



News

Industry Update	14
Visa says Durbin impact 'manageable'	24
TCF appeal denied	24
\$100 million for Square means change for low-end payments	27
Cyber security update	31

Features

Selling Prepaid:

Prapaed in brief	46
Law center faults UC card programs	48
A primer on prepaid's basics	50

Meet The Expert: Adam Atlas

An interview with Paul Martaus By Ken Musante Eureka Payments LLC	77
Research Rundown	85

Views

The unbanked: Banks are ceding billions in potential revenues By Patti Murphy ProScribes Inc.	36
Mobile payments follow many new paths By Brandes Elitch CrossCheck Inc.	38

Education

Street SmartsSM:

Networking groups and referral marketing – Part II By Bill Pirtle MPCT Publishing Co.	60
The adaptability of POS terminals By Dale S. Laszig Castles Technology Co. Ltd.	66
HIPAA compliance fundamentals for ISOs By Mark Brady and Ross Federgreen CSRSI, The Payment Advisors	70
Michaels breach reveals gray areas By Nicholas Cucci Network Merchants Inc.	74

July 25, 2011 • Issue 11:07:02

Growth by acquisition



Baked into the DNA of payments industry businesses is the desire to grow. Growth by acquisition is considered the quickest way to achieve greater size and scale. In the sphere of merchant services, ISOs buy other ISOs, acquire the merchant portfolios of other ISOs, or sell their own merchant portfolios in order to fund initiatives that, you guessed it, spur growth.

The basis of any growth initiative is financing. Montreal-based payments attorney Adam Atlas said a comparatively small ISO seeks financing between \$100,000 and \$1 million. But securing that money can be challenging, even in good economic times.

Atlas said banks have been traditionally apprehensive about lending to businesses in the payments industry because they don't understand the ISO business model of merchant portfolios and residual earnings. Atlas drew an analogy to dairy farming.

"If you were a farmer buying a herd of dairy cattle, you own the cow and the cow makes milk," he said. "You feed the cows, you treat them right, you'll get your milk. Well, is buying a merchant portfolio like buying a herd of cattle? Not really, because you don't get a cow. You don't get a right in the cow. All you get is a promise, let's say [from] this other farmer, that they'll pay you a percentage of the milk produced.

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Notable Quote

I'm professionally cynical because my clients pay me to be. Even though I look at the worst side of things for a living, I never saw the economic collapse coming.

See story on page 78



Inside this issue: CONTINUED

Company Profiles

Creative Vision Studio LLC	
CRM sales force technology.....	40
Network Merchants Inc.	
The pit crew for ISO and MLS drivers.....	43

New Product

A processor-agnostic payment gateway.....	84
---	----

Inspiration

Breaking up is hard to do.....	89
--------------------------------	----

Departments

Forum.....	5
Datebook.....	87
Resource Guide.....	90
Advertiser Index.....	102

Miscellaneous

QSGS: Quick Summary Green Sheet.....	8
Bottom Lines.....	14
10 years ago in The Green Sheet.....	80
Boost Your Biz: The accidental advertisement.....	86
Water Cooler Wisdom.....	89



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bored
and don’t
know
what
to do?
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over to
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Forum

Becoming an ISO

Would you kindly furnish the info, or steer me in the right direction, on procedures and costs to become an ISO? Also, can you furnish the name and contact on the Northeast Acquirers Association?

Alan Benjamin

Alan,

We recommend several resources that can provide guidance on becoming an ISO, including reading material, online forums and networking.

Reading material

The Green Sheet archives contain myriad articles about the ISO business model. You might begin with Brandes Elicht's "Financing business startups: What ISOs should know," published Dec. 13, 2010, in issue 10:12:01.

Another relevant article is Dee Karawadra's "Ruminations on ISO registration," which we published July 9, 2007, in issue 07:07:01. He penned our Street SmartsSM column from April 2007 to May 2008.

In addition, Michael Nardy, who wrote Street Smarts from April 2006 through March 2007, frequently addressed the topic. Check out his three-part series, "What is registration anyway?" published in issues 06:04:02, 06:05:01 and 06:05:02, respectively, as well as his two-part series, "The ins and outs of ISOship" published in issues 06:12:01 and 06:12:02, respectively.

To find more articles, use our Fast Finder search engine below our logo in the upper left-hand side of our home page (www.greensheet.com). Entering one term in the search field and clicking submit will take you to a landing page where you can add a second term or phrase to refine your search. It will produce a list of articles containing the exact terms typed, not related terms. So you'll need to try several combinations for best results.

Other organizations that can help in your research include Merchant University, www.merchantuniversity.org; Field Guide Enterprises LLC, www.gofieldguide.com, and The Electronic Transactions Association, www.electran.org.

Online forums

You can post your questions about the advantages and disadvantages of becoming an ISO on GS Online's MLS

Forum. You'll need to register to participate. Do so by clicking Register Today! in the upper right-hand corner of our home page and following the prompts.

Many payment professionals also participate in LinkedIn groups dedicated to various aspects of the payments industry. One that may be of interest to you is the ISO Coalition. To tap this resource, just go to www.linkedin.com and begin searching for industry-related terms.

Networking

The primary contact for the Northeast Acquirers Association is:

Jacques Breton
11 Westman Street
Somersworth, NH 03878
Phone: 603-692-2408 Fax: 603-692-2384
Email: jacques@northeastacquirers.com

The NEAA, other regional acquirers associations and the ETA all hold meetings at least annually. These tradeshows draw a mix of payment professionals, from newbies to veterans who've been involved in the industry since its inception. You'll experience educational presentations, expert panels, product demonstrations and much more while enjoying camaraderie with folks who have built ISOs and are willing to help others do the same.

Also, if you have a solid working relationship working as a merchant level salesperson for an established ISO, ask folks at your ISO for guidance. If they run a reputable outfit, they'll likely be happy to help.

And it goes without saying that when forming an ISO, it is wise to consult an attorney who knows the industry to make sure you set it up properly. We have several payment attorneys listed in our "2011 Buyers Guide," GSQ, Vol. 14, No. 1, www.greensheet.com/gsq_pdfs/gsqv14n1.pdf.

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

Cover Story

1

Growth by acquisition

Acquisition is considered the quickest way for payments industry businesses to grow. However, it is a complicated process that requires funding and legal expertise. It can be more difficult because of the intricacies of merchant services and the present economy. But the outcomes can be unquestionably positive for buyers and sellers alike.

News

27

\$100 million for Square means change for low-end payments

Square Inc. received \$100 million from venture capital firm Kleiner Perkins Caufield & Byers and investment manager Tiger Global Management LLC. The cash infusion is new ammunition as Square aims to strengthen its position in the small business and person-to-person marketplace for card-present payment technology.

News

24

Visa says Durbin impact 'manageable'

Visa Inc. expressed confidence that projected revenues for 2011 will remain status quo after the Federal Reserve implements its final rule capping debit card interchange fees. The company believes the rule provides the clarity needed for it to implement plans for the new debit transaction environment.

View

36

The unbanked: Banks are ceding billions in potential revenues

The value to the ISO community of banking the unbanked is significant. It demonstrates plenty of payments can still be moved to cards, especially prepaid debit cards. Plus, it's an opportunity to tap into new market niches, such as stores that cater to recent immigrants or the education sector.

News

24

TCF appeal denied

The U.S. 8th Circuit Court of Appeals refused to issue a preliminary injunction to halt the Durbin Amendment capping debit card interchange fees, affirming a lower court ruling that TCF National Bank would likely not win an argument that the Durbin Amendment robs the bank of its Fifth Amendment due process and equal protection rights.

View

38

Mobile payments follow many new paths

What a great time to be in the payments business. We are on the verge of another golden age for ISOs, much like when the card brands decreed that electronic ticket capture was ready for prime time. This article discusses recent developments in the mobile sphere that led the writer to this positive prediction.

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- Rhoda Steward, Director of Strategic Partnerships and Marketing



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Feature

48

Law center faults UC card programs

A study by the National Consumer Law Center of state unemployment compensation (UC) prepaid card programs reveals the gamut of fees that can drain the value on the cards. Of the 40 states that offer UC card programs, over half reportedly charge ATM withdrawal and balance inquiry fees, denied transaction fees or inactivity fees.

Education

60

Street SmartsSM: Networking groups and referral marketing - Part II

This article continues discussion of referral marketing and networking, making distinctions between training and actual practice. It covers what makes for a good referral partner, how to get maximum networking return on investment, as well as the importance of preparation before any meeting or event.

Feature

50

A primer on prepaid's basics

Given that the prepaid card industry continues to expand, with more and more players entering the space, the industry has lacked a primer. But that changed with the 2010 publication of Prepaid 101: Lessons in the Basics by Gene Retske, Editor-in-Chief of The Prepaid Press.

Education

66

The adaptability of POS terminals

Next-generation POS device manufacturers are keeping up with changing consumer behavior and payment card industry trends, and their terminals remain the best option for many merchants for secure, efficient POS transactions. Does this mean rumors of the credit card terminal's demise have been greatly exaggerated?

20/20

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Education

70

HIPAA compliance fundamentals for ISOs

It seems every week another headline-grabbing data breach is revealed. Not only have Payment Card Industry Data Security Standard-related breach incidents escalated, but compromises to public health information have raised concerns. By understanding health care compliance issues, ISOs can build better relationships in this thriving sector.

Education

74

Michaels breach reveals gray areas

When Michaels Stores Inc. reported a tampering scheme involving POS PIN pads, it was thought to be isolated to select stores in the Chicago vicinity. But it was soon discovered that nearly 90 stores in 20 states were affected. Given the patchwork of state notification laws, exactly what must retailers report to consumers when breaches occur?

Feature

78

An interview with Paul Martaus

Throughout his long career Paul Martaus has been on the bleeding edge of electronic banking and has had access to the very senior levels of the industry. In this interview, Martaus reveals what led him to the payments industry, what has surprised him most along the way, how he expects the industry to evolve next and much more.

Inspiration

89

Breaking up is hard to do

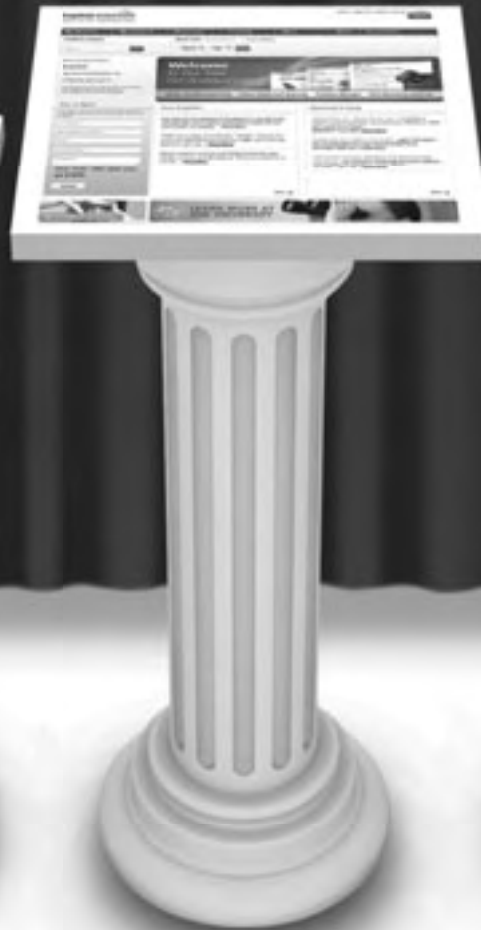
Beginning a new relationship is typically exciting, fun and exhilarating. A new relationship ignites anticipation of good things to come and dreams fulfilled. However, while we may relish new beginnings, sometimes we must also bring established affiliations to an end. What's the best way to say an amicable farewell?

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NEWS

New cybercrime watchdog

A partnership between European law enforcement agency **Europol** and a new nonprofit group, **International Cyber Security Protection Alliance**, was initiated to fight international cybercrime. The group will focus on training programs (including accreditation and standards) for law enforcement officials, providing advice and guidance to businesses on securing the Internet, sharing information among enforcement agencies, developing best practices techniques and solutions, and identifying new Internet security threats.

Among the ICSPA group's core founders are Cassidian Systems (an EADS company), Core Security Technologies, McAfee Inc., Shop Direct Group, Transactis, Trend Micro Inc., Visa Europe and Home Delivery Network Ltd.'s Yodel. One of the goals included in the mission statement is to raise money for the crime prevention work from the European Union and several governments around the world – particularly those most concerned with cyber attacks. Former British Home Secretary David Blunkett was appointed ICSPA chairman.

The group promises to "work together to define, coordinate and promote world-class systems of support and sponsorship" to reduce cybercrime damage to businesses and consumers.

Fed publishes bank lists for Durbin regs

Lists of financial institutions that must comply with the new cap on interchange fees, and those that do not, are available from the **Federal Reserve Board**.

The Durbin Amendment to the Wall Street Reform and Consumer Protection Act of 2010 requires financial institutions with assets of more than \$10 billion to comply with new regulations that cap interchange fees at 21 cents plus a modest fee for fraud loss and prevention. The lists are available at www.federalreserve.gov/payment-systems/debitfees.htm.

eBay's PayPal acquires Zong

PayPal Inc., the payment subsidiary of eBay Inc., expanded into the mobile commerce market by purchasing **Zong Inc.** for \$240 million. Zong technology allows consumers to buy movies, books, news, music, games and other digital content using only 10-digit mobile phone numbers. Zong verifies and confirms accounts and approves or denies transactions in real time. Approved purchases are added to customers' mobile phone bills.

PayPal said it spent 13 years building its way to becoming the world's largest person-to-person payment provider. It has constructed its business model on an e-commerce platform where anyone with an email address can conduct financial transactions without disclosing sensitive banking information. But the world of e-commerce is rapidly moving past email and computers to Facebook and mobile phones, the company stated.

"Our customers love the convenience of paying with their mobile numbers – a number they know by heart, and a device that they always have with them," said Zong Chief Executive Officer David Marcus.

PayPal President Scott Thompson, in a blog published at the time the sale was announced, estimated the market

BOTTOM
LINES

HEADLINES
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- In a **Unity Marketing** survey of ultra-affluent consumers (annual income over \$250,000), Amazon.com was the preferred online shopping destination, at 45 percent. Bargain hunters in this group also flocked to eBay Inc., Groupon Inc. and Craigslist at 14, 10 and 8 percent respectively.
- The **Alix Partners Restaurant & Foodservice Industry Review** revealed 70 percent of Americans reported dining out at least once per week during the past 12 months, as compared to just 49 percent in the first quarter of 2010.
- **Valpak Direct Marketing Systems Inc.'s 2011 Consumer Savings Report** indicated 28 percent of respondents will increase spending this summer, with 32 percent allocating more to home improvement projects. Forty percent expect to search for printed coupons; 41 percent will search online for savings, mobile coupons and money-saving apps.

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Industry Update

for digital goods – music, movies, books, games, etc. offered online – is worth \$20 billion today and will grow "dramatically" in the future. He said PayPal processed \$3.4 billion in payments for digital goods in 2010.

Complaints filed against Visa, MasterCard

DataCell EHF, an Icelandic data storage service, and WikiLeaks, the nonprofit news organization noteworthy for publishing leaked documents from governments and corporations, are suing **Visa Europe** and **MasterCard Europe** for illegally blocking donations to WikiLeaks.

DataCell hosts WikiLeaks' website and acts as an agent collecting donations for the news organization. In late 2010, WikiLeaks angered many in the international community when it made public thousands of leaked U.S. diplomatic cables.

Shortly after, Visa Europe and MasterCard Europe ordered DataCell's Scandinavian processing gateway, Teller A/S and its agent, Korta HF, to stop accepting processing business from DataCell/WikiLeaks.

In fact, Visa and MasterCard have banned their processors from processing WikiLeaks donations. WikiLeaks founder Julian Assange estimated the company has lost

at least \$15 million in donations since the ban went into effect in December 2010.

DataCell and WikiLeaks filed a complaint with the European Commission in Brussels, Belgium, claiming Visa and MasterCard are abusing their dominant market position and are engaging in anticompetitive activities by denying WikiLeaks access to donations and by denying DataCell the ability to do business, which violates European competition rules.

A spokeswoman from Visa responded to *The Green Sheet* request for comment by saying, "An acquirer briefly accepted payments on a merchant site linked to WikiLeaks.

"As soon as this came to our attention, action was taken with the suspension of Visa payment acceptance to the site remaining in place."

Pocket Kings in investors' pockets

European investors have agreed to buy a majority stake in Ireland's **Pocket Kings Ltd.** Pocket Kings owns **Full Tilt Poker**, one of the popular online gaming sites banned in the United States in April 2011.

Full Tilt Poker was accused of setting up fake Internet businesses to use as fronts to defraud banks into processing illegal gaming transactions. When the operation was shut down, the gaming company held approximately \$150 million owed to U.S. gamers. The new investment is reported to be large enough to cover that debt.

Meanwhile, Full Tilt Poker, which is licensed in Alderney, the most northerly of the U.K.'s Channel Islands, had its worldwide operations suspended in July 2011 pending a regulatory hearing.

Rubin under indictment for poker scheme

A poker processing scheme involving a "shell company" in Wyoming was detailed in a *Reuters* special report. **Ira Rubin**, currently under indictment in New York State for attempting to hide illegal payments to poker sites, reportedly created a shell company in Wyoming in 2004 to hide his illegal processing of online gaming and pharmacy revenues.

Rubin was sued by the Federal Trade Commission in 2006 for creating and using 18 different front companies to hide his credit card processing scheme for illegal gambling and pharmacy websites.

He allegedly offered high interest rate credit cards to poker players who paid for the cards upfront with debit cards, but Rubin reportedly never delivered the credit cards.

According to *Reuters*, Elite Funding, Rubin's Wyoming

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IndustryUpdate

shell corporation, was used to open bank accounts at Wells Fargo & Co., where over \$300,000 was deposited.

ANNOUNCEMENTS

AprivaPay app earns certification

AprivaPay's mobile card payment application for the Google Android smart phone earned the appSecure certification from viaForensics. To qualify for certification, the app underwent a full forensic audit, leveraging advanced forensics and security techniques to ensure protection of sensitive customer data. AprivaPay's full-featured payment application, designed for smart phones and browser-based mobile phones, integrates with a variety of printers and readers.

ARTS releases digital receipt standard

The Association for Retail Technology Standards, an international membership organization that is part of the National Retail Federation, issued version two of its digital receipts standard. The new version includes full alignment with the retail transaction log standard, support for multiple recipients, delivery types and receipt formats, and a receipt identifier to promote data integrity across various applications including smartphones. Among ARTS members are Third

Solutions Inc., ViVOtech Inc., CellPoint Mobile Inc., Escalate Inc., Sasktel Labs, IBM Corp., Lowe's Companies Inc., Verizon Business and Wincor Nixdorf International GmbH.

ControlScan's Herbig honored

ControlScan Inc. Chief Executive Officer Joan Herbig was honored with an induction into the University of Kentucky College of Engineering Hall of Distinction. The award is given to alumni who have shown professional accomplishments, outstanding character and a commitment to community service. ControlScan is a provider of Payment Card Industry (PCI) Data Security Standard (DSS) compliance software for small to mid-sized merchants.

First Data Q2 product releases

First Data Corp. recently added to its information and analytics solutions, as well as its payment acceptance product lines. The product line now includes SpendTrend Web, an online version of its consumer spending tracker, and Business Track, a web-based program for monitoring credit, debit, prepaid and check payment streams. Also added were First Data Global Gateway e4 for e-commerce payments, new online PIN debit payment capabilities and a new, token-based security solution.

Furthermore, with the addition of VeriFone's PAYware Mobile platform, First Data now offers VeriFone's mobile payment solution to merchants through its alliance partners. The platform enables merchants to accept electronic payments, obtain real-time reports and perform transaction searches in a secure environment.

Jack Henry pilots EMV chip and signature

Jack Henry & Associates Inc.'s Payment Processing Solutions division will offer Visa Inc.-branded Europay / MasterCard / Visa (EMV) chip and signature cards to its credit union members. The EMV cards, popular outside the United States, contain an embedded microchip for enhanced fraud protection in card-present transactions. PPS is currently pilot testing its EMV card deployment with Sunnyvale, Calif.-based Star One Credit Union.

Two CUs sign with Vantiv

General Electric Employees Federal Credit Union of Milford, Conn., and Wemelco Credit Union of Springfield, Mass., signed contracts with Vantiv LLC. Fifth Third Processing Solutions was recently rechristened Vantiv. The processing services Vantiv will provide for the two credit unions include ATM and debit card processing, ATM driving, card production and network gateway access.

Trustwave's Percoco receives award

Nicholas Percoco, Senior Vice President and head



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of Trustwave's SpiderLabs, won the Best Information Security Researcher Award by *SC Magazine Canada*. The recognition came for Percoco's leadership in the information security sector. Percoco leads SpiderLabs advanced security team, offering clients expertise in application security, incident response and forensics, penetration testing and security research to identify and anticipate cyber security attacks before they happen.

PARTNERSHIPS

New team for education payments

KEV Group Inc. and Moneris Solutions Co. are partnering in a venture to provide payment solutions in the education arena. KEV Group offers School Cash, an education product suite providing management tools and security for school activity funds. Moneris will integrate its payment platform with School Cash. Schools will have the ability to process all forms of electronic payment, including credit, debit and automated clearing house transactions.

Discover, Mazooma venture up

Discover Financial Services and Mazooma Inc. are partnering in an e-commerce venture that will allow online

consumers to use Discover cards to pay cash online for purchases without disclosing credit card numbers or other sensitive personal or financial information.

Mazooma links personal bank accounts to online retailers using just the online banking personal identification and password the customer normally uses when logging into bank accounts. Because Mazooma is already affiliated with a number of major U.S. banks, most customers can use existing accounts.

NXGEN in U.K. taxis for Olympics

NXGEN International, the merchant level service provider for Elavon Inc., is partnering with several British taxi companies to provide debit and credit card processing services. The partnership will allow taxis to add chip and PIN payment technology. Cabs in London and surrounding cities will be equipped with the new technology in time for the 2012 Summer Olympic Games.

Alliance for health care payments

PPI Solutions and Bell & Howell Co. formed a strategic alliance to provide secure document solutions and credit card production in the health care industry's health insurance, employee benefits and prescription benefits sectors. The partnership combines PPI's CampaignRX with Bell & Howell's solutions to deliver digital content, smart cards, and postal compliance and management.

Regions Bank joins ZashPay for P2P service

Birmingham, Ala.-based Regions Bank and ZashPay, a division of Fiserv Inc., inked a deal for person-to-person payments. The new service, called Regions Personal Pay, allows online bank customers to send or receive payments electronically anywhere in the United States. An email address or a mobile phone number are all that is needed to set up money transfers.

ACQUISITIONS


Intuit acquires Citi-SK technology

Intuit Inc. purchased the mobile web platform jointly developed by Citigroup Inc. and SK Telecom, a South Korean telecommunications company. Intuit, previous to its purchase, had been licensing the technology. Analysts speculate Intuit may use the technology to develop a mobile wallet.

NCR buys Radiant Systems

NCR Corp., a maker of ATMs, purchased POS software maker Radiant Systems Inc. for \$1.2 billion. NCR stated that its product sales will be enhanced by Radiant Systems' ability to deliver quick POS service and "table service" to restaurants, specialty retailers and entertainment venues.





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APPOINTMENTS

CoCard executive board change

Dan Brattland was elected Chairman of the Board of Nashville, Tenn.-based CoCard Marketing Group LLC. Also elected to the board were **Scott Do**, **Ray Raya** and **Matthew Dore**. **Malcolm Carnahan** was elected President of the ISO.

Elections will be scheduled for three to four more board openings, and the company said it will add committees for marketing, vendor relations and recruiting/sales training.

Two re-up with Merchant Cash & Capital

Michael Caronna and **Michael Hollander** rejoined Merchant Cash & Capital LLC as Business Development Managers. The two will focus on recruitment, business development and relationship management for the cash advance funding company, which has provided an estimated \$350 million in cash advances to small businesses. Previously at MCC, Hollander worked in underwriting and Caronna served in the renewals division.

How named Terapeak president

Terapeak.com, the e-commerce market research and payment analytics company, formerly known as Advanced Ecommerce Research Systems Inc., appointed **Colin How** as President. How previously served as the company's Chief Operating Officer and acting Chief Executive Officer. How has also worked as a Managing Partner at Applied Human Capital Inc., and was a co-founder of H2ST.

Malnar appointed CFO

John Malnar is the new Chief Financial Officer for Payment Processing Inc. Malnar is responsible for financial operations and reporting, capital structure, budgeting and keeping relations with investors. Malnar has previously worked as a director in Black Rock Inc.'s Corporate Ventures Group and as part of the Merrill Lynch investment banking team

SignaPay's Meadows promoted

Andy Meadows was named Vice President of Sales for **SignaPay Ltd.** Meadows will be responsible for recruiting strategic partners and leading merchant retention programs. Meadows previously served as Inside Sales and Operations Manager for Fifth Third Processing Solutions (now Vantiv).



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Visa says Durbin impact 'manageable'

"**V**isa is ready to compete in the new debit environment," Visa Inc. Chairman and Chief Executive Officer Joe Saunders said in a recent investor conference. He also said Visa is confident projected revenues for 2011 will remain status quo after the Federal Reserve implements its final rule capping debit card interchange fees.

The Durbin Amendment to the Wall Street Reform and Consumer Protection Act of 2010 requires the Federal Reserve Bank to set interchange rates on debit cards. The corresponding final Federal Reserve rule, introduced in June 2011, capped debit interchange fees at 21 cents, plus small allowances for fraud cost and prevention. The cap amounts to approximately half the current average debit interchange fee of 44 cents.

"We remain confident Visa will continue to thrive as an innovative, globally oriented growth company," Saunders told investors in the phone conference. "We are still

reviewing details of the 400-page [Federal Reserve debit interchange rule] document. On balance the rules are an improvement from the 12 cent flat fee [initially] issued [for comment and discussion by the Federal Reserve Bank] in December."

Saunders said Visa is "encouraged" by the new, final rule because it allows issuers to recover "at least some" of their costs. He was also cautiously in favor of the Federal Reserve's choice to require two unaffiliated networks be affiliated with the card for processing. Saunders called this the better of the two options, but he emphasized there may be negative unintended consequences for certain parts of the industry such as small banks, credit unions, prepaid and government programs, industry investments, security innovation and reliability.

He said Visa will be affected by the new rule, but the company continues to believe "the impact is manageable based on the environment as we see it. These rules will affect Visa but far from eliminating a portion of U.S. revenues, which in total account for approximately 20 percent of global net revenues."

Onward for Visa

The Visa CEO also said he was glad to have the final ruling because "the final rules provide the clarity needed to begin implementing our plans" in the new debit transaction environment. He promised Visa will have more to say about its debit transaction strategies during investor conferences later this July and in October. At that time, "the majority of our strategies will either be announced or be well on their way," he added.

Saunders indicated the company intends to fight to keep its position as the routing preference for Visa customers. "Providing some level of incentives to specific merchants may be an effective strategy to ensure Visa continues to receive routing profits," he said. "The assumption is some portion of transactions may be routed away from Interlink to alternative PIN networks."

He summarized the company's fiscal outlook stating, "We expect fiscal 2012 will bear the weight of the regulation's financial impact, and in fiscal 2013 revenue growth will gain momentum off of 2012's level. We will compete vigorously for a Visa routing preference." ■

TCF appeal denied

A U.S. District Court on June 29, 2011, refused a request to issue a preliminary injunction to halt the Durbin Amendment capping debit card interchange fees. The U.S. 8th Circuit Court of Appeals affirmed the ruling of a lower court that Minnesota's TCF National Bank would likely not win an argument that the Durbin Amendment to the Wall Street Reform and Consumer Protection Act of 2010 robs the

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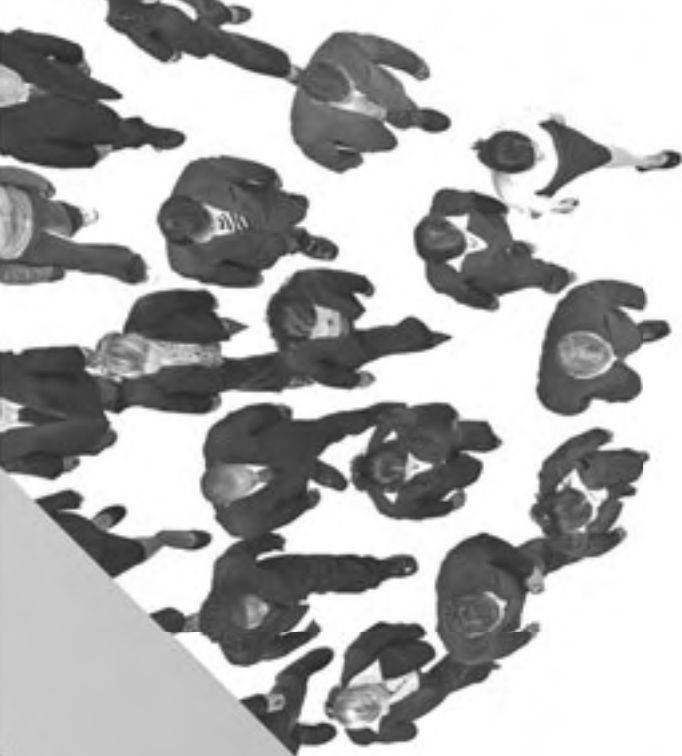
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bank of its Fifth Amendment due process and equal protection rights.

The Durbin Amendment directs the Federal Reserve to cap debit card interchange fees at a rate "reasonable and proportional to the actual costs" of card issuers. The cap is applied only to bankcard issuers with more than \$10 billion in assets. The initial rule proposed by the Federal Reserve excluded many of the issuers' costs of debit cards from the "reasonable and proportional" cost calculations.

The final rule, delivered by the feds in June 2011, mandates a 21-cent transaction cap, with adjustments to pay for fraud loss and prevention. The Federal

Reserve estimates the interchange fee from the average \$38 debit card transaction will amount to approximately 24 cents – about half the current average fee. The new rule is scheduled to take effect in October 2011.

The argument for injunction

TCF attorney Timothy Kelly argued to the appellate court that excluding some bank debit card costs from the Federal Reserve's calculation of "reasonable and proportional to the actual costs" amounts to rate regulation. Rate regulation that excludes costs is unconstitutional, Kelly argued in *TCF National Bank v. Bernanke*, 11-1805, U.S. Court of Appeals for the Eighth Circuit [St. Louis].

The opinion

In its opinion denying TCF's request for preliminary injunction, the Court of Appeals wrote, "The Durbin Amendment only restricts how much certain financial institutions issuing a debit card may charge for processing a transaction; it does not restrict how much those institutions may charge their customers for the privilege of using their debit-card services.

"Since TCF is free under the Durbin Amendment to assess fees on its customers to offset any losses under the Durbin Amendment, we are skeptical that the Durbin Amendment has even created a sufficient price control on TCF's debit card business so as to trigger a confiscatory-rate analysis or that the law could, in fact, produce a confiscatory rate."

The appellate court rejected the TCF argument that market pressures will give an unfair advantage to smaller, exempted banks that do not have a debit card interchange fee cap.

"By TCF's own admission, Visa is currently bound to offer all financial institutions the same interchange rate, and as such, the record is not clear that smaller banks will have a competitive advantage," the court wrote. The court concluded there is a rational basis for the Durbin Amendment, and TCF would not likely prevail on its due process claim. ■

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\$100 million for Square means change for low-end payments

Square Inc. received a \$100 million shot in the financial arm from the venture capital firm Kleiner Perkins Caufield & Byers and investment manager Tiger Global Management LLC. Square is a startup mobile payment technology firm that allows any Google Inc. Android device or Apple Inc. iPhone or iPad to accept card payments.

The cash infusion is new ammunition as Square aims to strengthen its position in the small business and person-to-person marketplace for card-present payment technology.

"Square has a great product with extensibility, which we believe has the potential to have a lasting impact on how people make payments," said KPCB Partner Mary Meeker, who was appointed to Square's board after her company's investment. "Square's product is fast, easy and fun for both consumers and vendors; a small business can be up and running within minutes."

Square is the brainchild of Twitter Inc. founder Jack Dorsey. "Our goal is to empower everyone to accept payments anywhere, and we are on course to accelerate our growth in a meaningful way," he said.

In addition to its signature card reader that attaches to smart phones and iPads, Square also packages an application that allows an iPad to function as a cash register, and it has developed Card Case to allow consumers to pay for purchases using smart phones.

The company is targeting small businesses and individuals – for example, artists working craft shows, service clubs working local fairs, vendors at local farmers markets, small companies at tradeshow, and other on-the-spot transactions. The hardware, a 1-inch square that attaches to a smart phone or iPad, is free. Square charges a 2.75 percent fee on every transaction. There are no contracts or fee schedules.

Square investors

Square is attracting a strong array of investors while its valuation soars – even though the company has yet to make a profit. *The Wall Street Journal* reported Square is now worth more than \$1 billion.

Though *The New York Times* reported Square is set to lose as much as \$20 million in 2011 (processing nearly \$4 million in payments daily), it also indicated Square projects

a profit in 2012, with revenues of more than \$200 million (and processing exceeding \$1 billion).

The New York Times also noted Khosla Ventures invested \$10 million in Square in 2009 when the company was valued at \$45 million. Sequoia Capital invested \$27.5 million in January 2011 when Square was valued at \$240 million. Visa Inc. and JPMorgan Chase & Co. have also publicly acknowledged investing in Square but did not reveal the amounts of their stakes.

The rapid increase in the company's value speaks to its success, as do its competitors: Google matched Card Case with its Google Wallet release in May; Intuit's GoPayment is similar to Square's card reader; and, on the same day the Kleiner Perkins investment was announced, Dynamics Inc. revealed it closed a \$35 million investment deal with Bain Capital Ventures to continue development of its card reading technology similar to Square's.

The Square challenge

Square directly challenges the market now dominated by POS manufacturers like VeriFone Inc. VeriFone directly challenged Square earlier this year with ads accusing Square technology of not being secure.

When Visa invested in Square, Visa asked Square to add



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"Up to this point, Square has been for individual or person-to-person transaction relationships. I don't expect merchants will be getting rid of their cash registers anytime soon. There are lots of issues regarding security. That is a glaring weakness and an eye opener. You have to ask why people keep buying into it. Maybe they know something we don't."

- Theodore Svoronos is co-founder of Merchant University,

data encryption to its device. Square reportedly agreed and is working on the technology.

Will Wong Graylin, founder and Chief Executive Officer of Boston's ROAM Data Inc., a mobile application designer and manufacturing firm, told *The Green Sheet* the new investment "gives Square some serious gunpowder for a business model shift. They are losing money on customer acquisition giving their hardware away for free and on risk management. With the kind of cash [Square] has now, they can withstand further barrage on their current business model where they are bleeding cash heavily and competing with a lot of our customers."

Graylin added that ROAM Data isn't competing with Square. "We build applications that allow people to have the right technologies and services for their business," he said. "We offer options Square can't offer to create a level playing field."

Graylin emphasized the solutions his company and others build have security features such as full encryption that provide ISOs and merchant level salespeople a turn-key package that can compete successfully with Square. Graylin believes savvy feet on the street see the lower-end market segment targeted by Square as a "flash in the pan."

"Existing [payment professionals] will model after some of the things Intuit is doing," he predicted. "They will also rely on what Square doesn't do. Anybody who is going to transact more than \$1,000 per month is going to look to existing market providers for solutions. Merchant discount fees are too high for Square."

Square "woke up the industry" to a new market segment, and the industry can compete aggressively there with more comprehensive solutions, Graylin said. He believes Square technology is still not reliable enough for many small businesses like restaurants, and it provides neither the support nor the lower discount fees these small businesses expect.

"These businesses use more robust solutions that have features like end-to-end security," he said. "We can allow customized applications as well. Square doesn't play in that space."

Square model may not make sense

Theodore Svoronos is co-founder of Merchant University, an education resource for agents in the payment industry. He said the Square model is not proven in the marketplace. "Up to this point, Square has been for individual or person-to-person transaction relationships," he said. "I don't expect merchants will be getting rid of their cash registers anytime soon. There are lots of issues regarding security. That is a glaring weakness and an eye opener. You have to ask why people keep buying into it. Maybe they know something we don't."

Ken Musante, President of Eureka Payments LLC, said, "From a valuation perspective I find Square extremely



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perplexing. They are doing \$1 million a day in processing and suddenly they are worth \$1.5 billion?"

Musante said, though, the valuation seems to represent the threat Square presents to ISOs is real. "From an ISO perspective I do see them as real competition," Musante said. "My company has a monthly fee, but our rates for transacting mobile payments are low compared to Square. I am comfortable ceding the low-end users to Square. My concern is, will they start to eat into my business?"

Musante predicted Square will eventually change its business model to either focus on "real merchants" or move to a person-to-person payment platform. He believes that if the company goes to a person-to-person model, it will drop its swipe device in favor of another, more secure, quicker mechanism.

"It's kind of interesting with the MasterCard/Visa fees going up out there – monthly fees especially," Musante said. "The more fees come into play on a monthly basis, the more attractive Square is." ■

Cyber security update

Just as the United States Department of Defense released its *DoD Strategy for Operating in Cyberspace* (DSOC), new information from law enforcement agencies revealed new and more involved cyber crimes.

The DSOC is the first official and comprehensive strategy for protecting the nation's military, intelligence and business operations, including the financial payments industry, Deputy Secretary of Defense William J. Lynn told an audience at the National Defense University in Washington, D.C., in July 2011.

DOD network

The DOD has more than 15,000 networks and more than 7 million computers. Lynn pointed out the military depends on the nation's power grid for 99 percent of its power needs; ninety percent of the military's voice and communication services are provided by private (civilian) networks. The military also heavily relies on civilian transportation systems to move military personnel and freight, on civilian refineries for fuel provision, and on the private financial industry to process military payments.

"Significant disruptions to any one of these sectors could impact defense operations," Lynn said. "A cyber attack against more than one could be devastating. The centrality of information technology to our military operations and our society virtually guarantees that future adversaries will target our dependence on it."

Strategy

Lynn outlined a five-point plan for protecting cyber space and the industrial and military infrastructure it supports.

"This strategy holds that our posture in cyberspace must mirror the posture we assume to provide security for our nation overall," he said, adding that a military response to a cyber attack will remain an option, but the emphasis for the DOD will be to develop systems – in conjunction with private partners – that deny attackers any benefit from an attack.

The aim of the DOD strategy is to build "a more secure and resilient Internet," Lynn said.

IC3 report

Lynn noted that every day more than 60,000 new malicious software programs or variations are identified that threaten U.S. security, the U.S. economy, and U.S. citizens. Backing him up was a report issued the day of his speech by the Internet Crime Complaint Center (IC3), the partnership created by the FBI and the National White Collar Crime Center.

The report identifies new cyber crime trends, including an uptick in the number of distributed denial of service



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attacks. Among the attacks documented was an attack on one unidentified financial institution's Internet banking services that caused the bank to receive more than 8,000 hits per second to its login screen and thereby blocked access to bank services by legitimate clients.

The scams


Other scams documented by IC3 include:

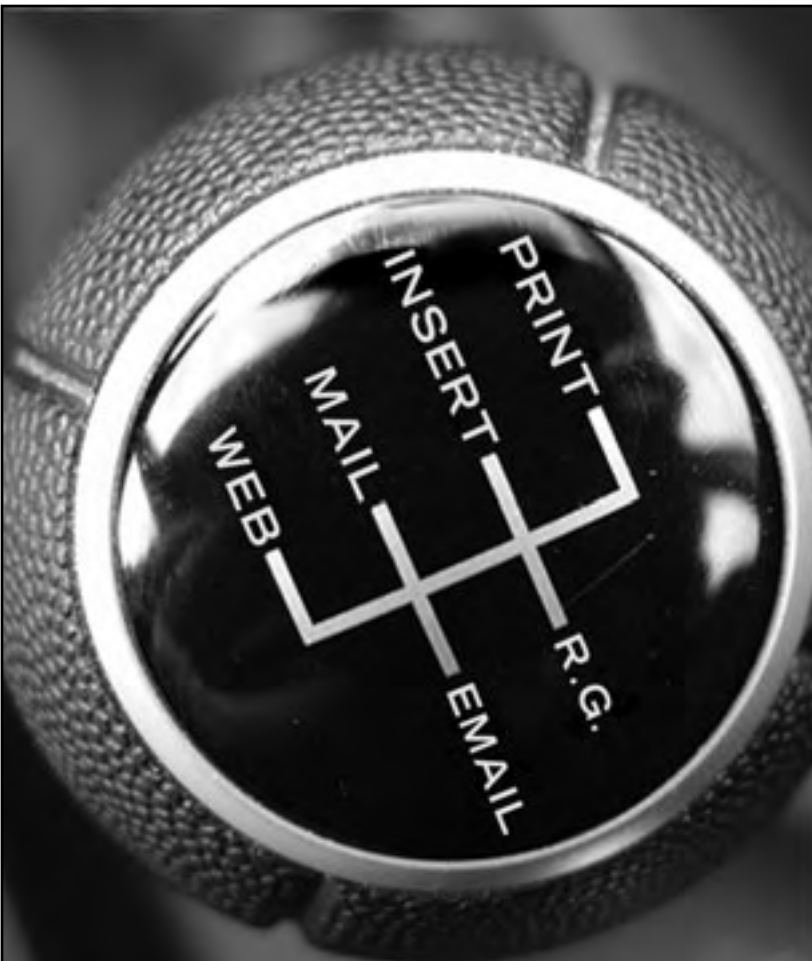
- Attempts to extort \$250 from victims by first posting private information such as names, addresses, phone numbers and email addresses and then threatening potential victims with complaints that would destroy their professional reputations unless they paid.
- A spear phishing scam in which victims receive a letter, from an entity falsely representing itself as being the FBI, directing the recipient to contact the FBI's Economic and Financial Crimes Commission in Nigeria and provide their full names, email addresses and telephone numbers. The letter asks for \$250 to obtain clearance documents that supposedly will give recipients access to \$1.5 million. The letter also states failure to respond to the email could result in questioning by the FBI.

- A spear phishing scam in which a faked email falsely identifying the FBI as the sender inserts a malicious trojan into the operating system when it is opened.
- A scam requesting recipients to repay a \$600 pay-day loan or face arrest and jail. This spear phishing scam makes the emails appear as if they were sent by IC3.

Fraud increasing


IC3 reported merchants are getting hit with fraud scams at a rapidly growing rate. These scams are generally targeted to stealing consumer names, addresses, email addresses and IP addresses. IC3 noted that in the last three months there has been a "significant increase" in the amount of spear phishing directed at merchants. The good news is malware attacks were down during the same period.

According to the IC3, much of the increase in fraud attacks is attributable to thefts of personal information through fake donation sites for causes such as the Japanese earthquake and tsunami relief effort. Social networks are thought to be an important vehicle for promoting this scam. 



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Insider's report on payments**The unbanked: Banks are ceding billions in potential revenues****By Patti Murphy***ProScribes Inc.*

For more than two years, I've been pointing out to whoever would listen that the unbanked and financially underserved represent a huge, underappreciated market that spends well over \$1 trillion a year at nonbank financial service providers, such as check cashers, payday lenders and even Wal-Mart Stores Inc. Now, following a spate of industry reports echoing much the same message, I'm even more convinced.

The title of a recent report from Mercator Advisory Group regarding general purpose reloadable (GPR) cards and demand deposit accounts (DDAs) speaks volumes: *GPR Cards and DDA: The Same Only Different*.

The consultancy KPMG LLP puts America's unbanked and underbanked population at 88 million and estimates these two groups combined earn about \$1.3 trillion a year. The firm predicts 6 million more U.S. consumers could join their ranks within the next two years.

"As banks transform their business models to address a new marketplace, they need to examine the potential of the underserved market, as new revenue streams are necessary due to increasing compliance costs and various fees coming under pressure as a result of regulatory reform," said Carl Carande, National Account Leader of KPMG LLP's Banking and Finance practice. "In the current environment, we see heavy competition among banks chasing customers with high credit scores, with decreasing margins, leaving the underserved market for those willing to invest in it."

Banking on prepaid cards

The value to the ISO community of banking the unbanked is significant. It demonstrates plenty of payments can still be moved to cards, especially prepaid debit cards. Plus, it's an opportunity to tap into new market niches, such as stores that cater to recent immigrants or the education sector.

Reloadable prepaid debit cards have risen from a place of relative obscurity just 10 years ago to now being in the wallets of at least one in three Americans. In 2007, the Fed identified 17.2 percent of consumers as prepaid debit card users (people who have used such a card at least once in

the past year). Two years later that number had nearly doubled, to 32.3 percent.

Experts point to several reasons for this growth: the ongoing recession, consumer desire to better manage finances, regulatory changes and broad customer satisfaction with prepaid cards.

Aite Group LLC reported in *Alternative Financial Services Customers' Views on Prepaid Cards* that nine out of 10 prepaid debit cardholders are "extremely" or "very" satisfied with prepaid debit cards. The report also revealed that 50 percent of users prefer prepaid debit cards to checking accounts; 71 percent prefer those cards to traditional credit cards.

Aite projects the U.S. market for prepaid debit cards will grow to \$104 billion in 2014. That's good news, said Ron Shevlin, Senior Analyst at Aite and author of the report, because it suggests banks can leverage prepaid debit cards to recoup some fee revenue lost to debit interchange caps.

"Prepaid debit card issuers' marketing efforts should attempt to influence prospective cardholders' expectations about the product, especially regarding access to credit and credit-building," Shevlin said. "Long-term use should be incentivized, and alternative offerings associated with the product should be explored."

Revenue opportunities

Patti Hewitt, Director of Debit Advisory Services at Mercator, agrees opportunities exist for banks offering GPR prepaid cards. But she warned that new Federal Reserve regulations regarding debit interchange (implementing the Durbin Amendment) have added a "wrinkle" to this strategy.

For a GPR card to be exempt from the Fed's debit interchange rules (known as Regulation II) it must be an all-electronic product – no check writing privileges. Automated clearing house (ACH) payments are also singled out under the rules. Payroll cards are subject to Reg II interchange caps unless the issuing bank has \$10 billion or less in assets. (These banks are statutorily exempt from the law's strictures.)

It also affects the use of prepaid cards for electronic bill pay services, which typically process through the ACH. "I think this is going to give some people pause," Hewitt

said, adding that the smaller financial institutions "might have a chance" because of the exemption.

Study results released in June 2011 by the Darden School of Business at the University of Virginia suggest financial institutions are losing out big time on revenue opportunities presented by the underserved. Although the research focused on Latino households, many of the findings apply to most any unbanked household, said Greg Fairchild, a Darden professor and author of the report, *Perdido En La Traducción: The Opportunity in Financial Services for Latinos*.

Fairchild identified 39,000 unbanked Latino households in Virginia that have an average yearly income of \$23,500. That's about \$917 million in annual bankable income left on the table just in Virginia. Fairchild determined these households tend to use neighborhood markets (known as tiendas) for basic financial services, such as check cashing, money transfers and bill payments.

Some banks are getting the message and actively reaching out to underserved populations.

Seated at a Bank of America branch in suburban Washington, D.C., recently, I watched as a Spanish-speaking greeter worked with each Latino who entered the busy branch; about eight out of 10 customers appeared to be Latino. Moving down the street to a Capital One Bank branch, however, was like entering an entirely different reality: the lobby was practically empty, there were no Latinos and the only language spoken was English.

According to data collected by the Federal Deposit Insurance Corp., five states account for the largest amount of consumer earnings that are not banked. These are California, Texas, New York, Florida, and Georgia. Banks need to find creative ways to attract these deposits, or risk ceding the market to Wal-Mart and others.

The CPP exam

In closing, I'd like to announce that I've applied to take the Certified Payments

Professional exam – the first ever – in the fall. As the self-proclaimed "Payments Maven of the Fourth Estate," I thought it fitting that I take part in and provide a firsthand account of the certification process.

Recent conversations with ISOs and merchant level salespeople have led me to believe there are many questions and potential misunderstandings about the CPP program and exam. Hopefully, reporting about my experience will help answer some of those questions. So stay tuned. ■

Patti Murphy is Senior Editor of The Green Sheet and President of ProScribes Inc. She is also the founder of InsideMicrofinance.com. Email her at patti@greensheet.com.



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Mobile payments follow many new paths

By Brandes Elich

CrossCheck Inc.

What a great time to be in the payments business. We are on the verge of another golden age for ISOs, much like when the card brands decreed that electronic ticket capture was ready for prime time. Here are a few interesting developments I've noticed recently.

At the end of May, Google Inc. announced Google Wallet, a strategic initiative with Citibank N.A., First Data Corp., Sprint Nextel Corp. and MasterCard Worldwide. Using near field communication (NFC) technology, you tap your phone at any MasterCard PayPass-enabled checkout terminal. It requires an app-specific PIN.

Initially, all payment card credentials will be encrypted and stored on a chip that is separate from the Android device's memory. Google said it is an opportunity for businesses to strengthen customer relationships by offering faster, easier shopping, with relevant promotions and loyalty rewards. Google called it an open commerce ecosystem letting consumers simultaneously make NFC wallet payments and redeem promotions.

The product is in test mode and should be available this summer. The partners are recruiting issuing banks, payment networks, mobile carriers and merchants. Eight million businesses accept credit cards in the United States, but only 124,000 merchants are PayPass-enabled. Google Wallet will encounter hurdles on its way to mass utilization.

The wallet has two variants: a PayPass-eligible Citi MasterCard and a virtual Google prepaid card that can be loaded from any payment card. Google is also working with POS manufacturers to create single-tap transactions in which consumers can pay with a credit or gift card, redeem promotions, and get loyalty points. It should someday be able to generate receipts, tickets and boarding passes.

The road to nowhere

Google stressed that it is creating an open platform. But as Evan Schuman pointed out in his retail technology blog on StorefrontBacktalk (www.storefrontbacktalk.com/securityfraud/google-wallet-struggles-with-being-open-but-on-only-one-platform-its-own/), Mobile Wallet is only available on Google's platform.

Because Apple Inc. and Research In Motion Ltd. (maker of the BlackBerry) are not participating, Google must fly

solo. Schuman said Apple, PayPal Inc. and other players will likely develop competitive offerings, leading to even more fragmentation.

Multiplatform support is needed, including mobile platforms. Is Google serious about this, or does it just want a first-mover advantage? Also, we should recognize that NFC-capable mobile phones and merchant terminals are not widely deployed or even available now. And this may be true for months or years. Google Wallet would require the merchant to buy all new NFC-equipped terminals.

As observer SparkBase put it, Google is focused on building a fiefdom, and the company's goal is to take customers away from ISOs. SparkBase pointed out that over the last five years, Google has failed in its attempts to reach consumers directly. These efforts included Google Nexus One mobile phone, Google Buzz, Google Wave, Google Coupons, Google Video and Google Checkout.

Like those products, Google Wallet faces big market, technology and adoption challenges. Interestingly, at the 2011 Electronic Transactions Associations' Annual Meeting & Expo held in May, SparkBase won the Technology Innovation Award for its smart phone-enabled multiterminal, integrated mobile wallet, which securely integrates with merchants' existing credit card terminals.

Some 50 million iPhones and Android phones can use this technology right now. In fact, it can be used on 250 million activated mobile devices with the addition of a \$50 tabletop sensor. And SparkBase's technology works with multiple payment gateways.

Other alternative developments

In a survey of 20 top-tier payments industry leaders at ETA, consultant Aite Group LLC got the message: Forget PayPal and Google. Acquirers are most worried about Visa Inc. and MasterCard.

Most agreed that card networks would increasingly compete in merchant acquiring in the years to come. Card networks are already direct acquirers in foreign countries. In 2010, Visa acquired processor CyberSource Corp. On the issuing side, networks offer services to card issuers that compete with those from third-party processors.

I commented on Square Inc. in a previous article ("Square gaining momentum despite security concerns," The Green Sheet, March 28, 2011, issue 11:03:02), but at the time Square had not introduced its mobile POS offering.

The Square Card Case, launched in May, delivers absolute

escape from Payment Card Industry (PCI) Data Security Standard (DSS) rules.

In scope, the PCI DSS rules determine that if a customer hands a payment card to any of a retailer's representatives, swipes or waves the card at a device controlled by a retailer, or types card data into a website branded and controlled by a retailer, that retailer is subject to PCI requirements. Square's product takes the retailer out of this process. Of course, Visa has invested in Square, too.

PayPal purchased something called Fig Card, a cheap USB plug-in to POS devices to support mobile payments. Payment information is conveyed by sending a photo of a bill or text message to PayPal and is authorized by password. The PayPal model also rides on the rails of MasterCard and Visa.

Yet another new product, Zoosh from Naratte Inc., uses Shopkick-like high frequency audio instead of radio signals to mimic NFC-style communication on phones that play MP3 files. Naratte also developed an inexpensive plug-in for VeriFone Inc. and Hypercom Corp. POS devices, so a mobile phone sending signals will look just like a gift card or payment card to the POS software.

Zoosh does away with back-end and POS software changes, while simplifying both testing on a few trial POS devices and getting out of the trial (by just unplugging it). The add-on cost is around \$30. But as many observers have noted, U.S. consumers seem wedded to the mag stripe card.

Yet to make Zoosh work, consumers will have to download the app to their phones, where their card numbers will have to be stored, Schuman wrote. Then there is the matter of working with coupon and gift card vendors – without adding interchange fees – and convincing all parties that its encryption meets PCI DSS requirements.

Assembling the building blocks

While I'm on the subject of mobile payments, I should mention mobile remote deposit capture (RDC). A survey released in May 2011 by Javelin Strategy & Research found that one in four consumers and one in two mobile banking users want to make deposits from their phones.

However, only three of the top 10 U.S. banks – JP Morgan Chase & Co., PNC Bank and U.S. Bank – offer this service. Javelin data shows that over half of the financial institutions will roll out mobile RDC in the next year and view technologies like it as important building blocks for mobile (wallet) payments. Javelin said that rather than waiting for its sudden adoption, consumers and banks will steadily migrate to mobile money via component technologies.

ISOs should think through how they will be impacted by each of these unfolding developments. Some alterna-

We call mobile an alternative payment only because our thinking and orientation have been shaped by interchange for the last 50 years.

tives will create revenue opportunities for ISOs; some of them will deliberately keep the ISO out of the revenue stream.

Finally, it is always useful to keep things in perspective. About 85 percent of all transactions in the world take place in cash. Person-to-person payments in the United States total about \$2.9 trillion annually, and almost all involve cash or check. A 2009 Federal Deposit Insurance Corp. study estimated that some 17 million adults in U.S. households don't have access to a single bank account, and another 43 million are underbanked.

For example, an underbanked individual may have a bank account but also use nonbanks such as payday lenders, pawn shops and check cashing companies. Out of 300 million people, only about 60 million Americans actively use credit cards every month. The old saw relentlessly pushed by the card brands that every American regularly uses a credit card was never true. It is even less true today, now that debit has surpassed credit in transaction volume.

We call mobile an alternative payment only because our thinking and orientation have been shaped by interchange for the last 50 years. But the lobbying that led to the Durbin Amendment is about what the Federal Reserve called a market failure with regard to interchange levels.

Whether you agree with this or not, many merchants – your customers – do, and interchange represents one of the biggest line items in their expense statements. This fact makes them receptive to new forms of payment, but they will not welcome the expense of replacing all their POS hardware. The coming year should be interesting. ■

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.

Company Profile



Creative Vision Studio LLC

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Company address:

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3580 E. Pacific Coast Highway, Suite 7
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Phone: 800-985-9157
Fax: 800-985-5371
Website: www.bankcardpros.com

ISO/MLS benefits:

- Web-based CRM technology to track boarding, transactions, residuals
- Customized setup of unlimited online merchant applications and vendors
- Eight-level user account networking, customized administrative control
- Software integration with most existing programs, including QuickBooks
- Supplemental web-based training with 70 training videos via YouTube

CRM sales force technology

In an age when boarding new merchants has become increasingly difficult, ISOs and other merchant service providers are taking extra measures to maximize every potential sales opportunity. Tactics involve tighter control of lead generation and referral programs to presenting value-added services that strengthen merchant relationships.

With the extra care and attention required of sales organizations today, managing merchant acquisition and retention data is essential, according to Robert Hendrix, Chief Executive Officer of Creative Vision Studio LLC. In his role, Hendrix also heads Bankcard Pros CRM Account Tracking Software, a division of CVS.

"It has become more difficult to sell a merchant account," Hendrix said. "The market is very competitive, the economy has not been doing well and banks are not providing new business loans. So there are fewer new businesses opening now compared to 10 years ago. And existing merchants are being priced so low that it is more difficult to sign them up.

"From what we have seen, the biggest differences with customers selling merchant accounts and surviving are providing good leads and presetting appointments to their sales reps, as well as offering good training and good (management)."

According to Hendrix, with the Bankcard Pros customer relationship management (CRM) web-based software suite, ISOs can track data on recruitment, lead generation, boarding and, perhaps most importantly, residuals, transaction figures

and other critical merchant statistics.

"Our CRM software manages and tracks all activity and data for the entire sales office ... from start to finish," Hendrix said. "It is built to receive new inquiries as well as resumes from individuals looking for jobs, to keeping track of all activity in the recruiting process, to converting the data to a new user when that individual joins the company, to providing a complete online training curriculum.

"It keeps track of all contracts and paperwork the individual signs and submits; it provides leads for the new sales rep; it tracks leads and converts the leads to new online applications; it tracks the status of underwriting and equipment deployment and follows up with service and support, trouble tickets and more."

Hendrix and his wife, Monica Hendrix, founded CVS, in 1997 as a marketing, recruiting and training firm for merchant services firms – primarily new ones whose employees were still figuring out the industry and would use CVS' tools as a launching point. The company has clients in the United States, Canada, China, Russia and the United Arab Emirates.

A number-crunching powerhouse

In 2003, the Long Beach, Calif.-based company added its Bankcard Pros division, under which it sells the CRM service that has become the company's centerpiece offering, Hendrix said.

"We used to use different programs for all of this – Microsoft Word, Microsoft Access, Excel – and it

didn't work for us," said Devan Shan, Chief Executive Officer of Ontario-based Debittech POS, and CRM user. "[Bankcard Pros CRM] has been a big improvement for us, and customers love it because we have all of our customer information in one place and can pull it on the spot.

"All our inquiries, transactions, statements are all within the same screen, where before we were jumping between programs scattered over many computers. We had to call customers back when they had inquiries and make them wait. This is helping us track everything and conserve resources and money."

According to Hendrix, the CRM system is flexible in that features can be integrated as needed. He noted that one of the most popular features is the ability to calculate, quickly and automatically, large sets of data pertaining to merchant accounts.

"Sales reps can log in and see the status of each account but also can see the invoice, what they're getting paid upfront, leads and bonuses," he said. "They can also log in and view monthly residuals. The sales office imports all the residuals and automatically calculates them for each user. Within a minute, you can see the total residuals for each month. ... I have customers that spend four or five days trying to calculate and sort out residuals for all their salespeople. With our CRM they can get it done in one or two hours."

Hendrix added that the CRM can also analyze data on retrieval of merchant cash advance, a product a growing number of ISOs have added to their merchant offerings in order to enhance revenue.

Controlled access, ease of boarding

Hendrix noted that the CRM allows various levels of access to data, depending on the person seeking it. Typically, sales managers will have access to much broader groups of data, while sales reps will see only data pertaining to their own accounts, he reported.

"The owner of a company or sales manager is able to log in and view all the activity going on with his employees and sales reps on a daily basis," he said. "They can see how many accounts were boarded, how many were approved, how many trouble-tickets were submitted that day. ... They can get an entire snapshot of what their company is doing that day."

Another principal feature of the CRM is the automation of paperwork, according to Hendrix. He said the system automates a process that normally requires reps to manually produce and organize merchant boarding paperwork. Merchants can also sign contracts online, using a mouse, obviating the need to process contracts in the conventional manner.

"One of the biggest issues all my customers have is with the sales reps submitting paperwork and boarding

accounts," Hendrix said. "They're always having to fix something. ... This program generates the paperwork for every account. Also, if an account is being put on hold for any reason, the system will automatically send an email notification to the sales manager and sales representative. So it allows you to deal with any problems that come up in a much more efficient way."

Integration with other systems

One thing clients are increasingly doing is integrating Bankcard Pros' CRM with other software programs, Hendrix said. "They take what we've built over the last nine years, and if they want to do more, like customize it or work with other third-party programs – like UPS shipping modules, QuickBooks, or call-dialer software – they can do that as well."

Hendrix added that some clients prefer to completely customize their entire CRM by entering their own source code. That means the program running the CRM is provided to them by the Bankcard Pros, but everything that operates on it is designed entirely by the client. "No other company provides that," Hendrix said. "The more products and services they sell, the more they're going to need the CRM software to manage and keep track of it all.

"If they're selling 10 or 15 different services, they're going



CompanyProfile

to have to train the sales reps on what to sell and how to sell it, what paperwork to fill out, and help them set it all up, plus manage the boarding of merchants ... coordinating all this can be a logistical nightmare. The CRM makes it easier by organizing it all into one system."

But Hendrix warned ISOs to not go overboard on features. "When you expect your employees and sales reps to utilize a complicated CRM with too many features, it results in less time selling and talking to merchants," he said.

Online training curriculum

Part of what the company offers ISOs is education on navigating the merchant

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services industry through the use of its products, as well as overall guidelines for merchant level salespeople (MLSs). Included in its product suite is an Internet-based training curriculum, aimed primarily at new businesses and trainees, which provides a rundown of the merchant services business in terms of what it is, how it operates and how to effectively navigate the terrain.

Each of the 70 web-based training videos, offered through YouTube, runs approximately two to three minutes, according to Hendrix. He said trainees who are brand new to the industry are likely to benefit from reviewing the entire tutorial to prepare for the unexpected turns and developments they will inevitably encounter in the process of selling.

He said that for veteran MLSs who are adding something like merchant cash advance to their offerings, they might want to only view the tutorial specific to that product. And since lessons are clearly categorized, MLSs can quickly locate relevant material, he added.

"Why start from scratch and reinvent the wheel when we have it ready to go and can get them up and running within a week?" Hendrix said. "We have a lot of customers that are brand new to the industry who really appreciate the resources we have to get them started."

Hendrix noted that the training materials are part of a larger suite of offerings from CVS that provide the operational foundation for merchant services companies. And, while the company's core offering is its CRM, that piece is complemented by the sales, marketing, design, recruitment and customer support services CVS offers.

"Almost every single customer we have needs the CRM software, but it doesn't stop there," Hendrix said. "They need all the pieces to be up and running – the marketing materials, the training materials. ... When you put all that together it allows them to operate as a complete company with a solution that meets all the needs of the company, its employees and its sales reps." ■

Company Profile



NETWORK MERCHANTS INC.

Network Merchants Inc.

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 Phone: 800-617-4850
 Fax: 888-829-3631
 Email: info@nmi.com
 Website: www.nmi.com

ISO/MLS benefits:

- Merchant Defender delivers secure payment platform
- SyncPay plug-in provides QuickBooks processing solution
- Mobile payment solutions incorporate end-to-end encryption
- Merchant support center staffed to resolve matters on first call
- Affiliate partners enjoy noncompete guarantee

The pit crew for ISO and MLS drivers

Almost anybody can name popular NASCAR drivers like Jeff Gordon and Dale Earnhardt Jr., but who can name the tire changers in their pit crews? You can't be an extraordinary driver without an exceptional crew with innovative ideas – a crew that can identify problems, develop strategies and get things fixed fast.

Network Merchants Inc. can be likened to the NASCAR pit crew: indispensable but anonymous to merchants. And that's just the way NMI likes it. NMI is the support crew in the ISO and merchant level salesperson (MLS) race to success. NMI knows it can't thrive in the long run if it copies what other racing teams are doing. Success comes through innovation, the ability to imagine and create next-generation systems that improve speed and efficiency – and win races.

Wall to wall protection

NMI's newest innovation is a next-generation security suite called Merchant Defender. The official rollout for the security package came during the Midwest Acquirers Association's annual conference in July 2011, when NMI demonstrated the product.

Merchant Defender employs an encryption-based technology that protects merchants and customers by removing all credit card data from merchant networks and storing customers' encrypted information in NMI's secure servers. "In this profession, we need to help merchants with security," NMI Chief Technology Officer Matthew Schmidgall said.

"Merchant Defender is a complete set of security tools that will eliminate clear text credit card information from the merchant's environment."

The suite includes the latest version of NMI's security software, iSpyFraud, as well as a newly developed, reportedly inexpensive encryption keypad that encrypts credit card numbers before they go into the merchant's network. "This innovative hardware completes our solution to remove the merchant's network from the scope of PCI," Schmidgall said.

Merchant Defender card-present technology includes encrypted card readers, an iProcess mobile application, and the SyncPay QuickBooks plug-in. The card-not-present piece of the suite includes the encrypted keypad device for key-entered transactions and the SyncPay plug-in. NMI stated the revolutionary piece of the package is a three-step application programming interface (API) for the e-commerce portion of the suite that connects to the payment platform and allows encryption at the terminal before the credit card information gets to the merchant system.

In short, NMI believes it has developed the most advanced, complete merchant security package on the market – and the only one that gives merchants and their customers the confidence that sensitive credit card data in the merchant's network is secure. From NMI's standpoint, the nexus of this confidence is obvious: if unencrypted information isn't on merchant systems, nobody can steal it and use it.

Company Profile

"When you swipe a credit card or key-in a credit card number, the unencrypted, sensitive data never goes into the PC," Schmidgall said, adding that Merchant Defender will prevent virtually any system intruder from accessing sensitive payment data.

He believes this takes data security to a new level. "We've worked with device manufacturers to build encrypted keypads, and now we can protect merchants who perform card-not-present transactions, create subscriptions and perform credit card searches," he said. "The encrypted data is sent to the gateway, and we do the decryption, storage and transmittal. We believe we are the only gateway to provide this complete solution."

Web security patrol since 2001

NMI Vice President of Product Development Nicholas Starai said his company has always accepted responsibility for merchant security. "We have always considered security a priority," he told *The Green Sheet*. "Gateways should be competent in the security space. If you can't trust your gateway, who can you trust? We don't want merchants to worry about PCI and security. We want them to work on selling to their customers."

Though NMI is a privately held risk management and



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"We are processing transactions for tens of thousands of merchants ... but the credit goes to our ISOs. We don't work with merchants directly. We work with ISO partners."

- Matthew Schmidgall, Network Merchants Inc.

analysis software company, NMI's raison d'être remains security. The company officially opened its offices in Schaumburg, Ill., just outside of Chicago, in May 2001.

At that time, the Internet was still considered to be in early stage development, which exposed online merchants to a new level of fraud. NMI's Chief Executive Officer James McKenzie, Chief Operating Officer Ted Cucci and Schmidgall recognized a fraud prevention solution would be critical to merchant survival in the burgeoning web environment, so the three combined their collective experience in merchant consulting, data security and domain registration to develop the company's first product, iSpyFraud.

As a fraud detection and prevention tool, iSpyFraud software was originally developed for ItsYourDomain (now Hover), an online web-hosting service. NMI said that from the beginning, the software was a success, earning accolades from payment processors, and today it continues to drive company growth as a proven tool in the arsenal against payment fraud.

"We now process billions of dollars every year," Schmidgall said. "We are processing transactions for tens of thousands of merchants. We are pretty fortunate, but the credit goes to our ISOs. We don't work with merchants directly. We work with ISO partners. That, in addition to our focus on technology and security, is what has kept us successful."

A precision-built race engine

Once NMI had successfully created and marketed its initial fraud prevention tools, the next step in its evolution was to build a gateway that integrated bankcard processing with iSpyFraud software. The result was a seamless, secure processing package unlike anything else on the market, according to Schmidgall.

Since the gateway's release in 2003, NMI has continued to develop useful add-on capabilities. These include a virtual terminal; API integration; batch uploading; a free, brandable shopping cart; electronic check services; recurring billing and multipayment platforms.

"A core group of engineers built the gateway," Starai said. "These are people with a tremendous amount of experi-

ence in the industry. At NMI, we put more of our resources into engineers and customer service than sales staff. We believe we should concentrate on what we are good at – technology and security – and let the ISOs do what they excel at – finding solutions for their merchants."

NMI reported that when it introduced its gateway, merchant users benefited from the security and fraud scrubbing capabilities of the software, which were coupled with NMI's exclusive payment processing technology. The company credits its management team for enabling NMI to remain a debt free, profitable company since 2002, while it continues to build and market a diverse line of products and services that support its infrastructure and overhead.

The company firmly believes its technology infrastructure is one of the most reliable on the market, with its multiple redundancies in connectivity, carriers and telecommunications companies, and network of SAS-70 (a widely recognized auditing standard) datacenter facilities. The company attested it also meets or exceeds all major card brand security standards, including the Payment Card Industry (PCI) Data Security Standard (DSS) and the Card Information Security Program, and has passed its MasterCard Worldwide-mandated RAMP review to confirm compliance with other nationally recognized security standards.

"We can't wait for the [credit card companies] to come up with bulletproof security methods," Schmidgall said when discussing the company's philosophy. "A lot of companies rely on [the major card brands] to set standards for them to meet. Our concept is to exceed these security standards and lead the payment processing industry."

NMI continually endeavors to add value to its services with new offerings. It sells e-check processing, payer authentication, and a security certification program called CertifyPCI that helps Level 3 and Level 4 merchants validate PCI DSS compliance.

In March 2011, NMI introduced a free mobile processing module for Apple Inc.'s iPhone, iPad and iPod Touch devices, which allows anyone to process credit cards via a cellular or Wi-Fi connection. The module includes an encrypted card reader, a geo-tag location printed on the receipt, and the ability to transmit e-mail receipts and capture digital signatures. It can also perform partial or full refunds in the transaction history log. The company's SyncPay QuickBooks payment gateway plug-in was introduced in April 2011.

Helping agents navigate every turn


Schmidgall recalled that from the company's earliest days its leaders have stressed the value of marketing through ISOs and MLSs, and this remains the company's core philosophy. "We have good relations with our ISOs," he said. "We don't aggressively market. We don't compete with

our agents." In short, the agents are the drivers, and NMI is the racing support team.

"Our ISOs are an important part of our sales and marketing team," Starai said. "They tell us what they can sell, and we do our best to deliver revenue-generating products and services."

NMI offers agents a private-label solution that disguises the manufacturer and helps to cut merchants out of the buying loop. NMI services and technology are offered as options to their sales partner network. And the programs and services NMI provides can be white-labeled so ISOs can continue to offer their own programs and service options without having to compete with NMI's offerings.

"This is a two-way process," Schmidgall said. "It's important that we hire well qualified employees and improve the education and advancement of our entire staff so that they can in turn help educate ISOs. Through in-house training programs and those offered by groups like the ETA, PCI and The Association of Certified Fraud Examiners, we are constantly improving the education and advancement of our entire staff.

"At NMI we focus on keeping our ISOs in the spotlight. We work behind the scenes on what we do best: security and technology." 

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Prepaid in brief

NEWS

Final Durbin ruling troubles NBPCA

The **Network Branded Prepaid Card Association** is concerned about the Federal Reserve Board stripping away an exemption that would have excluded certain types of prepaid cards from the debit card interchange cap regulations imposed by the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Originally, the Durbin Amendment excluded prepaid debit and government benefit cards from the requirements, the NBPCA said. But, in its final rule announced on June 29, 2011, the Fed added limitations to the prepaid card exemption whereby prepaid cards that link to accounts that could be accessed via checks, the automated clearing house, wire transfers and other means would not qualify for the exemption, according to the NBPCA.

"The prepaid card industry is worried the limitation added by the Fed on the prepaid exemption could have a devastating impact on millions of underserved consumers who have no other means but a prepaid card to participate in our card-based economy," said Kirsten Trusko, President and Executive Director at the NBPCA.

Green Dot stock up after Durbin ruling

An *Associated Press* report said **Green Dot Corp.** stock rose after the Federal Reserve Board of Governors announced the proposed final debit card cap rule.

On news of the ruling, an analyst at Janney Capital Markets upgraded Green Dot's position as a publicly traded company, which prompted a rise in Green Dot's shares.

SVS applauds patent victory

Program manager **Ceridian Stored Value Solutions (SVS)** said it was victorious in its patent case against **Card Activation Technologies Inc.** On July 1, 2011, a judge in the U.S. District Court for the District of Delaware ruled that 33 of the 36 patent infringement claims made by

CAT were invalid. On July 7, the remaining three claims were also invalidated by the court.

ANNOUNCEMENTS

AT&T tourney helped troops

At the Tiger Woods hosted AT&T National golf tournament held at the Aronimink Golf Club in Newtown Square, Pa., telecommunication provider **AT&T** provided military personnel with free prepaid calling cards.

During the tournament, which ran from June 28 to July 3, AT&T contributed 10,000 prepaid calling cards as part of care packages assembled in a tent on tournament grounds.

MoneyGram expands exponentially

MoneyGram International reported it has grown the number of agent locations in France from 100 in June 2010 to 1,000 today. The 1,000th location is at a shopping center in Choisy le Roi, south of Paris.

In other company news, MoneyGram's partnership with **Al Barid Bank** added 1,800 locations in Morocco to MoneyGram's network. MoneyGram now has over 5,000 agent locations in Morocco, plus a new office in Casablanca.

Blackhawk's Roche recognized

Talbott Roche, President of the Safeway Inc. subsidiary Blackhawk Network, was named Financial Services Executive of the Year for the 2011 American Business Awards held at the Marriott Marquis Hotel in New York City on June 20. Blackhawk's PayPower prepaid debit card was also recognized as a finalist in the New Product or Service of the Year – Financial Services category.

YESpay wins 2011 ACT innovation award

At the Cardware Conference in Niagara, Canada, **YESpay International Ltd.** received the ACT Canada Gold International Innovation Award 2011 in the Payment category for its integrated Europay/MasterCard/Visa chip and PIN card payment service called Emboss.

PARTNERSHIPS

New m-commerce team unveiled

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Selling Prepaid

USA, signed a pact with **InComm** to offer the Atlanta-based distributor's network of retailers mobile promotions and marketing capabilities supplied by CorFire.

InteliSpend clients get wellness program

InteliSpend Prepaid Solutions LLC teamed with employee wellness program provider **Virgin HealthMiles Inc.** for wellness expertise, program design and program delivery for InteliSpend clients. Both companies are focused on helping lower health care costs for employers and employees.

Oxigen taps Array Networks for APV Series

Payment platform provider **Oxigen Services (India) Pvt. Ltd.** selected Silicon Valley-based **Array Networks Inc.** for its APV Series of applications for streamlined and secure payment processing in India.

Array Networks' software is expected to solve Oxigen Services' load balancing problems for prepaid applications, such as mass transit, event ticketing and telecommunications.

Over 1,200 FIs to receive prepaid services

TransCard LLC, a Chattanooga, Tenn.-based prepaid card processor and program manager, inked an agreement with **Shoreline Business Solutions Inc.**, a Cardiff Holdings Co. business and provider of card personalization and fulfillment services for banks, to offer prepaid card programs to TransCard's over 1,200 financial institution (FI) clients.


ACQUISITIONS

Out of two, one

Health care card service provider **Evolution Benefits Inc.** and health care payment platform operator **Lighthouse1 LLC** reported the completion of their merger to create Evolution1 for the cloud-based administration of flexible spending, health savings and health reimbursement accounts, as well as wellness and transit plans.

APPOINTMENTS

Costigan joins NxSystems as Compliance Officer

NxSystems, providers of the Pay Any Card for payroll disbursements globally, appointed **Ruth Costigan** as Compliance Officer. Costigan has over 20 years of prepaid card experience in the banking industry and is certified in Bank Secrecy Act, anti-money laundering and Know Your Customer compliance regulations. 



Features

Law center faults UC card programs

A study conducted by the National Consumer Law Center into state unemployment compensation (UC) prepaid card programs reveals the gamut of fees that can drain the value on the cards of the unemployed. Of the 40 states that offer UC card programs, over half charge ATM withdrawal and balance inquiry fees, denied transaction fees or inactivity fees, according to *Unemployment Compensation Prepaid Cards: States Can Deal Workers a Winning Hand by Discarding Junk Fees*.

The report singled out five UC card programs operated by U.S. Bank as having the "worst" fees – overdraft fees that ding cardholders' accounts between \$10 to \$20. The five states that charge overdraft fees are Arkansas, Idaho, Nebraska, Ohio and Oregon. The states where U.S. Bank's UC programs operate but do not charge overdraft fees are Minnesota, North and South Dakota, and Wyoming.

However, researchers discovered positives to U.S. Bank-issued UC cards that charge overdraft fees. "The U.S. Bank cards with the most troublesome fees tend to be quite good on other measures," the report said. "Some cards are better for recipients in urban areas with many network ATMs, while others are better in remote areas."

Additionally, the report said Tennessee's UC card program, managed by JPMorgan Chase & Co., has the most "junk fees," while the card programs in California and New Jersey, both managed by Bank of America Corp., have none. The NCLC recommends that all states should eliminate all penalty and information fees, as well as ensure that unemployment benefit recipients can easily access funds without being charged for it.

Adventures in fee transparency

When the NCLC investigated the fee schedules of the programs state by state, researchers found purposeful obfuscation. "It appears that a deliberate choice was made not to include complete and compact fee schedules, as it would have been a simple matter to include them," the report said. "When contacted, many states could not or would not provide information about the fees charged on their cards and referred callers to the bank."

Lauren Saunders, Managing Attorney at the law center's Washington, D.C., office, said U.S. Bank would not



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Selling Prepaid

provide full details to NCLC about how its overdraft fee programs operate. Saunders believes that U.S. Bank is in compliance with the part of Regulation E that implements the overdraft requirements of the Electronic Fund Transfer Act of 1978. However, Saunders said it is debatable whether U.S. Bank's overdraft fees policy violates the Federal Unemployment Tax Act of 1939.

Among its recommendations, the NCLC said unemployment benefit programs should offer recipients choice of payment method (direct deposit, check or prepaid card) and that UC cards should not come with overdraft fees and "dangerous" credit features.

"I think a credit feature on a prepaid card is a bad idea. It encourages people to spend money that they don't have."


- Lauren Saunders, Managing Attorney
National Consumer Law Center

Travails with credit

Saunders recognizes that the move away from paper check programs is a large money saver for state governments, and that most unemployment benefit recipients have the skills to utilize electronic systems effectively. However, Saunders believes states should allow for a limited number of waivers for recipients who don't have those skills.

"We think all states should have some sort of waiver process," she said. "We're not saying it should be widely available. You need a little bit of an escape valve. ... They need to have some sort of hardship waiver process that would probably be applicable to a very small number of people."

Saunders also advocates against prepaid cards that come with credit facilities. "I think a credit feature on a prepaid card is a bad idea," she said. "It encourages people to spend money that they don't have. And, similar to the kind of debt cycle you get into with payday loans, it gives somebody the very first crack at your benefit check or your wages before you pay for food or pay your rent. ... The credit features that we've all seen are priced at exorbitant rates that are really just payday loans."

Saunders believes prepaid cards should be a safe alternative to traditional bank accounts. "If you can't qualify for a credit card and you can't afford an overdraft line of credit on a bank account, maybe that's because you can't handle the debt," she said. "Credit is debt, and if people are struggling, they shouldn't take on more debt they can't afford." 

Book review

A primer on prepaid's basics

Given that the prepaid card industry continues to expand, with more and more players entering the space, the industry has lacked a primer. But that changed with the 2010 publication of *Prepaid 101: Lessons in the Basics* by Gene Retske, Editor-in-Chief of *The Prepaid Press*.

The book is primarily a collection of 65 of Retske's *TPP* columns focused on the fundamentals of the industry, from definitions of prepaid terminology to frequently used selling strategies. Although the columns appeared between 2002 and 2008 and much has changed in the industry since then, the information contained in the columns could prove informative for people new to the business and interested in learning some of its history and intricacies.

For example, in the first chapter/lesson, "Slippage = Profitability," Retske defines the terms "breakage" and "slippage." Breakage is a common term today, as it describes the leftover amounts found primarily on closed-loop gift cards. But slippage may be more elusive, as Retske calls it a "deviously simple method" of how prepaid phone card providers round up calling card minutes to incrementally increase profits.

As an example, Retske said a prepaid phone user who makes a 63-second call would be charged for two minutes of calling card time. Another tactic described by Retske as a "fairly common practice" is for phone card providers to set the minimum call duration at three minutes. Therefore, any call that runs less than three minutes is still charged for three minutes of time.

Retske added a 2010 update to the January 2003 column in which he recognizes that state and federal regulatory agencies may eliminate the practice of slippage.

Provisioning and pricing

Retske discusses provisioning in a March 2004 article. Traditionally, provisioning involved how cards and personal identification numbers (PINs) are set up on the processor's "switch." Once prepaid cards are assigned PINs, they are distributed to retailers for sale. When the cards are activated at the POS, a float period ensues during which card providers may have to "front" funds to retailers until payments are batched out and the back-end settlement of the card transactions result in deposits to retailers' bank accounts.

Retske said it is a complicated process that gets easier when provisioning is conducted online because prepaid



Prepaid 101: Lessons in the Basics

By Gene Retske
© 2010 by Gene Retske
SOLVOX Inc.
Paperback, 249 pages
ISBN 1-45-051367-0

card providers can "handle their own activations and check the progress of their cards themselves."

According to Retske, online provisioning includes the following elements:

1. Card activations: The ability of an agent or distributor to ship unactivated cards to retail locations for safekeeping until they are ready to be sold
2. Just-in-time provisioning: The agent can track sales and card activations online and in real time, providing valuable reporting
3. Sales support: Another way to eliminate the "flying blind" feeling by recognizing how card sales are going and which retail locations are moving the most product
4. Inventory control: Allows agents to track depletion levels and when to order new supplies

Another topic of interest is pricing strategies. It is a delicate balance providers must strike, since if the cards are priced either too high or too low, profits suffer. Pricing is important because consumers of prepaid cards look at the price of the products before other considerations surface, Retske said.

He wrote that brand loyalty was nonexistent in the prepaid card market as of December 2004, when the article appeared in *TPP*. "Every time a user buys a card, no matter how many times that user has purchased cards, they go through a purchase decision as if it was the first time," he stated. "This is in contrast to many other commodity markets, where brand loyalty [has] a strong bond with the consumer."

Teacher on the 101

Retske formulated the columns like lessons. Much of the information contained in the lessons concerns prepaid calling cards, Retske's area of greatest expertise. While the information is not comprehensive, *Prepaid 101: Lessons in the Basics* provides industry novices with an introduction to prepaid delivered in a conversational manner and with an educator's sense of humor. ☺



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█████ Growth from page 1

Harold Montgomery, Chief Executive Officer of Dallas-based merchant processor Calpian Inc., said banks will lend to ISOs with merchant stables of over 50,000. "But when you are down below 50,000, the banking world has been very skittish about that world and very reluctant to play," he noted.

When a bank lends money to an ISO the transaction is considered to be a cash-flow loan. "And understanding the nature of the cash loan and understanding the nature of the asset is very difficult," Montgomery said. "It's very difficult [for ISOs] to access capital, and it's doubly so in today's world where the capital markets are in such a state of stress and confusion."

Acquisition as business model

One solution to the financing dilemma is to find investors or private equity firms to bank ISOs' growth strategies. Another way is to sell portfolios, and Calpian is buying.

Montgomery characterized Calpian as being in the business of serial acquisitions. "We don't have an indigenous merchant sales force," he said. "We depend on ISOs out there in the field who want to sell blocks of merchants for various reasons to us on a periodic basis to develop our customer base."

Being a publicly traded company, Calpian can structure deals so that portfolio-selling ISOs receive Calpian stock in addition to funds from portfolio sales. It is a strategy that is beneficial to smaller ISOs in particular because they receive ongoing value as Calpian shareholders in a market that "loves payments," according to Montgomery.

"There's a big difference between what you get for a small portfolio and what you get for a large portfolio," he said. "There's a big difference between what the private market will pay for a portfolio and how the public market views large processing companies. The idea behind Calpian is to connect the smaller ISO with the highest possible valuation for his portfolio over time and the most favorable tax treatment as well."

From a tax perspective, portfolio sales that are partly compensated for with Calpian stock are considered capital gains. "If you sell a portfolio outright, it's typically treated as ordinary income," Montgomery said. "If, on the other hand, you sell the portfolio in exchange for a formula that conveys value over time, and has performance characteristics in it that are typically referred to as an earn out, then you can treat that as a capital gains."

If Calpian bought a portfolio for \$1 million that did not compensate the seller with Calpian stock, that transaction would be taxed at 35 percent, Montgomery explained; but if that same deal were structured to include Calpian stock, the ISO would be taxed at the capital gains rate of 20 percent – a 15 percent reduction in the seller's tax burden for that transaction.

Basics of the dance

In "The Fine Art of Friendly Acquisition," a special report in the November – December 2000 edition of the *Harvard Business Review*, authors Robert J. Aiello and Michael D. Watkins broke down the acquisition process into steps. It begins with screening potential deals, then initiating communication with targeted companies either formally through auctions or through less formal talks with senior executives.

Then comes the due diligence stage where buyers conduct detailed investigations into the selling companies, followed by the negotiation of final terms, which the authors considered the most sensitive and potentially volatile stage. The last phase is a kind of nebulous period between the time the agreement is signed and the deal's final closure.

The authors stated that a surprising number of deals fall apart in the final stage because of unforeseen events such as natural disasters or adverse changes in the selling company's competitive position. But the authors also highlighted the hazards of the earlier due diligence stage, where deeper dives by buyers into sellers' businesses uncover financial and human shortcomings.



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"The most important risk in an acquisition, with all things being equal, is in the dishonesty of the seller."

- Adam Atlas
Attorney at Law

"Hidden problems of this type are about more than money – they also raise important concerns about the competence, even honesty, of the target's management team," the authors wrote.

Atlas goes a step further. "The most important risk in an acquisition, with all things being equal, is in the dishonesty of the seller," he said. In the buying and selling of portfolios, that dishonesty manifests itself when the seller resolicits merchants from the portfolio sold to another ISO.

Atlas offered the scenario of an ISO receiving a call from a former merchant discontented with its current processor. The merchant begs the ISO to become its processor again. Even though the ISO signed a deal not to solicit that merchant, it's tempting to renege if the merchant produced substantial residuals for that ISO. "Generally speaking, it's forbidden to move a merchant like that," Atlas said. "But the temptation is sometimes too big for some people to resist."

Devilish are the details

According to Atlas, most acquisitions fall apart for the simple reason that buyers and sellers cannot agree on price. Those disagreements arise over the valuation of the portfolio or company being sold. "It's not that the seller wants more and the buyer wants to pay less – that's not the issue," he said. "It's that the buyer calculates a price based upon this formula, and the seller is calculating a price based on another formula. And those are irreconcilable."

Complications arise in how valuations are arrived at due to the individual assets under question. For example, when ISO A buys ISO B's merchant portfolio, ISO A is often not just buying the merchant contracts in that portfolio.

"A lot of these purchases involve not just the purchase of the merchant residuals, but also the agents that helped create those portfolios – therefore, the future deal flow of those agents, which is in so many ways more valuable than the merchant base itself," Atlas said.

It is his advice that early in the courtship, well before parties walk the aisle to the deal altar, they iron out high-level points of disagreement. "Perhaps the most important thing that I think needs to be discussed before any information is really exchanged is the seller needs to know, on an objective basis, how does the buyer propose to calculate their purchase price?" Atlas said.

"Are you wanting to buy at 25 times my monthly residual?" he added. "And, if so, what is my monthly residual? Does it include only my credit card and debit card processing? Does it also include PCI fees and IRS fees and annual fees and early termination fees and ACH processing, gift card and whatnot? Will you take an average of the most recent three months, or will you look over 12 months? Will you take into consideration the residuals for the month during which we're closing the deal?"

If these questions are not addressed at the outset, a seller might end up "very surprised" by what he or she receives for selling a given portfolio, Atlas warned.

The right combination

Thus, a seasoned, experienced hand is necessary to navigate the complex business of acquisitions. The *Harvard Business Review* article quoted Joe Nolan, a partner at GTCR Golder Rauner, as saying that the leveraged buyout firm backs "people who know how to both operate and acquire companies, which is a rare combination."

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One such individual that fits that description is Kenneth M. Goins Jr., Chief Executive Officer of Prepaid Solutions Inc. (PPS). In late 2009, Goins and his colleague Eric Ohlhausen worked with Atlanta-based private equity firm Navigation Capital Partners in the acquisition of PPS from Chicago area-based West Suburban Bank.

Upon acquiring PPS, Goins and Ohlhausen assumed the positions of CEO and Chief Financial Officer, respectively, at the prepaid card program management firm.

Goins said he had experience in over 50 acquisitions for different companies when he approached West Suburban Bank about the opportunity to buy PPS. Goins said the investment thesis detailed, "A: we'd like to find a company in the payments space; B: it's about this size; it has a certain amount of scale to it; C: has unique product verticals; and D: has a good record for compliance and management stability."

As luck would have it, the bank wanted to exit the prepaid card business when Goins et al approached the bank with its offer. Goins wanted the deal consummated within 90 days, by Thanksgiving of 2009, although it stretched into early December.

"You don't want it to drag out," he said. "You try to keep

it between 60 and 90 days. You have to have enough time to do deep due diligence. There's financial due diligence. There's operational due diligence. You need to make sure and check the contracts and patented intellectual property. So you go through and do the walk through the house beforehand."

The negotiation stage for PPS went smoothly, with both sides agreeing on price. The first business day under PPS' new leadership, Goins called an employee town hall meeting to explain the direction the new regime expected to take the company. Those meetings continue. "It takes really thorough, solid communications, reaching out, getting to know people, setting expectations and delivering on what you promise," Goins noted.


Culture match or clash

Ken Musante, President of Eureka Payments LLC, found himself smack in the middle of an acquisition when Humboldt Merchant Services, the ISO which he once helmed, was purchased by Canadian processor Moneris Solutions Inc. in November 2008.

The saga chronicled in "The HMS odyssey," (*The Green Sheet*, Feb. 23, 2009, issue 09:02:02) and in Musante's final Street SmartsSM column, "Finding opportunity in an altered business environment," (*The Green Sheet*, March 28, 2011, issue 11:03:02), involved the economic meltdown of 2008, the intervention of the Federal Deposit Insurance Corp. into the day-to-day operations of HMS and the soft landing of the Eureka, Calif.-based ISO when it was purchased by Moneris.

The experience taught Musante the importance corporate culture plays when one business buys another. "Although there could be financial reasons to do something that looks very compelling, I think there has to be a lot of consideration given to culture," he said. "Even if there's not a culture match, it doesn't mean that you should not succeed or move forward with the acquisition, but to recognize that culture plays a tremendous impact on the ultimate success or relative success of the acquisition."

In the ISO world, another constituency that may be overlooked is merchants themselves. It becomes problematic when a base of low-price merchants must suddenly deal with a processor that raises prices and offers services merchants neither expected nor wanted, Musante said. The opposite can also be true, with merchants used to a level of customer service feeling undercut by their new processor's lack of support.

If acquisitions seem complex and potentially risky, they are, and the expertise of financial and legal professionals is therefore required. But it is worth noting that the toleration of complexity and risk is a natural part of life in merchant services. Growth is never easy. Nothing worthwhile ever is. 

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Networking groups and referral marketing – Part II

By Bill Pirtle

MPCT Publishing Co.

This article continues with more views from Dr. Ivan Misner, the founder of Business Networking International and the Referral Institute. I mentioned to him that I have heard networking expert Tim Green speak several times and recalled one of his favorite phrases: "If you try to be everything to everyone, you wind up being nothing to no one."

I then said an example Green uses is a chiropractor who wants to talk to somebody with a spine, which doesn't trigger anything. But if you say, an "accident victim," suddenly you can visualize real people.

In response, Misner said, "Yes, an accident victim, sports injury, muscle spasms, each one of those are a different discussion every single week. TMJ – the problem with the jaw that a lot of people have where it clicks, could be your presentation for the week. ... The next week you might talk about muscle spasms, the week after that a sports injury. Not just a sports injury – talk about a foot sports injury. And then the next week the talk is on a knee sports injury.

"When it comes to presenting what you do in networking environments, what you have to remember, and this is where it's counterintuitive, is that when it comes to explaining to people what you do, specificity is terrific. The more specific you are, the more likely you are to teach people what to look for to refer you."

Membership perks

I posed a question from GS Online's MLS Forum member **NCRUM**: "What factors make up the cost of BNI membership?"

Education index

Dale S. Laszig.....	66
Mark Brady & Ross Federgreen	70
Nicholas Cucci	74

"We have almost 6,000 groups, in 50 countries around the world," Misner replied. "There are more than 1,000 people who work for BNI globally. I think a lot of people don't realize the extent [of it] because they only see the tip of the iceberg.

"But BNI is an organization just like any other. We have a pretty extensive multitouch marketing campaign. We spend a lot of time developing and marketing the organization."

Misner also said BNI has an online newsletter, weekly podcasts, a blog, and manages groups on Facebook and LinkedIn. The organization also publishes articles about networking and provides videos, books and CDs from its international headquarters in the Los Angeles area.

"We have a foundation – BNI foundation.org," Misner said. "We sponsor a thing called the International Networking League. And, of course, we have BNI websites. There is a new system that is being implemented called BNI Connect, which is an online social media [site].

"The question really is, for the few hundred dollars that it costs to participate, are you getting that much in referrals and business? And if the answer is yes, then this is a great place for you. And if it's not, then it may not be the thing that works for you." Misner added that to gain the most

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"BNI is sort of where the rubber meets the road. You're going out, and you're actually generating business through referrals with people and building relationships with people who will refer you. The Referral Institute is an educational program. It offers seminars; it's a training company. It's sort of like comparing apples and oranges, but there is training and education that happens at BNI, too."

Dr. Ivan Misner, the founder of Business Networking International and the Referral Institute

from a networking organization, it's more about committing time rather than money.

Referral Institute training program

Misner founded the Referral Institute to help train people on how to refine messages and learn to create powerful referral marketing partners.

Jared Sparr is a merchant level salesperson (MLS) in the Detroit area. Last year, he was signing five to six businesses a month. After completing the Referral Institute training, he now signs 30 to 35 each month and expects

that number to reach 60 by year's end. Business owners are sold on him as a trusted adviser, and he signs them without negotiating on the rate. I asked Misner, "Can you tell us a little bit about the Referral Institute and how it compares with BNI?"

"Well, they're completely different organizations," Misner said. "BNI is sort of where the rubber meets the road. You're going out, and you're actually generating business through referrals with people and building relationships with people who will refer you.

"The Referral Institute is an educational program. It offers seminars; it's a training company. It's sort of like comparing apples and oranges, but there is training and education that happens at BNI, too."

Misner said another way to look at BNI it is to view it as a kind of vocational school. "That's where you actually apply the programs, ideas and concepts that you're being taught," he said. "The Referral Institute is graduate school. That's where you really go deep in understanding how to build a solid referral business.

Their trademark [phrase] is 'Referrals for Life.' They teach you how to create referrals for life. And BNI is one of the mechanisms that the Referral Institute recommends for people to create referrals for life."

"For payment professionals, might the Referral Institute be a better investment than BNI?" I asked.

"Well, to me it's not either/or," Misner said. "It's kind of like saying, you know, should I take checks or should I take credit cards? They're different. And BNI and Referral Institute are different. BNI is where you get referrals. If you go to the Referral Institute, you're not going to get a referral every week.

"And when you go to BNI, you're not going to get an hour's worth of training every week. BNI is where you are going to generate the referrals, or at least one of the places where you will generate referrals, and the Referral Institute teaches you how."

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I told him I could see his point. "You could make a living on both of them quite well if you combine the two," I said.

Misner added, "The Referral Institute will say – go join a chamber, go be in a local BNI group, and here is how you work it. Here are the things that you do. Here's how you present yourself. Here's what you know. But it goes beyond that.

"The Referral Institute teaches you, 'OK, so you have customers. Are you asking them for referrals? How are you asking them for referrals? What are you doing to ask them for referrals? Do you have your referral checklist in place?

"These are all the things that you need to start the process. Are you following up? What are your touch points?" The Referral Institute goes in deep. BNI is one of the mechanisms for you to generate your referrals and that's why they work so well hand in hand – the two organizations. They really and truly are strategic alliance partners."

Makings of good referral partners

NCRUM also asked about the best referral partners to seek. I typically sought office products salespeople and CPAs and asked Misner if he had additional suggestions for partners that would be good fits for ISOs and MLSs.

"Those two are really good, particularly the accountants and CPAs – anybody with their fingers in somebody's books, in their accounting," Misner said. "Those are the people that make good power team partners. Marketing or other management consultants might be good on a power team. And a power team is comprised of people who are in symbiotic professions – noncompetitive professions [those not pursuing the same market as yours].

"It'd be interesting to see who he [Sparr] uses. But clearly the people who are involved in any way whatsoever with accounting, bookkeeping, or any consultant who is working on cutting costs or improving performance within an organization, would be good fits.

"You might partner with a marketing consultant who can help you with sales development. Also, a web developer, [especially if he works in e-processing setups] would be a great partner."

Maximum networking ROI

NCRUM also asked, "What three things can a BNI member do to guarantee a return on investment – investment not only on the money they are spending, but on the time they are spending?"

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Misner answered the question from a general perspective for people who are not BNI members. "There are three things to keep in mind," he said. "First, the VCP [visibility, credibility, profitability] – is critical. It's that whole idea that networking is more about farming than it is about hunting. I think [this] is absolutely critical in building a powerful personal network.

"You also have to understand that it takes time. This is not a get rich quick scheme. It's a way to build a solid foundation for a long-term, successful business. So you have to enter into it understanding that.

"Secondly, you have to do your homework. You have to prepare. I think most people kind of wing it when it comes to networking. They look at word of mouth as really important, but there is not much you can really do about it. So they don't do anything.

"You need to have good, practiced introductions. You need to break down your business into its least or lowest common denominators so that you can talk about different things under different circumstances.

"And you need to be prepared for your elevator speech – you know, that quick, brief presentation that you might give to somebody you are meeting for the first time.

"Thirdly, you want to learn. You want to do a lot of one-to-one meetings. You meet people at networking events, but you've got to pull [them] aside and have other opportunities to connect with them. We really recommend doing one-to-ones with people."


He added that tools are available to help in preparation. "For example, in both Referral Institute and BNI, we talk about what we call the gains exchange: goals, accomplishments, interests, networks and skills," Misner said. "This is a document that you share with somebody. It states, 'Here is my background, here is yours,' and outlines overlapping areas of interest. And those overlapping areas of interest lead people to create friendships, which lead to business."

In summary, Misner said the three important things to remember are:

1. You can't wing it.
2. You've got to be prepared.
3. You've got to practice.

"I think the kind of networking I teach is not only a great way to get business, but it's an even better way to do business," Misner said. "It's really all about this philosophy that we teach, and at BNI – gives gain. If I give you business and you give me business, we'll all do better as a result of it. So it's about helping each other."

Misner also pointed out that in a recessionary economy, people are hesitant to let go of a friend. "They'll terminate a vendor in a heartbeat, but they don't want to terminate a friend," he said. "They don't want to terminate that relationship. So, if you can create trust and friendship with your clients and maintain that, you're going to get ongoing referrals and ongoing business."

The third article in this series will include recommended reading material, comments from Sparr about his path from six to 60 applications per month and how two other groups have put their own spin on networking. 

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The adaptability of POS terminals

By Dale S. Laszig

Castles Technology Co. Ltd.

Rumors of the credit card terminal's demise have been greatly exaggerated. Not only are manufacturers of next-generation POS devices keeping up to date with changing consumer behavior and payment card industry trends, their terminals remain the best option for many merchants for securely and efficiently processing credit card transactions at the POS.

Eight reasons

Here are eight reasons why millions of merchants still prefer terminals to other POS systems.

- 1. Built for the job:** In today's content-driven society, smart phones, laptops and tablets provide a continuous stream of real-time data to consumers. With help from software applications, payment gateways and assorted smart peripherals, POS terminals can be modified to transact and process payments with e-wallets and virtual terminals. Some solutions are more secure than others, but they are still add-ons, connecting to devices that were originally designed for activities other than credit card processing. While POS terminals come in many shapes, sizes and styles, their central purpose remains the same – credit card processing. In other words, POS terminals are specifically designed and built to process electronic transactions.
- 2. Have one main job:** Internal DVD drives in televisions can maximize space in a small apartment. Internal PIN pads in POS devices use less valuable real estate on merchants' countertops. However, many merchants prefer external PIN pads for the same reason that consumers prefer to buy stand-beside DVD players, as external devices can be replaced without overhauling entire systems. The same logic applies to embedded card processing systems that coexist inside integrated POS management systems, laptops and smart phones. Some merchants love the efficiency of integrated solutions; others prefer standalone solutions that can be de-installed, enhanced or replaced without disrupting unrelated tasks within an enterprise.
- 3. Are secure:** In an independent study of Heartland Payment Systems Inc.'s E3 terminal, Payment Card Industry (PCI) Qualified Security Assessor Coalfire Systems Inc. observed that the E3 standalone payment terminal, and its surrounding infrastructure, can significantly reduce the risk of data compromise.
- 4. Are strong:** In addition to their rigorous security requirements, terminals must meet high performance standards as well. Drop tests and quality assurance checks are routinely performed at factory and distribution points to ensure these devices will weather the wear and tear of high volume retail and hospitality environments.

Meeting these standards is crucial for customer-facing devices. Terminal touch screens are frequently subjected to the wrong kinds of writing instruments for signature capture and their keypads have to withstand the pressure of continuous use. Terminals with internal PIN pads are frequently handed to consumers for PIN entry. Extra strong casing protects terminals from wear and tear, breakage and misuse.
- 5. Processes more than just payments:** The expanding array of ancillary applications that can be added at the POS is due in no small measure to the efforts of merchant level salespeople, who have shown their merchants how to transform "vanilla" terminals into recurring revenue generating platforms. Today's merchants expect more than credit, debit and electronic benefits transfer from credit card systems. They want gift, loyalty, stored-value and electronic check programs, ID verification, bill payment, and geo-location technologies. Most POS terminals in the United States have dynamic, multi-application software environments that enable ancillary, nonpayment programs to be added, subtracted, or updated without requiring a major download or disturbing the terminal's core payment application.
- 6. Are customizable:** If there's one thing we've learned from the proliferation of alternative payment methods, it's that we're no longer catering to a one-size-fits-all merchant community. Merchants have a broader array of products and services to

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choose from, and they want their processing platforms to reflect their personal tastes and business brands. POS manufacturers are catering to the discerning tastes of merchants by offering more choices in color, display stands and surrounding high-tech infrastructures that help terminals blend in with retail and hospitality environments. Swivel stands turn countertop terminals from clerk to customer for PIN entry or card swipe.

Self-attended kiosks with built-in terminals and interactive video monitors sell a variety of products and services. Rugged housing protects outdoor PIN pads from weather and constant use. These peripherals can be connected via cables, or wirelessly, to standard countertop terminals in stores and restaurants.

The graphical user interface on credit card terminals has become friendlier and more intuitive. Enlarged display screens with accompanying hot keys can be customized, eliminating unnecessary key strokes and making the most repetitive tasks readily accessible. Merchants assign keys for commonly used transactions so clerks will not have to scroll through menus to accept checks and gift

cards. And merchants choose the transaction types they want to display.

7. **Are competitive:** Ubiquity, continuing demand and industry consolidation have driven down the unit price of terminals, making them more affordable even as they continue to surprise us with how much leading-edge technology will fit inside these small boxes.
8. **Are future-proof:** Google Wallet and other high-profile national initiatives are shining a light on the more secure smart card technology that's coming to the U.S. market. Many current terminal product offerings are well-positioned to enable both contact and contactless smart card transactions with integrated and peripheral smart card readers.

Taking POS to a new level

The innovation that continues to drive terminal design and manufacturing is more than just a response to the changing payments sphere; it's leading the way to a whole new level of connectivity and transaction management. ■

Dale S. Laszig is Senior Vice President of Sales in the United States for Castles Technology Co. Ltd., a manufacturer and global provider of smart card, contactless and POS solutions. She can be reached at 973-930-0331 or dale_laszig@castech.com.tw.

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HIPAA compliance fundamentals for ISOs

By Mark Brady and Ross Federgreen

CSRSI, The Payment Advisors

It seems every week brings us more headline-grabbing news of the latest data breach. Not only have Payment Card Industry Data Security Standard-related breach incidents escalated, but compromises to public health information have raised concerns among health care professionals. By understanding the complex issues surrounding health care compliance, ISOs can build better relationships in this thriving sector.

In 1996 the Department of Health and Human Services (HHS) published the Health Insurance Portability and Accountability Act (HIPAA). HIPAA presents significant challenges to the more than 1 million merchants involved in health care who are known as "covered entities." By definition, these entities provide care, services or supplies related to the health of an individual and transmit health information in electronic form. HIPAA makes no distinction as to the size of the health care merchant. Smaller organizations must comply with all HIPAA requirements, just as larger health care providers, health insurance companies and health plans do. However, the HHS does give providers the flexibility to design their own privacy procedures.

This article will concentrate on the health care provider segment, which includes doctors, psychologists, dentists, chiropractors, clinics, nursing homes and pharmacies. In some cases, HIPAA can even include fitness centers, spas and masseuse offices that meet the very broad HIPAA definition of a business associate of a covered entity.

HIPAA core requirements

The following describes some HIPAA compliance components that smaller health care providers must perform.

- Each provider must designate a privacy officer. In many cases the office manager is designated as the privacy officer. It is this individual's responsibility to ensure all patient records are kept in a secure place and that only authorized personnel with specific needs have access to records. The privacy officer is required to study the HIPAA Privacy Rule and make sure staff members are informed and in compliance with the rule. Staff members must sign documentation to that effect.
- Each covered entity must perform risk analysis. If the clinic is using a computer to store patient information, the privacy officer must ensure alignment with best industry practices and perform a risk analysis to determine whether there is a possibility the electronically protected health information

could be compromised in any way. The files must be backed up, in case of electronic failures, and all information must be properly protected.

- Each covered entity must establish a patient notification policy. No matter how small the provider, the HIPAA Privacy Rule requires that every patient be informed about his or her privacy rights. A written notice must be provided.
- Each covered entity must post a privacy notice. HIPAA requires that each covered entity, including small clinics and medical practices, post its entire privacy notice in the facility.

Health care compliance procedures

If a compromise or breach of health care data should occur, HHS requires specific actions to be taken by the covered entity. HIPAA defines a data breach as follows:

"A breach is, generally, an impermissible use or disclosure under the Privacy Rule that compromises the security or privacy of the protected health information such that the use or disclosure poses a significant risk of financial, reputational, or other harm to the affected individual." Following a breach of unsecured, protected health information, covered entities must provide notification of the breach to affected individuals, the Secretary of HHS, and, in certain circumstances, to the media.

- **Individual notice:** Covered entities must notify affected individuals following the discovery of a breach of unsecured, protected health information. These individual notifications must be provided without unreasonable delay and in no case later than 60 days following the discovery of a breach. Notice must include a description of the breach, a description of the types of information involved in the breach and the steps affected individuals should take to protect themselves from potential harm. A brief description of actions the covered entity is taking to investigate the breach, mitigate harm and prevent further breaches, as well as contact information for the covered entity are also required.
- **Media notice:** Covered entities that experience a breach affecting more than 500 residents of a state or jurisdiction are required to provide notice to prominent media outlets, in no case later than 60 days following the discovery of a breach.
- **Notice to the Secretary of HHS:** In addition to notifying affected individuals and the media (when appropriate), covered entities must notify the Secretary of HHS of breaches of unsecured protected health information. If a breach affects 500

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Civil penalties for HIPAA violations

HIPAA violation	Minimum penalty	Maximum Penalty
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HIPAA violation due to reasonable cause and not due to willful neglect	\$1,000 per violation, with an annual maximum of \$100,000 for repeat violations	\$50,000 per violation, with an annual maximum of \$1.5 million
HIPAA violation due to willful neglect, but violation is corrected within the required time	\$10,000 per violation, with an annual maximum of \$250,000 for repeat violations	\$50,000 per violation, with an annual maximum of \$1.5 million
HIPAA violation is due to willful neglect and is not corrected	\$50,000 per violation, with an annual maximum of \$1.5 million	\$50,000 per violation, with an annual maximum of \$1.5 million

or more individuals, covered entities must notify the secretary without unreasonable delay and in no case later than 60 days following a breach. If, however, a breach affects fewer than 500 individuals, the covered entity may notify the secretary of such breaches on an annual basis.


- **Notification by a business associate:** If a breach of unsecured, protected health information occurs at or by a business associate, the business associate must notify the covered entity following the dis-

covery of the breach no later than 60 days from the discovery of the breach.

Penalties for compliance violations

HIPAA compliance violations can incur stiff penalties, as follows:

- **Civil penalties:** The Secretary of HHS has discretion in determining civil penalty amounts. The secretary is prohibited from imposing civil penalties (except in cases of willful neglect) if the violation is corrected within 30 days (this period may be extended). For more detailed information, refer to the "Civil penalties for HIPAA violations" chart in this article.
- **Criminal penalties:** In June 2005, the U.S. Department of Justice clarified who can be held criminally liable under HIPAA. Covered entities and individuals face fines up to \$50,000 and up to one year in prison. Offenses committed under false pretenses allow penalties to be increased to \$100,000, with up to five years in prison. Offenses committed with the intent to sell, transfer or use individually identifiable health information for commercial advantage, personal gain or malicious harm, permit fines of \$250,000, and up to 10 years in prison.

Here's what you can do to make HIPAA work for you: Educate your merchants; Be a resource for your merchants; Provide merchants with additional resources; Consider selling HIPAA compliant Electronic Medical Record Systems. Given the complexities of HIPAA and the significant and growing level of criminal and civil penalties, it is strongly recommended that HIPAA covered entities align with a company whose principals have the appropriate credentials, including the designation of Certified Information Privacy Professional. 

Mark Brady, Consultant at CSRSI and Ross Federgreen, CIPP and founder of CSRSI, can be reached at mbrady@csrsi.com or rfedergreen@csrsi.com, respectively.

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Education (continued)

Michaels breach reveals gray areas

By Nicholas Cucci

Network Merchants Inc.

When Michaels Stores Inc. reported a tampering scheme involving POS pads used to key in customer personal identification numbers, it was initially thought to be isolated to select stores in the Chicago vicinity. However, upon further investigation it was discovered that nearly 90 stores in 20 states from Rhode Island to Washington were ultimately impacted by the data breach.

Michaels learned of the breach in May 2011, when it was notified about possible debit card fraud related to several of its stores in the Chicago area. It was later confirmed that Payment Application Data Security Standard certified PIN pads deployed in Michaels' stores were swapped out for pads equipped to skim card data. Cards may have been skimmed as far back as December 2010. As a precautionary measure, Michaels removed about 7,200 PIN pads from 964 of its U.S. stores and replaced them two weeks later.

Several Chicago area banks responded by freezing customer bank accounts potentially exposed in the breach. Marquette Bank, which operates 24 branch locations in the Chicago region, told the *Chicago Tribune* about 1,900 bank customers were potential victims of the fraud scheme. Chicago Credit Union also posted a website notice instructing members to report any fraudulent ATM activity related to their accounts and originating in California, where illegal card activity had been reported.

In the aftermath of the Michaels breach, police in Beaverton, Ore., enlisted the public's help in identifying four suspects who were caught on camera using fake, or white, cards created from card data skimmed at Michaels' stores. The suspects are believed to be from a larger crime organization, involving multiple crews working in numerous geographical regions and moving quickly. No arrests have been made in the case, which is under investigation by the U.S. Secret Service.

Patchwork of state laws problematic

With the recent surge in data breach incidents, inconsistencies in state laws pose a challenge for retailers seeking to implement a universal plan for their operations. Curious about the variations that exist in state laws governing breaches, I set out to answer the following questions:

What are some of the state laws governing merchant data breaches? What is an acceptable time frame for breach notification? What penalties, if any, exist for failure to disclose breaches? What types of incidents are exempt from

notification requirements? Below is a summary of current data breach laws in the four states I researched:

California

- Notification:** Most expedient time possible, without unreasonable delay
- Penalty:** No civil or criminal penalty for failure to promptly disclose; private right of action
- Exemptions:** Encrypted data
Publicly available government data
No exemption for immaterial breaches

Florida

- Notification:** Without unreasonable delay, within 45 days for owners of data, 10 days for those who don't own data
- Penalty:** Civil or criminal penalty for failure to promptly disclose; no private right of action
- Exemptions:** Encrypted data
Publicly available government data
No exemption for immaterial breaches

Illinois

- Notification:** Most expedient time possible, without unreasonable delay
- Penalty:** No civil or criminal penalty for failure to promptly disclose; private right of action
- Exemptions:** Encrypted data
Redacted/unreadable data
Publicly available government data
No exemption for immaterial breaches

Indiana

- Notification:** Without unreasonable delay; facsimile notice
- Penalty:** No civil or criminal penalty for failure to promptly disclose; no private right of action
- Exemptions:** Encrypted data
Publicly available government data
Compromised portable electronic device if password to the device has not been compromised
No exemption for immaterial breaches

PCI DSS only a partial solution

Protecting personal data has long been a concern of credit card companies, which have combined resources to form the PCI Security Standards Council, which is concerned with making sure merchants of all stripes are responsible for meeting certain data protection standards.

The standards set forth by the council cover six large principles, and a total of 12 requirements to meet those principles as part of an effective security plan. The six principles are as follows:

1. **Build and maintain a secure network:** First, a



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properly secure network should have a firewall that protects cardholder data, and any default passwords included by the network security vendor must be changed.

2. **Protect cardholder data:** Any stored customer data must be protected, along with encrypting said data when it is transmitted across public networks.
3. **Maintain a vulnerability management program:** Anti-virus software must be used and kept up-to-date, and secure systems and applications must be developed.
4. **Implement strong access control measures:** Not all customer data is available to everyone in the business; instead, access should be controlled on a need-to-know basis. Also, everyone with access to sensitive data must be identified with a unique ID, and physical access to cardholder data must be controlled.
5. **Regularly monitor and test networks:** Networks must be properly tested on a regular basis for security and access, and cardholder data access must also be monitored.

6. **Maintain an information security policy:** A policy that addresses information security must be maintained at all times.

Time for a national policy

Breach notification laws remain a gray area for the payments industry. Forty-six states have breach notification laws, but the laws across states lack uniformity as well as enforcement.


In 2009, Missouri enacted some of the nation's most stringent data protection measures to date. According to Missouri law, the customer's last name and full first name or first initial, in combination with the Social Security number, driver's license number or any other identifying number (such as credit card, bank account, routing code) and passwords or access codes, must be protected.

If this data is breached, notification must be made in the event that identity theft is deemed a possibility, or violators face a \$150,000 fine per incident.

In Illinois, where Michaels' stores were hit hardest by the PIN pad scheme, state notification laws require companies to notify consumers whose personal information has been compromised within a reasonable period. Similarly, in Texas, where Michaels is headquartered, state law requires companies to notify consumers as quickly as possible.

Earlier this year the Obama administration proposed the adoption of a data breach notification policy that would supersede state laws. The federal proposal stated, "The FTC would be responsible for enforcement, along with state attorneys general, who could take civil action against violators. Civil penalties would total up to \$1,000 a day per individual affected by a breach, up to a maximum of \$1 million a violation, unless such conduct is found to be intentional."

In light of the 20 different sets of state laws the nationwide retailer is obliged to follow, is the Michaels' case one that requires customer notification? Will the actions taken by Michaels be enough to satisfy growing public concern over personal identity and data protection issues?

Finally, should there be a national data breach policy? Have we reached a tipping point where a national policy may be necessary to defend against an increasingly pervasive criminal element? What do you think? 

Nicholas Cucci is the Director of Marketing for Network Merchants Inc., a graduate of Benedictine University and a licensed Certified Fraud Examiner. Cucci is also a member of the Advisory Board and Anti-Fraud Technology Committee for the Association of Certified Fraud Examiners. NMI builds e-commerce payment gateways for companies that want to process transactions online in real time anywhere in the world. Contact him at ncucci@nmi.com.

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Meet The Expert



Adam Atlas

Attorney at Law

When Adam Atlas, Attorney at Law and contributing writer for *The Green Sheet*, graduated from law school at McGill University in 1999, he had no inkling his future success lay in the payments industry. He took a job in mergers and acquisitions at a large Montreal law firm and, as a favor, helped a client who turned out to be an ISO.

As the "favor" took up more and more of Atlas' time, he educated himself about the industry to the point where he decided to specialize in it when he quit the firm and set up his own practice in 2003. "And then I started attending trade-shows, like the ETA, the Northeast Acquirers and other regional shows, reading and writing in *The Green Sheet*," he said. "And, in a sense, the rest is history."

Atlas has a thriving practice with a portfolio of several hundred ISOs and other payment businesses, 95 percent of which reside in the United States. He is the only full-time lawyer at the practice, but he

hires associates on a contract basis when necessary. He enjoys building relationships with his clients and seeing them grow over time.

"I always say to my clients, 'Let's talk about whether I can add value to your project,'" he said. "I'm firmly committed to doing that, that my work is not just nitpicking through the legal jargon of the contract. ... I've had a real pleasure of watching these guys grow from one-man shows to really big businesses."

A fascinating career

Two aspects of the industry are especially intriguing to Atlas. One is the "small town atmosphere" in payments, where the global industry has a set of core professionals whom Atlas has come to admire through good times and challenges.

Secondly, Atlas is often called upon to break new ground regarding legal issues that involve, for example, new mobile applications and payment systems. "I'm regularly asked to work on those kinds of problems, which is something that makes the

work that much more interesting," he said.

While Atlas is not a fan of federal regulation of the industry, he doesn't see legislation, such as the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, having a significant impact on acquiring. However, he does view the increasingly popular online and mobile payment ecosystems as a threat to the small-town flavor of the industry.

Atlas feels that as merchants become more comfortable establishing virtual relationships with payment processors, the "traditional ISO model of face-to-face sales and telemarketing is going to find itself increasingly challenged."

But he is quick to point out that new business models have threatened ISOs before. "While some dot.com businesses are able to change the reality of things from one day to the next ... none of them have rocked the basic ISO world," he said. ■

Pillars of payments

An interview with Paul Martaus

By Ken Musante

Eureka Payments LLC

I first met Paul Martaus, President and Chief Executive Officer of Martaus & Associates Inc., many years ago. He was a speaker at either an Electronic Transactions Association or Bankcard Services Association event.

Paul's presentation resonated with me for several reasons. I had come from the banking sector, and Paul was explaining how ISOs act and react. This was back in the mid-1990s, and ISOs were becoming the driving force in the industry.

Paul's research and interviews gave him a unique perspective, which he freely shared. He provided both his predictions and comments in a humorous and thought provoking way. I've become friends with Paul through the years.

Although we don't talk often, when we do strike up conversations, they are always lengthy and digress to all corners of the industry. I thought you all would appreciate learning more about Paul and how he has navigated his career.

Q: How did you come to the payments industry, and what were your early career influences?

A: I came into the payments industry through a bank in 1972. I was 21 at the time. By the time I was 26, I was an SVP in charge of the bank's electronic transaction processing. From there I was recruited into building one of the very first shared ATM networks in the early 80s. The Neighborhood Banking Centers was a publicly traded company and ATM network.

I was there only a short couple of years because the leaders of the company were dishonorable, and I did not appreciate their corporate ethics. I joined Applied Communications in the early 1980s, selling ATMs and POS software. Applied Communications Inc. – ACI – remains the most common ATM operating system to this day.

From there, I went to work for PSI [Payment Systems Inc.] in Tampa as a researcher/consultant/sales professional.

I was cultivating clients, conducting the research and selling my work. After five years, I quit (and got fired the same day) because the job became untenable. That same day, I started Martaus & Associates. I used my former company's brand and became an independent contractor for them. Within a few short years, I established my own brand and began marketing services under my company.

My entire career, I was on the bleeding edge of electronic banking, and I had access to the very senior levels of the industry.

These senior executives have remained long-term friends and then introduced me to their staff, who then became my customers as well as my conduit to the information I cultivate. I have known most of my clients for over 25 years.

Q: What do most industry professionals not know about you?

A: I'm an open book. Most folks know I've got a big mouth and an attitude. I make beer and wine in my spare time. I roast my own coffee. Two kids, two grandkids. I am a Vietnam veteran.

Q: What have been some of the biggest surprises during your career within the payments industry? Said another way, what events did you least expect to occur?

A: I'm professionally cynical because my clients pay me to be. Even though I look at the worst side of things for a living, I never saw the economic collapse coming. I know why they passed the Glass-Steagall [banking] Act after the Great Depression, and I noted when it was repealed in 1980.

I likely should have paid more attention to the dismantling of that act, knowing how important it was.

I was not prepared for the ensuing damage done by the unbridled greed on Wall Street. I am against excessive regulation, but I appreciate safe airways, and I want my food inspected.

I support the FDA and air traffic controllers. But I get paid to tell the future, and this recession caught me off guard.

Further, I was also blown away by the Durbin Amendment. And even after it passed, I fully expected its repeal. I don't have a clue of what the Fed is going to now do.

The Federal Reserve, however, is under enormous

pressure and responsible to Congress. So the result could well be bad for our industry.

Q: In all your conversations with industry professionals, is there any theme or pattern regarding industry insiders that you could use to generalize our kind?

A: Our industry is built on greed as a driving force. There is a common theme among ISOs: there is bedrock, or incredibly smart, talented, motivated individuals. This differs from the cowboy days of the early 80s.

Today's ISOs are still entrepreneurial, but the margin for error has lessened as the margins have decreased. So today's ISOs need to be more numbers-driven than their ancestors.

Additionally, many of today's ISOs were formed during the days when banks consolidated. The bank consolidation created an excess of acquiring talent (formerly employed by the banks), and these folks became acquirers and ISOs and brought professionalism, or a focus on margin, that was not necessary during the 80s.

Q: Do you have any near-term forecasts you would care to share?

A: If the House and Congress do not increase the debt ceiling, we will have a worldwide financial meltdown. This will be worse than anything we have ever seen. I hope to God this doesn't come to pass.

I'm trying to get a read and baseline on pricing in mobile. We are too early in the mobile cycle to have an impact on pricing.

But if you don't have a mobile strategy, you will lose out in the long run. Mobile at the point of sale will change our buying patterns in the next three to five years.

Because of the ease of siloing (or partitioning) applications in a smart phone, mobile will catch on quickly in cell phones. These smart phones will do a whole lot more than our cards ever could. ... It's a smart device, and that's why they call it a 'smart' phone.

Starbucks' prepaid app on the iPhone is pure genius. This could change the face of our industry because it applies the imagination of people outside our industry to payments [that] make it easy for consumers and [that] make solutions that work for consumers and merchants.

Their solution uses barcodes instead of NFC [near

field communication] because 96 percent of their stores had barcode readers, and only 3 percent had an NFC device.

Visa and MasterCard are brand managers, but are managing their brands without the brand manager talent or imagination found in Procter & Gamble and other firms like them.

There are many talented individuals at both card networks, but they think about payment standards, not brands. That could allow innovative brand managers like Apple to overtake them.

Q: How will our industry evolve over the next five years?

A: NFC wallet may be EMV-compatible without the card brand logo. Brand identification is not brand loyalty. iTunes, Apple or Google could easily overtake the bureaucracies that are card brands. Visa and MasterCard are worth billions but are subject to the whims of public companies.

This also makes them vulnerable to the influence of a large outside investor who can accumulate a major position or a board seat in one of these companies.

Q: What impact will the Durbin Amendment have on our industry?

A: Economic upheaval of gigantic proportions. Fifty percent of the U.S. population may be forced back to cash. I say this because 25 percent of the United States is unemployed or underemployed.

When you consider delinquencies and poor-credit individuals, there is a huge segment of our population who will not be extended credit cards.

These same individuals will shun excessive checking account fees and, as a result, be left without access to debit and credit transactions. 'Debit' will be removed from our lexicon in the next few years, and [we will be] moving customers to prepaid cards.

Wal-Mart, too, is in love with the prepaid card. Owning a bank is too much regulation for Wal-Mart. ATM usage will plummet because customers will walk away from banks in huge numbers.

The next time you attend an event where Paul is presenting, I hope you will have a better appreciation for the experience he brings to our industry. 📷

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

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First Data's shopping spree

To beef up its Internet technology infrastructure, First Data Corp. acquired Achex Inc., an online payment provider founded in 1999. And to enhance its debit business, First Data gained a 60 to 65 percent equity interest in NYCE Corp., owner of the NYCE electronic funds transfer network.

Retail Systems 2001 a big hit

More than 5,000 information technology pros attended Retail Systems 2001. The show boasted 115,000 square feet of exhibit space and 350 exhibitors, many of whom showcased new products. Payment-related highlights included integrated gift card solutions, a new POS operating system, a digital check imaging printer and a guard designed for touch-pad protection.

E-wallet setback

American Express Co. discontinued its Online Wallet in June 2001. The major card brands were still pushing the concept, but e-wallets for online purchases weren't catching on. "Theoretically, electronic wallets spare users the hassle of retyping personal information at each website they visit," *American Banker* reported. "But the people have appeared indifferent to this advantage."

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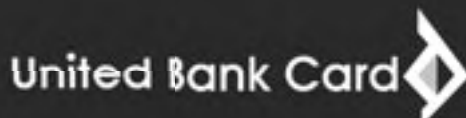
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NewProduct

A processor-agnostic payment gateway

Product: PayCommerce gateway platform

Company: PayCommerce Inc.

When PayCommerce Inc. received an OnDemand Top 100 global award in 2010 for its pioneering efforts in cloud-based, enterprise software technology, the company was inspired to advance further. To that end, PayCommerce recently launched a processor-agnostic gateway platform that reportedly permits ISOs to deliver cloud-based, integrated payment services to merchants without them having to switch processors.

The Payment Card Industry (PCI) Data Security Standard (DSS) Level 1-validated payment platform provides a single point of integration for customer billing and payment activity, access to multiple processors and payment types, fraud management, Level 3 data and mobile payment solutions. The platform is suitable for large-scale operations as well as small and midsize businesses (SMBs).

"I believe cloud-based processing is the next step in the evolution of payment gateways, because there is actually no physical gateway," said Dave Holman, Vice President of Channel Sales and Business Development for PayCommerce. "It's a virtual gateway with PCI DSS Level 1 compliance. But we are also ahead of the game in tokenization and masking, which is something that's going to come down the road."

Finding the right zone

For large businesses that already use enterprise resource planning systems, Holman said, "We can actually log in and integrate with their ERP [enterprise resource planning] system, such as a MAS 90 or an AS400 or something of that nature, to allow them to do all kinds of payments from an e-billing for invoicing with a click-to-pay function. We can integrate to mobile solutions. We have our own solution, which is proprietary to us."

Holman added that PayCommerce can assist larger companies with Level 3 processing through its invoicing system, which captures all requisite data and qualifies them for Level 3. This can mean "big savings for these large customers," he said. "But it's also available for anybody who needs it."

Holman also pointed out that PayCommerce can help clients manage online relationships. "Right now a lot of ISOs and processors may have their own relationship with a gift card company, a mobile company, a gateway for the Internet or card-not-present, and they all require separate

Features of the PayCommerce gateway platform include:

- Cloud-based, processor-agnostic payment gateway
- Single point integration for multiple programs
- Domestic and international clearing and settlement
- Basic-to-advanced ISO packages
- Partner reseller program opportunities

upfront fees," he said. "They all require separate payment fees, per item fees, and they all have basically separate logins. What we can do is incorporate all those under one unique login for that particular ISO or merchant, and they can go from there."

The gateway offers electronic invoicing with a "pay now" feature, automated clearing house (ACH) payments, mobile payments, domestic and international payment settlements, and card-present and card-not-present credit and debit card processing. The gateway's dashboard and reporting features provides real-time payables and receivables data. In addition, PayCommerce is aligned with The Western Union Co. and MoneyGram International for money transfers, Holman noted.

Expandable options

PayCommerce offers ISOs both basic and advanced packages for a monthly fee Holman characterized as minimal. The basic package includes credit card and ACH processing platforms, online invoicing with a recurring option, reporting and email verifications. "A lot of big businesses have an aging report past 60 days," Holman said. "The click-to-pay function allows them to send out an invoice and say, 'Hey, click-to-pay for this so we can free up future deliveries.'"

The advanced package also features outbound credit and debit payments, additional reporting functions, multi-user capabilities and PayCommerce's proprietary mobile solution. PayCommerce's cloud-based SMB solution can be integrated with existing accounting software. And because it's modular, it can be scaled to fit various vertical segments, including subscription-based services, Holman noted. PayCommerce is seeking partnerships with ISOs through its reseller program. ■

PayCommerce Inc.

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Research Rundown

Massive mobile payments growth by 2015

New reports by the U.K.'s Juniper Research Ltd. predict the use of smart phones to pay for physical and digital goods, such as movies, magazines, books, newspapers and transportation, will grow 40 percent worldwide by 2015, accounting for a \$2.5 billion market. Mobile payments are projected to total \$1.8 billion this year.

"The mobile payments sector offers substantial growth opportunities, [but] it needs to be seen by innovative players as a platform from which to develop new value-added applications and services such as personalized mobile coupons, loyalty schemes and novel, augmented reality offerings," Juniper Senior Analyst David Snow said in his analysis of the study.

Juniper's *Mobile Payments for Digital & Physical Goods* report, released in June 2011, forecasted that the Far East and China will account for 30 percent of the predicted mobile payments increase and India will add 400 million mobile payment users by 2015.

The report warned fraud in mobile payments is increasing and may become "a key issue." Juniper tracked 17 mobile payment vendors in its report and provided five years of data for mobile payments. Data trends pictured in the report include subscriber acquisition, transaction sizes and volumes.

A second study released by Juniper in July 2011 calculated mobile payments, money transfers and near field communication (NFC) technology-enabled transactions will combine to create a \$670 billion industry by 2015, up from this year's projected \$240 billion.

The *Mobile Payments Strategies* report noted 20 countries are allowing NFC service startups over the next year and a half. This is expected to push the total mobile payments market to \$50 billion by 2014. The growth in the mobile payments market will be driven by consumers in the Far East and China, Western Europe and North America. These areas already make up about 75 percent of said market.



To download these reports, please go to:
www.juniperresearch.com

"The mobile payments market is set to explode, perhaps as early as this year. PayPal alone announced \$750 million in total mobile payment volume worldwide in 2010 and expects to reach \$2 billion for 2011. Though PayPal may be the only player recording that level of mobile payments, several major initiatives either rumored or announced indicate that interest in mobile payments is hitting critical mass."

- David Sprinkle, Research Director and Publisher of Packaged Facts
Source: *Alternative Payment Systems in the U.S.*, 2nd Edition, by Packaged Facts

June's SpendTrend shows growth

First Data Corp.'s *SpendTrend* study for June 2011 showed year-over-year dollar volume grew 8.8 percent from June of last year. The study also found inflation drove prices up 2.1 percent from June 2010 - the largest increase in more than a year. Credit card dollar volume grew 10.7 percent over the previous year.

Symantec finds better security, gaps remain

A new Symantec Corp. publication titled *A Window Into Mobile Device Security: Examining the security approaches employed in Apple's iOS and Google's Android* found that security on mobile devices is sometimes deficient in protecting sensitive information and cloud computing and other computing services are increasing the risk. The study said both iOS and Android smart phones are vulnerable to cyber attacks; however, the Mac OS model "offers strong protection against traditional malware."

Barriers slowing Canadian electronic payments

A report by the Canadian Financial Executives Research Foundation said "significant issues" are making widespread adoption of electronic payments in Canada a challenge. The report, *Electronic Payments in Canada: What's the hold up?*, was sponsored by Central 1 Credit Union, a trade association for the British Columbia and Ontario credit union systems. The study said barriers to electronic payments include customer resistance to change, concern over security, getting merchants to accept electronic payments, company constraints and priorities, and little integration between electronic payment and accounting systems.

2010 electronic payments in the United States

Annual growth 2006-2009: **9.3 percent**
Value of electronic payments: **\$40.6 trillion**

ACH transactions:

ACH payments:

\$19.1 billion

ACH payments value:

\$37.2 billion

Credit card transactions:

Credit card payments:

\$21.6 billion

Credit card payments value:

\$1.9 trillion

Debit card transactions:

Debit card payments:

\$37.9 billion

Debit card payments value:

\$1.4 trillion

Source: 2010 Federal Reserve Payments Study

Boost Your Biz

The accidental advertisement


You've seen a penny on the ground and picked it up, haven't you? You weren't looking for it, but you found it anyway. The same is true for advertising. Often by sheer coincidence, a vendor stumbles upon your ad on a website or in a magazine and contacts you, leading to a sale. You can increase that happenstance by diversifying your marketing efforts, budget permitting.

Be sure to target places where you have the greatest chance of reaching people who are likely to be interested in your products and services. Having a print ad along with a presence on Facebook, for example, may increase your chances of enjoying those serendipitous encounters with potential customers. Print, web, mobile, in-store, social media – the profusion of opportunities to enhance the odds of attracting those chance encounters seems boundless today. How many of the categories listed in the sidebar are you advertising in?

When web surfers land on a particular website, the first thing they often do is read the information

- Free classifieds
- Paid classifieds
- Pay-per-click online advertising
- Safe lists
- Autoresponders
- Search engine optimization
- E-magazine marketing
- Networking groups
- Blogging
- Phone calling
- Call broadcasting
- Article writing
- Press releases
- Newspaper ads
- Magazine ads
- Affiliate programs
- Fliers
- Postcards
- Car signs
- Mailers
- Email blasts
- Word of mouth

presented there, rather than immediately click on a banner or skyscraper ad. However, when readers receive *The Green Sheet's* print edition in the mail, for example, they typically flip through the magazine, looking at the ads, before diving into the articles.

The differing ways customers come to advertising demonstrate that advertising is not a one-size-fits-all enterprise. By diversifying your campaigns, you have a better chance of reaching new audiences, enjoying lower cost-per-conversion rates and ultimately getting more out of every advertising dollar. 

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DateBook

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



Western Payments Alliance

Payments Symposium 2011: Payments in Transition, Strategies for a Changing Landscape

Highlights: This event offers payments industry professionals an opportunity to network with peers and interact with experts to learn about the latest developments shaping the industry.

Daily sessions and workshops will address technological innovations in automated clearing house (ACH) and card networks, as well as mobile and other payment channels.

It will also feature discussions on risk and fraud in addition to changing regulatory and compliance requirements.

Symposium attendees can also earn Accredited ACH Professional (AAP) renewal credits, as well as maintain AAP certification status through participation in this event.

When: Sept. 19 – 20, 2011

Where: The Westin San Diego, San Diego

Registration: www.wespay.org



Western States Acquirers Association

WSAA 8th Annual Conference

Highlights: WSAA's 2011 Annual Conference for payment professionals will be held in the San Francisco Bay Area region. The event will feature networking opportunities and a chance to participate in breakout sessions and panel discussions on issues pertinent to the payments industry.

WSAA is a self-governing, nonprofit volunteer organization dedicated to creating an independent forum for educating and linking professionals engaged in the payments industry.

Rather than offering memberships, the organization is funded through revenue generated by events it hosts. Online registration for this conference will begin in July 2011.

When: Sept. 21 – 22, 2011

Where: San Francisco Airport Hyatt Regency, Burlingame, Calif.

Registration: www.westernstatesacquirers.com



Women's Network in Electronic Transactions (W.net)

Career Development & Leadership Summit; LINC Northern California

Summit highlights: W.net will hold its 2011 Career & Leadership Summit in Atlanta. The event will kick off with a Diva awards ceremony, followed by an opening session

focused on the state of the industry. Breakout sessions will cover such topics as industry economics, building your professional brand, organizational savvy and future trends.

LINC highlights: W.net's LINC Northern California will host a networking session and special guest speakers at the San Francisco Airport Hyatt Regency. The intent is for attendees to gain valuable payments industry insights during this collegial, informative gathering. W.net's LINC meetings occur periodically throughout the United States and provide a forum for women in the payments industry to empower and inspire each other through networking opportunities.

Career & Leadership Summit

When: Sept. 12 – 13, 2011

Where: Hyatt Regency Hotel, Atlanta

Registration: www.w-net.biz

LINC Northern California

When: Sept. 21, 2011

Where: San Francisco Airport Hyatt Regency, San Francisco

Registration: www.w-net.biz

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Inspiration

Don't cry because it's over; smile because it happened.

- Dr. Seuss

WaterCoolerWisdom:

Breaking up is hard to do

Beginning a new relationship is typically exciting, fun and exhilarating. Whether it involves falling in love, making a new friend or finding a new customer, a budding relationship ignites anticipation of good things to come and dreams fulfilled.

However, while we may relish starting new relationships, sometimes we must also bring established affiliations to an end. Many relationships reach their own conclusions without much guidance. But some require us to actively participate in their closure.

When a relationship is coming to a close, emotions often run high, making it all too easy to say things we would not say normally. This can lead to hurt feelings and even ruined reputations. Certainly, when ending a business relationship, it is optimal for cooler heads to prevail.

It's best to be cordial

Business alliances are usually mutually beneficial to both parties. And many run their natural course until one side or the other is no longer interested in maintaining the bond.

Occasionally, though, a relationship will end abruptly amid anger. While it may be instinctual to respond to an angry customer or partner in kind, doing so is almost never beneficial to your business. When emotions run high, it's important to depersonalize the situation. It is easier to respond rationally when you do not take another person's derogatory comments personally.

But what if you are the one who is angry and wants to end the relationship? Vehemently pointing out all of the flaws in the relationship may make you feel better, but will it accomplish what you want? Remember, everyone you deal with knows other people, and you may need them in the future.

Instead, remain as calm and objective as possible. Simply present the reasons why it may be better for both parties to move forward on separate paths. It may be that the person you are doing business feels the same way you do.

By keeping your cool you may also be able to keep a door open for renewing the relationship in the future. Also, if you do not create ill will, chances are your reputation will stay intact. Keep in mind that your company's reputation and good will are a large part of its value.

Bumps are inevitable

However, not every ending is going to go smoothly. Accusations may fly, and some folks may blame you for negative things that have happened in the past. Instead of being reactionary, evaluate these statements. Is there an answer that will satisfy the other party, or is it time to cut your losses? Perhaps just deciding that the situation is too far gone to salvage may be for the best. Let the other party go on his or her way and wish the person well.

Remember, ending a relationship is not always about being right; it's about doing the right thing in the right way.

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Paul H. Green, President and CEO

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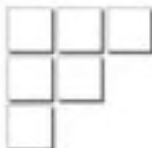
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Advertiser Index

Advance Restaurant Finance LLC.....	76	On Deck.....	55
AlphaCard Services.....	42	Papergistics.com.....	20
ATT Services.....	18	Payment Processing Direct.....	95
Central Payment.....	10	PCI Compliance/Bid Master.....	101
Charge Card Systems Inc.....	69	Planet Payment.....	44
CHARGEAnywhere.....	54	POS Portal Inc.....	11
CoCard Marketing Group.....	15	Prepaid Expo LLC (tpp Expo'11).....	30
CrossCheck Inc.....	33	Priority Payment Systems.....	22
Cynergy Data.....	28	Reliable Solutions/Century Payments.....	99
Electronic Merchant Systems.....	93	Reliant Processing Services.....	75
Electronic Payments.....	103	Secure Payment Systems.....	67
eProcessing Network LLC.....	62	SignalPay.....	59
Equity Commerce L.P.....	71	Spark Base.....	49
Electronic Transaction Association.....	73	Spectra Payments.....	23
EVO Merchant Services.....	47	Stream Cash LLC.....	87
First American Payment Systems.....	9	Super G Funding LLC.....	16
First Data.....	25	The Phoenix Group.....	27, 29, 31
FrontStream Payments.....	26	TransFirst.....	19
GBR Funding.....	24	TriSource Solutions LLC.....	61
Hypercom Corp.....	104	TSYS Acquiring Solutions.....	57
iMax Bancard Network LLC.....	34, 35	United Bank Card Inc.....	81, 82, 83
JR's POS Depot.....	37	United Merchant Services Inc.....	17
Ladco Global Leasing Solutions.....	72	US Merchant Systems.....	51
Merchant Capital Source.....	58	USA ePay.....	12
Merchant Cash & Capital.....	88	Velocity Funding LLC.....	65
Merchant Services Inc.....	91	Western States Acquirers Association (WSAA).....	64
Merchant Warehouse.....	13		
Merchants Choice Payment Solutions.....	63		
Meritus Payment Solutions.....	21		
MLS Direct Network Inc.....	97		
Moneris Solutions.....	86		
Mustang Micro Systems Inc.....	45		
National Transaction.....	56		
Nationwide Payment Solutions.....	68		
Network Merchants Inc (NMI).....	52, 53		
North American Bancard.....	2, 6, 7		

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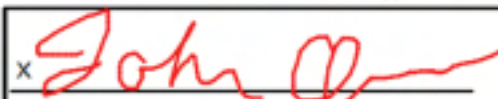
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Transaction ID:	VTH1A12345679	Amount:	100.00
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Date:	2011-04-01 09:51:26	Tip:	20.00
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At Total Merchant Services, you'll find no compliance fee trickery 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.

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