems in real time.

### ISO Banctek signs with Cynergy Data

Colorado-based sales office **Banctek Solutions** signed a new processing alliance with **Cynergy Data LLC.** Cynergy's reporting system, back-end processing and ability to place high-risk merchants onto its platform reportedly were factors in the choice.

### CardinalCommerce selects HomeATM

**CardinalCommerce** made available to its merchants the Rover POS terminal from **HomeATM-AnywhereCommerce.** The terminal is certified as a PCI 2.1-compliant PIN entry device. The Rover is offered to merchants using the Cardinal Centinel Universal Merchant Platform.

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## Industry Update

### FIS adopts FICO fraud platform

Fidelity National Information Services Inc. deployed the Falcon Fraud Manager 6 platform from Fair Isaac Corp. The system uses POS device behavior patterns to thwart fraud.

### Fifth Third signs six

Six credit unions signed contracts with Fifth Third processing Solutions LLC for electronic funds transfer services, including ATM and card processing, card production, fraud protection, debit marketing, rewards and gateway services. The credit unions are My Credit Union and USE, VAMC Fayetteville Federal, Turtle Creek Federal, Freestone and Montana Educators' credit unions.

### First Data offers PIN debit to e-merchants

First Data Corp. is offering its online merchants the PaySecure PIN debit service from Acculynk. The service provides merchants an additional security measure to reduce card-not-present fraud.

### MasterCard, Symantec, NagraID develop display card

MasterCard Worldwide, NagraID Security S.A. and

Symantec Corp. introduced the MasterCard Display Card in Europe and Asia. The card has strong authentication security features, including generation of one-time passwords, according to the companies.

### MetroBank integrates Accertify gateway

Panama-based MetroBank S.A. integrated the Interceptas fraud-prevention platform from Accertify Inc. to help payment processors and merchants in Latin America combat card fraud.

Accertify's payment gateway adds another level of security for transactions over any major payment network.

### MnCUN expands relationship with CO-OP Financial

Minnesota Credit Union Network expanded its marketing partnership with CO-OP Financial Services. The credit union now offers all CO-OP products and services.

### NewNet and Perceptive Development join forces

NewNet Communication Technologies LLC and Perceptive Development Inc. demonstrated their secure

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## Industry Update

mobile payment system at the GSMA Mobile World Congress in Spain in February 2011. The collaboration marries Perceptive's FlexTransact mobile payment software services with NewNet's payment processing platforms, which deploy derived unique key payment transaction encryption.

### Panini and Cachet build RDC system for the Mac

Remote deposit capture (RDC) specialists **Panini and Cachet Financial Solutions** teamed to offer RDC capability to small businesses using Apple Inc. Macintosh computers. The partnership's RDC Select system reportedly offers native support in a Mac environment.

### PTC implements check acceptance from FTNI

**Paperless Transaction Corp.** adopted ETran RDC check acceptance services from **FTNI**. ETran's hosted service capability and ability to be bank agnostic were factors in the selection of FTNI, according to PTC.

### PayDQ implements MasterCard RPPS

**PayDQ** adopted **MasterCard's** Remote Payment and Presentment System. RPPS allows PayDQ clients to settle bill payments electronically through PayDQ's EZPost platform, rather than waiting for paper checks to arrive and be processed.

### TMG signs four CUs for processing

**The Members Group** added a new credit union client and renewed partnerships with another three. **Patriot Federal Credit Union** signed on for processing its debit, PIN and ATM accounts. Re-upping with TMG are **United Nations Federal, Honda Federal and Orlando Federal** credit unions.

### VeriFone provides NFC to Garanti Bank

**VeriFone** provided 10,000 near field communication (NFC) contactless payment acceptance systems to **Garanti Bank** for merchants in Turkey. The commercial rollout of Garanti's integrated NFC SIM mobile payments program involves Turkish mobile network operator **Avea**.

### Sage buys fifth merchant portfolio in a year

**Sage Payment Solutions**, the payment division of Sage North America, acquired a small portfolio of merchant customers processing on third-party platforms from **Heartland**. It is Sage's fifth merchant portfolio acquisition in the past year.

## APPOINTMENTS

### AFCE elects two to board of regents

Two prominent certified fraud examiners were elected to the board of regents of the Association of Certified Fraud Examiners.

**Johnnie R. Bejarano** and **E. Wendell Hopewell** join other board members in setting membership standards. Bejarano, a senior financial analyst, is area Chair of Accounting and Finance at the Denver, Colo. campus of the University of Phoenix School of Business. Hopewell is Managing Director of Forensic Professionals LLC.

### First Data announces new team leadership

Following a reorganization, First Data assembled a new leadership team for North America. The integration of business operations and management in North America reportedly better positions the company amid regulatory changes and other developments transforming the industry. Nine Senior Vice Presidents report directly to North America President Ed Labry:

- **Vickie Brown**, Wal-Mart Stores Inc. Partnership Management
- **Jim Contardi**, Product Solutions
- **Kelley Everetts**, Client Care and Implementation Support
- **Kim Fitzsimmons**, Merchant Services and Community Banks
- **Mark Herrington**, Global Product Management and Innovation
- **Matt Kardell**, National Clients and Alliances
- **Pete Korpady**, Global Network Management
- **Barry McCarthy**, Strategic Clients and Alliances
- **Stan Wilson**, Business Development.

In First Data's Global Product Management and Innovation organization, the following executives now lead the following product areas: **Kevin Barry**, Network Solutions; **Steve Boehm**, Issuing Solutions; **Bruce Dragt**, POS Solutions; **Jeff Johnson**, Prepaid Solutions; **Dom Morea**, Advanced Solutions and Innovation; and **Silvio Tavares**, Information and Analytics Services.

### SignaPay appoints Jones

SignaPay LLC hired **Kevin G. Jones** to assume the role of President, a title previously held by Founder

## ACQUISITIONS

### Neovia acquires Optimal Payments

**Neovia Financial PLC** completed the acquisition of **Optimal Payments**, a payment processor based in Montreal, Canada. The deal was announced Jan. 20, 2011. Neovia reportedly intends to change its name to Optimal Payments PLC. Optimal founder and CEO Joel Leonoff was appointed Executive Director of the combined company.

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## Industry Update

and CEO John Martillo. Jones had been Vice President for Sales and Marketing at First American Payment Systems LP.

### PAY.ON's Kuzelj departs

Following the departure of Chief Sales Officer and cofounder **Robert Kuzelj**, Germany-based PAY.ON AG appointed Chief Operating Officer **Nikolaus von Tayson** to also lead sales.

Kuzelj was also a member of the board. He retains his shares and will remain closely related to the company as a sales partner and expert in global payments technology.

### ViVOTech beefs up leadership team

NFC systems leader ViVOTech hired six senior Silicon Valley and European technology executives. They include:

- **Lance Nakamura**, Vice President of Systems Engineering and Development, who was Vice President of Product Development at Semtek, Chief Technology Officer at WAY Systems Inc., and Chief Architect and Vice President of Hardware and Systems Development at VeriFone.

- **Dickey Singh**, Vice President of Software Engineering and Development; he had executive engineering roles at Replay Solutions LLC and MarketTools Inc., as well as management positions with SPSS Inc. and Tata Consultancy Services Ltd.
- **Dave Kleinberg**, Vice President of Software Product Management and Marketing; most recently, he was CEO of startups Opelin Inc. and General Interface, which were acquired. Kleinberg was also cofounder and Executive Vice President at NetObjects Inc. and Director of Product Management at Macromedia Inc.
- **Stuart Taylor**, Vice President of Systems Product Management and Marketing; previously, he was Vice President at Hypercom and VeriFone.
- **Bob Cook**, Vice President of Sales, Financial Markets; he held several senior management positions at VeriFone, including corporate officer with profit-and-loss responsibility and Vice President and General Manager of several divisions and channels.
- **Steve Hine**, Vice President of Sales, EMEA; Hine was Head of Service Sales at Wincor Nixdorf in the U.K., Sales and Marketing Director at Ingenico, and Vice President of Sales at ACI Worldwide. ☐

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# Thoughts on the economy (in hindsight)

By Brandes Elitch

CrossCheck Inc.

**R**ecently, writer Michael Hirsh released a book called *Capital Offense: How Washington's Wise Men Turned America's Future Over to Wall Street*. His theory is that the financial crisis was 30 years in the making.

## How did we get here?

"It began with the counterrevolution led by Milton Friedman, and in the political sphere by Ronald Reagan, against Keynesian economics, against too much government and regulation," Hirsh wrote. This process was turbocharged by the end of the Cold War, when it became clear to policymakers on both sides of the aisle that markets had to be allowed to operate unencumbered.

"This created a mentality that overreached in the long run through these years, during which it became a kind of heresy to advocate government intervention or even

government oversight," Hirsh stated. "Regulation became a kind of lost art. ... A whole series of policy decisions from the late 1980s on through the 1990s and early 2000 ensured that you would have this multitrillion-dollar market (structured financial products) that was effectively completely unmonitored."

Hirsh tells the story of a Brooksley Born, who was Chair of the Commodities Futures Trading Commission in the 1990s. Early on, she was concerned about the unregulated over-the-counter (OTC) derivatives market. She called it, "the hippopotamus under the rug."

The top government officials involved (Robert Rubin, Alan Greenspan and Larry Summers) told her to go away. Of course, it was unregulated derivatives (such as credit default swaps) that were major causal factors of the financial crisis.

A congressional inquiry panel, the Financial Crisis Inquiry Commission, concluded, "The greatest tragedy would be to accept the refrain that no one could have seen this coming, and thus nothing could have been done. ... If we accept this notion, it will happen again."

## Who's to blame?

Said commission found fault with two Federal Reserve chairmen: Alan Greenspan, a skeptic of regulation who led the central bank as the housing bubble expanded, and his successor, Ben Bernanke, who did not foresee the crisis but played a crucial role in the response.

The commission criticized Greenspan for advocating financial deregulation and cited a "pivotal failure to stem the flow of toxic mortgages, as the 'prime example' of government negligence." It also criticized the Bush Administration's "inconsistent response" to the crisis by allowing Lehman Brothers to go bankrupt after bailing out Bear Stearns Companies Inc. This added uncertainty and even panic to the financial markets. The decision to shield OTC derivatives from regulation, made during the Clinton Administration, was critical.

According to the commission, the New York Fed "could have clamped down" on excesses by Citibank, but didn't. Regulators (particularly the Office of the Comptroller of the Currency and the Office of Thrift Supervision, which were in turf wars battling each other) "lacked the political will" to scrutinize the investment and commercial banks they were supposed to oversee.

The credit rating agencies were worse than incompetent. The real blame lies in what might be called bumbling


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incompetence by bank and corporate chief executives, of which the list is endless – it was just poor business sense and lack of judgment. But there might be one chief tortfeasor (wrongdoer).

In a new book, *Griftoptia: Bubble Machines, Vampire Squids, and the Long Con That Is Breaking America*, author Matt Taibbi blames one person: Alan Greenspan, who created "The Greenspan Put," a belief system that the Fed would bail out large financial institutions with cheap money.

After he became Chairman in 1987, Greenspan faced a series of financial crises: Orange County, Calif. and the Mexican peso crisis in 1994, the 1997 Asian Flu, the Russian debt default, the implosion of Long-Term Capital Management in 1998, the bursting of the dot-com bubble in 2000, the 9/11 terror attacks in 2001 and the beginning of the end of the housing bubble in 2006.

In each case, Greenspan's "solution" was to flood the system with money and bail out the speculators. He pushed for deregulation (such as the repeal of the 1932 Glass-Steagall Act) and opposed efforts to regulate derivatives, predatory mortgage lending or anything else. Then he refused to take responsibility for his own actions.

Deutsche Bank Managing Director Ajay Kapur wrote in a research report in 2009, "We were all drinking the Kool-Aid, while Greenspan was tending bar, and Bernanke and the academic establishment were supplying the liquor." Judge for yourself whether Greenspan is an incompetent.

### Who's not to blame?

Low interest rates created by the Fed after 2001 created increased risks, but were not a critical factor in creating our financial woes. The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corp. (Freddie Mac) also contributed to the crisis but were not a primary cause, nor will doing away with Fannie and Freddie solve all the problems in the mortgage market right away.

Encouraging subprime debt was a factor, but this crisis was about more than subprime debt (when it first came to the public's attention, everyone thought that this was just about a few hundred million dollars in subprime debt. It wasn't).

### What role did the big banks play?

The nation's five largest investment banks had only \$1 in capital to cover losses for about every \$40 in assets.

Thus, a 3 percent drop in asset values could wipe out these firms. The banks hid their excessive leverage using derivatives, off-balance-sheet entities and other devices. The speculative binge was abetted by a giant "shadow banking system" in which banks relied heavily on short-term debt.

Neil Barofsky, the special inspector for the Troubled Assets Relief Program (TARP), said TARP's biggest legacy is "the moral hazard and potentially disastrous consequences associated with the continued existence of financial institutions that are 'too big to fail.'"

Nevertheless, the big banks response is to say, "If you regulate us, we will move to other countries," (like that could happen) and "public policy priority should not be banks, but rather the spending cuts needed to get budget deficits under control." Let's get real: the banks lobbied long and hard (almost \$3 billion in lobbying from 1999 to 2008 and another billion in campaign contributions) for rules that allowed them to behave recklessly, which they did.

### Is America on the decline?

Daniel Altman just released a book called *Outrageous Fortunes: The Twelve Surprising Trends That Will Reshape the Global Economy*. He concludes that the United States has some good fundamentals for business and innovation.

One of our biggest advantages is our ability to sell. "We can sell our own products, sell other people's products, and we'll be able to teach other people to sell," he wrote.

We take this skill for granted, but it doesn't happen in the rest of the world. "We're very good at coming up with



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## View

products and services that appeal to people no matter where they're from," Altman stated. Isn't this what we do as ISOs?

### Is California a basket case?

You have probably heard rumors that California will default on its debts. Decades of "crazy liberalism" and "runaway spending" have destroyed the economy and caused "wealth creators" to flee the state. Actually, the budget deficit (call it \$20 billion for starters) is less than 1 percent of the state's gross domestic product. This is a political problem, not an economic problem.

Over the last 10 years the California economy has grown faster, per person, than the national average, according to the U.S. Bureau of Economic Analysis. It's grown 10 times faster than the Texas economy. According to PriceWaterhouseCoopers and the National Venture Capital Association, California got 50 cents out of every venture capital dollar in 2010.

Regarding taxes, the Tax Foundation stated that in 2008 (the most recent year analyzed), state and local taxes in the average state came to about 9.7 percent of the annual state economy. In California, it was 10.5 percent, a less than 1 percent difference. And regarding a "bailout," California sends billions of dollars in surplus dollars to

the rest of the country, because we send vastly more in federal taxes than we ever get back in federal spending.

The Tax Foundation calls this a "fiscal transfer." During the 25-year period ending in 2005, California bailed out the rest of the United States to the tune of about \$620 billion in today's dollars. By comparison, other states in the South and West haven't balanced their budgets without incoming fiscal transfers from the federal government.

Will California default? State debt costs come to just \$6 billion a year, a fraction of the \$90 billion budget. Under the state's constitution, interest on the debt gets paid second (after kindergarten through twelfth-grade education). Yes, there is a big gap: \$100 billion-plus in the state pension and benefits system. But the state's economy is \$2 trillion a year – 14 times the size of the pension-fund gap.

### What's next?

If you thought about all of the economic factors, domestic and international, that are problematic, it would make you crazy. I try not to do that. But one thing does worry me: the increasing gap between the rich and the middle class.

Because I work for a company in the check guarantee and collection business, I pay attention to demographics. The reason we have a company in the first place is because of these demographics. Our check product makes a sale happen that would not otherwise happen, and our accounts receivable management product converts uncollected bills into cash, the lifeblood for small business.

Due to the housing bubble, the gap between the rich and the middle class is larger than ever. Don't believe me? A study in 2009 by the Economic Policy Institute (based on the Fed's survey of consumer finances and flow of funds report) showed that the richest 1 percent of U.S. households has a net worth 225 times that of the average American household. The average household's net worth is \$62,200.

Middle class incomes have been stagnant for at least a generation. Remember, ISOs get paid on clicks when American consumers buy something. The "trickle-down" theory of economics was disproven a long time ago. For you to make money, consumers have to spend money. The question is how to stimulate the economy without increasing deficits or the risk of inflation. I don't have an answer. ■

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

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# Cell phones as marketing tools

By **Steve Schwimmer**

*Renaissance Merchant Services*

**A**s merchant services providers, it is important, especially in a changing economy, for us to look at any business climate as one of opportunity. Also, business continuity depends on growth through service and innovation, so it's essential to keep abreast of emerging business services and trends, in particular those employing new technology, because the offerings for the small to midsize business sector are changing in dynamic ways.

I am a believer in growing from within. Your client base can help you achieve that while providing a platform for even greater expansion. Existing clients can offer you support while also serving as your greatest sounding board before taking on something new. So, why not explore new opportunities with them?

## Advantages of cell phone ubiquity

Recently, I became aware of a company providing marketing services entirely over the cell phone platform. It comes as no revelation that our reliance on the cell phone for personal use has grown exponentially, but for many, a marketing service utilizing the cell phone appears out of reach. But this is not the case.

Keep in mind marketing and advertising can be budget-busters for many small businesses. This is why I only present to my clients ways for them to spend prudently to get the desired results.

Nearly 86 percent of the U.S. population owns a cell phone, so it only makes sense that a business would relish the opportunity to reach customers through the one item never far from reach: the cell phone.

Text-message marketing and proximity marketing are two effective tools that use the cell phone to reach customers on the go, while also providing businesses the ability to penetrate their target markets more effectively – and for less.

## The gentle learning curve

Before I was able to sell my clients on mobile marketing services, I had to spend time with a company that looked

promising to make sure not only that support for the technology existed, but also that support for my clients and myself would be available. I chose Rapid Response Mobile Marketing Inc. located in Garden City, N.Y.

After a series of webinars and discussions with the marketing and technical manager assigned to my account, I was able to bring the service to some of my more tech-savvy clients. I want to point out the entire process from being a novice on this technology to being able to sell it – with great proficiency – was a matter of days.

The company's staff worked with me to set up the program's back-office support for each of my clients. I discovered my customers are eager for new technology, so it was an easy way to open the door, and they were intrigued with ways to reach consumers on the go.

## A chance to tap new markets

While cell phone usage continues to grow among the overall population, it is one of the only ways to reach the preteen (tween) and teen markets. Teenagers are a powerful purchasing group. They spend a great deal of time on their cell phones, which are generally of better quality and sport more features than the ones their parents use.

One of my clients is a fashion boutique with five locations on Long Island targeting the tween and teen markets. We designed a program involving proximity marketing at one location as a test in addition to text message marketing at all locations. The program was so successful in the first week, the client immediately expanded it. A surprise benefit to the business owner was the ability to monitor how some locations were doing compared with others. Great market research data and increased sales have made them big fans of the technology.

Another client I introduced to the service is a chiropractor. He uses the text message marketing program, as well as the proximity marketing service.

Another client I introduced to the service is a chiropractor. He uses the text message marketing program, as well as the proximity marketing service.

## The way it works

Text message marketing technology is truly innovative, and it works for any type of business. It provides an opt-in program for customers and prospects looking to receive offers and promotions directly via their mobile

**Nearly 86 percent of the U.S. population owns a cell phone, so it only makes sense that a business would relish the opportunity to reach customers through the one item never far from reach: the cell phone.**

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## View

phones. Once they have opted in, establishments simply have to sit back and let business happen.

The text message program includes all supporting signage for tabletops and for larger areas like the front door or window. The signage invites customers to sign up to receive special offers and discounts by texting a keyword to a five-digit number, also known as a short code. The short code is much like a telephone number, but shorter. And it doesn't require country or area codes, allowing it to be used anywhere.

My chiropractor client uses the texting service to remind customers of upcoming appointments and inform them of special prices on services to fill the appointment book during slow periods.

The technology is an effective add-on service for my restaurant and bar establishment clients. For my retail clients, I recommend a text message about twice a month. For service-oriented businesses, once a week gets patrons coming through the door.


The service works for one of my restaurants by delivering customers during slow periods by sending text messages with incentives such as a free drink, free dessert with lunch or two meals for the price of one. When a message

is sent out during specifically targeted times, the service motivates customers to react to such offers.

I often recommend my food and drink establishments use this program on a Friday afternoon or early evening during slower periods.

### A new form of customer service

I typically help my clients decide on the type of messages to use and their content. From there, messages are sent out either in real time or scheduled for a future date through Rapid's password-protected, online dashboard, which allows users to view messages, track redemptions and send out bar-coded offers for scanning from cell phones at the POS.

The ability to provide clients multiple modes of marketing over the cell phone platform is an exciting business development. I encourage all to investigate it. Here's an astounding statistic by the Mobile Marketing Association: text messages have a 98 percent read rate. Simply put, messages are being read, and business is happening. 

*Steve Schwimmer has been serving the payment processing industry since 1991 and is the Long Island Director of Sales for Renaissance Merchant Services in Syosset, N.Y. Call him at 516-746-6363 or email him at thevisaguy@516phoneme.com.*

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# Selling Prepaid



## Prepaid in brief

### NEWS

#### European prepaid market to hit 160 billion euros by 2017

U.K.-based **PSE Consulting** said the European prepaid card market is moving toward critical mass. By 2017, the market will reach 160 billion euros (over \$200 billion) in annual spend, representing 6 billion transactions, according to research conducted by PSE. The consultancy expects about 65 percent of spending on prepaid cards in the market in 2017 to come from the "Germanic region" of Europe, along with the U.K., France and Italy.

#### Bill to regulate prepaid phones introduced in Philippines

It was reported in the *Manila Standard Today* that the **Philippines' Department of Justice** endorsed a proposal put forth by a member of the South Asian country's congress to require prepaid cell phone buyers to register their phones with authorities as a crime prevention method. Senate Bill 2644 would require prepaid phone purchasers to register the subscriber identification module cards to help the Philippines' law enforcement community fight extortion and other crimes, according to the news outlet.

#### Double-digit growth forecasted for prepaid in India

Research conducted by **The Global Prepaid Exchange** indicates that players in India's prepaid card market have reason to be optimistic. The global association forecasts that the market opportunity for prepaid cards in India will be \$9.3 billion in 2011, with travel, gift, payroll and government benefit cards leading the way. The consulting firm predicted large growth for gift (30 percent), payroll (20 percent) and government benefit (15 percent) cards.

### ANNOUNCEMENTS

#### BillMyParents signs skateboarder as 'brand ambassador'

Socialwise Inc.'s **BillMyParents** subsidiary signed pro-

fessional skateboarder Rob Dyrdek to a multiyear contract as a spokesman and brand ambassador to communicate the advantages of the teen spending prepaid card program through commercials, on the company's website, in viral video campaigns and through social media initiatives.

#### GiftCardGreatness.com says mobile gift cards increase sales

Smart Transaction Systems' **GiftCardGreatness.com** touted mobile gift cards as a way for small merchants to increase business. The company said "m-gift" cards, which are sent via text messages to recipients' cell phones, help businesses capture revenue they might otherwise have lost by offering relevant products to specific customer segments, such as teens and last-minute gift-givers.

#### MoneyGram re-signs grocery chains

**MoneyGram International** renewed contracts to provide money transfer services in Raley's Family of Fine Stores and Stater Bros. Markets, which in total add 287 new locations to MoneyGram's network.

#### SelectCore launches Canada's 'first' retail reload network

Prepaid card processor **SelectCore Ltd.** said its new ReCash service is Canada's "first ubiquitous cash reload network for prepaid stored-value cards." For the initial rollout, thousands of Canadian retailers with SelectCore-owned VeriFone Inc. terminals will become ReCash "branches" and "tellers."

### PARTNERSHIPS

#### Blackhawk expands with Argos overseas

Safeway Inc.'s gift card mall subsidiary **Blackhawk Network** heralded the expansion of its partnership with U.K. retailer **Argos Ltd.** and its intent to put gift card malls in stores throughout the United Kingdom, including Ireland.

#### New partnership for mobile top-ups in Philippines

**MoneyGram**, text message provider **Iris Wireless LLC** and Philippines-based telecommunications company **Globe Telecom** agreed to provide global prepaid mobile top-up services to Filipinos living in the United States for mobile money transfers to friends and family in the Philippines.



### NetSpend teams with auto insurers

NetSpend Holdings Inc. inked deals with auto insurance companies **First Acceptance Corp.** and **The General Automobile Insurance Services Inc.** NetSpend said its general purpose reloadable cards can be used by the companies' unbanked policyholders to pay insurance premiums electronically.

### Western Union, Etisalat to mobilize in 18 countries

The **Western Union Co.** teamed with mobile telecommunications company **Etisalat Group** to introduce the Western Union Mobile Money Transfer service in 18 countries where Etisalat operates in Asia, the Middle East and Africa.

### Game publishers go for open, virtual currency solution

Zeevex, an InComm company that offers an open, virtual currency platform for retailers, signed agreements with online game publishers **Goozex Inc.**, **2Pay Inc.**, **Snail Games USA**, **Quest Online LLC** and **Gamania Digital Entertainment Co. Ltd.** Zeevex offers a distribution network at over 50,000 retail locations in the United States where Zeevex's virtual currency prepaid cards are sold.

## ACQUISITIONS

### Hotgate subsidiary buys China prepaid card issuer

Hotgate Technology Inc., through its subsidiary **Shanghai Hongsheng Net Telecommunications Company Ltd.**, agreed to purchase **Shanghai QianYue Business Administration Co. Ltd. (QBA)** for approximately 10 million renminbi (China's official currency). QBA is a prepaid card issuer in Shanghai.

### Syscan Technology buys prepaid card business in China

China-based two-dimensional barcode technology, product and solutions provider **Syscan Technology Holdings Ltd.** purchased **Country Praise Enterprises Ltd.** for HK\$150 million (in Hong Kong dollars). Country Praise, which issues prepaid cards in China, operates in Beijing, Shanghai, Shenzhen and Chengdu, among other cities.


## APPOINTMENTS

### MoneyGram promotes Agualimpia to EVP and CMO

**Juan Agualimpia** was promoted to Executive Vice

President and Chief Marketing Officer at MoneyGram. His new responsibilities include global branding, marketing and product management.

### Travellex appoints two payment veterans to team

Travellex Global Business Payments added two executives to its management team. **Andrew Wiseman** was appointed to lead Global Products and Marketing and **Nick Masterson-Jones** was named CIO and leads development of Travellex's payment platform, GEO. 



## Feature

## Has the prepaid tax refund moment arrived?

**A**s tax season heats up, the U.S. Department of the Treasury is embarking on a national pilot program to load tax refunds on general-purpose, reloadable prepaid cards. In a webinar, **Melissa Koide**, Vice President for Policy at the Center for Financial Services Innovation, hailed the MyAccount-Card pilot as a "pretty powerful moment" in the lives of unbanked and underbanked tax filers.

The pilot began in January 2011. The Treasury Department, which chose **Bonneville Bank** to issue the cards and **Green Dot Corp.** to manage the program, credited CFSI's Savings and Financial Electronic Transaction (SAFE-T) Accounts proposal as a road map for the direction of the program.

The SAFE-T Accounts proposal, authored by Koide, said a tax refund card should be affordable, user friendly, underscored with consumer protections and help cardholders build savings.

Not only would such a program provide low-income households with a convenient and accessible financial tool for handling tax refunds, but it would also save the federal government millions of dollars annually in reduced paper check processing and mailing, Koide wrote.

### Opportunity for low-income filers

In the webinar entitled *Treasury Department's Launch of a Tax Time Prepaid Card Program*, Koide said 26 million tax filers received tax refunds on paper checks in 2010, worth \$58 billion.

## Selling Prepaid

Of households with an adjusted gross income of less than \$30,000, over 50 percent received paper checks, Koide reported.

The webinar featured Josh Wright, Director, Financial Access Innovations Office of Financial Education and Financial Access at the Department of the Treasury, who outlined the pilot program. Wright said 600,000 tax filers who opt to receive refunds on paper checks rather than have those funds direct deposited were randomly chosen to receive one of eight different MyAccountCard offers.

The eight offers have different combinations of messaging, pricing and features.

For example, one offer emphasizes the convenience and speed of refunds using the card, while another offer focuses on the card's safety and security aspects. In addition, offers were differentiated by price (\$4.95 monthly fee versus no fee) and whether or not the card would come with a savings account feature.

All the offers tout free ATM withdrawals and account balance checks at 15,000 network locations nationwide and free POS transactions in the United States. But fees are charged for withdrawals at out-of-network ATMs, teller cash withdrawals, and to replace a lost or stolen card.


Wright said the goal of the pilot is not to see how many people opt to use the cards, but which of the eight offers are more popular and how the cards are used.

### Benefits to the unbanked

The final webinar presenter, Robin McKinney, Director of the Maryland CASH (Creating Assets Savings and Hope) Campaign, discussed how publically funded tax preparation firms have transitioned from solely helping people file tax returns to helping them open bank accounts, split up tax refunds and drop the amounts into multiple accounts, and purchase U.S. savings bonds.

Another development is that tax preparers now offer direct deposit of refunds onto prepaid cards, McKinney said. Benefits of the cards include:

- Returns can be received almost twice as fast through direct deposit versus paper check.
- Filers do not have to rely on check cashing businesses, which charge what are often considered exorbitant check cashing fees.
- Filers' safety and security can be increased, as they do not have to carry cash around tax time, when burglaries and assaults go up.

For these reasons, McKinney is excited about the possibilities for the Treasury's MyAccountCard program to improve the lives of the unbanked. 



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- 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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## Prepaid profile

**Keane & Card Compliant LLC**

### Compliance partnership made for two

**W**ith the complex and evolving state and federal laws targeting the leftover funds on unused gift cards, issuers of closed-loop gift cards, as well as program managers, will likely take interest in a recent partnership between unclaimed property consultancy Keane and stored-value card consultancy Card Compliant LLC. The partnership, consummated in November 2010, combines Keane's expertise in managing companies' overall unclaimed property liability with Card Compliant's specialized knowledge of how diverse state laws intersect with gift and other stored-value cards.

"Keane assists clients with all property types in all states," said Laura Lane, Vice President at Keane. When the IRS audits businesses, all property types come under scrutiny, including paychecks, vendor checks and gift cards. For retailers, the breakage left over on gift cards is fairly significant, she added. The firm minimizes the amount of unclaimed property retailers owe to states and, on behalf of its clients, files the paperwork that states require. "The compliance rules for stored value are complicated, and that's why we felt that partnering with a company that specifically focuses on that, managing that, was worthwhile for the gift card or stored-value card arena," Lane said.

#### Over 5 million combinations

Card Compliant President David Hill said the amount of money businesses are required to turn over to the states varies from state to state. "Some of the states are 100 percent escheat states," he said, meaning all unused funds on gift and stored-value cards must be turned over to the state. However, "some of the states are 60-40, meaning 60 percent of the unclaimed property has to be reported to the state, and then the retailer can keep the other 40 percent," he added.

Compounding the complexity of the regulations are state-by-state mandates governing when gift cards expire and the fees that can be assessed on the cards. Added to that are the three federal priority rules designed to establish what entities have claim to what unclaimed property (for

more on the priority rules, see "Will gift cards no longer be sold in New Jersey?" *SellingPrepaid E-Magazine*, Jan. 28, 2011, issue 11:01:B).

Hill said in excess of 5 million possible permutations of federal and state regulations can apply to any one gift or stored-value card. To take into account all these variables, Card Compliant developed software called OptiMax – a "rules-based engine" that crunches the numbers to determine a business's liability and ensure they turn over to the state the correct amount of escheated funds, Hill said.


"Technically escheat is not a tax, but it feels like it to the retailer when they are passing over those funds," he noted. In addition, businesses want to avoid noncompliance, since fees, penalties and interest can be assessed for failure to comply, and comply in a timely fashion. "It's not uncommon to see the fees get up to be the equivalent of what they have to otherwise escheat," Hill said.

#### Antidote to the money grab

Due to economic woes that have saddled states with billion-dollar budget deficits, state lawmakers have stepped up attempts to collect more unused funds sitting in retailers' bank accounts. Lane cited Michigan, which lowered the dormancy period on unclaimed accounts payable funds from five years to three in order for the state to get a "one-time infusion of cash from the lower dormancy period."

New Jersey has been in the news recently, because it is attempting to modify its unclaimed property laws so that, among other things, merchants would be forced to collect more gift card purchaser data at the POS so that the state could claim more of those funds down the line. Hill said many states are in a wait-and-see mode concerning New Jersey. If the Garden State prevails, businesses domiciled in New Jersey may flee to other states, which are going to "try and position themselves to attract those businesses so they can reap the benefits of taxes and/or employees, potentially, and unclaimed property," Hill said.

Lane said Keane, in tandem with other organizations, filed an amicus (friend of the court) brief to throw their support behind a lawsuit filed by American Express Co. subsidiary and gift card issuer American Express Prepaid Card Management Corp. and others to prevent New Jersey from implementing what Lane called a money grab.

Hill pointed out that Card Compliant also functions as a third-party, closed-loop gift card issuer that shoulders the unclaimed property compliance responsibilities, freeing retailers from that increasingly cumbersome and difficult responsibility. "They become the distributor, and we are the issuer," he said. "We are responsible for reporting to all the individual states, identifying what dollars need to be escheated, when, and what dollars can be taken to earnings by the retailer." 

Before you commit to buying through a distributor, you need to ask what -- or who -- they are? Are they owned by a competing processor or outside investment groups? Who are you competing against and is your supplier owned by that competing entity? At the Phoenix Group, we are **truly independent** in every sense of the word. We are not owned by a processor or an investment group. Our interests lie in providing you the best service and pricing every day.

# 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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# ISOMetrics

## The rise of the debit card

**I**n 2001, The Federal Reserve System published its first retail noncash payments study in 20 years. Since then, it has released three additional payment studies: one in 2004, covering the period 2000 through 2003; another in 2007, encompassing 2003 through 2006; and most recently, 2010, for the years 2006 through 2009.

As you can see from the following chart, a significant change in noncash payments is the ascension of debit card use, surpassing credit card use in 2006 and check payments as of 2009.

	2000	2003	2006	2009
<b>Debit cards</b>				
Total number of payments	8.3 billion	15.6 billion	25.3 billion	37.9 billion
Annual change in volume	n/a	▲ 23.5%	▲ 17.5%	▲ 14.8%
Total payments value	\$348 billion	\$0.6 trillion	\$1.0 trillion	\$1.5 trillion
<b>Credit cards</b>				
Total number of payments	15 billion	19 billion	21.7 billion	21.6 billion
Annual change in volume	n/a	▲ 6.7%	▲ 4.6%	▼ 0.2%
Total payments value	\$1.23 trillion	\$1.7 trillion	\$2.1 trillion	\$1.9 trillion
<b>Automated clearing house</b>				
Total number of payments	5.6 billion	9.1 billion	14.6 billion	19.1 billion
Annual change in volume	n/a	▲ 13.4%	▲ 18.6%	▲ 9.3%
Total payments value	\$5.67 trillion	\$25.1 trillion	\$31 trillion	\$37.2 trillion
<b>Checks</b>				
Total number of payments	49.1 billion	36.7 billion	30.6 billion	24.4 billion
Annual change in volume	n/a	▼ 4.3%	▼ 6.4%	▼ 7.2%
Total payments value	\$47.4 trillion	\$39.3 trillion	\$41.7 trillion	\$31.6 trillion
<b>Electronic payments (All types*)</b>				
Total number of payments	29.5 billion	44.5 billion	62.7 billion	84.5 billion
Annual change in volume	n/a	▲ 13.2%	▲ 12.4%	▲ 9.3%
Total payments value	\$7.3 trillion	\$27.4 trillion	\$34.1 trillion	\$40.7 trillion

\* Except for checks, includes payment types listed in this chart in addition to further options such as electronic benefit transfer and prepaid cards.

Source: Federal Reserve System Payments Study 2000, 2004, 2007 and 2010

# Company Profile



## FrontStream Payments Inc.

### ISO/MLS contact:

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Senior Vice President  
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### Company address:

100 Winners Circle, Suite 158  
Brentwood, TN 37027  
Phone: 866-552-3799  
Fax: 800-707-8914  
Website: [www.frontstreampayments.com](http://www.frontstreampayments.com)

### ISO/MLS benefits:

- Offers fully customizable proprietary payment solutions
- Serves both card-present and card-not-present markets
- Fosters high customer retention and excellent customer service
- Leads with a strong team of industry veterans
- Targets sales with a unique vertical focus

## A company created with vision and smarts

**I**ndustry veteran Emmet Seibels started with what he considered to be a proven template for success when he founded FrontStream Payments Inc. in 2007. He had a versatile skill set and wanted to create a company that combined the most innovative, reliable and secure payment solutions with an unparalleled level of service.

Today Seibels, who graduated from the Honors College at the University of Mississippi and received his MBA degree from Harvard University, is Chairman of the Board of FrontStream Payments. He believes his experience gave him the practical knowledge to establish the company he had envisioned, with support services for ISOs and merchant level salespeople (MLSs) that are difficult for competing companies to match.

"FrontStream Payments offers one of the most supportive processing environments available today for sales agents and ISOs," Seibels said. "We've invested heavily in technology, so our in-house systems and services provide instant access to boarding and account management resources. Plus, we have a payment gateway that helps agents and ISOs get access to new markets via software integration opportunities."

### The team at the top

When formerly employed at Verus Financial Management Inc., Seibels was in charge of acquisitions and business development. In this role, he helped Verus acquire seven companies using \$45 million in equity capital. While at Verus, Seibels also created a strategy for purchasing agent residuals while securing contractual commitments for new business from agents. This plan created 20 percent of Verus' earnings the year before its 2006 sale to Sage Group PLC for \$325 million. Before the sale, Seibels had acquisition or portfolio-purchase discussions with over 100 ISOs and MLSs and executed over 20 portfolio purchases (residual purchases) from MLSs.

Nina Vellayan, Chief Executive Officer and President of FrontStream, oversees all day-to-day operations, strategic planning and business development. Before joining FrontStream, Vellayan was the CEO and Executive Vice President at Tier Technologies Inc., a provider of electronic payment solutions in the biller-direct market. Prior to that, Vellayan was President of Business Office Solutions, a division of Sallie Mae Inc. Vellayan is a Certified Treasury Professional and member of the National Automated Clearing House Association. She earned an MBA degree in financial management and a BS degree in economics from the University of Maryland.

### The company's capabilities

FrontStream provides payment processing services to merchants in the United States and Canada. It has operations centers in the Dallas, Ft. Lauderdale, Fla., Nashville, Tenn. and Seattle areas. "The business strengths of the company include many years of legacy experience, a personalized front-facing approach, and leading edge technologies that are joined by fail safe, back-end redundancy for underwriting, risk, PCI support, technical support and customer service," said Aaron Slominski, Senior Vice President of ISO Channels. "We have fast, 100 percent secure and compliant product offerings and the best economics that the payment processing industry offers."

## Company Profile

Faster transactions via high-speed connections and full-service software integration have helped FrontStream establish strategic relationships, many with globally known merchant brands. Through these strategic relationships, FrontStream has assisted its partners in serving clients through 10,000-plus participating merchants, resulting in a volume of \$2.3 billion processed annually.

Slominski said that because many of its executives have worked as ISOs or MLSs, the company has a very "ISO centric mentality." He added that FrontStream has services available to its ISOs and MLSs that the management team had only dreamed about when they were working as the feet on the street themselves. Most of the company's services are available in-house, keeping FrontStream Payments' costs low, while making marketing and technology assistance easily accessible to its ISOs and agents, he noted.

"FrontStream Payments is an extremely reliable partner for sales offices who want to grow their business without the typical headaches associated with our industry," said Michael A. DeFilippo, Vice President, Operations for Ladera Business Solutions. "The entire organization treats their partners with respect and has the knowledge to resolve issues in a timely manner. ... Their knowledge, honesty and professionalism are top notch."

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## Services for ISOs and MLSs

FrontStream reported that its offerings for ISOs and MLSs include competitive merchant account boarding in all business sectors, unique automated boarding tools, proprietary and state-of-the-art gateway technology, hosted electronic payment technologies for card-not-present transactions, in-house software integration services and in-house Payment Card Industry (PCI) Data Security Standard (DSS) compliance and customer service teams.

The company's back-office functions include risk management, equipment deployment, file builds and PIN encryption. In addition, ISOs and MLSs have the ability to offer merchants chain reporting and online reporting for transaction viewing and monthly statements.

A sales hotline is available for customer support, and technical support teams are also available if an ISO or MLS has a question about gateway integration, terminal downloads, or desires additional information about products and services. Also, merchants can be offered next-day settlement on any of FrontStream's First Data Corp. platforms, which include First Data-Nashville, First Data-Omaha, First Data-North and First Data-Bypass. Other processing platforms include those offered by Chase Paymentech Solutions LLC and Total System Services Inc.

FrontStream developed its proprietary gateway and back-end office technologies in-house and has PCI-compliant solutions that are patent pending. The company has expertise in both card-present and card-not-present transactions, something it considers a rare blend for the majority of acquirers.

In addition, FrontStream's Fast Transact management team is available for help with closing a deal or troubleshooting situations that require immediate resolution. For fast approval, Fast Transact accepts low- to moderately high-risk businesses, as well as placement for most high-risk accounts. Most accounts are approved within 24 hours of submission with the required documentation.

"We have processing relationships on multiple payment platforms; therefore we're one of the most diverse and nimble mid-market ISOs in the payments market today," Slominski said. "These partnerships enable us to expertly offer competitively priced and attractively packaged merchant boarding solutions to everyone from niche industry sectors to single-merchant customers."

## Opportunities for motivated individuals

"FrontStream Payments provides real opportunities for highly ethical, motivated ISO/agents who are interested in expanding their career as a reputable representative of the bank card industry," Slominski said.

FrontStream Payments is aware of the importance of providing an attractive package for ISOs and MLSs in this competitive market. Slominski believes FrontStream's



package comes with impressive income potential and cutting-edge tools, products and support.

Compensation includes competitive pricing and rates, a lifetime residual program and revenue-sharing programs, Slominski pointed out. FrontStream also offers merchant portfolio reporting, as well as the possibility of in-house lead generation, referral opportunities and the chance to attend the FrontStream Payments' ISO/Agents University training program.

FrontStream's management team knows that conscientious salespeople in the payments industry want to be up to date on activities associated with their merchant accounts. That's why it developed FrontStream Payments' Suntari solution. FrontStream designed Suntari to be fast and easy to allow ISOs and MLSs more time to build quality relationships with their clients and prospects.

### The Suntari difference

With Suntari, ISOs and agents have instant, real-time access to their entire merchant database from the date of entry, throughout the life cycle of the relationship. ISOs and MLSs also have instant email notification when a note is made on the merchant record or if an account is pending, placed on underwriting hold, approved or declined, and so forth.

A dashboard keeps stats on ISO and MLS monthly volume, deals, residuals and other important data. Online residual reporting takes place in multiple formats in a paperless tracking environment, with a repository of useful forms and tools, including an intuitive interface for uploading along with relevant tools, documents and consolidated monthly merchant billing, FrontStream noted.

The company is committed to advancing its offerings while maintaining its focus on service to ISOs, MLSs and merchants. Its current growth is happening via strategic acquisitions and internal initiatives. The company has attained significant capital resources and is actively seeking partnerships

with select ISOs and top-performing sales professionals. "We are dedicated to making smart resource investments to ensure our merchants receive the most innovative payment solutions in the marketplace," Slominski said.

FrontStream's seasoned leadership team members are committed to the company's longevity and growth. They believe FrontStream delivers innovative, secure payment processing solutions that will continue to make it an attractive partner for affiliates, distribution partners and merchants. They also believe FrontStream Payments is well-positioned to pursue and support an expanded merchant portfolio. Thus, the company is actively recruiting sales talent and is ready to work with motivated individuals who are eager to set the pace for the next generation of payment processing. ■



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# Trade Association News

## ETA to launch certification program

**T**he Electronic Transactions Association intends to launch the payments industry's first professional certification program this year. The new Certified Payments Professional (CPP) designation will set a uniform standard for professional performance in the payments industry. To that end, the ETA has just added a credentialing section to its website to inform members about the certification program and its relevance to employers.

"The launch of the CPP program will be an important milestone for the payments industry and for ETA," ETA Chief Executive Officer Carla Balakgie said in a statement. "We tapped all available resources, from a wide range of industry experts to certification program specialists, in order to ensure that those who earn the CPP credential are truly qualified to receive the designation."

The primary market for certification will be sales professionals with a minimum of one- to three-years' industry sales experience, preferably with expertise in one other area, such as technology, operations, risk, compliance or security. The secondary market will consist of employees or independent contractors who enable electronic payments by merchants, the ETA said.

### Preparation and feasibility

Rori Ferensic, who is Director of Education and Professional Development at the ETA and is spearheading the program, said the primary purpose of the certification program is to identify the knowledge, skills and abilities that a practitioner needs to perform as a professional in the payments industry. Furthermore, credentialed payment professionals will demonstrate the level of commitment, expertise and credibility that is necessary to instill confidence in service providers.

"We are working with Castle Worldwide, and they are one of the leading certification licensure companies in the world," Ferensic said.

"Their testing experts facilitated us through the steps necessary in order to develop a legally defensible and statistically sound program. But it also involves many different subject matter experts, those who have industry knowledge, to work with the testing experts to create this program."

After almost two years developing the program, the ETA has completed the requisite feasibility study in which 75

percent of respondents indicated a credentialing program would benefit the industry by heightening professional standards and enhancing industry reputation and credibility. The ETA also finished its job analysis segment, identifying six content areas that will be tested: sales, pricing and interchange, process/operations/workflow, products/solutions, risk, and regulation/compliance/security.

### Eligibility and testing

Ferensic said the ETA is working to finalize both the written examination and the certification program, which will determine strategy, eligibility and recertification requirements. She expects the application process to be ready by midyear 2011.

"Eligibility requirements will include work experience; industry employment; some education, but not necessarily ETA educational programs; and then, of course, taking and passing the examination," she said.

Ferensic said ETA University courses aren't an eligibility requirement, but the ETA "will be creating what I like to call an exam prep course similar to an SAT prep course. That prep course will encompass the same content areas that are going to be on the exam, along with study tips and test-taking tips."

According to the ETA, the 125-question multiple choice examination will be administered twice annually, during one-month testing windows, in a computer-based format at testing centers throughout the nation. Eligible candidates will be required to schedule a test at one of the testing centers, present photo identification and enter an access code to take the test, Ferensic said. The first examination period will be scheduled during the fourth quarter of 2011.

"We're going to have a lot of information at our conference," Ferensic said, referring to the ETA Annual Meeting & Expo slated for May 10 to 12, 2011, in San Diego. For more details about the CPP program and the exam content outline, visit [www.electran.org/ CPP](http://www.electran.org/ CPP). ■

## Dodd to address the ETA

**F**ormer Sen. Christopher Dodd, D.-Conn, who served in the Senate for three decades, will speak during the upcoming Electronic Transactions Association Annual Meeting & Expo in San Diego. Dodd chaired the United States Senate Committee on Banking, Housing and Urban Affairs until his retirement in January 2011.

Dodd was a chief architect of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, which created the Consumer Financial Protection Bureau.

He will address the ETA's general session on Wed., May 11, following the opening address. The speech will discuss the rationale behind the financial reform legislation, the prospects for modifying the law and what the payments industry can anticipate next from government regulators.

Thomas Goldsmith, ETA Director of Communications and Public Relations, said about Dodd, "Here's a guy who was in the Senate for 30 years. Probably not too many people currently in Congress could give you any better insight on what's going on and who the players are and what the feeling is on what's likely to happen.

"I think people will ask about the Durbin Amendment, but I don't think that's going to be the heart of this. I suspect it's going to be more about the Consumer Financial Protection Bureau and some of the other credit card rules."

### Durbin Amendment in flux

Dodd's keynote address will likely coincide with the aftermath of the April 21, 2011, deadline for the Federal Reserve to determine the Durbin Amendment's final

regulations, which, as of this writing, are scheduled to take effect July 21, 2011.

"The whole debit fee issue was not Dodd's idea," Goldsmith noted. "It was Senator Durbin who amended the financial reform act to include that. Dodd, himself, has expressed at least some reservation about the Durbin Amendment," which mandates debit card interchange regulation and could cap debit card interchange at 12 cents per transaction.

Fed Chairman Ben Bernanke and other federal officials have also expressed concerns over the amendment recently. And members of both parties in Congress have recommended delaying implementation of the new rules to allow time to examine potential unintended consequences.

Following Dodd's address, interchange expert Todd Zywicki, GMU Foundation Professor of Law, and Editor of the *Supreme Court Economic Review*, will discuss what new debit card rules might mean for the future of payments. "Todd has written extensively on interchange and is a real expert on that and the economic effects of it," Goldsmith said. "It's going to be a very government-oriented morning." ■

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## London steers toward open payments by 2012 Olympics

**B**y the time the 2012 London Olympic and Paralympic Games commence in late July, the city's transportation authority expects to have upgraded its city-wide bus system to enable an "open" payment platform that accepts contactless, network-branded credit and debit cards for fare payment.

The current Oyster card system, which is a proprietary, "closed" prepaid card system used across London's entire public transit network, will be modified to also allow bankcards embedded with near field communication (NFC)-enabled chips to be used to pay for public transportation around the city.

After the systems on its fleet of 8,000 buses are upgraded, the Transport for London (TfL) intends to upgrade the Tube (subway system), Docklands Light Railway, tram and London Overground network by the end of 2012. Additionally, TfL said it was in talks about upgrading to open payments the Oyster card system used on the U.K.'s National Rail service.

### Upgrades coming

According to Randy Vanderhoof, Executive Director of the Princeton Junction, N.J.-based Smart Card Alliance, the TfL has been working toward migrating its payment system from closed to open since 2008. Vanderhoof said the migration involves upgrading both the front- and back-end Oyster card infrastructure.

On the front-end, card readers at turnstiles and on buses must be upgraded to accept bank-issued, network-branded contactless cards, he said. On the back-end, "their system has to be modified so that they can capture the taps when somebody enters the system or enters the bus, and when they get off, to calculate the fare and then submit that data to the settlement house so they calculate what the actual charge will be to the card," he added.

Vanderhoof can also see the logic behind upgrading the London bus system first, since that system has fewer

"reader points" compared to the multitude of turnstiles and stations across London's entire mass transit system.

London buses also have the most ridership. A September 2008 TfL presentation on its open payment initiative said London's transit system services over 3 million people per day. According to the report, the London bus system accounts for 6.3 million journeys per day, while the second highest usage occurs on the London Underground, where less than half as many journeys (3.1 million) are facilitated daily.

### The first U.S. installation

Vanderhoof said only in the United States and the U.K. have contactless, NFC-based payment cards been issued in large numbers. Additionally, only Salt Lake City has introduced an open fare payment transit system in the

United States, with Philadelphia, Washington, Chicago, Toronto and New York in various stages of open payment development, Vanderhoof noted.

Craig Roberts, Manager for Technology Development for the Utah Transit Authority, said Salt Lake City moved to an open payment system in January 2009 after a three-and-a-half-year review process. The city's mass transit system is made up of 530 buses, light rail and commuter rail, with an average weekday ridership of 139,317 people and a total ridership in 2010 of over 39 million.

Unlike the Oyster card system in London, Salt Lake City did not have a closed-loop, proprietary card system to upgrade. Instead, the UTA's previous system was cash- and token-based – "perhaps one of the dumbest fare collections in the country," Roberts said.

Because Salt Lake City did not have to retrofit an electronic legacy system, installing an open payment system was not as complex as what the TfL will be going through, Roberts said. Only approximately 1 percent of transit payments in Salt Lake City are facilitated with bankcards today, he noted, as the UTA has not promoted that feature in order to tweak its system for maximum efficiency when the agency scales up bankcard usage.

Roberts expects bankcards to one day be a primary means of fare payment in Salt Lake City; it will offer greater convenience for transit riders and provide many benefits for the UTA, such as:

- Greater revenue potential through more efficient



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## News

services for riders

- Reduced costs, such as no card issuing necessary by the UTA and reduction in the physical collection of cash
- Greater flexibility for adding or changing products or services
- Opportunity to take advantage of innovations arising from the broad payments industry ecosystem
- Interoperability of the UTA's system with other open transit payment systems
- More opportunities to partner with businesses to cross-promote services
- Alleviation from certain data security and certification responsibilities
- Greater ridership metrics (origination and destination data) to optimize service planning

### Smart phones, too

Outside North America and the U.K., the movement is toward enabling mobile phones – not cards – as contactless payment devices, Vanderhoof said. Once the London transit networks are upgraded to an open payment system that accepts open-loop, contactless credit and debit cards, contactless mobile phone payments will also be viable on the system, with no additional system upgrade necessary, according to Vanderhoof.

"The mobile phone operates in what they call 'card emulation mode,' which means it communicates to the reader just like a contactless card does," he said.

But that doesn't necessarily mean all visitors to London for the 2012 Summer Olympic Games will be able to tap NFC-enabled smart phones on readers to pay for bus fares. In Asia, where such smart phones are common, technology other than the international NFC standard was adopted to render the phones contactless payment devices, Vanderhoof said.

So an Olympic sports fan from Japan will not be able to pay for bus rides around London with a smart phone intended for the Asia market. "So they have a migration step to get to become full NFC," Vanderhoof said. "And once NFC is adopted in Asia, then those mobile phones will then be able to support the international payments platform." ■

## Merchant coalition backs interchange overhaul

**T**he Merchants Payments Coalition Inc., an association of convenience stores, supermarkets, retailers, fuel stations, and an assortment of other business owners, large and small,

who accept card payments, continues to be an active proponent of the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The amendment was passed to regulate debit card interchange fees.

According to the *2010 Federal Reserve Payments Study*, debit card transaction volume in the United States surpassed all other forms of noncash payments in 2009, representing an estimated 35 percent of total noncash payments. In the Federal Reserve's *Regulation II; Docket No. R-1404*, the card networks reported debit and prepaid interchange fees totaling \$16.2 billion in 2009, with the average interchange fee of 44 cents per transaction, at 1.14 percent per the average \$38.58 transaction.

"This has been an issue for our membership for well over a decade," said Liz Garner, Director of Government Relations, Food Marketing Institute, an MPC member.

"Our relationship with the card companies is unlike any other business relationship we have. We can't negotiate rates; we can't negotiate terms of card acceptance. And that's why this is one of the fastest growing line items for all of our member companies – everyone from large, national retailers to small, independent operators like ours."

Rachel Wolfe, a spokeswoman for the MPC, which represents an estimated 2.7 million stores and 50 million employees in the United States, said that in the price-competitive retail industry, every penny matters.

"Unfortunately we've been seeing more than a penny increase in swipe fees and these fees are completely anti-competitive," she said. "We've seen those fees triple in the past 10 years, even though the cost of actually processing those transactions has gone down."

### Small merchants bear the burden

According to Wolfe, much of the interchange debate has focused on large retailers, but smaller merchants have been hit hardest because most lack adequate capital reserves. "They don't have the corporate backing," she said, adding that escalating fees can even threaten the survival of small businesses.

Garner elaborated: "Our smallest supermarket members saw a 35 percent increase on their cost of accepting just one PIN debit card network last year alone," she said. "That's the smallest supermarkets. Ultimately, that type of increase is going to impact our customers."

Garner added that the card companies' fee structures "are different based on volume, the type of merchant, the type of transaction it is, but we've seen exponential increases.

"That's why it's so important for us that this process plays out at the Federal Reserve, because any month we delay

reform, it costs merchants and consumers ultimately close to \$1 billion."

### A payment pro's perspective

Biff Matthews, President and Founder of CardWare International said, "The large merchants have always had the ability to negotiate better rates, but I think this will provide some opportunities for smaller merchants to participate in that a little better. Whether or not those savings to either merchant is passed on to the consumer is still very speculative."

Furthermore, Matthews noted, "More ISOs today are doing pass through, so any reduction is going to go to the merchant's bottom line. I wonder, too, especially from a standpoint of revenue, not only for the ISO, but also for the merchant level salesperson, because their net income is based in large part upon the interchange, are they going to pass that through to the merchant? Don't know."

He also believes card companies and financial institutions are likely to offset any revenue losses incurred through the new regulations with fee increases elsewhere. With about a month to finalize debit interchange regulations, Matthews said, "There very well could be a delay to allow for some initial refinement of the legislation to accurately reflect what the intent was."

"And, depending on how the final legislation is drafted, I would expect to see some lawsuits," he said. ■

## Girl Scout cookie sales go mobile

**F**or the first time, two Girl Scout councils are now prepared to accept credit card payments via smart phones to help enhance their cookie sales. Girl Scouts have traditionally only accepted cash or checks.

Girl Scouts San Diego has started using iPhones equipped with a Mophie Marketplace credit card case during a trial run at selected booth sale and retail sites in San Diego. Meanwhile, the Girl Scouts of North East Ohio are slated to start ringing up sales in March 2011 using a card reader from Intuit Payment Solutions.

In both cases, payments will be processed by Intuit Payment Solutions through its GoPayment application. Customers will sign a receipt via touch screen and receive a record of the payment by email or text message.

### A hit with cookie lovers

According to Mary Doyle, Communications Director for the San Diego Council, 10 troops started taking mobile credit card payments initially on Feb. 24. According

to reports from troop leaders, the system was easy to use, and customers seemed intrigued by the technology, Doyle said.

"The customers loved it; they came over to see what it was all about," said Troop 3099 leader Lynne Shinohara, whose troop used the mobile payment system while selling at a booth near a grocery store in Point Loma, Calif.

### A boon to budding entrepreneurs

Doyle believes the ability to accept credit cards will eventually create more sales, as well as contribute to the girls' financial and business acumen. "When Girl Scouts are selling cookies, they are becoming entrepreneurs," she said. "This just gives them another level to go to as entrepreneurs."

The launch of the mobile payment trial will be on a much larger scale for Girl Scouts in Ohio, with 200 troops slated to start using Intuit's system on March 11.

"We are flying out there on the weekend of March fourth and fifth to train the troop leaders, parents and kids on how to use GoPayment with the credit card reader," said Intuit spokeswoman Sharna Brackett. "Then they will start using it at their booths the next weekend." ■

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**Interchange caps from page 1**

## Retailers are big winners

Durbin Amendment supporters (just about everyone in the retail merchant community) insist federal price controls are necessary and will benefit consumers in the end because, once the load of this onerous cost is lightened, retailers will pass those savings on to their customers.

James C. Miller II, an economist who served stints as Chairman of the Federal Trade Commission and Director of the Office of Management and Budget in the 1980s, wrote an article posted recently to the website Politico. "With retail competition so intense, all consumers are likely to benefit – users of cash, credit and debit," Miller wrote. "Merchants simply won't miss an opportunity to compete on price to draw traffic into their stores."

Fed Board Governor Sarah Bloom Raskin suggested under questioning by the House Financial Services Committee Subcommittee on Financial Institutions and Consumer Credit, however, that there's no way to discern if consumers will indeed benefit. "The statute didn't instruct us to look at the consumer effect," she said during a Feb. 17 subcommittee hearing.

## Consumers take a hit

Three economists collaborated to measure the impact the proposal will have on consumers, and the results aren't pretty. David S. Evans, who lectures at the University of Chicago Law School, Robert E. Litan, a senior fellow at the Brookings Institution, and Richard Schmalensee of the MIT Sloan School of Management, submitted extensive comments to the Fed detailing how consumers and small businesses will be disproportionately affected by the proposed interchange caps.

The trio predicted, for example, that the number of unbanked Americans will rise as more lower-income households reduce dependency on previously free or low-cost checking accounts. Small businesses that don't take debit cards will be big losers, too, since they'll end up paying more for bank services without the offsetting benefits that might accrue from lower interchange.

Consumers and small businesses can expect to take a combined hit of between \$33.4 billion and \$38.6 billion during the first two years if the proposal takes effect, they predicted in a paper titled *Economic Analysis of the Effects of the Federal Reserve Board's Proposed Debit Card Interchange Fee Regulations on Consumers and Small Businesses*. So, who are the winners then if the Fed's proposal is adopted? "Large retailers would receive a windfall," the economists wrote – between \$17.2 billion and \$19.9 billion in the first two years alone.

Henry Helgeson, Co-Chief Executive Officer of the Boston-based ISO Merchant Warehouse, agreed retailers will be the big winners if the Fed goes ahead with its proposal. Helgeson also suggested the proposed rule could have

**"Despite the statutory attempt to separate out smaller banks from the price controls embodied in the Durbin Amendment, the marketplace will do what it always does: drive business to the lowest cost option."**

– Ken Clayton, General Counsel for Card Policy at the American Bankers Association.

unintended consequences on an economic recovery. "If consumers are the engine that drives the economy, then credit and debit cards are the lubricant," he said.

And these days consumers like using debit cards. According to the Fed, 35 percent of noncash payments in 2009 were made using debit cards, compared with 22 percent by check, 20 percent by credit card and 5 percent using prepaid debit cards. Fiserv Inc. reported recently that its Accel/Exchange debit network saw a 30 percent spike in transactions last year, for a total of 1.2 billion debit card transactions.

## Small banks, credit unions balk

As for financial institutions, Fed Board Governor Raskin said under questioning in the House that the plan for capping debit interchange shouldn't be a problem for most, since it only applies to the largest card issuers. She also said the Fed's analysis suggested the 12-cent cap was within the range of interchange assessed by 80 percent of debit card issuers covered by the rule.

In theory, smaller financial institutions (community banks and credit unions) should be rejoicing over their exclusion from Durbin Amendment restrictions since they can continue collecting 40 cents or more in interchange on POS debit card payments. But they aren't.

"Despite the statutory attempt to separate out smaller banks from the price controls embodied in the Durbin Amendment, the marketplace will do what it always does: drive business to the lowest cost option," said Ken Clayton, General Counsel for Card Policy at the American Bankers Association.

Even the Fed's Advisory Council, a group representing each of the 12 Reserve Bank districts, has expressed broad and deep opposition to the Fed's proposal, "which we

## CoverStory

strongly believe misinterprets the Durbin Amendment," the group wrote in a letter to the Board.

One concern often raised is that smaller institutions, despite an exemption from the rules, will be forced by competitive pressures to lower debit card interchange and to recoup losses from new revenue sources. A recent survey by the Independent Community Bankers of America of its members indicates 93 percent expect to impose new fees on customers to make up for lost interchange revenues (new monthly, yearly or per-transaction fees).

The Credit Union National Association has warned that all of its members will be hit hard financially by the capping of debit interchange and may be forced to scrap debit cards or impose new fees on checking accounts, debit cards and other services. "All of this is going to have a harmful impact on Main Street, one that ultimately will prove costly to millions of American consumers," Bill Cheney, CUNA's CEO, wrote in a recent article carried by the Huffington Post website.

### Opposition is mounting

In an effort to respond to concerns raised about the Fed's rate capping plans, Visa Inc. recently indicated it would create a new two-tier pricing structure for debit card interchange: one that can be applied to issuers bound by regulated interchange and another for cards issued by smaller, exempt institutions. But that seems to have done little to quell industry concerns.

"Despite Visa's actions, the Durbin Amendment requirements will not prevent large retailers from steering customers to cheaper-rate cards issued

by large banks," said Karen Thomas, ICBA Senior Executive Vice President for Government Relations and Public Policy, in a statement issued by the group. "ICBA will continue to work with the Federal Reserve and other policymakers and the networks to address the association's significant concerns."

Those concerns are spelled out in the ICBA's comment letter on the Fed's proposed new interchange regulations. They are also addressed in a comprehensive comment letter – signed by every U.S. bank and credit union trade association – that urges the Fed to fundamentally revise its proposal for the Durbin Amendment's implementation. Both letters referenced concerns raised by Fed Chairman Bernanke under questioning by the Senate Banking Committee on Feb. 17 that the Fed is "not certain how effective the [small bank] exemption will be."

Another concern raised over the Fed's proposal is that it doesn't take into consideration costs associated with fraud prevention and losses. "The cost of fraud to a bank can be significant," the ABA wrote in a letter to the Fed.

"In fact, fraud costs can more than offset all of the revenue a bank issuer may receive from interchange fees. Retailers are guaranteed payment when they swipe a debit card and obtain authorization. Even in cases where there are insufficient funds in an account or the card is counterfeit, the retailer gets paid, and the bank that issued the card suffers the loss."

Further complicating matters, fraud costs vary from issuer to issuer. Given the economies of scale inherent in payments, costs incurred by the largest issuers in preventing and answering for fraud are not representative of those incurred by issuers with smaller portfolios, the ABA and others noted.

Helgeson, who has been following the debate in Washington, said momentum is growing for at least a delay in implementing the Durbin Amendment. In addition, he noted that retired Sen. Christopher Dodd, D-Ct., and Rep. Barney Frank, D-Mass., for whom the



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
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Dodd-Frank Act is named, have expressed reservations about capping interchange. "Things that have happened these past few weeks lead me to believe that sometime between now and July they're going to put the brakes on this," Helgeson said.

Not if Sen. Durbin gets his way, however. In a recent letter to the ABA, Durbin assailed the trade group's arguments against the legislation and the Fed's proposal, and he vowed to "vigorously oppose efforts to block the implementation of this needed reform."

### It's time to plan ahead

Regardless of what happens in Washington, Helgeson said ISOs and merchant level salespeople (MLSs) are well-advised to start planning now for life after implementation of the Durbin Amendment. "We're spending a lot of time on what-if scenarios here," he said.

If the proposal stands as offered by the Fed, ISOs and their partners will need to go through re-pricing exercises. "We're going to have to pass on savings to merchants," Helgeson said.

He added that "you might see a land grab," suggesting savvy marketers will capitalize on the changes to woo merchants away from competitors.

Mike Kelly, General Manager of Accel/Exchange, expects PIN debit to become a differentiator and that issuers who promote debit will have a leg up on those that don't. "Culturally, we think real-time functionality is in demand – especially PIN debit," Kelly said. "The model is very safe and secure; merchants know this, and the issuers know it too."

If debit interchange is capped at 12 cents, issuers will want the added protection against fraud that PIN debit provides, and they will scrap programs that reward signature debit use, Kelly added. And if that's the case, it could create opportunities for ISOs and MLSs to up-sell an estimated 6 million merchants that today lack PIN pads.

The message to the acquiring sector, then, is to start planning now for life under some type of interchange controls – whether it's the 12-cent cap the Fed is proposing, or whether the Fed gets sent back to the drawing board and the July implementation is postponed. "There are a lot of ISOs out there waiting for their processors or the big acquirers to tell them how it's going to work," Helgeson said. "That's absolutely the wrong strategy." ■

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

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UMC1982 1/2009/10

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## Education

# StreetSmarts<sup>SM</sup>

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## Earning and keeping merchants' trust

By Ken Musante

Eureka Payments LLC

**A**s providers of payment services, we sell a service that allows merchants to make their businesses more efficient, increase sales and drive loyalty. Competition is fierce. What differentiates our service from others in the industry? The answer is trust.

Trust is what makes my offer different from others. Trust allows merchants to fully disclose their needs and frustrations so I can fully address them. So how do you earn trust? To learn more, I posted the following on GS Online's MLS Forum:

"The key to getting merchants is gaining their trust. Regardless of your product, pricing or technology, if you do not earn the trust of your prospects, you will not be anything more than a quote your prospect will use to select another processor. What do you do to earn your prospects' trust?"

### Grasping the intangible

This question is as personal as how one person communicates to another; it often hinges on how emotion and empathy are conveyed. Trust is elusive. How do you know if you are earning trust or are even perceived as trustworthy?

**BANKCARDREP1** started us off by stating, "Trust or greed? With all the deals I see going to telemarketers, I doubt that trust is what earns most deals. In a face-to-face environment, trust might be the winning factor, maybe."

I agree that telemarketers are getting deals. They are successful. But will a merchant sold by a telemarketer be as

### Education index

Jeffrey Shavitz.....	62
Tim Cranny.....	64
Jeff Fortney.....	66
Joan Herbig.....	68
Peggy Bekavac Olson.....	70

loyal as one who has a connection with his or her salesperson? If that same merchant receives another call from a new telemarketer with a better rate, would the merchant not opt to switch processors again? And would they even think of calling the first telemarketer back to inform them of their new offer?

### Offering to educate

**BILLPIRTLE** offered advice next (incidentally, Bill is the author of *Navigating Through the Risks of Credit Card Processing* and will be the next writer for Street Smarts). "I was called by the owner of a local restaurant who had read my book," he wrote. "She had several people approach her in recent days promising big savings. Her average transaction was \$11, and her debit transactions were clearing as small ticket.

"After running numbers, I found I could save her at best \$3 to \$6 per month and told her that, in my opinion, she should stay with her current processor if satisfied with the processor.

[T]hen I warned her that some reps will tell her she is being overcharged on debit card transactions running as small ticket and showed her the math. She then produced two quotes that showed she could save on debit transactions.

***First you must earn the respect with honesty – and sometimes saying things like, 'I don't know' and 'Yes, there are challenges in our industry, but I do my best to avoid them.' You must also listen. Often, to earn respect, and then trust, only requires that you listen, acknowledge their position and opinion, and respect them. That leads to trust.***

MLS Forum member **CLEARENT**

"Before I left, I asked if she was still planning a website with her other company as she had discussed last year. She said she was preparing to launch, and we covered some options. I expect to take the more profitable website contract because I was honest on her store's processing. Trust is important. It can help open doors."

**BILLPIRTLE** earned the merchant's trust by educating the merchant. This helped her feel empowered over her decision and moved her to a more comfortable place in the conversation. This then allowed her to share more about her business and presented an entirely new option and, as mentioned, opened doors.

### **Focusing on respect**

**JMATHIS** spoke from experience, stating, "It's simple for us. We listen to our merchants' needs, desires, problems, etc. We empathize with them whether we sign them or not. Last but not least, we deliver exactly what we said we would."

The important point in the post: **JMATHIS** acts the same regardless of whether the merchant is signed. This is critical in earning trust, as a merchant may take months or even years to sign with you. If merchants do not sign with you, and then you treat them differently because of that, you will never get a second chance.

As elusive as trust is to gain, it can be lost in an instant. As **CLEARENT** shared, trust can be "difficult to earn, mainly because so many before have damaged the ability of the prospect to trust at all. It starts with respect.

"First you must earn the respect with honesty – and sometimes saying things like, 'I don't know' and 'Yes, there are challenges in our industry, but I do my best to avoid them.' You must also listen. Often, to earn respect, and then trust, only requires that you listen, acknowledge their position and opinion, and respect them. That leads to trust.

"Sadly, it can quickly be lost if you don't work hard to continue that respect and earn that trust. Lastly, it must be acknowledged that there are instances where no matter what you do, you can't earn their respect or trust. Don't let it impact how you act to them. Surprisingly, if you main-

tain a sense of respect (whether it is reciprocal) you may turn them around."

### **Earning the business**

One Friday, I had a prospect experiencing difficulty with his processor. One of his terminals had gone down, so I loaned him a terminal to use to get through the weekend. He called me on my cell on Sunday. He did not need to call me; his question could have waited until Monday. But because I was available and responded, he was impressed enough to then show me all his statements and trust me with his business.

You build trust on a sales call or you can earn it in a marketplace over time. In my territory, I can build trust in part because of who I am. I can build trust in part because of my association with my company and business partners. I can also rely on folks who are trusted by my prospects to introduce me, which further extends some level of trust.

**CLEARENT** added the following: "Yes, you can earn trust from a sales call – if – you first trust and respect yourself. If you show respect, trust can be earned. If you are prepared to walk away as friends because there is no fit, and that is clear, then you are on an equal footing. That breeds respect and trust."

### **Being real**

**JDECKARD** pointed out that insincere efforts to win trust make it more difficult for all of us. "What do the neighbors always say when they catch a serial killer," **JDECKARD** posted. "He was such a nice guy! It's not like the scumbags show up wearing a black cape and a mask.

"Merchants believe the [lie] because they want to believe it, and they convince themselves that the person they are listening to is trustworthy. This is where you go all Ronald Reagan and say, 'Trust, but verify.' I earn my merchants' trust over time; I get my sales with cold hard facts."

**AGENT** shared a lesson from a recent seminar. "The teacher [repeated] the old adage, 'People don't care how much you know until you show how much you care,'" **AGENT** wrote. "Listening works wonders. ... I had a partner once who only called me on his way home at the end of the week or

**"You simply can't be serious. ... Based on my experience, there's no way you can make a generalized statement like that about all merchants - a select few but certainly not very many. If you honestly feel that way about merchants in general, that may be why you think it's so difficult to establish trust."**

Forum member **MTY MSI**

month, and many times, I got dropped when another call coming in was more important.

"Then he got in the habit of calling me 'boy,' as in, 'How are we doing, boy,' or 'Hey, boy.' ... Just an example of showing how much you care affects trust. Who on this board would say to any of their employees, 'Come over here, boy'? What kind of trust would you gain, and what kind would you expect?"

### Communicating honestly

Next, I posted the following, "Some folks give money away if they can't meet or beat a competitor's pricing: \$50, \$100, \$200 or whatever. The problem with this approach is that even if you get the merchant by giving away the cash, they are not going to trust you.

They only signed with you because of the cash, and after you have given it to them, they are going to be looking and watching to see how you are going to earn it back from them. ... Yeah, earning trust is hard, but it's profitable."

**MTY MSI** disagreed, stating, "You simply can't be serious. ... Based on my experience, there's no way you can make a generalized statement like that about all merchants - a select few but certainly not very many. If you honestly feel that way about merchants in general, that may be why you think it's so difficult to establish trust.

"You're automatically assuming a merchant boarded by lower rates doesn't trust you and thinks you're going to try to make up for the savings. You're starting from a point where it's a given the merchant doesn't trust you. I completely disagree with that position.

"The fact of the matter is most merchants don't even read or understand their statements. If they're looking at anything on the statement it's the deposits, not trying to figure out how you're attempting to gain their savings back."

**STEVE NORELL's** response reflected the wisdom of a veteran when he shared an approach that has worked for him. "After the presentation and the merchant is still a bit uncommunicative or unresponsive, you tend to say,

"Thanks. Are there any questions?' or 'What else can I suggest to get your business?' And still, no response one way or the other.

"So you are walking out the door, and just as you are about to exit, you say, 'Listen, Mr. M, I made my pitch and you listened. Now we are, so to speak, off the record. Tell me what you really thought.'

"For some strange reason, the merchant feels like the pressure is off, and he tells you what he was really feeling. I find that once you do that, you have started to earn their trust since they don't feel they are on the clock or under the gun."

I think the strategy to speak "off the record" is brilliant. After any sale, my ending comments to the merchant are, "Thank you for your trust." At this point, merchants have entrusted me with their personal information and cash flow. They would not do that if I had not earned their trust. Trust is what I believe I am selling.

### Knowing when to walk away

It seems fitting to end the discussion with reflections shared by forum member **JOHN GALT?**. "We can't assume that all merchants are little angels looking for an honest deal," he wrote. "If there is darkness in their heart, they'll see nothing but darkness in others. This is when you have to ask, 'Do I really want this guy in my portfolio?' So, getting to know the prospect is a critical part of gaining his or her trust.

"If they are upright people, they'll appreciate that you take an effort to know as much about them and their business as possible. But if they resist answering questions and want to keep secrets, red alert! Remember that the ISO/processor has a lot more liability in this relationship than the merchant does. Sometimes it's better to walk away than have to fight night and day."

When in doubt, sell something. 📺

Ken Musante is President of Eureka Payments LLC. Contact him by phone at 707-476-0573 or by email at kenm@eurekaypayments.com. For more information, visit [www.eurekaypayments.com](http://www.eurekaypayments.com).

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## Education (continued)

# It pays to keep your customers happy

By Jeffrey Shavitz

Charge Card Systems Inc.

**W**e all know it is more efficient and cost-effective to keep an old customer than it is to acquire a new one. But maintaining your current merchant portfolio requires effort; you need to cultivate relationships on a personal and professional basis, offer great service and find new ways to bring value to your partnerships.

### Courting new customers

As our world becomes more complex, time is more of a luxury, and it's more challenging trying to arrange meetings with people we don't know to talk about our products or services. Even when you do get someone on the phone, he or she is ready to hang up before even understanding what we are offering.

And crafting compelling email messages doesn't guarantee your electronic overtures will be well-accepted either. There are legal requirements to meet in qualifying email blasts as permission-based marketing, so tread carefully.

With so many ads, pitches and offers competing for our prospects' attention, it's a difficult environment in which to communicate our unique value proposition to those who don't already have a vested interest in hearing more about it.

### Keeping current customers

In our industry, there are four types of customers: prospects, current customers, loyal customers and former customers. Given the difficulty of converting prospects to customers (or re-attracting a former customer), a good portion of our client-relationship efforts should go toward maintaining a base of loyal customers, or as Ken Blanchard calls them, raving fans.

Cultivating relationships with your merchants requires not only knowing what is going on in their businesses, but also what is going on in their lives – from what activities their children are involved in to their favorite vacation spots. This type of insider knowledge requires consistent engagement with, and genuine interest in, each merchant as an individual. So take one day per week, or

even just a few hours per week, and stay in touch with your existing customers.

Checking in regularly with your merchants provides the opportunity for you to learn more about their business needs, offer additional products and services and even to hear complaints. If a merchant has a criticism of your service, it's better to address it head-on than to learn from your next residual statement that you lost the account. It's a horrible feeling when you review your current statement and see \$0 next to that merchant's name when you could have nipped the problem in the bud.

### Multiplying your happy customers

Imagine if you had just 100 satisfied merchants, and each one gave you a few referrals and then each one of the new merchants gave you several referrals. I think you would agree that you would have a highly successful and profitable business, primarily achieved by pleasing your core customers.

***In our industry, there are four types of customers: prospects, current customers, loyal customers and former customers.***

How many referrals do you get per week or month? Think about it: why are some merchant level salespeople writing only a few deals per month and others are writing 15 to 20 deals per month –

with less effort? It's not luck; they are working smart by leveraging referrals from their current portfolios.

Adam Moss, the National Sales Manager for Charge Card Systems Inc., and I spend endless hours each month thinking about this concept and how to help our sales partners continuously grow their respective portfolios.

A quote I once read (from a book whose title and author I can't remember) said, "It's hard to follow the leader. Why? Because the leader did something remarkable. And that remarkable thing is now taken – it's no longer remarkable when you do it."

Keep reinventing yourself and figuring out new and remarkable ways to keep your customers happy and fulfilled so that you can reduce attrition and continue to build your merchant portfolio. ■

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

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## Education (continued)

# Security in a mobile world

By **Tim Cranny**

*Panoptic Security Inc.*

**T**he way merchants and customers conduct business is changing right in front of our eyes, and all professionals in the payments industry must keep informed about these changes to manage and support their portfolios properly.

I'm not just talking about industry changes here – like the rise of Payment Card Industry (PCI) Data Security Standard (DSS) obligations – but more fundamental changes in how we all communicate and work.

A dramatic change occurring is the shift from 'fixed' or stationary devices like desktop computers to mobile devices such as smart phones and netbooks. No one has a crystal ball, but all the signs are that this trend will continue for a long time and become a permanent part of the technology landscape.

## Rethinking security

A change of this magnitude has multiple repercussions. One of the biggest pertains to security. Unfortunately, many standard ways of thinking about security and solving security problems were developed in the old, fixed-devices world and don't work properly in the mobile world.

This means everyone affected by mobility (that means everyone) needs to rethink security almost from the ground up. This article will look at security in a mobile world. In a later article, I'll look specifically at the PCI implications of handling bankcard payments in a mobile world.

Most significant in the mobile world is that the idea of a perimeter is becoming irrelevant. In the fixed-device world, many security problems could be solved by treating your network like a castle that needed strong walls and a moat surrounding it.

This kept the bad guys on the outside and let the good guys operate safely inside. An entire industry developed around perimeter firewalls, intrusion detection, hardware-based network encryption and so on. These solutions haven't suddenly stopped working, but we have outgrown them in a number of ways.

For example, merchants who accept payments on smart phones that communicate to processors via the Internet are not operating inside any network they control; they don't have a perimeter to hide behind.

Similarly, they don't get additional protection from devices dedicated to providing encryption or intrusion detection. Instead, smart phones are directly exposed to hostile networks and environments.

## Assuming greater personal responsibility

Thus, today's devices and solutions have to take much more responsibility for their own security. Lacking a firewall or anti-virus perimeter, devices should ideally have their own built-in security protections.

These should be configured correctly (since they can't rely on being protected by a perimeter device that is configured and managed by an administrator).

Mobile device communications are also more complex and risky, and these issues are amplified by rapidly changing methods of communication. So you're expected to hit a smaller, more rapidly moving target than ever before. Formerly, there was typically only one way to communicate: via the local area network, which led eventually to the Internet.

The emergence of wireless devices made things much more complicated from a security perspective. And modern smart phones can communicate via cellular network protocols in addition to wireless and Bluetooth, and can change between these different solutions automatically based on their own efficiency algorithms.

This added complexity makes it much harder to ensure that security is in place. Mobile devices are also at risk from low-tech dangers. For example, the fact that they are so small, and get taken everywhere, makes it far more likely that they will be lost or stolen.

## Taking action

It can be difficult to figure out what to do about the mobile issue when so many of the details and circumstances are new and changing so rapidly. Thus, a key part of handling this issue has to be regularly revisiting it, because even if you have the best possible answers for now, a few months will probably bring new features, solutions or problems, and everything will need to be reconsidered.

The first thing to recommend to your merchants and partners is to avoid risk wherever possible, rather than try to tame it.

For example, the theft or loss of cardholder data is a key danger for merchants. All the risks to stored cardholder data can be avoided by not storing cardholder data on mobile devices.

When that isn't practical, the fall-back position is to make sure all such data is encrypted. (Everyone should always follow this advice regarding sensitive data and mobile devices, not just cardholder data).



The danger to data in transit (eavesdropping or modification while data is being sent from smart phone to processor) can be reduced by always using hardware or software that employs encryption when transmitting sensitive data.

For now, while the technology and the solutions are new and unsettled, it makes sense to rely exclusively on solutions that have gone through careful testing by experts and are delivered by trusted providers.

Because most mobile devices employ immature technology, they are typically limited in what they can do, both right and wrong.

For example, until recently Apple Inc. iPhones could only do one thing at a time (they were single-threaded), so they couldn't run a firewall or anti-virus process in the background, nor could attackers hide malicious programs in the background.

As these devices evolve and expand their capabilities, more tools (such as firewalls and anti-virus programs) will become available, but the devices will also become more susceptible to new attacks: yet another reason for regularly revisiting security issues.

And the following security principles can still help protect your business:

- Don't install software unless you need it on a particular device and you have a good reason to trust it.
- Keep work responsibilities and data on a separate device from computers or smart phones used for your personal entertainment.
- Don't treat security as if it's just a technology issue: make sure you have the right policies and procedures in place, and train your staff on what to do and what not to do.

Following these recommendations will go a long way toward letting you (and your merchants) enjoy the benefits and convenience of mobility without sacrificing security. 📧

*Dr. Tim Cranny is an internationally recognized security and compliance expert and is Chief Executive Officer of Panoptic Security Inc. ([www.panopticsecurity.com](http://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](mailto:tim.cranny@panopticsecurity.com) or 801-599 3454.*



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## Stockholm Syndrome and the payment pro

By Jeff Fortney

Clearent LLC

**F**rom Aug. 23 to 28, 1973, bank robbers held employees of the Kreditbanken at Norrmalmstorg in Stockholm, Sweden, hostage. When the hostages were finally released, most praised their captors and had become emotionally attached to them. Many even said their captors had done nothing wrong.

Nils Bejerot, a Swedish criminologist and psychiatrist, coined a phrase for this attachment: "Stockholm Syndrome." Today, the FBI reports that over 27 percent of victims suffer from this syndrome. Those who develop it share such symptoms as seeing their captors as giving life by not taking it, being isolated, seeing the world through their captors' eyes and seeing acts of kindness in their captors' actions. They have been stripped of their independence by captors who gained control over their basic needs.



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### A debilitating condition

Sadly, this syndrome isn't restricted to hostages. It is found in the payments world today. And salespeople are highly susceptible. Say you're new to the business. You seek a processing partner that will help you make money. During your discussions, the company seems to be a very good fit. It has a nice bonus plan and the pricing seems OK, so you sign the contract.

After the first couple of months you find you aren't being paid residuals. Why? Because the contract requires they exceed a certain level before you are paid. You also discover you signed an exclusive agreement, and production minimums must be met to retain your residuals going forward. The company also charges merchants additional fees that you've learned, based on conversations with your peers, other processors don't charge.

Instead of addressing these concerns, those suffering from Stockholm Syndrome make comments such as, "I should have read my agreement better, but it's OK," or "All the other processors are doing the same thing. My processor is no different."

### The treatment plan

However, salespeople suffering from this syndrome can take the following steps toward professional freedom:

1. **Treat bad relationships as lessons learned:** We have all learned lessons in the payments business. If a contract isn't what you expected, it's another lesson learned. You now know from experience that you must thoroughly read and understand your partner agreements and confirm your rights – as well as your partners' rights – in the agreement.
2. **Expect great customer service:** Compare how you serve your merchants with the service you receive from your partner. Service is critical after the sale, as your merchants are your best source of referrals for new business. Ask yourself how your merchants would feel if you served them in the same way your ISO serves you.
3. **Think long term:** Think about where you want to be five years from now. Measure your current and future ISO partnerships against this goal. If these partnerships won't assist you in reaching that goal, they're likely not a good fit.
4. **Think short term:** What short-term needs are over-

riding long-term considerations? If given too much priority, short-term needs can negatively impact long-term goals. Don't let this happen. Recognize short-term needs as they arise and work with partners that will meet them most efficiently. Make sure your partners understand the importance of your long-term goals.

**5. Remember, it's a partnership:**

Do you consider yourself a partner with your ISO or processor? A partnership works to not only build your business, but your partner's business as well. Partners look out for each other's interests as they do their own because they know the interests of both are meshed. Partners do not charge merchants fees for the purpose of generating revenue exclusively for themselves, cutting their partners out.

**6. Never assume:** The most dangerous word in the English language is "assume." Remember Ronald Reagan's famous quote: "Trust, but verify"? If your partner or prospective partner says something that should be part of your agreement, confirm that it's written as you understand it. A good partner will address such concerns so they don't become major issues in the future.

**7. Be willing to fess up to bad decisions:** Ask yourself whether you are accepting less than you should from your ISO or processor. Be honest. If you are suffering from Stockholm Syndrome, you may have accepted that the way business works with your current processor is the way it will be elsewhere. That may not be the case.

After addressing all seven steps, examine your current business relationships. What needs to change for them to fit you better? Will your processor change, and under what conditions? These questions are necessary because, for example, your processor may be able to

make adjustments to your relationship or address contractual concerns. If your partner does agree to changes, remember to have them verified in writing.

If it is necessary to seek other partnerships, consider what I've just said, and be sure to verify everything. Don't look back and think of what might have been. Use the lessons you have learned, and move on to find the perfect fit. Once freed, you will find a very bright future. ■

*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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## Helping Level 4 merchants comply with PCI DSS 2.0

By Joan Herbig

ControlScan

Since 2006, the PCI Security Standards Council (PCI SSC) has been responsible for the development and management of the Payment Card Industry (PCI) Data Security Standard (DSS), which was created to help ensure the safe handling of payment card data by merchants. The council is currently on a three-year cycle for issuing updates, denoting a mature standard.

Over the next year, merchants and their ISOs and acquirers will be faced with adapting to and adopting PCI DSS

### Resources for PCI compliance

**1. PCI for small merchants:**

[www.pcisecuritystandards.org/smb/](http://www.pcisecuritystandards.org/smb/)

**2. PCI updates and deadlines:**

[www.pcisecuritystandards.org/security\\_standards/updates.php](http://www.pcisecuritystandards.org/security_standards/updates.php)

**3. PCI DSS Quick Reference Guide:**

**Understanding the Payment Card Industry Data Security Standard version 2.0:**

[www.pcisecuritystandards.org/documents/PCI%20SSC%20Quick%20Reference%20Guide.pdf](http://www.pcisecuritystandards.org/documents/PCI%20SSC%20Quick%20Reference%20Guide.pdf)

**4. Annual Industry Survey of Level 4**

**Merchant PCI Compliance Trends:**

[www.controlscan.com/whitepapers/merchant\\_study\\_2010.php](http://www.controlscan.com/whitepapers/merchant_study_2010.php)

In addition, merchant level salespeople, ISOs and acquirers should rely heavily on their PCI compliance providers for assistance with merchant education and outreach.

Solution providers are often in the best position to provide organizational guidance on how to set expectations for merchants and to supply tactical information on how to fill out a longer SAQ.

In many cases, merchant outreach is a service offered to educate merchants on PCI compliance and to help gauge where they are in the process. It's also productive to think of it as an opportunity to strengthen your relationships with them. In the end, however, it saves time and is far more cost effective to leverage your relationship with an existing solution provider and its expertise than to create a PCI compliance education campaign from scratch.

2.0. While the updated standard addresses how merchants of all sizes – from Level 1 (those accepting more than 6 million transactions per year) to Level 4, (those accepting fewer than 1 million payments annually) – should protect cardholder data, ISO and acquirer support for each merchant level can vary greatly.

Building stronger merchant relationships and driving higher compliance rates within the Level 4 segment will require an understanding of how PCI DSS 2.0 affects small merchants and how to best communicate these changes to Level 4 merchants.

### A closer look at PCI DSS 2.0

In October 2010, the PCI SSC introduced PCI DSS 2.0, with an effective date of Jan. 1, 2011. Version 1.2 will remain effective until Dec. 31, 2011, giving ISOs, acquirers and their merchants several months to become familiar with and begin adopting the new standard.

While change is not always well-received, the reality is that moving from PCI DSS 1.2 to 2.0 has addressed a number of merchant-initiated questions and challenges. The council continues to raise awareness of PCI compliance to ensure that the intentions of the requirements are understood and carried out. ISOs, acquirers and merchants should embrace the changes as a better and safer way to conduct business. Small merchants will see the changes manifested mainly in the Self-Assessment Questionnaire (SAQ).

### Changes to various SAQs

Merchants who qualify for SAQ A (those with cardholder data functions outsourced to a PCI-compliant service provider) and B (those with manual imprinters or dial-up phone lines) will be generally unaffected by PCI DSS 2.0. Their SAQs will largely remain unchanged.

The changes to SAQs C and D and the introduction of SAQ C-VT mostly involve additional clarification and guidance. For example, SAQ C merchants using payment applications connected to the Internet and not electronically storing cardholder data will now have to complete 80 questions. This is more than twice the number that SAQ C 1.2 contains.

There is also an uptick in questions for the already extensive SAQ D. As a result, merchants who do not qualify for one of the reduced SAQs, or who store cardholder data, will now have to tackle more than 280 questions instead of the current 226. An additional and significant change is the inclusion of SAQ C-VT. This reduced SAQ C form – with just 51 questions – is designed for virtual terminal users accessing their PCI compliance service provider's solution from a computer isolated in a single location.

To be eligible for this shortened SAQ C, merchants must manually key the payment information into an Internet-

### What ISOs and acquirers can do now

- Set a context for PCI DSS 2.0 through email, direct mail or one-on-one communication with Level 4 merchants. Start with general information about PCI DSS 2.0. Next, send SAQ-specific information on how to prepare for each questionnaire, tailored to the merchant's specific processing method. Finally, monitor the merchant through PCI compliance.
- Put special educational programs, such as an outbound calling campaign, in place for merchants with varied payment environments.
- Team with small merchants to mentor them through the PCI DSS compliance.
- Encourage merchants to not store cardholder data, and explain to them the benefits that result, such as risk reduction and a reduction in the amount of effort required to comply with PCI.

based virtual terminal and cannot use any type of swipe device. One of the key benefits of qualifying for this form is that the quarterly external and internal vulnerability scanning requirement is waived.

While the changes may sound intimidating and time consuming, the incremental questions are aimed at helping merchants further understand and comply with the PCI requirements. This is a positive development for merchants who self-validate their PCI compliance.

### The Level 4 merchant mindset

The size of Level 4 merchants tends to drive how they perceive data security and determine the steps they take to protect sensitive information. For example, ControlScan's latest *Annual Industry Survey of Level 4 Merchant PCI Compliance Trends*, completed in conjunction with Merchant Warehouse, indicates 53 percent of Level 4 merchants rated data security as a high priority, but 55 percent of all respondents said they were unsure of or not at all familiar with the PCI DSS.


Many merchants assume that because they don't handle a high number of transactions, they are less likely to be the victim of a data breach. The PCI compliance trends survey shows 84 percent of merchants (retail and online) perceive their data security risk to be low.

ISOs and acquirers should view PCI DSS 2.0 as an opportunity to take a leadership role in helping Level 4 merchants understand the importance of bolstering their security posture through adherence to the standard. By tailoring education and outreach to a merchant's size, resources and knowledge level, payments service provid-

ers not only increase their portfolio compliance rates, but also strengthen their merchant relationships.

### Educating merchants on PCI DSS 2.0

Just as one size does not fit all within the Level 4 category, generalized PCI DSS 2.0 assistance will not advance compliance. Small merchants will turn to their ISOs and acquirers for context as they go through the compliance process, so they can understand the basics of PCI compliance and receive the tactical guidance needed to adhere to PCI DSS 2.0.

Since security, like insurance, does not generate revenue for merchants, education cannot be a hard sell. Instead, you should help Level 4 merchants understand what PCI DSS 2.0 is, why they are required to comply and how it benefits them. Small merchants who receive effective education often shift from a reactionary posture to a proactive attitude toward security. 

*Joan Herbig is Chief Executive Officer for Atlanta-based ControlScan, a provider of PCI compliance solutions that fit the specific needs of small to medium-sized merchants. Herbig is active in the PCI security and payments communities, where she is often asked to speak, and leads education sessions for the Electronic Transactions Association. Contact her at jherbig@controlscan.com or 800-825-3301.*



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## Leads, leads, leads - Part 2: Lead management

**Peggy Bekavac Olson**

*Strategic Marketing*

**S**ales leads play a crucial role in the payments business, and for that reason, I'm writing a three-part series of articles for *The Green Sheet* dedicated to this significant topic. In last month's article, "Leads, leads, leads – Part 1: Lead generation," Feb. 14, 2011, issue 11:02:01, I noted that successful lead-generating companies typically employ a comprehensive arsenal of inbound and outbound tactics in a continuous, long-term approach.

I hope you've already started to apply a number of promotional techniques, like email, direct mail, search engine optimization, advertising and more to ramp up your lead generation efforts. If you have, you're on the road to generating a great many more leads for your business.

Next, consider what to do with these leads as your pipeline begins to fill. The answer lies in effective lead management – the subject of this article.

### What is lead management?

Lead management is the orderly process of what happens to prospects from the moment of inquiry and information capture through progression of the sales cycle. Although companies can pour significant funds into lead generation efforts, few leads convert to actual sales unless the leads are managed effectively.

Leads come into your business and then what? Do they receive proper and timely follow up? Do you have a way to track them? Do you know what to do with them? Do you have the bandwidth to handle them all? Are your leads passed directly to sales without qualification, resulting in wasted selling time? If so, what can you do to reverse this disconcerting trend?

You can solve problem areas the preceding questions brought to light by implementing two fundamental components of effective lead management:

1. Create and maintain a record system or centralized database of potential sales opportunities – your leads.
2. Define and implement a disciplined process that moves prospects captured in your database through the entire sales cycle.

Lead management can be a manual effort or you can take an automated approach.

### A central lead database

Please know that you're not alone if you don't have a centralized database or if you're using Microsoft Excel to house lead information. In a *2009 Lead Management Practices Survey* conducted by the Velos Group, 23 percent of responding businesses indicated that they do not maintain a central prospect or customer database. An additional 24 percent reported that they use Excel exclusively to track leads. Does your company fall into one of these categories? Chances are the answer is yes.

Many companies use Excel because it is easy, convenient and affordable for entering and accessing information about leads. While Excel may be OK to start with, and is better than doing nothing, it can become cumbersome, unwieldy and inefficient as the number of leads grows.

Several sales force automation (SFA), customer relationship management (CRM) and marketing automation solutions are available to build and maintain a database, plus provide details about prospects expediently. Some of the more well-known applications include ACT, Eloqua, Goldmine, Marketo, Microsoft CRM, Salesforce.com, SalesLogix and SilverPop.

### A disciplined process and methodology

Yankee Group Research Inc. estimates that between 40 and 80 percent of new business leads are lost, not followed up or are otherwise mishandled due to poor company processes. Gartner Inc. concurs; its research revealed that as many as 70 percent of all leads are never acted upon. The key to outperforming the competition is to implement a disciplined process and methodology that focuses on turning inquiries into qualified leads and then into sales.

Determine how you manage leads. Identify what happens to leads that aren't hot or prospects that aren't ready yet to buy. Make sure to map out each step in your sales cycle to ensure no inquiry is lost and that all qualified leads are pursued by sales. Again, your approach can be manual or automated. Regardless of the approach taken, companies with the best processes and methodologies win through increased sales and reduced costs.

You can use SFA, CRM and marketing automation software to computerize your lead management process and methodology. The 2009 Velos Group survey reported that companies that use them close a higher percentage of leads than those that don't. These tools provide functionality to help gather information, track lead generation activities, facilitate progression through the sales cycle, determine when leads are qualified and sales-ready,

forecast revenue, and understand the success or failure of various lead generation efforts.

Adtrack Corp., maker of the SmartLead lead management application, boasts that its customized systems and services can reduce lead follow-up time by 50 percent, increase lead reporting by 90 percent and grow sales by 100 percent. Other vendors make similar and even bigger claims. In a customer briefing document, Marketo Inc. claims its marketing automation software leads to a 190 percent sales conversion increase.

On the flip side, you won't be alone if you choose to take a manual approach. The Velos survey indicates that 53 percent of respondents still don't use an automated SFA, CRM or marketing automation application. That number jumps to 71 percent when a company has fewer than five sales representatives. The reason SFA, CRM and marketing automation tools are not adopted is that they frequently take up significant company resources in terms of time, money and manpower.


### Effective lead management yields results

Companies can achieve positive results by employing effective lead management strategies. They typically:

- Convert more leads into sales

- Shrink the sales cycle
- Increase revenue
- Reduce lead generation and customer acquisition expense
- Boost productivity
- Enhance forecasting
- Create revenue predictability and consistency
- Build the lead database into a company asset
- Increase corporate valuation

By spending time and resources on lead management, you can reap the benefits of having an effective strategy to increase sales and reduce costs while propelling your business ahead of the competition.

Stay tuned for part three in this series, which tackles the subject of lead nurturing. Until then, keep generating leads and work on improving your lead management database, process, methodology and systems. 

*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](mailto:peggyolson@smktg.com). Information about Strategic Marketing can be found at [www.smktg.com](http://www.smktg.com).*



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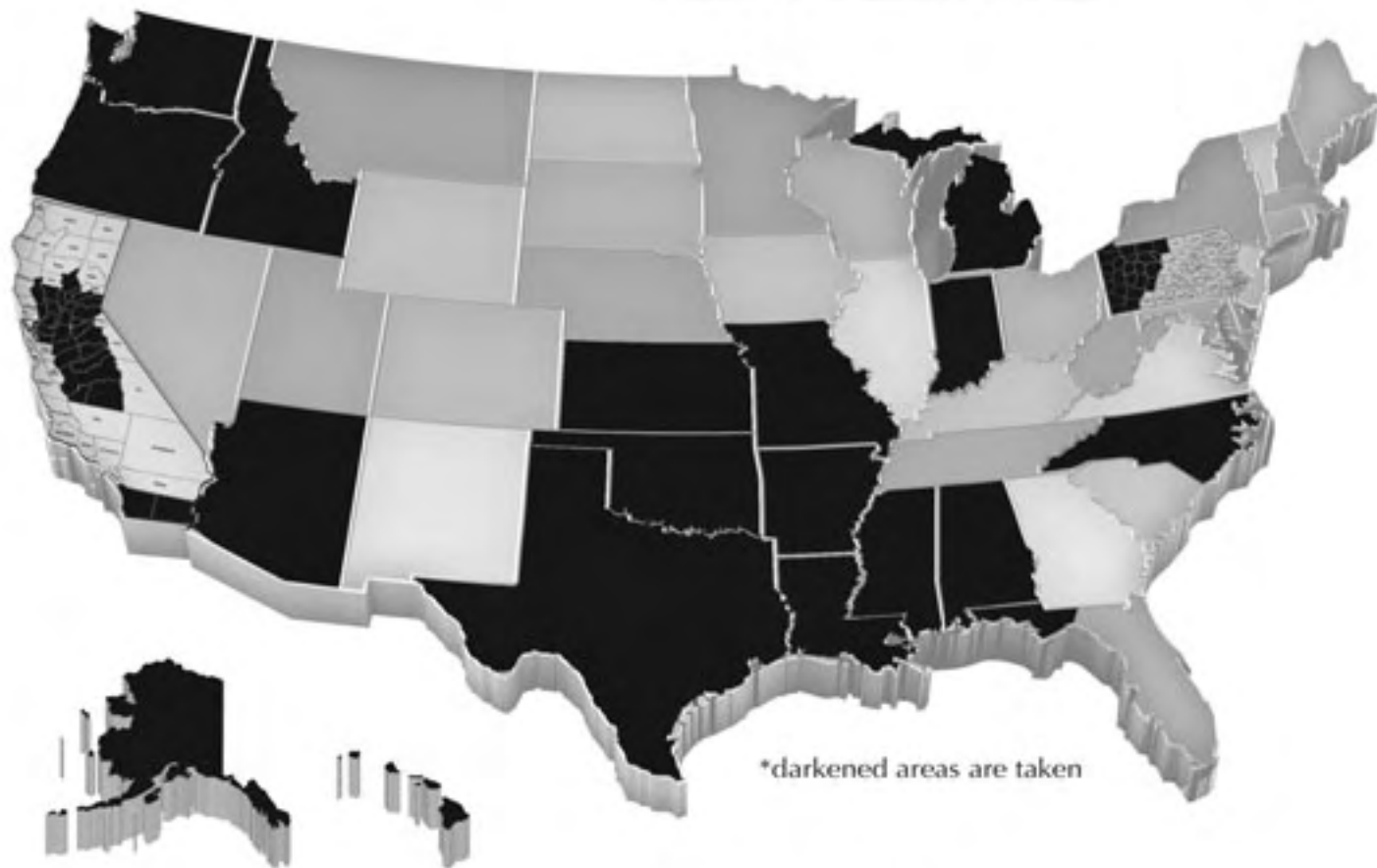
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# Research Rundown

## E-commerce platforms evaluated

Javelin Strategy & Research's *E-Commerce Platform Review: A Detailed Comparison of 11 Internet Payment Processing Solution Providers* takes a look at selected e-commerce processors' products, value propositions, marketing positioning and differentiation.

E-commerce transactions comprise a growing share of the overall retail market, creating a reason for merchants and payment processors to expand their platforms for card-not-present payment acceptance and processing, according to Javelin. The report highlights how processors differ greatly in their offerings related to international processing, fraud and security, recurring billing, reporting and other back-end processing functions.

The report addresses the following questions:

- Who are the leading e-commerce payment processors, and how do their platform offerings differ?
- What is the scope of each company's domestic and international card-not-present processing capabilities?
- What payment management features does each platform offer to merchants?
- What back-end features (such as fraud prevention and security, authorization, and chargeback processing) does each e-commerce company offer to merchants?

Among the processors surveyed were: Adyen, Chase Paymentech Solutions LLC, CyberSource Corp., Elavon Inc., Fifth Third Processing Solutions LLC, First Data Corp., First National Merchant Solutions LLC, Litle & Co, Merchant e-Solutions Inc., PayPal Inc. and WorldPay US Inc.

Javelin collected the data using detailed vendor questionnaires and in-depth interviews conducted with senior vendor representatives, or through secondary research, company profiles and other reference materials on the provider's positioning and technology.

The intended audience for the report includes those involved in businesses related to online retailing, merchant acquiring, e-commerce platforms, payment gateway services and other payment technologies, payment networks, online banking and others.



For more information, go to:  
[www.javelinstrategy.com](http://www.javelinstrategy.com)

**"Financial firms that wish to excel at CRM must establish a presence and a voice in most of the same online communities where their customers spend time. Increasingly, that means participating in social media of many types."**

- Patricia McGinnis, Director in Mercator Advisory Group's Banking Service

Source: *Be SMART About Social Media* by Mercator

## Mobile users ready for mobile payments

New research by Accenture shows that nearly half (45 percent) of the most active mobile device users would welcome the opportunity to pay for goods and services via mobile phone, despite the fact that 73 percent expressed significant privacy and identity theft concerns.

## Retailers integrating POS

In a survey conducted by Aberdeen Group of over 100 retailers on use of in-store POS devices to interact with customers, 42 percent said they are moving beyond simple transaction processing and are integrating POS systems with marketing, merchandising, inventory, and customer relationship management (CRM) data.

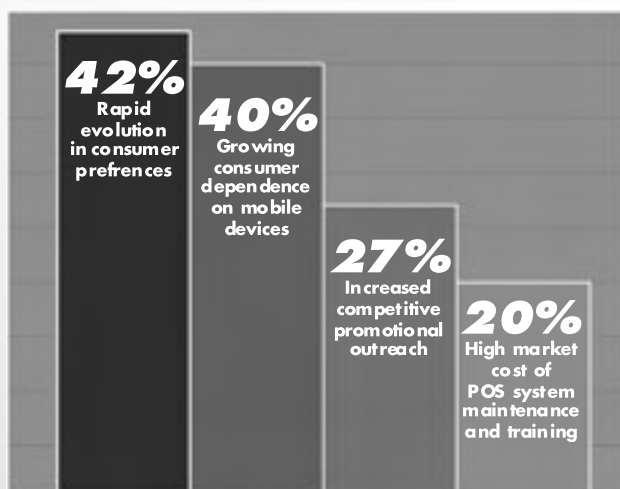
## Vending goes cashless

In a survey conducted by Apriva, a wireless transactions processor, among 200 National Automatic Merchants Association members regarding the adoption of cashless payment technologies in the vending space, 57 percent of respondents said they expect to either integrate or expand the use of cashless technology in 2011.

## Credit cards post 13-month high

According to data released by First Data, transaction growth on credit cards was at a 13-month high in January 2011, and year-over-year credit dollar volume growth was the second highest in over a year.

## Primary POS pressures for retailers



[Source: Retailers Target POS Mobility Engagement, Interactivity and Revenue report, Aberdeen Group]

# NewProduct

## A global e-commerce payment solution

### Product: Digital River World Payments

Company: Digital River Inc.

**A**lternative payment preferences in certain geographic regions have tended to restrict commercial access to large segments of the world's population.

To help e-commerce businesses overcome the many challenges involved with penetrating global markets, Digital River Inc. launched Digital River World Payments, a complete online payment lifecycle management solution.

Founded in 1994 as a provider of e-commerce technology, tools and services for major Internet brands, including e-retailers, online service providers and travel and entertainment enterprises, Digital River expanded with the acquisition of Netgiro in 2007, a company specializing in back-office reconciliation and credit card routing services for acquiring banks globally.

"We've actually run that company as an individual business unit for the last three years," said Paul Bridgewater, Vice President of Digital River World Payments.

"What we've done is we've made the decision to bring our total payment services together with our Netgiro assets and rebrand that as Digital River World Payments to provide an enhanced, global, full-service payment product.

"The whole skill-set about the business is enabling companies to accept and offer the right payment option scheme in their online checkouts with regard to what the consumer preference is based upon where the consumer is located geographically, and then processing those transactions on behalf of those companies, providing consolidative reporting and back-office services and consolidative funds, before sending them back out to the client," he said.

### The core

Digital River's online payment lifecycle management strategy operates on five core benefits that focus on revenue growth and cost optimization. "There is a lot of experience that we have around payment program optimization, such as the right payment options, how they're presented, how they're ordered and how you actually interact with the consumer," Bridgewater said.

On the topic of engaging customers with the proper payment instruments, he said, "Credit cards will generally get you 60 or 70 percent of the potential revenue opportunity in a market, but if you want to grab that extra 20 or 30

percent revenue opportunity, you have to be able to support the local payment options."


The five core benefits Digital River provides are:

1. **The payment experience:** The payment experience is how e-commerce companies interact with consumers and how they present relevant and valid payment options based upon geographic and demographic influences.
2. **Payment options:** Digital River offers relevant payment options in more than 190 countries and over 170 transaction and display currencies.
3. **Risk management:** Transaction Defender, Digital River's proprietary, real-time fraud detection service offers protection against potential cyber attacks.
4. **Back-office services:** Reporting and reconciliation features provide access to meaningful data for payment managers in e-commerce companies.
5. **Payouts:** This core function is how Digital River distributes revenue, as well as transactions, to multiple parties across multiple countries.

### Think modular

"Our channel partner program revolves around companies that already provide basic credit card services, like an ISO, and want to add additional alternative payment options into their portfolio, such as fraud solutions, more integration, global tax calculation, and some of the other services and products that are unique within a payment program to be effective," Bridgewater said.

According to Bridgewater, an advantage to merchants is the ability to control and manage payment programs with minimal technical support, which places full control into the payment manager's hands.

Digital River offers three primary e-payment modules: Payment Advance, which provides merchant account services, a customized set of local payment methods and all its core services; Payment Stream, a traditional global payment gateway; and Payment Source, an outsourced payment program that fully manages distribution, reseller services and local payment acceptance. 

### Digital River Inc.

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

# Book Review

## Ingredients essential to thriving enterprises

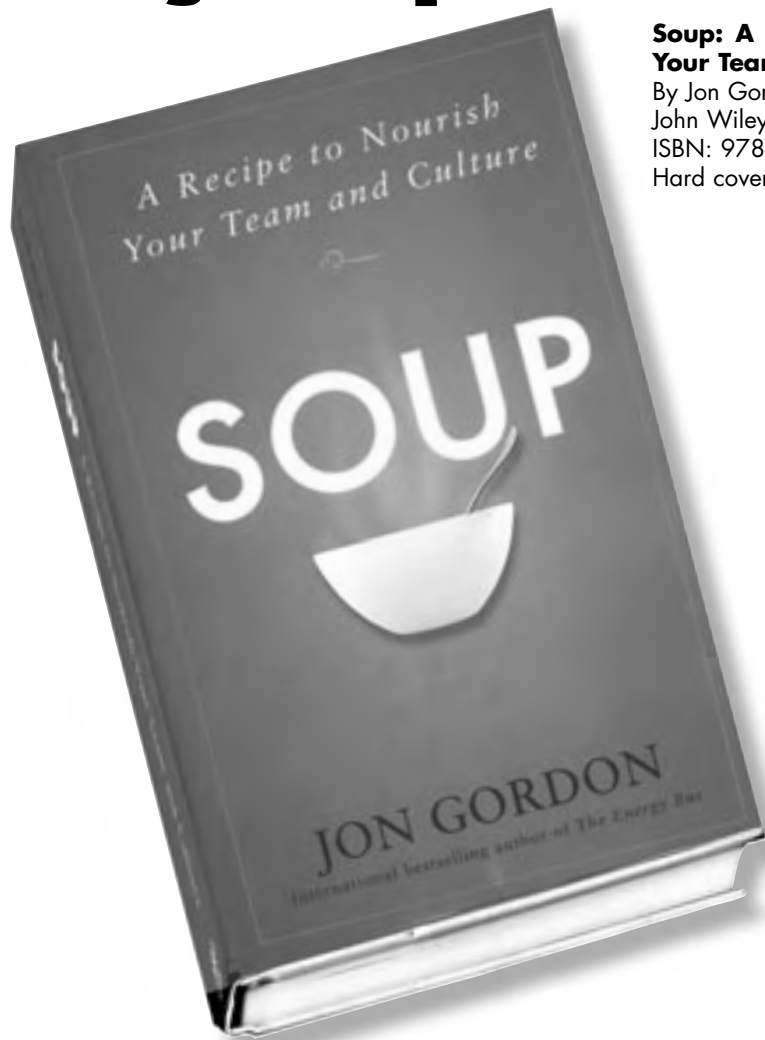
**I**nformation on leadership abounds these days, so much so that sound business advice is often difficult to remember amid the onslaught of emails, blog posts and other electronic updates most workers encounter on the job. So, what is a business owner or manager to do when a company or team needs revitalization? How can leaders convey their ideas in such a way that essential information will not only stick, but also be implemented?

One way is to weave a philosophy or plan of action into a story. And this is what Jon Gordon has done in *Soup: A Recipe to Nourish Your Team and Culture*. Published in 2010 by John Wiley & Sons Inc., the book tells the story of Nancy, the new Chief Executive Officer of Soup Inc., a corporation on the verge of bankruptcy. She's highly motivated, but she's been unable to turn the company around, and she's under pressure to produce immediate results.

### Important lessons

Then, on her lunch break, Nancy discovers Grandma's Soup House, a thriving little business that has far more to offer Nancy than delicious soup. Grandma and her grandson Peter befriend Nancy. And over the course of several months, Nancy learns from her new friends how to thoroughly revitalize Soup Inc.

The book's chapters are short, typically just two to three pages. They provide morsels of wisdom from Grandma and Peter that Nancy digests and adapts to her company's situation. For example, shortly after their meeting, Nancy asked Grandma what her secret to success was. Grandma said people think it's either the ingredients or the recipes she uses, but neither was the



### Soup: A Recipe to Nourish Your Team and Culture


By Jon Gordon  
John Wiley & Sons Inc.  
ISBN: 978-0470-48784-6  
Hard cover, 164 pages

answer. "The secret is me," she said. "Who stirs the pot matters. You can't separate the soup from the soup maker." Thus Nancy received her first lesson: she would be the most important ingredient in Soup Inc.'s performance.

### A recipe to keep

At the end of the book's 53 chapters, Nancy has a winning recipe for nourishing her team: "Stir the pot with love. Lead with optimism. Share the vision. Build trust. Fill the void with positive communication. Add a big dose of transparency and authenticity. Create engaged relationships. Combine inspiration,

encouragement, empowerment and coaching. Fill up with appreciation. Heat with passion. Bring it all together with unity."

It is a challenge to write a simple book that doesn't read more like a children's book than one for business leaders seeking effective ways to improve their companies. Gordon, whose previously published books include *The Energy Bus*, *The No Complaining Rule*, *Training Camp* and *The Shark and the Goldfish*, appears to have mastered the form. He can be reached at 904-285-6842, [info@jongordon.com](mailto:info@jongordon.com) or [www.jongordon.com](http://www.jongordon.com). 

# DateBook

Visit [www.greensheet.com/datebook.php](http://www.greensheet.com/datebook.php) for more events and a year-at-a-glance event chart.



## 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](http://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 sessions 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](http://www.nacha.org)



## Merchant Acquirers Committee

2011 Annual Meeting

**Highlights:** MAC's annual conference regularly draws more than 250 attendees and is said to be the only annual meeting in the United States exclusively dedicated to educating individuals responsible for risk mitigation in the payments industry.

The 2011 conference will feature keynote speakers from Microsoft Corp., the FBI and the Federal Trade Commission, among others. Panels will discuss the Payment Card Industry Data Security Standard, banking trends, legislative changes and

updates from the card brands on upcoming risk-related issues. Also included will be day and evening networking events attended by some of the industry's largest payment processors and opportunities to see the newest products in risk mitigation.

**When:** April 12 – 14, 2011

**Where:** MGM Grand Hotel, Las Vegas

**Registration:** [www.macmember.org](http://www.macmember.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](http://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 prosper 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/](http://www.electran.org/content/category/6/35/118/)

# Boost Your Biz

## Measuring your ad's ROO

**M**easuring the effectiveness of your advertising is important but can be challenging. Unless you have sophisticated contact relationship management tools in place, it might be better to evaluate your ad's return on objectives (ROO), rather than return on investment (ROI).

Objectives for an ad can be as simple as getting someone to call for more information about a product, watch a webinar or visit your booth at a tradeshow. Here are steps to help you make sure your ad achieves its intended purpose:

- **Create benchmarks:** Create simple numeric goals on how many calls, replies or visits you would like to generate. Creating this type of benchmark helps you compare results with future campaigns that have similar characteristics.
- **Design "trackability" into the ad:** Incorporate content, such as special incentives, that helps distinguish one ad from another, particularly if you have several running at the same time. Also, make sure the way in which you want audience members to

respond is clearly highlighted in the ad, whether it is a landing page URL or a dedicated phone line.

- **Explore existing tracking mechanisms:** Discuss with ad reps what their media offer in terms of tracking capabilities, such as numbers of impressions for online advertising or advertiser response cards for print publications.
- **Create your own tracking mechanism:** Be ready to collect information that will reveal the source of a call, visit or reply once the responses start coming in. This form will, of course, include the question, Where did you hear about us? But it can also reveal the quality of the lead generated.
- **Train staff to use the tracking mechanism:** Ensure staff is asking for the referral source information consistently so that you'll get a true reading of how many people are responding to your ad.

Creating objectives for an ad and deciding how you are going to measure whether the objectives are being met should be part of your planning, not an afterthought. This information influences ad design and also helps shape future campaigns. 📧



## You have a thirst for knowledge

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# Inspiration

**WaterCoolerWisdom:**

**Every man takes the limits of his own field of vision for the limits of the world.**

- Arthur Schopenhauer

## The mind's the limit - so expand it

**A**s creatures of habit, we often do not reach our full potential. We drive our cars, but how many of us know how to set up the jack and change a tire?

We print photos using a computer software program, but how many use such software to dramatically enhance the photos' quality?

The truth is learning can be difficult. We restrict how much we learn because, being busy, we tend to learn enough to solve the problem at hand and then move on to the next issue demanding attention. Sometimes, too, we heed self-imposed limits that are so long-standing they seem like inviolate truths.

### Limit-itis

But there is a price we pay for arrested learning: lack of knowledge. And this affects all areas of our lives, including our payment careers.

For example, a merchant level salesperson (MLS) may develop a good book of business in a certain vertical but fail to diversify his or her portfolio by not studying new markets. Or an ISO might not offer mobile payment solutions because the boss hasn't endeavored to understand them. The result in both cases? Lost opportunities.

This need not be your story. The more you learn, the bigger your rewards will be, personally and professionally.

### Limit-less

Here are four tips to help dissolve learning boundaries:

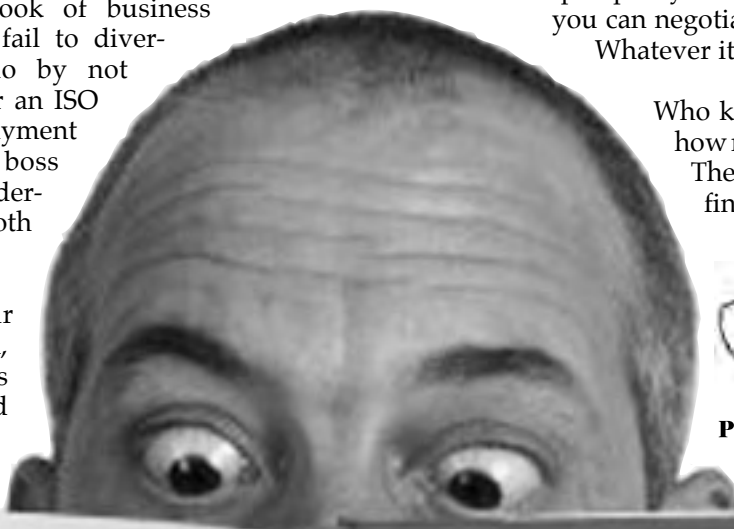
- 1. Use your assets:** If you are an ISO or MLS, you have formidable, positive attributes you can apply to learning. For starters, you are an excellent communicator and a self-starter. When you have to set up a sales call, you pick up the phone and do it. Do the same for yourself. If you want to learn something new, pick up the phone (or go online) and get the ball rolling. Make contact.
- 2. Be persistent:** As a thriving ISO or MLS, you have set realistic, measurable business goals. Set learning goals, too, and vow to meet them. Do this as though your future depends on it.
- 3. Give and receive support:** Enlist the aid of individuals willing to help you keep tabs on your learning progress. Share your successes, and be honest about challenges that have stumped you. Do the same for others, and notice how helping them inspires you to do your best, as well.
- 4. Aim higher:** Once you've attained a goal, seek a greater challenge. Maybe it's learning the ins and outs of medical offices so you can confidently approach doctors about payment innovations that could contribute to their prosperity. Perhaps it's learning Mandarin so you can negotiate with entrepreneurs in China. Whatever it is, take it on. Don't shy away.

Who knows what lies ahead of you or how much you can master in your life? The only way to find out is, well, to find out.

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



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We're one of the top 30 merchant acquirers in the US. – large enough to provide the services and pricing you need to grow your business, agile enough to respond to your unique needs. We're changing the merchant acquiring industry with our state-of-the-art technology and innovative products:

- On-time, accurate residual payments
- Industry-recognized risk system
- Online payment gateway
- Restaurant/hospitality POS Solution

For more information, contact Larry Jones, Vice President – Indirect Sales  
(281) 895-5924 • [ljones@mcpscorp.com](mailto:ljones@mcpscorp.com) • [www.mcpscorp.com](http://www.mcpscorp.com)

*"Now there's an alternative to the typical ISO/processor relationships that exist today. MCPS takes an innovative approach by treating our ISOs like true partners."*

**Todd Linden**  
Chief Operating Officer  
Merchants' Choice Payment Solutions

**MC**  
**MERCHANTS' CHOICE**  
**PAYMENT SOLUTIONS®**

Your Electronic Payments Partner™

Representing Woodforest National Bank\* Houston, TX

\*Member FDIC

# Advertiser Index

1st American Leasing.....	25	National Transaction.....	26
AlphaCard Services.....	67	North American Bancard.....	2, 6, 7
CardPayment Solutions.....	29	NPC.....	31
Central Payment Corp.....	45	POS Portal Inc.....	43
Century Payments/Reliable Payment Solutions.....	63	Reliant Processing Services.....	87
CHARGE Anywhere.....	53	Southeast Acquirers Assoc. (SEAA).....	34
CoCard Marketing Group.....	11	Spark Base.....	35
Credomatic.....	30	Spectra Payments.....	89
CrossCheck Inc.....	85	Stream Cash LLC.....	16
Cynergy Data.....	83	Super G Funding LLC.....	20
Electronic Merchant Systems.....	81	The Phoenix Group.....	37
Electronic Payments.....	95	TransFirst.....	19
Electronic Transactions Assoc. (ETA).....	50	TriSource Solutions LLC.....	22
eProcessing Network LLC.....	69	TSYS Acquiring Solutions LLC.....	10
EVO Merchant Services.....	21	United Bank Card.....	55, 56, 57
EZCheck.....	54	United Merchant Services Inc.....	17
First American Payment Systems.....	9	USA ePay.....	12
First Data.....	15	Velocity Funding LLC.....	52
GBR Funding LLC.....	40	VeriFone.....	23
Global Check Services.....	91		
Global Payments Inc.....	71		
Hypercom.....	96		
iMax Bancard Network LLC.....	72, 73		
iPayment Inc.....	27		
JR's POS Depot.....	41		
MaxAdvance.....	66		
Merchant Services Inc.....	61		
Merchant University.....	78		
Merchant Warehouse.....	13		
Merchants' Choice Payment Solutions.....	93		
MLS Direct Network Inc.....	48, 49		
Moneris Solutions.....	18		

## Inserts

AlphaCard Services  
 Card Payment Solutions  
 Charge Card Systems  
 North American Bancard  
 Total Merchant Services

## Cover Wrap

North American Bancard  
**Business Reply Card**  
 North American Bancard



... THERE WAS AN AD THAT HAD A GUY HOLDING A TERMINAL  
 AND HE WAS WEARING A SPORT COAT AND THE PRICE WAS  
 LIKE \$199 OR SOMETHING AND IT WAS BACK IN THE SUMMER.  
 WHAT WAS THE COMPANY'S PHONE NUMBER ON THAT AD?\*

FREE PDF ARCHIVES OF ISSUES BACK TO OCTOBER 2001  
 (ISSUE 01:10:01). LOCATE PREVIOUS ADS, OR  
 RESEARCH YOUR COMPANY'S AD HISTORY.

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*Please ask us about our free wireless program, see page 41*

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THE REGULAR PRODUCTION AND CONVERSION BONUSES

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**ELITE EIGHT** (8 approved applications) \$1000

**SWEET SIXTEEN** (16 approved applications) \$2000

**RISING ABOVE THE FIELD** (32 approved applications) \$5000

**BEATING THE FIELD** (64 approved applications) \$10,000

**CALL ROBERT HEINRICH TODAY**

**AT 1-866-253-2227 EXT. 25**

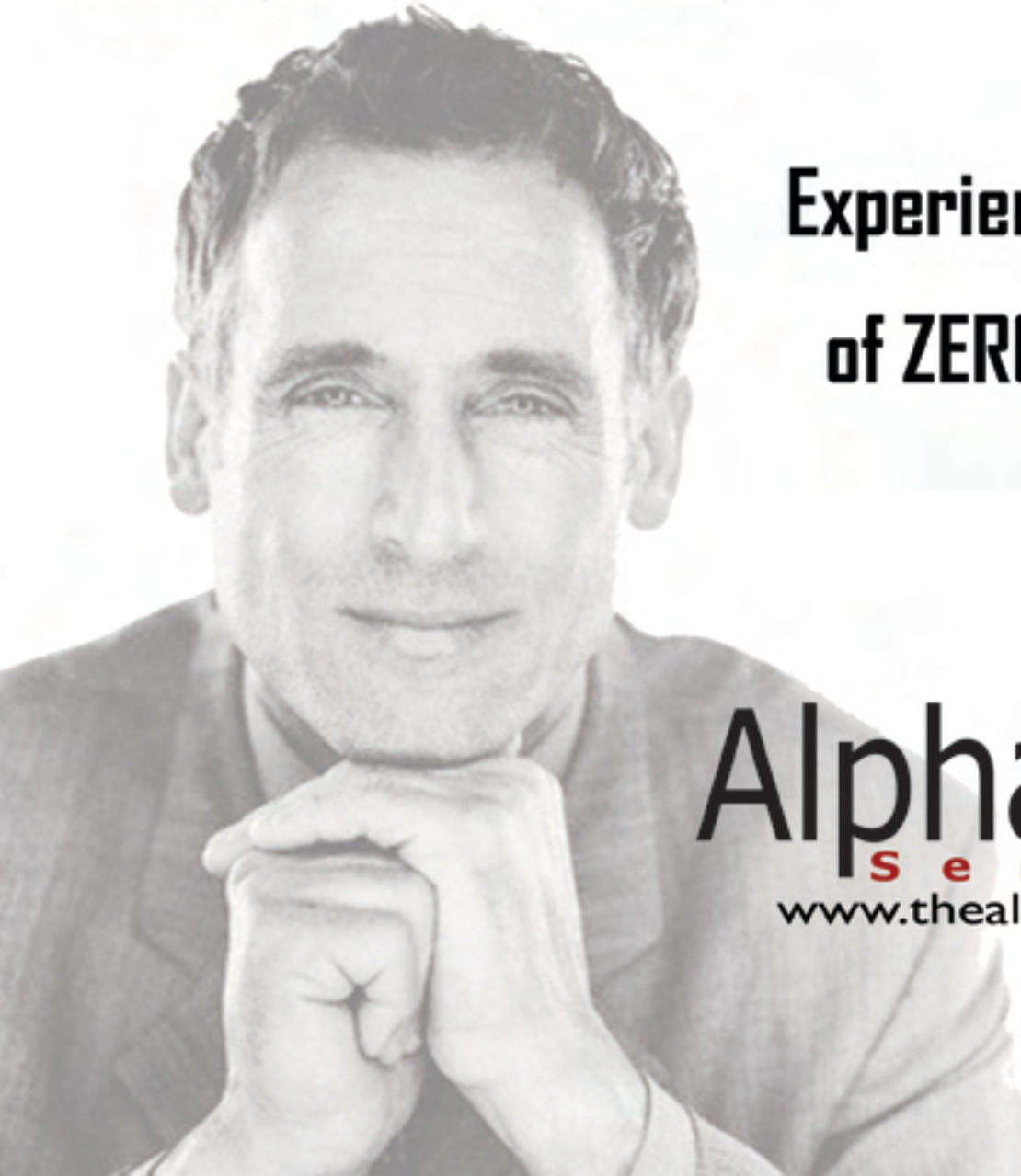
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**GREAT PROMOTION**



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- Multi Year Philadelphia 100 Company
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- Residuals Paid **CORRECTLY** on the 20th of Every Month - We Are Never Late!
- Residuals Reporting Showing All Interchange Categories
- Guaranteed Third Party Sell & Loan Rights
- Zero Hold Times
- All Departments in House
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## Up To \$500 Per Account Bonus!

## Paid Same Day!

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## CCS Funds Its Agents

# WORKING CAPITAL

## To Build Their Business



**With Charge Card Systems' Line of Credit Program,  
you can build your business without draining your bank account.\***

- Set Up an Office
- Invest in Marketing
- Purchase Sales Leads
- Attend Key Events
- Hire a Team of Sales Agents
- Invest in Technology
- Participate in Tradeshows
- Manage Operating Expenses
- Build a Website
- Join Industry Associations

**Plus, CCS gives *your merchants* the working capital to bankroll *their* business!**

*(See Reverse Side For Details)*



For more information on our Line of Credit Program,  
contact Adam Moss at **888.505.2273 ext. 207**

\*Call for details. See reverse side for complete CCS program benefits.



**CCS Provides Merchants**

# **WORKING CAPITAL**

**To Build Their Business**

In today's economy, many merchants need working capital to build their business - whether it be for renovations, expansion, inventory, marketing, taxes or more. CCS' Merchant Cash Advance Program provides your clients with access to the cash they need to grow and succeed - with no limitations or restrictions on how the money is used.

**UP TO \$150,000 IN AS LITTLE AS SEVEN DAYS**

**NO PERSONAL GUARANTEE**

**NO COLLATERAL**

**MERCHANTS CHOOSE HOW TO USE THE MONEY**

Join the Industry Leader and Take Advantage of the ISO Program Designed to Provide **SHORT TERM INCENTIVES** and Build **LONG TERM WEALTH**

#### **CHARGE CARD SYSTEMS' PROGRAM BENEFITS:**

- **Up to 70% Residual**
- **Activation & Conversion Bonus** up to \$750
- **Low Transaction Fee** on all Retail, MOTO & Internet Processing; Dial-up & IP
- **12-Hour Funding** on All Card Types
- **Canadian Merchant Processing**
- **HioPos Point of Sale System**
- **Access to Multiple Platforms** including First Data Omaha, Nashville, North, Buypass; PNS, Vital & Global
- **High Risk Merchant Processing Options**
- **Mobile Processing** & QuickBooks Integration
- **Niche Marketing Divisions**
- **Agent Portal to Manage your Business**

**PARTNER WITH US AND WATCH YOUR BUSINESS GROW.  
CALL NOW!**



CHARGE CARD SYSTEMS, INC.

For more information on CCS, contact Adam Moss at 888.505.2273 ext. 207  
or visit [chargecardsystems.com/gsadvisoryboard](http://chargecardsystems.com/gsadvisoryboard)

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





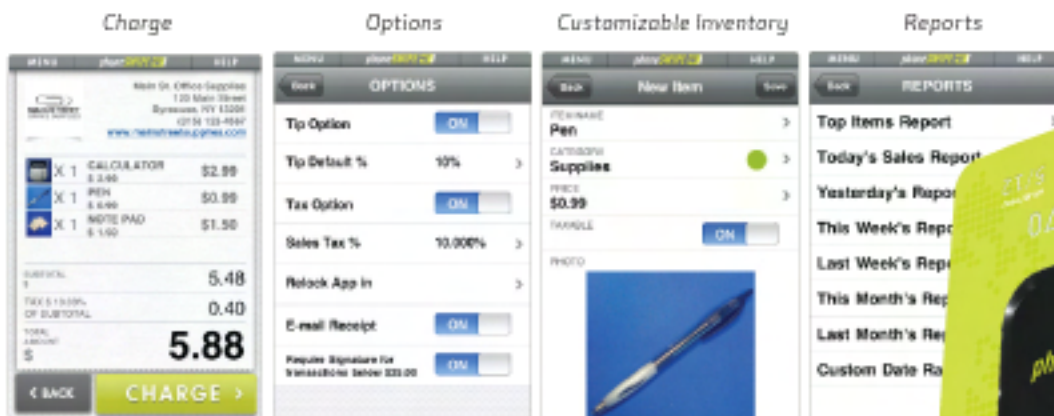
# SMARTPHONE + FREE PHONE SWIPE READER = MORE PROFIT FOR YOU

Your merchants demand up-to-the-minute credit card processing solutions, and that's exactly what North American Bancard is delivering. NAB's Phone Swipe will help you significantly:

**Expand your customer base • Increase your sales • Grow your revenue**

# TURN YOUR MERCHANTS' SMARTPHONES INTO TERMINALS AND START TURNING A HIGHER PROFIT TODAY!

Phone Swipe, exclusively from North American Bancard, lets your merchants accept credit card payments anywhere.



Close the deal by offering your merchants a mobile credit card processing solution with the features they really want:

- **Affordability** - Merchants won't be able to refuse a FREE Software App and Card Reader
- **Usability** - Merchants can accept payments with a user-friendly app and easily manage their business with enhanced features like real-time reporting
- **Flexibility** - With Customizable Inventory, E-mail Receipts with Google Maps™, Tips setting, Geo Tax and more, merchants can customize the app to fit their business needs
- **Reliability and Security** - Merchants can swipe transactions anywhere, anytime and from anyone with confidence, knowing Phone Swipe is backed by North American Bancard

TO PROFIT WITH NAB TODAY, CALL  
**877.765.4118**  
[phoneswipeagents.com/gs](http://phoneswipeagents.com/gs)







# Doofus?

[doo-fuhs] *n. Slang*

A foolish or inept person.

*Avoid being one with Total Merchant Services.*

Who wants to get slapped with an undisclosed \$79 - \$99 Compliance Fee?

***Not your merchants!***

Who wants to get angry phone calls from merchants who feel they were tricked?

***Not You!***

Who is going to get a referral from those angry merchants?

***Not You!***

See the many ways  
Total Merchant Services  
protects you and  
your merchants!

# Hidden Compliance Fees? Angry Merchants? Don't take it anymore!



## We've got some better ideas! Take a look:

**You can have it all!** You can still earn an 8x upfront bonus, 50%-65% revenue sharing splits, the best free terminal placement programs in the business, with an honest, transparent, reasonable Compliance Program.

### **Total Transparency**

Total Merchant Services protects you and your merchants with total transparency. We take a reasonable approach in disclosing the financial details of our Compliance Program to every new merchant on our Schedule Of Fees in simple, clear language.

### **Easy To Sell**

All our merchants receive the Compliance Program at no additional charge during the first year of their processing relationship with us and these services may be accessed immediately. On the 13th month of processing, and from that point forward, merchants will be assessed a fee of \$4.95 per month. We even offer a \$25,000 Compliance Reimbursement Program to make sure our merchants feel good as they are getting something in return.

### **Honesty is our Everyday Policy**

At Total Merchant Services, you'll find no compliance fee trickery and zero surprises. We believe in being upfront, honest and ethical in all of our business dealings. We will not use bait and switch tricks or surprises to get over on merchants or sales partners. We know that doing anything less would be a recipe for disaster—not growth.

### **Still not sure? Want to be convinced?**

If you'd like help comparing our program, including the true impact of the Compliance Program fees, please give us a call. We'll show you that chasing a deal that looks better is NOT going to make up for a Compliance Fee Program that destroys your reputation and your business.

**Who's going to have happier customers?**

**You!**

**Who's going to earn more money?**

**You!**

**Who's going to get more referrals?**

**You!**

**Who's going to break through in '11?**

**You!**



**total merchant services**

payment solutions for your business

**Give us a call or visit our website for more details.**

**(888) 848.6825 x9411**

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